



**THE FOUNDATION
FOR SECURE
MARKETS**

#49078

DATE: August 02, 2021

**SUBJECT: CASH SETTLEMENT OF CHL OPTIONS RESULTING FROM
EXECUTIVE ORDER 14032/CHL OPTIONS BROKER-TO-BROKER
SETTLEMENT**

Effective August 2, 2021, remaining open interest in China Mobile Ltd. (CHL) will be subject to the prohibitions of Executive Order 14032 (EO) issued by President Biden on June 3, 2021, which replaced previous prohibitions imposed by Executive Order 13959. Previously imposed exercise restrictions on CHL options resulting from Executive Order 13959 were removed on June 11, 2021.

Based on the changes made by the EO, no additional exercise restrictions were implemented when the prohibitions of the EO went into effect on August 2, 2021; however, physical settlement of any CHL exercises made August 2, 2021 and thereafter will no longer be permitted. Consequently, commencing August 2, 2021, CHL 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, as described below.

Exercise/Assignment Settlement Process for CHL Exercises effective August 2, 2021

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

1. Exercise and assignment activity from August 2, 2021 and thereafter will continue to settle on a **broker-to-broker basis**.
2. Effective August 2, 2021, the deliverable for CHL options will be a USD cash equivalent of 100 China Mobile Ltd. (CHL) American Depositary Receipts (ADRs), calculated as described below.
3. Because prohibitions in the EO will prevent settlement of CHL options for China Mobile Ltd. (CHL) ADRs, it will not be 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. **As a result, the settlement obligations of both delivering and receiving Members shall be delayed, until such time as OCC designates a new exercise settlement date and also designates cash settlement as described below. Members are not required to notify OCC if they are unable to effect settlement for CHL options. OCC will monitor for broker to broker obligations resulting from CHL exercise and assignment activity and automatically fix a cash settlement price.**

CHL Cash Settlement Determination

For CHL exercises and assignments, 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 an exercise is 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.

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 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 exercise/assignment activity. The Broker-to-Broker Delivery Advice will also identify the opposite side Clearing Member with whom settlement is to be made. OCC will margin any CHL exercise/assignment activity until settlement is accomplished.

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-13959addressing-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.