

## CHAPTER 5

### EXERCISE, DELIVERY AND SETTLEMENT

#### Exercise

501. An OCH Contract comprised in a long open position of a SEOCH Participant shall be validly exercised if, at the time of the start of the After Business Period on any day up to and including the Last Exercise Day for that option series, an exercise request in respect of that long open position, entered in accordance with the Operational Clearing Procedures, is recorded in the Options Clearing System.
502. An NCP Contract comprised in a long open position of an NCP shall be validly exercised if, at the time of the start of the After Business Period on any day up to and including the Last Exercise Day for that option series, an exercise request in respect of that long open position, entered by its designated GCP in accordance with the Operational Clearing Procedures, is recorded in the Options Clearing System. Where an NCP Contract is so validly exercised, an OCH Contract in the same option series comprised in a long open position of the GCP which is party to that NCP Contract shall at the same time, and by operation of this Clearing Rule, be treated as having been validly exercised.
503. An exercise request may, in accordance with the Operational Clearing Procedures, be altered or withdrawn at any time prior to the start of the After Business Period on the day on which it is entered. Those exercise requests not so altered or withdrawn shall become irrevocable and binding in accordance with these Clearing Rules.
- 503A. The Options Clearing System will not automatically generate exercise requests in respect of in-the-money contracts on behalf of SEOCH Participants except on an expiry day. On an expiry day, the Options Clearing System will automatically generate exercise requests in respect of each and every open long position in spot month contracts which is in-the-money by or above the percentage prescribed by SEOCH from time to time. An Options Trading Exchange Participant may elect, or if it is an NCP, may instruct its designated GCP, to deny such automatically generated exercise requests for any spot month series by using the Deny Automatic Exercise function of DCASS in accordance with the Operational Clearing Procedures at any time prior to the start of the After Business Period on the expiry day. Those automatically generated exercise requests not so denied are deemed as exercise requests entered by that SEOCH Participant and shall become irrevocable and binding in accordance with these Clearing Rules.
504. SEOCH shall have no liability whatsoever or howsoever arising in respect of the exercise or purported exercise of any OCH Contract comprised in a long open position of a SEOCH Participant which has not been exercised in accordance with Clearing Rule 501 or 502
505. After the start of the After Business Period on each Business Day, all validly exercised OCH Contracts shall, by a random assignment process conducted by SEOCH, be allocated against OCH Contracts comprised in short open positions of SEOCH Participants in each option series in respect of which those exercise requests have been so recorded. Each SEOCH Participant party to OCH Contracts comprised in a short open position in respect of which an exercise request is so allocated will be notified of such allocation by SEOCH, which notice shall specify the SEOCH Participant and the affected DCASS account of such SEOCH Participant.
506. At the time of allocation by SEOCH pursuant to Clearing Rule 505, the OCH Contract selected by SEOCH in relation to a short open position in the SEOCH Participant's affected DCASS account shall be treated as having been validly exercised.

507. The exercise of Contracts by operation of Clearing Rules 501 to 506 (inclusive) shall immediately result in a corresponding reduction in the long open position and short open position, as the case may be, of the affected SEOCH Participants and NCPs.

#### **Delivery and Settlement Under OCH Contracts**

508. Delivery obligations shall arise under an OCH Contract which has been validly exercised. Unless the SEOCH Board determines that delivery obligations under such OCH Contracts are to be performed in some other way ( including determining that obligations be settled in cash in lieu of delivery) or at some other time and notifies SEOCH Participants of such determination, under normal circumstances, delivery obligation shall be settled in the manner described under paragraph (1) and (2) below:-

- (1) through CCASS under the CNS System pursuant to the CCASS Rules on the second Settlement Day immediately following the day on which the OCH Contract is exercised; or
- (2) at SEOCH's or HKSCC's discretion, through CCASS under the Isolated Trades System.

- 508A. Where settlement of and Settlement Amount arising from a validly exercised OCH Contract through CCASS is performed under the Isolated Trades System, these delivery obligations shall be performed in the following manner:-

- (1) where SEOCH is obliged to purchase securities under the relevant OCH Contract:-
  - (a) the SEOCH Participant party to that OCH Contract shall deliver or arrange through a CCASS GCP to deliver securities to the CCASS account of SEOCH on the second Settlement Day immediately following the day of exercise; and
  - (b) SEOCH will pay the Settlement Amount (following or against delivery of such securities) no later than the third Settlement Day immediately following the day of exercise; or
- (2) where SEOCH is obliged to deliver securities under the relevant OCH Contract:-
  - (a) the SEOCH Participant party to that OCH Contract shall pay the Settlement Amount in immediately available funds no later than 9:15 a.m. on the second Settlement Day immediately following the day of exercise; and
  - (b) following or against payment, SEOCH will use its best endeavours to procure delivery of such securities to the CCASS account designated by the SEOCH Participant, or the CCASS GCP, where applicable, to such OCH Contract on the second Settlement Day immediately following the day of exercise.

- 508B. In addition to any other rights SEOCH may have under these Clearing Rules:-

- (1) where SEOCH has an obligation to deliver securities arising from a validly exercised OCH Contract, SEOCH may, in lieu of delivering securities in whole or in part, make compensation to the SEOCH Participant concerned notwithstanding that such securities may be available in the market. The SEOCH Board shall only exercise its powers under this Clearing Rule in circumstances when the SEOCH Board considers in its reasonable opinion that the securities are not freely available in the market. The money compensation shall be in such amount and in

such currency or currencies (whether in the Settlement Currency, the Currency of the Contract or otherwise) as SEOCH considers to be fair and reasonable having regard to all the circumstances of the case; and

- (2) where SEOCH has an obligation to pay any Settlement Amount arising from a validly exercised OCH Contract in the Settlement Currency, notwithstanding that the Settlement Currency may be available, SEOCH may in lieu of making payment of the Settlement Amount in that Settlement Currency make payment to the SEOCH Participant concerned, 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 having regard to all the circumstances of the case. SEOCH shall only exercise its powers under this Clearing Rule in circumstances when SEOCH considers in its reasonable opinion that the Settlement Currency is not freely available or convertible in the market.
- 509. All delivery obligations under OCH Contracts shall be performed in accordance with these Clearing Rules and the Operational Clearing Procedures.
  - 510. SEOCH may net the obligations of SEOCH and a SEOCH Participant to deliver securities or funds using such methods and assumptions as it may from time to time determine to be appropriate.
  - 511. Delivery obligations under NCP Contracts shall be performed as specified in the Options Trading Rules.
  - 512. [Repealed]

#### **Indemnity**

- 513. If a SEOCH Participant fails to deliver securities or pay any amount to SEOCH in respect of the performance of the delivery obligations of that SEOCH Participant in accordance with these Clearing Rules, SEOCH, the Exchange and a recognized exchange controller which is the controller of SEOCH shall be indemnified by that SEOCH Participant in respect of all liabilities, costs and expenses incurred by SEOCH in order to discharge the related delivery obligations of SEOCH (including, without limitation, in respect of all liabilities, costs and expenses incurred in obtaining alternative securities and in respect of all borrowing and financing costs incurred in making payment of any equivalent amount).