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## CHAPTER 41

### CHINA CONNECT CLEARING SERVICES

#### **4101. Cross-boundary Clearing Links**

HKSCC and a China Connect Clearing House may enter into a Clearing Link (a) to facilitate the clearing and settlement of securities trades which are executed on a China Connect Market by or for Exchange Participants under a Trading Link, including China Connect Securities; and (b) to provide depository, nominee and other services to Participants in respect of such securities.

This Chapter 41 sets out the provisions that apply to (i) China Connect Clearing Participants which participate as China Connect Exchange Participants or which act as General Clearing Participants for China Connect Exchange Participants in respect of China Connect Securities Trades executed on a China Connect Market via a Trading Link; and (ii) Participants other than Investor Participants to which China Connect Clearing Services may be provided by HKSCC.

#### **4102. China Connect Clearing Services**

HKSCC may provide such services as it may consider appropriate to Participants other than Investor Participants in accordance with the provisions of the Rules for the purposes referred to in Rule 4101 regarding a Clearing Link. Such services may include, without limitation, the following:

- (a) the clearing and settlement of China Connect Securities Trades with China Connect Clearing Participants by HKSCC in its capacity as central clearing party to China Connect Clearing Participants and as participating clearing house and clearing participant of the relevant China Connect Clearing House; and
- (b) the provision of nominee and depository services by HKSCC in its capacity as registered holder of China Connect Securities.

The use of China Connect Clearing Services by Participants shall be subject to such terms and conditions and the payment of such fees as HKSCC may from time to time prescribe.

#### **4103. China Connect Clearing Participants and Eligibility Criteria for Registration**

Only China Connect Clearing Participants may use China Connect Clearing Services relating to the clearing and settlement of China Connect Securities Trades.

To be accepted for registration and to remain registered as a China Connect Clearing Participant, a Participant must:

- (a) be a Direct Clearing Participant or a General Clearing Participant;
- (b) undertake to pay HKSCC such amount of Mainland Settlement Deposit, Mainland Security Deposit, Marks and Collateral as may be specified by HKSCC in accordance with the Operational Procedures; and
- (c) meet all other relevant China Connect Clearing Participant Registration Criteria.

HKSCC may from time to time prescribe additional eligibility criteria for Participants to be accepted for registration and to remain registered as China Connect Clearing Participants.

HKSCC may prescribe different eligibility criteria for registration in respect of different China Connect Markets and different China Connect Securities under different Clearing Links. HKSCC will publish the China Connect Clearing Participant Registration Criteria and a list of China Connect Clearing Participants on the HKEX website or by such other means as it considers appropriate.

Applications under this Rule 4103 must be made in writing in such form as HKSCC may from time to time prescribe. Participants may be required to make separate applications with respect to the clearing and settlement of China Connect Securities Trades in different China Connect Markets under different Clearing Links. Approval may be given subject to such terms and conditions as HKSCC may consider appropriate.

#### **4104. General Clearing Participants as China Connect Clearing Participants**

Only General Clearing Participants which are China Connect Clearing Participants shall be eligible to clear and settle China Connect Securities Trades for NCCCPs which are China Connect Exchange Participants.

A General Clearing Participant which is a China Connect Clearing Participant and which intends to clear and settle China Connect Securities Trades for NCCCPs which are China Connect Exchange Participants shall:

- (i) ensure that the Clearing Agreement it enters into with each such NCCCP includes an obligation on its part to settle China Connect Securities Trades. Such General Clearing Participant should bring its NCCCPs' attention to the special features and restrictions of the China Connect Securities Trades as highlighted in paragraph (vi) below with regard to the execution of selling orders for China Connect Securities via the Trading Links, HKSCC's powers and other matters as set out in this Chapter 41;
- (ii) be liable to HKSCC for all the China Connect Securities Trades concluded by each such NCCCP with which it has entered into a Clearing Agreement, as if it were a party to these trades and shall not be entitled to decline to settle and clear any China Connect Securities Trades of the NCCCP;
- (iii) have arrangements in place with each such NCCCP for the NCCCP to notify it of all China Connect Securities Trades concluded by or for the NCCCP;
- (iv) have arrangements in place to monitor the ability of each such NCCCP with whom it has entered into a Clearing Agreement to satisfy promptly all obligations arising from the China Connect Securities Trades concluded by or for such NCCCP;
- (v) forthwith notify HKSCC of any failure of an NCCCP to meet its obligations under the Clearing Agreement, and in the case of any NCP, HKSCC may disclose such information to any other GCP of the NCP; and
- (vi) designate its CCASS stock accounts, which may either be its stock accounts or specific SSAs with Statement Service, to such NCCCPs for the purposes of maintaining their holdings of China Connect Securities in CCASS and for facilitating the determination of the maximum amount of China Connect Securities that may be sold by an NCCCP on a particular Trading day. Subject to the Rules and the Exchange Rules, a General Clearing Participant shall ensure that such account designation is performed accurately and properly, and shall have measures in place to ensure that each of its NCCCPs will not place or execute selling orders for any China Connect Security via the relevant Trading Link such that the aggregate selling quantity of such China Connect Security on a Trading day is in excess of the

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aggregate holding of the China Connect Security in the CCASS stock account(s) designated to the NCCCP as of the end of the immediately preceding batch-settlement run of Settlement Instructions on China Connect Securities effected by HKSCC.

**4104A. Custodian Participants and non-Exchange Participant GCPs to maintain Special Segregated Accounts for clients**

A Custodian Participant or a GCP which is not an Exchange Participant shall, upon the request of a client, designate a Special Segregated Account with an SPSA ID in CCASS to the client for the purpose of maintaining its holdings of China Connect Securities in CCASS and for facilitating the determination of the maximum amount of China Connect Securities that may be sold by such client on a particular Trading day. Subject to the Rules and the Exchange Rules, a Custodian Participant or a GCP which is not an Exchange Participant shall ensure that such account designation is performed accurately and properly, and shall have measures in place to ensure that its clients' holdings of China Connect Securities will be correctly maintained in their designated Special Segregated Accounts.

Where a Special Segregated Account is mapped by a Master SPSA Holder to a Master SPSA ID, HKSCC will notify the relevant Custodian Participant or the relevant GCP which is not an Exchange Participant of such mapping information and any changes thereto as provided by the Master SPSA Holder. The aggregate sellable balances of China Connect Securities in all the Special Segregated Accounts mapped to the same Master SPSA ID, and not those in the individual Special Segregated Accounts, shall be used to determine the maximum amount of China Connect Securities that may be sold through such Master SPSA ID on a particular Trading day. Each Special Segregated Account can be mapped to only one Master SPSA ID. HKSCC shall be entitled to rely and act on the mapping information submitted by the Master SPSA Holder, and shall not be responsible for any inaccuracies, omissions or errors in relying or acting on such mapping information.

**4105. China Connect Securities and China Connect Clearing Houses**

HKSCC may accept any China Connect Securities that are executed via a Trading Link as Eligible Securities under Rule 501 and may discontinue the acceptance of any China Connect Securities as Eligible Securities under Rule 502.

HKSCC will establish and maintain the following lists and will publish them on the HKEX website or by such other means as it considers appropriate:

- (a) a list of China Connect Securities that are accepted as Eligible Securities;
- (b) a list of China Connect Clearing Houses with which it has entered into Clearing Links; and
- (c) a list of China Connect Clearing Participants as mentioned in Rule 4103.

**4106. Clearing and settlement of China Connect Securities Trades**

- (a) Any China Connect Clearing Services in relation to clearing and settlement shall be provided by HKSCC in accordance with the following principles:
  - (i) any China Connect Securities Trade shall, similar to the clearing and settlement arrangements for other non-China Connect Securities Trades on the relevant China Connect Market, be cleared and settled by the relevant China Connect Clearing House in accordance with its rules and procedures; and

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- (ii) in addition, HKSCC shall, in its capacity as participating clearing house and clearing participant of the relevant China Connect Clearing House and in its capacity as central clearing party to China Connect Clearing Participants, provide clearing and settlement services in respect of China Connect Securities Trades to China Connect Clearing Participants.
- (b) In relation to any China Connect Securities Trade executed by the relevant SEHK Subsidiary for a China Connect Exchange Participant with a member of the relevant China Connect Market, HKSCC and the relevant China Connect Clearing Participant agree that:
- (i) the rights and obligations of the parties to the China Connect Securities Trade (or of their respective participants of the relevant China Connect Clearing House, if the relevant party is not itself a participant of the China Connect Clearing House) shall be transferred to the China Connect Clearing House, which becomes substituted as the sole settlement counterparty of each of the buyer and seller of the China Connect Securities Trade, in accordance with the rules of the China Connect Clearing House;
  - (ii) at the same time as such transfer of rights and obligations to the China Connect Clearing House, there shall be created through Novation a Market Contract between HKSCC and the relevant China Connect Clearing Participant on the same terms as the rights and obligations created pursuant to the rules of the relevant China Connect Clearing House between HKSCC and the China Connect Clearing House under (i) above, but with the China Connect Clearing Participant taking on the rights and obligations of HKSCC and HKSCC taking on the rights and obligations which are assumed by the China Connect Clearing House from the other participant of the China Connect Clearing House under the China Connect Securities Trade as mentioned in (i) above;
  - (iii) the relevant China Connect Clearing Participant referred to in (ii) above shall be the China Connect Exchange Participant for whom the China Connect Securities Trade was executed or, if it is not a China Connect Clearing Participant, its General Clearing Participant; and
  - (iv) the arrangements set out in this Rule 4106(b) shall be construed to amount to the Novation or replacement of the China Connect Securities Trade, at the time of transfer of the rights and obligations to the relevant China Connect Clearing House, into or by:
    - (1) the relevant rights and obligations between the relevant participant of the China Connect Clearing House and the China Connect Clearing House pursuant to its rules, as referred to in (i) above;
    - (2) the relevant rights and obligations between HKSCC and the China Connect Clearing House pursuant to its rules, as referred to in (i) above; and
    - (3) a Market Contract between HKSCC and the China Connect Clearing Participant pursuant to the Rules, as referred to in (ii) above.
- (c) In relation to any China Connect Securities Trade executed between an SEHK Subsidiary for a China Connect Exchange Participant on the one side and an SEHK Subsidiary for another China Connect Exchange Participant on the other side:

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- (i) the provisions of Rule 4106(b) shall mutatis mutandis apply except that, at the same time as such transfer of rights and obligations to the relevant China Connect Clearing House whereby the relevant China Connect Clearing House becomes substituted as the buyer to HKSCC as seller on the one side and as the seller to HKSCC as buyer on the other side, there shall be created through Novation two Market Contracts as follows:
- (1) a contract between HKSCC and one relevant China Connect Clearing Participant on the same terms as the rights and obligations created between HKSCC as seller and the China Connect Clearing House as buyer as aforesaid, but with the China Connect Clearing Participant taking on the rights and obligations of HKSCC as seller and HKSCC taking on the rights and obligations which are assumed by the China Connect Clearing House as buyer; and
  - (2) an equal but opposite contract between the other relevant China Connect Clearing Participant and HKSCC on the same terms as the rights and obligations created between HKSCC as buyer and the China Connect Clearing House as seller as aforesaid, but with the China Connect Clearing Participant taking on the rights and obligations of HKSCC as buyer and HKSCC taking on the rights and obligations which are assumed by the China Connect Clearing House as seller;
- (ii) the arrangements set out in this Rule 4106(c) shall be construed to amount to the Novation or replacement of the China Connect Securities Trade, at the time of transfer of rights and obligations to the relevant China Connect Clearing House, into or by:
- (1) a Market Contract between the first relevant China Connect Clearing Participant and HKSCC pursuant to the Rules;
  - (2) the relevant rights and obligations between HKSCC and the China Connect Clearing House corresponding to such contract pursuant to its rules;
  - (3) another Market Contract between the other relevant China Connect Clearing Participant and HKSCC pursuant to the Rules; and
  - (4) the relevant rights and obligations between HKSCC and the China Connect Clearing House corresponding to such other contract pursuant to its rules.
- (d) Each Market Contract between the relevant China Connect Clearing Participant and HKSCC arising from the Novation of the China Connect Securities Trade as described in this Rule 4106 shall be settled by the China Connect Clearing Participant in accordance with the Rules with HKSCC in its capacity as participating clearing house of the China Connect Clearing House. HKSCC, in its capacity as participating clearing house and also a clearing participant of the China Connect Clearing House, will in turn settle the relevant rights and obligations between HKSCC and the China Connect Clearing House arising from the China Connect Securities Trade as described in this Rule 4106 in accordance with the rules of the China Connect Clearing House, subject to any Clearing Link Agreement which HKSCC may have entered into with such China Connect Clearing House.

#### **4107. Risk Management Measures applicable to China Connect Securities Trades**

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**i. Mainland Settlement Deposit and Mainland Security Deposit**

Each China Connect Clearing Participant shall on demand provide to HKSCC such amount of Mainland Settlement Deposit and Mainland Security Deposit for each China Connect Market as may from time to time be determined by HKSCC to be payable by the China Connect Clearing Participant in respect of its or its NCCCPs' China Connect Securities Trades on that China Connect Market.

HKSCC shall be entitled from time to time and at any time to compute Mainland Settlement Deposit and Mainland Security Deposit using the methodology set forth in the Operational Procedures or such other methods and assumptions as HKSCC may consider appropriate. Unless HKSCC otherwise specifies, in respect of each China Connect Market, (i) Mainland Settlement Deposit will be computed by reference to the buy turnover in China Connect Securities and any overdue short CNS stock positions in China Connect Securities of a China Connect Clearing Participant and its NCCCPs on that China Connect Market and the sell turnover in China Connect Securities that are executed on that China Connect Market by the China Connect Clearing Participant and its NCCCPs for Special Segregated Accounts; and (ii) Mainland Security Deposit will be computed by reference to the net trading amount in China Connect Securities Trades of the China Connect Clearing Participant and its NCCCPs on that China Connect Market.

The calculation and collection of Mainland Settlement Deposit and Mainland Security Deposit and the use of any surplus Mainland Security Deposit shall be made in accordance with the Operational Procedures.

HKSCC shall have the right to satisfy its obligations as clearing participant to the China Connect Clearing House under the relevant Clearing Link with, or otherwise use, funds provided by China Connect Clearing Participants as Mainland Settlement Deposit and Mainland Security Deposit. Without limitation to the foregoing or to application of such funds in accordance with the rules of the China Connect Clearing House, HKSCC may use such funds for money settlement in the event that the usual money settlement procedures between HKSCC and the China Connect Clearing House under the relevant Clearing Link are temporarily delayed or prevented as a result of any Typhoon Signal No. 8 or above, Extreme Conditions, Black Rainstorm Warning, human error or delay, third party or technical incidents or force majeure events, provided that HKSCC will endeavour to replenish the funds used in such money settlement as soon as practicable. For the avoidance of doubt, in such situations HKSCC shall still be liable to pay to a China Connect Clearing Participant an amount equal to the Mainland Settlement Deposit and Mainland Security Deposit provided by it (less any amount if any used to satisfy obligations and liabilities of such China Connect Clearing Participant) in accordance with Rule 4107(v).

**ii. Marks**

HKSCC shall be entitled from time to time and at any time Mark-to-market all unsettled CNS stock positions in China Connect Securities of a China Connect Clearing Participant by reference to the market price of the China Connect Securities.

Each China Connect Clearing Participant shall on demand provide to HKSCC such amounts of Marks as may be considered appropriate by HKSCC as a result of the Mark-to-market of all unsettled CNS stock positions in China Connect Securities to which such Participant is a party.

The calculation and collection of Marks shall be made in accordance with the Operational Procedures.

**iii. Collateral**

Each China Connect Clearing Participant shall on demand provide to HKSCC such Collateral in such form, to such extent and in such manner as may from time to time be determined by HKSCC to be appropriate by reference to, inter alia, the level of exposure of such China Connect Clearing Participant to HKSCC (including, but not limited to, the risks associated with the effecting of Closing-out Contracts relating to China Connect Securities pursuant to Rule 3607 in the event of a default by the China Connect Clearing Participant) and such other matters as HKSCC shall consider relevant, all in accordance with the Rules.

A China Connect Clearing Participant may, but is not required to, provide Collateral to HKSCC for the early release of China Connect Securities that are Securities-on-hold in accordance with Sections 10A.14.4A and 10A.14.5A of the Operational Procedures.

A China Connect Clearing Participant providing Collateral to HKSCC, where applicable, represents and warrants in favour of HKSCC that it has title and authority to provide such Collateral to HKSCC, free from all liens, charges, encumbrances, equities and all other third party rights of any nature whatsoever.

**iv. Form of Mainland Settlement Deposit, Mainland Security Deposit, Marks and Collateral**

Unless HKSCC otherwise approves or the Operational Procedures otherwise provide, China Connect Clearing Participants shall provide Mainland Settlement Deposit, Mainland Security Deposit, Marks and Collateral required pursuant to Rules 4107(i) to (iii) in the form of cash in Renminbi and Collateral referred to in Rule 4107(iii) for the early release of Securities-on-hold in the form of cash in HKD or USD. The provision of Mainland Settlement Deposit, Mainland Security Deposit, Marks and/or Collateral in any other currency or any other form, if it is accepted by HKSCC, shall be subject to such conditions and up to such limits as HKSCC may from time to time determine.

HKSCC may without prior notice to the relevant China Connect Clearing Participant apply all or any of the Mainland Settlement Deposit, Mainland Security Deposit, Marks and/or Collateral (including all rights and entitlements thereto, if any) provided by it in or towards the satisfaction of any of its obligations and liabilities (actual or contingent) to HKSCC. The only obligation of HKSCC to such Participant in respect of any Mainland Settlement Deposit, Mainland Security Deposit, Marks and/or Collateral provided to HKSCC shall be to pay such Participant an amount equal to the balance remaining after satisfaction of all such obligations and liabilities.

HKSCC has absolute discretion to determine the order of application of such Mainland Settlement Deposit, Mainland Security Deposit, Marks and/or Collateral in such manner as it considers appropriate.

A China Connect Clearing Participant shall not create or permit to subsist any mortgage, charge or other encumbrance over all or any of the Mainland Settlement Deposit, Mainland Security Deposit, Marks and/or Collateral provided by it to HKSCC. The Mainland Settlement Deposit, Mainland Security Deposit, Marks and/or Collateral shall be in addition to and independent of any cover provided to HKSCC and any security which HKSCC may at any time hold for the obligations and liabilities of such China Connect Clearing Participant.

**v. Mainland Settlement Deposit, Mainland Security Deposit, Marks and Collateral in**

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**the form of cash**

Cash in Renminbi or any other currency provided by a China Connect Clearing Participant to HKSCC pursuant to Rules 4107(i), 4107(ii) and/or 4107(iii) shall be recorded as credit entries in the CCMS House Collateral Account (or any other CCMS Collateral Account as determined by HKSCC) of the Participant. The only obligation of HKSCC to the Participant in respect of such amounts shall be to pay the Participant an amount equal to the balance remaining after satisfaction of all obligations and liabilities (actual or contingent) of such Participant to HKSCC.

**vi. Guarantee Fund**

A China Connect Clearing Participant's money settlement obligations and CNS positions in China Connect Securities shall be included in the determination of the China Connect Clearing Participant's Contributions to the Guarantee Fund. The calculation of the Contributions by a Clearing Participant to the Guarantee Fund, whether or not it is a China Connect Clearing Participant, shall be made in accordance with the Operational Procedures.

**vii. [Repealed]****viii. Securities-on-hold**

Until such time as HKSCC is satisfied that (i) it has received payment in full in respect of China Connect Securities delivered by HKSCC to a China Connect Clearing Participant under the CNS System on a particular Settlement Day; and (ii) such payment is good and irrevocable, or the required amount of Collateral has been received in good and irrevocable funds pursuant to an application for the early release of Securities-on-hold that has been approved by HKSCC in accordance with Section 10A.14.5A of the Operational Procedures, or unless otherwise agreed by HKSCC, title, property or any interest in such China Connect Securities ("Securities-on-hold") shall not pass to the China Connect Clearing Participant.

For the avoidance of doubt, title, property or interest in Securities-on-hold shall be deemed to have passed when such China Connect Clearing Participant is allowed by HKSCC to use or transfer such China Connect Securities in CCASS but at any time before then, HKSCC shall be free to use or apply such China Connect Securities in such manner as HKSCC considers appropriate.

**ix. Money compensation and payment obligations**

In addition to any other rights HKSCC may have under the Rules:

- (i) where HKSCC has an obligation to deliver securities under a Market Contract in any China Connect Security, HKSCC may in lieu of delivering securities make money compensation to the China Connect Clearing Participant concerned notwithstanding that such securities may be available in the relevant market. HKSCC shall only exercise its powers under this Rule in circumstances when HKSCC considers in its reasonable opinion that the securities are not freely available in the relevant market. The money compensation shall be in such amount and in such currency or currencies (whether in the Eligible Currency in which the securities are denominated or otherwise) as HKSCC considers to be fair and reasonable having regard to all the circumstances of the case;



- (ii) where HKSCC has an obligation to make payment under a Market Contract in any China Connect Security in an Eligible Currency in which the relevant securities are denominated or in a specified Eligible Currency, notwithstanding that the relevant Eligible Currency may be available, HKSCC may in lieu of making payment in that Eligible Currency make payment to the China Connect Clearing Participant concerned, 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 having regard to all the circumstances of the case. HKSCC shall only exercise its powers under this Rule in circumstances when HKSCC considers in its reasonable opinion that the relevant Eligible Currency is not freely available or convertible in the market.

**x. Closing-out**

If at any time HKSCC decides that an Event of Default exists in relation to a China Connect Clearing Participant, HKSCC may, in respect of the obligations of such China Connect Clearing Participant arising out of all or any Market Contracts in China Connect Securities to which it is a party and which are unsettled at the time (whether or not due for settlement), on behalf of the China Connect Clearing Participant, enter into Closing-out Contracts 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) and for such purpose, HKSCC may instruct other authorized brokers to assist.

Each defaulting China Connect Clearing Participant 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 entering into such Closing-out Contracts by HKSCC.

**xi. Obligations of HKSCC in respect of China Connect Securities Trades**

Notwithstanding any provisions of the Rules to the contrary, the obligations of HKSCC under a Market Contract arising from a China Connect Securities Trade shall be limited exclusively to:

- (a) the amount of securities or payments it receives from the China Connect Clearing House in respect of such China Connect Securities Trade; and
- (b) amounts recovered by HKSCC from the China Connect Clearing House pursuant to any claims that may be made by HKSCC against the China Connect Clearing House.

To the extent that the aggregate of the amounts received or recovered from the China Connect Clearing House is insufficient at any time to meet the aggregate of HKSCC's liabilities to China Connect Clearing Participants under all Market Contracts arising from China Connect Securities Trades subsisting at any time (whether due to the insolvency or winding-up of the China Connect Clearing House or any breach, default or inability to perform any of its obligations under the relevant Clearing Link or any other reason), each China Connect Clearing Participant to which HKSCC is liable shall only be entitled to receive payment or delivery of securities pro rata according to the amount due to it as compared with the aggregate due to all China Connect Clearing Participants as determined by HKSCC. HKSCC shall remain liable on all such Market Contracts which remain to be settled by HKSCC, but payment or delivery of the balance of any amounts due shall only be made as and when, and to the extent that, the amounts are subsequently received or recovered from the China Connect Clearing

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House.

**4108. Fees and charges of China Connect Clearing Houses**

Participants shall pay all fees, charges, levies and taxes that are required by the relevant China Connect Clearing House or applicable laws to be payable in respect of the China Connect Securities that are maintained in HKSCC's account with the China Connect Clearing House, including all fees, charges, levies and taxes relating to the clearing, settlement, custodian and other services that may be provided in respect of such China Connect Securities. HKSCC will publish information on fees, charges, levies and taxes payable and the manner of collection on the HKEX website or through such other means as HKSCC considers appropriate.

**4109. Conditions and restrictions on the use of China Connect Clearing Services**

HKSCC has absolute discretion to impose or amend conditions or restrictions for access to or the use of China Connect Clearing Services from time to time for the purpose of ensuring that the clearing and settlement of China Connect Securities and the depository, nominee and other services relating to China Connect Securities through the use of China Connect Clearing Services will not contravene applicable laws or for any other reasons which HKSCC considers appropriate. Different conditions or restrictions may be prescribed in respect of different China Connect Securities and China Connect Markets. HKSCC will publish the conditions or restrictions on the HKEX website or through such other means as HKSCC considers appropriate. Participants shall comply with all such conditions and restrictions in all respects.

**4110. Compliance with applicable laws and the Rules**

**i. General**

Each Participant holding China Connect Securities through HKSCC and each Participant registered as a China Connect Clearing Participant agrees and represents to HKSCC that it shall, for so long as it continues to have such holding or remains so registered, comply with and abide by:

- (a) all applicable laws with regard to any interest it may have in China Connect Securities that are held through HKSCC, including laws and regulations relating to shareholding, transfer or off-market dealing restrictions, disclosure of interests and payment of taxes; and
- (b) the Rules and any requirements, conditions, restrictions, arrangements and other stipulations that may be issued or published pursuant to the Rules with regard to the clearing and settlement of China Connect Securities or the use of China Connect Clearing Services.

A Participant is subject to and shall comply with this Chapter 41 in addition to those applicable to it under the other provisions of the Rules, unless otherwise determined by HKSCC. For the avoidance of doubt, nothing in this Chapter 41 shall affect or relieve the obligations and liabilities of a Participant under the Rules.

HKSCC may suspend, restrict or terminate a Participant's access to or use of any China Connect Clearing Services where the Participant fails to comply with the Rules including any provision in this Chapter 41. This is without prejudice to any other action that HKSCC may take against the Participant or any other rights of HKSCC.

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**ii. Obligation to provide information and disclosure of information**

Without prejudice to the generality of Rule 2806, HKSCC may direct a Participant to provide it with such information or document in Chinese (or where the information or document is not in the Chinese language, a Chinese translation thereof) as required by a China Connect Clearing House or a relevant governmental, regulatory or competent authority for the purpose of any investigation within a period specified by HKSCC.

Without prejudice to the rights and powers of HKSCC under Rules 2803 to 2805, if required for a China Connect Clearing House to comply with any local or international regulatory standards applicable to it in respect of any Clearing Link entered into between HKSCC and such China Connect Clearing House, HKSCC may disclose to the China Connect Clearing House any information concerning or in connection with a Participant at any time, and the China Connect Clearing House may disclose such information on an aggregated and/or anonymised basis at any time to specified persons or to the public.

**iii. Restrictions on non-trade transfers**

In accordance with the requirements of the relevant governmental, regulatory or competent authority, Participants shall not effect any non-trade transfer in China Connect Securities, other than any transfer as a result of or in connection with the following:

- (a) stock borrowing and lending as permitted under the Exchange Rules for the purpose of the short-selling of China Connect Securities;
- (b) stock borrowing and lending as permitted under the Exchange Rules for the purpose of enabling a client to sell China Connect Securities which the client holds but which have not been transferred to the Stock Account of the relevant Participant in time for pre-trade checking;
- (c) the rectification of a trading error between an Exchange Participant and a client;
- (d) post-trade allocation of China Connect Securities to funds or sub-funds in different accounts by fund managers who have entered into China Connect Securities Trades for the collective account of funds or sub-funds under management;
- (e) succession;
- (f) divorce;
- (g) the dissolution, liquidation or winding-up of any company or corporation;
- (h) donation to a charitable foundation;
- (i) assisting in any enforcement in connection with proceedings or action taken by any court, prosecutor or law enforcement agency; or
- (j) any other transfer as may be permitted by the relevant China Connect Market Operator, China Connect Clearing House and/or the China Securities Regulatory Commission.

For the avoidance of doubt, (i) any Stock Account transfer relating to China Connect Securities that does not involve any change in beneficial interest and (ii) the taking of security or collateral over China Connect Securities in a manner that does not involve non-trade transfer, shall not be affected or otherwise prevented.

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#### iv. Shareholding restrictions

In the event that HKSCC, the Exchange or an SEHK Subsidiary is notified by the relevant China Connect Market, China Connect Clearing House or governmental, regulatory or competent authority that HKSCC's holding in a China Connect Security for Participants has caused any foreign shareholding limit to be exceeded in breach of any applicable law, HKSCC shall have the power to require Participants, as determined by HKSCC on a last-in-first-out basis, to reduce such amount of holdings in their respective Stock Accounts within such time period as may be required by HKSCC such that the applicable foreign shareholding limit will no longer be exceeded.

Upon receipt of a Forced-Sale Notice, the Participant shall:

- (a) notify HKSCC of such information as may be requested by HKSCC, including the particulars of the persons (as determined on a last-in-first-out basis) whose holdings in the China Connect Security need to be sold, details of such holdings, and if such holdings have been transferred by Settlement Instructions to the custody of any other Participant, details of such Participant(s);
- (b) where any of the holdings are for the account of the Participant itself, sell such holdings in the China Connect Security by the required amount within the time period specified in the Forced-Sale Notice;
- (c) where any of the holdings are for the account of a client, instruct such client to sell its holdings in the China Connect Security by the required amount within the time period specified in the Forced-Sale Notice;
- (d) unless its or the relevant client's holdings in the China Connect Security have already been transferred to another Participant by the time the Forced-Sale Notice is received, ensure that such holdings are not transferred by Settlement Instruction or otherwise out of the Stock Accounts of the Participant except for the settlement of the sale of such holdings as required under the Forced-Sale Notice;
- (e) where the relevant client's holdings remain in or have been transferred back to the Stock Accounts of the Participant but its client fails to effect the sale of its holdings as required within the period specified by HKSCC, the Participant shall effect such sale on behalf of the client on the Trading day immediately following the expiry of such period. Participants shall have arrangements and authorizations in place to enable them to effect such sale on behalf of their clients should they fail to do so within the specified time period; and
- (f) once its and/or its clients' holdings have been sold as required, notify HKSCC and provide HKSCC with such supporting document as it may require.

In the event that a Participant which is a GCP has been notified by HKSCC or has otherwise been informed that any NCCCP of the Participant has been issued with a Forced-Sale Notice, the Participant shall ensure that such NCCCP's relevant holdings (to the extent they still remain in the Participant's Stock Account) are not transferred by Settlement Instruction or otherwise out of the Stock Accounts of the Participant except for the settlement of the sale of such relevant holdings as required under the Forced-Sale Notice. If by the time it is notified of the Forced-Sale Notice, the relevant holdings of the NCCCP have already been transferred to another Participant, the Participant shall provide HKSCC with such details of such other Participant as HKSCC may require.

Notwithstanding the above, in the event that the aggregate foreign shareholding in the relevant China Connect Security is reduced to below the statutory limit after a Forced-Sale Notice is served on the Participant or an NCCCP of the Participant, and the Participant has been notified that the Forced-Sale Notice no longer applies, the Participant shall not be obliged to comply with paragraphs (d) to (f) above or the immediately preceding paragraph in respect of all or part (as the case may be) of its clients' or the NCCCPs' holdings in the China Connect Security.

If the relevant holdings of the Participant's clients or NCCCPs have already been transferred to any other Participant by the time a Forced-Sale Notice is received as mentioned above, such other Participant shall:

- (a) provide such confirmation to HKSCC as it may require regarding the clients' or NCCCPs' holdings in the China Connect Security;
- (b) transfer such clients' or NCCCPs' holdings back to the original Participant by way of Settlement Instruction within such time period as may be specified by HKSCC unless prior to the expiry of such period, a waiver from compliance with the sale requirement has been notified to the Participant. Participants shall have arrangements and authorizations in place to enable them to effect such transfers on behalf of their clients should their clients fail to expressly instruct them to do so within the specified time period; and
- (c) once such clients' or NCCCPs' holdings have been transferred back to the original Participant, notify HKSCC and provide HKSCC with such supporting documents as it may require.

#### **4111. Suspension and Cessation of Operation of China Connect Clearing Services and emergency arrangements**

Without prejudice to its right under Rule 2601, HKSCC may temporarily suspend or restrict the China Connect Clearing Services or any part thereof in its sole and absolute discretion. Suspension or restriction may be in respect of all or any of the China Connect Securities or any one or more China Connect Markets or China Connect Clearing Houses, and for such duration and frequency as HKSCC may consider appropriate.

The circumstances under which the powers under this Rule 4111 may be exercised include, without limitation, the following:

- (a) in the judgment of HKSCC, orderly, fair and expeditious clearing and settlement arrangements for any transactions in China Connect Securities may not exist or be maintained;
- (b) in the judgment of HKSCC, there are operational or technical issues which must be resolved before the China Connect Clearing Services should continue to be made available or not be restricted;
- (c) where the Commission, a relevant governmental, regulatory or competent authority or a China Connect Clearing House has requested for a suspension or restriction of the China Connect Clearing Services or any part thereof; and
- (d) where all or part of the relevant Clearing Link or Trading Link is suspended for any reason.

If HKSCC decides to suspend or restrict the China Connect Clearing Services or any part

thereof under this Rule 4111, HKSCC shall publish an announcement on the HKEX website or by such other means as HKSCC considers appropriate, stating the nature of the suspension or restriction, the effective date and time of suspension or restriction and any other information as HKSCC considers appropriate.

If in the opinion of HKSCC, the operation or functioning of the China Connect Clearing Services is, or is likely to be, severely or adversely threatened or affected by an emergency including but not limited to fire or other casualty or accident, typhoon, Extreme Conditions, rainstorm, power outage, communications breakdown, system failure, computer malfunction, war, riot, civil commotion, labour strike, material change of law or issue of any governmental or regulatory order, decree or judgment having significant impact on the continuous operation of the China Connect Clearing Services, a China Connect Clearing House or a China Connect Market Operator or other similar events, HKSCC shall have full authority to take such actions, steps or measures, whether in relation to the China Connect Clearing Services (including suspension or restriction of access to or use of all or part of the services or change of operational hours) or otherwise as it may deem necessary or appropriate to deal with such emergency.

HKSCC may decide to cease the provision of the China Connect Clearing Services permanently with immediate effect or otherwise by publishing an announcement on the HKEX website or by such other means as HKSCC considers appropriate, and HKSCC will specify the arrangements and conditions (including the treatment of any outstanding positions in China Connect Securities Trades or any holdings of China Connect Securities) upon which cessation shall take effect, having regard to such considerations and circumstances as HKSCC may consider appropriate.

#### **4112. Typhoons, Extreme Conditions and rainstorms**

If Typhoon Signal No. 8 or above is hoisted or lowered, Extreme Conditions are announced or cancelled and/or a Black Rainstorm Warning is issued or cancelled on any Mainland Business Day, the provisions set out in the Operational Procedures with respect to China Connect Clearing Services under such circumstances shall apply.

#### **4113. Responsibilities of HKSCC**

In making the China Connect Clearing Services available, HKSCC is only providing arrangements and services to facilitate the clearing and settlement of China Connect Securities Trades and related nominee and depository services. Except expressly provided for under these Rules, HKSCC, the Exchange and HKEX and their respective directors, employees and agents shall not be liable for any obligation with respect to any China Connect Securities Trade, and all obligations and liabilities in relation to or arising from any China Connect Securities Trade, the holding of any China Connect Securities or the use of any China Connect Clearing Service by a Participant shall be borne by the Participant concerned. In addition to any indemnities given by a Participant under these Rules, each Participant shall fully indemnify HKSCC, the Exchange and HKEX and their respective directors, employees and agents and keep each of them indemnified against all third party claims, actions and proceedings in relation to or arising from, directly or indirectly, any China Connect Securities Trade of the Participant, the holding of any China Connect Securities or the use of any China Connect Clearing Service by the Participant and all losses, damages, costs and expenses incurred by HKSCC, the Exchange and HKEX and their directors, employees and agents in relation to such claims, actions and proceedings.

HKSCC, the Exchange and HKEX, and their respective directors, employees and agents shall not be responsible or held liable for any loss or damage directly or indirectly suffered by a Participant, its clients or NCCCPs (if applicable) or any third parties arising from or in

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connection with the China Connect Clearing Services including, without limitation, the following:

- (1) any suspension, delay, restriction, interruption or cessation of any China Connect Clearing Services, or any inability to access or use any China Connect Clearing Services;
- (2) any special arrangement put in place or any action, step or measure taken or not taken to deal with an emergency;
- (3) the clearing and settlement of any China Connect Securities Trades through the use of the China Connect Clearing Services and any related nominee, depository or other services;
- (4) any delay or failure to provide any China Connect Clearing Services due to any system or connection failure, power outage, software or hardware malfunction or events beyond the control of HKSCC;
- (5) any delay, failure or error of CCASS or any system of the relevant China Connect Clearing House or any of its or HKSCC's designated or agent banks or any other system upon which HKSCC is reliant in providing the China Connect Clearing Services;
- (6) any delay or failure to execute or error in clearing or settling any China Connect Securities Trades due to reasons beyond the control of HKSCC including but not limited to any action, decision or order taken or made, or not taken or made, by any China Connect Clearing House or a relevant governmental, regulatory or competent authority or a court of competent jurisdiction, including but not limited to any court order or injunction that may be made against the account maintained by HKSCC with the China Connect Clearing House;
- (7) any delay or failure to execute or error in clearing or settling any China Connect Securities Trades by the relevant China Connect Clearing House for any reason;
- (8) any delay or failure by any bank or payment system designated or used by HKSCC or the relevant China Connect Clearing House in effecting settlement or other payment instructions, in providing cross-boundary transfer of Renminbi or other currencies between Mainland China and Hong Kong or in providing any other services upon which HKSCC is reliant in providing China Connect Clearing Services or in operating the relevant Clearing Link, or the insolvency of any such bank;
- (9) the imposition, introduction or change of any condition, restriction or requirement on the use of the China Connect Clearing Services under these Rules; and
- (10) the taking of any action or the exercise of any discretion, or not doing so, by HKSCC pursuant to these Rules or otherwise.

#### **4114. Termination as China Connect Clearing Participant**

HKSCC may at any time by giving not less than ten (10) Business Days' notice in writing terminate the registration of a Clearing Participant as a China Connect Clearing Participant.

Subject as otherwise provided, a Clearing Participant may by giving not less than one month's notice in writing to HKSCC terminate its registration as a China Connect Clearing Participant. At any time after receipt of notice to terminate registration, HKSCC shall have

the right to decline to accept any instruction or give effect to any transaction relating to the clearing and settlement of China Connect Securities Trades involving such Clearing Participant if HKSCC considers it appropriate in the interests of HKSCC or other Participants.

Upon termination of a Clearing Participant as a China Connect Clearing Participant, provided that all liabilities of such Clearing Participant to HKSCC in respect of Market Contracts in China Connect Securities, whether actual or contingent, have been satisfied or provided for in full and provided that all payments by HKSCC to the relevant China Connect Clearing House as cover for HKSCC's corresponding liabilities to the China Connect Clearing House have been repaid by the China Connect Clearing House to HKSCC, HKSCC shall, subject to any deductions which may be allowed under these Rules, repay to the Clearing Participant such amount as shall represent the balance of any Mainland Settlement Deposit and Mainland Security Deposit which the Clearing Participant has provided to HKSCC within eight months of the termination of the Clearing Participant as a China Connect Clearing Participant, or such other period as HKSCC in its absolute discretion considers appropriate.