
Section 10A

China Connect Securities Trades - CNS System

10A.1 ACCEPTANCE FOR SETTLEMENT UNDER THE CNS SYSTEM

10A.1.1 Details of China Connect Securities Trades

Arrangements have been made by HKSCC for details of China Connect Securities Trades effected on a China Connect Market via the relevant SEHK Subsidiary under a Trading Link to be reported to HKSCC by the SEHK Subsidiary, its designated person or the relevant China Connect Clearing House on a daily basis. China Connect Clearing Participants will not, therefore, generally have to input into CCASS details of China Connect Trades. However, HKSCC reserves the right to require China Connect Clearing Participants to provide details of China Connect Securities Trades executed by them or, in the case of GCPs, including those of their NCCCPs to it.

10A.1.2 Confirmation of acceptance under the CNS System

Acceptance by HKSCC of China Connect Securities Trades for settlement under the CNS System will only be confirmed by details contained in the FCSs issued by HKSCC to China Connect Clearing Participants after market close on each Trading day.

10A.1.3 "Guarantee" by HKSCC

Since acceptance for settlement under the CNS System involves HKSCC as settlement counterparty, a form of "guarantee" is in effect provided by HKSCC to China Connect Clearing Participants in respect of China Connect Securities Trades accepted for settlement under the CNS System.

10A.1.4 Availability of FCSs and information contained in FCSs

An FCS for each China Connect Market will be made available by HKSCC to each China Connect Clearing Participant via its CCASS Terminals or Participant Gateways. An FCS issued in respect of each China Connect Market will contain the following information in relation to China Connect Securities Trades of a China Connect Clearing Participant and, in the case of a GCP, including those of its NCCCPs, which are effected on that China Connect Market and which are to be cleared and settled on the current Trading day (i.e. T-day):

- (i) the net stock position with HKSCC in each China Connect Security (which will be assigned a unique Settlement Position Number) and its related money position under the CNS System as well as details of individual China Connect Securities Trades of the China Connect Clearing Participant and, if applicable, its NCCCPs, effected on the current Trading day; and
- (ii) the net money position with HKSCC for all net stock positions under the CNS System.

Notwithstanding Sections 10A.1.2 and 10A.1.3, if any information contained in an FCS is inconsistent or does not reconcile with the final report on trade and settlement details subsequently issued to HKSCC by the relevant China Connect Clearing House, HKSCC shall be entitled to take such action as it may consider appropriate to rectify the discrepancy, including cancelling or reversing any settled positions.

No PCSs will be issued by HKSCC in respect of China Connect Securities Trades.

10A.2 NETTING

10A.2.1 Determination of daily stock settlement positions

The daily stock settlement positions of a China Connect Clearing Participant with HKSCC arising out of China Connect Securities Trades executed on a China Connect Market and accepted for settlement under the CNS System will be determined based on the following steps:

- (i) Novation: the creation, through Novation of each China Connect Securities Trade, of a Market Contract between HKSCC and the relevant China Connect Clearing Participant as described in Rule 4106 at the same time the China Connect Clearing House becomes substituted as the sole settlement counterparty to its participants in accordance with its rules;
- (ii) daily netting: the stock positions of a China Connect Clearing Participant under the Market Contracts arising on the same day in the same China Connect Security, being offset against each other to result in one net long or net short stock position with HKSCC, in each China Connect Security, on each Trading day. Each such net long or net short stock position of a China Connect Clearing Participant will be assigned a unique Settlement Position Number for reference purposes (see Section 10.3.3 for an example of daily netting); and
- (iii) cross-day netting: the netting process operates on a continuous basis in the sense that any outstanding unsettled stock position of a China Connect Clearing Participant in a China Connect Security on a Settlement Day is carried forward to the following Settlement Day and is offset against any opposite stock position in the same China Connect Securities due on the following Settlement Day (see Sections 10.3.4 to 10.3.6 for examples of cross-day netting).

10A.3 SECURITIES SETTLEMENT

10A.3.1 Settlement between HKSCC and China Connect Clearing Participants

In respect of each China Connect Securities Trade entered into by the relevant SEHK Subsidiary for a China Connect Clearing Participant or any of its NCCCPs under a Trading Link, a Market Contract will be created by way of Novation whereby HKSCC becomes the settlement counterparty to the China Connect Clearing Participant. Settlement of such Market Contracts will be effected under the CNS System in CCASS between China Connect Clearing Participants and HKSCC.

10A.3.2 Settlement between HKSCC and the China Connect Clearing House

In respect of the settlement obligations between HKSCC and the China Connect Clearing House that arise from a China Connect Securities Trade, such settlement obligations will be effected by HKSCC with the China Connect Clearing House in accordance with the rules of the China Connect Clearing House and the provisions of any Clearing Links Agreement that may have been entered into between HKSCC and the China Connect Clearing House.

10A.3.3 Settlement of short stock positions of China Connect Clearing Participants

Short stock positions of China Connect Clearing Participants under the CNS System will be settled in CCASS by the input of Delivery Instructions by the delivering Participants, by Batch-settlement-runs or by cross-day netting automatically carried out in CCASS on each Settlement Day. The oldest short stock positions of a China Connect Clearing Participant will always be settled first.

10A.3.4 Settlement of long stock positions of China Connect Clearing Participants and adjustment of sellable balance for GCPs

As and when China Connect Securities are made available to HKSCC by the relevant China Connect Clearing House under its rules and procedures relating to the settlement of China Connect Securities Trades, these will be used by HKSCC to settle its obligations to China Connect Clearing Participants with long stock positions under the CNS System in accordance with the allocation algorithm set out in Section 13.4.

Although China Connect Clearing Participants with long stock positions under the CNS System may not receive China Connect Securities in CCASS on due date (i.e. T-day), they will be able to make use of their outstanding long stock positions to offset against short stock positions in the same China Connect Securities under the CNS System on subsequent Settlement Days.

A China Connect Clearing Participant which is a GCP and which has long stock positions in China Connect Securities may make an adjustment request to HKSCC using the prescribed form (see CCASS Terminal User Guide for Participants for the form) to allocate the relevant number of long stock positions from its Stock Clearing Account to the sellable balances of its relevant Stock Accounts, including those of its NCCCPs. Any adjustment made by HKSCC shall only have the effect of adjusting the sellable balances for pre-trade checking purpose and will only apply to the following Trading day. The actual holdings of the Stock Accounts of the GCP will not be adjusted.

10A.3.5 Partial delivery

Partial delivery will be allowed in respect of the CNS stock positions of China Connect Clearing Participants.

10A.4 MONEY SETTLEMENT UNDER THE CNS SYSTEM

10A.4.1 DVP basis

Settlement between China Connect Clearing Participants and HKSCC under the CNS System will normally be on a DVP basis and in Renminbi. To the extent that HKSCC determines that it is not possible or reasonably practicable to make payment in Renminbi, 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. Except for the cases mentioned in Section 10A.4.4 and those China Connect Clearing Participants which have net payable items on China Connect Securities Trades on H-1 day as mentioned in Section 10A.4.5, money settlement will only be effected after settlement of stock positions in CCASS.

HKSCC will issue instructions to the Designated Banks of China Connect Clearing Participants to cause credits and debits to be made to the Designated Bank Accounts of China Connect Clearing Participants.

10A.4.2 Money position of daily net CNS stock positions

For China Connect Securities Trades in the same China Connect Security effected on a China Connect Market on the same day (and accepted for settlement under the CNS System), there will be one daily net stock position. This daily net CNS stock position of a China Connect Clearing Participant in a China Connect Security will have a corresponding net money position, derived from offsetting the money positions of the underlying China Connect Securities Trades.

The net money positions derived from offsetting the money positions of the underlying China Connect Securities Trades of a China Connect Clearing Participant in each China Connect Security on the same day will be offset against each other to result in a total net money position for each China Connect Market in respect of the China Connect Clearing Participant. The total net money positions for all the China Connect Markets of the China Connect Clearing Participant will be offset against each other to result in one net money position across all relevant China Connect Markets for settlement with HKSCC on each Settlement Day.

10A.4.3 Money position of CNS stock positions after cross-day netting

If two opposite CNS stock positions of a China Connect Clearing Participant in the same China Connect Security are offset against each other as a result of cross-day netting, the money

positions of the two CNS stock positions will also be offset against each other to result in a sum to be settled between HKSCC and the China Connect Clearing Participant concerned. Any unsettled CNS stock position will also have a corresponding money position.

The money positions of two CNS stock positions of a China Connect Clearing Participant in the same China Connect Security (such CNS stock positions being both long or both short), will continue to be treated as separate and distinct.

10A.4.4 CNS positions involving both delivery and payment by HKSCC or by China Connect Clearing Participants

In some cases, it is possible that a China Connect Clearing Participant may have a CNS stock position under which it is obliged to deliver China Connect Securities to HKSCC as well as to pay HKSCC (or the other way round, where HKSCC is obliged to deliver China Connect Securities to it as well as to make payment to it). This may, for example, arise if on a particular day, the purchases and sales in a particular China Connect Security are made by a China Connect Clearing Participant or in the case of a GCP, including those made by its NCCCPs in such a way that whilst having a net long stock position (i.e. net buy position), the proceeds of its sales more than offset the purchase prices payable by it.

In such cases, money settlement in respect of such CNS positions will be effected on the due dates irrespective of whether or not such CNS stock positions have been settled in CCASS.

10A.4.5 Settlement of money obligations under the CNS System

There will be one net money position under the CNS System for each China Connect Clearing Participant for its China Connect Securities Trades executed on all of the China Connect Markets on a Trading day (i.e. T-day) (see Section 10A.4.2).

Money settlement in respect of a net money position will be effected as follows (see Section 10.5.7 for an example of daily net money position under the CNS System):

- (a) (if T-day is not an H-1 day) China Connect Clearing Participants which have net payable items on China Connect Securities Trades will be required to settle their payment obligations to HKSCC by 12:00 noon on T+1 or such other time as may be specified by HKSCC from time to time, via RTGS;
- (aa) (if T-day is an H-1 day) China Connect Clearing Participants which have net payable items on China Connect Securities Trades executed on T-day will be required to settle such payment obligations to HKSCC by 6:00 p.m. on T-day or such other time as may be specified by HKSCC from time to time, via RTGS. At approximately 4:45 p.m. on T-day, HKSCC will issue CPIs for the amount payable by each such China Connect Clearing Participant (based on the net unsettled CNS stock positions of all its China Connect Securities Trades executed on T-day) to the Designated Bank of the China Connect Clearing Participant so as to effect CHATS payment to the bank account of HKSCC for value on the same day. HKSCC will take into account the Cash Prepayment Standing Instruction given by the relevant China Connect Clearing Participant in CPI generation (see section 10A.14.5); and
- (b) For China Connect Clearing Participants which have net receivable items on China Connect Securities Trades, HKSCC will transfer settlement amounts into their Designated Bank Accounts at around 12:30 p.m. on T+1 or such other time as may be specified by HKSCC from time to time, via RTGS.

In the morning of T+1, HKSCC will issue CPIs for the amount (based on the balance of the

relevant sub-accounts of the Money Ledger of China Connect Clearing Participants (i.e. the Settlement Account)) to the Designated Bank of the paying China Connect Clearing Participants, so as to effect CHATS payment to the respective bank account of HKSCC for value on the same day (see Section 14.7). For the avoidance of doubt, HKSCC will not offset the credit and debit balances in the sub-accounts of the Money Ledgers of China Connect Clearing Participants before issuing relevant CPIs.

If a China Connect Clearing Participant fails to place HKSCC in good funds through its Designated Bank by 12:00 noon on T+1 or 6:00 p.m. on T-day if T-day is an H-1 day or such other time as may be specified by HKSCC from time to time, the China Connect Clearing Participant will be regarded as having defaulted and will be subject to such action or actions as HKSCC may take under the Rules.

In addition to any CNS money payment obligation of a China Connect Clearing Participant, the China Connect Clearing Participant will also be required to pay all fees, levies and taxes relating to the trading and clearing of China Connect Securities. These fees, levies and taxes will be collected through HKSCC and passed onto the relevant China Connect Clearing House for paying to the relevant China Connect Market, regulatory or tax authority or to other relevant parties. HKSCC will post such fees, levies and taxes to the China Connect Clearing Participant's Miscellaneous Account of its Money Ledger on T-day and collect such payments via day-end DDI.

10A.4.6 Partial delivery

In respect of any partial delivery of a CNS stock position of a China Connect Clearing Participant (in a China Connect Security due for settlement on a particular Settlement Day), the amount to be settled between HKSCC and the China Connect Clearing Participant will be determined by multiplying the number of China Connect Securities settled, by the average position price of the CNS stock position (see Section 10.3.3). The position is illustrated in the example set out in Section 10.3.6.

10A.5 LATE DELIVERY: DEFAULT FEE

HKSCC may require China Connect Clearing Participants that fail to settle their CNS stock positions in China Connect Securities on due dates to pay to it default fees. Default fees levied by HKSCC may be retained by HKSCC for use for such CCASS purposes as HKSCC deems fit. Default fees will be prescribed by HKSCC from time to time.

10A.6 LATE DELIVERY: BUY-IN

10A.6.1 Purpose

The purpose of a Buy-in is to ensure that outstanding stock positions of Participants under the CNS System are settled without delay.

10A.6.2 Timing of Buy-in

Unless (i) HKSCC grants an exemption under Section 10A.6.2A or (ii) there is a risk management reason affecting HKSCC which is considered valid by the Risk Management Committee, HKSCC shall have the right, but shall not be obliged, to effect a Buy-in on behalf of the short China Connect Clearing Participant on T+1 (or if it is not practicable to do so on T+1, at any time thereafter) as HKSCC in its absolute discretion considers appropriate up to the outstanding quantity, rounded up to the nearest Board Lot if the quantity is not in full Board Lots, in respect of short stock positions in China Connect Securities of a China Connect Clearing Participant under the CNS System which are outstanding for settlement on the due date (i.e., unsettled after the fourth Batch-settlement-run for China Connect Securities Trades on T-day).

A Buy-in trade executed by HKSCC or an authorized broker on behalf of the short China Connect Clearing Participant on the relevant China Connect Market via a Trading Link will be subject to the usual settlement period of a China Connect Securities Trade, will go through the substitution process (where applicable) and normal novation, daily netting and cross day netting processing and will be settled in the CNS System.

10A.6.2A Exemption from Buy-in

HKSCC may grant an exemption from a Buy-in on behalf of a short China Connect Clearing Participant on T+1 if such China Connect Clearing Participant is able to provide HKSCC with satisfactory evidence in accordance with Section 10A.6.2B that a ground for exemption as set out below applies:

- (i) the China Connect Clearing Participant applying for exemption can provide evidence satisfactory to HKSCC that either it has sufficient China Connect Securities in its Stock Account on T-day or the delivering Participant has sufficient China Connect Securities in its Special Segregated Account to cover the relevant short stock position and the China Connect Clearing Participant applying for exemption or the delivering Participant has received valid instruction from the selling client to make delivery of the relevant China Connect Securities for settlement on T-day but is unable to do so due to clerical error; or
- (ii) the relevant China Connect Securities are not credited to the Stock Clearing Account of the China Connect Clearing Participant applying for exemption due to acts of God or due to the occurrence of other events beyond the relevant Participant's reasonable control such as labour disputes, strike, mechanical breakdowns, computer or electronic system or network failures, unavailability of or restrictions on any communication media or any other event (including sanctions or the issuance of a court order or a restriction notice or order by a competent authority) as determined by HKSCC at its sole discretion to be an acceptable ground for exemption on a case-by-case basis.

The short China Connect Clearing Participant to whom an exemption from a Buy-in is granted shall be obliged to settle all overdue short stock positions for which exemption is granted by day-end of T+1. In the event that such China Connect Clearing Participant fails to do so for whatever reason, HKSCC may consider executing on behalf of such China Connect Clearing Participant a Buy-in on T+2 (or, if it is not practicable to do so on T+2, at any time thereafter) in its absolute discretion as it may think fit up to the outstanding quantity, rounded up to the nearest Board Lot if the quantity is not in full Board Lots.

10A.6.2B Application for exemption from Buy-in on T+1

A short China Connect Clearing Participant wishing to claim exemption under Section 10A.6.2A must apply to HKSCC not later than 8:00 p.m. on the due date of settlement (i.e., T-day) by completing and submitting an Application Form for Exemption of Buy-in (see CCASS Terminal User Guide for Participants for the form). The Application Form shall be sent by facsimile or such other means as HKSCC may consider appropriate and shall be deemed received when received by HKSCC. In addition, the short China Connect Clearing Participant applying for exemption must provide HKSCC with satisfactory supporting documents as set out below on or before T+1, unless otherwise notified by HKSCC.

In respect of an exemption claimed under Section 10A.6.2A(i), the China Connect Clearing Participant applying for exemption is required to provide HKSCC with a copy of the relevant CCASS reports or other supporting documents satisfactory to HKSCC evidencing that the relevant China Connect Securities are available to cover the relevant short stock positions on T-day.

In respect of an exemption claimed under Section 10A.6.2A(ii), the China Connect Clearing Participant applying for exemption shall, if so requested by HKSCC, provide HKSCC with evidence supporting its application at such time as specified by HKSCC.

10A.6.3 Buy-in process by HKSCC on behalf of a China Connect Clearing Participant

The following explains the process of any Buy-in that may be executed by HKSCC on behalf of a short China Connect Clearing Participant in greater detail:

- (i) in respect of the short stock positions in China Connect Securities of a short China Connect Clearing Participant which remain outstanding under the CNS System after the fourth Batch-settlement-run for China Connect Securities Trades on the Settlement Day, a Buy-in Notification Report containing such outstanding short stock positions will be generated by HKSCC. Unless (i) HKSCC grants an exemption under Section 10A.6.2A or (ii) there is a risk management reason affecting HKSCC which is considered valid by the Risk Management Committee, HKSCC shall have the right, but shall not be obliged, to effect Buy-in on T+1 (or if it is not practicable to do so on T+1, at any time thereafter) as HKSCC in its absolute discretion considers appropriate, of all outstanding short stock positions stated in the Buy-in Notification Report, rounded up to the nearest Board Lot if the quantity is not in full Board Lots;
- (ii) the Buy-in Notification Report will be available to the short China Connect Clearing Participant through its CCASS Terminals and Participant Gateways after the fourth Batch-settlement-run for China Connect Securities Trades;
- (iia) the short China Connect Clearing Participant may apply for exemption from Buy-in to HKSCC in accordance with the provisions of Section 10A.6.2B;
- (iii) HKSCC may instruct its authorized brokers to assist in effecting a Buy-in of the China Connect Securities on the relevant China Connect Market via the relevant Trading Link;
- (iv) HKSCC shall effect a Buy-in 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, the Exchange, the relevant SEHK Subsidiary and a recognized exchange controller which is the controller of HKSCC shall have no liability if HKSCC acts in good faith). The short China Connect Clearing Participant shall be liable to and shall indemnify HKSCC, the Exchange, the relevant SEHK Subsidiary and a recognized exchange controller which is the controller of HKSCC against all costs and expenses incurred by HKSCC in connection with the Buy-in, including the Buy-in of any China Connect Securities in excess of the outstanding quantity due to the rounding up of such quantity to the nearest Board Lot;
- (v) after effecting such a Buy-in, the relevant Buy-in details will be available to the short China Connect Clearing Participant via the CCASS online enquiry function and report; and
- (vi) upon receipt of confirmation of good funds in relation to the cost of the Buy-in, China Connect Securities received under the Buy-in will be delivered to the short China Connect Clearing Participant.

10A.7 LATE DELIVERY: ADJUSTMENTS FOR ENTITLEMENTS

The provisions in Section 10.9 shall be applicable, in so far as they are relevant, to adjustments of entitlements in respect of late delivery of China Connect Securities. HKSCC will from time to time notify Participants of the procedures or additional procedures to be followed in relation to adjustments for entitlements under the CNS System in respect of corporate actions involving China Connect Securities, either generally or on a case by case basis.

10A.7A LATE DELIVERY: ADJUSTMENT OF SELLABLE BALANCE FOR CHINA CONNECT SECURITIES

In respect of overdue short stock positions in China Connect Securities of a China Connect Clearing Participant under the CNS System which are outstanding for settlement on the due date, HKSCC will request the Exchange to deduct the overdue short stock position quantities from the sellable balances of such China Connect Clearing Participant on the next Trading day, and if the China Connect Clearing Participant is a GCP, from the sellable balances of all of its NCCCPs on the next Trading day, provided that if the overdue short stock positions are or are alleged by the China Connect Clearing Participant to be caused in whole or in part by an SPSA Delivery Failure, the sellable balances of the China Connect Clearing Participant and the relevant Special Segregated Accounts will be adjusted in accordance with Section 2.3.15.

In the event of an SPSA Delivery Failure under a Master SPSA ID, if the Master SPSA Holder fails to instruct the relevant Custodian Participant or the relevant GCP which is not an Exchange Participant to deliver the relevant China Connect Securities from the relevant Special Segregated Accounts to the relevant China Connect Clearing Participant, HKSCC may in its sole discretion correspondingly reduce the sellable balance with respect to the relevant China Connect Securities that were the subject of the SPSA Delivery Failure or reduce the sellable balances of all the China Connect Securities under such Master SPSA ID to zero on the next Trading day or for such longer period as HKSCC may in its absolute discretion consider appropriate.

10A.8 RISK MANAGEMENT: MAINLAND SETTLEMENT DEPOSIT**10A.8.1 General**

As settlement counterparty to China Connect Clearing Participants in respect of China Connect Securities Trades under the CNS System, HKSCC is exposed to credit risk as a result of the failure by any China Connect Clearing Participant to meet its money obligations in respect of its stock positions in China Connect Securities under the CNS System. In this Section 10A.8, any overdue short stock positions in China Connect Securities under the CNS System are referred to as “overdue short positions in China Connect Securities”.

To monitor and control such risk exposure, HKSCC will collect Mainland Settlement Deposit in respect of each China Connect Market from China Connect Clearing Participants. HKSCC will compute and collect Mainland Settlement Deposit in accordance with the provisions of this Section 10A.8 in the form of cash in Renminbi, rounded to the nearest RMB1. Notwithstanding the foregoing, HKSCC reserves the right to collect the required amount of Mainland Settlement Deposit in any Eligible Currency. 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, the Mainland Settlement Deposit collected from China Connect Clearing Participants.

This Section 10A.8 describes the extent to and the manner in which Mainland Settlement Deposit from China Connect Clearing Participants will be collected and redelivered by HKSCC.

10A.8.2 Computation of Mainland Settlement Deposit

In respect of each China Connect Market, the Mainland Settlement Deposit requirement of a China Connect Clearing Participant will be the higher of:

Daily Mainland Settlement Deposit requirement

and

Monthly Mainland Settlement Deposit requirement.

(i) Daily Mainland Settlement Deposit requirement

Daily Mainland Settlement Deposit requirement in respect of a China Connect Market will be computed on a daily basis using the following formula:

$$\left(\begin{array}{l} \text{Buy turnover in} \\ \text{China Connect} \\ \text{Securities} \end{array} + \begin{array}{l} \text{Contract value of} \\ \text{overdue short} \\ \text{positions in} \\ \text{China Connect} \\ \text{Securities} \end{array} + \begin{array}{l} \text{Sell turnover in China} \\ \text{Connect Securities} \\ \text{for Special} \\ \text{Segregated Accounts} \end{array} \right) \\ \times \text{Settlement} \\ \text{Deposit Rate}$$

where

Buy turnover is the buy turnover of the China Connect Clearing Participant (including those of its NCCCPs) on a Trading day in China Connect Securities on the relevant China Connect Market;

Sell turnover is the sell turnover in China Connect Securities that are executed by the China Connect Clearing Participant and its NCCCPs for Special Segregated Accounts on a Trading day on the relevant China Connect Market;

Contract value of overdue short positions is the contract value of all overdue short stock positions in China Connect Securities on the relevant China Connect Market of the China Connect Clearing Participant on a Trading day; and

Settlement Deposit Rate is the rate determined by HKSCC in its absolute discretion from time to time by reference to the rate payable by HKSCC to the Mainland's Settlement Reserve Fund applicable to the relevant China Connect Market as required by the relevant China Connect Clearing House under its rules.

(ii) Monthly Mainland Settlement Deposit requirement

Monthly Mainland Settlement Deposit requirement in respect of a China Connect Market for a particular month will be computed using the following formula:

$$\left(\frac{\text{Sum of buy turnover and contract value of overdue short positions in China Connect Securities on each Trading day on the relevant China Connect Market in the previous month}}{\text{Number of Trading days having buy turnover on the relevant China Connect Market in the previous month}} + \frac{\text{Sum of sell turnover for Special Segregated Accounts on each Trading day on the relevant China Connect Market in the previous month}}{\text{Number of Trading days having sell turnover for Special Segregated Accounts on the relevant China Connect Market in the previous month}} \right) \times \text{Settlement Deposit Rate of the relevant China Connect Market}$$

Except that where the China Connect Clearing Participant does not have any buy turnover in China Connect Securities on the relevant China Connect Market on a Trading day, the contract value of any overdue short positions on that day is excluded from the “Sum of buy turnover and contract value of overdue short positions in China Connect Securities on each Trading day on the relevant China Connect Market in the previous month”.

10A.8.3 Example (Computation of Mainland Settlement Deposit Requirement for a China Connect Market)

| | <i>(RMB)</i> |
|---|--------------|
| (a) Buy turnover in China Connect Securities on the China Connect Market | 3,000,000 |
| (b) Contract value of overdue short positions in China Connect Securities on the China Connect Market | 50,000 |
| (c) Sell turnover in China Connect Securities for Special Segregated Accounts on the China Connect Market | 100,000 |
| (d) Settlement Deposit Rate of the China Connect Market = 20% | |
| (e) Daily Mainland Settlement Deposit requirement [(a) + (b) + (c)] × (d) | 630,000 |
| (f) Monthly Mainland Settlement Deposit requirement | 550,000 |
| (g) Mainland Settlement Deposit requirement: Higher of (e) & (f) | 630,000 |

10A.8.4 Example (Computation of Monthly Mainland Settlement Deposit Requirement for a China Connect Market)

Suppose there are 5 Trading days in the month. The following table shows a China Connect Clearing Participant's buy turnover in China Connect Securities, contract value of overdue short positions in China Connect Securities and sell turnover in China Connect Securities for Special Segregated Accounts on each Trading day of the month on a China Connect Market:

| | <u>Day 1</u> <u>(RMB)</u> | <u>Day 2</u> <u>(RMB)</u> | <u>Day 3</u> <u>(RMB)</u> | <u>Day 4</u> <u>(RMB)</u> | <u>Day 5</u> <u>(RMB)</u> | <u>Total</u> <u>(RMB)</u> |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| (a) Buy turnover in China Connect Securities on the China Connect Market | 1,000,000 | 10,000 | 0 | 200,000 | 0 | 1,210,000 |
| (b) Contract value of overdue short positions in China Connect Securities on the China Connect Market | 200,000 | 800,000 | 4,000 | 0 | 0 | 1,004,000 |
| (c) (a) + (b) excluding days without buy turnover | 1,200,000 | 810,000 | 0 | 200,000 | 0 | 2,210,000 |
| (d) Sell turnover in China Connect Securities for Special Segregated Accounts on the China Connect Market | 500,000 | 0 | 600,000 | 300,000 | 900,000 | 2,300,000 |
| (e) Number of days having buy turnover on the China Connect Market in the month = 3 | | | | | | |
| (f) Number of days having sell turnover for Special Segregated Accounts on the China Connect Market in the month = 4 | | | | | | |
| (g) Settlement Deposit Rate of the China Connect Market = 20% | | | | | | |

Monthly Mainland Settlement Deposit requirement

$$= [(c) / (e) + (d) / (f)] \times (g)$$

$$= \text{RMB } (2,210,000 / 3 + 2,300,000 / 4) \times 20\%$$

$$= \text{RMB } 262,333 \text{ (rounded to nearest RMB1)}$$

$$= \text{RMB } 262,333$$

10A.8.5 [Repealed]

10A.8.6 Interest on Mainland Settlement Deposit collected

HKSCC may allow or charge, at its absolute discretion, to China Connect Clearing Participants interest on the Mainland Settlement Deposit collected in cash calculated at a rate determined by HKSCC from time to time for each China Connect Market. HKSCC reserves the right to deduct any administrative costs from any interests to be allowed or to charge such administrative cost to the Mainland Settlement Deposit collected in cash.

Unless otherwise specified by HKSCC, interest to be allowed or charged on Mainland Settlement Deposit provided in cash, if any, will be accrued and paid (after deduction of the administrative costs, if applicable) or charged (together with the administrative costs, if applicable) quarterly by HKSCC to China Connect Clearing Participants for each China Connect Market in the same currency as the cash on which the interest accrued, by crediting or debiting, as the case may be, the Miscellaneous Account of the China Connect Clearing Participant's Money Ledger, on the first Business Day of the following quarter.

10A.8.7 Collection of Mainland Settlement Deposit

Mainland Settlement Deposit requirement to be demanded from a China Connect Clearing Participant for a China Connect Market on each Trading Day will be compared to the amount collected for that China Connect Market in the CCMS House Collateral Account of the China Connect Clearing Participant. If there is any shortfall in the Mainland Settlement Deposit required for that China Connect Market, HKSCC shall have the right to and will, subject to any surplus cash collateral for Mainland Security Deposit for that China Connect Market being first applied to cover any shortfall in Mainland Security Deposit requirement for the other China Connect Market in accordance with Section 10A.9.5, apply any remaining surplus cash collateral over Mainland Security Deposit in the CCMS House Collateral Account of the China Connect Clearing Participant for that China Connect Market, followed by any surplus cash collateral over Mainland Security Deposit in its CCMS House Collateral Account for the other China Connect Market, towards satisfaction of such shortfall and will collect any remaining shortfall in the currency in which the Mainland Settlement Deposit requirement is calculated. Notwithstanding the foregoing, HKSCC reserves the right to collect the remaining shortfall in Mainland Settlement Deposit required in any Eligible Currency.

Unless otherwise agreed by HKSCC, in respect of each China Connect Market, any shortfall in Mainland Settlement Deposit to be collected from a China Connect Clearing Participant, as determined by HKSCC after applying any surplus Mainland Security Deposit towards satisfying the China Connect Clearing Participant's Mainland Settlement Deposit requirement, will be debited to the Miscellaneous Account of the China Connect Clearing Participant's Money Ledger and will be collected from the China Connect Clearing Participant. Mainland Settlement Deposit for each China Connect Market will be collected from the China Connect Clearing Participant on a daily basis by HKSCC by issuing DDIs to the Designated Bank of the China Connect Clearing Participant as part of the CCASS money settlement process on each Trading day, or in any other manner determined by HKSCC from time to time. If DDIs cannot be issued on any Trading day, HKSCC will collect Mainland Settlement Deposit by issuing DDIs to the Designated Bank of the China Connect Clearing Participant on the next Business Day. Subject to the determination of HKSCC, no surplus cash collateral over Mainland Settlement Deposit in the CCMS House Collateral Account of a China Connect Clearing Participant on a Trading day will be redelivered to it at the end of the day except any surplus cash collateral that may be credited to its CCMS House Collateral Account on such Trading day(s) of each month as may be specified by HKSCC. The redelivery will be made in such manner as prescribed by HKSCC from time to time. Notwithstanding the above, HKSCC reserves the right not to redeliver surplus cash collateral at any time it considers appropriate.

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 the Rules, redeliver to the Clearing Participant such amount as shall represent the balance of any Mainland Settlement Deposit which the Clearing Participant has provided to HKSCC.

In the event of default of the relevant China Connect Clearing House and the China Connect Clearing House fails to repay to HKSCC all payments made by HKSCC as cover for liabilities to the China Connect Clearing House which correspond to a China Connect Clearing Participant, HKSCC shall not be liable to redeliver to the China Connect Clearing Participant any Mainland Settlement Deposit provided to HKSCC by the China Connect Clearing Participant beyond any corresponding amount received from the China Connect Clearing House plus any amount of Mainland Settlement Deposit collected from the China Connect Clearing Participant which had not been used by HKSCC to satisfy its obligations as clearing participant to the China Connect Clearing House under the relevant Clearing Link. Should there be a shortfall, the amount of Mainland Settlement Deposit available for redelivery to China Connect Clearing Participants in respect of each China Connect Market will be made by HKSCC on a pro-rata basis.

10A.8.8 Intra-day Mainland Settlement Deposit

In addition to day-end Mainland Settlement Deposit, a China Connect Clearing Participant shall on demand pay to HKSCC within the time period specified by HKSCC such intra-day Mainland Settlement Deposit in respect of such China Connect Market as HKSCC may from time to time determine by reference to the buy turnover and contract value of overdue short positions in China Connect Securities of the China Connect Clearing Participant and its sell turnover in China Connect Securities for Special Segregated Accounts on such China Connect Market. Any shortfall in Intra-day Mainland Settlement Deposit determined by HKSCC will be collected by HKSCC via CPIs to the Designated Bank of the Clearing Participant as part of the CCASS money settlement process or in any other manner determined by HKSCC from time to time.

An Intra-day Mainland Settlement Deposit Payable Report will be made available via CCASS Terminals and Participant Gateways each time after any intra-day Mainland Settlement Deposit requirement is calculated for collection by HKSCC to provide details of the computation of such intra-day Mainland Settlement Deposit requirement of a China Connect Clearing Participant on that Trading day.

10A.9 RISK MANAGEMENT: MAINLAND SECURITY DEPOSIT

10A.9.1 General

As settlement counterparty to China Connect Clearing Participants in respect of China Connect Securities Trades under the CNS System, HKSCC is exposed to market risks as a result of potential unfavourable fluctuations of prices in respect of the unsettled stock positions in China Connect Securities of China Connect Clearing Participants under the CNS System.

To monitor and control such risk exposure, HKSCC will collect Mainland Security Deposit for each China Connect Market from China Connect Clearing Participants in respect of their net trading amount in China Connect Securities on such China Connect Market under the CNS System. HKSCC will compute and collect Mainland Security Deposit in accordance with the provisions of this Section 10A.9 in the form of cash in Renminbi, rounded to the nearest RMB1. Notwithstanding the foregoing, HKSCC reserves the right to collect the required amount of Mainland Security Deposit in any Eligible Currency.

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, the Mainland Security Deposit collected from China Connect Clearing Participants.

This Section 10A.9 describes the extent to and the manner in which Mainland Security Deposit from China Connect Clearing Participants will be collected and redelivered by HKSCC.

10A.9.2 Computation of Mainland Security Deposit

In respect of each China Connect Market, the Mainland Security Deposit requirement of a China Connect Clearing Participant will be computed at the beginning of each month using the following formula:

$$\frac{\text{Sum of daily net trading amount in China Connect Securities on the relevant China Connect Market in the last 6 months}}{\text{Number of days traded in China Connect Securities on the relevant China Connect Market by the China Connect Clearing Participant in the last 6 months}} \times \text{Mainland Security Deposit Rate of the relevant China Connect Market}$$

subject to such minimum amount as may be determined by HKSCC from time to time in its absolute discretion. Such minimum amount of Mainland Security Deposit is required to be paid to HKSCC by a Clearing Participant upon its registration as a China Connect Clearing Participant as one of the China Connect Clearing Participant Registration Criteria as referred to in Rule 4103.

Mainland Security Deposit Rate is the rate determined by HKSCC in its absolute discretion from time to time by reference to the rate payable by HKSCC to the Mainland's Settlement Guarantee Fund in respect of the relevant China Connect Market as required by the relevant China Connect Clearing House under its rules.

10A.9.3 [Repealed]

10A.9.4 Interest on Mainland Security Deposit collected

HKSCC may allow or charge, at its absolute discretion, to China Connect Clearing Participants interest on the Mainland Security Deposit collected in cash calculated at a rate determined by HKSCC from time to time for each China Connect Market. HKSCC reserves the right to deduct any administrative costs from any interests to be allowed or to charge such administrative cost to the Mainland Security Deposit collected in cash.

Unless otherwise specified by HKSCC, interest to be allowed or charged on Mainland Security Deposit provided in cash, if any, will be accrued and paid (after deduction of the administrative costs, if applicable) or charged (together with the administrative costs, if applicable) quarterly by HKSCC to China Connect Clearing Participants for each China Connect Market in the same currency as the cash on which the interest accrued, by crediting or debiting, as the case may be, Miscellaneous Account of the China Connect Clearing Participant's Money Ledger, on the first Business Day of the following quarter.

10A.9.5 Collection of Mainland Security Deposit

The Mainland Security Deposit requirement of a China Connect Clearing Participant for a China Connect Market on the first Business Day of each month will be compared to the amount collected for that China Connect Market in the CCMS House Collateral Account of the China Connect Clearing Participant. If there is any shortfall in its Mainland Security Deposit requirement for that China Connect Market, HKSCC shall have the right to and will first apply any surplus cash collateral over Mainland Security Deposit in the CCMS House Collateral Account of the China Connect Clearing Participant for the other China Connect Market towards satisfaction of such shortfall and will collect any remaining shortfall in the currency in which the Mainland Security Deposit is calculated. Notwithstanding the foregoing, HKSCC reserves

the right to collect the remaining shortfall in Mainland Security Deposit required in any Eligible Currency.

Unless otherwise agreed by HKSCC, in respect of each China Connect Market, any shortfall in Mainland Security Deposit to be collected from a China Connect Clearing Participant, as determined by HKSCC after applying any surplus Mainland Security Deposit for the other China Connect Market towards satisfying the China Connect Clearing Participant's Mainland Security Deposit for that China Connect Market, will be debited to the Miscellaneous Account of the China Connect Clearing Participant's Money Ledger and will be collected from the China Connect Clearing Participant. Mainland Security Deposit for each China Connect Market will be collected from the China Connect Clearing Participant on a monthly basis by HKSCC by issuing DDIs to the Designated Bank of the China Connect Clearing Participant on the first Business Day of each month as part of the CCASS money settlement process, or in any other manner determined by HKSCC from time to time. If DDIs cannot be issued on the first Business Day of the month, HKSCC will collect Mainland Security Deposit by issuing DDIs to the Designated Bank of the China Connect Clearing Participant on the next Business Day.

Subject to the determination of HKSCC, any remaining surplus cash collateral over Mainland Security Deposit in the CCMS House Collateral Account will be redelivered at the end of such Business Day(s) of each month as may be specified by HKSCC. The redelivery will be made in such manner as prescribed by HKSCC from time to time. Notwithstanding the above, HKSCC reserves the right not to redeliver surplus cash collateral at any time it considers appropriate.

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 the Rules, redeliver to the Clearing Participant such amount as shall represent the balance of any Mainland Security Deposit which the Clearing Participant has provided to HKSCC.

In the event of default of the relevant China Connect Clearing House and the China Connect Clearing House fails to repay to HKSCC all payments made by HKSCC as cover for liabilities to the China Connect Clearing House which correspond to a China Connect Clearing Participant, HKSCC shall not be liable to redeliver to the China Connect Clearing Participant any Mainland Security Deposit provided to HKSCC by the China Connect Clearing Participant beyond any corresponding amount received from the China Connect Clearing House plus any amount of Mainland Security Deposit collected from the China Connect Clearing Participant which had not been used by HKSCC to satisfy its obligations as clearing participant to the China Connect Clearing House under the relevant Clearing Link. Should there be a shortfall, the amount of Mainland Security Deposit available for redelivery to China Connect Clearing Participants in respect of each China Connect Market will be made by HKSCC on a pro-rata basis.

10A.10 RISK MANAGEMENT: MARKS

10A.10.1. Purpose of Marks

As settlement counterparty to China Connect Clearing Participants in respect of China Connect Securities Trades under the CNS System, HKSCC is exposed to market risks as a result of unfavourable fluctuations of prices in respect of the unsettled stock positions in China Connect Securities of China Connect Clearing Participants under the CNS System.

To monitor and control such risk exposure, 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

China Connect Clearing Participants by reference to the market price of the China Connect Securities.

10A.10.2 Computation of Marks

The value of Marks on the CNS stock position in a China Connect Security of a China Connect Clearing Participant is the difference between:

- (i) the money position of that CNS stock position in the China Connect Security; and
- (ii) the prevailing market value of such CNS stock position in the China Connect Security (as determined by HKSCC).

The Marks on the CNS stock positions of any China Connect Security will be calculated and denominated in the Eligible Currency in which the China Connect Security is traded. Favourable Marks and Unfavourable Marks in the same Eligible Currency will be offset against one another to arrive at the Favourable Marks or Unfavourable Marks in that Eligible Currency.

10A.10.3 Form of Marks

Normally, HKSCC will require China Connect Clearing Participants to provide Marks in the form of cash subject to the Rules.

10A.10.4 Notification by HKSCC

HKSCC will notify a China Connect Clearing Participant in writing of the amount of Marks required and the China Connect Clearing Participant will have to provide the Marks within the time period specified.

10A.10.5 Return of Marks

Marks provided by China Connect Clearing Participants will be returned to them by HKSCC in such manner and at such time as is considered appropriate by HKSCC.

10A.10.6 Interest on Marks

HKSCC may allow or charge, at its absolute discretion, to China Connect Clearing Participants interest on Marks provided by China Connect Clearing Participants in cash calculated at a rate determined by HKSCC from time to time. HKSCC reserves the right to deduct any administrative costs from any interest to be allowed or to charge such administrative cost to the Marks provided in cash.

Unless otherwise specified by HKSCC, interest to be allowed or charged on Marks provided in cash, if any, will be accrued and paid (after deduction of the administrative costs, if applicable) or charged (together with the administrative costs, if applicable) monthly, by HKSCC to China Connect Clearing Participants in the same currency as the cash on which the interest accrued, by crediting or debiting, as the case may be, the Miscellaneous Account of the China Connect Clearing Participant's Money Ledger, on the first Business Day of the following month.

10A.11 RISK MANAGEMENT: COLLATERAL

10A.11.1 Purpose of Collateral

HKSCC monitors its risk exposure to China Connect Clearing Participants on a continuous basis. From time to time, circumstances peculiar to a particular China Connect Clearing Participant may warrant HKSCC taking additional risk management measures against it.

For example, a China Connect Clearing Participant's financial well-being may be in question. Similarly, the trading pattern of a China Connect Clearing Participant may in HKSCC's view create excessive risks.

In appropriate cases, HKSCC will require a China Connect Clearing Participant to provide it with Collateral. HKSCC may collect Collateral based on HKSCC's assessment of its exposure on the risks arising out of Market Contracts in China Connect Securities of a China Connect Clearing Participant.

10A.11.2 Form of Collateral

Normally, HKSCC will require China Connect Clearing Participants to provide Collateral in the form of cash subject to the Rules.

10A.11.3 Amount of Collateral

The amount of Collateral required to be provided by a China Connect Clearing Participant will be decided by HKSCC, taking into account HKSCC's exposure posed by the China Connect Clearing Participant.

10A.11.4 Notification by HKSCC

HKSCC will notify a China Connect Clearing Participant in writing of the amount of Collateral required and the China Connect Clearing Participant will have to provide the Collateral within the time period specified.

10A.11.5 Return or Redelivery of Collateral

Collateral provided by China Connect Clearing Participants will be returned or redelivered to them by HKSCC in such manner and at such time as is considered appropriate by HKSCC.

10A.11.6 Interest on Collateral

HKSCC may allow or charge, at its absolute discretion, to China Connect Clearing Participants interest on Collateral provided by China Connect Clearing Participants in cash calculated at a rate determined by HKSCC from time to time. HKSCC reserves the right to deduct any administrative costs from any interest to be allowed or to charge such administrative cost to the Collateral provided in cash.

Unless otherwise specified by HKSCC, interest to be allowed or charged on Collateral provided in cash, if any, will be accrued and paid (after deduction of the administrative costs, if applicable) or charged (together with the administrative costs, if applicable) monthly, by HKSCC to China Connect Clearing Participants in the same currency as the cash on which the interest accrued, by crediting or debiting, as the case may be, Miscellaneous Account of the China Connect Clearing Participant's Money Ledger, on the first Business Day of the following month.

10A.12 [Repealed]

10A.13 RISK MANAGEMENT: CASH COLLATERAL

10A.13.1 Cash Collateral for Market Contracts in China Connect Securities

Cash Collateral for Market Contracts in China Connect Securities in Renminbi and other Eligible Currencies recorded as credit entries in any CCMS Collateral Account of a China Connect Clearing Participant are amounts paid by the China Connect Clearing Participant to HKSCC. The only obligation of HKSCC to the China Connect Clearing Participant in respect of such amounts shall be to pay the China Connect Clearing Participant an amount equal to the balance remaining after satisfaction of all obligations and liabilities (actual or contingent) of such Participant (whether in its capacity as China Connect Clearing Participant or otherwise) to HKSCC.

10A.14 RISK MANAGEMENT: SECURITIES-ON-HOLD OF CHINA CONNECT SECURITIES**10A.14.1 Purpose of Securities-on-hold**

On each Settlement Day, HKSCC will, as and when China Connect Securities are made available to it by the China Connect Clearing House under its rules and procedures relating to the settlement of China Connect Securities Trades, use such China Connect Securities to settle its obligations to China Connect Clearing Participants with long stock positions under the CNS System by allocating such China Connect Securities to their Stock Clearing Accounts in accordance with the allocation algorithm set out in Section 13.4.

Since under the current design of the CCASS money settlement process, payment by China Connect Clearing Participants to HKSCC via their Designated Banks (as part of CCASS money settlement process) will only be settled the next Settlement Day at noon after the China Connect Securities have been delivered to China Connect Clearing Participants under the CNS System in CCASS, HKSCC faces significant risk exposure from the time of delivery of China Connect Securities in CCASS to the time when confirmation of good and irrevocable payment is issued by the Designated Banks of China Connect Clearing Participants and the receiving bank of HKSCC.

To guard against this risk exposure, the Rules provide that 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 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 shall not pass to the China Connect Clearing Participant. Until then, China Connect Clearing Participants will not be allowed to use some or all of such China Connect Securities, except as permitted by HKSCC.

10A.14.2 Quantity of China Connect Securities allocated which can be used

The quantity of China Connect Securities allocated to the Stock Clearing Account of a China Connect Clearing Participant under the CNS System on a Settlement Day which will not be allowed to be used by the China Connect Clearing Participant will depend on the amount to be paid by the China Connect Clearing Participant to HKSCC under the CNS System on that day.

If a China Connect Clearing Participant wishes to make use of any of such China Connect Securities in its Stock Clearing Account before payment of the amount owed to HKSCC is confirmed good and irrevocable, as long as the value of such China Connect Securities which are to remain in the Stock Clearing Account of the China Connect Clearing Participant (determined by using the Mark-to-market values of the relevant China Connect Securities at the time), discounted by a percentage to be decided by HKSCC (normally ten percent), is not less than the China Connect Clearing Participant's "Outstanding Net Payment Liabilities for the Early Release of Securities-on-hold", the China Connect Clearing Participant will be allowed by HKSCC to make use of the China Connect Securities. The China Connect Clearing Participant's "Outstanding Net Payment Liabilities for the Early Release of Securities-on-hold" referred above in this Section 10A.14.2 shall be the total amount owed to HKSCC deducting the amount of Collateral accepted and received by HKSCC in accordance with Sections 10A.14.4A and 10A.14.5A (in RMB equivalent subject to haircut). The conversion shall be at such exchange rate and subject to such haircut rate as determined by HKSCC from time to time. For the purpose of calculating the total amount owed by a China Connect Clearing Participant to HKSCC, sums so owed and denominated in one Eligible Currency shall not be reduced by sums

owed to that China Connect Clearing Participant by HKSCC which are denominated in any other Eligible Currency.

When payment of the total amount owed to HKSCC is confirmed good and irrevocable, all China Connect Securities allocated under the CNS System to the Stock Clearing Account of a China Connect Clearing Participant will become available for use by it.

10A.14.3 Example (Quantity of China Connect Securities which can be used)

On a Settlement Day, China Connect Clearing Participant A was allocated 4,000 of Stock X (denominated in RMB) and 3,000 of Stock Y (denominated in RMB) and has RMB80,000 due to HKSCC. China Connect Clearing Participant A has provided to HKSCC cash prepayment of RMB30,000 and Collateral of HKD10,000 in accordance with Section 10A.14.4 and Section 10A.14.4A respectively. The prevailing Mark-to-market price for Stock X is RMB10 and for Stock Y is RMB20. The exchange rate is HKD1 = RMB0.8 and the haircut rate is 3%.

Then:

- (i) Mark-to-market value of China Connect Securities allocated to China Connect Clearing Participant A
 - = RMB10 x 4,000 (stock X) + RMB20 x 3,000 (stock Y)
 - = RMB100,000
- (ii) Discounted market value of such allocated China Connect Securities
 - = RMB100,000 x (1 - 0.1)
 - = RMB90,000
- (iii) Discounted market value of allocated China Connect Securities which could be withdrawn
 - = Discounted market value - (Amount due to HKSCC not covered of allocated China Connect Securities by cash prepayment – Collateral for the early release of Securities-on-hold)
 - = RMB90,000 - RMB(80,000 - 30,000 - 10,000 x 0.8 x (1 - 0.03))
 - = RMB47,760

China Connect Clearing Participant A will be allowed by HKSCC to use allocated China Connect Securities with a total discounted market value of not more than RMB47,760.

China Connect Clearing Participant A can therefore use no more than either: -

- (i) 5,306 of Stock X (derived from RMB47,760 ÷ RMB10 ÷ (1 - 0.1)); or
- (ii) 2,653 of Stock Y (derived from RMB47,760 ÷ RMB20 ÷ (1 - 0.1)); or
- (iii) a combination of Stock X and Stock Y so long as their total discounted market value does not exceed RMB47,760.

The amount of Stock X and Stock Y which must be retained in the Stock Clearing Account of China Connect Clearing Participant A will be treated by HKSCC as Securities-on-hold.

10A.14.4 China Connect Clearing Participant may effect cash prepayment

China Connect Clearing Participants that have outstanding payment obligations to HKSCC but wish to utilize any or all of the Securities-on-hold covering such outstanding payment obligations for any purpose, including to settle SI Transactions during a Settlement Day, may pay same day available funds to HKSCC to reduce their monetary obligations and have the equivalent discounted market value of Securities-on-hold in China Connect Securities released.

A China Connect Clearing Participant may pay same day available funds to HKSCC by inputting Cash Prepayment Instructions on each Settlement Day or by inputting a Cash Prepayment Standing Instruction via the “Cash Prepayment Standing Instruction” maintenance function to authorize HKSCC to generate recurring Cash Prepayment Instructions on behalf of the China Connect Clearing Participant on each Settlement Day. The cash prepayment amount that will be generated under a Cash Prepayment Standing Instruction will depend on the payment basis of the standing instruction given by the China Connect Clearing Participant, and will be either (a) the gross amount of the unsettled money obligations on its long CNS stock positions; or (b) the net amount of the unsettled money obligations on its long and short CNS stock positions, plus a certain percentage of the net amount input by the China Connect Clearing Participant.

Any Cash Prepayment Standing Instruction remaining in the “pending status” ten calendar days after its last updated date will be automatically purged from CCASS.

10A.14.4A China Connect Clearing Participant may deposit HKD or USD as Collateral

On each Settlement Day other than an H-1 day, China Connect Clearing Participants that have outstanding payment obligations to HKSCC but wish to utilize any or all of the Securities-on-hold covering such outstanding payment obligations for any purpose, including to settle SI Transactions during a Settlement Day, may, in addition to or in lieu of effecting cash prepayment, apply for the early release of Securities-on-hold by delivering the required amount of same day available funds in HKD or USD as Collateral to HKSCC’s specified bank account in accordance with the procedures set out in Section 10A.14.5A.

HKSCC has the power to approve or reject a China Connect Clearing Participant’s application for the early release of Securities-on-hold in its sole and absolute discretion.

Without prejudice to Section 10A.14.5A, HKSCC may impose such limit on the amount of Collateral that may be accepted, require such Collateral to be provided in such form and manner, and prescribe such exchange and haircut rates that may be applied as it considers 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 clearing and settlement of China Connect Securities Trades) and such other matters as HKSCC may consider relevant.

Unless HKSCC otherwise approves or the Operational Procedures otherwise provide, no interest will be payable by HKSCC on the Collateral provided by a China Connect Clearing Participant in connection with any early release of Securities-on-hold.

10A.14.5 Procedures relating to cash prepayment

The following is a brief description of the procedures relating to cash prepayment on each Settlement Day:

- (a) Cash Prepayment Instructions with “CHATS” set as the payment method
 - (i) China Connect Clearing Participants that wish to make prepayments by means of CPIs shall select “CHATS” as the payment method when creating a Cash Prepayment Instruction via a CCASS Terminal from 4:00 p.m. to 5:30 p.m. or such other time specified by HKSCC from time to time or when creating a Cash Prepayment Standing Instruction via a CCASS Terminal from 8:00 a.m. to 3:00 p.m. or such other time specified by HKSCC from time to time;
 - (ii) To avoid undue concentration of HKSCC’s exposure to a bank appointed by HKSCC as receiving bank for cash payment, cash prepayment is subject to the concentration limit pre-determined by HKSCC in respect of each appointed

receiving bank. HKSCC will only accept or generate Cash Prepayment Instructions within the predetermined concentration limit of the appointed receiving bank. In case a Cash Prepayment Standing Instruction is created and authorized by a China Connect Clearing Participant by 3:00 p.m. on a Settlement Day, Cash Prepayment Instructions will be generated by HKSCC, if applicable, at approximately 4:00 p.m. on the same Settlement Day;

- (iii) Upon the creation and authorization of Cash Prepayment Instructions by China Connect Clearing Participants or the generation of Cash Prepayment Instructions by HKSCC pursuant to Cash Prepayment Standing Instructions, CPIs will be generated to collect the cash prepayments from their Designated Bank Accounts. The CPIs information will be included in the Electronic CHATS Payment Instruction Report (CSEPI03). Based on the report, Designated Banks will issue CPIs to the Clearing House of HKAB to make payment on their behalf. China Connect Clearing Participants must ensure that there are sufficient funds in their Designated Bank Accounts and that the CHATS payments are completed by their Designated Banks no later than 7:00 p.m. or such other time as may be prescribed by HKSCC from time to time;
 - (iv) Upon being notified by the Clearing House of HKAB of the finality of such payment, HKSCC will update the Settlement Accounts of the relevant China Connect Clearing Participants' Money Ledger to reduce their corresponding monetary obligations due to HKSCC and as a result, release equivalent discounted market value of Securities-on-hold (see Section 10A.14.3). China Connect Clearing Participants' Statements of Money Ledger will show the relevant entries. China Connect Clearing Participants can check the status of a Cash Prepayment Instruction via the "Enquire Prepayment Instruction" function of CCASS. For the status of a Cash Prepayment Instruction, China Connect Clearing Participants can make use of the "Enquire Cash Prepayment Instruction" function;
 - (v) China Connect Clearing Participants can operate ATIs to check whether the Securities-on-hold have been released and rely on DIs or Batch-settlement-runs to settle the SI Transactions;
 - (vi) Since HKSCC allocates shares according to a pre-set algorithm, China Connect Clearing Participants making prepayments may not have received all allocated shares. Any surplus funds thus arising will be returned to them on the next Settlement Day via CPI. Please refer further to Section 14.7.2(iib);
 - (vii) In case the relevant cash payment under a Cash Prepayment Instruction input or generated on a Settlement Day is not received by HKSCC, the Cash Prepayment Instruction will be purged from CCASS at the end of the Settlement Day.
- (b) Cash Prepayment Instructions with "OTHERS" set as the payment method
- (i) China Connect Clearing Participants which wish to make prepayments by other means must indicate "OTHERS" as the payment method when creating a Cash Prepayment Instruction via a CCASS Terminal from 4:00 p.m. to 6:00 p.m. or such other time specified by HKSCC from time to time or when creating a Cash Prepayment Standing Instruction via a CCASS Terminal from 8:00 a.m. to 3:00 p.m. or such other time specified by HKSCC from time to time provided that notwithstanding that "OTHERS" is indicated, prepayments shall only be made by means of CPIs on an H-1 day;
 - (ii) To avoid undue concentration of HKSCC's exposure to a bank appointed by HKSCC as receiving bank for cash payment, cash prepayment is subject to the concentration limit pre-determined by HKSCC in respect of each appointed receiving bank. HKSCC will only accept or generate Cash Prepayment Instructions

within the predetermined concentration limit of the appointed receiving bank. In case a Cash Prepayment Standing Instruction is created and authorized by a China Connect Clearing Participant by 3:00 p.m., Cash Prepayment Instructions will be generated by HKSCC, if applicable, at approximately 4:00 p.m. on the same Settlement Day;

- (iii) China Connect Clearing Participants must ensure that same day available funds are transferred to HKSCC's specified bank account no later than 6:00 p.m. or such other time prescribed by HKSCC from time to time. For China Connect Clearing Participants using the same bank as HKSCC, they can make use of the internal account transfer function of the bank or electronic banking services to transmit available funds. For others, they can instruct their banks to make payment to HKSCC via inter-bank transfer with CHATS payment (see CCASS Terminal User Guide for Participants for details);
- (iv) Based on the details of Cash Prepayment Instructions, HKSCC will follow up the funds with its appointed receiving bank and the relevant China Connect Clearing Participants. Only when available funds are confirmed will HKSCC update the relevant China Connect Clearing Participants' Settlement Accounts of Money Ledger to reduce their corresponding monetary obligations due to HKSCC and as a result, release equivalent discounted market value of Securities-on-hold (see Section 10A.14.3). China Connect Clearing Participants' Statements of Money Ledger will show the relevant entries. China Connect Clearing Participants can check the status of a Cash Prepayment Instruction via the CCASS enquiry function of "Enquire Cash Prepayment Instruction";
- (v) China Connect Clearing Participants can operate ATIs to check whether the Securities-on-hold have been released and rely on DIs or Batch-settlement-runs to settle the SI Transactions;
- (vi) Since HKSCC allocates shares according to a pre-set algorithm, China Connect Clearing Participants making prepayments may not have received all allocated shares. Any surplus funds thus arising will be returned to them on the next Settlement Day via CPI. Please refer further to Section 14.7.2 (iib);
- (vii) Acceptance of the prepayment requests will be at HKSCC's full discretion. If China Connect Clearing Participants fail to follow the procedures, and/or for any other reason the requests are subsequently turned down by HKSCC, then the funds received will only be refunded the following Settlement Day without interest;
- (viii) In the event of default of payment (e.g., for any transfers subsequently reversed by the Clearing House of HKAB), HKSCC shall have recourse against the relevant China Connect Clearing Participant;
- (xi) In case cash remittance is made by a China Connect Clearing Participant to HKSCC as cash prepayment not pursuant to any Cash Prepayment Instruction, HKSCC reserves the right not to effect the updating of the China Connect Clearing Participant's Money Ledger on the same day. Such cash payment will be refunded without interest to the China Connect Clearing Participant by crediting the cash payment amount to its Money Ledger on the next Settlement Day; and
- (x) In case the relevant cash payment under a Cash Prepayment Instruction input on a Settlement Day is not received by HKSCC, the Cash Prepayment Instruction will be purged from CCASS at the end of the Settlement Day.

10A.14.5A Procedures relating to the provision of Collateral for the early release of Securities-on-hold

The following is a brief description of the procedures relating to the provision of Collateral

for the early release of Securities-on-hold on each Settlement Day:

- (i) China Connect Clearing Participants that wish to apply for the early release of Securities-on-hold shall submit the prescribed application form to HKSCC between 4:00 p.m. and 5:30 p.m. or during such other period as may be specified by HKSCC from time to time;
- (ii) to avoid undue concentration of HKSCC's exposure to a bank appointed by HKSCC as receiving bank for Collateral, acceptance of Collateral is subject to the concentration limit pre-determined by HKSCC in respect of each appointed receiving bank. HKSCC will only accept Collateral within the predetermined concentration limit of the appointed receiving bank;
- (iii) to avoid undue concentration of HKSCC's FX exposure, the amount of Collateral acceptable by HKSCC on each Settlement Day is subject to such maximum limit as may be prescribed by HKSCC from time to time;
- (iv) China Connect Clearing Participants must ensure that the full amount of Collateral set out in the application for the early release of Securities-on-hold, in the form of same day available funds in HKD or USD, are transferred to HKSCC's specified bank account as Collateral by no later than 5:30 p.m. on the same Settlement Day or such other time as may be prescribed by HKSCC from time to time, failing which the application will be rejected. For China Connect Clearing Participants using the same banks as HKSCC, they can make use of the internal account transfer function of their banks or electronic banking services to transmit available funds. For others, they can instruct their banks to make payment to HKSCC via inter-bank transfer with CHATS payment;
- (v) acceptance of the application for the early release of Securities-on-hold will be at HKSCC's full discretion. HKSCC may approve or reject a China Connect Clearing Participant's application and impose such limit on the acceptable Collateral in its sole and absolute discretion. If a China Connect Clearing Participant fails to follow the procedures, and/or for any other reasons the application is subsequently rejected by HKSCC, any Collateral received will be redelivered to the China Connect Clearing Participant on the following Settlement Day without interest;
- (vi) if the application is approved, HKSCC will release the Securities-on-hold up to the equivalent discounted market value (see Section 10A.14.3) upon receipt of the full amount of acceptable Collateral from the China Connect Clearing Participant;
- (vii) China Connect Clearing Participants can operate ATIs to check whether the Securities-on-hold have been released and rely on DIs or Batch-settlement-runs to settle their SI Transactions;
- (viii) since HKSCC allocates shares according to a pre-set algorithm, China Connect Clearing Participants applying for the early release of Securities-on-hold may not have received all allocated shares. Any surplus Collateral received by HKSCC will only be redelivered to the China Connect Clearing Participants on the next Settlement Day without interest;
- (ix) subject to the relevant default rules under the Rules and Operational Procedures, all Collateral received pursuant to an application for the early release of Securities-on-hold will be redelivered to the relevant China Connect Clearing Participant without interest on the next Settlement Day via EPI unless HKSCC has received a standing instruction from the China Connect Clearing Participant in prescribed form by 2:00 p.m. on the day of redelivery or such other time as may be prescribed by HKSCC from time to time requesting HKSCC not to effect the redelivery of Collateral. For

the purposes of calculating the handling fee in Section 21.1A, any Collateral that is not redelivered to a China Connect Clearing Participant pursuant to a standing instruction shall, unless and until any such Collateral is accepted by HKSCC in relation to a separate application for the early release of Securities-on-hold, be excluded; and

- (x) in the event of default of payment (e.g., for any transfers subsequently reversed by the Clearing House of HKAB), HKSCC shall have recourse against the relevant China Connect Clearing Participant and may take such action against the China Connect Clearing Participant as it considers appropriate.

In respect of any Collateral received pursuant to an application for the early release of Securities-on-hold that is not redelivered to a China Connect Clearing Participant in accordance with the procedures mentioned above, the relevant China Connect Clearing Participant may at any time request HKSCC to redeliver all or any of such amount of surplus Collateral by submitting a withdrawal instruction in prescribed form at or before 2:00 p.m. on a Settlement Day or such other time as may be prescribed by HKSCC from time to time.

10A.15 RISK MANAGEMENT: CLOSING-OUT

10A.15.1 Purpose of Closing-out

Under Rule 3607 and Rule 4107, on the occurrence of an Event of Default of a China Connect Clearing Participant, HKSCC may Close-out any or all unsettled obligations of that China Connect Clearing Participant (whether in its capacity as China Connect Clearing Participant or otherwise) under the CNS System (whether or not due for settlement).

The two main purposes of Closing-out are (i) to enable HKSCC to crystalize its exposure to a Participant in default and (ii) to enable HKSCC to meet its obligations under the CNS System to other Participants. The end result of Closing-out of all unsettled positions of a Participant under the CNS System is that all obligations to deliver or receive Eligible Securities (including but not limited to China Connect Securities) will be replaced by sums payable and a net sum will become payable by or to the defaulting Participant. The mechanics of Closing-out described in Section 10.14 shall be applicable, in so far as they are relevant.

(For further details, reference should be made to Sections 10.14.2, 10.14.3 and 10.14.4 which shall also apply to default by China Connect Clearing Participants.)