

# Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH

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# OPERATIONAL CLEARING PROCEDURES

## PREFACE

## SEOCH

The SEHK Options Clearing House Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited, is responsible for performing the functions of a commercial clearing house for the clearing of standard contracts concluded on the options market administered by The Stock Exchange of Hong Kong Limited (“the Exchange”). Throughout this document, the clearing house is referred to as SEOCH.

## Objective

This document (these Procedures), describes the operational procedures that a SEOCH Participant should follow for matters relating to clearing services provided by SEOCH.

## SEOCH Participants & Options Trading Exchange Participants

References in this document to “Options Trading Exchange Participant” shall mean all Options Trading Exchange Participants including those which are not Participants of SEOCH. Participants of SEOCH are referred as SEOCH Participants.

The various functions and procedures related to SEOCH Participants are described in this document.

## Other Documentation

The *DCASS User Guide* is a reference manual containing explanations of various functions and reports of DCASS.

For trading functions and Partnership matters which are not related to clearing, please refer to the *Operational Trading Procedures* and the *HKATS User’s Guide*.

For margin calculation, please refer to the manual entitled “*PRiME Margining Guide*” which describes in detail the portfolio risk margining system (“PRiME”), the methodology adopted by SEOCH for calculating margin, and examples of the calculation of margin requirements of SEOCH Participants using such methodology.

For CCMS operations, please refer to the manual entitled “*CCMS Terminal User Guide*” relating to the operation of CCMS.

## Readership

All Options Trading Exchange Participants (especially those which are also SEOCH Participants) and their staff involved in or responsible for options business should ensure that they are familiar with these Procedures.

Exchange Participants which are considering enrolling to become Options Trading Exchange Participants are also advised to read these Procedures.

## **Amendments**

From time to time, these Procedures may be amended, and Options Trading Exchange Participants and SEOCH Participants will be informed of such changes by means of circulars.

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# I. INTRODUCTION TO OPERATIONAL CLEARING PROCEDURES

## 1. INTRODUCTION

### 1.1 Functions of SEOCH

SEOCH will accept for clearing, and act as a counterparty to, every options contract validly concluded on the Exchange. As a counterparty, SEOCH will be responsible for premium settlement and contract performance.

As a result of its contractual obligations, SEOCH will perform risk management functions on a daily basis. Such functions include determining the appropriate margin to be collected. In addition, SEOCH monitors the size of the Reserve Fund on a regular basis and will request SEOCH Participants to top-up their contributions if necessary.

Furthermore SEOCH will carry out surveillance functions, review position ratios and/or position limits and implement appropriate risk management measures to control and minimise the risk of SEOCH in its role as the counterparty to options contracts traded on the Exchange.

### 1.2 [Repealed]

### 1.3 SEOCH Participants

SEOCH will maintain a register of its Participants in accordance with the Clearing Rules.

There are two categories of SEOCH Participanship:

A **Direct Clearing Participant (DCP)** is entitled to clear options contracts traded in HKATS on the instructions, in its capacity as an Options Trading Exchange Participant, of its clients, as well as trades for its own account.

A **General Clearing Participant (GCP)** is entitled to clear options contracts traded in HKATS on the instructions, in its capacity as an Options Trading Exchange Participant, of its clients, as well as trades for its own account. In addition, a GCP is entitled to clear options contracts on behalf of other Options Trading Exchange Participants with whom it has entered into a Clearing Agreement.

An Options Trading Exchange Participant which is not a SEOCH Participant is referred to as a **Non-Clearing Options Trading Participant (NCP)**. An NCP cannot clear trades on its own, but has to rely on one or more GCPs to clear trades on its behalf.

### 1.4 Principal to Principal Relationship Between SEOCH and SEOCH Participants

As provided in the Clearing Rules, a SEOCH Participant is in a principal to principal relationship with SEOCH for settlement and contract performance in respect of each and every options contract recorded or cleared in the name of that SEOCH Participant, regardless of whether the subject options contract is executed on its behalf or on its clients' behalf or is executed by another Options Trading Exchange Participant and given up to it for clearing. There is no relationship between SEOCH and clients of a SEOCH Participant, nor between SEOCH and an NCP.

The creation or maintenance of separate accounts by SEOCH for SEOCH Participants is only for the purpose of assisting SEOCH Participants in keeping separate records of their clients' trading in Exchange Traded Options Business. It shall not in any way detract from or otherwise affect the capacity and principal to principal relationship between the SEOCH Participant and SEOCH in respect of each and every OCH Contract. Nor shall it give rise to any trust or other equitable interest of any kind in respect of any money or other property standing to the credit of any such separate accounts.

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

### **1.5.1 DCASS Accounts**

SEOCH maintains for each SEOCH Participant different types of clearing accounts in DCASS. These accounts are registered under the name of the SEOCH Participant and are identified as the SEOCH Participant's (1) House Account, (2) Omnibus Client Account, (3) Individual Client Account, (4) Client Offset Claim Account, (5) Market Maker Account, (6) Daily Account, (7) APT Account, and (8) Sink Account.

#### *House Account*

The House Account is for the recording of a SEOCH Participant's proprietary trades and positions. Positions in the House Account are maintained on a net basis and margined, together with positions propagated from any Market Maker Account, on a net basis.

#### *Omnibus Client Account*

The Omnibus Client Account is for the recording, on an omnibus basis, of trades and positions of clients of a SEOCH Participant. Positions in the Omnibus Client Account are maintained and margined on a gross basis.

#### *Individual Client Account*

In order to facilitate net margining on positions of a SEOCH Participant's client, SEOCH (upon the request of a SEOCH Participant) may in its absolute discretion establish and maintain one or more Individual Client Accounts for the SEOCH Participant. SEOCH may prescribe a maximum number of Individual Client Accounts for a SEOCH Participant. The Individual Client Account is for the recording, on an individual client basis, of trades and positions of a client of a SEOCH Participant. Positions in an Individual Client Account are maintained and margined on a net basis. SEOCH Participants shall ensure that all trades and positions maintained in an Individual Client Account belong to one client only and such trades and positions are not held by a client of a SEOCH Participant operating an omnibus account. SEOCH Participants shall submit to SEOCH an application for the opening, maintenance and termination of Individual Client Accounts in such manner and using such form as may be prescribed by SEOCH from time to time. SEOCH may in its absolute discretion accept or reject the opening of any account and any maintenance request. The Individual Client Account is to facilitate separate position keeping in order to achieve net margin calculation for SEOCH Participants but should not be treated as recognising any trust or other equitable interest arising from such Individual Client Account.

#### *Client Offset Claim Account*

Upon the request of a SEOCH Participant, SEOCH may, in its absolute discretion, establish and maintain one or more Client Offset Claim Accounts for the SEOCH Participant. The Client Offset Claim Account is for the recording of eligible short positions of individual clients of a SEOCH Participant which are of an offset nature only. No long positions are permitted. Positions in each portfolio for an offset claim must belong to the same client (please refer to 9.3.1.2) and no positions of a client may be allocated to the Client Offset Claim Account except with the client's prior consent. Positions in the Client Offset Claim Account are maintained on a gross basis but margined on a net

basis. SEOCH Participants shall ensure that all positions maintained in the Client Offset Claim Account for margin offset can be reconciled with their internal records. SEOCH Participants shall submit to SEOCH an application for the opening, maintenance and termination of Client Offset Claim Accounts in such manner and using such form as may be prescribed by SEOCH from time to time. SEOCH may in its absolute discretion accept or reject the opening of any account and any maintenance request. The Client Offset Claim Account is to facilitate separate position keeping in order to achieve net margin calculation for SEOCH Participants but should not be treated as recognising any trust or other equitable interest arising from such Client Offset Claim Account.

#### *Market Maker Account*

The Market Maker Account is for the recording of trades and positions of a SEOCH Participant arising from its market making activities. Separate Market Maker Accounts may also be opened and maintained for designated traders of the SEOCH Participant and NCPs of the SEOCH Participant which are Market Makers. Positions in a Market Maker Account are maintained and margined on a net basis. Other than positions in the Market Maker Account of a designated trader, which will be margined separately, and other than positions in the Market Maker Account of an NCP of a SEOCH Participant, which will be propagated to the relevant Individual Client Account of the SEOCH Participant maintained for such NCP as if they were positions in such account for margin calculation purposes, positions in the Market Maker Account of a SEOCH Participant will be propagated to its House Account as if they were the positions in its House Account for margin calculation purposes.

#### *Daily Account*

The Daily Account serves as an account to which trades can be transferred on a temporary basis for average price trade calculation or other purposes prescribed by SEOCH from time to time. Trades and positions in the Daily Account are treated for all purposes as trades and positions belonging to the House Account with the exception that positions recorded in the Daily Account on any Business Day will be maintained on a gross basis prior to the System Input Cutoff Time on each Business Day. A SEOCH Participant shall transfer all trades in its Daily Account to its other accounts in DCASS (other than the Sink Account) prior to the System Input Cutoff Time. Any trades and positions remaining in the Daily Account after the System Input Cutoff Time will be automatically transferred to the Sink Account of the SEOCH Participant.

#### *APT Account*

The APT Account serves as an account to which a selected group of trades can be transferred on a temporary basis for the purpose of performing average price trade calculation. No positions will be recorded or maintained in the APT Account.

#### *Sink Account*

The Sink Account is for the recording of trades and positions automatically transferred from the Daily Account. Trades and positions in the Sink Account are treated for all purposes as trades and positions belonging to the House Account with the exception that positions in the Sink Account will be maintained and margined on a gross basis, separate from the House Account. A SEOCH Participant shall transfer all trades and positions in its Sink Account to its other accounts in DCASS (other than the Daily Account).

### **1.5.2 CCMS Accounts**

Transactions of a SEOCH Participant with SEOCH in respect of any delivery or redelivery of collateral, whether cash or non-cash, and settlement of its stock delivery obligation resulting from exercise or assignment of options contracts are collectively referred to as “collateral movement” and “stock settlement” transactions respectively for the purpose of this section.

CCMS Collateral Accounts are held in the name of a SEOCH Participant for the recording of collateral movement and stock settlement transactions between that SEOCH Participant and SEOCH. There are no CCMS Collateral Accounts held in the name of an NCP as all collateral movement and stock settlement transactions relating to options contracts traded by that NCP will be effected by the GCP that cleared those options trades on behalf of that NCP.

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

SEOCH maintains for each SEOCH Participant different types of clearing accounts in CCMS for recording collateral movement transactions between that SEOCH Participant and SEOCH. Collateral in the CCMS Collateral Account may be designated for house positions or client positions by a SEOCH Participant via its CCMS terminal. These accounts are identified as the SEOCH Participant's (1) House CCMS Collateral Account; and (2) Client CCMS Collateral Account. Each of these accounts is mapped with one or more position accounts of the SEOCH Participant in DCASS. For the purposes of these Procedures and the Clearing Rules, the terms House CCMS Collateral Account and Client CCMS Collateral Account will be used and the term CCMS Collateral Account will mean both House CCMS Collateral Account and Client CCMS Collateral Account unless otherwise specified or the context requires otherwise. In the case of a GCP, all collateral movements effected by that GCP in relation to positions cleared by that GCP for an NCP will be recorded in its Client CCMS Collateral Account on an omnibus basis.

## 1.6 Segregation of Accounts

For the purpose of assisting SEOCH Participants in keeping separate records of options contracts transacted on behalf of their clients, SEOCH will:

- i. calculate the following on a SEOCH Participant's house positions (i.e., those recorded in that SEOCH Participant's House Account, Market Maker Accounts, Daily Account and Sink Account) and its client positions (i.e., those recorded in that SEOCH Participant's Omnibus Client Account, Client Offset Claim Accounts and Individual Client Accounts) separately:
  - (a) the margin requirements;
  - (b) the amount of MTM Flow Adjustment in the Loss Distribution Process;
  - (c) the amount of Termination Value Payable and Termination Value Receivable in the contract termination process;
  - (d) the amount of Limited Recourse Interim CP Payables, Limited Recourse Final CP Payables and Limited Recourse CP Receivables in a Clearing Service Termination Event; and
  - (e) the amount of SEOCH Default Interim CP Payables, SEOCH Default Final CP Payables and SEOCH Default CP Receivables pursuant to Section 20.1 of the Operational Clearing Procedures.
- ii. regard the various types of collateral designated in the House CCMS Collateral Account independent of those designated in its Client CCMS Collateral Account when determining the following in respect of a SEOCH Participant:
  - (a) the amount of margin to be payable;
  - (b) the amount required from or due to that SEOCH Participant in respect of Premium and Settlement Amount;
  - (c) delivery obligations arising from the exercise or assignment of OCH contracts;

- (d) the value of SEOCH Collateral provided by that SEOCH Participant;
- (e) whether SEOCH Collateral provided by the SEOCH Participant is adequate;
- (f) whether SEOCH Collateral provided by the SEOCH Participant should be redelivered to it.
- (g) the amount of MTM Flow Adjustment in the Loss Distribution Process;
- (h) the amount of Termination Value Payable and Termination Value Receivable in the contract termination process;
- (i) the amount of Limited Recourse Interim CP Payables, Limited Recourse Final CP Payables and Limited Recourse CP Receivables in a Clearing Service Termination Event; and
- (j) the amount of SEOCH Default Interim CP Payables, SEOCH Default Final CP Payables and SEOCH Default CP Receivables pursuant to Section 20.1 of the Operational Clearing Procedures.

## **1.7 Separate DCASS Accounts for Designated Traders**

A Market Maker may apply to SEOCH for using the enhanced accounting services of opening and keeping a separate Market Maker Account for each of its designated traders.

A designated trader means a trader designated by a Market Maker to perform the market making obligations in the name and on behalf of that Market Maker in option class(es) specified by that Market Maker. In addition to the market making activities, trades in other option class(es) may be conducted by a designated trader for his own account.

SEOCH may in its absolute discretion, reject any applications by a Market Maker to open and maintain a Market Maker Account and/or other accounts for a designated trader without giving any reason. SEOCH may, from time to time in its absolute discretion impose conditions on the opening and maintaining of these accounts for designated traders of a Market Maker.

### **1.7.1 Market Maker Accounts for Designated Traders**

Upon opening of a Market Maker Account for a designated trader, all provisions of the Second Schedule of the Options Trading Rules shall apply to the named designated trader individually as if he was the Market Maker himself. The Market Maker shall be fully responsible for the conduct and performance of its designated trader.

For the purpose of the calculation of margin requirement, cash and stock settlement obligations, each Market Maker Account and/or other accounts opened for a designated trader of a SEOCH Participant will be treated separately as a portfolio on its own and totally independent of the positions of that SEOCH Participant recorded in its other accounts. All liabilities or settlement obligations arising from trades or positions of a designated trader will be settled through the SEOCH Participant's House CCMS Collateral Account.

### **1.7.2 Account Opening and Subsequent Maintenance Procedures**

A Market Maker shall submit to SEOCH an application for the opening of a Market Maker Account and/or other accounts for each designated trader and the subsequent maintenance thereof viz., cancellation of account, addition or deletion of class(es) which the designated trader is permitted to make market in such manner and using such form as may be prescribed by SEOCH from time to time.

### 1.7.3 Terms and Conditions

SEOCH shall have the absolute discretion to approve applications for opening and maintaining a Market Maker Account for a designated trader and such approval shall be subject to such terms and conditions as SEOCH may prescribe from time to time. SEOCH shall have the right to terminate a Market Maker Account and/or other accounts of any designated trader at any time without prior notice to the Market Maker.

General terms applicable to all Market Maker Accounts for designated traders include but are not limited to:

- i. The Market Maker must be a holder of at least one current Market Maker permit and the designated trader must be an Authorized User registered with the Exchange pursuant to the Options Trading Rules. A Market Maker must inform SEOCH of any changes to the options classes which its designated trader is permitted to make market.
- ii. SEOCH will set up for each designated trader a Market Maker Account for recording trades of the designated trader. A Market Maker shall ensure that each Market Maker Account will be used to record the activities of only one designated trader and not any other activities of any other trader or the Market Maker transacted on an omnibus basis.
- iii. The Market Maker shall be liable for discount claw-back in respect of each and every designated trader who has failed to meet the performance target as laid down in the Second Schedule of the Options Trading Rules.
- iv. Each designated trader account will be valid for one year from the date of approval of application by the Market Maker. Upon expiration, the Market Maker may re-apply again.

### 1.7.4 Termination of Services by SEOCH

SEOCH may at any time terminate the service of keeping a separate Market Maker Account for a designated trader in respect of his market making activities in one or more option classes if:

- i. the designated trader has failed for a consecutive two months to meet at least 50% of the performance target as laid down in the Second Schedule of the Options Trading Rules; or
- ii. the Market Maker permit to make a market expires or is revoked by the Exchange; or
- iii. the Market Maker submits to SEOCH an application to terminate a Market Maker Account in such manner and using such form as may be prescribed by SEOCH from time to time; or
- iv. the Market Maker ceases to be an Options Trading Exchange Participant; or
- v. the designated trader ceases to be an Authorized User.

Upon termination, open positions, if any, of the designated trader will be transferred to the Market Maker or other Account of the Market Maker as appropriate.

### 1.8 DCASS Account in respect of Options Broker Exchange Participants' Transactions Carried by a SEOCH Participant

Pursuant to Options Trading Rules 401A(1) & (5), no Options Trading Exchange Participant shall accept instruction from an Options Broker Exchange Participant ("OBEP") in relation to the transaction of any Exchange Traded Options Business for the account of the clients of that OBEP unless and until the Options Trading Exchange Participant is a Direct Clearing Participant or GCP of SEOCH and it has opened separate accounts in DCASS with SEOCH in respect of the transactions cleared by it for the OBEP.

For the purposes of this section 1.8, the SEOCH Participant that is required to open and maintain separate accounts in DCASS for an OBEP is referred to as the "carrying SEOCH Participant" and an account opened and maintained for that purpose an "OBEP Individual Client Account" respectively.

#### **1.8.1 No Relationship between SEOCH and OBEP**

To avoid all doubt, an OBEP has no relationship with SEOCH irrespective that SEOCH may from an OBEP Individual Client Account identify the relevant OBEP.

For margin calculation and assignment purposes, transactions recorded in an OBEP Individual Client Account will be regarded as a portfolio separate from other transactions recorded in the other accounts of the carrying SEOCH Participant. All money and / or stock settlement obligations arising from transactions recorded in an OBEP Individual Client Account will be settled through the carrying SEOCH Participant's Client CCMS Collateral Account.

The carrying SEOCH Participant must notify SEOCH the identity of the OBEP for whom an OBEP Individual Client Account is maintained. It is the responsibility of the carrying SEOCH Participant to ensure that each and every transaction in respect of an OBEP must be properly recorded in the OBEP Individual Client Account designated for that OBEP and that except for transactions in respect of that OBEP, no other transactions shall be recorded in that account.

#### **1.8.2 Structure and Operation of OBEP Individual Client Accounts**

For position recording purposes, two OBEP Individual Client Accounts may be maintained in DCASS for an OBEP, one Individual Client Account for the recording of positions from trades executed by the carrying SEOCH Participant for the OBEP's own proprietary account and one Omnibus Client Account for the recording on an omnibus basis of positions from trades executed for clients of the OBEP.

The carrying SEOCH Participant can, after execution of a trade, allocate the trade directly into the relevant OBEP Individual Client Account of the OBEP via DCASS.

Position and various trading and clearing reports / information generated by DCASS in respect of an OBEP Individual Client Account will only be available to the carrying SEOCH Participant.

#### **1.8.3 OBEP's subject to Long Only Restrictions**

All short positions recorded in an OBEP Individual Client Account designated for an OBEP which is subject to the Long-Only restriction pursuant to Rule 207 of the Options Trading Rules must be closed out immediately after the short positions are created or detected. Unless the carrying SEOCH Participant closes out or transfers the short positions to its Omnibus Client Account before 5:00 p.m. of the Business Day on which the short positions are created or detected, SEOCH will transfer all short positions detected in the OBEP Individual Client Account designated for an OBEP to the carrying SEOCH Participant's Omnibus Client Account.

#### **1.8.4 Application for OBEP Individual Client Accounts**

A SEOCH Participant shall submit to SEOCH an application for the opening of an OBEP Individual Client Account in such manner and using such form as may be prescribed by SEOCH from time to time. It will be within the absolute discretion of SEOCH to decide whether to open and maintain an OBEP Individual Client Account for an OBEP, and all OBEP Individual Client Accounts shall be governed by the terms and conditions as the SEOCH Board may prescribe from time to time.

#### **1.8.5 Termination of OBEP Individual Client Accounts**

SEOCH may at any time terminate an OBEP Individual Client Account for a SEOCH Participant if:

- i. the carrying SEOCH Participant notifies SEOCH of the termination of a particular OBEP Individual Client Account in such manner and using such form as may be prescribed by SEOCH from time to time provided that there are no open positions in the OBEP Individual Client Account to be terminated in such manner and using such form. If there are any open positions, the carrying SEOCH Participant must provide to SEOCH a plan of how to close out such open positions and the plan must be acceptable to SEOCH before it will process the termination; or
- ii. the OBEP ceases to be an OBEP of the Exchange; or
- iii. the carrying SEOCH Participant ceases to be a SEOCH Participant; or
- iv. if SEOCH considers it appropriate to do so; or
- v. upon SEOCH terminating this service completely.

## **II. SEOCH PARTICIPANTSHIP**

### **2. SEOCH PARTICIPANT**

#### **2.1 Admission Process**

The applicant is required to fill in the **Application For Participantship Form** and submit all necessary documents and where applicable, processing fees as prescribed by the SEOCH Board from time to time to SEOCH according to the instructions given on the form.

SEOCH will verify the details submitted against the entry requirements as stipulated in the Clearing Rules. If necessary, the applicant may be required to provide further information. Site visits may also be carried out in the approval process.

The SEOCH Board shall at its absolute discretion approve or reject an application. The SEOCH Board may also approve an application in principle subject to the applicant's fulfilment of conditions set by the SEOCH Board within the prescribed time period. The applicant will be notified in writing as to the SEOCH Board's decision.

If the SEOCH Board rejects an application to admit as a SEOCH Participant, the applicant may, within 14 Business Days after it is notified of the SEOCH Board's decision, appeal in writing to the Participant Admission Appeals Committee in accordance with Section 2.8. The decision of the Participant Admission Appeals Committee will be final and conclusive.

#### **2.2 Registration**

SEOCH will maintain a register containing the full names and addresses of all SEOCH Participants, particulars of the category of SEOCH Participantship under which each SEOCH Participant is registered and the date of admission of each SEOCH Participant.

#### **2.3 Change of Clearing Participantship**

Any request regarding the change of SEOCH Participantship from one category to another and any notification of a SEOCH Participant's intention to resign from SEOCH Participantship must be submitted to SEOCH in writing.

An application for the change of SEOCH Participantship category will be processed as if it were a new application for the respective category of SEOCH Participantship.

#### **2.4 Resignation of SEOCH Participantship**

A SEOCH Participant may resign from being a SEOCH Participant but continue to be an Options Trading Exchange Participant. In this case, it becomes an NCP. A SEOCH Participant may also resign from both SEOCH Participantship and Options Trading Exchange Participantship. The resignation procedures are described in detail in the following paragraphs.

##### **2.4.1 Resignation of SEOCH Participantship to become an NCP**

A SEOCH Participant resigning from SEOCH Participantship and becoming an NCP shall submit a written request to SEOCH, together with a certified true copy of each Clearing Agreement which it has signed with a GCP. Upon becoming an NCP, it will no longer be able to clear its own or any client's options trades.

A SEOCH Participant which is a GCP at the time of submitting the resignation request must also present certified true copy(ies) of the termination agreement(s) that it has signed with any of the NCPs on whose behalf it has been clearing.

#### **2.4.2 Resignation of SEOCH Participantship and Options Trading Exchange Participantship**

A SEOCH Participant requesting the resignation of both SEOCH and Options Trading Exchange Participantship shall submit a written request to SEOCH. A SEOCH Participant which is a GCP at the time of submitting the request must also present certified true copy(ies) of the termination agreement(s) that it has signed with any of the NCPs on whose behalf it has been clearing.

#### **2.4.3 Resignation Procedure**

The following procedure will apply to the resignation of SEOCH Participantship :

- i. Within such period of time as specified by SEOCH, the resigning SEOCH Participant is required to submit a plan to SEOCH on how it intends to close out or transfer all options positions held in the accounts of NCPs for whom it clears as well as those of its house, client and other accounts maintained with SEOCH. The resigning SEOCH Participant is not allowed to create any open position which expires later than the date specified by SEOCH.
- ii. From the date the resignation request is received by SEOCH, the SEOCH Participant may be obliged to make further additional contributions to the Reserve Fund subject to Clearing Rule 413J and provide Assessments requested by SEOCH for an amount up to a limit determined by SEOCH in accordance with 11.6.
- iii. Each resignation request received by SEOCH will be submitted to the SEOCH Board for approval. If a resignation request is approved by the SEOCH Board, the SEOCH Board will also determine the effective date of termination of its SEOCH Participantship, and may determine that the approval be subject to the fulfilment of such conditions as it may consider appropriate.
- iv. SEOCH will notify the resigning SEOCH Participant and the GCP in writing of the SEOCH Board's decision and, if the request has been accepted, confirm the effective date of the termination which may be subject to fulfilment of conditions set for the resigning SEOCH Participant as mentioned in paragraph iii above.
- v. The resigning SEOCH Participant shall, until the effective date of termination of its SEOCH Participantship, remain bound by all the provisions of the Clearing Rules.
- vi. All SEOCH Participants will be notified by circular.
- vii. Upon payment of all fees accrued from options positions, the re-calculated Variable Contribution and any replenishment of Reserve Fund Contributions up to the Business Day before the effective date of termination of its SEOCH Participantship and Assessments up to the limit pursuant to Clearing Rule 413CA, the resigning SEOCH Participant will have no further obligations to SEOCH. Subject to Clearing Rules 723H and 1303, two months after the effective date of termination, its Reserve Fund Contributions will be refunded in accordance with Clearing Rule 722. SEOCH may deliver or return to SEOCH Participant assets in such form and in such amount, as SEOCH deems appropriate, equivalent to the assets recorded as part of its Reserve Fund Contributions Balance.

### **2.5 Revocation of Resignation Notice**

If a resigning SEOCH Participant wishes to withdraw its resignation notice, it can do so only before the effective date of the termination and subject to the consent of SEOCH. The SEOCH Participant is required to submit a written request to SEOCH giving the reasons for the revocation.

SEOCH will inform the resigning SEOCH Participant of the amount and the payment date of any additional Reserve Fund Requirement that is demanded or other conditions that it must fulfil before it could revoke the resignation notice and resume the same participantship status before its notice of resignation.

## **2.6 Change of Clearing Relationship**

If there is a change to an existing clearing relationship between an NCP and a GCP, they are required to sign a termination agreement to end the relationship. The NCP shall, if applicable appoint a replacing GCP to clear its options trades.

Besides the NCP, any newly appointed GCP and the terminated GCP are also required to notify SEOCH in writing. If the change request is approved by SEOCH, SEOCH will confirm the effective date for change of clearing relationship in writing.

The NCP's trades done prior to the effective date of termination of an existing GCP will be cleared by the existing GCP where such trades have been designated to the existing GCP for clearing and trades done on or after the effective date and trades not designated to the existing GCP for clearing will be cleared by any other existing GCP or new GCP of the NCP. SEOCH will transfer all its existing positions with the terminated GCP to the corresponding accounts with any of the NCP's other or new GCPs as notified to SEOCH on the effective date.

If the change in clearing relationship leads to a change in the GCP's Reserve Fund Contribution, SEOCH will process the addition/reduction in Initial Contribution within such period of time as specified by the SEOCH Board.

## **2.7 Suspension of Participantship**

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 the Clearing Rules.

## **2.8 Appeal to the Participant Admission Appeals Committee**

### **2.8.1 Membership of the Participant Admission Appeals Committee**

The Participant Admission Appeals Committee shall have 3 members, and all 3 members must attend the hearing to form a quorum. The three members shall be:

- (a) the chairman of the Participant Admission Appeals Committee who shall be an independent non-executive director of HKEX to be appointed by the chairman of HKEX;
- (b) a director of the SEOCH Board who is not involved in the day to day operations of SEOCH to be appointed by the chairman of the Participant Admission Appeals Committee; and
- (c) an independent non-executive director of HKEX to be appointed by the chairman of the Participant Admission Appeals Committee.

### **2.8.2 Secretary**

The Participant Admission Appeals Committee shall have a secretary to carry out any administrative functions.

**2.8.3 Time for Appeal**

If the SEOCH Board rejects an application to admit as a Participant, the applicant may appeal to the Participant Admission Appeals Committee by service of a notice in writing to the secretary within 14 Business Days of being notified of the SEOCH Board's decision.

**2.8.4 Notice of appeal**

A notice of appeal shall set out the name of the appellant, the decision appealed against, the grounds of appeal, all material facts and attaching copies of all documents relevant to the appeal.

The appellant shall provide SEOCH with all information for the application to admit as a SEOCH Participant before seeking to appeal against the rejection.

The appellant shall not seek to present to the Participant Admission Appeals Committee new information or evidence that was not previously submitted with its application to admit as a SEOCH Participant.

If the secretary upon receipt of the appeal application discovers that the appellant seeks to adduce any new information, the secretary shall request the appellant to withdraw its appeal application and re-submit an application to admit as a SEOCH Participant.

**2.8.5 Notice of hearing**

The Participant Admission Appeals Committee shall fix a date for the hearing within 30 Business Days after receipt of the appellant's written application together with the information required under first paragraph of Section 2.8.4 and the secretary shall notify the appellant of the date of hearing.

The secretary's notice to the appellant shall set out the time, date and place of the hearing and shall be delivered to the business address of the appellant by hand or by registered mail no later than 14 Business Days before the hearing.

**2.8.6 Attendance**

The hearing will be held in private. The appellant can attend the hearing by the personal attendance of an appropriate and authorised representative.

The appellant shall have the right to be represented by a solicitor and/or counsel at the hearing before the Participant Admission Appeals Committee. If the appellant wishes to be represented by a solicitor and/or counsel at the hearing before the Participant Admission Appeals Committee, it shall notify the secretary of the name of the solicitor and/or counsel representing it at least 7 Business Days before the hearing takes place.

The Participant Admission Appeals Committee may seek external legal representation at the hearing.

At least 3 Business Days before the hearing, the appellant shall provide the secretary with a list of all persons attending the hearing and the respective capacity in which such persons will attend the hearing.

If the appellant fails to attend the hearing before the Participant Admission Appeals Committee, the Participant Admission Appeals Committee hearing may proceed in the absence of the appellant and dispose of the matter in whatever manner as it sees fit.

**2.8.7 The hearing**

The appellant and/or its legal representatives may make an oral presentation or submission before the Participant Admission Appeals Committee in the hearing. The Participant Admission Appeals Committee may ask any persons attending the hearing any questions relevant to the admission application.

At any hearing, the Participant Admission Appeals Committee may, at its full discretion, admit or reject any evidence adduced, whether oral or written, and attach such weight to the evidence as the Participant Admission Appeals Committee considers appropriate in its discretion.

**2.8.8 Decisions on appeal**

The Participant Admission Appeals Committee will consider the evidence, written and oral, presented to it in coming to its decision. The secretary shall notify the appellant in writing of the decision of the Participant Admission Appeals Committee as soon as practicable and in any event no later than 30 Business Days after the hearing. The decision of the Participant Admission Appeals Committee shall be final and conclusive.

3. [Repealed]

### **III. CLEARING SERVICES**

#### **4. SERVICE SCHEDULES**

The clearing services of DCASS will be available 30 minutes prior to market open until the System Input Cutoff Time on each Business Day, except for trade adjustment requests in respect of Block Trades which shall be input via DCASS no later than 30 minutes prior to the System Input Cutoff Time. Details of the DCASS service schedules are set forth in the *DCASS User Guide*.

##### **4.1 Daily Schedule for Clearing Functions**

The following are various clearing functions available to SEOCH Participants via DCASS. Details of such functions and their daily schedule are set forth in the *DCASS User Guide*.

###### **4.1.1 Enquiry Function**

SEOCH Participants can perform online enquiry to view information relating to trades, positions, accounts, exercise requests, assignments, series, fees, deliveries, margin requirements as well as messages broadcast by SEOCH.

###### **4.1.2 Trade Rectification**

SEOCH Participants can perform various types of rectification on trades executed during the day, including open/close adjustments, trade account transfers, average price trades and trade splitting.

###### **4.1.3 Trade Give-up / Take-up**

SEOCH Participants can give-up trades executed during the day to other SEOCH Participants or confirm the take-up of trades from other SEOCH Participants.

###### **4.1.4 Exercise Request / Deny Auto**

SEOCH Participants can input exercise requests or rejections or deny exercise requests automatically generated for expiring contracts on the expiry day on their long open positions.

###### **4.1.5 Securities Collateral Cover / De-cover**

SEOCH Participants can input instructions to cover or de-cover their short call positions with the specific underlying to minimize the margin requirement on such positions.

###### **4.1.6 Position Maintenance**

SEOCH Participants can perform various types of rectification on their open or closed positions, including position netting and transfer between different internal or external accounts where applicable.

###### **4.1.7 Repealed**

###### **4.2 Repealed**

##### **4.3 Clearing Functions Performed By SEOCH at Its Discretion Upon SEOCH Participants' Instructions**

Certain clearing functions cannot be performed by SEOCH Participants directly. SEOCH will, at its discretion, perform all such clearing functions upon the proper delivery of instructions from a

SEOCH Participant. Each transaction processed by SEOCH will be subject to a processing fee at such rate as may be prescribed by the SEOCH Board from time to time. Instructions must be received by SEOCH no later than the System Input Cutoff Time to be assured of same day processing.

**4.4** Repealed

**4.5 DCASS Reports**

DCASS will generate clearing reports and data files, after the completion of day end process. For details of the DCASS reports and data files, please refer to the *DCASS User Guide*.

## 5. TRADE AND POSITION MANAGEMENT

Options trades concluded during the trading day will be updated on-line to various accounts of the SEOCH Participant in DCASS. The following information will be kept in relation to a position in each option series and in each account type:

- i. Repealed
- ii. the DCASS Customer Code of the SEOCH Participant that is responsible for clearing this position
- iii. the DCASS account (see 5.1 below)
- iv. details of the option series i.e.
  - underlying stock
  - expiry
  - exercise price
  - put/call
- v. the number of long option contracts held by this SEOCH Participant for this option series in this account
- vi. the number of short option contracts held by this SEOCH Participant for this option series in this account
- vii. the number of contracts exercised by this SEOCH Participant for this option series in this account
- viii. the number of contracts assigned to this SEOCH Participant for this option series in this account

### 5.1 Types of Position Accounts

DCASS can provide separate accounts for various house, market maker and client positions. Please refer to 1.5 for a detailed description of the different types of position accounts supported by DCASS.

### 5.2 Position Management

#### *Accounts in which positions are held gross*

This means that the total number of short contracts and the total number of long contracts in a series are recorded separately, and are not combined into a single net position, long or short.

Positions in an Omnibus Client Account are held on a gross basis because, as an omnibus account, it holds the positions of many clients. The long positions of one client cannot be netted off against the short positions of another. If necessary, SEOCH Participants can request SEOCH to set up Individual Client Accounts to record positions for individual clients. Positions in an Individual Client Account will be maintained and margined on a net basis. SEOCH Participants can also request SEOCH to set up Client Offset Claim Accounts to record short positions of clients which are eligible for margin offset. Positions in a Client Offset Claim Account will be maintained on a gross basis but margined on a net basis.

A consequence of holding positions gross in an Omnibus Client Account is that DCASS must be told whether a given purchase or sale is an opening or a closing trade. Designating a given buy or sell order opening or closing will, upon matching and generation of a trade, update the position in the following manner:

Opening Sale : increases short position  
Closing Sale : reduces long position  
Opening Buy : increases long position  
Closing Buy : reduces short position

#### *Effects of gross position-holding on margin calculation and assignment*

Gross holding of positions has no effect on accounts with net margin calculation. However, it does potentially affect the SEOCH Participant's likelihood of being assigned. This is because all of its short

contracts will be included in the random assignment, even though they may in fact be offset by long contracts in the same account of the SEOCH Participant. To avoid assignment of contracts which have in fact been closed, it is therefore important to ensure that DCASS records accurately reconcile to the actual position.

#### ***Trade closing errors***

If a closing trade is concluded for a quantity greater than the existing open position in that series, DCASS will close the existing positions in that series and create a new open position with the contracts in excess. This occurrence is known as a closing error and is displayed in the error log screen of DCASS.

#### ***Position netting***

Whenever positions are kept in an account without an auto-netting attribute (e.g. Omnibus Client Account), DCASS will not apply position netting to such accounts. Where necessary, SEOCH Participants must input instructions via DCASS to maintain their open positions at a correct level. Apart from rectifying trades from open to close on a trade by trade basis, SEOCH Participants can also perform position netting to close positions in their accounts.

#### ***Accounts with net positions***

Some accounts will be set with an auto-netting attribute. This means long and short contracts in the same series are automatically consolidated into a single net long or short position after the System Input Cutoff Time. Examples of such account include the House Account, Market Maker Account and the Individual Client Account, which record positions on a net basis after the System Input Cutoff Time. It is therefore not necessary for SEOCH Participants to designate orders as “opening” or “closing” for the House, Market Maker or Individual Client Account or to net down the positions.

### **5.3 Position Inquiry**

SEOCH Participants can enquire the current status of their positions by series and by account type and the trade history of a particular position.

### **5.4 Trade Adjustments**

Trade adjustments are limited to valid trades of non-expired series which were concluded on the previous trading day as well as those on the current day and which have been subject to the process of substitution and novation by operation of Clearing Rule 202 and the First Schedule to the Clearing Rules. Trade adjustments can be executed by SEOCH Participants via DCASS. Position Accounts are updated immediately for the following adjustments:

- i. Trade separation
- ii. Trade open/close adjustment
- iii. Trade account transfer
- iv. Trade give-up/take-up
- v. Average price trade.

Except for trade give-up/take-up, all other adjustments are internal (within the same SEOCH Participant) and effected real time. Trade give-up/take-up involves the transfer of trades between different SEOCH Participants and the process will be effected only after the take-up party confirms the give-up request.

Briefly described below are trade adjustment functions available to SEOCH Participants via DCASS. Details of these DCASS functions are set forth in the DCASS User Guide.

#### **5.4.1 Trade Separation**

SEOCH Participants are allowed to split a single trade into a number of trades.

#### **5.4.2 Trade Open/Close Adjustment**

SEOCH Participants are allowed to adjust open trades to close trades or vice versa.

Any adjustment which would lead to an error i.e. not enough positions to be opened or closed cannot occur because on-line update of positions will invoke validity checking.

#### **5.4.3 Trade Account Transfer**

Trade account transfer facilitates the transfer of trades between different accounts of a SEOCH Participant.

#### **5.4.4 Give-Up and Take-Up**

A SEOCH Participant can transfer a trade to another SEOCH Participant, provided that the take-up SEOCH Participant accepts the trade. The transfer of trades between a SEOCH Participant and another SEOCH Participant is referred to as a give-up (and its acceptance is known as a take-up). A give-up is a request which is not effected real time but will be put in a holding state, pending the take-up SEOCH Participant's confirmation or rejection. Give-up trades not confirmed by the take-up SEOCH Participant are deemed to be rejected and will remain with the give-up SEOCH Participant.

Give-ups and take-ups of trades can be performed by SEOCH Participants on the day of order matching or the Business Day after (i.e. on the trade day T or T+1). Thereafter, the give-up and take-up of positions across SEOCH Participants can only be effected by SEOCH using External Position Transfer as described in 5.5.2.

**5.4.4.1** Repealed

##### **5.4.4.2 Give-up Process**

In accordance with clients' requests, give-up of a trade can be done via DCASS after a trade has been matched. A trade give-up is successfully completed only if the take-up party has confirmed to take up the trade.

##### **5.4.4.3 Take-Up Process**

The take-up SEOCH Participant can choose to confirm or reject a give-up trade.

**5.4.4.4** Repealed

**5.4.4.5** Repealed

#### **5.4.5 Adjustment to Block Trades**

Any trade adjustment request in respect of a Block Trade shall be submitted by SEOCH Participants at any time 30 minutes prior to the System Input Cutoff Time on the same Business Day or 30 minutes prior to the System Input Cutoff Time on the next Business Day.

A trade adjustment request in respect of a Block Trade will be rejected by SEOCH if the Block Trade is determined by SEOCH to be invalid for any reason. In the event that a trade adjustment request relates to Open/Close or Account Transfer adjustment of a valid Block Trade, but the trade adjustment request is subsequently determined by SEOCH or the Exchange to be invalid for any reason (including where the transferring or receiving SEOCH Participant fails to pay or otherwise satisfy any Special Block Trade Margin arising from the trade adjustment request by the prescribed time), such trade adjustment request will be rejected by SEOCH. Notwithstanding the foregoing,

SEOCH has the sole discretion to accept or reject any Block Trade adjustment, in particular but not limited to any trade adjustment request submitted after the prescribed deadline.

#### **5.4.6 Average Price Trades (APT)**

SEOCH Participants can select several trades of the same series traded on the current day at different prices and quantities to form a single average price trade.

### **5.5 Position Adjustments**

Position adjustments may be made on accumulated positions in all position accounts. Some position adjustments can only be effected by SEOCH upon receipt of the proper instructions from SEOCH Participants and the adjustments are effective on-line immediately following completion of the adjustments. There are two types of position adjustments - Internal and External Position Adjustments, which are described in paragraphs 5.5.1 and 5.5.2 respectively. Only external position adjustment requests are subject to the approval of SEOCH. The SEOCH Participant must provide a valid reason for each external position adjustment requested.

#### **5.5.1 Internal Position Adjustment**

Internal position adjustments involve one or more position accounts of the same SEOCH Participant. Internal position adjustments as listed below, are performed by SEOCH Participants via DCASS:

- i. Position netting
- ii. Internal Position account transfer
- iii. Claiming margin offset on client positions.

##### **5.5.1.1 Position Netting**

SEOCH Participants can use the Position Netting function to close open positions in those accounts which maintain positions on a gross basis. (Please see a description of the Position Netting function under 5.2.)

##### **5.5.1.2 Internal Position Account Transfer**

The Internal Position Account Transfer function is similar to the Trade Account Transfer described in 5.4.3 except that it is performed on a position rather than a trade.

Internal transfer of positions can be effected between different types of accounts of a SEOCH Participant except the Daily, Sink and APT Accounts.

##### **5.5.1.3 Claiming Margin Offset on Client Positions**

Only short positions in the Omnibus Client Account are eligible for margin offset claims because positions in this account are margined on a gross basis. SEOCH Participants wishing to claim margin offset for short positions, that are of an offset nature, in their Omnibus Client Accounts must request SEOCH to open a Client Offset Claim Account for such purpose (please refer to 1.5.1). SEOCH Participants will have to transfer such eligible positions from the Omnibus Client Account to the Client Offset Claim Account. A SEOCH Participant can directly submit such position transfer requests via DCASS at any time prior to the System Input Cutoff Time on a Business Day.

All positions in the Client Offset Claim Account of a SEOCH Participant will be carried forward to the next Business Day unless otherwise instructed by the SEOCH Participant by submitting further position transfer requests between the Client Offset Claim Account and its Omnibus Client Account via DCASS at any time prior to the System Input Cutoff Time. A SEOCH Participant wishing to close out any short position in a Client Offset Claim Account shall transfer such position to its Omnibus Client Account to net down with the appropriate offsetting position.

If any ineligible positions are transferred into the Client Offset Claim Account of a SEOCH Participant, SEOCH may in its absolute discretion, without prior notice to the SEOCH Participant, disallow the margin offset and impose such additional margin on such ineligible positions as SEOCH shall consider appropriate, transfer the ineligible positions from the Client Offset Claim Account to the Omnibus Client Account, and/or suspend or terminate the use by the SEOCH Participant of the Client Offset Claim Account. No action shall lie against and no liability of whatsoever nature and howsoever arising, whether in contract, tort or otherwise, shall be incurred by SEOCH directly or indirectly in connection with effecting the transfer of any ineligible positions from, or suspending or terminating the use by a SEOCH Participant of any Client Offset Claim Account. Any incorrect recording or transfer of positions in or to the Client Offset Claim Account may also result in disciplinary action, including summary disciplinary measures, being taken against the SEOCH Participant by SEOCH.

## **5.5.2 External Position Transfers**

An external position transfer involves the transfer of positions in one or more accounts between different SEOCH Participants. The transfer is effected by SEOCH only upon receipt of proper instructions from SEOCH Participants no later than the System Input Cutoff Time and in the case of any request for the external position transfer of positions in a Client Offset Claim Account of a SEOCH Participant upon the occurrence of an event of default, only if the transfer is for all, but not part, of the positions in that account. SEOCH Participants can verify the effect of external position transfers in position reports and in position inquiry screens via DCASS.

An external position transfer can be initiated by a transferring SEOCH Participant by submitting a request to SEOCH using DCASS. Any external position transfer request not approved by SEOCH or not confirmed by the receiving SEOCH Participant will remain as the position of the transferring SEOCH Participant.

5.5.2.1 Repealed

5.5.2.2 Repealed

5.5.2.3 Repealed

5.5.2.4 Repealed

## **5.5.3 Annulment of Position Netting**

In the event that a SEOCH Participant needs to annul the position netting input (other than that relating to positions which were previously netted by trade close or adjustment or position transfer), the SEOCH Participant may request for an annulment of the position netting by submitting an annulment request to SEOCH using DCASS no later than such deadline as may be prescribed by SEOCH from time to time.

For annulment requests relating to positions which were previously netted by trade close adjustment or position transfer, the SEOCH Participant must submit to SEOCH the relevant form available from the HKEX website or such other channels as SEOCH may from time to time notify SEOCH Participants no later than such deadline as may be prescribed by SEOCH from time to time and stated in the form.

Each annulment request is subject to the approval of SEOCH. In respect of any annulment request not approved by SEOCH, the relevant positions will remain as closed.

## **5.6 Individual Client Accounts**

Margin requirements for positions belonging to the same client can be calculated on a net basis according to the same algorithm applicable to positions maintained in the House Account (Please see 9.3.1.1). To effect this, a SEOCH Participant must apply to SEOCH to set up Individual Client

Accounts and SEOCH may prescribe a maximum number of Individual Client Accounts for a SEOCH Participant.

A SEOCH Participant is required to ensure that particulars of each Individual Client Account application submitted are in agreement with and supported by the SEOCH Participant's records of their clients' option trading. A SEOCH Participant may be requested to produce such records for SEOCH's inspection and verification. Any unexplained discrepancies may result in disciplinary action by SEOCH.

**5.7** Repealed

## **6. EXERCISE CRITERIA, EXERCISE AND ASSIGNMENT**

The Exercise function allows a SEOCH Participant to exercise its or its client's right as an option holder to buy or sell the underlying shares, according to the terms of the OCH Contract.

Exercise requests for OCH Contracts can be input via DCASS at any time prior to the System Input Cutoff Time on any Business Day, including the last trading day on which the option trades. It is also possible to purchase an option and exercise it on the same day. Exercise requests can be input during the day but the actual assignment process will only be performed after the System Input Cutoff Time.

SEOCH Participants can prescribe their own in-the-money exercise criteria, i.e. the difference between the strike and fixing price as a percentage of the strike or a fixed amount, via DCASS at any time prior to the close of trading on any Business Day. Acceptance of such exercise criteria by SEOCH will be at the discretion of SEOCH and subject to such conditions and limits as SEOCH may from time to time specify. SEOCH Participants shall prescribe their exercise criteria by account and instrument type. Once setup in DCASS, such exercise criteria will override SEOCH's prescribed exercise criteria and take effect immediately. SEOCH Participants should review their prescribed exercise criteria and make necessary adjustments from time to time.

### **6.1 No Automatic Exercise Except on Expiry**

A SEOCH Participant shall input its exercise requests through DCASS in respect of each and every OCH Contract it wishes to exercise. DCASS will not automatically generate exercise requests in respect of in-the-money expiring contracts on behalf of SEOCH Participants except on an expiry day.

On an expiry day, DCASS will automatically generate exercise requests in respect of each and every open long position in expiring contracts which meets the exercise criterion, prescribed (i) by the relevant SEOCH Participant; or (ii) if no such exercise criterion is prescribed by the SEOCH Participant, by SEOCH. A report showing only those expiring contracts which are expired and to be exercised automatically based on SEOCH's prescribed criteria will be available shortly after the close of the underlying market on each Business Day. SEOCH Participants shall enquire via DCASS for a complete list of automatically generated exercise requests, including those generated based on the exercise criteria prescribed by themselves. SEOCH Participants may elect to deny any automatically generated exercise requests for positions in any particular series at any time prior to the System Input Cutoff Time on the expiry day (see 6.1.3). For the purposes of the Clearing Rules and these Procedures, exercise requests automatically generated by DCASS, if not so denied, are deemed as exercise requests input by SEOCH Participants and shall be binding and irrevocable.

Exercise requests will not be automatically generated by DCASS for those expiring contracts which do not meet the exercise criterion prescribed (i) by the relevant SEOCH Participant; or (ii) by SEOCH as aforesaid. SEOCH Participants shall exercise such contracts by input of exercise requests themselves via DCASS (see 6.1.1).

SEOCH will determine the in-the-money percentage criteria for automatic generation of exercise requests for expiring contracts in its absolute discretion from time to time and inform SEOCH Participants of such in-the-money percentage.

The in-the-money criterion is the difference between the strike and fixing price as a percentage of the strike or a fixed amount. For this purpose, the fixing price of the underlying stock will be determined by SEOCH at its absolute discretion and, under normal circumstances, it will be the closing price quoted on the Exchange of the underlying stock on the expiry day.

The automatic exercise feature of expiring contracts described above will be applicable on any expiry day which is a Business Day.

#### **6.1.1 Input of Exercise Requests**

Open long positions can be exercised regardless of whether they are in-the-money, at-the-money or out-of-the-money.

SEOCH Participants can input exercise requests for their open long positions via DCASS. Once input in DCASS, the exercise requests will be at pending state until the actual assignment process is performed after the System Input Cutoff Time on the same day. SEOCH Participants can view and reject their pending exercise requests via DCASS before the System Input Cutoff Time on the same day.

### **6.1.2 Amendment of Exercise Requests**

Amendment of exercise requests is only possible on the same day that the request was entered, up to the System Input Cutoff Time. After the System Input Cutoff Time, all exercise requests entered for the day will become final and irrevocable. DCASS will exercise all available long open positions in a particular series if the number of open long positions is equal to or smaller than the requested quantity.

To make an adjustment, a SEOCH Participant will have to reject the original exercise request and input a new exercise request for the correct account, series and quantity. Please refer to the *DCASS User Guide* for details.

### **6.1.3 Denying Exercise Requests Automatically Generated by DCASS**

SEOCH Participants may deny exercise requests automatically generated by DCASS for any expiring contracts by specifying the quantity of contracts which should not participate in the automatic exercise via DCASS at any time prior to the System Input Cutoff Time on the expiry day. SEOCH Participants can enquire about the result of their denial of automatically generated exercise requests and obtain the report for all positions exercised or assigned which is generated by DCASS.

### **6.1.4 On Behalf Exercise/Exercise Adjustment/Denying Automatic Exercise Requests by SEOCH**

Normally, SEOCH Participants should input their exercise requests, reject pending exercise requests or deny automatically generated exercise requests via DCASS. However, under certain circumstances such as power or equipment failure, a SEOCH Participant may request SEOCH to input such instructions on their behalf. For details, please refer to 17.2.

## **6.2 Assignment**

Each day after the System Input Cutoff Time, all exercise requests recorded during the day will be allocated across open contracts by a random process in DCASS.

### **6.2.1 Assignment Mechanism**

The random assignment process works by first locating all short positions in the series and arranging them in a list. The exercise routine selects the short positions by selecting a short contract randomly from the applicable list of short positions as a starting position and allocating a fixed number of exercised contracts down the list from that position until the allocation of that fixed number of exercise contracts has been completed. If exercise contracts remain to be allocated after going down the list, this process (draw short contract and allocate) is repeated until the allocation of all exercise requests has been completed.

It is possible that a SEOCH Participant will be assigned against series that it has exercised itself or on behalf of its clients. These are termed internally assigned contracts. Internal assignment can be mapped across various Position Accounts of the SEOCH Participant.

Stock transactions resulting from internal assignment will be reported and settled in the same manner as those assigned to other SEOCH Participants.

After assignment by DCASS, SEOCH Participants must perform a random assignment of their clients' positions, through their back office systems.

### **6.2.2 Assignment Notice**

Once assigned, the relevant SEOCH Participant is required to deliver or buy the underlying securities depending on whether the assigned position is a call or a put. On the evening of the day of exercise, following completion of the assignment process, SEOCH will notify SEOCH Participants of the results of exercise and assignment by means of a DCASS report. SEOCH Participants can also enquire about the results of exercise and assignment via DCASS after completion of the day end processing.

## 7. COLLATERAL

SEOCH may accept cash and non-cash assets as SEOCH Collateral for margin purposes and for making Variable Contributions to the Reserve Fund in such form and manner, and in the case of non-cash assets and cash denominated in a currency other than the Settlement Currency, up to such limit as may be approved by the SEOCH Board from time to time. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, the margin payable on such Contract will be converted by SEOCH from the Currency of the Contract into the Settlement Currency at the exchange rate determined by SEOCH as soon as practicable after the margin arose from such source and on such basis as it shall consider appropriate. Unless otherwise determined by the SEOCH Board, the amount of cash in the Settlement Currency covering the margin requirement for each CCMS Collateral Account of a SEOCH Participant shall not fall below the minimum level prescribed by the SEOCH Board. Normally, a SEOCH Participant's margin requirements will first be satisfied by cash in the Settlement Currency, then cash in any other currency from time to time approved by the SEOCH Board (see Appendix H for the current list of approved currencies) and then by any non-cash collateral credited to the SEOCH Participant's CCMS Collateral Account, or any other order of application as prescribed by the SEOCH Board from time to time. In relation to Variable Contributions to the Reserve Fund where cash and non-cash collateral may be used, the order of application of such collaterals may be in any order as prescribed by the SEOCH Board from time to time.

SEOCH may accept the transfer of non-cash collateral directly from a SEOCH Participant's clients provided that details of such transfer are provided by the SEOCH Participant in advance. SEOCH will update the SEOCH Participant's CCMS Collateral Account upon the transfer of such non-cash collateral.

This chapter sets out the procedures for handling non-cash collateral. For the processing of cash collateral, refer to Chapter 10 - Money Settlement.

Collateral management, including cash and non-cash collateral of SEOCH Participants, is handled by CCMS. For a detailed description of the collateral management functions in CCMS, please refer to the *CCMS Terminal User Guide*.

Any SEOCH Participant using non cash collateral in settlement of the SEOCH Participant's margin requirement will be subject to an accommodation charge at a rate or rates as prescribed by the SEOCH Board from time to time on the amount of margin requirement which is settled by non-cash collateral (see Appendix I).

Each SEOCH Participant shall be liable for all disbursements and expenses that may be incurred by SEOCH in respect of or incidental to its acceptance of non-cash collateral from the SEOCH Participant, including its redelivery or delivery of non-cash collateral and related sums to the SEOCH Participant.

### 7.1 Repealed

### 7.2 Securities Collateral

SEOCH may, subject to the provisions below, accept securities designated by the SEOCH Board as acceptable General Collateral or Specific Securities Collateral (i.e. "the underlying") for the purpose of meeting in part or in whole the margin requirement of a SEOCH Participant. Securities may be accepted as General Collateral and/or Specific Securities Collateral in respect of a SEOCH Participant's House CCMS Collateral Account, provided always that the SEOCH Board shall have the sole and absolute discretion to determine the maximum amount of a SEOCH Participant's margin requirements that may be satisfied in the form of securities. For the Client CCMS Collateral Account, securities collateral will be accepted for Specific Securities Collateral purpose only.

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

SEOCH will not accept securities collateral in physical scrips. Deposit and withdrawal of securities collateral will be effected by transfers of shares representing the securities collateral as book entries between any one of the Stock Accounts of the SEOCH Participant or the CCASS GCP, where applicable, in CCASS other than the Stock Collateral Control Account and the SEOCH Participant's CCMS Collateral Account.

Please refer to HKSCC Rules for the daily cut-off time for submission of securities deposit/withdrawal request via CCMS.

A SEOCH Participant which intends to lodge securities for collateral purposes must execute a valid "Deed of Charge" which governs SEOCH's fixed charge on such securities collateral and such other documents as may be required by SEOCH. For the avoidance of doubt, any EFBN provided by a SEOCH Participant to SEOCH shall be transferred outright to SEOCH and will not form the subject matter of such "Deed of Charge". The standard form Deed of Charge is available from SEOCH upon request. SEOCH will not accept a SEOCH Participant's securities collateral if such documents are not in place. Securities collateral credited to a SEOCH Participant's CCMS Collateral Account will not be allowed to be used except as provided for under the Clearing Rules or these Operational Clearing Procedures, or transferred or withdrawn by the SEOCH Participant unless with the express permission of SEOCH.

### **7.2.1 Deposit of Securities Collateral**

A SEOCH Participant or the CCASS GCP with which a SEOCH Participant has entered into a CCASS Clearing Agreement, must input a transfer instruction via a CCASS terminal to transfer securities from one of its Stock Accounts in CCASS other than the Stock Collateral Control Account to the SEOCH Participant's CCMS Collateral Account. Upon successful transfer, the Stock Collateral Control Account of the SEOCH Participant or the CCASS GCP, where applicable, in CCASS and the CCMS Collateral Account of the SEOCH Participant will be updated automatically and the securities balance in the CCMS Collateral Account of the SEOCH Participant will be immediately made available for use as securities collateral of the SEOCH Participant.

To allocate the securities collateral to specifically cover particular short call positions, the SEOCH Participant must input appropriate cover call requests via DCASS. Upon verifying the availability of excess securities collateral in the CCMS Collateral Account, the relevant short call positions that are being covered will be excluded from calculation of margin requirements. Cover call requests can be input before the System Input Cutoff Time on a Business Day. Cover call requests are effected real time provided there are excess available securities. Otherwise, they will be rejected by DCASS. Rejected cover call requests will be purged from DCASS during the day end processing.

### **7.2.2 Withdrawal of Securities Collateral**

Any SEOCH Participant that wishes to withdraw securities collateral should check the current securities collateral balance in its CCMS Collateral Account. A securities collateral withdrawal request will be accepted only to the extent that the value of the General Collateral in the CCMS Collateral Account exceeds the SEOCH Participant's current margin requirement. A SEOCH Participant's securities withdrawal request will be rejected if the value of the General Collateral in its CCMS Collateral Account does not exceed its current margin requirement.

Upon verifying the availability of excess securities collateral in its CCMS Collateral Account, the SEOCH Participant may withdraw securities held in its CCMS Collateral Account by inputting a transfer instruction via a CCASS terminal to transfer securities from the SEOCH Participant's CCMS Collateral Account to one of the Stock Accounts in CCASS maintained by that SEOCH Participant or the CCASS GCP, where applicable, other than the Stock Collateral Control Account.

In addition, if the securities collateral to be withdrawn have been assigned as Specific Securities Collateral to cover particular series, the relevant SEOCH Participant must de-cover that particular series via DCASS on the Business Day before the day the SEOCH Participant intends to withdraw such securities collateral. Upon settlement of the SEOCH Participant's money obligations the next morning, the SEOCH Participant will be able to effect the withdrawal via a CCASS terminal.

### **7.2.3 Revaluation of Securities Collateral**

Acceptable underlying securities allocated as Specific Securities Collateral to cover short call positions will provide full margin relief for short call positions which are being covered.

Securities collateral in CCMS Collateral Accounts will be marked to market at least once daily, based on the closing prices or prevailing market prices at the time of revaluation. "Haircuts" may be applied which discount the value of the securities collateral for the purpose of collateral valuation. The haircut rates will be determined by SEOCH at its absolute discretion.

### **7.2.4 Securities Collateral Coverage Assignment**

All securities collateral designated for SEOCH in CCMS will be allocated as General Collateral by default. It is the responsibility of the SEOCH Participant to input cover requests via DCASS to allocate securities collateral as Specific Securities Collateral in CCMS. This function is available before the System Input Cutoff Time. The SEOCH Participant should check the balance of the securities collateral available as either General Collateral or To-be-Released collateral in its CCMS Collateral Account and ensure that it is sufficient for covering short call positions before effecting the cover requests via DCASS.

A SEOCH Participant can input a cover call request via DCASS for a quantity of the underlying securities collateral in its House or Client CCMS Collateral Account to cover an open short call position in a particular series in its DCASS House, Market Maker, Individual or Omnibus Client Account, as the case may be. No cover call request however, shall be input to cover any open short call positions in the Client Offset Claim Account. The cover call request will be confirmed via DCASS if the quantity of underlying securities available in its CCMS Collateral Account is sufficient and upon confirmation, such underlying securities will be used as Specific Securities Collateral in CCMS. Short call positions covered by Specific Securities Collateral will not be marginable. For the allocation algorithm of covered securities collateral in covering particular series, please see 8.6.2.

### **7.2.5 Securities Collateral De-cover**

Similarly, SEOCH Participants can de-cover any covered short call position via DCASS. Any de-cover request will trigger the allocation of securities collateral to be de-covered from Specific Securities Collateral to To-be-Released collateral in a SEOCH Participant's CCMS Collateral Account. To-be-Released collateral can neither be withdrawn by a SEOCH Participant nor be used to meet margin requirement, but will have priority over General Securities Collateral in covering other options series in the relevant DCASS account. All To-be-Released collateral are DCASS account specific and will be released as General Collateral in the SEOCH Participant's CCMS Collateral Account after day-end processing and settlement of next day margin call, if any.

## **7.3 CCASS and CCMS Fees**

SEOCH will generally charge a SEOCH Participant for any CCASS or CCMS fees it incurs in relation to any CCASS or CCMS transaction specific to that particular SEOCH Participant in relation to collateral movement as detailed in the tariff schedule in Appendix G to these Procedures.

## **7.4 Exchange Fund Bills/Notes**

Exchange Fund Bills/Notes (EFBN) refers to the debt instruments issued for the account of the Exchange Fund of Hong Kong. SEOCH may, subject to the provisions set out below, accept these EFBN as General Collateral for the purpose of meeting in part but not in whole, the margin obligations of a SEOCH Participant in respect of its house or client positions. The SEOCH Board shall have the sole and absolute discretion to determine the maximum amount of a SEOCH Participant's margin obligations that may be satisfied in the form of EFBN.

SEOCH may also, subject to the provisions set out below, accept EFBN for the purpose of meeting in part or in whole the Variable Contribution of a SEOCH Participant to the Reserve Fund. The SEOCH Board shall have the sole and absolute discretion to determine the maximum amount of a SEOCH Participant's Variable Contribution that may be satisfied in the form of EFBN.

SEOCH is a Recognised Dealer (RD) appointed by the Hong Kong Monetary Authority (HKMA) under the Exchange Fund Bill/Note programmes and all transfers of EFBN must be effected as book entries via the Exchange Fund Bills and Notes Clearing and Settlement System (EFCS) between the account of SEOCH and that of the SEOCH Participant or its client. In case the SEOCH Participant or its client is not a RD, the SEOCH Participant must give instructions to the RD with whom the EFBN are held to effect the transfer on its behalf.

### **7.4.1 Use of EFBN**

Any SEOCH Participant wishing to use EFBN to meet its margin or Variable Contribution requirements shall, in writing or by other means acceptable to SEOCH, notify SEOCH of its intention before 11:00 a.m. Such notification must include the specific purpose for which EFBN are being transferred. At the same time, the SEOCH Participant shall instruct its RD to transfer EFBN on a Free of Payment ("FOP") basis to SEOCH's account with HKMA. A SEOCH Participant may also meet its margin requirement in respect of client positions through the transfer of EFBN directly from the SEOCH Participant's clients provided that the SEOCH Participant notifies SEOCH of the details of such transfer in advance. The SEOCH Participant shall instruct its clients or their RDs to transfer EFBN on an FOP basis to SEOCH's account with HKMA and any such EFBN so transferred shall be considered to be delivered by the SEOCH Participant. In the event that any such transfer fails to be made with the result that the SEOCH Participant fails to meet any margin requirement, the SEOCH Participant shall remain liable to SEOCH in respect of such requirement and will be placed in default under the Clearing Rules.

SEOCH will update the SEOCH Participant's CCMS Collateral Account and accept EFBN as cover for margin or Variable Contribution requirements for the quantity of EFBN transferred only upon confirmation of receipt of the relevant EFBN in the account that SEOCH maintained in the EFCS. To receive same-day credit for EFBN, the SEOCH Participant must transfer EFBN to SEOCH's account with HKMA by such transfer cutoff time as may from time to time be specified by HKMA.

### **7.4.2 Redelivery of EFBN**

Any SEOCH Participant that wishes to request for the redelivery of EFBN collateral should check its current balance of EFBN via a CCMS terminal. A redelivery request will be accepted only if and to the extent that there is excess collateral in its CCMS Collateral Account to satisfy the request. SEOCH Participants shall provide replacement collateral before submitting any EFBN redelivery requests if there is insufficient collateral in their CCMS Collateral Accounts.

A SEOCH Participant shall, in writing or by other means acceptable to SEOCH, notify SEOCH of an EFBN redelivery request before 11:00 a.m. and, if the conditions in the preceding paragraph are satisfied, such EFBN will be debited from the SEOCH Participant's CCMS Collateral Account and no longer be used to settle the SEOCH Participant's margin requirement and/or to satisfy the requirement of the Variable Contribution of that SEOCH Participant as determined under the procedure described in 11.2.2. SEOCH, upon allowing such redelivery request, will initiate instructions to HKMA to transfer EFBN on an FOP basis to the account of the SEOCH Participant, or on the express instructions of the SEOCH Participant, to such other account as it may specify provided that the SEOCH Participant provides confirmation to SEOCH that the holder of such account is a client of the SEOCH Participant. The SEOCH Participant should instruct its or, as the case may be, its client's RD to settle the transfer on that day. Any EFBN so transferred by SEOCH to an account specified by the SEOCH Participant shall be deemed to have been transferred to the SEOCH Participant insofar as the satisfaction of any liability of SEOCH towards the SEOCH Participant is concerned.

#### **7.4.3 Interest Payment of EFBN**

Where interest is paid to SEOCH in relation to EFBN which are the subject of cover for margin or Variable Contribution requirement provided by a SEOCH Participant, SEOCH will pay to the SEOCH Participant by crediting the relevant CCMS Collateral Account of the SEOCH Participant on the same Business Day, a sum equivalent to the amount of such interest, less any withholding tax that may be required to be deducted pursuant to any applicable tax laws and regulations and/or net of any Withholding Tax (whether withheld by SEOCH or any other parties). SEOCH will have no obligation to gross-up any such interest payment or to pay any additional amount as a result of such deduction or Withholding Tax. Without prejudice to the foregoing, to the extent required by the Tax Information Exchange Framework, SEOCH shall be entitled to deduct or withhold Withholding Tax (whether withheld by SEOCH or any other parties) from any payment of interest money (or payment of any other income) received by SEOCH in relation to the EFBN to a SEOCH Participant (or from any other payment made by SEOCH to a SEOCH Participant) and shall have no obligation to gross-up any such payment or to pay any additional amount as a result of such Withholding Tax.

#### **7.4.4 Maturity Redemption of EFBN**

Where redemption money is paid to SEOCH upon maturity of any EFBN which is the subject of cover for margin or Variable Contribution requirement provided by a SEOCH Participant, unless otherwise notified to the contrary by SEOCH, SEOCH will pay to the SEOCH Participant, by crediting the relevant CCMS Collateral Account of the SEOCH Participant on the Business Day following maturity of the EFBN, a sum equivalent to the amount of such redemption money, less any withholding tax that may be required to be deducted pursuant to any applicable tax laws and regulations and/or net of any Withholding Tax (whether withheld by SEOCH or any other parties). SEOCH will have no obligation to gross-up any such redemption money or to pay any additional amount as a result of such deduction or Withholding Tax. Without prejudice to the foregoing, to the extent required by the Tax Information Exchange Framework, SEOCH shall be entitled to deduct or withhold Withholding Tax (whether withheld by SEOCH or any other parties) from any payment of redemption money (or payment of any other income) received by SEOCH in relation to the EFBN to a SEOCH Participant (or from any other payment made by SEOCH to a SEOCH Participant) and shall have no obligation to gross-up any such payment or to pay any additional amount as a result of such Withholding Tax. SEOCH will, on the same day, debit the matured EFBN from the CCMS Collateral Account of the SEOCH Participant.

#### **7.4.5 Revaluation of EFBN**

EFBN recorded in the CCMS Collateral Account will be marked to market based on the closing value or the market value of the EFBN at a specified time published by the HKMA at the close of each Business Day. "Haircuts" may be applied which discount the value of the EFBN collateral for the purpose of margin call and Variable Contribution calculation. The haircut rates will be determined by SEOCH at its absolute discretion.

## **IV. DUTIES AND OBLIGATIONS OF SEOCH PARTICIPANTS**

### **8. SETTLEMENT AND DELIVERY IN RESPECT OF STOCK TRANSACTIONS**

#### **8.1 Overview**

Immediately upon the valid exercise of an OCH Contract and assignment of that OCH Contract pursuant to the Clearing Rules, there shall arise stock transactions for the purchase and sale of underlying securities between SEOCH and the SEOCH Participant party to that OCH Contract and upon the terms of the Standard Contract. This Chapter describes the procedures for the settlement of delivery obligations under the validly exercised OCH Contracts.

For the purposes of these Procedures, the stock transactions arising from the exercise and assignment process and the stock positions resulting therefrom are referred to as exercised options trades and pending stock positions respectively.

**8.1.1** Repealed

**8.1.2** Repealed

**8.1.3** Repealed

#### **8.2 Determination of Trade Day for Exercised Options Trades**

Under normal circumstances, the exercise day (i.e., the day on which the exercise request is validly effected whether manually by a SEOCH Participant or automatically by DCASS pursuant to the Clearing Rules) is regarded as the trade day (T) for the resulting exercised options trades.

#### **8.3 Timing for Settlement of Exercised Options Trades**

All exercised options trades are due for settlement on the second Settlement Day immediately following the trade day, i.e., on a T+2 basis.

SEOCH Participants should note that results of assignments of OCH Contracts are available only after the completion of the day end processing on the exercise day, which will be after the close of the underlying Exchange cash market. Until then, SEOCH Participants having short call positions should be aware of the assignment. Since the exercise day is the trade day (T) of the resulting exercised options trades, it may not be possible for a SEOCH Participant to settle its delivery obligations on T+2 by acquiring the underlying securities in the underlying cash market on T+1. SEOCH Participants may need to have stock borrowing or other arrangements in place to effect timely delivery on T+2.

**8.3.1** Repealed

**8.3.2** Repealed

**8.3.2.1** Repealed

**8.3.2.2** Repealed

## **8.4 Methods for Settlement of Stock Delivery Obligations**

Under normal circumstances, SEOCH would not use securities collateral provided by a SEOCH Participant to settle its delivery obligations. However, for Specific Securities Collateral covering short call positions, whether recorded in the SEOCH Participant's House, Market Maker or Individual or Omnibus Client Account, SEOCH will deem such Specific Securities Collateral to be used for settlement of the SEOCH Participant's delivery obligations arising from assignment of the short calls.

Except as aforementioned, stock delivery obligations arising from exercise and assignment of options positions are settled via CCASS under the Continuous Net Settlement (CNS) System in the same manner as other transactions in respect of an Eligible Security effected on exercise day in the underlying cash market of the Exchange. However, SEOCH may, at its discretion, isolate certain exercised options trades relating to one or more SEOCH Participants from settlement under the CNS System. Such isolated exercised options trades will be settled under the Isolated Trade (IT) System.

Procedures regarding settlement under the CNS System, the IT System or by Specific Securities Collateral are described in paragraphs 8.7, 8.8 and 8.9 respectively.

### **8.4.1 Repealed**

### **8.4.2 Repealed**

## **8.5 Records of Exercised Options Trades and Pending Stock Positions**

Particulars of each exercised options trade and the resulting pending stock positions are detailed in a report generated by DCASS after the day end processing on the exercise day (i.e., T). SEOCH Participants can also enquire about exercise and assignment information via DCASS.

After the day end processing on the exercise day (i.e., T), particulars of the resulting pending stock positions will be transferred to CCASS for settlement on T+2. An entry in the Final Clearing Statement (FCS) issued by HKSCC to the SEOCH Participant or the CCASS GCP, where applicable, on T+1 is confirmation of acceptance by HKSCC that an exercised options trade will be settled under the CNS or IT System. SEOCH Participants can also enquire about the particulars of exercised options trades to be settled by Specific Securities Collateral provided to SEOCH via DCASS.

## **8.6 Margin Settlement of Pending Stock Positions**

### **8.6.1 Pending Stock Positions to be Settled via CCASS under the CNS System**

#### **8.6.1.1 Marks, Margin and Concentration Collateral Settlement through HKSCC**

For SEOCH's margin computation purposes only, pending stock positions to be settled via CCASS under the CNS System will be deemed as settled once such positions are reported in the Provisional Clearing Statement (PCS) on T as positions to be settled under the CNS System. Such pending stock positions will be subject to Marks, Margin and Concentration Collateral requirements of HKSCC pursuant to the HKSCC Rules and the SEOCH Participant or the CCASS GCP, where applicable, will be responsible for the settlement of such Marks, Margin and Concentration Collateral in its capacity as a CCASS Clearing Participant. Therefore no margin will be required by SEOCH on such pending stock positions.

#### **8.6.1.2 Marks, Margin and Concentration Collateral Settlement through SEOCH**

Notwithstanding the above, a SEOCH Participant which will be settling its delivery obligations in CCASS itself (in its capacity as a CCASS Clearing Participant) may arrange with SEOCH to collect and pay, through a designated House CCMS Collateral Account of the SEOCH Participant in SEOCH, Marks, Margin and Concentration Collateral demanded by HKSCC on T in respect of

pending stock positions to be settled via CCASS under the CNS System. In this case, to the extent any excess cash collateral balance standing to the credit of such designated House CCMS Collateral Account is not sufficient to settle the Marks, Margin and Concentration Collateral requirement of HKSCC, a demand will be made on T through SEOCH's money settlement process according to 9.3.1A.

On T+1, SEOCH will, on behalf of the SEOCH Participant, effect a transfer from the SEOCH Participant's designated House CCMS Collateral Account to HKSCC's CCMS Collateral Account of an amount which is required to settle the obligation of the SEOCH Participant (in its capacity as a CCASS Clearing Participant) to pay Marks, Margin and Concentration Collateral demanded by HKSCC in respect of such pending stock positions. The amount to be transferred would comprise excess cash collateral balance that would have been available for withdrawal by the SEOCH Participant had no arrangement been made with SEOCH for it to pay Marks, Margin and Concentration Collateral on its behalf and any amount demanded by SEOCH for this purpose as mentioned above. No transfer will be made if there are insufficient funds in the designated House CCMS Collateral Account of the SEOCH Participant for this purpose or if the pending stock positions are not accepted by HKSCC for settlement under the CNS System. Upon such transfer being effected, any obligation of SEOCH to release to the SEOCH Participant any amount so transferred shall be discharged.

For the avoidance of doubt, SEOCH will not arrange to collect or pay Marks, Margin and Concentration Collateral with any SEOCH Participant which settles its delivery obligations through a CCASS GCP.

#### **8.6.1.3 CCMS Collateral Account Designation for Marks, Margin and Concentration Collateral Collection**

Where a SEOCH Participant opts for SEOCH to collect and pay Marks, Margin and Concentration Collateral of pending stock positions to be settled in CCASS under the CNS System through its designated House CCMS Collateral Account in SEOCH, such SEOCH Participant shall submit a request to SEOCH by such time, in such manner and using such form as may be specified by SEOCH from time to time. Any request received by SEOCH before the specified time on a Business Day shall become effective on the next Business Day. Notwithstanding the foregoing, SEOCH reserves the right to accept or reject any request made at its sole discretion.

#### **8.6.1A Pending Stock Positions to be Settled via CCASS under the IT System**

Pending stock positions to be settled under the IT System will be margined by SEOCH until full settlement by delivery of the underlying securities. SEOCH will inform SEOCH Participants about the margin requirement, if any, and such margin would be settled via the money settlement process of SEOCH.

#### **8.6.2 Pending Stock Positions to be Settled by Specific Securities Collateral**

For covered pending stock positions of a SEOCH Participant, SEOCH would normally deem those Specific Securities Collateral covering such stock positions to be used for the settlement of the SEOCH Participant's delivery obligations and hence no margin is required. SEOCH Participants should note that, since SEOCH has no information as to the allocation of exercised options trades amongst clients of a SEOCH Participant, the covered securities collateral allocation algorithm will differ for the various accounts in DCASS.

For the House, Market Maker and Individual Client Accounts, DCASS assumes pending short stock positions resulting from assignment of short call positions have higher priority, i.e., any Specific Securities Collateral will first be allocated to cover pending short stock positions which have arisen from the assignment of short calls and the balance, if any, allocated to cover open short call options positions.

For the Omnibus Client Account in DCASS, any Specific Securities Collateral will first be allocated to cover open or expiring short call options positions and any balance left will then be allocated to cover short pending stock positions resulting from assignment of the short calls. If the quantity of Specific Securities Collateral is not sufficient to cover the SEOCH Participant's open or expiring short call options positions, the short pending stock positions resulting from assignment would become naked, and the Specific Securities Collateral will not be used for the settlement of its delivery obligations.

## **8.7 Settlement via CCASS under the CNS System**

Exercised options trades to be settled under the CNS System are regarded as if they were trades in the cash market which had been effected on the same day as the day of exercise (i.e. T), for the purpose of the HKSCC Rules.

SEOCH will send to HKSCC all the particulars of each such exercised options trade, on a trade by trade basis (i.e. no netting and with SEOCH as the counter party to each such trade) upon completion of the day end processing on T. On T+1, if the SEOCH Participant has arranged for SEOCH to collect and pay Marks, Margin and Concentration Collateral in respect of pending stock positions arising from the exercised options trades from its designated House CCMS Collateral Account, SEOCH will transfer to HKSCC an amount which is required to settle the Marks, Margin and Concentration Collateral demanded by HKSCC in respect of these pending stock positions pursuant to the HKSCC Rules, such that these exercised options trades can be settled under the CNS System.

Upon confirmation of acceptance for settlement under the CNS System as recorded in the FCS issued by HKSCC on T+1, all exercised options trades will be netted with all other trades executed in the cash market on T by the SEOCH Participant or the CCASS GCP, where applicable, and settled under the CNS System in accordance with the HKSCC Rules. SEOCH will deem such exercised options trades settled after acceptance of such trades are confirmed by HKSCC for settlement under the CNS System on T+1.

## **8.8 Settlement via CCASS under the IT System**

SEOCH may exercise its discretion and determine that certain exercised options trades should be settled under the IT System. Under such circumstances, the affected SEOCH Participant will be notified of the decision as soon as practicable. In any case, an entry in the FCS issued by HKSCC indicating the exercised options trades are to be settled under the IT System will serve as the final confirmation of such a decision. Upon confirmation of any exercised options trades to be settled under the IT System, the relevant SEOCH Participants with stock delivery obligations must change the payment method of such exercised options trades from DVP to FOP basis as soon as possible. For any SEOCH Participant which settles its delivery obligations via a CCASS GCP, it must have a pre-established arrangement with its CCASS GCP to facilitate such change in a timely manner.

Stock settlement of these exercised options trades under the IT System will be handled via CCASS, whilst money settlement of the related Settlement Amount will be effected through the SEOCH money settlement process. Settlement procedures where the SEOCH Participant is the Buyer are described under 8.8.1 and where the SEOCH Participant is the Seller, under 8.8.2 below.

### **8.8.1 Settlement where the SEOCH Participant is the Buyer under the IT System**

SEOCH will collect the related Settlement Amount from a SEOCH Participant by debiting the required cash amount from that SEOCH Participant's cash balance recorded in its CCMS Collateral Account on T+1. If the balance as shown in that SEOCH Participant's CCMS Collateral Account is insufficient, any deficit will be collected by SEOCH through the SEOCH Participant's bank account maintained with the Designated Bank or Settlement Bank on T+2 not later than 9:15 a.m.

Upon confirmation of full settlement of the Settlement Amount, SEOCH will use its best endeavour to deliver the underlying securities to the Stock Account in CCASS maintained by that SEOCH

Participant or the CCASS GCP, where applicable, during one of the four batch settlement runs on T+2 or thereafter as soon as practicable.

## **8.8.2 Settlement where the SEOCH Participant is the Seller under the IT System**

### **8.8.2.1 Settlement Process**

As soon as being notified of any exercised options trades to be settled under the IT System, the affected SEOCH Participant must change or have arrangement in place to change the payment method of such exercised options trades to an FOP basis via CCASS before the first batch run on T+2 and settle the stock delivery obligations via CCASS on T+2. Upon receipt of the underlying securities in full settlement of the pending stock positions, SEOCH will credit the related Settlement Amount to the SEOCH Participant's CCMS Collateral Account on T+2 for same day value.

If the SEOCH Participant or the CCASS GCP, where applicable, can deliver the required underlying securities by DI before 11:00 a.m. and has submitted a cash withdrawal request before the cash withdrawal request cut off time (i.e. 11:00 a.m.), SEOCH will, upon confirmation of stock settlement, process the cash withdrawal for same day value.

### **8.8.2.2 Late Stock Delivery by the SEOCH Participant under the IT System**

If the SEOCH Participant or the CCASS GCP, where applicable, fails to deliver stock to SEOCH on T+2, SEOCH will immediately initiate any necessary actions against the SEOCH Participant or the CCASS GCP, where applicable, which include but are not limited to requesting the late-delivering SEOCH Participant to buy in, requesting other Exchange Participants to perform the buy in on behalf of the late-delivering SEOCH Participant and/or the taking of disciplinary actions pursuant to the Clearing Rules. Any costs associated with the buy-in will be borne by the late-delivering SEOCH Participant.

If there are entitlements attached to the overdue stock positions which cannot be settled prior to the book-close day of the relevant event which gives rise to the entitlement, SEOCH will claim the entitlement back directly from the late delivering SEOCH Participant. Any costs or expenses incurred by SEOCH as a result of recovering the entitlement will be charged to the late delivering SEOCH Participant. The procedures below describe the processing of entitlements relating to late deliveries:

#### **i) Cash Dividend**

SEOCH will debit the cash dividend amount from the CCMS Collateral Account of the late delivering SEOCH Participant on the first Business Day of the book-close period. The cash dividend amount will be credited to the receiving SEOCH Participant's CCMS Collateral Account on the payable date by the issuer.

#### **ii) Stock Dividend, Bonus shares, Rights Issue**

For entitlements in the form other than cash, such as stock dividend or bonus shares, the late delivering SEOCH Participant will be required to provide to SEOCH, cash margin in an amount computed by SEOCH on the entitlements on a daily basis, until such time that the entitlement due is settled. Such margin call will be issued and settled in the same manner as an intraday margin call starting from the first Business Day of the book - close period.

If the late delivering SEOCH Participant fails to settle the entitlement due by the time specified by SEOCH, SEOCH will require such SEOCH Participant to purchase the entitlements on the first Business Day on which such entitlements are available for dealing.

If the late delivering SEOCH Participant fails to purchase the entitlement on the first Business Day as aforementioned, SEOCH will on the next Business Day, purchase such entitlement for the account of such SEOCH Participant; and all relevant costs and expenses will be charged to such SEOCH Participant.

**8.8.2.3 Partial Delivery by the SEOCH Participant under the IT System**

Normally SEOCH will not accept partial delivery. In cases where SEOCH determines at its absolute discretion to accept partial delivery, the entire pending stock position will be regarded as unsettled and will hence be margined accordingly until stock delivery obligations relating to that pending stock position are settled in full. The related Settlement Amount will be credited to that SEOCH Participant's CCMS Collateral Account maintained with SEOCH only upon receipt of all the underlying securities in full settlement of the pending stock position.

**8.9 Settlement by Specific Securities Collateral****8.9.1 Withdrawal of Specific Securities Collateral**

All covered pending stock positions of a SEOCH Participant are deemed to be settled by Specific Securities Collateral already provided to SEOCH. The relevant underlying stock quantity will be automatically transferred from the Specific Securities Collateral balance of the SEOCH Participant's CCMS Collateral Account (maintained under these Procedures and the Clearing Rules) to:

- i. the SEOCH Participant's CCMS Collateral Account maintained with HKSCC; or
- ii. the CCASS GCP's CCMS Collateral Account maintained with HKSCC if the SEOCH Participant settles its delivery obligation through a CCASS GCP

as Specific Securities Collateral. SEOCH Participants should note that whether such collateral will be used for settlement of the relevant pending stock positions is subject to the netting result of the trades (including the trades of the cash market) to be settled under the CNS System on T+2.

Specific Securities Collateral covering expiring short call positions which have not been assigned will be automatically de-covered after the day end processing on the expiry day. If a SEOCH Participant wishes to use such securities collateral for settlement of its delivery obligations, it could withdraw such securities collateral in accordance with the procedures detailed under 7.2.2.

**8.9.2 Repealed****8.9.3 Payment of Settlement Amount**

The Settlement Amount in respect of the quantity of pending stock positions settled by Specific Securities Collateral will be effected through CCASS on T+2.

**8.9.4 Repealed****8.10 Settlement of Odd Lots and Fractional Shares Resulting from Exercise of Adjusted Contracts after Capital Adjustment**

Unless otherwise expressly specified by SEOCH, the size of an option contract will generally be one board lot of the underlying shares, and SEOCH Participants will be able to settle exercised options trades in whole board lots.

However, as a result of capital adjustment to the underlying shares, SEOCH may adjust the contract size, with the result that SEOCH Participants may need to settle odd lots or fractional shares (see Chapter 14 – Capital Adjustments) on exercise. The settlement method of odd lots and fractional shares are described below.

### **8.10.1 Settlement of Odd Lots**

Odd lots resulting from exercise of adjusted contracts will be settled by physical delivery of shares.

SEOCH Participants will be required to settle the delivery of shares via CCASS, under the standard procedures in CCASS, or as prescribed by SEOCH from time to time.

### **8.10.2 Settlement of Fractional Shares**

The normal procedures for settlement on exercise will not apply to fractional shares, since CCASS is only able to settle whole shares. Fractional shares of each adjusted options contract exercised will be settled in cash. i.e. SEOCH will assume the buying SEOCH Participant (which exercised a call or assigned a put) has disposed of the fractional shares whilst the delivering SEOCH Participant (which exercised a put or assigned a call) has purchased the fractional shares at the fixing price as determined by SEOCH. Under normal circumstances, the fixing price will be the market closing price of the underlying stock in the cash market on the day of exercise. The cash settlement amount will be recorded in the CCMS Collateral Account of the relevant SEOCH Participant on the day of exercise.

The cash settlement amount is calculated on the exercise day by multiplying the share fraction by the difference between the strike price and the fixing price of the underlying stock as determined by SEOCH. Under normal circumstances, the fixing price will be the market closing price of the underlying stock in the cash market on that day.

For example, the contract size for XYZ call option at a strike of HK\$110.50 is 533.33 shares after capital adjustment. If 5 contracts are being exercised on a day when the underlying market closes at HK\$120.50, the settlement amount for the fractional shares will be computed as follows:

Cash Amount for fractional shares:

$$0.33 * 5 * (\text{HK\$}110.50 - \text{HK\$}120.50) = -\text{HK\$}16.50$$

The above cash amount will be credited to the buying SEOCH Participant's CCMS Collateral Account and debited to the delivering SEOCH Participant's CCMS Collateral Account i.e. the buying SEOCH Participant will receive and the delivering SEOCH Participant will pay HK\$16.50.

### **8.11 CCASS Fees Apply**

Since after exercise and assignment, an option contract is transformed into a stock trade, stock settlement fees will be charged by CCASS on the stock transactions. Therefore, SEOCH Participants are expected to pay the same kind of CCASS fees as they are now being charged for stock transactions executed in the cash market.

### **8.12 Stamp Duty and Levies**

Each exercise or assignment will become an individual stock trade for the calculation of stamp duty and levies. These exercised/assigned trades will be reported to the Stock Exchange's automatic order matching and execution system and the associated stamp duty and levies will be collected through the same mechanism currently applicable to normal trades in the underlying market.

## 9. MARGIN REQUIREMENT

### 9.1 Marginable Position

SEOCH requires margin for open option positions and pending stock positions. This is calculated and collected, where necessary, on a daily basis using routine procedures which are carried out overnight.

SEOCH may also collect margin at other times, even during trading on a Business Day, as it sees necessary (see Intra-day Margin, below).

### 9.2 Portfolio Risk Margining System

SEOCH will use Portfolio Risk Margining System (“PRiME”) to calculate margin.

The philosophy behind PRiME works on the basis of projecting separately for each SEOCH Participant a variety of hypothetical -- but realistic -- market scenarios and determining, out of all these scenarios, which one of them would leave the value of the SEOCH Participant’s portfolio in the worst position financially. The margin that SEOCH then demands is the amount which would be required to meet all the SEOCH Participant’s obligations if its entire portfolio were liquidated at that worst case scenario.

The Total Margin Requirement resulting from this process consists of two components: the “Mark-to-Market” margin and the “Risk Margin”. (Please refer to Appendix D or the *PRiME Margining Guide* for an illustration of the calculation.)

#### 9.2.1 Mark-to-Market Margin

Each day, after the close of trading, SEOCH marks the marginable positions to market with the fixing price of each option series determined by SEOCH. The resulting amount is called the Mark-to-Market Margin, which will be a credit for a long option position and a debit for a short option position.

Unless otherwise determined by SEOCH under special circumstances, the fixing price of an option series shall be calculated as follows:

- i. Subject to paragraph v, if there was a trade during the final fifteen-minute period, the following will apply:
  - (a) if the last trade was at or below the best bid price amongst the last bid price(s) that had any corresponding offer price(s) during the final fifteen-minute period, the fixing price will be such best bid price;
  - (b) if the last trade was at or above the best offer price amongst the last offer price(s) that had any corresponding bid price(s) during the final fifteen-minute period, the fixing price will be such best offer price;
  - (c) if the last trade was between the best bid price amongst the last bid price(s) that had any corresponding offer price(s) during the final fifteen-minute period and the best corresponding offer price, then the fixing price will be the price of such last trade; and
  - (d) if no pairs of bid and corresponding offer prices were available during the final fifteen-minute period, then the fixing price will be the price of such last trade.

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- ii. If there was no trade during the final fifteen-minute period, the fixing price will be calculated as the midpoint between the best bid price amongst the last bid price(s) that had any corresponding offer price(s) during the final fifteen-minute period and the best corresponding offer price, rounded to the nearest tick. However, if SEOCH determines that the bid-offer spread is not consistent with those of other expiries with similar strike prices, and the resultant fixing price does not reflect the true market conditions, SEOCH will disregard this fixing price and proceed to the procedures laid down in paragraph iii.
  - iii. If neither a trade nor a pair of bid and offer prices was available during the final fifteen-minute period, or if SEOCH determines according to paragraph ii that the procedures laid down in this paragraph iii should be followed, the fixing price of an option series shall be calculated by SEOCH using a model as prescribed by SEOCH with the volatility determined with reference to the following:
    - (a) the prices of the option series with the same expiry during the final fifteen-minute period;
    - (b) the prices of the option series with the same expiry prior to the final fifteen-minute period if no sufficient prices of the option series of the same expiry during the final fifteen-minute period were available to determine the volatility of such option series;
    - (c) the volatility and skewness of the option series with the same expiry on the previous Business Day if no sufficient prices of the option series with the same expiry prior to the final fifteen-minute period were available to determine the volatility of such option series; and
    - (d) other information provided by the Market Makers if no volatility or skewness of the option series with the same expiry on the previous Business Day was available.
  - iv. SEOCH will adjust, where appropriate, the fixing price of an option series calculated under paragraph i, ii or iii according to the following and rounded to the nearest tick:
    - (a) if the fixing price so determined is smaller than the intrinsic value of the option series, it will be adjusted to such intrinsic value;
    - (b) if the fixing price so determined is greater than the upper boundary set by SEOCH based on a prescribed percentage of the theoretical price of the option series calculated according to the procedures laid down in paragraph iii, it will be adjusted to such upper boundary;
    - (c) if the fixing price so determined is smaller than the lower boundary set by SEOCH based on a prescribed percentage of the theoretical price of the option series calculated according to the procedures laid down in paragraph iii, it will be adjusted to such lower boundary;
    - (d) starting from the at-the-money to the most in-the-money option series of the same underlying, expiry and call/put type, if the fixing price is smaller than or equal to the fixing price of the preceding option series, it will be adjusted to a value not lower than the fixing price of such preceding option series;
    - (e) starting from the at-the-money to the most out-of-the-money option series of the same underlying, expiry and call /put type, if the fixing price is greater than or equal to the fixing price of the preceding option series, it will be adjusted to a value not higher than the fixing price of such preceding option series; and
    - (f) starting from the most recent to the most distant option series of the same underlying, strike price and call/put type, if the fixing price is smaller than or equal to the fixing price of the preceding option series, it will be adjusted to a value not lower than the fixing price of such preceding option series.

- v. Block Trade prices will not be used by SEOCH in determining the fixing price.
- vi. Notwithstanding the above, SEOCH may, in its discretion, adjust or otherwise determine the fixing price of an option series.

### 9.2.2 Margin Interval and Risk Margin

SEOCH will determine the margin interval based on its judgement about the potential volatility of the underlying over the period up to the collection of the *next* margin call, by reference to the historical volatility of the underlying. This margin interval is used to construct the upper and lower limits of the risk array based on the last available closing price of the underlying.

The risk array price level at which the greatest loss would occur if the market were to move to that level is compared to the mark-to-market value. If this theoretical liquidating value is greater than the Mark-to-Market Margin, the difference is called Risk Margin.

The sum of Mark-to-Market and Risk Margin is the Total Margin Requirement for the portfolio in a DCASS account. The actual amount of margin call demanded each day by SEOCH will be equal to this sum, minus the acceptable value of any collateral currently provided, including any premium income earned that day which, if necessary, will be retained to meet the margin requirement. The margin may be payable in cash or in an acceptable form of collateral.

If the result of the margin calculation is a credit for an account of the SEOCH Participant in DCASS, the Total Margin Requirement for that account is simply set to zero. The SEOCH Participant cannot realise the value of the margin credit. SEOCH never pays a SEOCH Participant for having a margin credit -- it can only redeliver excess collateral upon request.

### 9.2.3 Total Margin Requirement

The sum of Mark-to-Market Margin and Risk Margin is the Total Margin Requirement for the portfolio.

The daily margin requirements calculated during the DCASS day end batch processing for each SEOCH Participant for open option positions maintained in each of the accounts of the SEOCH Participant in DCASS are available for on-line screen inquiry and report printing on the next Business Day.

Please refer to Appendix D or the *PRiME Margining Guide* for an illustration of the calculation of the margin requirement.

### 9.2.4 Additional Margin – Concentration Margin

An additional margin will be imposed on a SEOCH Participant in respect of its open option positions and pending stock positions of the same or such similar underlying stock as determined by SEOCH and notified to SEOCH Participants from time to time in the event that when assessed by reference to the historical data from each of the realized stressed market conditions and/or hypothetical data for each of the unrealized stressed market conditions as SEOCH may determine:

- i. the projected aggregate loss (less any margin) arising from such open option positions and pending stock positions (“Concentrated Net Projected Loss”) of the SEOCH Participant is greater than 30 percent of the total Concentrated Net Projected Loss of all SEOCH Participants; and
- ii. the total Concentrated Net Projected Loss of all SEOCH Participants arising from such open option positions and pending stock positions based on the same or similar underlying stock exceeds HK\$500 million.

The additional margin to be imposed shall be a percentage of the otherwise applicable margin

requirement based on the following, or such other percentage as SEOCH may consider appropriate:

Concentrated Net Projected Loss of the SEOCH Participant vs all SEOCH Participants	% of applicable margin rate
More than 30% and equal to or less than 40%	20%
More than 40% and equal to or less than 50%	25%
More than 50% and equal to or less than 60%	30%
More than 60% and equal to or less than 80%	40%
More than 80%	50%

Notwithstanding the above, a SEOCH Participant accounting for greater than 80% of the total Concentrated Net Projected Loss is only required to pay 40% (instead of 50%) of the applicable margin rate during the first five (5) Business Days when such percentage remains greater than 80%. In the event that a SEOCH Participant's Concentrated Net Projected Loss remains at a level greater than 80% of the total Concentrated Net Projected Loss for six (6) consecutive Business Days or more, the SEOCH Participant must pay 50% of the applicable margin rate as additional margin from the sixth (6th) Business Days onwards.

For the avoidance of doubt, if additional margin is required under two or more stressed market conditions, the higher or highest (as the case may be) additional margin rate shall be imposed.

### 9.2.5 Additional Margin – Reserve Fund Additional Margin

An additional margin will be imposed on a SEOCH Participant in respect of all its open positions and pending stock positions and notified to SEOCH Participants from time to time in the event that when assessed by reference to the historical data from each of the realized stressed market conditions and/or hypothetical data for each of the unrealized stressed market conditions as SEOCH may determine:

- (a) the projected aggregate loss (less General Collateral (excluding any excess collateral) and any margin except additional margin collected under this section) arising from such open option positions and pending stock positions of the SEOCH Participant ("Reserve Fund Net Projected Loss") exceeds the Reserve Fund Risk Predefined Limit, which is equal to 50% of the Reserve Fund Threshold or such other percentage as SEOCH may consider appropriate; and
- (b) the prevailing Reserve Fund size is equal to the Reserve Fund Threshold.

The additional margin to be imposed pursuant to this section shall be the amount by which the Reserve Fund Net Projected Loss exceeds the Reserve Fund Risk Predefined Limit.

For the avoidance of doubt, if the additional margin is required under two or more stressed market conditions, the higher or highest (as the case may be) additional margin amount shall be imposed.

Notwithstanding the above requirements of this section, should SEOCH accept the SEOCH Participant's request to waive the whole or part of the additional margin requirement, the SEOCH Participant must close out, hedge or transfer to any other SEOCH Participant such positions as may reduce the Reserve Fund Net Projected Loss to an amount which is less than the sum of the Reserve Fund Predefined Limit and additional margin set forth in this section maintained with SEOCH if any by the end of the same Business Day as the additional margin requirement collection due date, failing which SEOCH may subsequently close out, hedge or transfer such positions on behalf of the SEOCH Participant.

## 9.3 Margin Treatment of SEOCH Participant Positions

### 9.3.1 Margin Treatment of Open Options Positions

#### 9.3.1.1 House Positions

For open option positions maintained in any account in DCASS which is margined on a net basis, the netting works as follows:

- i. A long position in an options series will be netted against a short position in the same option series to create a net long or net short position for margining.
- ii. The Mark-to-Market Margin and Risk Margin of the option class is calculated separately based on the net long and net short positions of all series within the same option class. Where the option class produces a Mark-to-Market Margin credit, it can be used to offset the Risk Margin of that same option class. The resulting balance represents the Total Margin Requirement of that option class.
- iii. If the Total Margin Requirement is a credit for this option class, this credit can be used to offset the margin debits resulting from other option classes with the same Currency of the Contract.
- iv. If a margin credit results after offsetting the margin credits against the margin debits from the different option classes with the same Currency of the Contract, such margin credit can be used to further offset margin debits resulting from the margining of other option classes with a different Currency of the Contract. Before the offset, the margin credit will be converted into the Currency of the Contract in which the margin debit is denominated at such exchange rate as may be determined by SEOCH from such source and on such basis as it shall consider appropriate.

After netting under (i) to (iv) above, the Total Margin Requirements of all the option classes will be aggregated to form the Total Margin Requirement of the portfolio.

For margin calculation purpose, other than positions in the Market Maker Account of a designated trader, which will be margined separately, and other than positions in the Market Maker Account of an NCP of a SEOCH Participant, which will be aggregated with those in the relevant Individual Client Account of the SEOCH Participant maintained for such NCP as if they were positions in such account, positions in the SEOCH Participant's Market Maker Account will be aggregated with those in its House Account and margin will be calculated on a net basis. Open option positions comprised in the Daily Account and the Sink Account are margined on a gross basis according to the same algorithm as that adopted for the Omnibus Client Account described in 9.3.1.2.

For more details on net margining, please refer to Appendix D or the *PRiME Margining Guide*.

### 9.3.1.2 Client Positions

Open option positions maintained in the Omnibus Client Account are margined on a gross basis. Open option positions maintained in an Individual Client Account or a Client Offset Claim Account are margined on a net basis.

Margin credits of long positions in the Omnibus Client Account cannot be used to offset the margin debits of any short positions in that account, whether the positions are of the same option series, within an option class or across option classes. For details of gross margining, please refer to Appendix D or the *PRiME Margining Guide*.

Open option positions comprised in an Individual Client Account are margined on a net basis according to the same algorithm as the House Account described in 9.3.1.1. However, any margin credit associated with an Individual Client Account will not be used to offset the margin debit of any other Individual Client Account or any other open option positions maintained in any other account of a SEOCH Participant.

Open option positions comprised in a Client Offset Claim Account are margined on a net basis. For more details on net margining, please refer to Appendix D or the *PRiME Margining Guide*. Only positions that are of an offset nature and that are transferred by a SEOCH Participant from its Omnibus Client Account to its Client Offset Claim Account on the following basis will be eligible for margin offset (please refer to 1.5.1):

- (a) only open short positions which the SEOCH Participant can identify as belonging to the same beneficial owner may be allocated; and
- (b) offset on short put and uncovered short call positions may be claimed on a one-to-one basis if their underlying securities are the same.

As no long positions shall be allocated to the Client Offset Claim Account, there will not be any margin credit for such account. Short positions allocated by a SEOCH Participant to a Client Offset Claim Account, same as those in other accounts of the SEOCH Participant in DCASS, may be assigned during the process of random assignment each day after the System Input Cutoff Time (please refer to 6.2). Such assigned positions will not be margined and cannot be utilised to offset the margin debits of the remaining short positions in the Client Offset Claim Account.

The margin requirement on open option positions maintained for clients of a SEOCH Participant is the aggregated total of margin requirements on all Individual Client Accounts plus the margin requirements in respect of all Omnibus Client Accounts and all Client Offset Claim Accounts.

### **9.3.1.3 Margin Treatment of Covered Options Positions**

A SEOCH Participant may allocate, via DCASS, the securities collateral available as General Collateral in its CCMS Collateral Account as Specific Securities Collateral to cover short call positions of a particular series maintained in its accounts in DCASS. For operational details of allocating securities collateral to cover/de-cover a particular series via DCASS, please refer to the *DCASS User Guide*.

All open short call positions so covered by securities collateral will be treated as non-marginable positions hence no margin will be required.

A SEOCH Participant may de-cover the securities collateral previously allocated to cover a particular series, in which case, the previously covered position will not be covered and will become marginable. SEOCH Participants should ensure that they have sufficient funds in their bank accounts maintained with the Designated Bank or Settlement Bank, as the case may be, to meet margin call requirements in the morning of the next Business Day.

### **9.3.1A Margin Treatment of Pending Stock Positions**

All pending stock positions are margined independent of other options positions. The following paragraphs describe the margin treatment of pending stock positions settled under different mechanisms (as referenced in Chapter 8).

#### **9.3.1A.1 Margin Treatment of Pending Stock Positions to be Settled via CCASS under the CNS System**

No margin will be required by SEOCH on pending stock positions to be settled via CCASS under the CNS System, but such pending stock positions will be subject to the Marks, Margin and Concentration Collateral requirements of HKSCC pursuant to the HKSCC Rules and the SEOCH Participant in its capacity as a CCASS Clearing Participant or the CCASS GCP, where applicable, will be responsible for the relevant Marks, Margin and Concentration Collateral demanded by HKSCC.

If a SEOCH Participant has made an arrangement with SEOCH to collect and pay Marks, Margin and Concentration Collateral to HKSCC through a designated SEOCH House CCMS Collateral Account in respect of pending stock positions to be settled via CCASS under the CNS System, SEOCH will collect from the SEOCH Participant on T such amount as may be required to satisfy the Marks, Margin and Concentration Collateral notified to SEOCH by HKSCC as the Marks, Margin and Concentration Collateral payable by the SEOCH Participant (in its capacity as a CCASS Clearing Participant ) in respect of these pending stock positions.

The Marks, Margin and Concentration Collateral payable by the SEOCH Participant would be determined by HKSCC pursuant to the HKSCC Rules and would represent any additional Marks, Margin and Concentration Collateral requirement resulting from the netting of the relevant exercised options trades of the SEOCH Participant with the trades to be cleared by the SEOCH Participant under the CNS System (in its capacity as a CCASS Clearing Participant) in the cash market.

Such Marks, Margin and Concentration Collateral will be collected and paid in the relevant currency specified by the SEOCH Participant pursuant to the HKSCC Rules. If the SEOCH Participant does not have a bank account in the relevant currency for money settlement under SEOCH and does not have sufficient amount of the relevant currency in the designated House CCMS Collateral Account of the SEOCH Participant, the Marks, Margin and Concentration Collateral to be collected will, after deducting any excess cash collateral balance in such relevant currency in the designated House CCMS Collateral Account of the SEOCH Participant, be settled in Hong Kong dollars in such equivalent amount as may be converted from the relevant currency based on such exchange rate as may be determined by SEOCH. Unless the amount of excess cash collateral standing to the credit of the designated House CCMS Collateral Account of the SEOCH Participant is sufficient to meet the amount of Marks, Margin and Concentration Collateral required by HKSCC, a demand for the shortfall will be made by SEOCH on T through the money settlement process of SEOCH.

On T+1, SEOCH will, on behalf of the SEOCH Participant, effect a transfer from the SEOCH Participant's designated House CCMS Collateral Account to HKSCC's CCMS Collateral Account an amount which is required to settle the obligations of the SEOCH Participant (in its capacity as a CCASS Clearing Participant) to pay Marks, Margin and Concentration Collateral demanded by HKSCC in respect of the pending stock positions. The amount to be transferred would comprise excess cash collateral balance that would have been available for withdrawal by the SEOCH Participant had no arrangement been made with SEOCH for it to pay Marks, Margin and Concentration Collateral on its behalf and any amount demanded by SEOCH for this purposes as mentioned above. No transfer will be made if there are insufficient funds in the designated House CCMS Collateral Account of the SEOCH Participant for this purpose or if the pending stock positions are not accepted by HKSCC for settlement under the CNS System. Upon such transfer being effected, any obligation of SEOCH to release to the SEOCH Participant any amount so transferred shall be discharged.

#### **9.3.1A.2 Margin Treatment for Pending Stock Positions to be Settled via CCASS under the IT System**

Pending stock positions of a SEOCH Participant to be settled under the IT System will be margined by SEOCH until the stock positions are fully settled by the SEOCH Participant. As the pending stock positions are no longer maintained in DCASS, the margin requirement on all pending stock positions to be settled under the IT System will be computed separately by SEOCH.

#### **9.3.1A.3 Margin Treatment for Pending Stock Positions to be Settled by Specific Securities Collateral**

Delivery obligations arising from covered pending stock positions are deemed to be settled by Specific Securities Collateral already deposited with SEOCH. Such positions are not marginable as they are covered by the relevant securities collateral.

**9.3.2** Repealed

**9.3.2.1** Repealed

**9.3.2.2** Repealed

**9.3.3** Repealed

**9.3.3.1** Repealed

9.3.3.2 Repealed

9.3.3.3 Repealed

9.3.3.4 Repealed

9.3.3.5 Repealed

#### 9.3.4 No Margin Offset between House, Omnibus or Individual Client Accounts

Where there is a credit for the total margin in the House, Omnibus Client or Individual Client Account of a SEOCH Participant, the margin credit in that account will **not** be used to offset any margin debit of either of the other two accounts.

### 9.4 Obtaining Reports & Margin Parameters

The POSTING COLLATERALISATION RESULT REPORT in CCMS gives details of the total margin requirement for each account of a SEOCH Participant in DCASS and CCMS.

### 9.5 Interest, Costs and Charges On Cash Delivered As Margin Collateral

Interest may be payable or levied at such positive or negative rate, and costs and charges may be levied at such amount, on cash provided for margin requirements and other cash amounts as determined by SEOCH from time to time in accordance with Appendix I. The total amount of interest earned or charged, and the costs and charges levied, up to and including the last day of the month will be posted to or deducted from the SEOCH Participants' respective CCMS Collateral Accounts on the first Business Day of the following month.

The interest rate SEOCH is paying or levying can be enquired on-line through an enquiry function in CCMS. However, as the interest rate is only updated in the afternoon by SEOCH, the interest rate inquired during trading hours may not be the one used in the current day's interest calculation. In addition, there is a CCMS report generated on a monthly basis which lists the total interest earned or levied for the period. Please refer to the *CCMS Terminal User Guide* for details.

### 9.6 Collection of Margin Requirement

The daily margin requirement is settled not later than 9:15 a.m. (in the case of daily margin requirement other than additional margin required under 9.2.4, 9.2.5 or 12.5) and 11:00 a.m. (in the case of additional margin required under 9.2.4, 9.2.5 or 12.5) the next Business Day in clear funds through the SEOCH money settlement process. However, due to the time required for DCASS day end processing, the margin amount required by SEOCH will only be known **after** normal banking hours. This in turn means that the SEOCH Participant must have a good estimate of the total cash requirement that SEOCH will demand before the close of the bank.

Failure to meet margin requirement will cause SEOCH to consider the commencement of default proceedings.

### 9.7 Intra-Day Margin

SEOCH has full discretion to call for Intra-day Margin from all SEOCH Participants and/or selected SEOCH Participants.

Without prejudice to the foregoing, SEOCH will, unless in exceptional circumstances as determined by SEOCH, demand Intra-day Margin from one or more SEOCH Participants on each trading day

according to such schedule as may be prescribed by SEOCH and published on the HKEX website from time to time.

Please refer to Section 10.5 - The Intra-Day Cash Settlement Process for a description of how an Intra-day Margin call can be met.

Failure to meet an Intra-day Margin call within one hour may cause SEOCH to consider the initiation of the default proceedings.

## **9.8 Special Block Trade Margin**

SEOCH has full discretion to call for Special Block Trade Margin from the relevant SEOCH Participant in respect of a Block Trade or a trade adjustment in respect of such Block Trade. The SEOCH Participant will be notified of a Special Block Trade Margin call within 30 minutes after the execution of the Block Trade or after the submission of a trade adjustment request in respect of such Block Trade.

Please refer to Section 10.5A – The Special Block Trade Margin Settlement Process for a description of how Special Block Trade Margin can be met.

A Block Trade will not be subject to the process of substitution and novation in accordance with the First Schedule to the Clearing Rules or be cleared by SEOCH unless any Special Block Trade Margin in respect of the Block Trade has been paid or otherwise considered by SEOCH to have been satisfied. Any trade adjustment request in respect of a Block Trade will not be accepted by SEOCH unless any Special Block Trade Margin arising from such trade adjustment has been paid or otherwise satisfied.

## **10. MONEY SETTLEMENT**

### **10.1 Introduction**

Unless otherwise specified by SEOCH, the money settlement process of SEOCH will be effected by cash in the Settlement Currency transferred between the bank accounts of SEOCH maintained with Settlement Banks and bank accounts of SEOCH Participants maintained with either Designated Banks or Settlement Banks. All such cash transfers, whether for amounts collected from or payable to a SEOCH Participant, are initiated by SEOCH issuing a Direct Debit Instruction (“DDI”) to the Designated Bank or Settlement Bank (as the case may be); or a Direct Credit Instruction (“DCI”) to the Settlement Bank.

Every SEOCH Participant must maintain bank account(s) for Hong Kong dollars and each applicable non-Hong Kong dollar Settlement Currency with one of the Designated Banks or Settlement Banks for money settlement purpose. For the avoidance of doubt, a SEOCH Participant which has not opened bank account(s) in the Settlement Currency of a Contract (and Hong Kong dollars if the Settlement Currency is not Hong Kong dollars) as aforesaid will not be allowed to record, register and clear that Contract. As money settlement transactions recorded in the House and Client CCMS Collateral Accounts are processed separately, every SEOCH Participant must maintain at least two bank accounts in Hong Kong dollars and each applicable non-Hong Kong dollar Settlement Currency with a Designated Bank or a Settlement Bank (as the case may be) and properly identify which of these accounts is for the handling of money settlement transactions recorded in the House CCMS Collateral Account and which of these is for the handling of money settlement transactions recorded in the Client CCMS Collateral Account.

SEOCH Participants should note that timely settlement of the money obligations due to SEOCH is extremely important. Failure to make timely settlement could result in disciplinary measures and default proceedings. It is important that SEOCH Participants provide SEOCH with the names of at least two emergency contact persons who can be reached before or during office hours for all money settlement matters. SEOCH must also be kept informed of any changes in the details of such emergency contact persons.

All amounts payable by each SEOCH Participant will normally be settled in the manner described in these Procedures. Where such amounts payable are not settled in the manner described in these Procedures, SEOCH will render a debit advice in respect of the amount due and may debit the amount contained in any such debit advice from the SEOCH Participant’s account with the Designated Bank or Settlement Bank on the due date specified in such debit advice.

#### **10.1.1 Repealed**

#### **10.1.2 Direct Debit Mandate**

In order to facilitate the money settlement process as described, every SEOCH Participant must execute the uniform Direct Debit Mandate with the Designated Bank or Settlement Bank (as the case may be) authorising the bank to release funds to SEOCH’s account upon request. The Direct Debit Mandate will become effective only when the Designated Bank or Settlement Bank confirms its acceptance. Direct Debit Mandates are available from SEOCH, Designated Banks or Settlement Banks.

#### **10.1.3 Change of Designated Bank or Settlement Bank**

If there is a change of Designated Bank or Settlement Bank used by a SEOCH Participant, the SEOCH Participant is required to give a written notice and deliver it to the office of SEOCH together with a properly executed Direct Debit Mandate of the new Designated Bank or Settlement Bank (as the case may be) at least fourteen Business Days prior to its effective date.

SEOCH will advise the SEOCH Participant when the arrangement with the new Designated Bank or Settlement Bank can become effective.

#### **10.1.4** Repealed

### **10.2 The Daily Cash Settlement Component**

The Daily Cash Settlement Component consists of up to four components namely Premium, margin, fees and if necessary, Settlement Amount which are all to be settled by cash in the Settlement Currency unless otherwise specified by SEOCH, with the exception of margin which may also be settled by cash in an approved currency other than the Settlement Currency and non-cash collateral acceptable to SEOCH.

The total margin requirement in respect of either house or client positions of a SEOCH Participant may be covered by the SEOCH Participant's cash and non-cash collateral balance after haircut, if applicable, within its House or Client CCMS Collateral Account provided that the SEOCH Board shall have the absolute right to determine the minimum amount of a SEOCH Participant's margin requirements that must be covered by cash in the Settlement Currency or the maximum amount that may be covered by non-cash collateral or cash denominated in an approved currency other than the Settlement Currency. When the total margin requirement exceeds the total of acceptable cash and non-cash collateral balance after haircut, cash settlement is required for this excess margin requirement and will be collected via the appropriate bank account which the SEOCH Participant maintains with a Designated Bank or a Settlement Bank. The other components are Premium, fees and Settlement Amount and they will be collected via the SEOCH Participant's bank account with a Designated Bank or a Settlement Bank in the aforementioned manner when the sum of these components turns out to be in debit.

#### **10.2.1 Premium Settlement**

The Premium is calculated as the net Premium balance due to or from the SEOCH Participant in respect of trades concluded on the preceding Business Day for house and clients' transactions separately. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, the Premium payable on such trade will be converted by SEOCH from the Currency of the Contract into the Settlement Currency at the exchange rate determined by SEOCH as soon as practicable after the Premium arose from such source and on such basis as it shall consider appropriate. Any exchange rate risk arising from the conversion will be borne by the SEOCH Participant. A credit arising from house positions will not be used to offset a debit arising from client positions, and vice versa.

Premiums are calculated immediately upon registration of the trade in DCASS. The Premiums payable and receivable are updated in real time and are available for enquiry via DCASS.

#### **10.2.2 Margin Settlement**

The amount of margin required will be calculated during batch processing. This will be compared with the cash and non-cash collateral value. If there is a deficit, it will be collected from the appropriate SEOCH Participant's account with the Designated Bank or a Settlement Bank by DDI. If no margin is required but the SEOCH Participant has cash or non-cash collateral in excess as shown in its CCMS Collateral Account, this excess cash or non-cash collateral will be returned upon request provided that the amount of margin that is covered by cash in the Settlement Currency will not fall below the minimum level prescribed by the SEOCH Board and the return of excess cash will not result in any other requirement regarding cover for the SEOCH Participant's margin requirements not being satisfied. Where the Settlement Currency of a Contract is not the same as the Currency of the Contract, the amount of margin required for such Contract will be converted by SEOCH from the Currency of the Contract into the Settlement Currency at the exchange rate determined by SEOCH as soon as practicable after the amount of margin required arose from such source and on such basis as it shall consider appropriate.

**10.2.3 Fee Settlement**

The various options trading and clearing fees are also collected through the SEOCH money settlement process. In the normal course of events, the aggregate amount of fees payable by a SEOCH Participant will be debited from its CCMS Collateral Account. All such fees will be collected from the SEOCH Participant's account with the Designated Bank or Settlement Bank nominated to be used for the money settlement of house positions or client positions, as appropriate.

**10.2.4 Settlement Amount**

The Settlement Amount will be the amount, exclusive of stamp duty, AFRC Transaction Levy ("AFRC Transaction Levy") payable pursuant to the Financial Reporting Council Ordinance, and SFC Transaction Levy ("SFC Transaction Levy") and Investor Compensation Levy ("Investor Compensation Levy") payable pursuant to the Accounting and Securities and Futures Ordinance and its subsidiary legislation and trading fee, required to settle pending stock transactions on T+2. Depending on how the pending stock position is settled, the payment of the Settlement Amount will be handled differently as described in the following paragraphs.

**10.2.4.1 Repealed****10.2.4.2 Settlement via CCASS under the CNS System**

Money settlement for pending stock positions arising from the exercise or assignment of options contracts settled through CCASS under the CNS System is effected through CCASS in the same way as any other CNS stock positions arising from stock transactions in the cash market.

If a SEOCH Participant has made an arrangement with SEOCH to collect and pay Marks, Margin and Concentration Collateral demanded by HKSCC in respect of pending stock positions to be settled through CCASS under the CNS System, the amount required, less any excess cash collateral standing to the credit of the House CCMS Collateral Account designated by the SEOCH Participant, will be collected by SEOCH by the money settlement process via the SEOCH Participant's account with the Designated Bank or Settlement Bank as part of the daily cash settlement described in 10.3.1 – Daily Cash Settlement.

**10.2.4.3 Settlement via CCASS under the IT System**

Money settlement for pending stock positions settled through CCASS under the IT System will be effected under SEOCH's money settlement process. The Settlement Amount due from a SEOCH Participant will be debited from its House or Client CCMS Collateral Account, as the case may be, and any deficit will be handled by the daily SEOCH money settlement process via the SEOCH Participant's account with the Designated Bank or Settlement Bank. The process is similar to that for daily cash settlement described in 10.3.1 – Daily Cash Settlement.

As to Settlement Amount due to a SEOCH Participant, SEOCH will credit the sum to the SEOCH Participant's House or Client CCMS Collateral Account, as the case may be. The SEOCH Participant can request the redelivery of excess cash balances according to the procedures described in 10.4. If the SEOCH Participant can fully settle the delivery before 11:00 a.m. and submit a redelivery request before the redelivery request cut off time i.e. 11:00 a.m., SEOCH will, upon confirmation of stock settlement, process the request for same day value.

**10.2.4.4 Settlement by Specific Securities Collateral**

Money settlement for pending stock positions to be settled by Specific Securities Collateral will be effected through CCASS in the same way as that of settlement via CCASS under the CNS System.

**10.2.5 Repealed**

### **10.3 The Cash Settlement Process**

Once the cash requirement has been established, money settlement occurs as follows:

#### **10.3.1 Daily Cash Settlement**

The net amount due from SEOCH Participants will be collected by SEOCH issuing Direct Debit Instructions to the SEOCH Participants' appropriate Designated Bank or Settlement Bank and must be settled in good funds not later than 9:15 a.m. on the next Business Day.

Failure to meet the daily cash settlement will cause SEOCH to consider the commencement of default proceedings. Therefore, it is the SEOCH Participant's responsibility to arrange adequate funding in its bank account with a Designated Bank or a Settlement Bank (as the case may be) on the night before the cash call. SEOCH Participants are expected to be able to make a good estimate of their total cash requirement by means of their back office systems.

#### **10.3.2 Cash Redelivery Requests by SEOCH Participants**

A SEOCH Participant can request for the redelivery of cash credited to its CCMS Collateral Account during the day provided that there is sufficient cash collateral balance available in its CCMS Collateral Account, its total collateral balance after such cash redelivery is not less than the SEOCH Participant's total margin requirement on its open positions immediately prior to such cash redelivery, the amount of cash in the Settlement Currency covering the margin requirement of the SEOCH Participant does not fall below the minimum level prescribed by the SEOCH Board and the redelivery will not result in any other requirement regarding cover for the SEOCH Participant's margin requirements or any other payment or settlement obligations of the SEOCH Participant under the Clearing Rules and these Procedures not being satisfied.

### **10.4 Cash Delivery/Redelivery Procedures**

#### **10.4.1 Cash Redelivery Procedures by SEOCH Participants**

##### **10.4.1.1 Settlement Currencies**

If a SEOCH Participant wishes to request for the redelivery of any cash amount in a Settlement Currency, the following procedures apply:

- i. the SEOCH Participant should check if there is a surplus cash balance in the Settlement Currency in its CCMS Collateral Account available for redelivery;
- ii. the SEOCH Participant shall input a redelivery request via its CCMS terminal before the cash movement cut-off time, which is 11:00 a.m. each Business Day, for the amount to be redelivered and such amount will be deducted from the SEOCH Participant's CCMS Collateral Account. CCMS will restrict the redelivery request input after the prescribed cut-off time; and
- iii. if the redelivery request is accepted by SEOCH, SEOCH will issue a Direct Credit Instruction to pay the requested amount to the SEOCH Participant's account with the Designated Bank or Settlement Bank for same day value.

##### **10.4.1.2 Approved Currencies other than Applicable Settlement Currencies**

If a SEOCH Participant wishes to request for the redelivery of any cash amount in an approved

currency referred to in Appendix H which is other than an applicable Settlement Currency referred to in 10.1, the following procedures apply:

- i. the SEOCH Participant should check if there is a surplus cash balance in the approved currency in its CCMS Collateral Account;
- ii. the SEOCH Participant may request the redelivery of any excess amount in the approved currencies provided to SEOCH by notifying SEOCH of its intention in writing or by other means acceptable to SEOCH by 11:00 a.m. on each Business Day, which should also be a Bank Business Day in the country or each of the countries where the SEOCH Participant's bank is located and where the approved currency other than applicable Settlement Currency is cleared; and
- iii. in the event that SEOCH, in its sole discretion, accepts the request to redeliver such excess amount, the request will be processed by SEOCH as soon as practicable. The redelivery of the requested excess amount will not be effected on the same day as the date of the request as set out in 10.4.1.2 (iii) (a) and (b) below, and interest at such positive or negative rate may be paid or charged, and costs and charges may be levied, by SEOCH on the excess amount being redelivered as SEOCH may determine from time to time in accordance with Appendix I until the redelivery is effected. The value date for the redelivery of excess amount is as follows:

(a) Japanese Yen

The value date for the redelivery of the excess amount in Japanese Yen is the second Hong Kong Bank Business Day after the date on which the redelivery request is received by SEOCH. If that day is a bank holiday in Japan, then the value date shall be on the next Bank Business Day in both Japan and Hong Kong.

(b) Other Foreign Currencies

The value date for the redelivery of any excess amount in an approved currency other than the Japanese Yen is the next Hong Kong Bank Business Day after the date on which the redelivery request is received by SEOCH. If that day is a bank holiday in the country or countries where the SEOCH Participant's bank is located and where the approved currency is cleared, then the value date shall be on the next Bank Business Day in such country or countries and Hong Kong.

## **10.4.2 Cash Delivery Procedures by SEOCH Participants**

### **10.4.2.1 Settlement Currencies**

If a SEOCH Participant wishes to deliver any cash amount in the Settlement Currency to SEOCH e.g. to meet future margin calls, the following procedures apply:

- i. the SEOCH Participant shall input a delivery request via its CCMS terminal before the cash movement cut-off time, which is 11:00 a.m. on each Business Day, for the amount to be delivered to SEOCH. CCMS will restrict the delivery request input after the prescribed cut-off time;
- ii. if the delivery request is accepted by SEOCH, SEOCH will collect the amount by issuing a Direct Debit Instruction to the SEOCH Participant's Designated Bank or Settlement Bank for the delivery amount. The SEOCH Participant must ensure that there are sufficient good funds in its account with the Designated Bank or Settlement Bank for effecting such debit; and
- iii. upon the bank's confirmation that the Direct Debit Instruction has been effected successfully, SEOCH will update the cash balance for the amount delivered in the SEOCH Participant's

CCMS Collateral Account for same day value.

#### **10.4.2.2 Approved Currencies other than Applicable Settlement Currencies**

If a SEOCH Participant wishes to deliver any cash amount in an approved currency referred to in Appendix H which is other than an applicable Settlement Currency referred to in 10.1 to SEOCH, the following procedures apply:

- i. the SEOCH Participant shall notify SEOCH of the delivery of the approved currency in writing or by other means acceptable to SEOCH by 11:00 a.m. each Business Day;
- ii. upon confirmation of the delivery from SEOCH's bank, SEOCH will update the cash balance for the amount delivered in the SEOCH Participant's CCMS Collateral Account;
- iii. the value date applicable to the transfer of an amount in the approved currency from a SEOCH Participant's account in one bank to SEOCH's account in another bank is normally the next Hong Kong Bank Business Day after the date on which the SEOCH Participant's bank receives the SEOCH Participant's instructions to effect such transfer. If that day is a bank holiday in the country or countries where the SEOCH Participant's bank is located and where the approved currency is cleared, the value date shall be on the next Hong Kong Bank Business Day which is not a bank holiday in such country or countries. Only after the receipt of the funds is confirmed by SEOCH's bank will SEOCH accept those funds as cover for the SEOCH Participant's margin requirements; and
- iv. if the SEOCH Participant's account and SEOCH's account are maintained with the same bank in Hong Kong, the transfer may be effected within the same Bank Business Day, in which case the value date for the transfer of an amount shall be the Bank Business Day on which such bank receives the SEOCH Participant's instructions to effect the transfer. Notwithstanding the foregoing, only after the receipt of the funds is confirmed by SEOCH's bank will SEOCH accept those funds as cover for the SEOCH Participant's margin requirements.

#### **10.4.3 Currencies Revaluation and as Substitution for the Settlement Currency**

##### **10.4.3.1 Revaluation of Approved Currencies**

The value of any approved currency allowed to be used as cover for a SEOCH Participant's margin requirements shall be determined on a daily basis based on the prevailing market prices at the time of revaluation after deducting a haircut of such percentage as determined from time to time by the SEOCH Board.

##### **10.4.3.2 Substitution for the Settlement Currency**

- i. SEOCH Participants may elect to deliver approved currencies as cover for SEOCH Participants' margin requirements provided that the minimum level of margin requirements that is required to be satisfied by cash in the Settlement Currency is at all times maintained. If an approved currency is delivered by a SEOCH Participant as substitution for any margin settled by the SEOCH Participant using the Settlement Currency, such approved currency must be received by SEOCH with finality by 9:30 a.m. on a Business Day in order for the SEOCH Participant to have surplus funds refunded to the SEOCH Participant in the Settlement Currency for same-day value.
- ii. If the approved currency is received after 9:30 a.m., any surplus Settlement Currency will be redelivered to the SEOCH Participant for value on the next Business Day.

#### **10.5 The Intra-Day Cash Settlement Process**

Where intra-day margin is called for, a SEOCH Participant can enquire the call amount via the relevant CCMS report. Please refer to the CCMS Terminal User Guide for CCMS report details. All

affected SEOCH Participants shall arrange sufficient funding in their accounts with the Designated Banks or Settlement Banks in order to settle the intra-day margin call within one hour after the intra-day margin call is issued or such shorter period as may from time to time be prescribed by SEOCH. Intra-day margin calls may be satisfied by payment in cash in the Settlement Currency or in such other currency as SEOCH may from time to time permit for this purpose. Such other currency should be one of the approved currencies as referred to in Appendix H.

### **10.5A The Special Block Trade Margin Settlement Process**

Where Special Block Trade Margin is called for, SEOCH will issue a Special Block Trade Margin Call Notice set forth in the *DCASS User Guide* to the relevant SEOCH Participant. The SEOCH Participant shall arrange sufficient funding in its account with the Designated Bank or Settlement Bank in order to cover the Special Block Trade Margin call within one hour after notification or such shorter period as may from time to time be prescribed by SEOCH. Special Block Trade Margin calls may only be satisfied by payment in cash in the Settlement Currency.

If the SEOCH Participant is unable to pay or otherwise satisfy its Special Block Trade Margin in respect of a Block Trade by the prescribed deadline for any reason, the relevant Block Trade shall, without notice being required to be given to the SEOCH Participant, not be subject to the process of substitution and novation in accordance with the First Schedule to the Clearing Rules or be cleared by SEOCH, and shall be deleted from the Options System as if the Block Trade had never been executed.

If the SEOCH Participant is unable to pay or otherwise satisfy its Special Block Trade Margin arising from a trade adjustment request submitted in respect of a Block Trade by the prescribed deadline for any reason, the relevant trade adjustment request shall be rejected by SEOCH.

### **10.6 Cash Contribution to the Reserve Fund**

From time to time, SEOCH Participants may be required to top-up their share of Variable Contributions under 11.2.2. Variable Contributions to the Reserve Fund may be satisfied by payment in cash denominated in Hong Kong Dollars. The settlement method of this Top-up payment is similar to the Daily Cash Settlement Process described earlier in this chapter. SEOCH will issue a Direct Debit Instruction to the SEOCH Participant's account with the Designated Bank or Settlement Bank to collect the amount due on the due date specified by SEOCH. However, this Top-up payment may also be collected by other means, distinct from the Daily Cash Settlement Process, at the discretion of SEOCH. The Variable Contribution of a SEOCH Participant will be recorded in the SEOCH Participant's House CCMS Collateral Account.

## **11. RESERVE FUND**

### **11.1 Use of the Reserve Fund**

The Reserve Fund exists to support SEOCH's obligations as counterparty to each option contract. If the liquidation value of a Defaulter's outstanding option position, together with its collateral, are insufficient to meet that SEOCH Participant's obligations<sup>1</sup>, the Reserve Fund may be used to meet SEOCH's outstanding liabilities.

SEOCH may apply any amounts standing to the credit of the Reserve Fund as a short-term source of liquid funds to meet any immediate obligations in respect of SEOCH's liabilities which arise under OCH Contracts cleared by it, regardless of the order of priority set out in Clearing Rule 413.

The Reserve Fund is financed primarily from the SEOCH Participants' own resources in the form of Initial Contributions and Variable Contributions, and the resources which may be appropriated by SEOCH as contributions to the Reserve Fund, but insurance and other coverage may also be used from time to time. The size of the Reserve Fund is made up of the basic elements (including Initial Contributions, interest income, any guarantee, facility and insurance policy), the resources which may be appropriated by SEOCH as contributions to the Reserve Fund and Variable Contributions.

### **11.2 SEOCH Participants' Reserve Fund Contributions**

All the Reserve Fund Contributions of a SEOCH Participant, including its Initial and Variable Contributions, will be credited to its House CCMS Collateral Account and assigned for Reserve Fund purpose. A SEOCH Participant can enquire about its Reserve Fund Contributions via the report COLLATERAL BALANCE generated by CCMS.

#### **11.2.1 Initial Contributions**

The Initial Contribution that each SEOCH Participant must make is determined by the SEOCH Board. See Appendix E for details.

#### **11.2.2 Variable Contributions and Resources which may be Appropriated by SEOCH as Contributions to the Reserve Fund**

In addition to making the Initial Contributions under 11.2.1, SEOCH may demand Variable Contributions from SEOCH Participants through a "Top-up" process such that the existing size of the Reserve Fund after making the Top-up payment will cover all the risk exposures of the Reserve Fund throughout the most recent 60 Business Days. It is designed to ensure that the existing size of the Reserve Fund, which shall be the sum of the basic elements of the Reserve Fund, the resources which may be appropriated by SEOCH as contributions to the Reserve Fund and the Variable Contributions, remains in proportion with the size and volatility of the market.

Subject to Clearing Rule 413F, the first Business Day of every month will be the Top-up calculation date and it is on this day that the re-calculation of the Variable Contributions is carried out. The process works as follows:

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<sup>1</sup> Note that the Fidelity Fund is not applicable for options. The Rules of the Exchange currently state that no compensation is payable under the Fidelity Fund in respect of stock borrowing and lending arrangements or for trades settled under the CNS System. Similarly, there will be no such compensation payable for option trades or delivery of underlying stocks arising from exercise.

On the Top-up calculation date, SEOCH calculates the daily risk exposure of the Reserve Fund on each Business Day, which is the greater of the upside or downside risk exposure of the Reserve Fund on that day, and Variable Contributions and the resources which may be appropriated by SEOCH as contributions to the Reserve Fund will be recalculated (and in the case of Variable Contributions demanded) such that the size of the Reserve Fund after the injection of the Variable Contributions and the resources which may be appropriated by SEOCH as contributions to the Reserve Fund will cover 115% of the risk exposures of the Reserve Fund throughout the most recent 60 Business Days. If the size of Reserve Fund determined above is higher than the Reserve Fund Threshold, it shall be reduced to an amount equal to the Reserve Fund Threshold.

SEOCH will determine the resources which may be appropriated by SEOCH as contributions to the Reserve Fund using the following formulae:

If 115% of MEX is higher than the Reserve Fund Threshold:

CHA = 10% of the Reserve Fund Threshold

If 115% of MEX is higher than or equal to MIN but lower than the Reserve Fund Threshold:

CHA = 10% x (MEX x 115%)

If 115% of MEX is lower than MIN:

CHA = 10% x (BEF ÷ 90%)

where

MEX	=	the maximum daily risk exposure of the Reserve Fund during the most recent 60 Business Days
BEF	=	the basic elements of the Reserve Fund (including Initial Contributions, interest income, any guarantee, facility and insurance policy)
CHA	=	the resources which may be appropriated by SEOCH as contributions to the Reserve Fund, which should amount to 10% or such other percentage of the Reserve Fund size as determined by SEOCH from time to time, in which case the percentage in the formulae above shall be adjusted accordingly.
MIN	=	the minimum size of the Reserve Fund (i.e. the sum of BEF and the resources which may be appropriated by SEOCH as contributions to the Reserve Fund), which should amount to BEF ÷ 90%

SEOCH will deduct the basic elements of the Reserve Fund and the total resources which may be appropriated by SEOCH as contributions to the Reserve Fund from the Reserve Fund size to arrive at the Variable Contributions.

The share of the Variable Contributions that each SEOCH Participant must contribute will be calculated. Each SEOCH Participant's share of the Variable Contributions will be equal to that SEOCH Participant's share of the average **total margin requirement** and **net premium paid** over the most recent 60 Business Days. For the purpose of calculating the Variable Contribution of each SEOCH Participant, the total margin requirement and net premium of all Contracts will be measured in Hong Kong dollars or its non-Hong Kong dollar currency equivalent based on the exchange rate determined by SEOCH for each type of Settlement Currency. Any SEOCH Participant that is declared as a Defaulter preceding the Top-up calculation date will be excluded from the calculation.

For each SEOCH Participant, SEOCH will compare the share of the Variable Contributions required with the actual share currently provided, and determine the amount, if any, by which the SEOCH Participant's share should be increased. This amount will be the SEOCH Participant's Top-up payment to the Variable Contributions. For the avoidance of doubt, the size of the actual Variable Contribution of each SEOCH Participant shall take into account any Variable Contribution applied in accordance with the Clearing Rules preceding the Top-up calculation date.

The SEOCH Participant will be required to pay on demand the difference if the size of the actual Variable Contribution currently in place is lower than the required level. The Top-up payment which maintains the SEOCH Participant's share of the Variable Contributions (other than any Assessment or Voluntary Recap Amount) may be in cash or in such other form of non-cash collateral as approved by SEOCH from time to time. If the size of the actual Variable Contribution currently in place exceeds the new required level, Variable Contribution will be reduced and the excess refunded.

### 11.2.3 Maintenance of the Reserve Fund

The Reserve Fund will be of a minimum size as determined by SEOCH, regardless of the number of SEOCH Participants.

Subject to Clearing Rule 413F, ad hoc recalculation of the Variable Contributions, and associated demands for payment, may be made from time to time separate from the regular monthly calculations, if:

- (a) the daily risk exposure of the Reserve Fund calculated on each Business Day exceeds 90% of; and
- (b) Reserve Fund Threshold is higher than

the existing Reserve Fund size or if SEOCH considers it appropriate to do so in any other circumstances. If the ad hoc recalculation is required, Variable Contributions and the resources which may be appropriated by SEOCH as contributions to the Reserve Fund will be recalculated (and in the case of Variable Contributions demanded) such that the existing size of the Reserve Fund after the injection of the Variable Contributions and the resources which may be appropriated by SEOCH as contributions to the Reserve Fund will cover 115% of the risk exposures of the Reserve Fund throughout the most recent 60 Business Days. If the size of Reserve Fund determined above is higher than the Reserve Fund Threshold, it shall be reduced to an amount equal to the Reserve Fund Threshold.

Notwithstanding the above or any other provisions of these Procedures, SEOCH may assess the adequacy of the Reserve Fund and recalculate the requirements for Variable Contributions based on the abovementioned formula or on such other basis as SEOCH may consider appropriate at its absolute discretion from time to time and following the Capped Liability Period pursuant to Clearing Rule 413F, SEOCH may further at its absolute discretion determine the appropriate aggregate value of the Reserve Fund for the purpose of calculating any Variable Contributions required, and in each of the aforementioned circumstances, SEOCH Participants shall pay to SEOCH such Variable Contributions as may from time to time be demanded by SEOCH.

### 11.3 Methods of Contribution

Initial Contributions can only be made in cash in Hong Kong dollars or in any other currency prescribed by SEOCH from time to time.

Variable Contributions (other than any Assessment or Voluntary Recap Amount) can be made in cash in Hong Kong dollars or in any other currency prescribed by SEOCH from time to time or in an approved form of non-cash collateral.

Demands for Reserve Fund Contributions, whether as a result of an increase in Initial Contributions or Variable Contributions, or reimbursement as a result of excess amount in the Reserve Fund after Top-up payment calculation, will be advised individually and confidentially to each SEOCH Participant by the issuance of a clearing report.

Fig. 1: Examples of the Top-up Process

Prior to the Top-up Calculation

Current Size of Basic Elements of the Reserve Fund:	HK\$130 million
Current Resources which may be appropriated by SEOCH as contributions to the Reserve Fund:	HK\$20 million
Current Size of Variable Contributions:	HK\$50 million

Current SEOCH Reserve Fund Size: HK\$200 million

Total Number of SEOCH Participants: 100

#### Example 1: Size of Reserve Fund Below Reserve Fund Threshold After Top-up Calculation

The Top-up calculation concludes that the Reserve Fund size should be increased to HK\$220 million. There is no change to the basic elements of the Reserve Fund. Therefore the new construction of the Reserve Fund should be as follows:

Required Reserve Fund Size:	HK\$220 million
Less: Size of Basic Elements of the Reserve Fund:	HK\$130 million
Less: Resources which may be appropriated by SEOCH as contributions to the Reserve Fund:	HK\$22 million

Required Size of Variable Contributions: HK\$68 million

Total Number of SEOCH Participants: 100

This HK\$68 million will be shared among the 100 SEOCH Participants pro rata on the basis of each SEOCH Participant's share of the average total margin requirement and net premium paid over the most recent 60 Business Days.

If SEOCH Participant A's share of the newly calculated Variable Contributions is HK\$3 million and its current Variable Contribution is HK\$2.5 million, the Top-up payment will be:

$$\text{HK\$3 million minus HK\$2.5 million} = \text{HK\$500,000}$$

If SEOCH Participant B's share of the newly calculated Variable Contributions is HK\$1.8 million and its current Variable Contribution is HK\$2 million, SEOCH will reimburse the excess as follows :

$$\text{HK\$2 million minus HK\$1.8 million} = \text{HK\$200,000}$$

#### Example 2: Size of Reserve Fund Above Reserve Fund Threshold After Top-up Calculation

Using Example 1, if the Reserve Fund Threshold is HK\$210 million, the new construction of the Reserve Fund should be as follows:

Required Reserve Fund Size:	HK\$210 million
Less: Size of Basic Elements of the Reserve Fund:	HK\$130 million

Less: Resources which may be appropriated by SEOCH as contributions to the Reserve Fund:	HK\$21 million
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Required Size of Variable Contributions:	HK\$59 million

The Top-up payment / excess of each SEOCH Participant will then be calculated and demanded from / reimbursed to the SEOCH Participant accordingly.

### 11.3.1 Contributions in Cash and Other Approved Form of Non-Cash Collateral

SEOCH Participants which are required to top-up their Variable Contributions (other than any Assessment or Voluntary Recap Amount) may pay in cash or in an approved form of non-cash collateral that is readily available and free from encumbrances by the start of trading on the due date specified in the clearing report. For cash contributions, SEOCH will direct debit SEOCH Participants' accounts with the Designated Banks or Settlement Banks by 4:00 p.m. on the first Business Day, unless otherwise specified by SEOCH, after the Top-up calculation date or utilise other means of collection as appropriate.

### 11.4 Refund of Surplus Variable Contributions

Refund of the surplus of a SEOCH Participant's Variable Contribution can occur after a Top-up calculation has been performed. If, after a Top-up calculation, the SEOCH Participant has more collateral in the Reserve Fund than is required, SEOCH will return the surplus to the SEOCH Participant via the SEOCH Participant's account with the Designated Bank or Settlement Bank or other means as determined by SEOCH on the first Business Day after the Top-up calculation date.

Notwithstanding the circumstance set forth above, SEOCH shall have the absolute right to withhold any surplus Variable Contribution of a SEOCH Participant for such period as SEOCH may from time to time consider appropriate.

### 11.5 Repealed

### 11.6 Limits on Individual SEOCH Participant Reserve Fund Contributions and Assessments

There shall be no limit to the Reserve Fund Requirement to be demanded from a SEOCH Participant. Subject to Clearing Rule 413J, any demand for the payment of Reserve Fund Contributions made by SEOCH of a SEOCH Participant preceding the effective date of termination of its SEOCH Participantship must be met in full by the resigning SEOCH Participant.

In respect of one or more events of default occurring during a Capped Liability Period, the aggregate liability of a SEOCH Participant to provide Assessments during a Capped Liability Period pursuant to Clearing Rule 413C shall be limited to an amount which is equal to a SEOCH Participant's Reserve Fund Requirement on the Business Day immediately preceding the start of the Capped Liability Period, plus one time such amount, as prescribed in Clearing Rule 413CA.

For example, assume that the Initial Contribution of the SEOCH Participant is HK\$1,500,000 and the Variable Contribution is HK\$500,000 on the Business Day immediately preceding the start of the Capped Liability Period. In this case the maximum liability of the SEOCH Participant to provide Assessments would be HK\$4,000,000 (i.e. two times the aggregate of its Initial Contribution of HK\$1,500,000 and its Variable Contribution of HK\$500,000). In other words, it would only be

obliged to contribute a further amount of HK\$4,000,000 in addition to its existing Reserve Fund Contributions requirement of HK\$2,000,000.

The obligations and liabilities of a SEOCH Participant to provide Assessments in respect of any events of default which occur during a Capped Liability Period which commenced prior to the termination of its SEOCH Participantship shall survive the termination of the SEOCH Participantship notwithstanding the fact that the expiry of such Capped Liability Period occurs after termination, provided that the aggregate liability of the SEOCH Participant shall be limited as provided for in Clearing Rule 413CA and provided that the SEOCH Participant shall not have any obligations or liabilities to provide Assessments in respect of any events of default which occur during a Capped Liability Period which commences after the termination of its SEOCH Participantship.

This maximum liability excludes any trading losses incurred by that SEOCH Participant; it will continue to be fully liable for these, regardless of its resignation.

When the resignation is approved by the SEOCH Board, its Reserve Fund contribution will be returned in accordance with Clearing Rule 722 (provided that a claim has not been made on it in the interim period). From the time of giving notice, the SEOCH Participant must only enter into closing transactions.

If, after giving notice of its resignation, a SEOCH Participant changes its mind and wishes to remain a SEOCH Participant, it will be required to contribute the full amount of any outstanding additional contribution requested before the resignation can be revoked. But as with all requests to become a SEOCH Participant, the revocation of resignation would be subject to the approval of the SEOCH Board.

**11.7** Repealed

## **11.8 Interest on Variable Contributions**

Interest may be payable or levied on Variable Contributions made in cash at a rate prescribed by SEOCH from time to time (see Appendix I). The total amount of interest earned or levied up to and including the last day of the month will be posted to the SEOCH Participants' respective CCMS Collateral Accounts on the first Business Day of the following month.

The interest rate SEOCH is paying or levying can be enquired on-line through an enquiry function in CCMS. However, as the interest rate is only updated in the afternoon by SEOCH, the interest rate inquired during trading hours may not be the one used in the current day's interest calculation. In addition, there is a CCMS report generated on a monthly basis which lists the total interest earned or levied for the period. Please refer to the *CCMS Terminal User Guide* for details.

## **11.9 SEOCH Appropriation**

If as a result of a Top-up calculation described in 11.2.2, additional resources should be appropriated by SEOCH as contributions to the Reserve Fund or surplus resources should be returned to SEOCH, such appropriation or return will under normal circumstances be effected or set aside on the same day as the day of collection from or return to SEOCH Participants of Variable Contributions following such Top-up calculation.

## 12. POSITION CONTROL

While daily and intra-day margining cover day-to-day risk, SEOCH also needs to ensure that each SEOCH Participant will continue to be able to meet margin calls. This, in practice, means ensuring SEOCH Participants' positions do not become larger than their resources are able to support.

In this regard, SEOCH will apply two measures in order to put an upper boundary on the positions held by SEOCH Participants, namely, position limit (for each option class) and capital based position limit (for each SEOCH Participant).

### 12.1 Position Limit

The position limit for each option class, measured in terms of number of contracts, and the necessary reporting and uplift application procedures are identical to those as defined in the Operational Trading Procedures. There are no separate reporting or uplift application procedures required by SEOCH, unless advised otherwise.

These position limits may be subject to revision as determined by the Chairman of the SEOCH Board in consultation with the Exchange and the Securities and Futures Commission provided that any limit so revised shall be, at all times, at least as stringent as that imposed by the Exchange under the *Options Trading Rules* or *Operational Trading Procedures*.

### 12.2 Capital Based Position Limit

The capital based position limit is a measure which seeks to ensure that the risk exposures of SEOCH Participants are commensurate with their financial strength in terms of liquid capital or, in the case of GCPs which are Registered Institutions, Adjusted Capital. For the purpose of this Chapter, the term "liquid capital" or "Adjusted Capital" shall, where applicable, be construed as the "apportioned liquid capital" or "apportioned Adjusted Capital" respectively under 12.3A.

Unless otherwise determined by SEOCH on a case by case basis, under this measure, net, gross and total limits are assigned to each SEOCH Participant on the basis of its latest reported liquid capital or Adjusted Capital, as appropriate, as follows:

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

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

*TMR Limit* = 10 x LC or AC (i.e. 10 x LC or AC  $\geq$  TMR)

where

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

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

TMR = the Total Margin Requirement of the SEOCH Participant

- LC = in respect of a SEOCH Participant other than a GCP which is a Registered Institution, the apportioned amount or percentage of its liquid capital (calculated as per the Financial Resources Rules) notified to SEOCH under 12.3A, as adjusted upwards by any contribution to the Reserve Fund paid in cash by the SEOCH Participant as of the date of its latest monthly return filed with the Commission under the Financial Resources Rules and received by SEOCH from the Commission
- AC = in respect of a GCP which is a Registered Institution, the apportioned amount or percentage of its Adjusted Capital notified to SEOCH under 12.3A.

The Mark-to-Market Margin, Risk Margin and Total Margin Requirement of the SEOCH Participant will be measured in Hong Kong dollars or its non-Hong Kong dollar currency equivalent based on the exchange rate determined by SEOCH for each type of Settlement Currency.

For the purpose of calculating the net limit of a SEOCH Participant, all positions in each of its Client Offset Claim Accounts will be aggregated with the short positions in its Omnibus Client Account and margined together on a net basis to determine the Risk Margin and Mark-to-Market Margin of these two types of accounts; the short positions in its Sink Account will be margined together on a net basis to determine the Risk Margin and Mark-to-Market Margin of its Sink Account; and the long positions in its Omnibus Client Account and Sink Account will be treated as nil and disregarded in the calculation.

For the purpose of calculating the gross limit of a SEOCH Participant, since positions in the House, Market Maker, Individual Client and Client Offset Claim Accounts are margined on a net basis, the respective resultant Risk Margin and Mark-to-Market Margin of these accounts will be used in calculating the gross limit of the SEOCH Participant.

For the purpose of calculating the net, gross or total limit of a SEOCH Participant, the following steps will be performed:

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

Below is an example illustrating the position treatment for calculating the net, gross or total limit of a SEOCH Participant.

**Example**

Assume a SEOCH Participant has the following positions:

<u>Account</u>	<u>Contract</u>	<u>Long</u>	<u>Short</u>
Omnibus Client	HKZ DEC 95 C	<u>1</u>	<u>2</u>
	HKZ JAN 100 P	<u>0</u>	<u>3</u>
Client Offset Claim	HKZ DEC 95 C	<u>0</u>	<u>1</u>
	HKZ JAN 100 P	<u>0</u>	<u>2</u>
Individual Client 001	HKZ DEC 95 C	<u>1</u>	<u>0</u>
	HKZ JAN 100 P	<u>0</u>	<u>3</u>
House	HKZ DEC 95 C	<u>2</u>	<u>0</u>
	HKZ JAN 100 P	<u>0</u>	<u>5</u>
Sink	HKZ DEC 95 C	<u>2</u>	<u>0</u>
	HKZ JAN 100 P	<u>0</u>	<u>2</u>

(i) net limit:

<u>Account</u>	<u>Contract</u>	<u>Margining Basis</u>	<u>Long</u>	<u>Short</u>
Omnibus Client and Client Offset Claim	HKZ DEC 95 C	<u>Net</u>	<u>treat as 0</u>	3
	HKZ JAN 100 P		<u>0</u>	5
Individual Client 001	HKZ DEC 95 C	<u>Net</u>	<u>1</u>	<u>0</u>
	HKZ JAN 100 P		<u>0</u>	<u>3</u>
House	HKZ DEC 95 C	<u>Net</u>	<u>2</u>	<u>0</u>
	HKZ JAN 100 P		<u>0</u>	<u>5</u>
Sink	HKZ DEC 95 C	<u>Net</u>	<u>treat as 0</u>	<u>0</u>
	HKZ JAN 100 P		<u>0</u>	<u>2</u>

For the purpose of calculating the net limit, the short positions in the SEOCH Participant's Omnibus Client Account and the positions in its Client Offset Claim Account will be aggregated and the 1 and 2 long HKZ DEC 95 C in the Omnibus Client and Sink Accounts respectively will be treated as nil and disregarded in the calculation.

(ii) gross or total limit:

<u>Account</u>	<u>Contract</u>	<u>Margining Basis</u>	<u>Long</u>	<u>Short</u>
Omnibus Client	HKZ DEC 95 C	<u>Gross</u>	<u>1</u>	<u>2</u>
	HKZ JAN 100 P		<u>0</u>	<u>3</u>
Client Offset Claim	HKZ DEC 95 C	<u>Net</u>	<u>0</u>	<u>1</u>
	HKZ JAN 100 P		<u>0</u>	<u>2</u>
Individual Client 001	HKZ DEC 95 C	<u>Net</u>	<u>1</u>	<u>0</u>
	HKZ JAN 100 P		<u>0</u>	<u>3</u>
House	HKZ DEC 95 C	<u>Net</u>	<u>2</u>	<u>0</u>
	HKZ JAN 100 P		<u>0</u>	<u>5</u>
Sink	HKZ DEC 95 C	<u>Gross</u>	<u>2</u>	<u>0</u>
	HKZ JAN 100 P		<u>0</u>	<u>2</u>

For the purpose of calculating the gross or total limit, the positions in the Client Offset Claim, Individual Client 001 and House Accounts of the SEOCH Participant will be margined on a net basis.

### 12.3 Repealed

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

Where a SEOCH Participant is also a CCASS Clearing Participant or HKCC Participant or conducts various types of regulated activities under the Securities and Futures Ordinance, that SEOCH Participant must apportion either a designated amount or a percentage of the liquid capital (unless otherwise determined by SEOCH, as per its latest monthly return filed with the Commission under the Financial Resources Rules and received by SEOCH from the Commission) or in the case of a GCP which is a Registered Institution a designated amount or percentage of its Adjusted Capital as notified to SEOCH for the purpose of its Exchange Traded Options Business or satisfying its payment or other obligations as a SEOCH Participant to SEOCH, and such SEOCH Participant's capital based position limit will be calculated on the basis of its apportioned liquid capital or Adjusted Capital, as appropriate, as notified to SEOCH. Notification of a SEOCH Participant's initial liquid capital or Adjusted Capital apportionment or any change thereof shall be made by such SEOCH Participant in such manner, using such form and according to such schedule as may be prescribed by SEOCH from time to time. Any notification of changes to the apportionment received by SEOCH before a time specified by SEOCH from time to time shall become effective on the same Business Day the notification is received by SEOCH. Otherwise, changes to the apportionment shall become effective on the commencement of the next Business Day following receipt of the notification by SEOCH. Notwithstanding the foregoing, SEOCH reserves the right to accept or reject any initial apportionment or change of apportionment notified to it at its sole discretion. If no apportionment is notified to SEOCH, SEOCH reserves the right to apportion the liquid capital or Adjusted Capital, as appropriate, on behalf of the SEOCH Participant.

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

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

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

Unless an extension is granted subject to such conditions as may be imposed by SEOCH on a case by case basis, a SEOCH Participant whose positions have breached the net, gross and/or total limit assigned to it by SEOCH on a daily basis under 12.2 will be given 10 Business Days (as may be extended and subject to such conditions as aforesaid) to comply with the limit(s) provided that during such time, the SEOCH Participant pays SEOCH an additional margin equivalent to 25% of:

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

whichever is the highest.

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

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

liquid capital or Adjusted Capital, SEOCH may demand proof to the satisfaction of SEOCH that the increase in the SEOCH Participant's liquid capital or Adjusted Capital actually has been achieved.

Notwithstanding the above, if the SEOCH Participant cannot comply with SEOCH's requirement by the specified time (as may be extended as aforesaid), the SEOCH Participant must, or failing which SEOCH may, close out or transfer to any other SEOCH Participant or SEOCH Participants all positions in excess of the capital based position limit.

## **13. Fees, Levies and Stamp Duty**

### **13.1 Liability of SEOCH Participants**

In all cases where fees, levies and duties are charged by the Exchange or SEOCH to a SEOCH Participant, it will be the sole responsibility of the SEOCH Participant to make payment. SEOCH has no fiduciary relationship with NCPs.

### **13.2 Tariff and Clearing Fees**

The Exchange and SEOCH charge a number of fees. The various Exchange fees and SEOCH clearing service fees can be found in the *Operational Trading Procedures* and Appendix G to these Procedures respectively.

All Exchange trading tariffs, levies and SEOCH clearing service fees to be charged are calculated and available for enquiry via DCASS as soon as they are incurred. Charges from transactions in CCMS will be recorded in CCMS instead of DCASS. DCASS and CCMS reports will also be available to provide details of the charges.

#### **13.2.1 Cabinet Trades**

Trades matched at a premium of one minimum price fluctuation will be treated as cabinet trades and will attract no Exchange trading tariff at all. Such transactions are sometimes useful as a means of eliminating far out-of-the money positions that are unlikely ever to have any value but which continue to create margin obligations. Closing such positions may also assist in complying with position limits.

### **13.3 Transaction Levies and Investor Compensation Levy**

The SFC Transaction Levy, the AFRC Transaction Levy, the Investor Compensation Levy, trading tariff and trading fee on stock transactions resulting from exercise and assignment of options contracts will be payable by SEOCH Participants and will be charged at the same rate and using the same collection systems of the Exchange as apply to stock transactions in the underlying market.

The SFC Transaction Levy imposed on option trades executed payable by SEOCH Participants is 0% of the consideration for each sale or purchase in accordance with the Securities and Futures (Levy) Order and no AFRC Transaction Levy and Investor Compensation Levy are imposed on option trades respectively.

### **13.4 Stamp Duty**

Stamp duty will not be payable on option trades but will continue to be payable by SEOCH Participants once only by both the buyer and the seller on each stock transaction arising from exercise and assignment, at the same rate and using the same collection systems of the Exchange as prevail for stock transactions in the underlying market.

### **13.5 CCASS Charges**

SEOCH levies a handling fee and any other applicable CCASS charges for SI input and settlement. Any other applicable charges of CCASS on SI transactions of a SEOCH Participant or the CCASS GCP, where applicable, may also be charged to the SEOCH Participant on a cost recovery basis. Please refer to Appendix G to these Procedures for a detailed listing of the various fees.

### **13.6      Miscellaneous Costs**

SEOCH reserves the right to charge SEOCH Participants for any disbursements and out-of-pocket expenses it incurs in the delivery of services and facilities to SEOCH Participants and such charges and expenses may or may not be described in the *Operational Trading Procedures* or these Procedures.

**13A. CONTRACT TERMINATION****13A.1 Contract Termination Process**

Following the occurrence of an event of default, if SEOCH reasonably believes that it will not be able to close out, sell, exercise, transfer and hedge all or any OCH Contracts of the Defaulter within a reasonable time as determined by SEOCH, SEOCH may, without prejudice to any other rights under the Clearing Rules, invoke the contract termination process as provided for in Clearing Rules 723A to 723E in consultation with the Commission.

If SEOCH invokes contract termination in accordance with Clearing Rule 723A, it shall determine the Identified OCH Contracts under Clearing Rule 723B and notify the relevant SEOCH Participants of its determination, including details of the Identified OCH Contracts and the effective date of termination of such Identified OCH Contracts. Notwithstanding the above, at any time during the contract termination process but prior to the effective date of termination of the relevant Identified OCH Contracts, SEOCH may instead of proceeding with the termination of such OCH Contracts, declare the occurrence of a Clearing Service Termination Event, and in such case the Identified OCH Contracts shall not be terminated in accordance with the contract termination process but shall be terminated in accordance with Clearing Rule 1301.

**13A.1.1 Calculation of termination value**

The termination value for each Identified OCH Contract shall be determined based on the fixing price determined in accordance with Section 9.2.1 of the Operational Clearing Procedures at the time of contract termination, or if such fixing price is not available, the price shall be such price as SEOCH may reasonably determine.

On the basis of the termination value established for each Identified OCH Contract, SEOCH shall, with respect to each relevant clearing account of each relevant SEOCH Participant, determine the resulting net sum payable by such SEOCH Participant to SEOCH for such clearing account (the "Termination Value Payable") or the resulting net sum receivable by such SEOCH Participant from SEOCH for such clearing account (the "Termination Value Receivable"). For the avoidance of doubt, an SEOCH Participant may have a Termination Value Payable in respect of one clearing account registered in its name, but a Termination Value Receivable in respect of another clearing account registered in its name. There shall be no combining or set-off between any house clearing account (including any clearing account which is not of a client nature) and client clearing accounts (including any clearing account which is of a client nature).

**13A.1.2 Payment of Termination Value Payable and Termination Value Receivable****13A.1.2.1 Termination Value Payable**

SEOCH will notify each relevant SEOCH Participant of its Termination Value Payable(s) and each such SEOCH Participant shall pay the specified Termination Value Payable(s) to SEOCH in full within one Business Day or within such other time specified by SEOCH in the notice. If the relevant SEOCH Participant fails to pay the Termination Value Payable(s) within the time specified in the notice, SEOCH may declare such SEOCH Participant as a Defaulter.

In the event that SEOCH does not receive any part of the Termination Value Payable from a SEOCH Participant, SEOCH shall take reasonable steps to recover such amount. Such SEOCH Participant shall be responsible for any costs SEOCH reasonably incurs in attempting to recover such amounts and accordingly the Termination Value Payable actually received from such SEOCH Participant shall be deemed to be decreased by an amount equal to such costs, unless such costs are paid by such SEOCH Participant.

### **13A.1.2.2 Termination Value Receivable**

SEOCH will notify each relevant SEOCH Participant of its Termination Value Receivable(s) upon determination.

### **13A.1.2.3 Payment**

The amount of Termination Value Payable and Termination Value Receivable will be debited from or credited to (as the case may be) the relevant CCMS Collateral Account of the SEOCH Participant. To the extent that the collateral in the SEOCH Participant's relevant CCMS Collateral Account is insufficient, funds will be collected from the appropriate SEOCH Participant's account with the Designated Bank or Settlement Bank by Direct Debit Instructions. SEOCH Participants shall ensure that there are sufficient funds deposited in their Designated Bank or Settlement Bank accounts for debiting purpose.

The Termination Value Payable and Termination Value Receivable shall be settled in the Settlement Currency. To the extent that SEOCH determines that it is not possible or reasonably practicable to make payment in the Settlement Currency, the obligations of SEOCH 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.

### **13A.1.2.4 Liability of SEOCH**

Upon termination of one or more Identified OCH Contracts under Clearing Rules 723A to 723E, all prevailing obligations of SEOCH and the relevant SEOCH Participant in respect of each such Identified OCH Contract between them (including the obligation to deliver any underlying securities under the Identified OCH Contracts) shall cease and be replaced with the obligation of SEOCH or the relevant SEOCH Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such SEOCH Participant a net sum equal to the aggregate termination value of each Identified OCH Contract between them, as determined by SEOCH in accordance with Clearing Rule 723C and this Section of the Operational Clearing Procedures.

## V. SPECIAL EVENTS

### 14. CAPITAL ADJUSTMENTS

When 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 adjustments to the terms of the option contracts which are currently traded in accordance with the *Operational Trading Procedures*. The required changes will be executed in DCASS. The Exchange and SEOCH generally refer to the processes surrounding this as “capital adjustments”.

#### 14.1 Circumstances Which May Give Rise to Capital Adjustment

Please refer to the Operational Trading Procedures for the types of events in which the Exchange will make standard adjustments to the terms of the options contract and the standard adjustment methodology that will be adopted.

Special events like offering of shares in another company and change of domicile are not common entitlement or corporate events and standard adjustments may not be applicable. Under such circumstances, the Exchange, in consultation with SEOCH and the Commission, will decide on a case by case basis whether an adjustment is needed, and if so, the adjustment method.

14.1.1 Repealed

14.1.2 Repealed

14.2 Repealed

14.2.1 Repealed

14.2.2 Repealed

14.3 Repealed

#### 14.4 Capital Adjustment Process Conducted by SEOCH

For entitlement events, the capital adjustment process will normally be conducted by SEOCH on the night of the last day the share is traded cum-entitlement, which is also two settlement days prior to CCASS entitlement processing. Pending stock positions arising from exercise / assignment of existing options contracts on or before capital adjustment day of SEOCH will normally be settled in CCASS on or before the day immediately prior to the book-close day. Hence, the relevant SEOCH Participant will receive its entitlement via CCASS pursuant to the *HKSCC Operational Procedures*.

The capital adjustment process conducted by SEOCH for mergers (with share exchange, whether or not with cash offer), stock splits and consolidations will occur on the night before the corporate action effective date announced by the issuer of the underlying securities, which is also the last trading day in the old shares. Pending stock positions arising from exercise / assignment of existing options contracts on or before the capital adjustment day of SEOCH will undergo corporate action adjustment in CCASS pursuant to the *HKSCC Operational Procedures*.

For mergers (with cash offer only) and privatisations, all existing options contracts will be cash settled based on the share offer price / cancellation price immediately after the last day of dealing on the options contracts as announced by the Exchange.

14.4.1 Repealed

14.4.2 Repealed

## **14.5 Effect of Capital Adjustment**

The following describes how existing contract terms, open options positions, pending stock positions, stock collateral are normally being treated under the capital adjustment process of SEOCH.

### **14.5.1 Adjustment of Contract Terms for Existing Options Contracts**

Using the adjustment ratio, the exercise prices and contract sizes of all existing option contracts are adjusted. As a result of rounding, the adjusted contract size result in odd lots as well as fractional shares upon exercise. Particulars of adjusted series are shown in a report generated by DCASS. SEOCH Participants can also enquire about the adjusted contract sizes via DCASS.

While the adjusted series can still be traded, new standard series may be introduced in accordance with the standard procedures for issuing new series. Therefore, in that option class, there may be some series whose contract sizes and strike prices are standard and there may be others whose contract sizes and strike prices are adjusted. While standard series will continue to be traded in HKATS and cleared in DCASS under the original class code specified in the *Operational Trading Procedures*, a new class code will be assigned for adjusted series for trading in HKATS and clearing in DCASS.

### **14.5.2 Open Options Positions**

The number of open positions in the old series will be transferred to the respective adjusted series. It should be noted that only the exercise price and contract size are being adjusted and there will not be any changes to the number of open positions whatsoever after the adjustment. Open positions in adjusted series can be enquired via DCASS. All such open contracts will be traded and if exercised, will be settled under the adjusted contract terms of adjusted exercise price and adjusted contract size per contract from effective day onwards. As the adjusted series and newly generated series are of different contract terms, there will not be any offsetting between them in respect of options positions or exercise and assignment.

14.5.2.1 Repealed

14.5.2.2 Repealed

14.5.2.3 Repealed

### **14.5.3 Pending Stock Positions**

Pursuant to HKSCC Operational Procedures, the CCASS conversion cycles will handle the necessary processing with regard to adjustments on pending stock positions resulting from exercise of options contracts on or before the capital adjustment day, SEOCH will not make adjustments to such pending stock positions.

### **14.5.4 Collateral Held By SEOCH in CCMS During Capital Adjustment**

For entitlement events, although the securities collateral of a SEOCH Participant are recorded in its CCMS Collateral Account designated for SEOCH collateral purpose, the entitlements based on the quantity of the underlying securities designated for SEOCH collateral purpose will be handled by

CCASS. Any cash entitlement amount, after deducting any necessary CCASS charges, and any stock dividends or bonus shares will be credited to the sub-account of the money ledger and stock accounts in CCASS maintained by that SEOCH Participant or the CCASS GCP, where applicable.

In case of a capital adjustment, the shares used for covering short call positions will be de-covered automatically on the evening on which the capital adjustment is processed. However, margin calculation will not be affected as it occurs before the de-covering action in the day end processing of the Business Day on which the capital adjustment process is conducted. SEOCH Participants should re-input cover call requests via DCASS to cover their short call positions again on the Business Day immediately following the capital adjustment to minimise the margin requirement. Any naked short call positions for which SEOCH Participants have not entered any cover call requests will be subject to intra-day and day end margin calls.

### **14.5.5 Exercise of Adjusted Options Series**

Exercise of adjusted options series may result in settlement of odd lots and/or fractional shares. The fractional shares of each adjusted options contract exercised will be settled in cash while the odd lots will be settled by physical delivery. Please refer to 8.10.

**14.6** Repealed

**14.6.1** Repealed

**14.6.2** Repealed

**14.6.3** Repealed

**14.6.4** Repealed

**14.6.5** Repealed

**14.6.5.1** Repealed

**14.6.6** Repealed

**15.** [Repealed]

**16. HALF DAY TRADING****16.1 Scheduled Half-Day Trading**

The Exchange has scheduled the following days to trade half-day only. Stock settlement will not occur on any of these days.

- i. Christmas Eve
- ii. New Year's Eve
- iii. Chinese New Year's Eve

**16.2 Options Trading and Clearing Activities**

There will be no afternoon trading session in the options market on any of the above half trading days. Clearing services and all DCASS online functions such as exercise, trade rectification, position maintenance and enquiry functions will be terminated two hours after the close of the trading session on these half trading days. CCMS online functions such as cash withdrawal, deposits and enquiries will continue to be available as if it were a normal trading day.

**16.2.1 Stock Settlement**

Stock settlement will follow the practice in CCASS for the underlying stock market. A half trading day will not be considered a settlement day.

**16.2.2 Money Settlement**

The money settlement process will be carried out as usual in the morning of the half trading day.

## **17. SUPPORT SERVICES IN THE EVENT OF LOSS OF ACCESS TO DCASS AND/OR CCMS**

If, for technical or other reasons, a SEOCH Participant cannot access DCASS and/or CCMS for clearing services, an affected SEOCH Participant may (i) request SEOCH to perform the clearing functions on its behalf; or (ii) request the use of the backup centre provided by SEOCH.

SEOCH cannot guarantee a particular level of service in these situations but will use its best endeavours to assist SEOCH Participants where necessary. SEOCH will assign priorities in whichever way it feels best protects its interests in the event of the demand on its resources exceeding its capacity to service all requests within a particular time.

### **17.1 Repealed**

### **17.2 On-Behalf-Of Processing**

In case SEOCH Participants cannot perform post-trade adjustment functions via DCASS due to technical or other reasons, they may request SEOCH to input post-trade adjustment requests into DCASS on their behalf by completing and submitting to SEOCH the relevant request forms available from the HKEX website or such other channels as SEOCH may from time to time notify SEOCH Participants, where applicable, and deliver the request pursuant to the procedure described in 17.3.

The requesting SEOCH Participant shall ensure that its request is received by SEOCH no later than the relevant cut-off time if the request is for same day processing. However, services of On-Behalf-Of processing provided by SEOCH to SEOCH Participants are subject to availability of resources at the time of the request and on a best effort basis.

### **17.3 Delivery of Instructions to SEOCH**

The following procedure will apply to a SEOCH Participant for delivering instructions to SEOCH requesting On-Behalf-Of processing or clearing functions to be performed by SEOCH:

- i. No verbal instructions will be accepted by SEOCH. All written instructions through a specified form or otherwise must be submitted to SEOCH by such means as SEOCH considers appropriate.
- ii. Where signature is required on the written instruction, it must be properly authorised in accordance with the signing mandate and specimen signatories filed with SEOCH by the SEOCH Participant.
- iii. Fax instructions can only be accepted if a properly executed Fax Indemnity is accepted by SEOCH. The standard Fax Indemnity form can be obtained from SEOCH.
- iv. All instructions must be received by SEOCH before the relevant cut off time prescribed by SEOCH in order to be assured of same day processing.
- v. SEOCH will decide whether the instruction can be accepted and notify the SEOCH Participant immediately if the request is denied or if the instruction cannot be completed in the normal prescribed time of SEOCH on the day the instruction is received.

### **17.4 Service Fees for SEOCH Input**

For every transaction processed by SEOCH on behalf of SEOCH Participants, SEOCH will charge a processing fee as specified in Appendix G to these Procedures and where applicable, as determined by SEOCH from time to time.

**17.5 Backup Centre for CCMS**

In case SEOCH Participants cannot perform collateral management functions via CCMS due to technical or other reasons, they can request the use of the backup centre provided by SEOCH to perform such functions. For the service hours of the backup centre and other details, please refer to the *CCMS Terminal User Guide*.

**17.6 Backup Centre for DCASS**

In case SEOCH Participants cannot perform post-trade adjustment functions via DCASS due to technical or other reasons, they can request the use of the backup centre provided by SEOCH to perform such functions. For the service hours of the backup centre and other details, please refer to the *DCASS User Guide*.

**17.7 Repealed**



## **18. CCASS SETTLEMENT INSTRUCTIONS**

### **18.1 Manual Process for Issuing Settlement Instructions**

Under normal circumstances, all delivery instructions resulting from exercise and assignment of options contracts will be included in the Exercised Options Trade (EOT) file submitted to CCASS and accepted by HKSCC on the day of exercise (day T). However, if for any reason the Exercised Options Trades generated from DCASS to CCASS are rejected due to technical or transmission failure, certain contingency arrangements will be invoked such as using manual input of Settlement Instructions (SI) to CCASS to replace the EOT file which CCASS failed to receive. SEOCH will notify the relevant SEOCH Participants or the CCASS GCPs, where applicable, and require them to arrange for the input of appropriate Settlement Instructions for the Exercised Options Trades in CCASS.

Notice will normally be given to the SEOCH Participant or the CCASS GCP, where applicable, on or before 2:00 p.m. on the trading day following the exercise day. The SEOCH Participant or the CCASS GCP, where applicable, is required to arrange for the input of Settlement Instructions to CCASS, based on the information shown in the Clearing Information Window of DCASS or instructions from SEOCH, on or before 11:00 a.m. on T+2, with T+2 being the settlement day.

Failure to comply with this could result in the SEOCH Participant being in default. It is therefore important that the SEOCH Participant or the CCASS GCP, where applicable, be prepared for this contingency.

## **19. CLEARING SERVICE TERMINATION EVENT**

### **19.1 Calculations of Net Payments following a Clearing Service Termination Event**

If a Clearing Service Termination Event occurs under Clearing Rule 1301, SEOCH shall, without prejudice to any other rights under the Clearing Rules, wind down the clearing and settlement services in accordance with Clearing Rules 1301 to 1304, in consultation with the Commission.

#### **19.1.1 Calculation of termination value**

The termination value for each OCH Contract shall be determined based on the fixing price determined in accordance with Section 9.2.1 of the Operational Clearing Procedures at the time of contract termination, or if such fixing price is not available, the price shall be such price as SEOCH may reasonably determine. SEOCH may also take into account any unpaid amounts that have become due and payable in respect of any OCH Contract on or prior to the occurrence of the Clearing Service Termination Event.

As soon as reasonably practicable following a Clearing Service Termination Event, SEOCH shall, with respect to each clearing account registered in the name of each SEOCH Participant, calculate a net sum payable by or to such SEOCH Participant. In calculating such net sum, SEOCH will take into account the termination value determined for each OCH Contract pursuant to Clearing Rule 1302 and this Section of the Operational Clearing Procedures, and the value of all other amounts which are payable to SEOCH from the SEOCH Participant under the Clearing Rules or which are payable to the SEOCH Participant from SEOCH (other than any amounts arising from the obligation of SEOCH to pay an amount equal to (i) the Margin Balance (ii) any income and redemption proceeds on any non-cash collateral that have not already been paid to or withdrawn by the SEOCH Participant and/or (iii) the Reserve Fund Contributions Balance to the relevant SEOCH Participant, or Former SEOCH Participant), whether such amounts are presently payable or not and whether they are liquidated or unliquidated, actual or contingent. Any net sum calculated to be payable by SEOCH is subject to adjustment in accordance with Section 19.1.2.2 below. There shall be no combining or set-off between any house clearing account (including any clearing account which is not of a client nature) and client clearing accounts (including any clearing account which is of a client nature). SEOCH will determine any such net sum payable by, or to, a SEOCH Participant in the Base Currency. For the purpose of the determination under this Section of the Operational Clearing Procedures, SEOCH may convert any amounts denominated in any other currency into the Base Currency at such exchange rate determined by SEOCH from such source and on such basis as it shall consider appropriate.

#### **19.1.2 Payment of Limited Recourse Interim CP Payable, Limited Recourse Final CP Payable and Limited Recourse CP Receivable**

##### **19.1.2.1 Limited Recourse Interim CP Payable and Limited Recourse Final CP Payable**

- i. If, pursuant to Section 19.1.1 above, a net sum is determined to be payable by a SEOCH Participant to SEOCH with respect to one of its clearing accounts, SEOCH shall deduct all or part of such sum from the Margin Balance consisting of cash in the Base Currency, if any, relating to the relevant clearing account. If, after applying such Margin Balance relating to the relevant clearing account, there remains an amount payable by the SEOCH Participant to SEOCH for such clearing account (the "Limited Recourse Interim CP Payable"), SEOCH will, as soon as reasonably practicable, notify the relevant SEOCH Participant of the Limited Recourse Interim

CP Payable, and the relevant SEOCH Participant shall pay SEOCH the Limited Recourse Interim CP Payable within one Business Day following receipt of such notification or within such other time period as may be specified by SEOCH.

- ii. If the SEOCH Participant fails to pay the Limited Recourse Interim CP Payable within the time frame set out in sub-paragraph i above, SEOCH may declare such SEOCH Participant as a Defaulter. SEOCH may, in satisfaction of any due but unpaid Limited Recourse Interim CP Payable, apply any remaining Margin Balance including any cash in other currencies and the cash proceeds of any non-cash collateral which SEOCH shall be entitled to liquidate relating to the relevant clearing account, and if the Limited Recourse Interim CP Payable of any clearing account of such SEOCH Participant is not satisfied in full following such application, regardless of whether such Limited Recourse Interim CP Payable arises out of a house clearing account or client clearing account belonging to such SEOCH Participant, SEOCH will set-off the Reserve Fund Contributions Balance in respect of such SEOCH Participant against the unpaid Limited Recourse Interim CP Payable. For the avoidance of doubt, if the unpaid Limited Recourse Interim CP Payable arises out of both a house clearing account (or any clearing account which is not of a client nature) and client clearing accounts (or any clearing account which is of a client nature), SEOCH will set-off the Reserve Fund Contributions Balance in respect of such SEOCH Participant against these clearing accounts on a pro-rata basis.
- iii. Following the application by way of set-off of any remaining Margin Balance and any Reserve Fund Contributions Balance as described in sub-paragraph ii above, SEOCH shall determine and notify each relevant SEOCH Participant of the final net sum payable by the SEOCH Participant in respect of its Limited Recourse Interim CP Payable, if any (“Limited Recourse Final CP Payable”) with respect to each clearing account. Each SEOCH Participant that receives a notice to pay any Limited Recourse Final CP Payable shall pay each such amount to SEOCH in full within one Business Day or within such other time period as may be specified by SEOCH.
- iv. In the event that SEOCH does not receive any part of the Limited Recourse Final CP Payable from a SEOCH Participant, SEOCH shall take reasonable steps to recover such amount. Such SEOCH Participant shall be responsible for any costs SEOCH reasonably incurs in attempting to recover such amounts and accordingly the Limited Recourse Final CP Payable actually received from such SEOCH Participant shall be deemed to be decreased by an amount equal to such costs, unless such costs are paid by such SEOCH Participant.

### **19.1.2.2 Limited Recourse CP Receivable**

Any net sum that is determined to be payable by SEOCH to a SEOCH Participant with respect to one of its clearing accounts pursuant to Section 19.1.1 above shall be known as the “Unadjusted Limited Recourse CP Receivable” and shall be subject to adjustment. The amount payable by SEOCH to each relevant SEOCH Participant with respect to each such clearing account (the “Limited Recourse CP Receivable”) shall be calculated by multiplying the Unadjusted Limited Recourse CP Receivable by a percentage (“Limited Recourse Applicable Percentage”) which is equal to the lesser of:

- (1) 100%; and
- (2) (A) the aggregate value of (I) the Reserve Fund Resources then held by SEOCH; (II) any Margin Balance in respect of all clearing accounts applied pursuant to Sections 19.1.2.1.i and 19.1.2.1.ii above; and (III) all Limited Recourse Interim CP Payables and/or Limited Recourse Final CP Payables received by SEOCH, divided by  
  
(B) the aggregate value representing the sum of (I) all Unadjusted Limited Recourse CP Receivables and (II) the Reserve Fund Contributions Balance in respect of all SEOCH Participants or Former SEOCH Participants taking into account the operation of Section 19.1.2.1.ii above;

SEOCH will notify each relevant SEOCH Participant of its Limited Recourse CP Receivable(s) upon determination.

### **19.1.2.3 Payment**

The amount of Limited Recourse Interim CP Payable, Limited Recourse Final CP Payable and Limited Recourse CP Receivable will be debited from or credited to (as the case may be) the relevant CCMS Collateral Account of the SEOCH Participant. To the extent that the collateral in the SEOCH Participant's relevant CCMS Collateral Account is insufficient, funds will be collected from the appropriate SEOCH Participant's account with the Designated Bank or Settlement Bank by Direct Debit Instructions. SEOCH Participants shall ensure that there are sufficient funds deposited in their Designated Bank or Settlement Bank accounts for debiting purpose.

All payments made under this Section of the Operational Clearing Procedures shall be made in the Base Currency. To the extent that SEOCH determines that it is not possible or reasonably practicable to make payment in the Base Currency, the obligations of SEOCH 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.

### **19.1.2.4 Liability of SEOCH**

Upon the occurrence of a Clearing Service Termination Event, every OCH Contract between SEOCH and a SEOCH Participant shall be automatically terminated and all prevailing obligations of SEOCH and such SEOCH Participant in respect of each such OCH Contract between them (including the obligation to deliver any underlying securities under such OCH Contract) shall cease and be replaced with the obligation of SEOCH or the relevant SEOCH Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such SEOCH Participant a net sum which shall take into account the termination value and any unpaid amounts of each such OCH Contract registered in the relevant clearing account as determined by SEOCH and where applicable adjusted in accordance with this Section of the Operational Clearing Procedures.

### **19.1.3 Return of Margin Balance**

With respect to each SEOCH Participant and each of its clearing account(s), taking into account (if applicable) the operation of Sections 19.1.2.1.i and 19.1.2.1.ii above, SEOCH shall pay an amount equal to the Margin Balance for such clearing account to such SEOCH Participant in accordance with the Clearing Rules.

### **19.1.4 Return of Reserve Fund Contributions Balance**

With respect to each SEOCH Participant or Former SEOCH Participant which has a positive Reserve Fund Contributions Balance after payment of the Limited Recourse Interim CP Payable or after determination of the Limited Recourse CP Receivable for such clearing account, as the case may be, SEOCH shall pay to each relevant SEOCH Participant or Former SEOCH Participant an amount equal to its Reserve Fund Contributions Balance multiplied by the Limited Recourse Applicable Percentage provided that the aggregate sum payable by SEOCH in respect of the Reserve Fund Contributions Balance for all SEOCH Participants and Former SEOCH Participants shall not in any event exceed the value of the Reserve Fund Resources then held by SEOCH. SEOCH may deliver or return to a

SEOCH Participant or Former SEOCH Participant assets in such form and in such amount, as SEOCH deems appropriate, equivalent to the assets recorded as part of its Reserve Fund Contributions Balance. Once the Reserve Fund Resources have been exhausted, the unpaid balance of the Reserve Fund Contributions Balance shall be extinguished and the relevant SEOCH Participant(s) and Former SEOCH Participant(s) shall have no further recourse to SEOCH (its affiliates, a recognized exchange controller which is the controller of SEOCH, or any of their respective Representatives) in respect thereof.

## **20. SEOCH FAILURE TO PAY EVENT AND SEOCH INSOLVENCY EVENT**

### **20.1 Calculations of Net Payments under a SEOCH Failure to Pay Event or a SEOCH Insolvency Event**

Upon the designation of an Early Termination Date pursuant to either Clearing Rule 723F(3) or 723F(4) in respect of a SEOCH Failure to Pay Event or pursuant to Clearing Rule 723G in respect of a SEOCH Insolvency Event, SEOCH shall, without prejudice to any other rights under the Clearing Rules, terminate the OCH Contract between SEOCH and the relevant SEOCH Participant in accordance with Clearing Rules 723H to 723I.

#### **20.1.1 Calculation of termination value**

The termination value for each OCH Contract shall be determined based on the fixing price determined in accordance with Section 9.2.1 of the Operational Clearing Procedures on the Early Termination Date, or if such fixing price is not available, the price shall be such price as SEOCH may reasonably determine. SEOCH may also take into account any unpaid amounts that have become due and payable in respect of any OCH Contract on or prior to the designation of the Early Termination Date.

SEOCH shall on, or as soon as reasonably practicable after, the Early Termination Date, with respect to each clearing account registered in the name of each relevant SEOCH Participant, calculate a net sum payable by or to such SEOCH Participant. In calculating such net sum, SEOCH will take into account the termination value determined for each OCH Contract pursuant to Clearing Rule 723H and this Section of the Operational Clearing Procedures, and the value of all other amounts which are payable to SEOCH from the SEOCH Participant under the Clearing Rules or which are payable to the SEOCH Participant from SEOCH (other than any amounts arising from the obligation of SEOCH to pay an amount equal to (i) the Margin Balance (ii) any income and redemption proceeds on any non-cash collateral that have not already been paid to or withdrawn by the SEOCH Participant and/or (iii) the Reserve Fund Contributions Balance to the relevant SEOCH Participant or Former SEOCH Participant), whether such amounts are presently payable or not and whether they are liquidated or unliquidated, actual or contingent. Any net sum calculated to be payable by SEOCH is subject to adjustment in accordance with Section 20.1.2.2 below. There shall be no combining or set-off between any house clearing account (including any clearing account which is not of a client nature) and client clearing accounts (including any clearing account which is of a client nature). SEOCH will determine any such net sum payable by, or to, a SEOCH Participant in the Base Currency. For the purpose of the determination under this Section of the Operational Clearing Procedures, SEOCH may convert any amounts denominated in any other currency into the Base Currency at such exchange rate determined by SEOCH from such source and on such basis as it shall consider appropriate.

#### **20.1.2 Payment of SEOCH Default Interim CP Payable, SEOCH Default Final CP Payable and SEOCH Default CP Receivable**

##### **20.1.2.1 SEOCH Default Interim CP Payable and SEOCH Default Final CP Payable**

- i If, pursuant to Section 20.1.1 above, a net sum is determined to be payable by a SEOCH Participant to SEOCH with respect to one of its clearing accounts, SEOCH shall deduct all or part of such sum from the Margin Balance consisting of cash in the Base Currency, if any, relating to the relevant clearing account. If, after applying such Margin Balance relating to the relevant clearing account, there remains an amount payable by the SEOCH Participant to SEOCH for such

clearing account (the “SEOCH Default Interim CP Payable”), SEOCH will, as soon as reasonably practicable, notify the relevant SEOCH Participant of the SEOCH Default Interim CP Payable, and the relevant SEOCH Participant shall pay SEOCH the SEOCH Default Interim CP Payable within one Business Day following receipt of such notification or within such other time period as may be specified by SEOCH.

- ii If the SEOCH Participant fails to pay the SEOCH Default Interim CP Payable within the time frame set out in sub-paragraph i above, SEOCH may declare such SEOCH Participant as a Defaulter. SEOCH may, in satisfaction of any due but unpaid SEOCH Default Interim CP Payable, apply any remaining Margin Balance including any cash in other currencies and the cash proceeds of any non-cash collateral which SEOCH shall be entitled to liquidate relating to the relevant clearing account, and if the SEOCH Default Interim CP Payable of any clearing account of such SEOCH Participant is not satisfied in full following such application, regardless of whether such SEOCH Default Interim CP Payable arises out of a house clearing account or client clearing account belonging to such SEOCH Participant, SEOCH may set-off the Reserve Fund Contributions Balance in respect of such SEOCH Participant against the unpaid SEOCH Default Interim CP Payable. For the avoidance of doubt, if the unpaid SEOCH Default Interim CP Payable arises out of both a house clearing account (or any clearing account which is not of a client nature) and client clearing accounts (or any clearing account which is of a client nature), SEOCH will set-off the Reserve Fund Contributions Balance in respect of such SEOCH Participant against these clearing accounts on a pro-rata basis.
- iii Following the application by way of set off of any remaining Margin Balance and any Reserve Fund Contributions Balance as described in sub-paragraph ii above, SEOCH shall determine and notify each relevant SEOCH Participant of the final net sum payable by the SEOCH Participant in respect of its SEOCH Default Interim CP Payable, if any (“SEOCH Default Final CP Payable”) with respect to each clearing account. Each SEOCH Participant that receives a notice to pay any SEOCH Default Final CP Payable shall pay each such amount to SEOCH in full within one Business Day or within such other time period as may be specified by SEOCH.
- iv In the event that SEOCH does not receive any part of the SEOCH Default Final CP Payable from a SEOCH Participant, SEOCH shall take reasonable steps to recover such amount. Such SEOCH Participant shall be responsible for any costs SEOCH reasonably incurs in attempting to recover such amounts and accordingly the SEOCH Default Final CP Payable actually received from such SEOCH Participant shall be deemed to be decreased by an amount equal to such costs, unless such costs are paid by such SEOCH Participant.

#### **20.1.2.2 SEOCH Default CP Receivable**

Any net sum that is determined to be payable by SEOCH to a SEOCH Participant with respect to one of its clearing accounts pursuant to Section 20.1.1 above shall be known as the “Unadjusted SEOCH Default CP Receivable” and shall be subject to adjustment. The amount payable by SEOCH to each relevant SEOCH Participant with respect to each such clearing account (the “SEOCH Default CP Receivable”) shall be calculated by multiplying the Unadjusted SEOCH Default CP Receivable by a percentage (“SEOCH Default Applicable Percentage”) which is equal to the lesser of:

- (1) 100%; and
- (2) (A) the aggregate value of (I) the Reserve Fund Resources then held by SEOCH; (II) any Margin Balance in respect of all clearing accounts applied pursuant to Sections 20.1.2.1.i and 20.1.2.1.ii

above; and (III) all SEOCH Default Interim CP Payables and/or SEOCH Default Final CP Payables received by SEOCH, divided by

(B) the aggregate value representing the sum of (I) all Unadjusted SEOCH Default CP Receivables and (II) the Reserve Fund Contributions Balance in respect of all SEOCH Participants or Former SEOCH Participants taking into account the operation of Section 20.1.2.1.ii above;

SEOCH will notify each relevant SEOCH Participant of its SEOCH Default CP Receivable(s) upon determination.

### **20.1.2.3 Payment**

The amount of SEOCH Default Interim CP Payable, SEOCH Default Final CP Payable and SEOCH Default CP Receivable will be debited from or credited to (as the case may be) the relevant CCMS Collateral Account of the SEOCH Participant. To the extent that the collateral in the SEOCH Participant's relevant CCMS Collateral Account is insufficient, funds will be collected from the appropriate SEOCH Participant's account with the Designated Bank or Settlement Bank by Direct Debit Instructions. SEOCH Participants shall ensure that there are sufficient funds deposited in their Designated Bank or Settlement Bank accounts for debiting purpose.

All payments made under this Section of the Operational Clearing Procedures shall be made in the Base Currency. To the extent that SEOCH determines that it is not possible or reasonably practicable to make payment in the Base Currency, the obligations of SEOCH 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.

### **20.1.2.4 Liability of SEOCH**

Upon the designation of an Early Termination Date pursuant to either Clearing Rule 723F(3) or 723F(4) in respect of a SEOCH Failure to Pay Event or pursuant to Clearing Rule 723G in respect of a SEOCH Insolvency Event, every OCH Contract between SEOCH and the relevant SEOCH Participant shall be terminated and all prevailing obligations of SEOCH and such SEOCH Participant in respect of each such OCH Contract between them (including the obligation to deliver any underlying securities under such OCH Contract) shall cease and be replaced with the obligation of SEOCH or the relevant SEOCH Participant, as the case may be, to pay the other party with respect to each clearing account registered in the name of such SEOCH Participant a net sum which shall take into account the termination value and any unpaid amounts of each such OCH Contract registered in the relevant clearing account as determined by SEOCH and where applicable adjusted in accordance with this Section of the Operational Clearing Procedures.

### **20.1.3 Return of Margin Balance**

With respect to each relevant SEOCH Participant and each of its clearing account(s), taking into account (if applicable) the operation of Sections 20.1.2.1.i and 20.1.2.1.ii above, SEOCH shall pay an amount equal to the Margin Balance for such clearing account to such SEOCH Participant in accordance with the Clearing Rules.

#### **20.1.4 Return of Reserve Fund Contributions Balance**

With respect to each SEOCH Participant or Former SEOCH Participant which has a positive Reserve Fund Contributions Balance after payment of the SEOCH Default Interim CP Payable or after determination of the SEOCH Default CP Receivable for such clearing account, as the case may be, SEOCH shall pay to each relevant SEOCH Participant or Former SEOCH Participant an amount equal to its Reserve Fund Contributions Balance multiplied by the SEOCH Default Applicable Percentage provided that the aggregate sum payable by SEOCH in respect of the Reserve Fund Contributions Balance for all SEOCH Participants and Former SEOCH Participants shall not in any event exceed the value of the Reserve Fund Resources then held by SEOCH. SEOCH may deliver or return to a SEOCH Participant or Former SEOCH Participant assets in such form and in such amount, as SEOCH deems appropriate, equivalent to the assets recorded as part of its Reserve Fund Contributions Balance. Once the Reserve Fund Resources have been exhausted, the unpaid balance of the Reserve Fund Contributions Balance shall be extinguished and the relevant SEOCH Participant(s) and Former SEOCH Participant(s) shall have no further recourse to SEOCH (its affiliates, a recognized exchange controller which is the controller of SEOCH, or any of their respective Representatives) in respect thereof.

*APPENDIX A.*

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*REPEALED*

*APPENDIX B.*

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*REPEALED*

*APPENDIX C.*

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## INTRODUCTION

This appendix describes the calculation algorithm of the Portfolio Risk Margining System of HKEX (PRiME) -- the margining technique that will be used by SEOCH (for a detailed description, please refer to the PRiME Margining Guide). The process is run each day, after the close of trading or whenever it is required on an intra-day basis. It consists of the following steps.

### Step 1: Marginable Positions - Identify what is to be margined

The first stage in the process is to identify, within each SEOCH Participant's portfolio, which open option positions are marginable. The marginable positions are broken down by option class<sup>1</sup> and, within each option class, by each DCASS account. If the account is margined gross, the long option positions are eliminated from the marginable position. The marginable positions for these accounts therefore consist of short option positions only.

Steps 2 to 8 below are then carried out separately for each account within each option class i.e.

Perform steps 2 to 8 below for option class 1, account 1, then

Perform steps 2 to 8 below for option class 2, account 1, then

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Perform steps 2 to 8 below for option class n, account 1, then

Perform steps 2 to 8 below for option class 1, account 2, then

Perform steps 2 to 8 below for option class 2, account 2, then

- 
- 

Perform steps 2 to 8 below for option class n, account 2, then

- 
- 

Perform steps 2 to 8 below for option class 1, account k, then

Perform steps 2 to 8 below for option class 2, account k, then

- 
- 

Perform steps 2 to 8 below for option class n, account k, then

### Step 2: Calculate Mark-to-Market Margin for each option class

PRiME marks the marginable positions to market with the market closing price (or known as the fixing price) of each option series determined by SEOCH (market closing price \* contract size \* size of marginable positions) to calculate the Mark-to-Market Margin. The resulting value of the Mark-to-Market Margin for a long option position will be a credit (i.e. it will have a negative value) whereas that for a short option position will be a debit (i.e. it will have a positive value). The Mark-to-Market Margins of all option series within the same option class are then aggregated to produce the Mark-to-Market Margin of that option class. This identifies the cost of liquidating the entire portfolio for this account within this option class at the fixing price.

### Step 3: Create Risk Array for each option series

The specific set of the risk scenarios are defined in terms of (a) how much the price of the underlying instrument is expected to change over one trading day which is defined as the Price Scan Range, and (b) how much the volatility of that underlying price is expected to change over one trading day which is defined as the Volatility Scan Range. The amount by which the stock option contract will gain or lose value over one trading day under a risk scenario is called the Risk Array value for that scenario. The set of Risk Array values for that option contract under the full set of risk scenarios constitutes the Risk Array.

The set of risk scenarios are as follows:

<b>Scenario</b>	<b>Underlying Price Change</b>	<b>Volatility Change</b>
1.	Unchanged	Up
2.	Unchanged	Down
3.	Up 1/3 the Price Scan Range	Up
4.	Up 1/3 the Price Scan Range	Down
5.	Down 1/3 the Price Scan Range	Up
6.	Down 1/3 the Price Scan Range	Down

<sup>1</sup>An option class consists of all the options on one particular underlying stock.

**APPENDIX D. PORTFOLIO RISK MARGINING SYSTEM OF HKEX (PRiME)**

7.	Up 2/3 the Price Scan Range	Up
8.	Up 2/3 the Price Scan Range	Down
9.	Down 2/3 the Price Scan Range	Up
10.	Down 2/3 the Price Scan Range	Down
11.	Up 3/3 the Price Scan Range	Up
12.	Up 3/3 the Price Scan Range	Down
13.	Down 3/3 the Price Scan Range	Up
14.	Down 3/3 the Price Scan Range	Down
15.	Up by a multiple of the Price Scan Range (Under this scenario, only a fraction of the loss, known as the cover fraction, will be considered. The multiple and the cover fraction are governed by the Extreme Move Multiplier and the Extreme Move Coverage Fraction respectively)	Unchanged
16.	Down by a multiple of the Price Scan Range (Under this scenario, only a fraction of the loss, known as the cover fraction, will be considered. The multiple and the cover fraction are governed by the Extreme Move Multiplier and the Extreme Move Coverage Fraction respectively)	Unchanged

**Step 4: Calculate Scan Risk for each option class**

For net margined account, multiply the value gain (-ve) or loss (+ve) under each scenario by the corresponding position size to find the Scan Risk, which is the largest total loss of this option class among the 16 scenarios. If there are only value gains and no value loss under the scenarios, the Scan Risk will be set to zero.

For gross margined account, the loss is determined on a series level. The value gain (-ve) or loss (+ve) under each scenario is multiplied by the corresponding position size to find the largest total loss of this option series among the 16 scenarios. The Scan Risk is calculated by the summation of the largest total loss of each individual option series.

**Step 5: Calculate Intra-commodity Spread Charge for each option class**

As PRiME scans underlying prices within a single underlying instrument, it assumes that price movement correlates perfectly across contract expiries. Since the price movement across contract expiries does not generally exhibit perfect correlation, PRiME adds an Intra-commodity Spread Charge to the Scan Risk associated with each underlying instrument under net margining. No Intra-commodity Spread Charge will be applied for gross margined accounts.

There may be different deltas calculated for an option series under different scenarios in the risk array. However, PRiME employs only one delta value per option series, called the "Composite Delta". It is derived as the weighted average of the deltas associated with each scenario. The weighting associated with each scenario is based upon the probability of the associated price movement. The more likely the price movement, the higher is the weighting applied.

The Composite Delta for each option series is calculated by multiplying the series Composite Delta by the corresponding position size. The Composite Delta for each contract expiry is then calculated by the summation of the Composite Delta values of all the option series with the same contract expiry. From the Composite Delta values obtained for all contract expiries, the total net long and net short Composite Delta values are identified. The absolute value of the total net long Composite Delta value is then compared with the absolute value of the total net short Composite Delta value and the smaller absolute value is selected. The Intra-commodity Spread Charge can then be calculated by multiplying the smaller absolute value by the Intra-commodity Spread Charge Rate for this option class.

**Step 6: Calculate Commodity Risk (Risk Margin) of each option class**

The Commodity Risk of the option class for each account can be obtained by the addition of the Scan Risk and the Intra-commodity Spread Charge.

**Step 7: Compare Commodity Risk with the Short Option Minimum Charge for each option class**

The Short Option Minimum Charge is calculated by taking the number of short call or short put options, whichever is higher, and multiplying it by the Short Option Minimum Charge Rate. If such charge is greater than the Commodity Risk as calculated in Step 6, such Short Option Minimum Charge will become the Commodity Risk of this option class.

### **Step 8: Calculate Total Margin Requirement of each DCASS account**

The Mark-to-Market Margin and the Commodity Risk of each option class are aggregated to produce the Total Margin Requirement for each option class in each DCASS account. This results in a margin credit or margin debit for each option class in each net margined account and a margin debit in each option class in each gross margined account. There cannot be a margin credit for a gross margined account because long positions are excluded from the marginable positions.

The Total Margin Requirements of all option classes with the same Currency of the Contract within the same account are then aggregated to produce the Total Margin Requirement in that currency for that account. During the aggregation process for a net margined account, any margin credit of an option class will be used to offset the margin debits of the other option classes with the same Currency of the Contract within the same account. This will result in a margin credit or margin debit for each Currency of the Contract in each net margined account and a margin debit for each Currency of the Contract in each gross margined account.

After the aggregation, if there remains a margin credit for any Currency of the Contract in a net margined account and a margin debit for any other Currency of the Contract within the same net margined account, such margin credit will be used to offset the margin debit. Before the offset, the margin credit will be converted into the Currency of the Contract in which the margin debit is denominated at such exchange rate as may be determined by SEOCH.

The Total Margin Requirement for each of the accounts will then be converted from the Currency of the Contract to the Settlement Currency at such exchange rate as may be determined by SEOCH if the Currency of the Contract and the Settlement Currency are not the same.

### **Step 9: Evaluate Total Margin Requirement of each CCMS Collateral Account**

#### a) Settlement through House CCMS Collateral Account

The Total Margin Requirement in each Settlement Currency to be settled through the House CCMS Collateral Account will be the summation of the individual Total Margin Requirements in that Settlement Currency for all DCASS accounts settled through the House CCMS Collateral Account. Where the Total Margin Requirement for a DCASS account is a margin credit, it will be set to zero before the summation.

#### b) Settlement through Client CCMS Collateral Account

The Total Margin Requirement in each Settlement Currency to be settled through the Client CCMS Collateral Account will be the summation of the individual Total Margin Requirements in that Settlement Currency for all DCASS accounts settled through the Client CCMS Collateral Account. Where the Total Margin Requirement for a DCASS account is a margin credit, it will be set to zero before the summation.

The Total Margin Requirement in a Settlement Currency for the SEOCH Participant is the sum of the Total Margin Requirements in that Settlement Currency settled through the House and Client CCMS Collateral Accounts.

### **Step 10: Calculate amount to be collected for each CCMS Collateral Account**

The actual amounts of margin in each Settlement Currency demanded each day by SEOCH (the margin call) will be equal to the Total Margin Requirements to be settled through CCMS, minus any collateral currently provided. The margin may be payable in cash or in an acceptable form of collateral as prescribed by SEOCH. The margin call for the House CCMS Collateral Account and the Client CCMS Collateral Account will be calculated separately.

If the Total Margin Requirements to be settled through CCMS are **less** than the total amount of collateral which the SEOCH Participant has currently provided to SEOCH, SEOCH will not automatically return the excess to the SEOCH Participant unless upon request.

Following is an example of how the method works on an imaginary option portfolio:

**EXAMPLE OF PRiME MARGINING**

Assume there are two option classes (HKZ with Currency of the Contract and Settlement Currency in HK\$ and RMZ with Currency of the Contract and Settlement Currency in RMB) in the market and a SEOCH Participant has the following positions:

In the Omnibus Client Account (margin'd gross and its obligation will be settled through the Client CCMS Collateral Account):

1. Short 20 HKZ DEC 95 Calls
2. Long 10 HKZ JAN 100 Puts
3. Short 50 HKZ JAN 100 Puts
4. Short 50 RMZ JAN 90 Puts

In the Individual Client Account 001 (margin'd net and its obligation will be settled through the Client CCMS Collateral Account):

5. Long 5 HKZ DEC 95 Calls

In the Client Offset Claim Account (margin'd net and its obligation will be settled through the Client CCMS Collateral Account):

6. Short 30 HKZ DEC 95 Calls
7. Short 30 HKZ JAN 100 Puts

In the House Account (margin'd net and its obligation will be settled through the House CCMS Collateral Account):

8. Short 5 HKZ DEC 95 Calls
9. Long 10 HKZ JAN 100 Puts
10. Short 50 HKZ JAN 100 Puts
11. Long 30 RMZ JAN 90 Puts

**A) Identify Marginable Positions**

Contract	Underlying Closing	Account	Long	Short	Marginable Position
HKZ DEC 95 C	HK\$100.00	Omnibus Client	0	20	20S
		Individual Client 001	5	0	5L
		Client Offset Claim	0	30	30S
		House	0	5	5S
HKZ JAN 100 P	HK\$100.00	Omnibus Client	10	50	50S
		Client Offset Claim	0	30	30S
		House	10	50	40S
RMZ JAN 90 P	RMB 90.00	Omnibus Client	0	50	50S
		House	30	0	30L

L: Long; S: Short

Note that the 10 long HKZ JAN 100 puts in the Omnibus Client Account are not netted against the 50 short positions. This is what is meant by “gross” margining. If the 10 long positions were to be netted, it would mean that the client(s) holding the long positions were partly covering the risk of the client(s) with short positions.

**B) Calculate Mark-to-Market Margin for each option class**

The process is clearer if we re-order the positions by account type.

Contract	Contract Size	Mark to Market Price	Marginable Position	Mark-to-Market Margin (HK\$) <sup>a</sup>	Mark-to-Market Margin (RMB) <sup>a</sup>
<b>Omnibus Client Positions:</b>					
HKZ DEC 95 C	400	6.00	20S	48,000	
HKZ JAN 100 P	400	4.00	50S	80,000	
RMZ JAN 90 P	400	4.00	50S		80,000
				128,000	80,000

**APPENDIX D. PORTFOLIO RISK MARGINING SYSTEM OF HKEX (PRiME)**

<b>Client Offset Claim Positions:</b>						
HKZ DEC 95 C	400	6.00	30S	72,000		
HKZ JAN 100 P	400	4.00	30S	48,000		
				120,000		
<b>Individual Client 001 Positions:</b>						
HKZ DEC 95 C	400	6.00	5L	-12,000		
				-12,000		
<b>House Positions:</b>						
HKZ DEC 95 C	400	6.00	5S	12,000		
HKZ JAN 100 P	400	4.00	40S	64,000		
RMZ JAN 90 P	400	4.00	30L			-48,000
				76,000		-48,000

(a) Mark-to-Market Margin for an option series = option market value \* no. of contracts held \* contract size.

**C) Create Risk Array and Calculate Scan Risk for each option class**

The following Risk Arrays are created to calculate the Scan Risk of each option class in each account. Please note that gross and net margined accounts will be evaluated on a series and portfolio level basis respectively.

Risk Arrays of HKZ (HK\$)

Scenario	DEC 95 C	JAN 100 P	Omnibus Client (DEC 95C) <sup>b</sup>	Omnibus Client (JAN 100 P) <sup>b</sup>	Individual Client 001 <sup>b</sup>	Client Offset Claim <sup>b</sup>	House <sup>b</sup>
1	0	0	0	0	0	0	0
2	+100	0	-2,000	0	500	-3,000	-500
3	-600	+700	12,000	-35,000	-3,000	-3,000	-25,000
4	-600	+600	12,000	-30,000	-3,000	0	-21,000
5	+600	-600	-12,000	30,000	3,000	0	21,000
6	+600	-500	-12,000	25,000	3,000	-3,000	17,000
7	-1,200	+1,300	24,000	-65,000	-6,000	-3,000	-46,000
8	-1,200	+1,300	24,000	-65,000	-6,000	-3,000	-46,000
9	+1,300	-1,200	-26,000	60,000	6,500	-3,000	41,500
10	+1,300	-1,100	-26,000	55,000	6,500	-6,000	37,500
11	-2,000	+2,100	40,000	-105,000	-10,000	-3,000	-74,000
12	-1,900	+2,000	38,000	-100,000	-9,500	-3,000	-70,500
13	+2,100	-2,000	-42,000	<b>100,000</b>	<b>10,500</b>	-3,000	<b>69,500</b>
14	+1,900	-1,800	-38,000	90,000	9,500	-3,000	62,500
15	-1,500	+1,400	<b>30,000</b>	-70,000	-7,500	<b>3,000</b>	-48,500
16	+1,300	-1,200	-26,000	60,000	6,500	-3,000	41,500

Scan Risk of

Omnibus Client Account, DEC 95 C = HK\$40,000

Omnibus Client Account, JAN 100 P = HK\$100,000

Individual Client Account = HK\$10,500

Client Offset Claim Account = HK\$3,000

House Account = HK\$69,500

Risk Arrays of RMZ (RMB)

Scenario	JAN 90 P	Omnibus Client (JAN 90 P) <sup>b</sup>	House <sup>b</sup>
1	0	0	0
2	0	0	0
3	+490	-24,500	14,700
4	+420	-21,000	12,600
5	-420	21,000	-12,600
6	-350	17,500	-10,500
7	+910	-45,500	27,300

**APPENDIX D. PORTFOLIO RISK MARGINING SYSTEM OF HKEX (PRiME)**

8	+910	-45,500	27,300
9	-840	42,000	-25,200
10	-770	38,500	-23,100
11	+1,470	-73,500	<b>44,100</b>
12	+1,400	-70,000	42,000
13	-1,400	<b>70,000</b>	-42,000
14	-1,260	63,000	-37,800
15	+980	-49,000	29,400
16	-840	42,000	-25,200

Scan Risk of

Omnibus Client Account = RMB70,000

House Account = RMB44,100

(b) Scan Risk under each scenario = summation of (gain or loss \* size of marginable positions) for each series

**D) Calculate Intra-commodity Spread Charge for each option class**

Assume the Composite Deltas of the series and the Intra-commodity Spread Charge Rates are as follows:

Option Class	Series	Composite Delta	Spread Charge Rate for each Composite Delta
HKZ	HKZ DEC 95 C	0.45	HK\$900
	HKZ JAN 100 P	-0.52	
RMZ	RMZ JAN 90 P	-0.50	RMB720

Composite Delta for each contract expiry and Intra-commodity Spread Charge of HKZ for each account:

Contract Expiry	Omnibus Client	Individual Client 001	Client Offset Claim	House
DEC	NA	2.25	-13.5	-2.25
JAN	NA	0	15.6	20.8
Net Long	NA	2.25	15.6	20.8
Net Short	NA	0	-13.5	-2.25
Minimum of absolute value of Net Long and absolute value of Net Short	NA	0	13.5	2.25
Intra-commodity Spread Charge <sup>c</sup>	NA	0	HK\$12,150	2,025

Composite Delta for each contract expiry and Intra-commodity Spread Charge of RMZ for each account:

Contract Expiry	Omnibus Client	House
JAN	NA	-15
Net Long	NA	0
Net Short	NA	-15
Minimum of absolute value of Net Long and absolute value of Net Short	NA	0
Intra-commodity Spread Charge <sup>c</sup>	NA	0

(c) Intra-commodity Spread Charge = Minimum ( | net long | , | net short | ) \* Spread Charge Rate for each Composite Delta

**E) Calculate Commodity Risk for each option class**

The Commodity Risk of each option class for each account is calculated by the addition of the Scan Risk and the Intra-commodity Spread Charge.

Commodity Risk of HKZ (HK\$):

	Omnibus Client (DEC 95 C)	Omnibus Client (JAN 100 P)	Individual Client 001	Client Offset Claim	House
Scan Risk	40,000	100,000	10,500	3,000	69,500
Intra-commodity Spread Charge	NA	NA	0	12,150	2,025
Commodity Risk	40,000	100,000	10,500	15,150	71,525

Commodity Risk of RMZ (RMB):

	Omnibus Client (JAN 90 P)	House
Scan Risk	70,000	44,100
Intra-commodity Spread Charge	NA	0
Commodity Risk	70,000	44,100

**F) Compare Commodity Risk with Short Option Minimum Charge for each option class**

Compare the Commodity Risk with the Short Option Minimum Charge for each option class for each account, assuming that the Short Option Minimum Charges per contract for HKZ and RMZ are HK\$200 and RMB100 respectively.

Commodity Risk of HKZ (HK\$):

	Omnibus Client (DEC 95 C)	Omnibus Client (JAN 100 P)	Individual Client 001	Client Offset Claim	House
Commodity Risk	40,000	100,000	10,500	15,150	71,525
Maximum (short call, short put)	20	50	0	30	40
Short Option Minimum Charge	4,000	10,000	0	6,000	8,000
Commodity Risk after comparison of Short Option Minimum Charge	40,000	100,000	10,500	15,150	71,525

Commodity Risk of RMZ (RMB):

	Omnibus Client (JAN 90 P)	House
Commodity Risk	70,000	44,100
Maximum (short call, short put)	50	0
Short Option Minimum Charge	5,000	0
Commodity Risk after comparison of Short Option Minimum Charge	70,000	44,100

For gross margined account such as the Omnibus Client Account, the Commodity Risk for an option class is calculated by the summation of the individual Commodity Risk (after comparison with the Short Option Minimum Charge) of each series in that option class.

For the Omnibus Client Account,

The Commodity Risk of HKZ (HK\$) = HK\$100,000 + HK\$40,000 = HK\$140,000

The Commodity Risk of RMZ (RMB) = RMB70,000

**G) Calculate Total Margin Requirement for each DCASS account**

i) The Total Margin Requirement of each option class in each DCASS account is calculated by the addition of the Mark-to-Market Margin and the Commodity Risk of that option class in that account.

Total Margin Requirement of HKZ (HK\$):

	Omnibus Client	Individual Client 001	Client Offset Claim	House
Mark-to-Market Margin	128,000	-12,000	120,000	76,000
Commodity Risk	140,000	10,500	15,150	71,525
Total Margin Requirement	268,000	-1,500	135,150	147,525

Total Margin Requirement of RMZ (RMB):

**APPENDIX D. PORTFOLIO RISK MARGINING SYSTEM OF HKEX (PRiME)**

	Omnibus Client	House
Mark-to-Market Margin	80,000	-48,000
Commodity Risk	70,000	44,100
Total Margin Requirement	150,000	-3,900

For a net margined account, any margin credit of an option class will be used to offset the margin debits of the other option classes with the same Currency of the Contract within the same account.

Since there is only one option class for each of the currencies (HK\$ and RMB) within the net margined accounts (Individual Client 001, Client Offset Claim and House Accounts), no margin offset will be applied.

- ii) The Total Margin Requirement in each Currency of the Contract for each DCASS account is the sum of the Total Margin Requirements of all option classes with that Currency of the Contract within that account.

Total Margin Requirement in each Currency of the Contract:

	Omnibus Client	Individual Client 001	Client Offset Claim	House
Total Margin Requirement (HK\$)	268,000	-1,500	135,150	147,525
Total Margin Requirement (RMB)	150,000	0	0	-3,900

For the net margined House account, there is a margin credit in RMB and a margin debit in HK\$. The margin credit in RMB will be converted into HK\$ before it is used to offset the margin debit in HK\$.

Total Margin Requirement (HK\$) for House Account after the offset  
 = - (RMB 3,900 x HK\$1.2 per RMB<sup>d</sup>) + HK\$147,525  
 = HK\$142,845

No currency conversion is required because the Currency of the Contract and the Settlement Currency of the Total Margin Requirements of all accounts are the same.

(d) assuming exchange rate = HK\$1.2 per RMB

**H) Evaluate Total Margin Requirement for each CCMS Collateral Account**

Omnibus Client, Individual Client 001 and Client Offset Claim Accounts' obligations are settled through the Client CCMS Collateral Account while House Account's obligations are settled through the House CCMS Collateral Account. The Total Margin Requirements settled through the CCMS Collateral Accounts are as follows:

Client CCMS Collateral Account :

Total Margin Requirement (HK\$) = HK\$268,000 + HK\$0<sup>e</sup> + HK\$135,150 = HK\$403,150

Total Margin Requirement (RMB) = RMB150,000

House CCMS Collateral Account :

Total Margin Requirement (HK\$) = HK\$142,845

Total Margin Requirement (RMB) = RMB0

(e) Any margin credit of an account will be set to zero before summation and will not be used to offset the margin debits of the other accounts.

**I) Calculate amount to be collected for each CCMS Collateral Account**

Suppose the collateral delivered is HK\$100,000 in cash for each of the Client and House CCMS Collateral Accounts.

Client CCMS Collateral Account:

In this case, the amount (in HK\$)<sup>f</sup> to be collected = HK\$403,150 – HK\$100,000 = HK\$303,150

The amount (in RMB)<sup>f</sup> to be collected = RMB150,000 – RMB0 = RMB150,000

House CCMS Collateral Account:

The amount (in HK\$)<sup>f</sup> to be collected = HK\$142,845 - HK\$100,000 = HK\$42,845

The amount (in RMB)<sup>f</sup> to be collected = RMB0

(f) Amount to be collected = Total Margin Requirement settled through CCMS Collateral Account minus collateral delivered

**The Initial Contributions for different categories of SEOCH Participants are as follows:**

- i. HK\$5,000,000 for a General Clearing Participant plus an additional HK \$1,500,000 for each subsequent clearing arrangement when the General Clearing Participant already has three valid Clearing Agreements in place.
- ii. HK \$1,500,000 for a Direct Clearing Participant.

SEOCH 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 SEOCH Participant's Exchange Traded Options Business or conditions applying to its SEOCH Participantship.

*APPENDIX F.*

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*REPEALED*

**Fees and Costs Payable to SEOCH**

*(Unless otherwise specified, the amounts listed in this appendix are in Hong Kong dollars)*

**G1** [Repealed]

**G2 Clearing Expenses**

<b>Fee Type</b>	<b>Fee</b>
Exercise fee – HK\$ denominated stock options	\$2.00/contract
Exercise fee – RMB denominated stock options	RMB2.00/contract

**G3 DCASS-Related Fees**

<b>Fee Type</b>	<b>Fee</b>
Sub-license fee for (i) DCASS workstation applications software or (ii) OAPI via SEOCH Participant’s remote network gateways	\$1,750/month/ connection
Sub-license fee for (i) DCASS workstation applications software or (ii) OAPI via the central gateway	\$2,600/month/connection
Temporary connection to DCASS via the contingency gateway	\$1,000/connection/day or part thereof
Access to the DCASS testing environment	\$100/day or part thereof provided that no access fee will be charged for the first 5 Business Days
Performance of login test or transaction test outside of SEOCH’s normal working hours	\$1,000/day or part thereof regardless of test results
OAPI certification	\$2,000/test regardless of test results

**G4 CCMS-Related Fees**

<b>Fee Type</b>	<b>Fee</b>
Establishment of CCMS users or delegated administrators <sup>1</sup>	\$250 each

**G5 Emergency Costs**

<b>Fee Type</b>	<b>Fee</b>
On-behalf-of processing	\$50/transaction (minimum fee of \$500/day)
Re-print of reports	\$5/page up to \$1,000 per report or per diskette

**G6 Miscellaneous Costs**

In addition to the fees specified herein, SEOCH reserves the right to charge SEOCH Participants for any disbursements and out-of-pocket expenses it incurs in the delivery of services and facilities to SEOCH Participants.

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<sup>1</sup> Refer to CCMS Terminal User Guide for description of CCMS users and delegated administrators

**List of approved currencies that may be used to satisfy margin requirements**

1. Hong Kong dollars
2. US Dollars
3. Euro
4. Japanese Yen
5. Renminbi

**Interest and Accommodation Charge Structure**

1. APPROVED CURRENCIES  
 INTEREST PAYABLE OR CHARGED TO AND COSTS AND CHARGES LEVIED ON  
 SEOCH PARTICIPANTS

Margin requirement covered by cash ) ) Cash other than Reserve Fund ) Contributions )	<p>In respect of each SEOCH Participant, interest payable or charged shall be calculated daily by SEOCH by multiplying the interest rate with the HK\$, USD, RMB, EUR and JPY cash balance in each CCMS Collateral Account on such day.</p> <p>In relation to a currency, where the reference rate for such currency is positive and greater than the prevailing handling fee, the applicable interest rate will be the reference rate, less the prevailing handling fee.</p> <p>Where the reference rate for the relevant currency is positive and less than or equal to the prevailing handling fee, no interest payment will be made.</p> <p>Where the reference rate for the relevant currency is negative, SEOCH will charge each SEOCH Participant an interest rate on that currency which is calculated based on the net costs incurred by SEOCH for that currency (including any negative yield, swap costs and charges imposed by banks).</p> <p>Interest payable or charged shall be paid or charged monthly to each SEOCH Participant by crediting or debiting, as the case may be, each CCMS Collateral Account of each SEOCH Participant on the first Business Day of the following month.</p> <p>For the purposes of this section, the reference rate for each relevant currency is determined as follows:</p>
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**APPENDIX I. INTEREST AND ACCOMMODATION CHARGE STRUCTURE**

<b>Currency</b>	<b>Reference rate</b>
HK\$	The prevailing HKD-HIBOR overnight, being the overnight Hong Kong Interbank Offered Rate administered by the Treasury Markets Association
USD	The prevailing USD-SOFR, being the Secured Overnight Financing Rate administered by the Federal Reserve Bank of New York
RMB	The prevailing CNY-SHIBOR, being the Shanghai Interbank Offered Rate for overnight deposits administered by the China Foreign Exchange Trade System & National Interbank Funding Center authorized by the People's Bank of China
EUR	The prevailing EUR-EuroSTR, being the euro short term rate administered by the European Central Bank
JPY	The prevailing JPY-TONA,

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

		being the Tokyo Overnight Average Rate administered by the Bank of Japan
	For the purposes of this section, the prevailing handling fee is as follows:	
	<b>Period</b>	<b>Prevailing handling fee</b>
	2 October 2025 – 30 December 2026	0.80%
	31 December 2026 – 30 December 2027	0.70%
	31 December 2027 – 28 December 2028	0.60%
	29 December 2028 onwards	0.50%

Variable Contributions to the Reserve Fund made in cash	) )	to be determined by SEOCH from time to time based on prevailing deposit rates
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2. ACCOMMODATION CHARGES PAYABLE BY SEOCH PARTICIPANTS

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