
CHAPTER 42

CHINA CONNECT CLEARING HOUSES

4201. Cross-boundary Clearing Links in relation to Exchange Trades

HKSCC and a China Connect Clearing House may enter into a Clearing Link under which China Connect Clearing Services may be provided by HKSCC to Participants pursuant to Chapter 41 in respect of China Connect Securities Trades that are executed by an SEHK Subsidiary on a China Connect Market. HKSCC and a China Connect Clearing House may also enter into a Clearing Link to enable such China Connect Clearing House to provide clearing, settlement, depository, nominee and other services to its participants in respect of Exchange Trades in SEHK Securities that are executed by a Special Participant on the Exchange.

This Chapter 42 sets out the provisions that apply to a China Connect Clearing House which has entered into a Clearing Link with HKSCC relating to Exchange Trades in SEHK Securities.

4202. Services to a China Connect Clearing House in relation to Exchange Trades

HKSCC may provide such services as it may consider appropriate for the purposes of establishing and operating a Clearing Link in relation to Exchange Trades referred to in Rule 4201 to any China Connect Clearing House that is a Clearing Agency Participant in accordance with the provisions of the Rules. Such services may include, without limitation, the following:

- (1) the clearing and settlement of Exchange Trades by HKSCC in its capacity as central counterparty for such China Connect Clearing House in its capacity as Clearing Agency Participant; and
- (2) the provision of nominee, depository and other related services in respect of SEHK Securities by HKSCC to such China Connect Clearing House in its capacity as Clearing Agency Participant.

4203. Qualification requirements for China Connect Clearing Houses to clear Exchange Trades

A clearing house applying to be a China Connect Clearing House that is allowed to participate in CCASS in respect of Exchange Trades in SEHK Securities must satisfy the following criteria:

- (1) be a Clearing Agency Participant authorised by HKSCC to clear and settle Exchange Trades in SEHK Securities in the CNS System;
- (2) be an ATS provider authorised by the Commission under section 95 of the Ordinance;
- (3) be a clearing house duly authorised by all relevant regulators in Mainland China to provide securities clearing and settlement services to its participants;
- (4) be of good financial standing and integrity;

- (5) satisfy any regulatory conditions specified by the Commission under the Ordinance or in relation to the authorisation of the China Connect Clearing House as an ATS provider by the Commission;
- (6) have a valid, binding and effective Clearing Links Agreement with HKSCC; and
- (7) meet all other relevant participation criteria as HKSCC may prescribe from time to time.

4204. Application procedure

Applications made under Rule 4203 must be in writing and in such form as HKSCC may from time to time prescribe. Upon request, an applicant must demonstrate to the satisfaction of HKSCC that it is able to comply with the regulatory conditions that may be imposed on it by the Commission. Approval may be given subject to such terms and conditions as HKSCC may consider appropriate. A clearing house that is approved by HKSCC under this Rule 4204 will (to the extent it is not already so added) be added to the list of China Connect Clearing Houses referred to in Rule 4105(b), and the list will note that such China Connect Clearing House has been approved for the purpose of a Clearing Link in relation to Exchange Trades.

4205. Clearance of Exchange Trades by China Connect Clearing Houses

A China Connect Clearing House which has been approved by HKSCC under Rule 4204 may participate in CCASS as a Clearing Agency Participant and clear and settle Exchange Trades in SEHK Securities that are executed by one or more Special Participants, subject to these Rules.

A China Connect Clearing House may clear and settle Exchange Trades in SEHK Securities in respect of designated Special Participants only. It shall not clear and settle Exchange Trades in non-SEHK Securities or in respect of a participant of the Exchange other than a Special Participant designated by the China Connect Clearing House and with whom it has entered into a Clearing Agreement. The China Connect Clearing House shall ensure that any such Clearing Agreement to which it is a party, and all subsequent agreements to amend the Clearing Agreement do not contain any provision which is inconsistent with the Rules. The China Connect Clearing House shall, at the request of HKSCC, supply it with a certified copy of each executed Clearing Agreement.

A China Connect Clearing House shall not be entitled to decline to settle and clear any Exchange Trades in SEHK Securities that are executed by any of its designated Special Participants.

Clearance of Exchange Trades by a China Connect Clearing House in respect of its designated Special Participants shall be in accordance with the Rules, including Rule 901. A China Connect Clearing House may, subject to HKSCC's approval, have one separate set of Stock Accounts (including a separate Stock Clearing Account, Stock Collateral Control Account and separate Stock Segregated Accounts) in respect of each designated Special Participant. Subject to the Rules, Exchange Trades cleared by a China Connect Clearing House in respect of its designated Special Participants are to be cleared and settled in CCASS under the CNS System and novated in accordance with Rule 3301.

4206. Restrictions applicable to a China Connect Clearing House relating to the clearance of Exchange Trades and other transfers

Notwithstanding any other provision in the Rules to the contrary, the following restrictions

shall apply to a China Connect Clearing House:

- (1) an Exchange Trade may not be cleared under the Isolated Trades System, whether by election of the counterparties to the Exchange Trade or otherwise;
- (2) no transactions arising out of any Settlement Instructions or (for the avoidance of doubt) any Investor Settlement Instructions, Transfer Instructions or Cross-Border Transfer Instructions shall be accepted for settlement and/or clearance by HKSCC, except as mentioned in Rule 4206(3) below or as authorized by HKSCC;
- (3) the China Connect Clearing House and its participants shall not effect any non-trade transfer or settlement of transactions in Eligible Securities outside of the relevant Trading Link, other than (i) any non-trade transfer or settlement of Eligible Securities as a result of succession, divorce, loss of legal person status, donation to a charitable foundation or approval by any relevant state authority in Mainland China (ii) any matter relating to the creation or enforcement of pledge, (iii) any assistance in judicial enforcement or (iv) any other transfer as may be permitted by the China Securities Regulatory Commission; and
- (4) no transactions arising out of any instructions to transfer between Stock Accounts or CCMS Collateral Accounts allocated to the China Connect Clearing House in respect of different Special Participants shall be accepted for settlement and/or clearance by HKSCC (including for the avoidance of doubt, any transfers otherwise permitted under Rule 4206(3) but for this Rule) unless authorised by HKSCC.

4207. Nominee and depository services provided to China Connect Clearing Houses in respect of SEHK Securities

HKSCC shall provide nominee and depository and other services in respect of SEHK Securities to any China Connect Clearing House which has been approved by HKSCC under Rule 4204 on the same basis as for other Participants as set out in these Rules, provided that:

- (1) no deposit or withdrawal of Eligible Securities from CCASS shall be permitted;
- (2) no SSA with Statement may be opened by such China Connect Clearing House;
- (3) the China Connect Clearing House shall not be entitled to apply for Eligible Securities by giving Electronic Application Instructions for New Issue Shares to HKSCC;
- (4) HKSCC will not be obliged to provide or arrange to provide copies of corporate communications for corporate communications events to participants of the China Connect Clearing House or any of their clients;
- (5) where the entitlements or securities being granted or offered by an issuer under any corporate action do not constitute Eligible Securities, HKSCC may, at the cost of the China Connect Clearing House, make such arrangement with or for the China Connect Clearing House regarding the disposal or realization of such securities as HKSCC may consider appropriate; and
- (6) where the China Connect Clearing House clears in respect of more than one Special Participant, nominee, depository and other services shall be provided separately in respect of SEHK Securities that are held by the China Connect Clearing House in respect of each of its designated Special Participants.

4208. Continuing obligations of China Connect Clearing House

A China Connect Clearing House which has been approved by HKSCC under Rule 4204 shall at all times:

- (1) comply with the qualification requirements set out in Rule 4203;
- (2) comply with and be bound by these Rules as in force from time to time and all procedures, requirements, regulations, conditions and guidance published by HKSCC pursuant to these Rules, in each case insofar as they relate to its participation in CCASS in respect of SEHK Securities, subject to the terms of the Clearing Links Agreement between itself and HKSCC;
- (3) provide, within such period as HKSCC may specify, such information in its possession as HKSCC may request about a Special Participant with whom it has entered into a Clearing Agreement for the clearing and settlement of Exchange Trades in SEHK Securities, including but not limited to information relating to a Special Participant's financial position, its underlying members or clients, and any other information or documents as HKSCC may from time to time demand; and
- (4) provide such amount of SEHK Securities as shall represent its short CNS stock positions in Exchange Trades executed by each of its designated Special Participants in such SEHK Securities to HKSCC as Collateral Securities and ensure that it is authorized to provide such Collateral Securities to HKSCC.

4209. Insulation against risk spillover

A China Connect Clearing House which has been approved by HKSCC under Rule 4204 is exempt from contributing to the Guarantee Fund. Amounts standing to the credit of the Guarantee Fund will therefore not be applied by HKSCC towards meeting any obligations arising out of Market Contracts between HKSCC and a Clearing Agency Participant which is a China Connect Clearing House.

4210. Disclosure of information

HKSCC shall have the authority to disclose the details of any information concerning a China Connect Clearing House at any time if so required pursuant to any local or international regulatory standards applicable to HKSCC in respect of any Clearing Link entered into between HKSCC and the China Connect Clearing House.