

Terminal Operations

FUNCTION NAME: SPSA DELIVERY FAILURE MAINTENANCE

WHEN TO USE:

- To facilitate institutional investors whose China Connect Securities are maintained with Custodians or Non-EP GCPs to sell their China Connect Securities without having to pre-deliver the China Connect Securities from their custodian to their executing brokers, an Enhanced Pre-trade Checking Model was introduced on 30 March 2015. 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. 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;
 - (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, 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 clients 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.

For the above reasons, where an SPSA Delivery Failure has occurred, the CCCP is required to request HKSCC via SPSA Delivery Failure Maintenance function 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 may also request HKSCC to release its on-hold SIs. Such requests can be submitted via the SPSA Delivery Failure Maintenance function.

AVAILABLE MAINTENANCE FUNCTIONS:

- A. Add Sellable Balance Adjustment Request
To add a sellable balance adjustment request.
- B. Change Sellable Balance Adjustment Request
To change the details of a pending or authorised sellable balance adjustment request.
- C. Delete Sellable Balance Adjustment Request
To delete a pending sellable balance adjustment request.

Section 8.1.14

SPSA Delivery Failure Maintenance

- D. Authorise Sellable Balance Adjustment Request
To authorise a pending sellable balance adjustment request.
- E. Cancel Sellable Balance Adjustment Request
To cancel an authorised sellable balance adjustment request.
- F. Enquire Sellable Balance Adjustment Request
To enquire the details of all sellable balance adjustment requests.

AVAILABLE FUNCTION TIME:

- Add / Change / Delete / Authorise / Cancel Sellable Balance Adjustment Request functions will be available from 7:00 p.m. to 7:45 p.m.
- Enquire Sellable Balance Adjustment Request function will be available from 7:15 a.m. to 9:00 p.m.

FUNCTIONAL DESCRIPTIONS:

- China Connect Clearing Participants (CCCP) can submit Sellable Balance Adjustment Request via “SPSA Delivery Failure Maintenance” function.
- The SPSA Delivery Failure Maintenance functions will be opened at around 7:00 p.m. after the final CNS Batch Settlement Run and ended at 7:45 p.m. from Monday to Friday except for Hong Kong and A-share markets holiday, and non-trading settlement day of A-share markets. Broadcast message “SPSA DELIVERY FAILURE MAINTENANCE IS AVAILABLE” will be shown once final CNS Batch Settlement Run has completed.
- CCCP must enter unique stock code per request to adjust the sellable balance of SPSA(s) and the failed delivery.
- For the Add Sellable Balance Adjustment Request function, the maker is allowed to declare ‘YES’ if the overdue short is solely caused by an SPSA delivery failure otherwise ‘NO’ should be chosen. It is default as ‘NO’ by system for new adjustment requests.
- When there is an overdue short CNS stock position, the sellable balance of the CCCP will be reduced by the corresponding short position quantity. To re-claim the reduced quantity that due to the reported SPSA Failure Delivery, CCCP should input the receiving quantity to **Stock Clearing Account “01”**, which is defaulted with the outstanding short quantity by the system when stock code is inputted.
- Maker-checker mechanism is applicable to SPSA Delivery Failure Maintenance. After a Sellable Balance Adjustment Request is being input by maker, the Sellable Balance Adjustment Request will be in ‘Pending’ status and the checker should authorize the Request via the Authorise Sellable Balance Adjustment Request function.
- Maker can change the detail of a ‘Pending’ or ‘Authorised’ sellable balance adjustment request. The changed sellable balance adjustment request will keep in ‘Pending’ status. If the change is

on an 'Authorised' record, the record should be authorised before it can be effected, otherwise, the original authorised record will be used for the sellable balance adjustment.

- Transaction limit checking is NOT applied to the Add/Change/Delete/Cancel/Authorise of Sellable Balance Adjustment Request Functions.
- Any adjustment made shall only have the effect of adjusting the sellable balance for pre-trade checking and will only apply to the following Trading day. The adjusted sellable balance record will be purged from CCASS by HKSCC after snapshot taking of total sellable balance of China Connect Securities of CCCPs in the morning of T+1 except Non-trading Settlement day (e.g. 24 Dec) of China Connect Market.

Examples of Adjustment Request:

Below are examples to illustrate different adjustment request cases.

Assumptions:

- (i) CCCP A has 3 clients: SPSA1, SPSA2 and Client B.
- (ii) Client B maintains holdings in China Connect Security X through CCCP A.
- (ii) In all the examples below, SPSA1 instructs CCCP A to sell 1000 shares in China Connect Security X but fails to deliver the shares to CCCP A.

	Circumstance	Details	Adjustments Request
A1	On T: (a) CCCP A has an overdue short stock position in a China Connect Security; and (b) the overdue short stock position is solely caused by an SPSA Delivery Failure of one or more Selling SPSA.	CCCP A sells 1000 for SPSA1 Net stock positions of CCCP A: <u>-1000 (for SPSA1)</u> CNS -1000 (overdue short 1000)	-release all on-hold delivering SIs of the stock on T -adjust sellable balance on T : SPSA 1(-1000), CCCP A(+1000)
A2	Same as above.	-CCCP A sells 1000 for SPSA1 -CCCP A buys 400 for SPSA2 Net stock positions of CCCP A: <u>-1000 (for SPSA1)</u> <u>+400 (for SPSA2)</u> CNS -600 (overdue short 600)	-release all on-hold delivering SIs of the stock on T -adjust sellable balance on T: SPSA1(-1000), CCCP A(+600)(#), SPSA2(+400) (#) As the overdue short position of 600 due to an SPSA Delivery Failure would cause the total sellable balance of other clients (if any) under CCCP A to be 600 lower than their total actual holding, an adjustment quantity of 600 is added to CCCP A's sellable balance.
B1	On T: (a) CCCP A has an	-CCCP A sells 1000 for SPSA1 -CCCP A sells 500 for	-adjust sellable balance on T: SPSA1(-1000), CCCP A(+1000 in Stock Clearing Account "01")

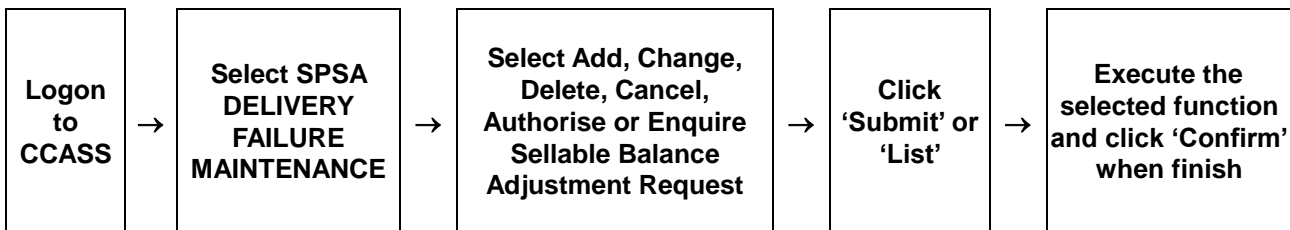
Section 8.1.14

SPSA Delivery Failure Maintenance

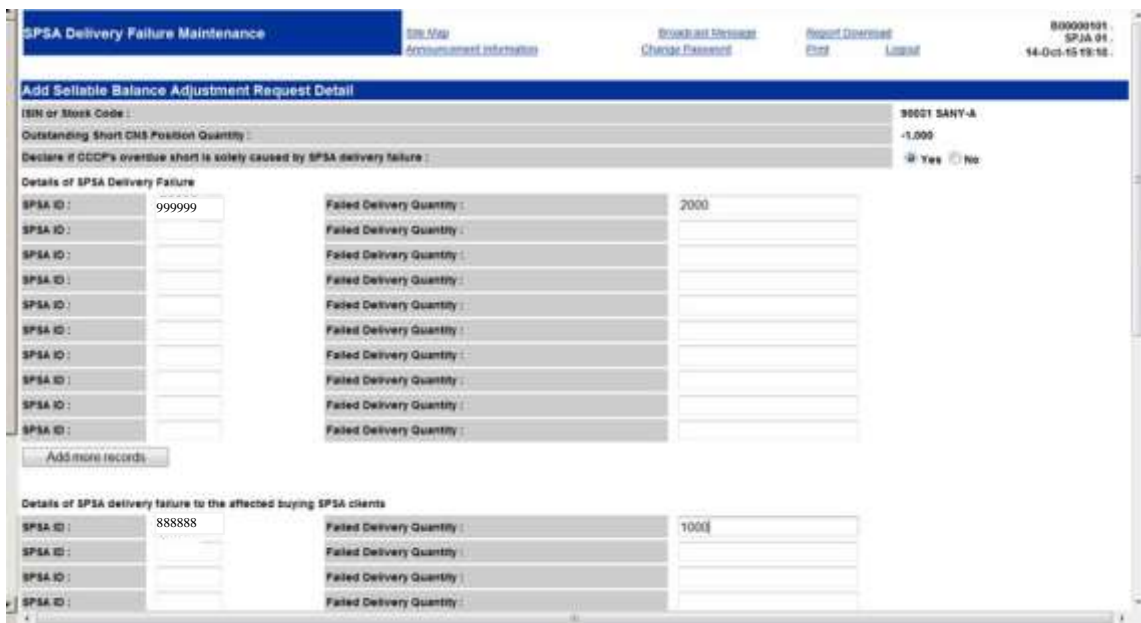
	Circumstance	Details	Adjustments Request
	<p>overdue short stock position in a China Connect Security; and</p> <p>(b) the overdue short stock position is in part caused by an SPSA Delivery Failure of one or more selling SPSA and also in part caused by CCCP's failure to transfer sufficient shares to its Stock Clearing Account for CNS settlement.</p>	<p>client B</p> <p>Net stock positions of CCCP A: -1000 (for SPSA1) -500 (for Client B) CNS -1500 (overdue short 1500)</p>	<p>HKSCC will effect the settlement of delivering SIs of the stock on T when the CCCP has transferred at least 500 shares to its Stock Clearing Account "01" (since the overdue short stock position of 1,500 is in part due to SPSA1's failed delivery of 1000 and in part due to CCCP A's failure to transfer 500 shares from its own stock accounts to the Stock Clearing Account to settle CNS).</p>
B2	Same as above.	<p>-CCCP A sells 1000 for SPSA1 -CCCP A sells 500 for Client B -CCCP A buys 800 for SPSA2</p> <p>Net stock positions of CCCP A: -1000 (for SPSA1) -500 (for Client B) +800 (for SPSA2) CNS -700 (overdue short 700)</p>	<p>-adjust sellable balance on T: SPSA1(-1000), CCCP A(+200 in Stock Clearing Account "01")(*) , SPSA2(+800)</p> <p>HKSCC will effect the settlement of delivering SIs of the stock on T when the CCCP has transferred no less than 500 shares to its Stock Clearing Account "01" (since overdue short stock position of 700 is in part due to the SPSA1's failed delivery of 1,000 (800 shares for SPSA2 and 200 shares for CNS settlement) and in part due to CCCP A's failure to transfer the 500 from its own stock accounts to Stock Clearing Account to settle CNS).</p> <p>(*) As the overdue short position is 200 higher due to an SPSA Delivery Failure (500 short is caused by CCCP A's failure to transfer 500 from Client B to the Stock Clearing Account for CNS settlement), therefore an adjustment quantity of 200 is added to CCCP A's sellable balance.</p>
C1	<p>On T:</p> <p>(a) CCCP A has a long stock position or a nil stock position in a China Connect Security; and</p> <p>(b) an SPSA Delivery Failure of one or more Selling SPSA has occurred.</p>	<p>-CCCP A sells 1000 for SPSA1 -CCCP A buys 2000 for Client B</p> <p>Net stock positions of CCCP A: -1000 (for SPSA1) +2000 (for Client B) CNS +1000 (receives 1000 from CNS)</p>	<p>-adjust sellable balance on T: SPSA1(-1000), CCCP A(+1000)</p>
C2	Same as above.	<p>-CCCP A sells 1000 for SPSA1 -CCCP A sells 500 for</p>	<p>-release SI (T+0): N/A (since it is a net long) -adjust sellable balance on T :</p>

	Circumstance	Details	Adjustments Request
		Client B -CCCP A buys 2000 for SPSA2 Net stock positions of CCCP A: -1000 (for SPSA1) -500 (for Client B) <u>+2000 (for SPSA2)</u> CNS +500 (receives 500 from CNS)	SPSA1(-1000), SPSA2(+1000)(#) (#) As SPSA2 would receive from CCCP A 500 (as a result of Client B's delivery) and another 500 (from CNS) on T, an adjustment amount of 1000 is added to SPSA2.

The access paths for the maintenance function of Sellable Balance Adjustment Request are:



SPSA DELIVERY FAILURE MAINTENANCE – Sample Screen:



Section 8.1.14
SPSA Delivery Failure Maintenance

DESCRIPTION OF FIELDS:

<u>Field</u>	<u>Description/Format</u>
ISIN or Stock Code	- input the ISIN / stock code at prompt screen as a selection criterion. - can obtain the ISIN or stock code from the hyperlink of 'Enquire Stock List'. - stock code must has SPSA sell trade on T day.
Outstanding Short CNS Position Quantity	Total CNS outstanding short quantity of the CCASS participant of the inputted stock code. This includes O/S short quantity of SETTLEMENT date = current day.
Declare if CCCP's overdue short is solely caused by SPSA Delivery Failure	Radio button for Add/ Change of Sellable Balance Adjustment Request - 'Yes' for release all the SI on-hold by system due to outstanding CNS short position - 'No' - CCASS default option
Selling SPSA ID	For identifying the selling SPSA (Investor ID) that causing the SPSA Delivery Failure At least one entry of selling SPSA ID. Maximum 500 entries are allowed, by default 10 records can be inputted
Selling SPSA Failed Delivery Quantity (-)	The number of shares failed to be delivered by that Selling SPSA At least one entry of failed delivery quantity. Maximum 500 entries are allowed, by default 10 records can be inputted
Buying SPSA ID	Used to identify the buying SPSA (Investor ID) which can't receive the securities because of the report SPSA Delivery Failure Maximum 500 entries are allowed, by default 10 records can be inputted
Buying SPSA Failed Delivery Quantity (+)	The number of shares that can't be delivered to that Buying SPSA due to the reported SPSA Delivery Failure Maximum 500 entries are allowed, by default 10 records can be inputted
Stock Account	Used to identify the Stock Account which can't receive the securities because of the reported SPSA Delivery Failure Maximum 100 entries are allowed; by default 5 records can be inputted. If outstanding short CNS position quantity <> 0, the first entry will be defaulted as "1" (Stock Clearing Accounts) Input of account 02, 17, 18, 19, 20 and special segregated account are not allowed

<u>Field</u>	<u>Description/Format</u>
Stock Account Failed Delivery Quantity (+)	The number of shares that can't be delivered to that Stock Account due to the reported SPSA Delivery Failure Maximum 100 entries are allowed, by default 5 records can be inputted If outstanding short CNS position quantity <> 0, the first entry will be defaulted as the CNS outstanding short position quantity
Status	Pending Authorised
Last Update By	Last User ID to update the record
Last Update Date	Last Date to update the record
Last Update Time	Last Time to update the record