



**THE FOUNDATION
FOR SECURE
MARKETS**

#48830

DATE: June 11, 2021

**SUBJECT: REMOVAL OF EXERCISE RESTRICTIONS FOR CHL, CHU, AND
CEO OPTIONS RESULTING FROM EXECUTIVE ORDER 14032/
CHL, CHU, AND CEO OPTIONS BROKER-TO-BROKER
SETTLEMENT**

On June 3, 2021, Executive Order 14032 (EO) was issued, further amending Executive Order 13959 as amended. As a result of the changes, China Mobile Ltd. (CHL), China Unicom (CHU), and CNOOC Limited (CEO) will be subject to the prohibitions of the EO on August 2, 2021. Previously imposed exercise restrictions on CHL, CHU, and CEO options resulting from Executive Order 13959 will no longer be in place effective immediately.

CHL, CHU, and CEO exercise and assignments made from June 11, 2021 through Friday, July 30, 2021 will be subject to the settlement process described below. It is OCC's understanding that physical settlement of the underlying securities is permissible during this time.

Based on the changes made by the EO, no additional exercise restrictions are expected when the prohibitions of the EO go into effect on August 2, 2021; however, physical settlement of any CHL, CHU, and CEO exercises made August 2, 2021 and thereafter will no longer be permitted. Consequently, it is anticipated that, commencing August 2, 2021, CHL, CHU, and CEO option exercises will be subject to alternative settlement procedures consistent with the authority in the OCC By-Laws and Rules with settlement occurring for cash instead of physical delivery of the underlying security.

Exercise/Assignment Settlement Process for CHL, CHU and CEO Exercises through July 30, 2021

Pursuant to the OCC By-Laws and Rules, OCC has determined that:

1. Effective with exercises of June 11, 2021 and until July 30, 2021, all CHL, CHU, and CEO exercise and assignment activity shall settle on a **broker-to-broker basis**.
2. The deliverable for CHL options will remain 100 China Mobile Ltd. (CHL) American Depositary Receipts (ADRs), the deliverable for CHU options will remain 100 China Unicom (CHU) ADRs, and the deliverable for CEO options will remain 100 CNOOC Limited (CEO) ADRs.
3. If it is not possible for the delivering Clearing Member to effect delivery of 100 China Mobile Ltd. (CHL) ADRs for CHL option exercises and assignments on the designated settlement date, 100 China Unicom (CHU) ADRs for CHU option exercises and assignments on the designated settlement date, or 100 CNOOC Limited (CEO) ADRs on the designated settlement date, then the settlement obligations of both delivering and receiving Members shall be delayed, until such time as OCC designates a new exercise settlement date and potentially also designates cash settlement as described below. This will allow delivering Clearing Members the opportunity to

effect settlement if they have the ADRs and are able to effect delivery but delays the settlement obligation when this is not possible. Both the delivering and receiving Clearing Members are required to immediately notify OCC if they are unable to effect settlement.

4. If Clearing Members are unable to effect settlement of exercise/assignment activity on a broker-to-broker basis, OCC shall designate a new exercise settlement date and may designate a cash settlement method by fixing a cash settlement price in respect of the CHL, CHU, and CEO ADRs.

CHL

OCC will fix a cash settlement price in respect of the CHL ADRs. OCC has determined that it will use the closing price of the ordinary shares of China Mobile Ltd. (which are traded on the Hong Kong Stock Exchange) as of the date the exercise was accepted by OCC. Such closing price shall be obtained from a source that OCC deems to be appropriate, multiplied by 5 to account for the 1 ADR to 5 ordinary share ratio, and converted into U.S. dollars using such exchange rate (in effect on the exercise date) obtained from a source that OCC deems appropriate.

CHU

OCC will fix a cash settlement price in respect of the CHU ADRs. OCC has determined that it will use the closing price of the ordinary shares of China Unicom. (which are traded on the Hong Kong Stock Exchange) as of the date the exercise was accepted by OCC. Such closing price shall be obtained from a source that OCC deems to be appropriate, multiplied by 10 to account for the 1 ADR to 10 ordinary share ratio, and converted into U.S. dollars using such exchange rate (in effect on the exercise date) obtained from a source that OCC deems appropriate.

CEO

OCC will fix a cash settlement price in respect of the CEO ADRs. OCC has determined that it will use the closing price of the ordinary shares of CNOOC Limited. (which are traded on the Hong Kong Stock Exchange) as of the date the exercise was accepted by OCC. Such closing price shall be obtained from a source that OCC deems to be appropriate, multiplied by 100 to account for the 1 ADR to 100 ordinary share ratio, and converted into U.S. dollars using such exchange rate (in effect on the exercise date) obtained from a source that OCC deems appropriate.

For CHL, CHU, and CEO exercise and assignment activity that will settle using a cash settlement price, OCC will net the amounts to be paid by the delivering clearing member against the amounts to be paid by the receiving clearing member. Settlement will be accomplished by payment of the difference between the extended strike amount and the cash settlement price (x 100 per contract) from the exercise date.

Broker-to-Broker Delivery Advice/Settlement Procedures

Clearing Members should note that CHL, CHU, and CEO exercise and assignment activity will be reported on the Broker-to-Broker Delivery Advice, which is a separate report from the regular Delivery Advice. Members will need to refer to this report each day to be informed of CHL, CHU, and CEO exercise/assignment activity. The Broker-to-Broker Delivery Advice will also identify the opposite side Clearing Member with whom settlement is to be made. Members are responsible for contacting the opposing side on all CHL, CHU, and CEO activity and for making arrangements for settlement. Both delivering and receiving Members are also reminded of their obligation to inform OCC in writing when settlement is made. OCC will margin any CHL, CHU, and CEO exercise/assignment activity until settlement is accomplished.

Margin Treatment

As a result of the new regulatory guidance, all remaining open interest in CHL, CHU, and CEO option classes will be included in margin processing beginning Friday, June 11, 2021. CHL, CHU, and CEO option classes will also be restored to the Risk Based Haircut / Customer Portfolio Margin theoretical output files. This treatment will remain in place until such time that these option classes are subject to exercise restrictions.

Executive Order 13959 and Executive Order 14032

The following is an unofficial summary of Executive Order 13959, issued on November 12, 2020, and amended by Executive Order 14032 issued on June 3, 2021 (collectively, the "EOs"). The summary is intended to alert clearing members and options market participants to complexities and difficulties regarding certain listed options that may result from the EOs, and it is provided for convenience only. OCC strongly urges clearing members and interested market participants to review the EOs themselves and to consider the implications that its prohibitions may have for their options trading activities and positions and/or the options trading activities and positions of their customers. The EOs are available at:

<https://www.federalregister.gov/documents/2020/11/17/2020-25459/addressing-the-threat-from-securities-investments-that-finance-communist-chinese-military-companies>,

<https://www.federalregister.gov/documents/2021/01/19/2021-01228/amending-executive-order-13959-addressing-the-threat-from-securities-investments-that-finance>, and

<https://www.federalregister.gov/documents/2021/06/07/2021-12019/addressing-the-threat-from-securities-investments-that-finance-certain-companies-of-the-peoples>.

The EOs prohibit transactions by U.S. persons in publicly traded securities of certain companies that are considered by the United States to be part of China's "military-industrial complex." The prohibitions first took effect at 9:30 a.m. Eastern Standard Time on Monday, January 11, 2021 for securities issued by or associated with companies identified in Executive Order 13959 on November 12, 2020 and took effect sixty (60) calendar days after any company was added to the list of designated companies (EO Effective Time(s)). With the amendments made by Executive Order 14032 to Executive Order 13959 on June 3, 2021, such prohibitions will now go into effect on August 2, 2021. Importantly, the EOs state that the prohibitions also extend to transactions in publicly traded securities that are derivative of, or designed to provide exposure to, such publicly traded securities. OCC therefore understands that as of August 2, 2021, the prohibition will extend to listed options on such securities.

ALL CLEARING MEMBERS ARE REQUESTED TO IMMEDIATELY ADVISE ALL BRANCH OFFICES AND CORRESPONDENTS ON THE ABOVE.

For questions regarding this memo, call Investor Services at 1-888-678-4667 or email investorservices@theocc.com. Clearing Members may contact Member Services at 1-800-544-6091 or, within Canada, at 1-800-424-7320, or email memberservices@theocc.com.