
**PART B: EXCHANGE TRADES AND TRANSACTIONS
BETWEEN PARTICIPANTS**

CHAPTER 33

CONTINUOUS NET SETTLEMENT SYSTEM

3301. Novation of Exchange Trades, Clearing Agency Transactions, China Connect Securities Trades and replacement by Market Contracts

Upon acceptance of an Exchange Trade by HKSCC for settlement under the CNS System in accordance with the Rules, such Exchange Trade shall be replaced by two Market Contracts through Novation, one between the selling Clearing Participant or Clearing Agency Participant and HKSCC as buyer, as principals to such contract, and another between the buying Clearing Participant or Clearing Agency Participant and HKSCC as seller, as principals to such contract.

Upon acceptance of a Clearing Agency Transaction by HKSCC for settlement under the CNS System in accordance with the Rules, such Clearing Agency Transaction shall be replaced by two Market Contracts through Novation, one between the Participant other than Investor Participant and HKSCC, as principals to such contract, and another between the Clearing Agency Participant and HKSCC, as principals to such contract.

In respect of a China Connect Securities Trade with a China Connect Clearing Participant on one side or each of the two sides of the trade, there shall be created through Novation, simultaneous with the multilateral net settlement process of the relevant China Connect Clearing House, a Market Contract between HKSCC and the China Connect Clearing Participant as described in Rule 4106. The China Connect Clearing Participant and HKSCC will act as principals to such contract. To a buying China Connect Clearing Participant, HKSCC will be the seller and to a selling China Connect Clearing Participant, HKSCC will be the buyer.

3302. Terms of Novation

HKSCC's obligations whether as seller or buyer under Market Contracts, as the case may be, under the terms of the Novation, shall be performed in the manner and form and by such time as may be prescribed in the Rules (including, without limitation, Rules 3307, 4106 and 4107(xi)).

The benefit of the performance by HKSCC of such obligations is conferred upon Clearing Participants or Clearing Agency Participants or China Connect Clearing Participants, as the case may be, as principals and not upon any other person whatsoever.

Subject as otherwise provided in the Rules, Market Contracts shall be on the same terms as the relevant Exchange Trade, Clearing Agency Transaction or China Connect Securities Trade replaced by such Market Contracts.

3303. Daily netting

Immediately upon Novation, the obligations to deliver Eligible Securities between HKSCC and each Clearing Participant or Clearing Agency Participant, as the case may be, under Market Contracts in respect of the same issue of Eligible Securities and having the same settlement date (and in the case of a Clearing Agency Participant, in respect of the same Special Participant) shall be set-off against each other and settlement of the net delivery obligation of a Clearing Participant or a Clearing Agency Participant in respect of the same Special Participant, as the case may be, or HKSCC in that issue, shall take place in accordance with the Rules. For the avoidance of doubt, prior to the occurrence of an Event of Default in respect of a Clearing Agency Participant, its rights and obligations in respect of a Special Participant shall not be set off against its rights and obligations in respect of another Special Participant.

3304. Cross-day netting

In respect of its obligations to deliver Eligible Securities under Market Contracts, HKSCC may, if it does not have sufficient Eligible Securities available to effect settlement on due dates, carry forward such obligations to subsequent Settlement Days.

In accordance with the Operational Procedures, the obligation to deliver Eligible Securities by a Clearing Participant or Clearing Agency Participant, as the case may be, arising out of Market Contracts in respect of an issue of Eligible Securities (and in the case of a Clearing Agency Participant, in respect of the same Special Participant) on a particular Settlement Day shall be offset against any previously unsettled obligations to deliver Eligible Securities by HKSCC to it arising out of Market Contracts in the same issue and in the case of a Clearing Agency Participant, in respect of the same Special Participant (or added to any previously unsettled obligations to deliver such Eligible Securities by it to HKSCC, as the case may be) and vice versa.

3305. Allocation algorithm

In effecting settlement of its obligations to deliver Eligible Securities arising out of Market Contracts, HKSCC may allocate Eligible Securities available to it to Clearing Participants or Clearing Agency Participant, as the case may be, due to receive Eligible Securities in accordance with such allocation algorithm as is provided in the Operational Procedures or in such other manner as it considers appropriate.

HKSCC may effect partial deliveries in respect of its obligations to deliver Eligible Securities arising out of Market Contracts.

3306. Daily netting of money sums upon delivery in CCASS

Upon delivery of Eligible Securities in CCASS on each Settlement Day pursuant to Market Contracts, the amounts to be paid between each Clearing Participant or Clearing Agency Participant, as the case may be, and HKSCC arising thereunder shall be determined in accordance with the Operational Procedures and shall be set-off against each other to arrive at a daily net money position for such Participant due to or from HKSCC on each Settlement Day.

Settlement of such daily net money positions is to be made by HKSCC causing debits or credits to the Designated Bank Accounts of Clearing Participants or Clearing Agency Participant, as

the case may be, and corresponding credits and debits to its own bank account for value on the same Settlement Day.

3307. HKSCC's obligations under Market Contracts

To the extent that the aggregate of the funds or assets available to HKSCC are insufficient at any time to meet the aggregate of HKSCC's liabilities to Clearing Participants or Clearing Agency Participants under all Market Contracts subsisting at any time, based on the amount of the funds or assets available to HKSCC for the purpose at the time (taking into account HKSCC's other liabilities then subsisting), as certified in writing by HKSCC, each Participant to whom HKSCC is liable under such Market Contracts shall, subject to Rules 3705 to 3707, 3709, 4107(xi) and 4301, only be entitled to receive payment pro-rata to the amount due to it as compared with the aggregate amount due to all Clearing Participants or Clearing Agency Participants under such Market Contracts; subject to Rules 3708, 3709 and 4302, HKSCC shall remain liable for such Market Contracts but payment of the balance of such amounts due shall only be made as and when and to the extent that funds or assets are subsequently available. In relation to the funds or assets available to HKSCC to meet both its liabilities to Clearing Participants or Clearing Agency Participants under Market Contracts and its liabilities to Participants pursuant to Rules 813, 814, 815 and 816 (as referred to in Rule 816), HKSCC may, subject to Rule 4107(xi), apportion the funds or assets so available to it between its liabilities to Clearing Participants or Clearing Agency Participants under such Market Contracts and such liabilities to Participants pursuant to Rules 813, 814, 815 and 816, either on a pro-rata basis or in such other manner as HKSCC shall consider fair and reasonable in the circumstances. HKSCC shall only exercise its powers to defer making payment to Clearing Participants or Clearing Agency Participants under this Rule in consultation with the Commission.

Without prejudice to the foregoing provisions regarding pro-rata payment in circumstances where the aggregate of the funds or assets available to HKSCC are insufficient to meet the aggregate of its liabilities to Participants under all Market Contracts subsisting at the time (other than those arising from China Connect Securities Trades), in respect of HKSCC's obligations to deliver Eligible Securities under Market Contracts, to the extent that HKSCC determines that it is not possible or reasonably practicable to deliver Eligible Securities, HKSCC's obligation shall be to make money compensation to Participants concerned in substitution for the delivery of Eligible Securities in whole or in part and in such amount as HKSCC may in its absolute discretion determine by reference to the market value of such Eligible Securities at the time of payment of compensation by HKSCC (or the value at such other time as HKSCC shall consider fair and reasonable in the circumstances). The money compensation shall be in such currency or currencies (whether in the Eligible Currency in which the Eligible Securities are denominated or otherwise) and at such conversion rate(s) as HKSCC may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate.

Without prejudice to the foregoing provisions regarding pro-rata payment in circumstances where the aggregate of the funds or assets available to HKSCC are insufficient to meet the aggregate of its liabilities to Participants under all Market Contracts subsisting at the time (other than those arising from China Connect Securities Trades), in respect of HKSCC's obligations to make payment to Clearing Participants or Clearing Agency Participants under Market Contracts in an Eligible Currency in which the relevant securities are denominated or in a specified Eligible Currency, to the extent that HKSCC determines that it is not possible or reasonably practicable to make payment in such Eligible Currency, HKSCC's obligations shall be to make payment, in full or in part, in such other currency or currencies and at such conversion rate(s) as HKSCC may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate.

3308. Non-operation of CNS System

In the event that HKSCC elects not to operate the CNS System pursuant to Rule 903, all Exchange Trades and Clearing Agency Transactions are to be settled under the Isolated Trades System. In such a case, the provisions of the Rules relating exclusively to the CNS System shall have no effect.

For the avoidance of doubt, each Clearing Participant shall still provide to HKSCC its Basic Contribution and Dynamic Contribution as referred to in Rules 2502 and 2509B.