
APPENDIX 6**COMPULSORY STOCK BORROWING AND LENDING REGULATIONS****1. Interpretation**

1.1 Unless otherwise defined herein, terms defined in the Rules of CCASS shall have the same meaning in these Regulations.

1.2 In these Regulations:

“Adjustment Event” means, in relation to Eligible Securities, a conversion, subdivision, consolidation, redemption, takeover, capitalisation issue, rights issue or event similar to the foregoing but does not include any Income distribution;

“Borrowing Request” means an electronic request generated by HKSCC in accordance with the Operational Procedures specifying the description, title and amount of the Eligible Securities required by HKSCC for the purposes of a Compulsory Stock Borrowing Transaction;

“Collector” means the Collector of Stamp Revenue appointed under Section 3 of the Stamp Duty Ordinance;

“Deemed Recall Date” shall have the meaning given to it in section 6.6;

“Delivery Date” means the date upon which interests in Eligible Securities are transferred to HKSCC in accordance with these Regulations for the purposes of a Compulsory Stock Borrowing Transaction;

“Equivalent Securities” means securities of an identical type, nominal value (if applicable), description and amount to particular Eligible Securities borrowed and such term shall include the certificates and other documents of or evidencing title and transfer in respect of the foregoing (as appropriate).

If and to the extent that a Mandatory Adjustment Event (as defined below) occurs in respect of such Eligible Securities, the expression shall mean, in respect of those Eligible Securities and as appropriate:

- (a) securities equivalent to the borrowed Eligible Securities together with a sum of money or securities or other property equivalent to that received in respect of such borrowed Eligible

Securities as a result of such event; or

- (b) a sum of money or securities or other property equivalent to the money, securities or other property (as applicable) that is received in place of the borrowed Eligible Securities as a result of such event;

“Future Obligations”	shall have the meaning given to it in section 11.1;
“Income”	means any dividends, interest or other distributions of any kind whatsoever with respect to any Eligible Securities;
“Mandatory Adjustment Event”	means an Adjustment Event to which shares will be subject without the need for any consent of, or election by, the holder of those shares in respect of that event;
“Recall Date”	means the date on which a notice of recall is treated as having been served under section 13.3;
“Redelivery Date”	means, as the context requires, the date on which interests in Equivalent Securities are, or are to be, redelivered by HKSCC in accordance with these Regulations under a Compulsory Stock Borrowing Transaction;
“Stamp Duty Ordinance”	means the Hong Kong Stamp Duty Ordinance (Cap.117), as amended from time to time; and
“these Regulations”	means the regulations set out in this Appendix 6 as amended from time to time and shall include, to the extent applicable, the CCASS Rules.

- 1.3 Notwithstanding the use of expressions such as “borrow”, “lend”, “redeliver” etc which are used to reflect terminology used in the market for transactions of the kind provided for in these Regulations, title to Eligible Securities “borrowed” or “lent” in accordance with these Regulations shall, in relation to each Compulsory Stock Borrowing Transaction, pass from the Lender to HKSCC as provided for in these Regulations, HKSCC as the party obtaining title being obliged to redeliver title to Equivalent Securities to the Lender in accordance with these Regulations.

2. Loans of Eligible Securities

- 2.1 Compulsory Stock Borrowing Transactions will be made and performed in accordance with the terms and conditions of these Regulations.
- 2.2 Eligible Securities held by a Participant other than an Investor Participant in its Stock Lending Account will be available for lending to HKSCC under these Regulations. Except as otherwise provided in these Regulations, once a Borrowing Request is matched with Eligible Securities in a Participant’s Stock

Lending Account in accordance with the Operational Procedures, the relevant Eligible Securities will be debited from that Participant's Stock Lending Account and credited to HKSCC's account in CCASS in accordance with the Operational Procedures.

- 2.3 Subject to sections 9.1(b) and 11.1, in respect of a Compulsory Stock Borrowing Transaction, the Lender agrees that the loan of Eligible Securities has no fixed term and shall be terminable by recall or redelivery in accordance with section 6.

3. **Rights and Title**

- 3.1 In respect of a Compulsory Stock Borrowing Transaction, HKSCC and the Lender agree that upon credit to HKSCC's account in CCASS, all rights, title and interest in and to the Eligible Securities borrowed shall pass from the Lender to HKSCC. HKSCC shall have no obligation to return or redeliver any of the assets so acquired but, in respect of any Eligible Securities that are borrowed, HKSCC shall be obliged, subject to the terms of these Regulations, to redeliver Equivalent Securities.
- 3.2 Subject to section 3.3, in respect of a Compulsory Stock Borrowing Transaction, where Income is paid in relation to Eligible Securities which are subject to a loan thereunder, HKSCC shall on the date of payment of such Income, or such other date as HKSCC may reasonably select, pay and deliver a sum of money or property equivalent to the amount of such Income that the Lender would have been entitled to receive had such Eligible Securities not been loaned to HKSCC and had been retained by the Lender together with any such endorsements or assignments as shall be customary and appropriate to effect the delivery to the Lender irrespective of whether HKSCC received the same. If in relation to a Compulsory Stock Borrowing Transaction the Lender would have been entitled to receive Income by way of property and HKSCC is unable to deliver the necessary property, HKSCC's obligation to pay such Income shall be satisfied by the payment of cash in an amount which HKSCC fairly and reasonably considers to be the value of the property which was to be delivered, calculated, where appropriate, by reference to the closing price transmitted to HKSCC by the Exchange of such property on the Exchange on the date that the Income is paid.
- 3.3 To the extent that it is possible, in relation to a Compulsory Stock Borrowing Transaction, to elect for Income to be paid by way of cash or shares, unless the Lender notifies HKSCC by 12:00 noon one Business Day before the last election day specified by the relevant Issuer, HKSCC's obligations to pay Income under section 3.2 shall be satisfied by a cash payment to the Lender of an amount equivalent to the amount of cash which would be received if the election to receive cash was made. If an election to be paid Income by way of shares is validly made in accordance with this section 3.3 and HKSCC is unable to deliver the necessary shares, HKSCC's obligation to pay such Income shall be satisfied by a payment of cash in an amount which HKSCC fairly and reasonably considers to be the value of the shares which were to be delivered, calculated where appropriate, by reference to the closing price transmitted to HKSCC by the Exchange of such shares on the Exchange on the date that the Income is paid.
- 3.4 Where, in relation to any borrowed Eligible Securities:

- (i) an Adjustment Event, other than a Mandatory Adjustment Event, occurs and the Lender would like to have Equivalent Securities delivered to it in order to consent to or exercise the election under that Adjustment Event; or
- (ii) a right to vote, other than in respect of an Adjustment Event, arises and the Lender would like to have the Equivalent Securities delivered to it in order to exercise that right to vote in relation to the Equivalent Securities,

the Lender shall serve a notice of recall on HKSCC in respect of the affected Equivalent Securities at least six Business Days before the latest date on which such consent may be given, election may be made or vote may be cast (as applicable). If such a notice is validly served by the Lender in accordance with this section 3.4 (as modified by section 13.3), HKSCC shall be obliged to redeliver Equivalent Securities in accordance with section 6.3 or, if applicable, cash in accordance with section 6.4 but shall not be under any liability if the Lender is, for whatever reason (including HKSCC's failure to redeliver the Equivalent Securities in accordance with Section 6.3), unable to give its consent, exercise its election or cast its vote (as applicable). In the absence of a validly served notice by the Lender, the Lender shall have no rights against HKSCC in relation to any right to elect, consent or vote.

3.5 In relation to Eligible Securities that are borrowed by HKSCC under a Compulsory Stock Borrowing Transaction, the Lender has only those rights that are provided for in these Regulations.

4. **Rates**

4.1 In respect of each Compulsory Stock Borrowing Transaction, HKSCC shall make payments to the Lender, in the manner prescribed in section 4.2, calculated in accordance with the Operational Procedures.

4.2 In respect of each Eligible Security borrowed under a Compulsory Stock Borrowing Transaction, the fees referred to in section 4.1 shall accrue daily in respect of the period commencing on and inclusive of the Delivery Date and terminating on and exclusive of the date on which the Equivalent Security is redelivered, save that such fees shall stop accruing with effect on and from the date on which the Lender is declared a Defaulter under CCASS Rules. Unless otherwise agreed, the fees accruing in accordance with this section 4.2 shall be paid in arrears by HKSCC to the Lender by Direct Credit Instruction at the end of each Business Day.

5. **Collateral**

HKSCC shall not, in any circumstances, be required to deliver any form of collateral to the Lender in respect of any loan of Eligible Securities.

6. **Redelivery of Equivalent Securities**

6.1 Subject to section 6.2, HKSCC undertakes to redeliver Equivalent Securities in accordance with these Regulations. For the avoidance of doubt, any reference in these Regulations or in any other agreement or communication between HKSCC and the Lender (howsoever expressed) to an obligation to redeliver or account for or act in relation to borrowed Eligible Securities shall accordingly be construed as a reference to an obligation to deliver or account for or act in relation to Equivalent Securities.

- 6.2 If for any reason HKSCC is unable to deliver Equivalent Securities (or part thereof) HKSCC's obligations under section 6.1 in respect of the undeliverable Equivalent Securities shall be satisfied by the payment of an amount which HKSCC fairly and reasonably considers to be the value of the undeliverable Equivalent Securities, calculated, where appropriate, by reference to the closing price transmitted to HKSCC by the Exchange of such securities on the date of payment.
- 6.3 In relation to a Compulsory Stock Borrowing Transaction, the Lender may call for the redelivery of all Equivalent Securities (but not part only) at any time by serving a notice of recall on HKSCC, save that a notice of recall shall not be served on the same day as Eligible Securities are delivered to HKSCC under that transaction. HKSCC shall, as hereinafter provided, redeliver such Equivalent Securities no later than five Business Days following the Recall Date.
- 6.4 Subject to section 6.6, if, in relation to a Compulsory Stock Borrowing Transaction, HKSCC fails to redeliver Equivalent Securities in accordance with section 6.3, the Lender may elect for cash compensation. Such election may be made either in the Lender's notice of recall or by notice to HKSCC at any time commencing from the sixth Business Day following the Recall Date. If, in relation to a Compulsory Stock Borrowing Transaction, the Lender does not make an election for cash compensation in the notice of recall and HKSCC fails to redeliver Equivalent Securities in accordance with section 6.3, the Lender shall, until it notifies HKSCC otherwise, be deemed to have withdrawn its notice of recall and to have elected to continue the loan. If, in relation to a Compulsory Stock Borrowing Transaction, the Lender elected for cash compensation in his notice of recall such compensation will be paid on the fifth Business Day following the Recall Date. If, in relation to a Compulsory Stock Borrowing Transaction, the Lender did not make such an election in his notice of recall but elects cash compensation on or after the sixth Business Day following the Recall Date, such compensation shall be paid on the day that the notice of election is treated as having been served under section 13.3. For the purposes of this section 6.4, cash compensation shall be paid in an amount which HKSCC fairly and reasonably considers to be the value of the Equivalent Securities which were to be redelivered calculated, where appropriate, by reference to the closing price transmitted to HKSCC by the Exchange of such securities on the date of that cash compensation is paid.
- 6.5 HKSCC shall be entitled at any time to terminate a particular Compulsory Stock Borrowing Transaction in whole or in part and to redeliver the relevant Equivalent Securities to the Lender under that transaction by crediting the Stock Lending Account of the Lender in CCASS. The Lender shall be notified of the redelivery on the same Business Day and shall accept such redelivery.
- 6.6 If, in relation to any Compulsory Stock Borrowing Transaction:
- (a) a notice of recall has been validly served by the Lender in accordance with section 13.3 and the Redelivery Date falls on a day when the relevant Equivalent Securities are suspended from trading on the Exchange; or
 - (b) the relevant Equivalent Securities are suspended from trading on the Exchange for 31 consecutive days and the Lender has not already served a notice of recall,

in the case of section 6.6(b), such Lender, shall be deemed to serve a notice of recall on the Business Day immediately following that 31st day (the "Deemed Recall Date") and in the case of either section

6.6 (a) or (b), HKSCC may elect to either redeliver Equivalent Securities or make a cash compensation payment. In each case, the Equivalent Securities or the cash compensation payment shall be redelivered or paid (as applicable) no later than five Business Days following the Recall Date or Deemed Recall Date as the case may be. For the purposes of this section 6.6, cash compensation shall be paid in an amount which HKSCC fairly and reasonably considers to be the value of the Equivalent Securities which were to be redelivered calculated, where appropriate, by reference to the last closing price transmitted to HKSCC by the Exchange of such securities on the date that cash compensation is paid.

- 6.7 No suspension in trading on the Exchange of Eligible Securities borrowed under a Compulsory Stock Borrowing Transaction shall prevent the Lender from submitting a notice of recall in respect of the Equivalent Securities.
- 6.8 Cash compensation paid by HKSCC in accordance with sections 6.4 or 6.6 in relation to a Compulsory Stock Borrowing Transaction shall constitute complete satisfaction of HKSCC's obligations in respect of that transaction.

7. **Taxation**

HKSCC hereby undertakes promptly to pay and account for any stamp duty chargeable in connection with any Compulsory Stock Borrowing Transaction, and shall indemnify and keep indemnified the Lender against any liability arising in respect thereof as a result of HKSCC's failure to do so.

8. **Lender's Warranties**

- 8.1 Each Lender hereby warrants and undertakes to HKSCC on a continuing basis to the intent that such warranties shall survive the completion of any Compulsory Stock Borrowing Transaction entered into by HKSCC and that Lender that:
- (a) it is duly authorized and empowered to enter into and perform its duties and obligations under these Regulations;
 - (b) it is not restricted under the terms of its constitution or in any other manner from lending Eligible Securities in accordance with these Regulations or from otherwise performing its obligations under these Regulations;
 - (c) it is absolutely entitled to pass full legal and beneficial ownership of all Eligible Securities provided by it under these Regulations to HKSCC free from all liens, charges and encumbrances and authority to lend or deposit the Eligible Securities shall be in the form as prescribed by HKSCC from time to time; and
 - (d) it is acting as principal for its own account in respect of each Compulsory Stock Borrowing Transaction that it enters into.

9. **HKSCC's Warranties**

9.1 HKSCC hereby warrants and undertakes to each Lender on a continuing basis to the intent that such warranties shall survive the completion of any Compulsory Stock Borrowing Transaction entered into with that Lender that:

- (a) it is borrowing or will borrow Eligible Securities under these Regulations for one or more of the "specified purposes" as required by Section 19 of the Stamp Duty Ordinance namely:
 - (i) to settle a contract to sell such Eligible Securities, whether agreed or not when the transaction is effected and whether by HKSCC or another person; or
 - (ii) to replace, in whole or in part Eligible Securities obtained by HKSCC under another stock borrowing (as defined in Section 19(16) of the Stamp Duty Ordinance); and
- (b) it will comply with the requirement for a "stock return" under Section 19 of the Stamp Duty Ordinance.

10. **HKSCC's Obligations**

10.1 HKSCC hereby undertakes to each Participant which has a Stock Lending Account that it shall:

- (a) provide the Collector with a copy of these Regulations and any amendments made to them from time to time;
- (b) within two (2) weeks of HKSCC opening a Stock Lending Account on behalf of that Participant, provide the Collector with: (i) a completed Stock Lending Account Opening form in the form prescribed from time to time by HKSCC; (ii) such fees as may be specified from time to time by the Financial Secretary for these purposes; and (iii) such other documents, particulars and information as the Collector may reasonably require; and
- (c) promptly comply with all filing and reporting obligations and do all other acts and things as may be reasonably required by the Collector from time to time.

10.2 In the event that HKSCC is in breach of any of its undertakings under section 10.1 above, the relevant Participant may (but shall not be obliged to) provide the Collector with a completed notice of Opening of a Stock Lending Account, in the form set out in the CCASS Terminal User Guide for Participants, pay such fee and/or provide such other documents, particulars and information and/or do all other acts and things at the cost and expense of and on behalf of HKSCC, without prejudice to the provisions of the Regulations.

10.3 HKSCC acknowledges that each Participant with a Stock Lending Account may notify the Collector of these Regulations and the Compulsory Stock Borrowing Transactions entered into by that Participant pursuant to these Regulations.

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11. **Set-Off**

11.1 In the event that HKSCC declares a Participant with a Stock Lending Account to be a Defaulter in accordance with the Rules of CCASS, neither HKSCC nor that Participant shall be obliged to make any further payments, deliveries or redeliveries (the "Future Obligations") under or in respect of any Compulsory Stock Borrowing Transaction which would, but for this section 11 have fallen due for performance on or after the date on which such declaration is made.

11.2 HKSCC shall on, or as soon as reasonably practicable after, the date on which the Participant is declared a Defaulter determine what HKSCC fairly and reasonably considers to be the value to each of HKSCC and the Participant of the Future Obligations.

11.3 HKSCC shall be entitled to include in any set off under CCASS Rule 1207 amounts calculated pursuant to section 11.2 together with any amounts due and payable under or in respect of these Regulations by HKSCC to the Participant or vice versa on or before the date on which the Participant is declared a Defaulter but remaining unpaid as though such amounts were amounts expressly referred to in Rule 1207 as being subject to the set off provisions in that Rule.

12. **Termination of Course of Dealings by Notice**

Each Participant with a Stock Lending Account shall have the right to bring the course of lending contemplated under these Regulations to an end by giving not less than 15 Business Days' notice in writing to HKSCC (which notice shall specify the date of termination). All Compulsory Stock Borrowing Transactions which are unsettled at the time such notice is given are to be duly settled in accordance with these Regulations.

13. **Notices**

13.1 All notices issued by a Participant under these Regulations shall be given through that Participant's CCASS terminal or by such other means as HKSCC may prescribe from time to time.

13.2 Subject to section 14, all notices issued by HKSCC under these Regulations shall be given in accordance with the Operational Procedures.

13.3 For the purposes of these Regulations and, unless otherwise specified, the Operational Procedures, any notice (including a notice of recall) which is issued by the Lender before 12:00 noon on any Business Day shall be treated as having been served on that day. Any notice (including a notice of recall) which is issued by the Lender at any other time shall be treated as having been served on the next succeeding Business Day following the day of such issue.

14. **Amendment**

HKSCC may amend these Regulations from time to time by notice given in accordance with the Operational Procedures. Such amendment will become effective on the date specified in the notice.

15. **Assignment**

No Participant may charge, assign or transfer all or any of its rights or obligations under these Regulations without the prior written consent of HKSCC.

16. **Governing Law**

These Regulations shall be governed by, and construed in accordance with, the laws of Hong Kong SAR of the People's Republic of China ("Hong Kong") and each Lender shall submit to the jurisdiction of the courts of Hong Kong.