

**ACCEPTING USD/HKD COLLATERAL
FOR THE EARLY RELEASE OF CHINA
CONNECT SECURITIES STARTING FROM
14 MAY 2018
INFORMATION PACKAGE**

AGENDA

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New Service: Accepting USD/HKD Collateral for the Early Release of China Connect Securities

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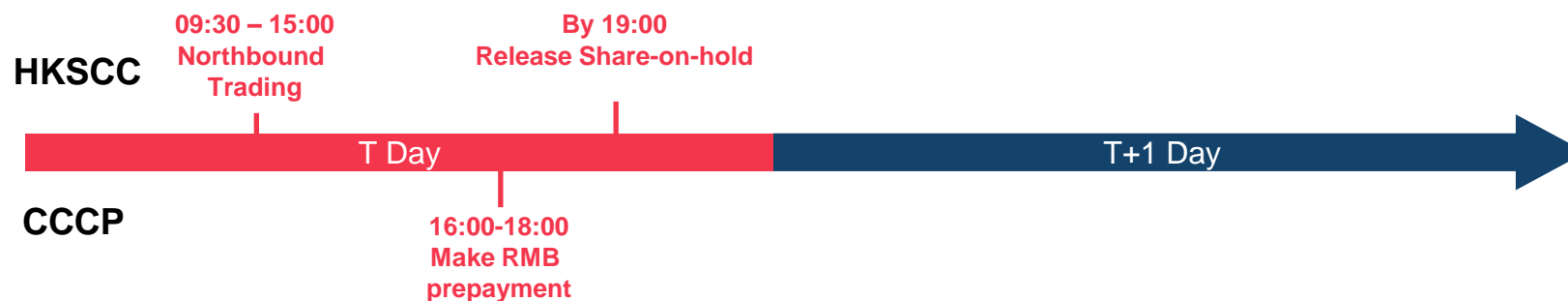
Appendix: New CCASS Forms for the New Service



1. NEW SERVICE: ACCEPTING USD/HKD COLLATERAL FOR THE EARLY RELEASE OF CHINA CONNECT SECURITIES

Background

Currently, China Connect Clearing Participants (CCCPs) can make cash prepayments in RMB to HKSCC on T-day from 16:00 to 18:00 to reduce their monetary obligations for the early release of China Connect Securities on T-Day that are Securities-on-hold.



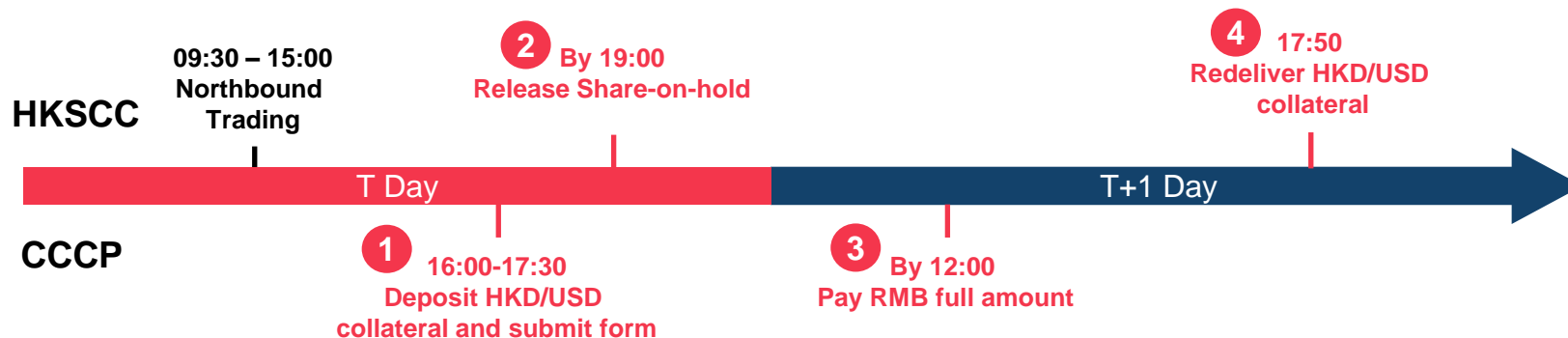
An Optional New Service:

- ***To reduce CCCPs' RMB funding pressure on T-day, HKSCC will allow deposit of USD / HKD as collateral for the early release of China Connect Securities on T day starting from 14 May 2018***



1. NEW SERVICE: ACCEPTING USD/HKD COLLATERAL FOR THE EARLY RELEASE OF CHINA CONNECT SECURITIES (CONT.)

Overview



Key Procedures:

- 1 T 16:00 – 17:30 CCCPs submit application form and make USD/HKD irrevocable payments to HKSCC's specified bank accounts by 17:30
- 2 T before 19:00 Upon accepting the relevant application and confirming receipt of collateral from CCCPs, HKSCC determines RMB equivalent value¹ of the collateral and credit to CCCPs' account² for the release of the corresponding amount of Securities-on-hold
- 3 T+1 by 12:00 noon CCCPs pay HKSCC full amount of CNS³ payment obligation in RMB, as the USD/HKD collateral will not relieve its original CNS payment obligation
- 4 T+1 at around 17:50 Subject to CCCPs fully satisfied the CNS payment obligation in RMB, HKSCC redelivers⁴ full amount of collateral to CCCPs EPIs in the Evening Interbank Bulk Settlement Run



¹ At the exchange rate and subject to haircut rate as determined by HKSCC from time to time, refer to next slide for detail

² Under Special-Use Collateral as A-share Collateral

³ Continuous Net Settlement

⁴ CCCPs may opt for not redelivering collateral (see slide 6)

1. NEW SERVICE: ACCEPTING USD/HKD COLLATERAL FOR THE EARLY RELEASE OF CHINA CONNECT SECURITIES (CONT.)

Important notes

Collateral Deposit

Deposit of the Collateral:

- CCCPs have to submit “Early Release of Securities-on-hold Application Form” (CCASS-Form 89) by 17:30 on T day and specify the amount of collateral to be used
- CCCPs can use either USD or HKD (but not both) as the collateral for the New Service
- No interest will be paid to CCCP for the collateral provided for the New Service

RMB equivalent value:

- HKSCC will impose a daily maximum limit of RMB 500 million equivalent per CCCP for the New Service. Such limit will be reviewed from time to time.
- The collateral will be converted to RMB equivalent value with below formula:

RMB Equivalent Value = Value in Original Currency x Exchange Rate x (1 – Haircut)

- The Exchange Rate and the Haircut used will be listed in the existing Report “Collateral Parameters Information List” (CCMIR02)¹
- The exchange rate is taken from Reuters pages (Reuters page “HKDX=”) as at 16:00 of the day
- CCCPs can refer to CCASS Broadcast Message at around 16:15 to enquire the actual exchange rate and haircut rate used
- The haircut rate will also be announced via circular in advance and will be adjusted to cater situation such as long holiday

Release of Securities-on-hold

- Upon acceptance of CCCPs’ request and confirming the receipt of USD/HKD collateral, HKSCC will credit the collateral amount in Special-Use Collateral type as A-share Collateral and the related Securities-on-hold will be released within reasonable timeframe before 19:00
- CCCPs can check the completeness of the process via online function “Enquire Collateral Account Balance” for the Special-Use Collateral



Note: Samples of the relevant CCASS forms are shown in appendix

¹ Except the haircut used prior to the long holiday which will be announced via a separate circular

1. NEW SERVICE: ACCEPTING USD/HKD COLLATERAL FOR THE EARLY RELEASE OF CHINA CONNECT SECURITIES (CONT.)

Important notes

Relationship with RMB Cash Prepayment

- The New Service and cash prepayment can co-exist at the same time
- For example, for CCCPs who wish to make 30M RMB cash prepayment now, with the New Service, the CCCPs can:
 - (1) Continue to make 30M RMB cash prepayment; or
 - (2) Switch to use the new service by deposit 30M RMB equivalent value of USD or HKD; or
 - (3) A combination of (1) and (2)
(e.g. Make 10M RMB cash prepayment and deposit 20M RMB equivalent value of USD)
- To avoid excess funding due to auto-generation of cash prepayment instruction, for CCCPs who would like to use the New Service, they should update or cancel their Cash Prepayment Standing Instructions

Redeliver Collateral

Daily redelivery:

- By default and subject to CCCPs having satisfied the CNS payment obligation in RMB, HKSCC will redeliver full amount of collateral to CCCPs via EPI on T+1 at 17:50. Please note that as the redelivery is after 17:30, it can't be used for the New Service on the same day

Collateral "Roll over":

- If CCCPs opt to keep the collateral in HKSCC for future use for the New Service, CCCPs should submit "Placing / Cancellation of Standing Instruction in connection with Collateral Provided for the Early Release of Securities-on-hold" (CCASS-Form 90) no later than 14:00 on T+1 to keep this collateral as "Surplus Collateral". Under this case, to make use of the collateral for the New Service, CCCPs must submit CCASS-Form 89 to notify HKSCC the amount of collateral to be used
- To withdraw the Surplus Collateral, CCCPs can, no later than 14:00 for same day effective,
 - Submit "Application Form for Withdrawal of Surplus Collateral" (CCASS-Form 91) for full or partial withdrawal; or
 - Cancel the Standing Instruction via CCASS-Form 90 for full withdrawal



Note: Samples of the relevant CCASS forms are shown in appendix

1. NEW SERVICE: ACCEPTING USD/HKD COLLATERAL FOR THE EARLY RELEASE OF CHINA CONNECT SECURITIES (CONT.)

Important notes

Fee

- A handling fee, set at 1% per annum, will be charged based on the amount of the collateral accepted (lower of CCCPs' CNS obligation and amount requested by CCCPs) for the early release.

- The formula for calculating the handling fee is illustrated below:

$[\text{Actual Collateral Used} \times \text{Fee Rate} / 360]^* \times \text{No. of Calendar Day until CNS money Settlement}^\#$

*Note: * convert to HKD and rounded to 2 decimal places*

Non Settlement Day will also be counted (eg. Saturday and Sunday)

- Refer to slide 13 for handling fee calculation example



1. NEW SERVICE: ACCEPTING USD/HKD COLLATERAL FOR THE EARLY RELEASE OF CHINA CONNECT SECURITIES (CONT.)

Summary

Time	CCCP's Action	Application Form
(T) 16:00 - 17:30	Deposit USD/HKD as collateral to HKSCC's specified bank accounts and submit form	CCASS-Form 89
(T) ~16:15	Refer to the exchange rate and haircut rate from CCASS Broadcast Message to calculate the applicable amount of USD/HKD	N/A
(T) <19:00	Monitor whether the required amount of Securities-on-hold are released	N/A
(T+1) 12:00	Pay HKSCC full amount of CNS payment obligation in RMB	N/A
(T+1) <14:00	Determine whether to "roll over" or withdraw the USD/HKD collateral by submitting the corresponding form to HKSCC	CCASS-Form 90/91
(T+1) 17:50	If applicable, HKSCC will redeliver full amount of USD/HKD collateral to CCCPs via EPI	N/A



2. CHANGES IN CCASS FOR THE NEW SERVICE

New Report to show the Related Handling Fee Charged

Report ID	Report Name	Market	Generation Time
CSECC03	Handling Fee Collection Report for Early Release of Securities-on-hold for China Connect Markets	MAMK	At the end of each business day from Monday to Friday

(1)CSECC03	(2)B11668	HKSCC - CCASS		(4)RUN DATE : 25MAY18
(3)GOODWILL & COMPANY	HANDLING FEE COLLECTION REPORT FOR THE EARLY RELEASE OF SEC-ON-HOLD FOR CHINA CONNECT MARKETS		(5)RUN TIME : 22:30:00	PAGE : 1
(6)CCASS DATE : 25MAY18				
(7)FEE RATE: 1.0000% PER ANNUM				
(8)CNY/HKD EXCHANGE RATE: 1.2000000000				
(9)NO. OF DAYS: 3				
(10)	(11)	(12)	(13)	(14)
NET CNS AMT MINUS	CNY EQV OF	CNY UTILISED	HKD EQV UTILISED	FEE (HKD)
CASH PREPMT (CNY)	EARLY RLSE INSTR	COLLATERAL VALUE	COLLATERAL VALUE	
-----	-----	-----	-----	-----
40,000,000.00	1,911,000.00	1,911,000.00	2,293,200.00	191.10
*** END OF REPORT ***				



Remark: The figures used in the report sample are for illustration purpose only

2. CHANGES IN CCASS FOR THE NEW SERVICE (CONT.)

New Transaction Codes for Statement of Money Ledger

(1) CSEMS08 (2) B03456
 (3) CCASS COMPANY

HKSCC - CCASS
STATEMENT OF MONEY LEDGER

(4) RUN DATE : 25MAY18
 (5) RUN TIME : 22:00:02
 PAGE : 1

(6) DATE : 25MAY18
 (15) CURRENCY : HKD

(7) POSTING DATE	MARKET DATE	(8) LEDGER TRN NO	(9) (17) TRN TYP CODE	(10) DESCRIPTION	(12) CR AMOUNT/ (11) DR AMOUNT	(13) BALANCE
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(Settlement, Margin & Pending Marks, Overdue Position Marks and Entitlements Accounts are skipped in this sample)

((14) BILLING A/C
 =====

EXTENDED SESSION-BROUGHT FORWARD BALANCE

150.00-

25MAY18	25MAY18	M00000416	21	HKMK BILLING - SEHK TRADES STOCK SETTLEMENT	20.00-	170.00-
25MAY18	25MAY18	M00000419	26	GLOB BILLING - DDI/DCI GENERATION	1.00-	171.00-
25MAY18	25MAY18	M00000420	27	GLOB BILLING - EPI GENERATION	0.50-	171.50-
25MAY18	25MAY18	M40417471	AJ	MAMK BILLING - EARLY RLSE HANDLING FEE	191.10-	362.60-

EXTENDED SESSION-CARRIED FORWARD BALANCE

362.60-

MISCELLANEOUS A/C
 =====

EXTENDED SESSION-BROUGHT FORWARD BALANCE

0.00

25MAY18	25MAY18	M00000401	YC	MAMK COLL OF FUND FOR EARLY RLSE	2,000,000.00	2,000,000.00
25MAY18	25MAY18	M00000402	YD	MAMK TRF OF FUND FOR EARLY RLSE TO CCMS	2,000,000.00-	0.00
25MAY18	25MAY18	M00000403	YA	MAMK EARLY RLSE REFUND	3,000,000.00	3,000,000.00
25MAY18	25MAY18	M00000404	YB	MAMK EPI GENERATION - EARLY RLSE REFUND	3,000,000.00-	0.00

EXTENDED SESSION-CARRIED FORWARD BALANCE

0.00

TOTAL DIRECT DEBIT INSTRUCTION AMOUNT	:	362.60-
TOTAL DIRECT CREDIT INSTRUCTION AMOUNT	:	0.00
TOTAL CARRIED FORWARD AMOUNT	:	362.60-

- "AJ" for handling fee of the new service

- "YC" shows the amount of USD/HKD collateral received by HKSCC
- "YD" shows the amount of USD/HKD collateral credited to CCMS
- "YA" shows the amount of USD/HKD collateral redelivered
- "YB" shows the amount of EPI generated for redelivering USD/HKD collateral



Remark: The figures used in the report sample are for illustration purpose only

2. CHANGES IN CCASS FOR THE NEW SERVICE (CONT.)

New Special-Use Collateral under Enquire Collateral Account Balance

https://d3-int.c3dev.com/ - CCASS/3 System - Internet Explorer

File Edit View Favorites Tools Help

HKEX
香港交易所

CCMS Files Authorization
CCMS File Upload
Mtn Specific to General Stock Collateral
Mtn Specific Cash To General Collateral
Confirm for Payment
Maintain Margin Requirement
Maintain Payment Summary
Mtn Preferred Single Stm Currency
Enquire Payment Batch Status
Confirm Payment Receipt Status
Enquire Collateral Account Balance
Enq Specific Cash Collateral Movement

Enquire Collateral Account Balance

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[Stm Position](#) [Change Participant](#) [Change Password](#)
[Print](#) [Logout](#)

H00001 H00001 SHORT NM H00001KH
KMOE 11
07-Mar-18 18:04

Enquire Collateral Account Balance Detail - Special-Use Collateral

Firm ID :	BF03456
Participant ID :	B03456
Account Type :	HOUSE
Account Number :	0001
Account Name :	HOUSE A/C 0001
Account Status :	ACTIVE

ASC (A-SHARE COLLATERAL)	163,230.00
Total Cash Discounted Market Value	163,230.00



3. CALCULATION EXAMPLES

(1) Collateral Amount Required

Example 1:

- A CCCP has RMB 10,000,000 CNS obligation
- Instead of using cash prepayment, the CCCP opt for the New Service

The HKD amount required can be calculated as follows:

RMB equivalent value required	RMB 10,000,000
Exchange rate of RMB to HKD	1.2
Haircut rate	2%
HKD amount required	$\text{RMB } 10,000,000 \times 1.2 / (100 - 2)\%$ $= \text{HKD } 12,244,897.96$ $(\text{rounded to 2 decimal places})$



3. CALCULATION EXAMPLES (CONT.)

(2) Handling fee calculation

Example 2:

- A CCCP has RMB 5,000,000 CNS obligation to be settled on T+1
- The CCCP deposits USD 300,000 as collateral for the New Service and also make cash prepayment of RMB 1,000,000 on T day

Exchange rate	RMB to HKD = 1.2 USD to HKD = 7.8
Haircut rate	2%
Handling fee rate	1%
Convert the USD collateral to RMB equivalent value	$USD\ 300,000 \times 7.8 / 1.2 \times (100 - 2) \% = RMB\ 1,911,000$ [A]
Remaining CNS obligation after cash prepayment	$RMB\ 5,000,000 - RMB\ 1,000,000 = RMB\ 4,000,000$ [B]
Actual use amount (i.e. lower of [A] and [B])	RMB 1,911,000
Calculate the handling fee (Actual use amount x handling fee rate / 360, convert to HKD and rounded to 2 decimal places)	$RMB\ 1,911,000 \times 1\% / 360 \times 1.2 = HKD\ 63.70$ (rounded to 2 decimal places)

Note: If T+1 is three calendar days from T-Day, the handling fee will be HKD \$63.70 x 3 = HKD 191.10



4. PREPARATION NOTES

HKEX's update

- Circulars
- Rules Amendments
- Web corner
- Technical Specification
- Others

- Implementation date: 14 May 2018
- CCCPs are advised to adopt necessary operational changes, make funding arrangement with their banks and consult their internal IT support units or system vendors on any necessary changes to their back office systems
- CCCPs are suggested to check the relevant information posted on the HKEX website at:
<http://www.hkex.com.hk/eng/market/clr/secclr/ccass3/FurtherCCASSEnhancements.htm>
- CCCPs are also suggested to check the HKEX website for circulars, CCASS Operational Procedures amendment, as well as other relevant updates



APPENDIX: NEW CCASS FORMS FOR THE NEW SERVICE

Early Release of Securities-on-hold Application Form

HKEX 香港交易所	CCASS-Form 89
Shanghai and Shenzhen Stock Connect: Early Release of Securities-on-hold Application Form	
Date:	
To: Cash and Derivatives Clearing Operations - Settlement Hong Kong Securities Clearing Co Ltd ("HKSCC") 30/F, One Exchange Square 8 Connaught Place, Central, Hong Kong Fax No. 2851 6921/2579 0095 Email: cscprepay@hkex.com.hk China Connect Hotline: 2979 7123	
Re: Application for the Early Release of Securities-on-hold	
We hereby apply for the early release of China Connect Securities that are Securities-on-hold by delivering the required amount of funds as collateral in accordance with the General Rules of CCASS and the CCASS Operational Procedures ("CCASS Rules and Procedures") as follows (please tick <input checked="" type="checkbox"/> Part 1 and/or Part 2 as appropriate):	
Part 1	<input type="checkbox"/> We have instructed our bank, [name of the bank], to make the following irrevocable payment to HKSCC for same day settlement: Beneficiary: Hong Kong Securities Clearing Company Limited Beneficiary Bank: The Hongkong and Shanghai Banking Corporation Ltd Beneficiary Account No.: <input type="checkbox"/> 004-600-398168-292 HKD _____ (please tick <input checked="" type="checkbox"/> only one) <input type="checkbox"/> 004-600-398168-230 USD _____
Part 2	(only applicable to Participants who have surplus cash collateral) <input type="checkbox"/> The following amount of surplus cash collateral in our CCMS Collateral Account shall be or form part of the collateral in support of this application: HKD/USD : _____ (Please strikethrough the inappropriate currency code)
We understand and acknowledge that: 1. this form and the full amount of the required collateral must be received by HKSCC no later than 5:30 p.m. on a Settlement Day. We shall submit this form either (i) by fax to 2851-6921 / 2579-0095 or (ii) by email to cscprepay@hkex.com.hk , and then follow by phone to China Connect Hotline 2979-7123; 2. if we need to deposit any new funds as collateral for this application in addition to the surplus cash collateral in our CCMS Collateral Account, we shall fill in both Part 1 and Part 2 of this form; 3. HKSCC may accept cash collateral in either USD or HKD (but not both) for an application for the early release of China Connect Securities that are Securities-on-hold; 4. the amount of collateral accepted by HKSCC for the early release of China Connect Securities that are Securities-on-hold will be subject to haircut and exchange rates as determined by HKSCC from time to time and up to such maximum limit (if any) as may be specified by HKSCC from time to time; and 5. this application is subject to the terms and conditions and procedures set out in the CCASS Rules and Procedures. Acceptance of the application will be at HKSCC's sole and absolute discretion.	



Note: The form is available at the web corner of HKEX website ([Please click here](#))

APPENDIX: NEW CCASS FORMS FOR THE NEW SERVICE (CONT.)

Placing / Cancellation of Standing Instruction in connection with Collateral Provided for the Early Release of Securities-on-hold

HKEX 香港交易所	CCASS-Form 90
Shanghai and Shenzhen Stock Connect: Placing / Cancellation of Standing Instruction in connection with Collateral Provided for the Early Release of Securities-on-hold	
Date:	
To: Cash and Derivatives Clearing Operations - Settlement Hong Kong Securities Clearing Co Ltd ("HKSCC") 30/F, One Exchange Square 8 Connaught Place, Central, Hong Kong Fax No. 2851 6921/2579 0095 Email: cscprepay@hkex.com.hk China Connect Hotline: 2979 7123	
Re: <u>Placing / Cancellation of Standing Instruction in connection with Collateral Provided for the Early Release of Securities-on-hold</u> (please tick <input checked="" type="checkbox"/> one of the following as appropriate)	
<input type="checkbox"/> We wish to <u>place and maintain</u> a standing instruction to request HKSCC not to redeliver any collateral deposited by us from time to time in relation to all of our applications for the early release of China Connect Securities that are Securities-on-hold until further notice (the "Standing Instruction"); OR	
<input type="checkbox"/> We wish to <u>cancel</u> any Standing Instruction previously given to you and request HKSCC to redeliver the full amount of surplus cash collateral, if any, to us with effect from the date of this form, subject to the conditions set out in the General Rules of CCASS and the CCASS Operational Procedures ("CCASS Rules and Procedures").	
<i>We understand and acknowledge that:</i>	
<ol style="list-style-type: none">1. this form must be received by HKSCC no later than 2:00 p.m. on a Settlement Day either (i) by fax to 2851-6921 / 2579-0095 or (ii) by email to cscprepay@hkex.com.hk, followed by phone to China Connect Hotline 2979-7123 for the placing / cancellation of any Standing Instruction to be effective on the same day;2. any surplus cash collateral that is not redelivered to us can be treated as collateral (or any part thereof) in support of any subsequent application that may be made by us for the early release of China Connect Securities that are Securities-on-hold;3. any surplus cash collateral that is not redelivered to us shall constitute Collateral as defined in the CCASS Rules and Procedures; and4. Acceptance of the above instruction will be at HKSCC's sole and absolute discretion.	



Note: The form is available at the web corner of HKEX website ([Please click here](#))

APPENDIX: NEW CCASS FORMS FOR THE NEW SERVICE (CONT.)

Application Form for Withdrawal of Surplus Collateral

 香港交易所	CCASS-Form 91
Shanghai and Shenzhen Stock Connect: Application Form for Withdrawal of Surplus Collateral	
Date:	
To: Cash and Derivatives Clearing Operations - Settlement Hong Kong Securities Clearing Co Ltd ("HKSCC") 30/F, One Exchange Square 8 Connaught Place, Central, Hong Kong Fax No. 2851 6921/2579 0095 Email: cscprepay@hkex.com.hk China Connect Hotline: 2979 7123	
Re: <u>Application for Withdrawal of Surplus Collateral</u> (please tick <input type="checkbox"/> as appropriate)	
We refer to the collateral deposited by us with HKSCC in connection with our application(s) for the early release of China Connect Securities that are Securities-on-hold that is not redelivered to us (the "Surplus Collateral") and hereby request HKSCC to redeliver the following amount of Surplus Collateral to us by credit entries to our Money Ledgers on the same day:	
<input type="checkbox"/> HKD _____	
<input type="checkbox"/> USD _____	
<i>We understand and acknowledge that:</i>	
<i>1. this form must be received by HKSCC, <u>no later than 2:00 p.m.</u> on a Settlement Day either (i) by fax to 2851-6921 / 2579-0095 or (ii) by email to cscprepay@hkex.com.hk, followed by phone to China Connect Hotline 2979-7123;</i>	
<i>2. the withdrawal of any Surplus Collateral is subject to the conditions set out in the General Rules of CCASS and the CCASS Operational Procedures; and</i>	
<i>3. HKSCC reserves the right not to redeliver any Surplus Collateral at any time it considers appropriate.</i>	



Note: The form is available at the web corner of HKEX website ([Please click here](#))