

Shanghai-Hong Kong Stock Connect Enhanced Pre-Trade Checking Model

Briefing to Participants
January 2015



Amendment Log of the Presentation Material



This presentation material is further revised after the briefing sessions to Participants in January 2015:

Date	Reason for Revision	Slide (All changes are marked in Red)
6 Feb 2015	<ul style="list-style-type: none"> - Revised the time for 2nd STI Batch Transfer (SPSA only) from 19:00 to 18:30 - The receiving account of STI for 1st and 2nd STI Batch Transfers (SPSA only) at 17:30 and 18:30 can be any account other than SPSA, instead of only Stock Clearing Account - STI Batch Transfer (SPSA only) will be processed before STI Batch Transfer (exclude SPSA) at 17:30 and 20:00 	14,15, 16, 30
11 Feb 2015	<ul style="list-style-type: none"> - Revised the function start time of "Change DI Requirement" from 19:15 to 07:15 	17
3 Mar 2015	<ul style="list-style-type: none"> - Revised to indicate the new STI batch runs should be applicable to MAMK only 	15, 16, 30
19 Mar 2015	<ul style="list-style-type: none"> - Mention the waiver of the Special Segregated Account Maintenance Fee - Revised description for STI Batch Transfer Runs to match the wording in Rules and Procedures - Morning SI BSR will not settle SIs involving SPSA 	12, 15, 16
25 Mar 2015	<ul style="list-style-type: none"> - Revised the generation time for "Unmatched SI Report" (CCLUS01) and "Intra-day ISI / SI Full List" (CSESI02) 	30

1 Existing Pre-trade Checking Model

2 Enhanced Pre-trade Checking Model

3 Modified Risk Management Measures for Enhanced Model

4 Implementation Schedule

5 Appendix

1 Existing Pre-trade Checking Model

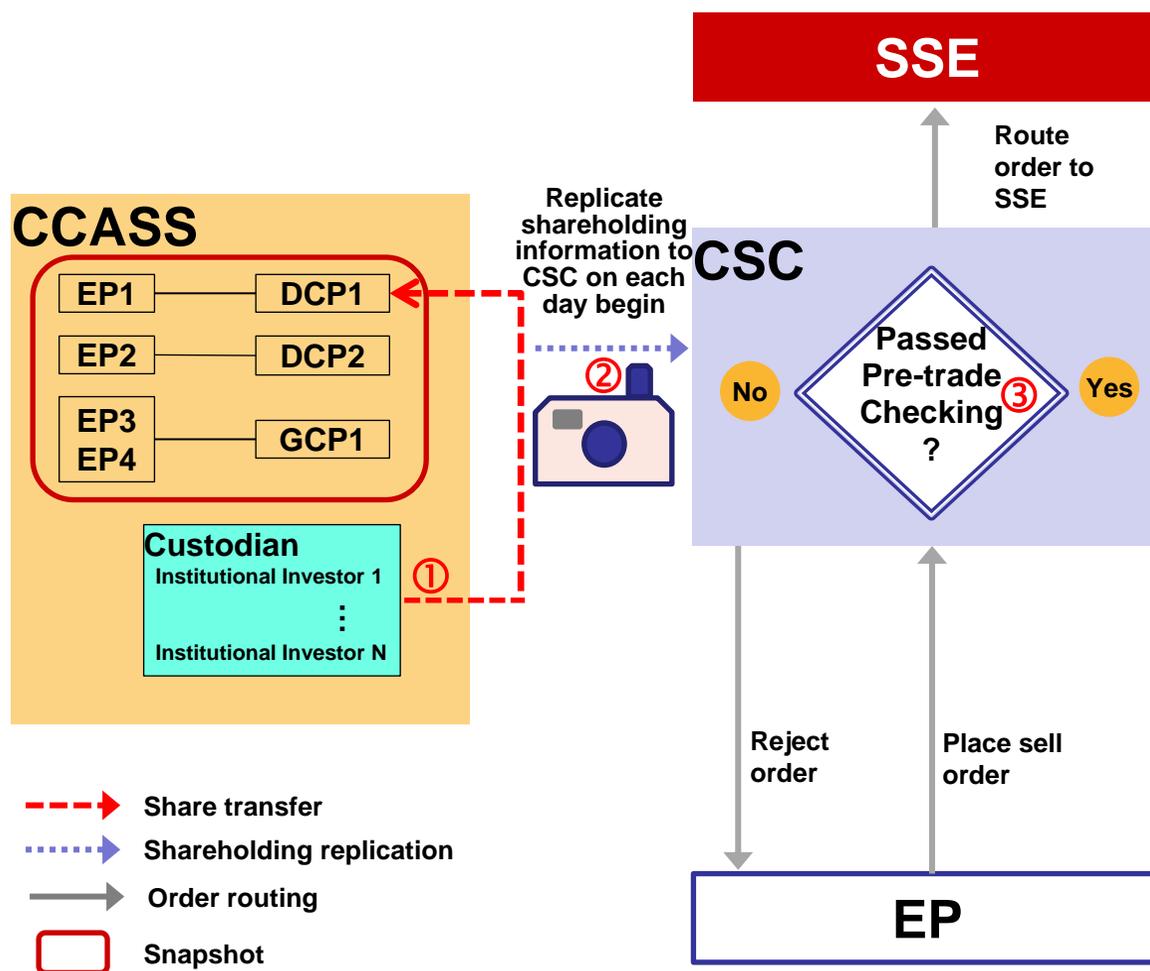
2 Enhanced Pre-trade Checking Model

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Existing Pre-trade Checking Model



What is Pre-trade checking?

- A mechanism to ensure EPs will have sufficient sellable quantity when placing sell orders

How is it done?

- ① Investors who use custodians must transfer shares from their custodians to the selling EPs before market open
- ② CCASS will take snapshot of each DCP & GCP's SSE Securities holdings each business day and replicate to CSC to facilitate Pre-trade Checking
- ③ Sell orders by an EP will be rejected by CSC if the EP's cumulative sell quantity in that stock for the day is higher than its stockholdings during market open

Who to ensure investors will not oversell?

- EPs' responsibility to ensure they have in place procedures and systems to prevent their clients from day trading and overselling of SSE Securities

Under current model, investors who use custodians need to pre-deliver SSE Securities to the selling EPs

Limitations of Existing Pre-trade Checking Model



- Pre-trade delivery of shares by investors from custodians to broker
- Frequent movement of shares between custodians and brokers may cause operational burden and costs
- Inconvenient for investors to trade via multiple brokers
- The design is not in line with the practice of institutional investors where they move shares to brokers for settlement only after their orders are executed

Solution: Develop an enhanced Pre-trade Checking Model to address the above limitations. The Enhanced Model is optional and will run alongside the Existing Model.

1 Existing Pre-trade Checking Model

2 **Enhanced Pre-trade Checking Model**

3 Modified Risk Management Measures for Enhanced Model

4 Implementation Schedule

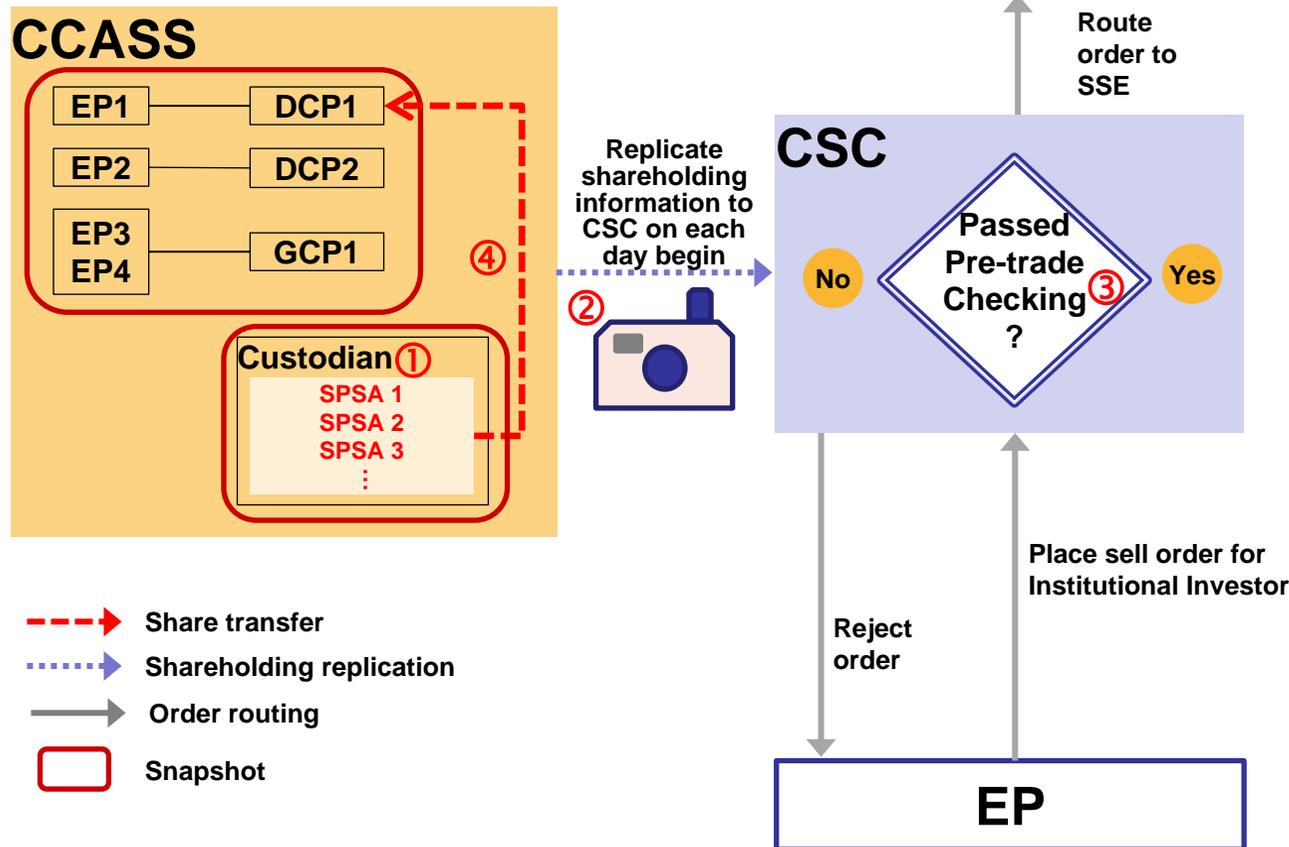
5 Appendix

Enhanced Pre-trade Checking Model

- Special Segregated Accounts of Custodians

How does it work?

As an add-on to existing model:



- ① Custodians* upon investors' requests to open Special Segregated Accounts (SPSA) and CCASS will generate a unique **Investor ID**. The SPSAs are for keeping shareholding of investors separately
- ② CCASS will snapshot SSE Securities holdings under custodians' SPSAs and replicate to CSC to facilitate Pre-trade Checking
- ③ Investors should inform its designated EPs the assigned Investor IDs for Pre-trade Checking when placing sell orders
- ④ Custodians transfer shares from the SPSA to the relevant Clearing Participants for settlement (based on investors' instructions)

Under enhanced model, investors who use custodians only transfer SSE Securities to Clearing Participants after sell order execution (Post-trade Delivery)

* Including GCPs who are non-EPs and Custodian Participants of CCASS

SPSAs Leverage on Existing SSA Account Structure



Non-EP GCPs & Custodian Participants of CCASS can set up an SPSA via existing “Add Stock Segregated Account” function in CCASS. Any SSA set up by Custodian within the specific range “800XXXXX” will be classified as SPSA. CCASS will generate a unique Investor ID for each SPSA.

Institutional Investor	SPSA of Custodian A		SPSA of Custodian B	
	SSA No.	Investor ID	SSA No.	Investor ID
1	80000001	611682	80000001	600002
	80000002	720462	-	-
2	80000003	701234	-	-
3	80000004	220462	80000003	129641
⋮	⋮	⋮	⋮	⋮

Institutional Investor 1:

2 SPSAs at Custodian A, 1 SPSA at Custodian B

Institutional Investor 2:

1 SPSA at Custodian A

Institutional Investor 3:

1 SPSA at Custodian A, 1 SPSA at Custodian B

The new model allows Institutional investors to open multiple SPSAs at multiple Custodians

Creation of SPSA at CCASS



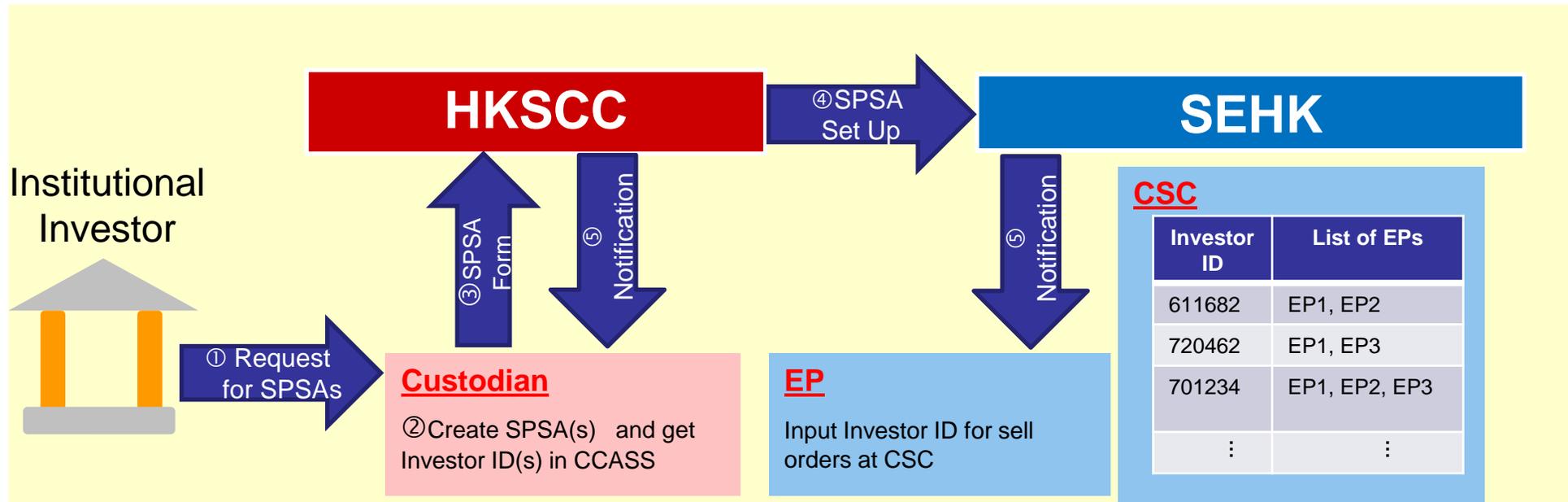
Sample CCASS Screen showing creation of SPSA

Add Stock Segregated Account Execution	
Full Name :	TEST FUND
Short Name :	TESTING FUND
Account Type :	Individual
Stock Segregated Account Number :	80000001
CCASS Phone User ID :	80162779
CCASS Phone Password :	*****
Address :	10TH FLOOR, FUND BUILDING 123 FUN ROAD HONG KONG
Domain :	HK
Contact Phone Number :	29991234
Receive Statement Via Mail :	None
Subscribe to SMS :	
Phone Number for receiving SMS :	
Mobile Carrier :	
Subscribe to Email Alert :	
Email Address :	
Statement/SMS/Email Language :	English
Receive Corporate Communications :	NO
Voting Delegation :	YES
Affirmation Requirement :	NO
Client Account Number :	12345678
Investor ID :	600002
Remarks :	REMARK 1 REMARK 2

Must be in “800XXXXX” format

CCASS will generate Investor ID upon successful creation of SPSA by Custodians / non-EP GCPs

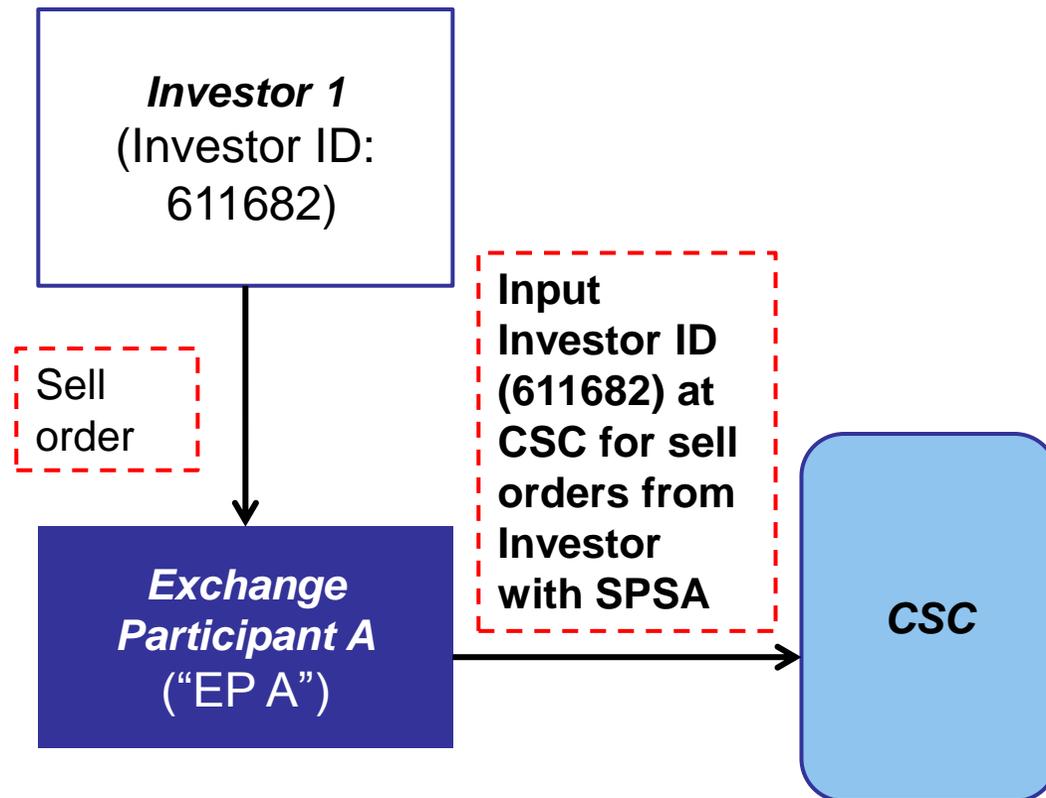
SPSA Setup Procedure



- ① Each investor can request its custodian(s) to open SPSA(s) for holding SSE securities
- ② Custodian opens SPSAs in CCASS online. CCASS will assign an unique Investor ID for each SPSA opened
- ③ Custodian will complete and return the SPSA Form to HKSCC (with the authorized signatures from both Custodian and the designated EP)
- ④ HKSCC will inform SEHK to set up the unique Investor ID of the SPSA and the list of designated EP(s) in CSC
- ⑤ Upon notification, custodian can start transferring the investor's shareholdings to the SPSA so that EP can start selling SSE securities for Investor from SPSA

Custodians shall give prior notice of not less than five business days to HKEx for adding or updating SPSA and list of designated EPs

Sell Order Input and Pre-trade Checking at CSC



CSC will verify:

- EPA is a designated broker for the investor 1
- Investor 1 has sufficient holding in its account

If both checking pass -> Accept order
If either checking fails -> Reject order

Notes:

1. Investor can appoint **at most 20 EPs** as brokers for each Investor ID
2. Investor ID is not applicable to buy orders

Securities Settlement - Post Trade Transfer for Short CNS Stock Position

How to settle CNS Sell obligation from SPSA?

Before CNS Batch Settlement Run (BSR) on T day,

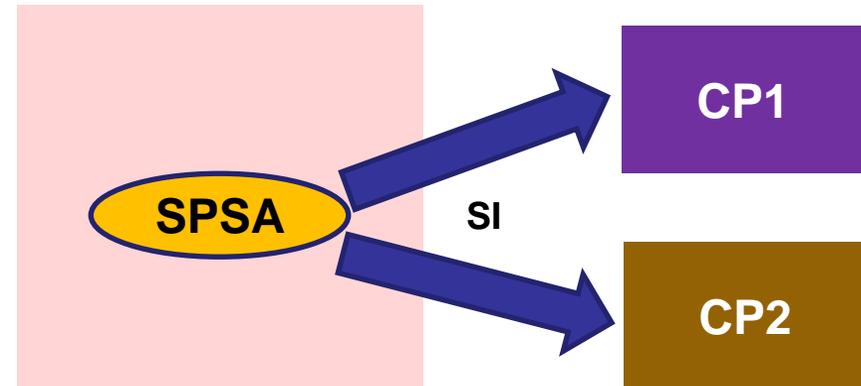
For non-EP GCPs:

Transfer the CNS sell quantity from SPSA to Clearing Account via STI, via two new STI transfer runs for SPSA¹



For Custodian Participants:

Transfer the CNS sell quantity from SPSA to Clearing Participant via SI, via two new SI BSR²



Notes:

- 1) No intra-day transfer of shares with SPSA before Final CNS BSR (19:00), except via the two new STI batch transfer runs (at around 17:30 and **18:30**) which only settle STIs with SPSA as delivering account and **Stock Account other than SPSA** as receiving account. All STIs involving SPSA will be in “Pending for Transfer” status before the new STI batch transfer run
- 2) Two New SI Batch Settlement Run (BSR)
 - At around 17:30 and 19:00 (right before the revised 1st and 2nd CNS BSR)
 - Only settle SIs with SPSA as delivering account

Other changes to facilitate Pre-trade Checking(1)

- Change of CCASS Processing Schedule



- Revise the CNS batch settlement run schedule for SSE Securities
 - 1st run: 16:30 → **17:30**
 - 2nd run: 18:00 → **19:00**

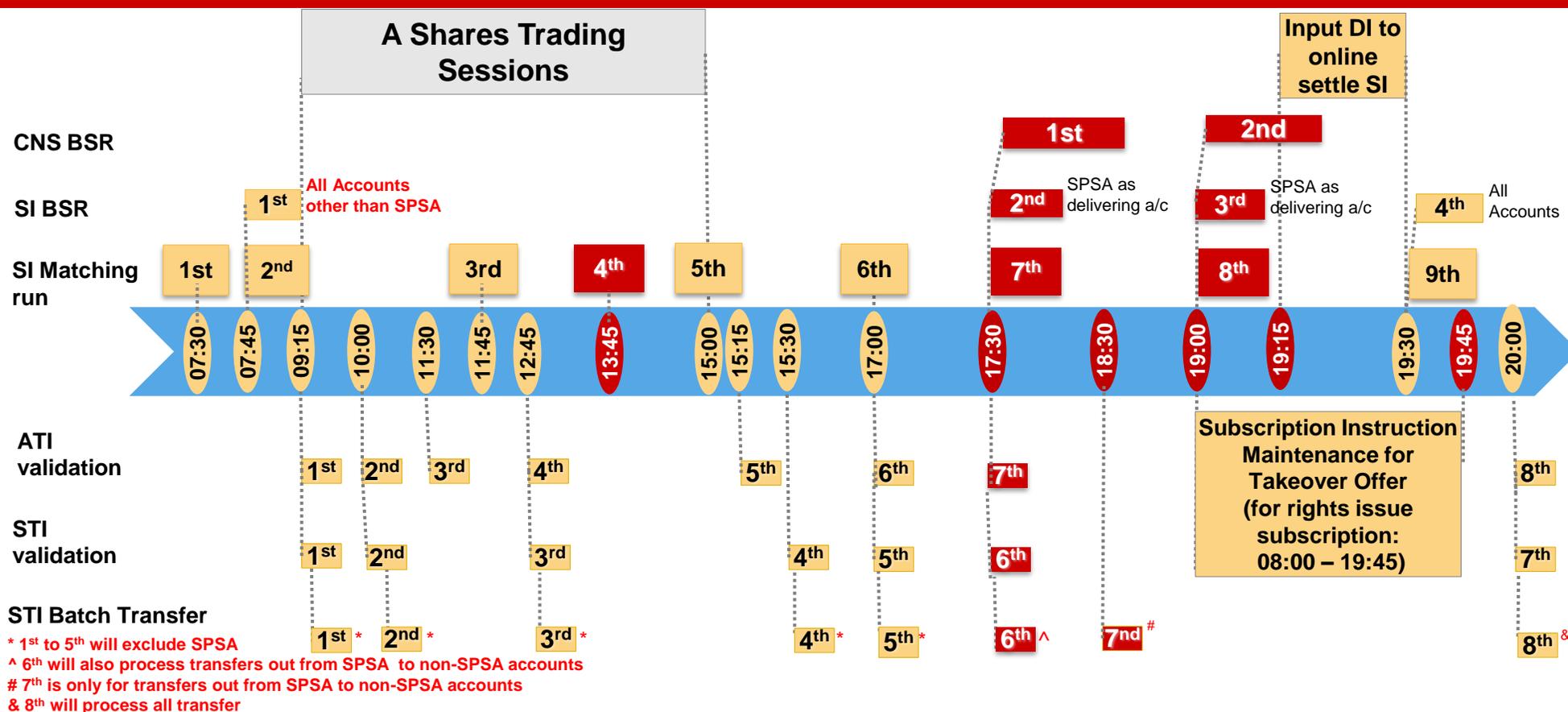
- Additional SI matching runs
 - 13:45
 - 17:30
 - 19:00

- Additional SI batch settlement runs (for SPSA as delivering account only)
 - 17:30
 - 19:00

- Additional ATI / STI validation
 - 17:30

- Additional STI batch transfer runs and special arrangement for SPSA
 - Two new STI batch transfer runs (17:30 and 18:30)
 - Arrangement for SPSA:
 - 1st to 5th runs (09:15, 10:00, 12:45, 15:30 & 17:00) will process transfers related to **non-SPSA accounts**
 - 6th run (17:30) will process **also** transfers out from SPSA to non-SPSA accounts
 - 7th run (18:30) will process **only** transfers out from SPSA to non-SPSA accounts
 - 8th run (20:00) will process **all** transfers

Enhanced CCASS Processing Schedule for A-share Market



- ❑ CNS BSR Schedule (1st: 16:30 → 17:30; 2nd: 18:00 → 19:00)
- ❑ Two more SI Batch Settlement Runs for settling SI with SPSA as delivering account (17:30 & 19:00)
- ❑ Three more SI Matching Runs to facilitate stock transfer (13:45, 17:30 & 19:00)
- ❑ One more ATI & STI validation runs (17:30)
- ❑ Two more STI Batch Transfer runs for MAMK and special arrangement for SPSA related transfers

Other changes to facilitate Pre-trade Checking(2) - Change of CCASS Function Times and Reports



1) CCASS function time changes

	Market	Original Function Time	New Function Time
Input DI	MAMK	18:15 to 19:30	19:15 to 19:30
Change DI Requirement	MAMK	18:15 to 19:30	07:15 to 19:30
Change Hold Matched SI	MAMK	07:15 to 18:00	07:15 to 19:00
Subscription Instruction Maintenance	MAMK	18:00 to 19:00	08:00 to 19:45 (for rights issue subscription) 19:00 to 19:45 (for takeover offer)
Upload of ATI / STI batch file	GLOB*	08:00 to 19:15	08:00 to 19:45

* Impact to all CCASS Participants

2) New value in reports to indicate Sell Trades from SPSA

Report ID	Report Name	Market	New Value
CCLTN05	Final Clearing Statement	MAMK	"I" will be shown in the "Origin Indicator" for sell trades from SPSA
CCLID01	Intra-day Trade File	MAMK	"I" will be shown in the "Origin Indicator" for sell trades from SPSA

3) New CCASS Data File – Trade File of SPSA (available to Custodians / non-EP GCPs only):

Report ID	Report Name	Time	File Content
CCLTA01	Trade File of SPSA	Daily at around 16:15	Showing detail of the sell trades from SPSA, including trade time, counterparty participant ID, execution broker firm ID, SPSA account number, to facilitate the preparation of STI / SI by Custodians / non-EP GCPs for CNS settlement

Other changes to facilitate Pre-trade Checking(3) - SI DVP



- Currently, only Free of Payment (FOP) SI is allowed for SSE Securities
- Delivery versus Payment (DVP) SI for USD, HKD and RMB will be added to enhance the settlement process of SSE Securities, settlement amount detail will be displayed in the “Enquire Money Position” function of CCASS

Time of EPI Generation for DVP SI:

Time of SI Settlement	EPI Generation	Payment Confirmation
Morning SI BSR at around 07:45	After 16:00	17:45
After morning SI BSR	After 20:00	Next Day 09:30

**Relevant PG template, Report and Terminal User Guide* are available
at Stock Connect Webcorner of HKEx website for reference**

http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/enhancedccassfunctionsreports.htm

1 Existing Pre-trade Checking Model

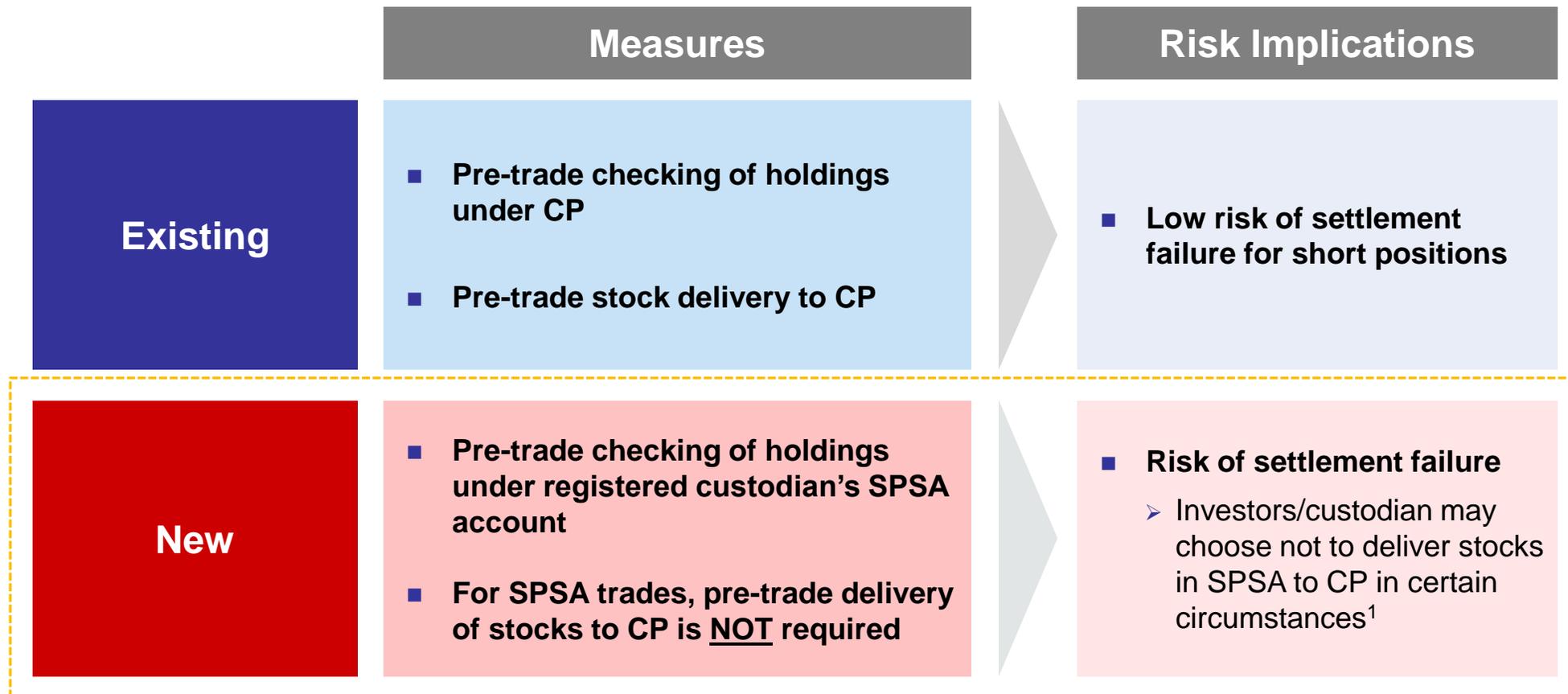
2 Enhanced Pre-trade Checking Model

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Modification to Existing Risk Management Measures on Northbound Trades



***Additional risk arising from the Modified Model –
Need to modify existing risk management measures on Northbound Trades***

Modification to Daily Mainland Settlement Deposit Requirement



Daily Mainland Settlement Deposit Requirement:

Current:

Settlement deposit rate¹
x
(CP's daily buy turnover in SSE Securities
+
Overdue short positions in SSE Securities)

New:

Settlement deposit rate
x
(CP's daily buy turnover in SSE Securities
+
Overdue short positions in SSE Securities
+
Daily sell turnover from SPSA
in SSE Securities)

Note 1: Settlement deposit rate is currently at 20%

CPs who do not have SPSA sell trade will not be affected

Modification to Monthly Mainland Settlement Deposit Requirement



Monthly Mainland Settlement Deposit Requirement :

Current

New

Current

$$\left(\frac{\text{Sum of CP's daily buy turnover} + \text{overdue short positions in the previous month} *}{\text{Number of days having buy turnover by the CP in the previous month}} + \frac{\text{Sum of SPSA's daily sell turnover in the previous month}}{\text{Number of days having sell turnover by the SPSA in the previous month}} \right) \times \text{Settlement Deposit Rate}$$

Note:

* For the day without buy turnover in SSE Securities, overdue short positions will be excluded from the "sum of CP's daily buy turnover in SSE Securities + overdue short positions in SSE Securities in the previous month" in calculating the Monthly Mainland Settlement Deposit requirement.

CPs who do not have SPSA sell trade will not be affected

Calculation of Mainland Settlement Deposit Requirement – *Same as Today*



1. Mainland Settlement Deposit Requirement:

Higher of

- Daily Mainland Settlement Deposit Requirement

And

- Monthly Mainland Settlement Deposit Requirement

2. Amount to be collected from CP:

- Mainland Settlement Deposit Requirement – Mainland Settlement Deposit on hand

Collection frequency: Intra-day (by 3:30pm) and day-end

Calculation of Mainland Settlement Deposit – An Example



(In RMB)

Business day of the month	Buy Turnover in SSE Securities (A)	Overdue Short Position in SSE Securities (B)	Sell Turnover in SPSA (C)	Settlement Deposit Rate (%) (D)	Daily MSTD ^(Note 1) Requirement [E=(A+B+C) x D]	Monthly MSTD Requirement per last monthly review (F)	MSTD Requirement (G=higher of E & F)	MSTD on hand (H)	Amount to be (collected) / refund ^(Note 2) = G-H
Day 1	100,000	20,000	30,000	20	30,000	10,000	30,000	10,000	(20,000)
<i>No buy turnover</i>									
Day 2	0	50,000	30,000	20	16,000	10,000	16,000	30,000	0
<i>No overdue short position</i>									
Day 3	500,000	0	40,000	20	108,000	10,000	108,000	30,000	(78,000)
<i>No buy turnover and overdue short position</i>									
Day 4	0	0	10,000	20	2,000	10,000	10,000	108,000	0
• • •									
<i>No Special Segregated Account's sell turnover</i>									
Day 10 (Refund day of the month)	300,000	30,000	0	20	66,000	10,000	66,000	108,000	42,000

Notes:

1. MSTD = Mainland Settlement Deposit

2. Refund (if any) will only be made on the 10th business day of the month. If the 10th business day of the month is not a trading day in A-share market, refund will be made on next business day which is a trading day in A-share market.

Modification to Mainland Settlement Deposit Payable Report (CRMSD01)



Additional field "SPSA SELL TURNOVER IN A SHARES" will be added to cater the change of:

- Daily Mainland Settlement Deposit Requirement
- Monthly Mainland Settlement Deposit Requirement

```
CRMSD01      B03456                      HKSCC - CCASS                      RUN DATE : 31DEC14
CCASS COMPANY                MAINLAND SETTLEMENT DEPOSIT PAYABLE REPORT  RUN TIME  : 19:30:00
                                                                    PAGE : 1
```

DATE : 31DEC14

BUY TURNOVER IN A SHARES	: CNY	100,000.00
OVERDUE SHORT POSITION IN A SHARES	: CNY	20,000.00
SPSA SELL TURNOVER IN A SHARES	: CNY	30,000.00
SETTLEMENT DEPOSIT RATE(%)	:	20.00
MINIMUM AMOUNT	: CNY	0.00
MONTHLY MSTD REQUIREMENT PER LAST MONTHLY REVIEW	: CNY	10,000.00
MSTD REQUIREMENT	: CNY	30,000.00
MSTD ON HAND	: CNY	10,000.00
AMOUNT TO BE (COLLECTED)/REFUNDED VIA DAY-END MSI*	: CNY	20,000.00-

* FOR -VE VALUE, TO BE COLLECTED VIA DAY-END DDI
FOR +VE VALUE, CALCULATED ON THE 10TH BANK DAY OF EACH MONTH OR THE NEXT BANK DAY WHICH IS A TRADING DAY IN A-SHARE MARKET IF THE 10TH BANK DAY OF THE MONTH IS NOT A TRADING DAY IN A-SHARE MARKET, TO BE REFUNDED VIA DAY-END DCI

*** END OF REPORT ***

1 Existing Pre-trade Checking Model

2 Enhanced Pre-trade Checking Model

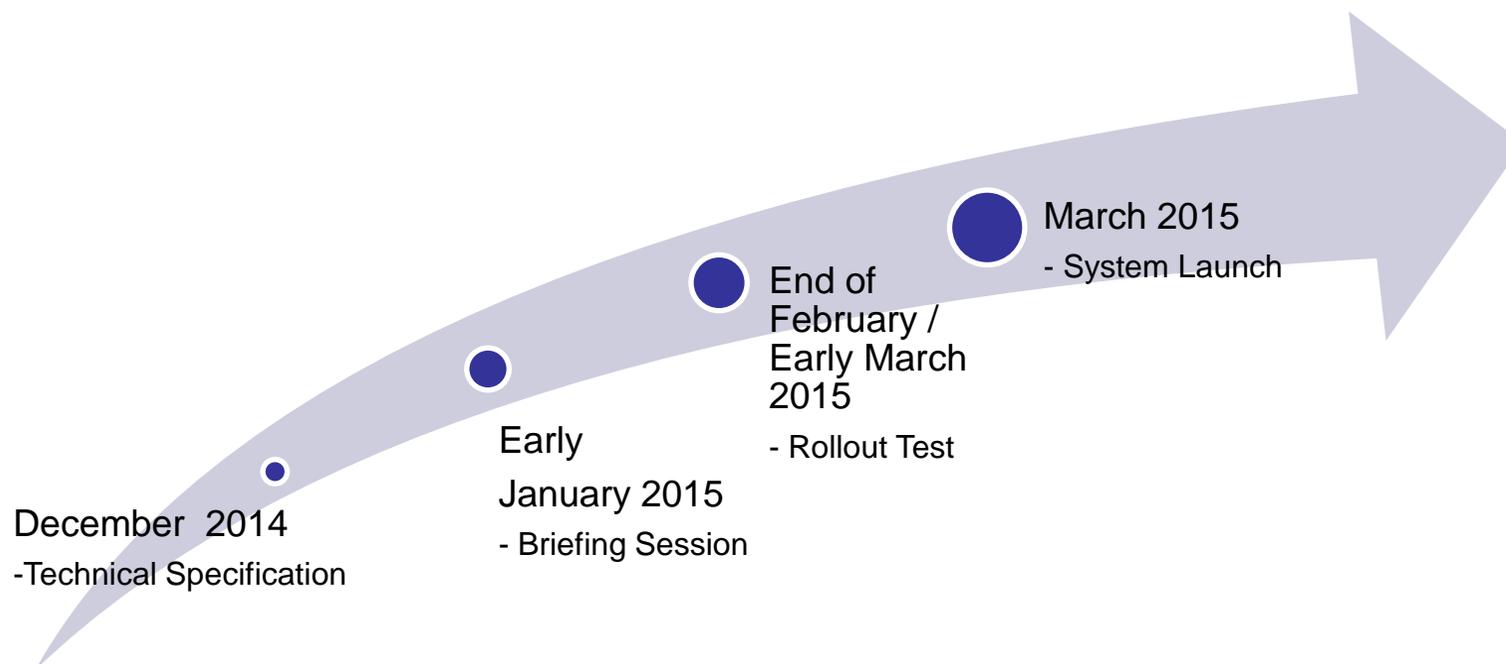
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Implementation Schedule (Tentative)

■ Expect enhanced service launches in 1Q 2015*



* Subject to SFC's approval and the final schedule will be further announced via circular



Questions and Answers

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Appendix 1 CCASS Report Enhancement



1) Revised report generation time / frequency

Report ID	Report Name	Market	Report Generation Time (New / Rescheduled Runs)	Remarks
CSEBA01	ATI Batch Input Control Report	GLOB	09:15, 10:00, 11:30, 12:45, 15:15, 17:00, <u>17:30</u> , 20:00	Additional ATI batch validation run
CSEAT01	STI Batch Input Control Report	GLOB	09:15, 10:00, 12:45, 15:30, 17:00, <u>17:30</u> , 20:00	Additional STI batch validation run
CSEAT02	STI Activity Report	HKMK/ MAMK	09:15, 10:00, 12:45, 15:30, 17:00, <u>17:30</u> , <u>18:30</u> , 20:00	Additional STI batch transfer runs
CCLUS01	Unmatched SI Report	MAMK	<u>08:00</u> , <u>12:00</u> , <u>14:00</u> , <u>15:15</u> , <u>17:15</u> , <u>17:45</u> , <u>19:15</u> , <u>19:45</u>	Additional SI matching runs
CSESI02	Intra-day ISI / SI Full List	MAMK	<u>08:00</u> , <u>12:00</u> , <u>14:00</u> , <u>15:15</u> , <u>17:15</u> , <u>17:45</u> , <u>19:15</u> , <u>19:45</u>	Additional SI matching runs and SI BSR
CSESP04	Intra-day Settled Position Report	MAMK	08:15, <u>18:00</u> , <u>19:30</u>	Revise of CNS BSR
CFIBI01	Buy-in Notification Report	MAMK	<u>19:15</u>	Revise of CNS BSR

2) New field value to indicate sell trades originated from SPSA

Report ID	Report Name	Market	New Value
CCLTN05	Final Clearing Statement	MAMK	"I" will be shown in the "Origin Indicator" for sell trades from SPSA
CCLID01	Intra-day Trade File	MAMK	"I" will be shown in the "Origin Indicator" for sell trades from SPSA

3) New CCASS Report – Trade File of SPSA

(available to Custodians / GCP who are non-EP only):

Report ID	Report Name	Market	Time	File Content
CCLTA01	Trade File of SPSA	MAMK	Daily at around 16:15	Showing detail of the sell trades from SPSA, including trade time, counterparty participant ID, execution broker firm ID, SPSA account number, to facilitate the preparation of STI / SI by Custodian for CNS settlement

Appendix 2 CCASS Enhancement for SI DVP



DVP SI information will be displayed in different sections in “Enquire Money Position” function

Shows settlement amount from SI settled on previous business day (except those SI settled at 1st BSR)

Shows settlement amount from SI settled at 1st BSR (i.e. 07:45) of current day

Shows settlement amount from SI which EPIs are not yet delivered to HKICL

Shows settlement amount from SI with settlement date <= current CCASS date

Money Obligation for A-share Market			
Settled with Payment Instruction Generated on Previous Day	Receivable/Received Amount	Payable/Paid Amount	Net Amount
SI (A-share Market) - Dayend	5,000.00	3,000.00-	2,000.00
Settled with CHATS Payment Instruction Generated on Current Day	Receivable/Received Amount	Payable/Paid Amount	Net Amount
CNS (A-share Market)	5,000.00	3,000.00-	2,000.00
Settled with Payment Generated on Current Day	Receivable/Received Amount	Payable/Paid Amount	Net Amount
SI (A-share Market) - Evening	5,000.00	3,000.00-	2,000.00
Settled with Payment Yet to Generate	Receivable/Received Amount	Payable/Paid Amount	Net Amount
CNS (A-share Market)	4,000.00	3,000.00-	1,000.00
SI (A-share Market)	2,000.00	6,000.00-	4,000.00-
Total :	6,000.00	9,000.00-	3,000.00-
Unsettled Money Position for Current Day	Receivable/Received Amount	Payable/Paid Amount	Net Amount
CNS (A-share Market)	2,000.00	6,000.00-	4,000.00-
SI (A-share Market)	2,000.00	6,000.00-	4,000.00-
Total :	4,000.00	12,000.00-	8,000.00-

Detail of SSE Securities SI with DVP as settlement method will be included in the following reports:

- DDI / DCI / EPI Summary for Participant (CSEMA28 / CSEMS28)
- Settlement Related EPI Listing (CSEMA29 / CSEMS29)
- CCASS Funding Projection Report for Participant (CSEMP02)

Appendix 3 Other Features of SPSA

Nominee Services

- Voting Delegation
SPSA holders delegate the input of voting instructions to CP and are not allowed to input voting instructions themselves

Subscription for SMS / Email Alerts

- Not available to SPSA

Hard Copy Statement Services

- Not available to SPSA