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(香港交易及結算所有限公司全資附屬公司)
Hong Kong Securities Clearing Company Limited
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

事項

Subject: SPSA Model - Adjustment of sellable balance and release of on-hold Settlement Instructions (SIs) due to failure of stock delivery from Special Segregated Accounts (SPSAs)

查詢

Enquiry: China Connect Hotline at 2979 7123

Reference is made to HKSCC's circular dated 26 March 2015 regarding the SPSA Model.

This circular sets out the circumstances under which a CCCP is required to make a request to HKSCC to adjust its and a relevant SPSA's sellable balance, and where applicable, to release the related on-hold SIs due to an SPSA Delivery Failure. It also sets out HKSCC's requirements for dealing with such requests. Terms used in this circular have the meanings as defined in section 5 below.

1. Background

- 1.1 Under the SPSA Model, investors who have opened SPSAs with Custodian Participants and Non-EP GCPs may place sell orders on China Connect Securities without first delivering the China Connect Securities to their brokers.
- 1.2 If, after a sell order is executed, the correct number of shares sold is not transferred from the SPSA to the relevant CCCP for any reason, the following consequences may follow:
 - (i) the SPSA Delivery Failure may cause the CCCP to have an overdue short stock position in the China Connect Security for CNS settlement, resulting in all its SIs for delivering the same China Connect Security to be put on hold;¹

¹ Section 12.1.6(vi)(e) of the CCASS Operational Procedures

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- (ii) whether or not the CCCP has an overdue short stock position, the sellable balance of the Selling SPSA would reflect a higher number of shares that could be sold on the next trading day,² and the sellable balance of the CCCP would reflect a lower number of shares that could be sold by or through it on the next trading day, due to the SPSA Delivery Failure. This may in turn affect the ability of the CCCP's other clients³ to sell the China Connect Security on the next trading day; and
- (iii) the position of the CCCP's other SPSA Clients that have bought shares in the same China Connect Security on the same trading day may be affected - their sellable balance may reflect a lower number of shares that could be sold on the next trading day due to the SPSA Delivery Failure.

1.3 For the above reasons, where an SPSA Delivery Failure has occurred, the CCCP is required to request HKSCC to adjust its sellable balance, the sellable balance of the Selling SPSA, and where applicable, the sellable balance of any Buying SPSA that may be affected. Where an overdue short stock position is solely caused by an SPSA Delivery Failure, the CCCP must also request HKSCC to release its on-hold SIs.

2. Circumstances for making an Adjustment Request

2.1 A CCCP is required to submit an Adjustment Request to HKSCC under the circumstances set out in **Appendix 1**.

3. Adjustment request procedure and HKSCC's requirements

3.1 The CCCP must call the Stock Connect Hotline at 2979 7123 or send an email to HKSCC at cscptc@hkex.com.hk **immediately after completion of the CNS Batch-settlement-run at 7:00pm to register its intention** to submit an Adjustment Request.

3.2 The CCCP must submit the Adjustment Request to HKSCC via email (cscptc@hkex.com.hk) in the prescribed form set out in **Appendix 3: "Adjustment Request Form for Sellable Balance and Release of On-hold Settlement Instructions due to Failure of Stock Delivery from SPSA Client"** by **no later than 7:30pm** together with a copy of the following CCASS reports:

- (i) "Final Clearing Statement" (CCLTN05) highlighting the relevant trades of the Selling SPSA involved in the SPSA Delivery Failure and if any, relevant trades of the Buying SPSA affected by the SPSA Delivery Failure; and

² This could be confusing for the Selling SPSA Client and may give a misleading impression that it has more shares to sell on the next trading day than it actually holds.

³ Clients who have shares held with the CCCP through its CCASS Stock Accounts.

- (ii) “Intra-Day ISI/SI Full List Report” (CSES102) highlighting the relevant matched/unmatched SIs that are not settled on the settlement day.

Please refer to **Appendix 4** for sample of these CCASS reports.

- 3.3 HKSCC will let the CCCP know as soon as possible if it has any queries on the documents submitted.
- 3.4 Once HKSCC receives the Adjustment Request and the supporting documents which confirm that the stated SPSA Delivery Failure has occurred, HKSCC will take the actions described in **Appendix 1** and notify the CCCP as soon as possible and in any event within the same settlement day. Please refer to **Appendix 2** for worked examples.

4. Important Notes

- 4.1 Custodians and Non-EP GCPs should inform their SPSA Clients of the potential application of the adjustment procedures referred to in this circular. Further, the CCCP should notify the relevant Custodian Participant or Non-EP GCP at the same time as or immediately after its submission of an Adjustment Request for its information and for the relevant follow-up actions to be taken.
- 4.2 Adjustments to sellable balances made by HKSCC will only have the effect of adjusting the snapshot image of the CCCP’s and the Relevant SPSA Client’s stock holdings for pre-trade checking purposes. The actual stock holdings of the parties concerned will not be adjusted. Adjustments to sellable balances will only apply to the next trading day.
- 4.3 After an adjustment to sellable balance is made by HKSCC, the CCCP and the Relevant SPSA Client will be able to sell such number of shares in the China Connect Security on the next day up to the adjusted sellable balance.
- 4.4 Where a CCCP has an overdue short stock position in a China Connect Security (whether due to an SPSA Delivery Failure or not), such position will remain outstanding until it is settled. All overdue short stock positions will be subject to buy-ins by HKSCC in accordance with the CCASS Rules whether or not an Adjustment Request is made.
- 4.5 To ensure that HKSCC has sufficient time to process Adjustment Requests and to carry out the actions set out in **Appendix 1**, HKSCC may extend the timing of the final SI Batch-settlement-run. If an extension is necessary, HKSCC will notify CCASS Participants via a CCASS broadcast message.
- 4.6 After the Adjustment Request is processed by HKSCC, the CCCP should follow up with the Selling SPSA Client, the affected Buying SPSA Client (if any) and/or the relevant Custodian Participant or Non-EP GCP to deal with outstanding issues

arising from the SPSA Delivery Failure including the delivery of shares from the Selling SPSA Client and/or the delivery of shares to the affected Buying SPSA Client.

5. Definitions

5.1 “Batch-settlement-run”, “CCASS”, “CCASS Participants”, “China Connect Clearing House”, “China Connect Clearing Participant”, “China Connect Securities”, “Custodian Participant”, “CNS”, “Exchange Participant”, “General Clearing Participant”, “HKSCC”, “SI” and “SPSA” have the meanings as defined in the CCASS Rules and Operational Procedures.

5.2 Unless the context otherwise requires:

“**Adjustment Request**” means a request in the prescribed form referred to in 3.2 of this circular;

“**Buying SPSA**” means an SPSA which has bought shares in the same China Connect Security as a Selling SPSA on the same trading day where the transaction is to be cleared and settled through the same CCCP responsible for clearing and settling transactions for the Selling SPSA, and “**Buying SPSA Client**” shall be construed accordingly;

“**CCCP**” means a China Connect Clearing Participant which has responsibility for clearing and settling transactions in China Connect Securities for a Selling SPSA;

“**Non-EP GCPs**” means General Clearing Participants that are not Exchange Participants;

“**Selling SPSA**” means an SPSA which has sold shares in a China Connect Security and is responsible for an SPSA Delivery Failure; and “**Selling SPSA Client**” shall be construed accordingly;

“**SPSA Client**” or “**Relevant SPSA Client**” means a Selling SPSA Client or a Buying SPSA Client that is affected by an SPSA Delivery Failure, as the case may be;

“**SPSA Delivery Failure**” means the failure of a Selling SPSA to transfer or deliver the correct number of China Connect Security to the CCCP for CNS settlement on a settlement day;

“**SPSA Model**” the Enhanced Pre-trade Checking Model for Shanghai-Hong Kong Stock Connect referred to in HKSCC’s

circular dated 26 March 2015 (Ref:
[CD/CCO/CCASS/067/2015](#)).

Should there be any queries regarding the above, please contact the China Connect Hotline at 2979 7123.

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