
CHAPTER 34

ISOLATED TRADES SYSTEM

3401. Direct settlement in CCASS between Participants

Subject to Rule 3407, each Participant shall settle the Isolated Trades to which it is a party or in the case of a GCP, to which its NCP is a party direct with the other counterparty Participants concerned in CCASS and for the avoidance of doubt, HKSCC will not be responsible for the failure of a Participant to settle Isolated Trades in CCASS.

3402. Possible measures by HKSCC in case of late delivery

If a Participant fails to deliver Eligible Securities on time under the Isolated Trades System, without prejudice to such other rights as it may have under the Rules, HKSCC reserves the right at any time:

- (i) to impose a default fee on that Participant for each Settlement Day that it is in default, such fee to be of such amounts and to be payable at such times as shall be specified by HKSCC; and/or
- (ii) to direct that Participant to effect a borrowing of Eligible Securities (up to the quantity required) or itself to effect such a borrowing upon such terms and conditions and at such fees as HKSCC may consider appropriate and the Participant shall forthwith upon demand by HKSCC pay to HKSCC such sums in respect of fees and expenses incurred by HKSCC and/or provide collateral in such form as required by HKSCC (such collateral to be used in such manner as HKSCC shall see fit and shall constitute security in respect of its obligations and liabilities to HKSCC) and shall indemnify HKSCC against all costs, fees, expenses, liabilities, losses and damages as a result of HKSCC effecting such borrowing and matters relating thereto; and/or
- (iii) to direct that Participant to execute or arrange on the same day a Buy-in on the Exchange to purchase the Eligible Securities required by that Participant in order to settle obligations under Isolated Trades in respect of which it is the seller or delivering party; and/or
- (iv) to execute or arrange on behalf of that Participant a Buy-in on the Exchange to purchase the Eligible Securities required by that Participant in order to settle obligations under Isolated Trades in respect of which that Participant is the seller or delivering party. For such purpose, HKSCC may on behalf of that Participant instruct its authorized brokers to assist.

A Buy-in pursuant to this Rule will be settled under the Isolated Trades System. Without prejudice to any other rights HKSCC may have, HKSCC may require that such a Buy-in be settled on the day of its execution or within such other period as HKSCC in its absolute discretion considers appropriate. In the event that a Buy-in is required by HKSCC to be settled under the Isolated Trades System, if the counterparty Clearing Participant to a Buy-in

fails to deliver Eligible Securities on the due date, HKSCC may direct that Clearing Participant to (or may itself on behalf of that Clearing Participant) execute or arrange a further Buy-in on the Exchange to purchase the Eligible Securities required to settle the original Buy-in and so on and so forth.

If HKSCC executes a Buy-in on behalf of a Participant pursuant to this Rule, it shall do so at what it determines to be the best prevailing market price and terms available (but taking into account HKSCC may need to act promptly and provided that HKSCC shall have no liability if it acts in good faith). Further, each Participant on whose behalf HKSCC executes a Buy-in shall indemnify HKSCC against all costs, fees, expenses, liabilities, losses and damages of any nature whatsoever suffered or incurred by it directly or indirectly arising out of the execution of such a Buy-in by HKSCC.

For the avoidance of doubt, HKSCC may, but shall not be obliged to, take any one or more of the measures referred to in this Rule.

3403. Possible measures by HKSCC in case of late payment

If a Participant fails to make payment under the Isolated Trades System, then without prejudice to any other rights it may have under the Rules, HKSCC may, but shall not be obliged to, require the defaulting Participant to pay to it a default fee for each Settlement Day that it is in default, such fees to be of such amounts and to be payable at such times as shall be specified by HKSCC. HKSCC shall also be entitled to require the defaulting Participant to make payment forthwith to the non-defaulting Participant in such manner as it considers appropriate, including, without limitation, payment by telegraphic transfer, by bank draft or by cashier order.

3404. Duty to report late delivery or payment

Each Participant shall be under a duty to immediately report in writing to HKSCC in respect of any default or late delivery or payment by a counterparty Participant in respect of an Isolated Trade.

3405. Procedures for adjustments in respect of dividends etc. in case of late delivery

HKSCC may establish such rules, facilities and procedures as it considers appropriate in relation to adjustments or claims in respect of dividends, interest payments, debt redemptions, rights, entitlements, securities and other property accruing to Eligible Securities as a result of late deliveries of Eligible Securities by Participants under the Isolated Trades System.

Any such rules, facilities and procedures established by HKSCC shall, unless expressly agreed to the contrary in writing by the two counterparties to an Isolated Trade, be deemed to form part of the agreement between them and shall be binding on them.

Subject as provided herein, any such rules, facilities and procedures established by HKSCC shall be adhered to and be binding on Participants. HKSCC may but shall not be obliged to take such actions permitted by the Rules to ensure that Participants comply with such rules, facilities and procedures.

Without prejudice to any other right HKSCC may have, if as a result of late deliveries of Eligible Securities by a Participant under the Isolated Trades System such Participant is liable to deliver securities or other property accruing to Eligible Securities to its counterparty Participant, HKSCC may require such Participant to purchase such securities or property and further, may itself at any time purchase such securities or property and the costs and expenses of such purchase shall be borne by the Participant.

HKSCC shall notify the Participant concerned in respect of such a purchase and will effect any such purchase at what it determines to be the best prevailing market price and terms available (but taking into account that HKSCC may need to act promptly and provided that HKSCC shall have no liability if it acts in good faith).

Each Participant undertakes to indemnify HKSCC against all costs, fees, expenses, liabilities, losses and damages of any nature whatsoever suffered or incurred by HKSCC directly or indirectly as a result of or in connection with the purchase of such securities or property.

For the avoidance of doubt, each Participant acknowledges and confirms that HKSCC is not liable in relation to adjustments or claims in respect of dividends, interest payments, debt redemptions, rights, entitlements, securities and other property accruing to Eligible Securities as a result of late deliveries by other Participants under the Isolated Trades System and shall not be so liable as a result of the rules, facilities or procedures, if any, established by HKSCC in relation thereto.

3406. Disputes in relation to settlement of Isolated Trades

Disputes relating to the settlement of Isolated Trades between Participants shall be immediately reported to HKSCC. Participants agree that HKSCC's decision on such disputes, if any, shall be conclusive and binding on the Participants.

3407. Rules 3401 to 3406 applicable to Participants other than Investor Participants

Rules 3401 to 3406 shall not apply to Investor Participants.