
Section 9

Overview of Clearing and Settlement in CCASS

9.1 TRANSACTIONS ACCEPTED FOR SETTLEMENT IN CCASS

In brief, subject to the Rules, transactions in Eligible Securities accepted for settlement in CCASS will be (i) Exchange Trades, (ii) SI Transactions, (iii) Clearing Agency Transactions, (iv) ISI Transactions, (v) Compulsory Stock Borrowing Transactions and (vi) China Connect Securities Trades. Transfer Instructions to effect transfers of Exchange Fund Notes, Government Bonds or Specified Instruments between a Participant and a Recognized Dealer and Transfer Instructions to effect transfers of CMU Instruments between a Participant and a CMU Member are also accepted for settlement between CCASS and CMU. Cross-Border Transfer Instructions are accepted for settlement and/or clearance by HKSCC on a Free of Payment basis for the time being.

Arrangements have been made by HKSCC for details of the Exchange Trades, China Connect Securities Trades and Clearing Agency Transactions to be reported to HKSCC on a daily basis. Participants will not, therefore, generally have to input into CCASS details of Exchange Trades, China Connect Securities Trades or Clearing Agency Transactions.

SI Transactions are transactions in Eligible Securities to be settled in CCASS between Participants other than Investor Participants, other than Exchange Trades, China Connect Securities Trades, Clearing Agency Transactions and ISI Transactions. Details of SI Transactions are input into CCASS by "Settlement Instructions" or "SIs" given by the two Participants other than Investor Participants concerned to HKSCC either using their CCASS Terminals or via Synapse.

ISI Transactions (see Section 12.3) are transactions in Eligible Securities other than China Connect Securities to be settled in CCASS involving Investor Participants. Details of ISI Transactions are input into CCASS by "Investor Settlement Instructions" or "ISIs" given by a Participant to HKSCC and which are, if required, affirmed by the relevant Investor Participant via the CCASS Phone System or the CCASS Internet System.

Transactions in Eligible Securities can be settled in CCASS, either on a Free of Payment, or FOP, basis, or on a Delivery versus Payment, or DVP, basis or on a Realtime Delivery versus Payment, or RDP, basis.

Compulsory Stock Borrowing Transactions are stock borrowing transactions relating to Eligible Securities which are entered into in accordance with the Compulsory Stock Lending and Borrowing Regulations between HKSCC and a Participant other than an Investor Participant.

9.2 EXCHANGE TRADES

Under the Exchange Rules, all Exchange Trades (excluding those not recognized by the Exchange) will have to be settled in CCASS.

Where at least one of the parties to an Exchange Trade is an NCP, the GCP of that NCP designated for clearing Exchange Trades of such NCP shall become a party to the Exchange Trade as principal, in substitution for and with exactly the same rights and obligations under the Exchange Trade, as that NCP.

In relation to TSF Exchange Trades of a TSF Exchange Participant, the TSF Clearing Participant of that TSF Exchange Participant designated for clearing TSF Exchange Trades of such TSF Exchange Participant shall become a party to the relevant TSF Exchange Trades and the corresponding TSF FX Transaction as principal in substitution for, and with exactly the same rights and obligations under the relevant TSF Exchange Trade and the corresponding TSF FX Transaction as, that TSF Exchange Participant at the same time as the relevant TSF Exchange Trade is effected on the Exchange Trading System.

Exchange Trades will be settled in CCASS either under:

- (i) the CNS System (see Section 10) pursuant to which HKSCC becomes substituted as the settlement counterparty and settlement will be effected between Clearing Participants and HKSCC on a net basis; or
- (ii) the Isolated Trades System (see Section 11) where settlement will be effected directly between the Clearing Participants concerned.

Settlement under the CNS System will always be effected on a DVP basis.

Settlement under the Isolated Trades System may be effected on a DVP or FOP basis, as selected by delivering Clearing Participants.

9.2A CHINA CONNECT SECURITIES TRADES

Under the Exchange Rules, all China Connect Securities Trades (excluding those not recognized by the Exchange) will have to be settled in CCASS.

Where at least one of the parties for whom a China Connect Securities Trade is executed is an NCCCP, the GCP of that NCCCP designated for clearing China Connect Securities Trades of such NCCCP shall become a party to the China Connect Securities Trade as principal, in substitution for and with exactly the same rights and obligations under the China Connect Securities Trade, as that NCCCP.

China Connect Securities Trades will be settled by China Connect Clearing Participants in CCASS under the CNS System (see Section 10A) with HKSCC as the settlement counterparty pursuant to the creation through Novation of a Market Contract between HKSCC and the relevant China Connect Clearing Participant as described in Rule 4106. Settlement will be effected between China Connect Clearing Participants and HKSCC in CCASS on a net basis.

Settlement of China Connect Securities Trades under the CNS System will always be effected on a DVP basis via the issuance of CPIs.

9.3 SI TRANSACTIONS

This Section 9.3 does not apply to Investor Participants.

SIs input into CCASS and, if required, authorised by Participants will be subject to matching before SI Transactions are accepted for settlement in CCASS.

Settlement of SI Transactions in CCASS will be effected directly between the Participants

concerned and can be effected on a RDP, DVP or FOP basis, as stipulated by the Participants concerned in their SIs.

9.4 ISI TRANSACTIONS

ISIs (without affirmation) input into CCASS and, if required, authorised, will be accepted for settlement in CCASS. ISIs (with affirmation) input into CCASS and, if required, authorised by Participants will be subject to affirmation by the relevant Investor Participant before ISI Transactions are accepted for settlement in CCASS.

Settlement of ISI Transactions in CCASS will be effected directly between the Participants concerned and can be on a RDP, DVP or FOP basis, as stipulated by the Participants concerned in its ISI.

9.5 CLEARING AGENCY TRANSACTIONS

HKSCC will accept Clearing Agency Transactions reported by the Clearing Agency Participants for settlement in CCASS. Where a party to a Clearing Agency Transaction is a NCP, the GCP of that NCP designated for clearing Clearing Agency Transactions of that NCP shall become a party to the Clearing Agency Transaction as principal, in substitution for and with exactly the same rights and obligations under the Clearing Agency Transaction, as that NCP.

Clearing Agency Transactions will be settled in CCASS either under:

- (i) the CNS System (see Section 10) pursuant to which HKSCC becomes substituted as the settlement counterparty and settlement will be effected between the Participants which are parties to the Clearing Agency Transaction and HKSCC on a net basis; or
- (ii) the Isolated Trades System (see Section 11) where settlement will be effected directly between the Participants which are parties to the Clearing Agency Transaction.

Settlement under the CNS System will always be effected on a DVP basis.

Settlement under the Isolated Trades System may be effected on a DVP or FOP basis, as elected by delivering Participants.

9.6 TRANSFER INSTRUCTIONS

A Participant must complete and submit a Transfer Instruction Form to HKSCC before a stipulated deadline on a Business Day to effect a transfer of Exchange Fund Notes, Government Bonds, Specified Instruments or CMU Instruments between CCASS and CMU. Upon receipt of a duly completed Transfer Instruction Form, HKSCC will forward the instructions to CMU subject to and in accordance with Section 12.4. The transfer between CCASS and CMU can be effected on a free of payment basis or a delivery versus payment basis in CMU, as stipulated in the Transfer Instruction Form submitted by the Participant.

HKSCC will update the Participant's Stock Account in CCASS by reference to the settlement results as advised by the CMU. Where applicable, HKSCC will also credit the Participant's Money Ledger in CCASS by reference to the settlement results.

Money settlement of Transfer Instructions will be effected on a FOP basis only.

9.6A CROSS-BORDER TRANSFER INSTRUCTIONS

- (i) Any Participant that wishes Foreign Securities to be transferred from an account of a person (other than HKSCC or the Nominee) with an Appointed Depositary to HKSCC's account or the Nominee's account with that Appointed Depositary (or vice versa) must complete and submit to HKSCC a Cross-Border Transfer Instruction Form in respect of Foreign Securities in accordance with Section 12.5 and in accordance with the rules and procedures of the Appointed Depositary. Upon receipt of a duly completed Cross-Border Transfer Instruction Form in respect of Foreign Securities, HKSCC will forward the instruction to the Appointed Depositary or its nominee in accordance with Section 12.5.

HKSCC will update the Participant's Stock Account by reference to the settlement results as are advised by the Appointed Depositary or its nominee.

- (ii) Any Participant that wishes Uncertificated Eligible Securities to be transferred from an Overseas Account to its Stock Account with CCASS (or vice versa) must complete and submit to HKSCC a Cross-Border Transfer Instruction Form in respect of Uncertificated Eligible Securities in accordance with Section 12.5 and in accordance with the rules and procedures to which the Overseas Account are subject. Upon receipt of a duly completed Cross-Border Transfer Instruction Form in respect of Uncertificated Eligible Securities, HKSCC will forward the instruction to the relevant Overseas Issuer (or its agents or representatives) or the entity with which the relevant Overseas Account is maintained in accordance with Section 12.5.

HKSCC will update the Participant's Stock Account by reference to the settlement results as are advised by the Overseas Issuer (or its agents or representatives) or the entity with which the relevant Overseas Account is maintained.

9.7 SECURITIES SETTLEMENT

Settlement of transactions in Eligible Securities in CCASS involves book-entry movements of Eligible Securities among the Stock Accounts of the Participants concerned and will be effected either :

- (i) by Delivery Instructions input by delivering Participants other than Investor Participants which will be processed immediately by HKSCC; or
- (ii) by the multiple Batch-settlement-runs effected daily by HKSCC at stated times; or
- (iii) by way of on-line immediate delivery upon input (and authorisation, if required) of an ISI (without affirmation) by a Participant or upon affirmation of an ISI (with affirmation) by the Investor Participant concerned, provided that there are sufficient Eligible Securities in the Stock Account of the delivering Participant and, in the case of an ISI Transaction or SI Transaction to be settled in CCASS on a RDP basis, upon receipt of confirmation of payment of the ISI Transaction or SI Transaction from the

Clearing House of HKAB for the relevant Eligible Currency.

Exchange Trades and Clearing Agency Transactions, including those to be settled under the Isolated Trades System and ISI and SI Transactions specifically excluded by Participants from Batch-settlement-runs will require the input of DIs by the delivering Participants other than Investor Participants.

9.8 MONEY SETTLEMENT

Each Participant must establish a General Purpose Designated Bank Account denominated in Hong Kong dollars with a Designated Bank for settlement of money obligations in respect of all its transactions in Eligible Securities in CCASS. Each Participant which wishes to settle money obligations in CCASS in an Eligible Currency other than Hong Kong dollars must maintain a Designated Bank Account in its own name and denominated in that Eligible Currency for the settlement of money obligations in CCASS. Each Participant must also authorise HKSCC to cause debits and credits to be made to its Designated Bank Account (or, if it has more than one, to each of them) for CCASS money settlement purposes.

Each China Connect Clearing Participant must maintain with a Designated Bank a Designated Bank Account in its own name and denominated in RMB for the settlement of money obligations in respect of China Connect Securities Trades to be settled via CPIs and DDIs.

Each Participant other than an Investor Participant may, at its own discretion and with the approval of HKSCC, maintain in its own name two additional Designated Bank Accounts in Hong Kong dollars:-

- (i) a Designated Bank Account for the settlement of money obligations in respect of ISI Transactions settled on a DVP or RDP basis; and/or
- (ii) a Designated Bank Account for the settlement of money obligations in respect of CCASS transactions (other than ISI Transactions) to be settled via CPIs.

In general, for transactions in Eligible Securities to be settled on a DVP basis in CCASS, payment will follow delivery of Eligible Securities in CCASS; whereas for those transactions to be settled on an RDP basis in CCASS, Eligible Securities will be delivered upon receipt of confirmation of payments of such transactions from the Clearing House of HKAB.

For Exchange Trades and Clearing Agency Transactions to be settled under the CNS System, settlement between Participants and HKSCC will always be on a DVP basis. Following delivery of Eligible Securities in CCASS, HKSCC will issue IPIs, DDIs and DCIs to the Designated Banks of the Participants concerned to effect payment for value on the same day.

For China Connect Securities Trades to be settled under the CNS System, settlement between China Connect Clearing Participants and HKSCC shall be on a DVP basis only. On the Mainland Business Day following execution of China Connect Securities Trades by

a China Connect Clearing Participant or its NCCCPs or on the same day as execution if it is an H-1 day, the China Connect Clearing Participant's money positions which correspond to its CNS stock positions in such China Connect Securities will be calculated separately for each China Connect Market and its money positions for all China Connect Markets will be set-off against each other to arrive at a total net money position in the Money Ledger of the China Connect Clearing Participant. HKSCC will issue CPIs to the Designated Bank of the paying China Connect Clearing Participant or HKSCC's banker to effect payment for value on the same day in respect of such net money position.

For Exchange Trades and Clearing Agency Transactions to be settled under the Isolated Trades System and for ISI and SI Transactions, if settlement in CCASS is on a DVP basis, HKSCC will, following delivery of Eligible Securities in CCASS, issue EPIs to the Designated Banks of Participants concerned to effect payment for value on the same day.

For those transactions in which relevant Participants opt for settlement of those transactions in CCASS on a RDP basis, subject to the relevant Eligible Securities being put on-hold in the delivering Participant's Stock Account in CCASS, HKSCC will issue CPIs to the Designated Banks of the paying Participants to request for payment. Delivery of Eligible Securities will be effected upon receipt of confirmation of payments of such transactions from the Clearing House of HKAB to HKSCC within the predefined time schedule, i.e. on each Settlement Day, normally from 9:30 a.m. to 3:30 p.m. for Eligible Securities other than China Connect Securities, from 9:30 a.m. to 6:00 p.m. for China Connect Securities the payment for which is in an Eligible Currency other than RMB and from 9:30 a.m. to 7:45 p.m. for China Connect Securities the payment for which is in RMB.

For Transfer Instructions which are to be settled between CCASS and CMU on a delivery versus payment basis in CMU, with payment to be made to HKSCC, HKSCC will, following receipt of the settlement confirmation from CMU and the relevant amount of payment, credit the Participants' Money Ledgers with the relevant amount of payment on the same day.