

香港中央結算有限公司
(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

Subject: Preparation for Rebalancing of China A shares in the MSCI Indices and FTSE Indices and Further Weight Increase of China A shares in the FTSE Indices

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Rebalancing of China A shares in the MSCI Indices and FTSE Indices and further weight increase of China A shares in the FTSE Indices will occur starting from February 2020 tentatively. Please refer to [MSCI Inc.](#) and [FTSE Russell](#) websites for the exact dates and details.

To prepare for high volume of both buy and sell trading in China A shares via Stock Connect over the above periods, China Connect Clearing Participants (“CCCPs”) and Custodians (together “Participants”) are recommended to take note of the following clearing and settlement matters and make appropriate preparation where necessary.

1. Operational and system readiness of CCCPs and Custodians

During the weight increase periods of China A shares in the above Indices in 2019, there have been isolated cases of system hiccups and funding issues that resulted in failures and near misses in stock and money settlement. Therefore, Participants are strongly reminded to ensure their operational and system robustness especially during such index rebalancing/weight increase periods. Participants are recommended to review their system and operations.

In terms of operational review, Participants should pay particular attention to their client facilitation business operations as it is envisaged that sell volume will increase in the coming index rebalancing/weight increase periods as compared to the past weight-increase-only periods. On the other hand, participants should ensure their funding arrangement is robust enough to fulfil large cash prepayment need due to high buy volume. As in the past, Participants should prepare for the timely setting up of Special Segregated Accounts (“SPSAs”) for their clients. Participants should educate their clients, in particular, the settlement deadlines of various obligations with HKSCC under Stock Connect and make sure such deadlines are observed as detailed in point 2 below.

In addition, high volume trading in Stock Connect may also have stress impact on Participants’ internal system and operational capacity. Participants are strongly recommended to review their internal systems to ensure they have sufficient capacity for handling the increased trading volume. Participants should also review if there is a need to allocate extra resources and set up special task forces (e.g. war room) on high volume days. Business continuity plan should also be in place for tackling any technical or operational contingencies on a timely manner.

2. To observe the clearing and settlement deadlines of Stock Connect Trades

Reference is made to the HKSCC circular (Ref: [CD/CDCRM/034/2020](#)) issued on 07 Feb 2020 regarding the various deadlines of payment obligations that CCCPs are required to fulfill from time to time. HKSCC would like to remind Participants the importance of having proper risk management and robust funding arrangements in place to adequately monitor their exposure and fulfill their HKSCC payment obligations relating to settlement and collateral requirements on time to ensure the smooth operation. CCCPs must adhere to the settlement timelines stipulated by HKSCC. Failure to do so constitutes an **event of default** under Rule 3701 of the General Rules of CCASS, the consequence of which includes default actions and/or

disciplinary actions against the participant concerned pursuant to Rules 3702 and/or 2003 of the General Rules of CCASS which may lead to trading suspension, imposition of penalties and/or additional risk management measures. Participants are strongly advised to review their existing operational and monitoring arrangements and introduce enhancement measures where appropriate.

Please also note that the final Batch Settlement Run for CNS settlement of Stock Connect Securities is 7:00pm. Overdue short positions will be subject to buy-in on behalf of a short CCCP on T+1 unless HKSCC grants an exemption from a Buy-in if such CCCP is able to provide HKSCC with satisfactory evidence under a ground for exemption as set out in [Sections 10A.6.2A and 10A.6.2B of CCASS Operational Procedures](#).

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