

Rules of the Exchange

CHAPTER 14A

CHINA CONNECT SERVICE - SHANGHAI

Interpretation

14A02. (2) In this Chapter, unless the context otherwise requires:

“Special Segregated Account” or “SPSA” has the same meaning as defined in the CCASS Rules;

“SPSA order” means a China Connect sell order for the sale of China Connect Securities held in a Special Segregated Account;

SPSA order

14A06. (2A) (a) A China Connect Exchange Participant who receives instructions from a client to sell China Connect Securities held in a Special Segregated Account shall, before inputting an SPSA order into the CSC, ensure that:

(i) the Special Segregated Account has been designated to the client and an investor identification number has been assigned by CCASS to the Special Segregated Account in accordance with the CCASS Rules;

(ii) it has been authorized to execute on behalf of the client the sale of China Connect Securities in the specified Special Segregated Account; and

(iii) it has received confirmation from the client or has advised the client to ensure that there are sufficient China Connect Securities in the Special Segregated Account to settle the delivery obligations on the settlement day and, if the SPSA order is executed, the relevant China Connect Securities will be delivered to it or its CCASS GCP, as the case may be, for settlement.

(b) Subject to Rule 14A06(2A)(a), a China Connect Exchange Participant shall, when inputting an SPSA order into the CSC, indicate in such manner as the Exchange may from time to time determine the relevant investor identification number and other details required by the Exchange. By inputting an SPSA order into the CSC, the China Connect Exchange Participant agrees and represents to the Exchange that it has complied with the requirements regarding SPSA orders set out in this Rule 14A06(2A).

(c) In this Rule 14A06(2A), references to “China Connect Exchange Participant” do not include the Exchange Participants referred to in Rule 590(1) (Exchange Participants trading through China Connect Exchange Participants). This Rule is not applicable to such Exchange Participants.

- (6) In respect of a China Connect Exchange Participant ~~which-who~~ is a China Connect CCASS Clearing Participant, pre-trade checking of its China Connect sell orders will be conducted on the stock holding position of the China Connect Exchange Participant's designated CCASS stock account(s) except where the China Connect sell order is an SPSA order, in which case Rule 14A06(7A) shall apply.
- (7) In respect of a China Connect Exchange Participant ~~which~~ is not a China Connect CCASS Clearing Participant, pre-trade checking of its China Connect sell orders will be conducted on the stock holding position of the CCASS stock account(s) designated to the China Connect Exchange Participant by the CCASS GCP who has been authorized to settle China Connect Securities Trades for the China Connect Exchange Participant under the clearing agreement referred to in Rule 1406(3)(c) except where the China Connect sell order is an SPSA order, in which case Rule 14A06(7A) shall apply.
- (7A) In respect of an SPSA order input by a China Connect Exchange Participant, pre-trade checking will be conducted on the stock holding position in the Special Segregated Account which has been assigned with the investor identification number indicated by the China Connect Exchange Participant when it inputs the SPSA order.
- (8) (a) The total number of shares which can be the subject of China Connect sell orders (other than SPSA orders) in respect of each China Connect Security on a CSC trading day shall not exceed the total stock holding position in respect of the same China Connect Security as shown in the relevant designated CCASS stock account referred to in Rule 14A06(6) or (7) immediately before the commencement of operation of the China Connect Service on that CSC trading day.
- (b) The total number of shares which can be the subject of SPSA orders in respect of China Connect Securities in a Special Segregated Account on a CSC trading day shall not exceed the total stock holding position in respect of the same China Connect Security as shown in the relevant Special Segregated Account referred to in Rule 14A06(7A) immediately before the commencement of operation of the China Connect Service on that CSC trading day.
- (c) In respect of overdue short stock positions in China Connect Securities of a China Connect CCASS Clearing Participant under the CNS System which are outstanding for settlement on the due date where such China Connect CCASS Clearing Participant is a China Connect Exchange Participant, HKSCC will request the Exchange to deduct the overdue short stock position quantities from the sellable balances of such China Connect CCASS Clearing Participant on the next CSC trading day, and if such China Connect CCASS Clearing Participant is a CCASS GCP of any China Connect Exchange Participant(s), from the sellable balances of each of such China Connect Exchange Participant(s) on the next CSC trading day. If such overdue short stock positions are or are alleged by such China Connect CCASS Clearing Participant to be the result of a failure to deliver to it the China Connect Securities from a Special Segregated Account and HKSCC is satisfied that is the case, as referred to in the CCASS Rules, HKSCC will request the Exchange to deduct the overdue short stock position quantities from the sellable balances of the relevant Special Segregated Account instead.

- (d) Any China Connect sell order input by a China Connect Exchange Participant which may, upon execution, exceed the relevant total stock holding positions mentioned in Rule 14A06(8)(a) or (b) above will be rejected.
- (9) To enable the Exchange and the SEHK Subsidiary to apply the pre-trade checking procedures, HKSCC will, in accordance with the CCASS Rules, reproduce and replicate the stock holding records of the CCASS accounts (both client and house account positions) referred to in Rules 14A06(6) and (7) and the Special Segregated Accounts referred to in 14A06(7A), and transmit the information to the CSC before the commencement of each CSC trading day on each CSC trading day. Each China Connect Exchange Participant agrees to and authorizes the reproduction, replication and transmission of ~~its~~the stock holding records for the purpose of enabling the Exchange and the SEHK Subsidiary to carry out the pre-trade checking procedures. In respect of Special Segregated Accounts, each China Connect Exchange Participant who is authorized to execute on behalf of its clients sale of China Connect Securities in the Special Segregated Accounts acknowledges and confirms that its clients have authorized the reproduction, replication and transmission of the stock holding records of the Special Segregated Accounts for the purpose of enabling the Exchange and the SEHK Subsidiary to carry out the pre-trade checking procedures.
- (10) Consistent with Rule 1421(2), China Connect Exchange Participants shall put in place appropriate arrangements to ensure (a) that there are sufficient China Connect Securities in their client and house accounts within CCASS before placing a China Connect sell order other than an SPSA order; and (b) compliance with Rule 14A06(2A) before placing an SPSA order. Upon matching of a China Connect sell order on the SSE Market System, the relevant number of China Connect Securities recorded in the relevant CCASS account referred to in (a) above or the relevant Special Segregated Account, as the case may be, will be used for stock settlement in accordance with the CCASS Rules.

Provision of undertaking/confirmation

- 14A16. (11) Before a China Connect Exchange Participant borrows any China Connect Securities from another Exchange Participant or a Qualified Institution (as Stock Lender) under a Stock Borrowing and Lending Arrangement, ~~the~~ the China Connect Exchange Participant shall provide the Exchange with a confirmation in the prescribed form confirming that the Stock Lender has provided it with an undertaking in respect of the following:

Stock Borrowing for Short Selling

- 14A17. (13) Before inputting a Short Selling order into the CSC, a China Connect Exchange Participant shall:
- (a) where acting for the account of a client:
- (i) ensure that its client has borrowed sufficient Short Selling Securities to settle the Short Selling order if executed;
- (ii) to the extent that it has borrowed Short Selling Securities from another Exchange Participant or a Qualified Institution to on-lend to the client for purposes of Short Selling, have complied with the requirement in Rule 14A16(11) to provide the Exchange with a specified confirmation; ~~and~~

- (iii) to the extent that its client has borrowed Short Selling Securities from a Stock Lender other than the China Connect Exchange Participant, have required the client to inform it (if and after the Short Selling order is executed on the SSE Market) of the client's return of the Short Selling Securities which are the subject of the Short Selling order to the Stock Lender (including the relevant date or dates of return and the number of shares being returned); and
- (iv) to the extent that the Short Selling order to be input is an SPSA order, have required its client to confirm that the borrowed Short Selling Securities are held in the relevant Special Segregated Account and the order meets the pre-trade checking requirements set out in Rule 14A06(7A), and if the order is executed on the SSE Market, the borrowed securities will be delivered to it or its CCASS GCP for stock settlement; and
- (b) where acting for its own account, have complied with the requirement in Rule 14A16(11) to provide the Exchange with a specified confirmation and have borrowed sufficient Short Selling Securities to settle the Short Selling order if executed.

CHAPTER 15

SPECIAL PARTICIPANTS

Securities Eligible for the Order-routing Service of Special Participants

1506. (1) Notwithstanding Rule 1505(1), the Exchange may (after consulting the relevant China Connect Market Operator) accept or designate any Eligible Security (including any Eligible Security not within the scope of Rule 1505(1)) as only eligible for selling and not for buying through Special Participants (such securities are referred to as "Special SEHK Securities" in these Rules). Different Special SEHK Securities may be accepted or designated for selling only by different Special Participants. ~~–~~
- (2) Where securities are accepted or designated by the Exchange under Rule 1506(1), Special Participants shall not input any order to buy Special SEHK Securities or accept instructions from any China Connect Market Participants or any other persons to buy Special SEHK Securities on the System. Unless the context otherwise requires, any reference in these Rules to "SEHK Securities" includes "Special SEHK Securities".
- (3) ~~The Exchange will establish and maintain a list of Special SEHK Securities referred to in Rule 1506(1) in respect of each Special Participant and will publish it on the HKEx website or by such other means as it considers appropriate. [Repealed]~~
- (4) For the avoidance of doubt, China Connect Securities will not be accepted or designated as included in the list of Special SEHK Securities.

Suspension of Access to the System or Special Participants

1538. (3) The circumstances under which the powers under Rules 1538(1) and (2) may be exercised include, without limitation, the following:
- (g) where an error, mistake or delay has occurred in relation to the compilation or publication of the List of SEHK Securities, ~~the List of Special SEHK Securities~~ or any other lists concerning SEHK Securities, or the acceptance or designation of Special SEHK Securities which, in the judgement of the Exchange, has affected or may affect the -normal or continued operation of the relevant Trading Link.