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## Section 11

### Exchange Trades - Isolated Trades System

#### 11.1 SETTLEMENT UNDER THE ISOLATED TRADES SYSTEM

##### 11.1.1 Details of Exchange Trades

As mentioned, arrangements have been made by HKSCC for details of Exchange Trades to be reported to HKSCC on a daily basis. Participants will not, therefore, generally have to separately input into CCASS details of Exchange Trades. However, HKSCC reserves the right to require Clearing Participants to provide details of Exchange Trades executed by them or in the case of GCPs, including those executed by their NCPs to it.

To recap, subject to any Trade Amendments, any “late” Exchange Trades and trades not recognized by the Exchange, Exchange Trades will be settled in CCASS under the Isolated Trades System only if they are isolated from the CNS System by the counterparty Exchange Participants at the time of trade or by HKSCC.

##### 11.1.2 Exchange Trades isolated by Exchange Participants

At the time of trade, two trading counterparty Exchange Participants may elect to have an Exchange Trade settled under the Isolated Trades System instead of the CNS System. Unless this is done at the time of trade, it will be assumed that the two counterparty Exchange Participants would prefer to have the Exchange Trade settled under the CNS System.

Election subsequent to the time of trade will not be entertained by HKSCC.

##### 11.1.3 Exchange Trades isolated by HKSCC

For risk management or other reasons HKSCC may isolate certain Exchange Trades from the CNS System.

Under the Rules, HKSCC may isolate Exchange Trades from the CNS System at any time prior to acceptance for settlement under the CNS System (as confirmed by details of PCSs).

However, HKSCC intends to inform the market in advance if it proposes to isolate a particular Exchange Participant's Exchange Trades from the CNS System or to isolate Exchange Trades in a particular Eligible Security from the CNS System, although it reserves the right not to give advance notice.

Any such information will be provided by HKSCC to Exchange Participants via the Exchange and will be broadcast to Participants via the CCASS Broadcast Message Service.

The following are examples of when HKSCC may isolate a particular Participant's Exchange Trades from the CNS System :

- (i) if the Clearing Participant defaults in payment of any sum due or payable to HKSCC;

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- (ii) if the Clearing Participant and/or in the case of a GCP, including its NCP, in HKSCC's view, engages in unusual, risky or questionable trading practices;
  - (iii) if the Clearing Participant and/or in the case of a GCP, including its NCP, is persistently in breach of the Rules or is subject to disciplinary action or suspension by the Exchange or the Commission; or
  - (iv) if in HKSCC's view, the Clearing Participant may not be able to meet its debts when due.

HKSCC is also likely to isolate Exchange Trades in a particular Eligible Security from the CNS System if the Eligible Security is, in HKSCC's view, the subject of unusual trading activities or is excessively volatile or risky.

#### **11.1.4 Confirmation of acceptance under the Isolated Trades System**

Acceptance by HKSCC of Exchange Trades for settlement under the Isolated Trades System will only be confirmed by details contained in the second batch of PCSs issued by HKSCC to Clearing Participants at or about 8:00 p.m. on each Business Day. Notwithstanding the foregoing, Trade Amendments and "late" Exchange Trades may be accepted by HKSCC, and trades that are not recognized by the Exchange may be excluded, subsequent to the issue of the relevant PCS.

Each Isolated Trade to be cleared and settled by the Clearing Participant will be assigned a unique Settlement Position Number for reference purposes. The Settlement Position Numbers of Isolated Trades will be set out in the FCSs.

#### **11.1.5 Availability of and information contained in PCSs**

Hard copies of PCSs issued by HKSCC on each Business Day can be obtained by Clearing Participants via their CCASS Terminals or Participant Gateways. PCSs are generated twice daily on each Business Day.

A PCS will provide a Clearing Participant with information in relation to all Exchange Trades and/or Clearing Agency Transactions effected by it and in the case of a GCP, including its NCPs on that day. For a particular day, a PCS will set out the details of such Participant's and in the case of a GCP, including its NCPs, Exchange Trades and/or Clearing Agency Transactions to be settled under the Isolated Trades System and the details of its net stock position in each Eligible Security traded that day (and the relevant money positions).

For Exchange Trades relating to interest-bearing eligible Debt Securities, accrued interest amount and trade amount of the trades will be displayed separately in the PCSs. In addition, other information such as interest calculation method, interest rate used and number of days used in the calculation of accrued interest will also be provided in the PCSs.

Details of the Exchange Trades of the relevant Clearing Participant and in the case of a GCP, including its NCPs to be settled under the CNS System and details of trades in non-Eligible Securities will also be provided in the PCSs.

Details of Clearing Agency Transactions to be settled under the CNS System or the Isolated Trades System will be included in the second batch of PCSs only.

The information contained in a PCS will only be indicative of the settlement obligations of the Clearing Participant on the due settlement date (i.e. T+2). Trade Amendments may be made, "late" Exchange Trades may be accepted, trades not recognized by the Exchange may be excluded and the settlement obligations may be affected by unsettled positions under the CNS System in the intervening day (i.e. T+1) before the due settlement date.

The main purpose of a PCS, in addition to allowing the Clearing Participant to make initial preparation for settlement, is to allow a Clearing Participant to carry out daily reconciliation with its internal records relating to the Exchange Trades and/or Clearing Agency Transactions it clears and settles.

Where a Clearing Participant is in the process of opening a bank account in an Eligible Currency for money settlement of Exchange Trades and/or Clearing Agency Transactions in that Eligible Currency accepted under the Isolated Trades System, a message will be posted on the PCSs of the Clearing Participant to alert the Clearing Participant that the transaction must be settled on a FOP basis by input of a DI.

#### **11.1.6 Availability of and information contained in FCSs**

Hard copies of FCSs are available to Clearing Participants via CCASS Terminals and Participant Gateways.

A FCS will contain the following information in relation to the Exchange Trades and Clearing Agency Transactions of Clearing Participant and in the case of a GCP, including those of its NCP, concluded on the Exchange on the previous Business Day (i.e. T-day) and which are to be settled on the following Settlement Day (i.e. T+2):

- (i) the net stock positions with HKSCC in each Eligible Security (which will each be assigned a unique settlement position number) and their related money positions under the CNS System (taking into account any Trade Amendments accepted by HKSCC, any "late" Exchange Trades accepted by HKSCC and the exclusion of any trades not recognized by the Exchange) as well as details of individual Exchange Trades;
- (ii) the net money position with HKSCC for all net stock positions under the CNS System;
- (iii) details of Exchange Trades accepted for settlement under the Isolated Trades System and their related money positions (including any Trade Amendments thereto approved by the Exchange); and accrued interest amounts of Exchange Trades in interest-bearing eligible Debt Securities;
- (iv) details of Clearing Agency Transactions accepted for settlement under the Isolated Trades System and their related money positions (including any amendments thereto accepted by HKSCC);
- (v) details of Trade Amendments, any "late" Exchange Trades accepted by HKSCC and the exclusion of any trades not recognized by the Exchange, if any;

- (vi) details of trades effected in securities listed on the Exchange which are not Eligible Securities (and any Trade Amendments thereto); and
- (vii) details of fees payable in relation to the settlement of Exchange Trades and Clearing Agency Transactions in CCASS (see Section 21.1).

Where a Participant is in the process of opening a bank account in an Eligible Currency for money settlement of Exchange Trades in that Eligible Currency accepted under the Isolated Trades System, a message will be posted on the FCS of the Participant to alert the Participant that the transaction must be settled on a FOP basis by input of a DI.

## **11.2 TRADE AMENDMENTS, “LATE” EXCHANGE TRADES AND TRADES NOT RECOGNIZED BY THE EXCHANGE**

### **11.2.1 General**

In respect of any error relating to Isolated Trades, counterparty Exchange Participants may effect Trade Amendments in the usual way, in accordance with Exchange Rule 528(1). Similarly any “late” Exchange Trades should also be dealt with by the Exchange Participants concerned. Trades in a Structured Product which are effected on or reported to the Exchange after the time of the relevant call event as notified by the Issuer of the Structured Product to or otherwise determined by the Exchange and which are not recognized by the Exchange in accordance with the Exchange Rules may also be excluded.

Arrangements have been made by HKSCC for details of such Trade Amendments, “late” Exchange Trades or trades that are not recognized by the Exchange to be reported to it by the Exchange. Provided that such details are received by HKSCC by the Business Day next following the relevant day of trade, before the usual time for the issue of Final Clearing Statements by HKSCC (see Section 10.2.3), HKSCC will normally accept such Trade Amendments, “late” Exchange Trades and exclusion of trades not recognized by the Exchange and cause adjustments to be made to the settlement positions of the Clearing Participants concerned under the Isolated Trades System (or the CNS System, if relevant).

### **11.2.2 Availability of and information contained in FCSs for Trade Amendments**

Details of any Trade Amendments, or “late” Exchange Trades accepted by HKSCC or the exclusion of trades not recognized by the Exchange will be set out or reflected in FCSs issued by HKSCC to Clearing Participants at or about 2:00 p.m. on the Business Day following the relevant day of trade.

Hard copies of FCSs are available to Clearing Participants via CCASS Terminals and Participant Gateways.

### **11.2.3 Accrued interest adjustment**

For trades in floating rate Debt Securities effected in one interest period and which are due for settlement on or after the first day of the next following interest period, it is possible that the interest rate of the next following interest period may not be fixed by the trade day. Upon notification of the interest rate for the next following interest period by the issuer/issuer's agent, HKSCC may adjust the accrued interest amount of the affected

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positions. Where other circumstances warrant, HKSCC may also adjust the accrued interest in line with market practice.

Details of the accrued interest adjustments are provided in the FCSs, Next Settlement Day Due/Overdue Position Reports, Settled Position Reports and Settlement Reports (see CCASS Terminal User Guide for Participants for details), where applicable.

### **11.3 HKSCC NOT RESPONSIBLE FOR ISOLATED EXCHANGE TRADES**

HKSCC are not responsible for any default by Clearing Participants under the Isolated Trades System. A Clearing Participant will itself have to pursue its counterparty Clearing Participants in default.

At present, default by an Exchange Participant in respect of any Isolated Trades are to continue to be covered by the Fidelity Fund and the Guarantee Scheme operated by the Exchange under the Exchange Rules. This is not the responsibility of HKSCC and the position may change in the future.

It should also be noted that, although under the Rules (see Rule 3402) HKSCC may take certain measures in case of late deliveries under the Isolated Trades System, HKSCC is not obliged to do so. Further, such measures by HKSCC, unlike similar measures HKSCC may take under the CNS System, will not be protected under the Securities and Futures Ordinance.

### **11.4 SETTLEMENT OF ISOLATED EXCHANGE TRADES**

#### **11.4.1 General**

Settlement of Exchange Trades under the Isolated Trades System in CCASS is effected directly between the counterparty Clearing Participants on a trade-for-trade basis.

Settlement of Exchange Trades under the Isolated Trades System can be effected either by the multiple Batch-settlement-runs conducted on each Settlement Day by HKSCC or by the delivering Clearing Participants initiating settlement on or after the due dates of the Isolated Trades by the input of DIs.

Exchange Trades for settlement under the Isolated Trades System will be included for settlement in Batch-settlement-runs unless, at any time before settlement, the delivering Clearing Participant makes use of the "Change DI Requirement" function available through its CCASS Terminals or Participant Gateways to specify that a DI must be input by it to effect settlement.

No partial delivery is allowed except where delivery is on an FOP basis.

#### **11.4.2 Example (settlement of Exchange Trades under the Isolated Trades System)**

On T+2, Participant A would like to settle the first isolated Exchange Trade (TRN: 00000001) concluded by itself or by its NCP if Participant A is a GCP, where applicable, using stock X available in its Stock Clearing Account.

For the second isolated Exchange Trade (TRN: 00000002), Participant A has only 6,000

stock Y available in its Stock Segregated Account 05. It agrees with Participant B to deliver the 6,000 stock Y for partial settlement upon receipt of a cheque from Participant B. Partial delivery is only allowed for isolated Exchange Trades settled on a FOP basis.)

Participant A inputs the following DIs to effect settlement in CCASS :

<b>TRN</b>	<b>Payment Instruction</b>	<b>Delivering Stock Account</b>	<b>Stock</b>	<b>Delivering Quantity</b>
00000001	DVP	Clearing A/C 01	X	5,000
00000002	FOP	Segregated A/C 05	Y	6,000

### **11.5 MONEY SETTLEMENT OF ISOLATED EXCHANGE TRADES**

Settlement of Exchange Trades through the Isolated Trades System under a Batch-settlement-run will always be effected on a DVP basis (except where an isolated Exchange Trade has been partially settled by a DI on an FOP basis, in which case settlement of the remainder of the isolated Exchange Trade will also be effected on a FOP basis if included in a Batch-settlement-run).

In relation to Exchange Trades settled under the Isolated Trades System by DIs, the delivering Clearing Participants may specify in their DIs whether delivery is to be made on a DVP or FOP basis.

Upon settlement of an isolated Exchange Trade in CCASS on a DVP basis, HKSCC will issue EPIs for the relevant amount (based on details of the isolated Exchange Trade received from the Exchange) to the Designated Banks of the two Clearing Participants concerned to effect payment for value on the same day. For Exchange Trades in interest-bearing eligible Debt Securities, relevant amounts of EPIs will include the accrued interest amount of the corresponding Exchange Trades. The Settlement Reports of the Participants concerned will show the relevant entries and details of the relevant EPIs.

Clearing Participants themselves will have to monitor confirmation of good payment in relation to isolated Exchange Trades to be settled through the Isolated Trades System on a DVP basis in CCASS.

To effect money settlement of Isolated Exchange Trades on a DVP basis in a particular Eligible Currency, both delivering and receiving Participants must maintain a Designated Bank Account in that Eligible Currency.

### **11.6 LATE DELIVERY : DEFAULT FEE**

HKSCC may require Clearing Participants who fail to settle their Isolated Trades on the due dates therefore to pay to it default fees. Default fees levied by HKSCC may be retained by HKSCC for use for CCASS purposes.

### **11.7 LATE DELIVERY : STOCK BORROWING**

In relation to Isolated Trades which are not settled by Clearing Participants on the due dates, HKSCC may direct the defaulting Clearing Participants to effect a stock borrowing of the relevant Eligible Securities or HKSCC may itself effect a stock borrowing on their

behalf.

HKSCC does not intend to exercise this right at present but reserves the right to do so.

## **11.8 LATE DELIVERY: BUY-IN**

### **11.8.1 Purposes**

The purpose of a Buy-in is to ensure that unsettled short stock positions of Clearing Participants under the Isolated Trades System are settled without undue delay.

Under the Rules, HKSCC may (i) direct a defaulting Clearing Participant to effect or arrange a Buy-in; or (ii) HKSCC may itself effect a Buy-in on behalf of the defaulting Clearing Participant and for such purpose, may on behalf of that Clearing Participant direct HKSCC's authorized brokers to assist.

For convenience, Participants with long unsettled stock positions under the Isolated Trades System are referred to in this Section as "Long Clearing Participants". Participants with unsettled short stock positions under the Isolated Trades System are referred to in this Section as "Short Clearing Participants".

### **11.8.2 Timing of Buy-in**

All stock positions of a Short Clearing Participant under the Isolated Trades System which are outstanding for settlement after the due date (i.e., T+2) may be subject to a Buy-in.

### **11.8.3 Complaint driven**

In general, HKSCC will only require a Buy-in in respect of late delivery under the Isolated Trades System if HKSCC receives a complaint from the Long Clearing Participant in an outstanding Isolated Trade.

A Long Clearing Participant wishing to make a complaint to HKSCC must complete and return a "Buy-in Request Form (Isolated Trades)" (see CCASS Terminal User Guide for Participants for the form) to HKSCC. HKSCC may require the Long Clearing Participant to provide further information to substantiate its complaint.

### **11.8.4 Buy-in process by a Short Clearing Participant as directed by HKSCC**

The following explains the usual process of a Buy-in by a Short Clearing Participant in greater detail:

- (i) after HKSCC is satisfied that a complaint by a Long Clearing Participant is substantiated and that a Buy-in is appropriate, a Buy-in request will be issued by HKSCC to the Short Clearing Participant;
- (ii) unless otherwise waived by HKSCC, a Short Clearing Participant notified of a Buy-in request by HKSCC will normally be required to complete the Buy-in trade on the Exchange by 11:00 am on the day of issue of such Buy-in request (or within such other time limit, if any, stipulated by HKSCC);
- (iii) the Short Clearing Participant arranging a Buy-in will have to inform HKSCC (in the prescribed manner) immediately upon the conclusion of the trade on the

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Exchange of the details of the Buy-in, including the identity of the counterparty (see CCASS Terminal User Guide for Participants for the form); and

- (iv) with the assistance of the Exchange, HKSCC will monitor the execution of Buy-in trades for Short Clearing Participants and may telephone the relevant Short Clearing Participants to remind them to arrange Buy-in trades.

#### **11.8.5 Buy-in process by HKSCC on behalf of a Short Clearing Participant**

The following explains the process of a Buy-in by HKSCC on behalf of a Short Clearing Participant in greater detail:

- (i) HKSCC will usually inform the Short Clearing Participant of its decision to effect a Buy-in but reserves the right not to do so;
- (ii) HKSCC may on behalf of that Short Clearing Participant instruct other authorized brokers to assist in effecting a Buy-in on the Exchange (noting that, unless otherwise agreed in writing by HKSCC, an authorized broker assisting HKSCC will only have recourse against the relevant Short Clearing Participant, and not HKSCC);
- (iii) HKSCC shall effect a Buy-in at what it determines to be the best prevailing market price and terms available (but taking into account that HKSCC may need to act promptly and provided that HKSCC, the Exchange, and a recognized exchange controller which is the controller of HKSCC shall have no liability if HKSCC acts in good faith);
- (iv) after effecting such a Buy-in HKSCC will inform the Short Clearing Participant of the details of the Buy-in.

#### **11.8.6 Buy-in to be effected under the Isolated Trades System**

All Buy-ins in respect of outstanding Isolated Trades will be effected under the Isolated Trades System and the selling counterparty Exchange Participant to a Buy-in will have to be so informed by the Short Clearing Participant directed by HKSCC to effect a Buy-in or informed by HKSCC (via the authorized broker acting on HKSCC's behalf where HKSCC itself effects a Buy-in on behalf of a Short Clearing Participant).

The selling counterparty Exchange Participant to a Buy-in will then identify the Buy-in trade as one to be settled under the Isolated Trades System by keying in "B" in the "reference field" on the trading terminal of the Exchange.

Where relevant, the selling counterparty Exchange Participant to a Buy-in will also be informed that the Buy-in is to have a different settlement period than the normal settlement period of T+2.

If the selling counterparty Exchange Participant (or where applicable, its GCP) to a Buy-in fails to settle on the due date, it will normally be subject to a further Buy-in to be effected under the Isolated Trades System on the trading day following the due date.

#### **11.8.7 Waiver**

A Short Clearing Participant may apply to HKSCC for a waiver by completing an Application for Exemption of Buy-in Form (see CCASS Terminal User Guide for Participants for the form). HKSCC will normally only grant a waiver if the Isolated Trade in question has been settled.

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HKSCC may also grant a waiver of a Buy-in if the relevant Long Clearing Participant wishes to withdraw a complaint (provided that such withdrawal is accepted by HKSCC). A Long Clearing Participant wishing to withdraw a complaint may apply to HKSCC by completing a "Withdrawal of Buy-in Request Form (Isolated Trades)" (see CCASS Terminal User Guide for Participants for the form).

## **11.9 LATE DELIVERY : ADJUSTMENTS FOR ENTITLEMENTS**

### **11.9.1 General**

A Participant's entitlement to participate through CCASS in corporate actions etc. affecting Eligible Securities will be determined by HKSCC by reference to the holding of that Participant in the relevant Eligible Securities as at the date on which the entitlement of HKSCC or the Nominee is determined (usually the last registration day before the relevant book close or record date).

If, as at that date, a Clearing Participant has any outstanding unsettled Isolated Trades as a result of late deliveries, certain adjustments or claims to its entitlements may have to be made between it and the counterparty Clearing Participants to such Isolated Trades.

This Section explains certain rules dealing with such adjustments or claims between Clearing Participants which, unless expressly agreed to the contrary, will be deemed to be binding on Clearing Participants in relation to the Isolated Trades System. Unless otherwise provided in the Rules or determined by HKSCC, the rules set out in this Section will not normally apply if the Short Clearing Participant to an unsettled stock position under the Isolated Trades System makes delivery of relevant Eligible Securities in CCASS to the counterparty Long Clearing Participant on or before the date on which the entitlement of HKSCC or the Nominee is determined.

The rules explained in this Section do not cover adjustments and claims in relation to all types of corporate actions. HKSCC may from time to time prescribe further rules, procedures or facilities in relation to adjustments for entitlements under the Isolated Trades System in respect of corporate actions etc., either generally or on a case by case basis.

Where any Clearing Participants default in the performance of their obligations hereunder then the defaulting Clearing Participants will be responsible for all costs expenses and damages incurred in consequence of such defaults.

### **11.9.2 General principles**

Section 11.9.3 to Section 11.9.11 deal with specific types of corporate actions etc. affecting Eligible Securities and explain the general rules, if any, which are deemed to apply to adjustments for entitlements between Clearing Participants, unless expressly agreed to the contrary by two counterparty Clearing Participants to an Isolated Trade.

The rules set out in this Section concern mainly adjustments or claims for late deliveries under the Isolated Trades System in relation to corporate actions etc., affecting Eligible Securities which involve entitlements of payments or securities accruing to Eligible Securities. In relation to corporate actions such as voting, takeover offers etc. which are not dealt with in this section, Clearing Participants affected by late deliveries under the Isolated

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Trades System will have to pursue claims against their counterparty Clearing Participants in the normal way.

For the avoidance of doubt, each Clearing Participant acknowledges and confirms that HKSCC, the Exchange, and a recognized exchange controller which is the controller of HKSCC shall not be liable in relation to adjustments or claims in respect of dividends, rights, entitlements, securities and other property accruing to Eligible Securities as a result of late deliveries by other Clearing Participants under the Isolated Trades System and shall not be so liable as a result of any rules established by HKSCC in relation thereto.

### **11.9.3 Cash dividend entitlements**

In relation to cash dividends, whether in Hong Kong dollars or in a foreign currency, the Short Clearing Participants are obliged to deliver to the relevant counterparty Long Clearing Participants cheques for the relevant amounts representing the dividends due to such Long Clearing Participants (or by foreign currency bank drafts in relation to dividend in a foreign currency) on or before the relevant dividend payment date.

HKSCC will not be responsible for paying Long Clearing Participants the cash dividend entitlements accruing to their unsettled stock positions under the Isolated Trades System. If Long Clearing Participants do not receive such entitlements from the relevant counterparty Short Clearing Participants, Long Clearing Participants will have to pursue claims against the relevant counterparty Short Clearing Participants.

### **11.9.4 Bonus issues of securities**

In relation to bonus issues of securities, Short Clearing Participants are obliged to deliver to the relevant counterparty Long Clearing Participants the number of bonus securities accruing to their unsettled stock positions under the Isolated Trades System on or before the distribution date of such bonus securities.

HKSCC will not be responsible for delivering to Long Clearing Participants the bonus securities accruing to their unsettled stock positions under the Isolated Trades System. If Long Clearing Participants do not receive such entitlements from the relevant counterparty Short Clearing Participants, Long Clearing Participants will have to pursue claims against the relevant counterparty Short Clearing Participants.

### **11.9.5 Dividend entitlements with options**

In relation to dividend entitlements with options, Long Clearing Participants will have to inform the relevant counterparty Short Clearing Participants in writing the option they wish to elect. If Long Clearing Participants fail to inform the Short Clearing Participants of their election the Business Day before the deadline for election imposed by the issuers of the relevant Eligible Securities, Long Clearing Participants will be treated as having chosen the "default" option specified by the issuers of the relevant Eligible Securities (or if no such "default" option is specified, the option as elected by the relevant counterparty Clearing Participants).

Short Clearing Participants will be required to deliver cheques or foreign currency bank drafts or bonus securities to Long Clearing Participants in the manner specified in Section 11.9.3 or Section 11.9.4 as appropriate.

HKSCC will not be responsible for paying Long Clearing Participants the relevant cash

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dividends or to deliver the stock dividends accruing to their unsettled stock positions under the Isolated Trades System. If Long Clearing Participants do not receive such entitlements from the relevant counterparty Short Clearing Participants, Long Clearing Participants will have to pursue claims against the relevant counterparty Short Clearing Participants.

#### **11.9.6 Rights issues**

In relation to rights issues, Short Clearing Participants are required to deliver the relevant number of nil paid rights (PALs) to the relevant counterparty Long Clearing Participants on the distribution date of such nil paid rights.

In relation to Exchange Trades in PALs to be settled under the Isolated Trades System in CCASS the following procedures will normally apply:

- (i) Long Clearing Participants wishing to subscribe for rights shares through CCASS in respect of their unsettled stock positions under the Isolated Trades System in such PALs must complete and return the Rights Issue Subscription Election Form - IT Positions (see CCASS Terminal User Guide for Participants for the form) and Declaration Form to HKSCC together with a cashier order for the relevant amount by 2:00 p.m. on the Business Day before the last day for Subscription for the rights shares in question or such other means and time as may be specified by HKSCC. This will be dealt with by HKSCC in the normal way (see Section 8.10);
- (ii) if the Long Clearing Participants fail to receive any of the PALs or only receive part of the PALs from their counterparty Short Clearing Participants before the last day for subscription (or by the first Batch-settlement-run on the last day for subscription if the last day for subscription falls on the second Settlement Day following the last trading day of the PALs), HKSCC will not process the subscription request of the Long Clearing Participants or will only process partial subscription based on the quantity of PALs received by the Long Clearing Participants; and
- (iii) HKSCC will refund the whole subscription money or the balance of the subscription money, as the case may be, to the Long Clearing Participants.

In such case, the Long Clearing Participants will have to pursue their counterparty Short Clearing Participants for the rights shares unable to be subscribed by HKSCC on their behalf. The following procedures will normally apply:

- (i) Long Clearing Participants should notify the relevant counterparty Short Clearing Participants in writing of their decision to apply for rights shares not later than 12:00 noon on the last day for subscription for the rights shares in question or such other time as may be specified by HKSCC provided that, if the last day for subscription falls on a Saturday, the Long Clearing Participants will have to inform the counterparty Short Clearing Participants of their election not later than 12:00 noon on the Business Day before the last day of subscription or such other time as may be specified by HKSCC;
- (ii) based on the election of Long Clearing Participants, the relevant counterparty Short Clearing Participants will have to deliver to the Long Clearing Participants on or before the date of distribution of rights shares, the relevant number of such rights shares the Long Clearing Participants wish to apply for (up to the number capable

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of being subscribed in respect of the relevant unsettled stock positions under the Isolated Trades System); and

- (iii) concurrently against receipt from the Short Clearing Participants of rights shares, the relevant counterparty Long Clearing Participants have to deliver to the Short Clearing Participants cheques for the relevant amounts, based on the subscription price of the rights shares as well as cheques for the purchase price in respect of the relevant unsettled stock positions under the Isolated Trades System. The two counterparty Participants will then have to apply jointly to HKSCC by submitting an Application for cancellation of Settlement Position (see CCASS Terminal User Guide for Participants for the form) to cancel the stock positions in respect of such Isolated Trades.

As for excess shares, Long Clearing Participants will have to pursue their remedies, if any, against the counterparty Short Clearing Participants in the normal way.

HKSCC will not be responsible for delivering nil paid rights, rights shares or excess shares to Long Clearing Participants. If Long Clearing Participants do not receive such nil paid rights or rights shares or excess shares from the relevant counterparty Short Clearing Participants, Long Clearing Participants will have to pursue claims against the relevant counterparty Short Clearing Participants.

#### **11.9.7 Open offers**

In relation to open offers:

- (i) Long Clearing Participants wishing to apply for all or part of their pro-rata entitlements for new shares under an open offer (in respect of relevant unsettled stock positions under the Isolated Trades System as at the date for determination of entitlement to participate in an open offer) should notify the relevant counterparty Short Clearing Participants in writing of their decision to do so not later than 12:00 noon on the last day for subscription under the open offer or such other time as may be specified by HKSCC stating the number of new shares they wish to apply for (up to their pro-rata entitlements in respect of the relevant unsettled stock positions under the Isolated Trades System) provided that, if the last day of subscription falls on a Saturday, the Long Clearing Participants will have to inform the counterparty Short Clearing Participants of their election not later than 12:00 noon on the Business Day before the last day for subscription or such other time as may be specified by HKSCC;
- (ii) in such cases, the Short Clearing Participants are obliged to deliver to the relevant counterparty Long Clearing Participants on or before the date of distribution of new shares under an open offer, the relevant number of new shares representing the number of shares the Long Clearing Participants wish to apply for (up to the pro-rata entitlements in respect of their outstanding unsettled Isolated Trades under the terms of such open offer); and
- (iii) concurrently against receipt from the Short Clearing Participants of new shares, the relevant Long Clearing Participants will have to deliver to the Short Clearing Participants cheques for the relevant amounts for the subscription price of such new shares under the terms of the open offer.

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The provisions in this Section 11.9.7 do not deal with the application for excess shares under open offers. Long Clearing Participants will have to pursue their remedies, if any, against the counterparty Short Clearing Participants in the normal way.

HKSCC will not be responsible to Long Clearing Participants that fail to receive new shares pursuant to their pro-rata entitlements under open offers in respect of their unsettled stock positions under the Isolated Trades System or for any excess shares. If Long Clearing Participants do not receive such new shares or excess shares from the relevant counterparty Short Clearing Participants, Long Clearing Participants will have to pursue claims against the relevant counterparty Short Clearing Participants.

#### **11.9.8 Conversion of warrants**

In relation to conversion of warrants close to expiry or otherwise subject to corporate actions, the following procedures will normally apply:

- (i) Long Clearing Participants wishing to subscribe for or purchase securities under the warrants through CCASS in respect of their outstanding unsettled Isolated Trades in the warrants must complete and return the Warrant Conversion Election Form - IT Positions (see CCASS Terminal User Guide for Participants for the form) and Declaration Form to HKSCC together with a cashier order for the relevant amount by 2:00 p.m. on the Business Day before the last day for subscription of the warrants or such other means and time as may be specified by HKSCC. This will be dealt with by HKSCC in the normal way (see Section 8.13);
- (ii) if the Long Clearing Participants fail to receive any of the warrants or only receive part of the warrants from their counterparty Short Clearing Participants before the last day for subscription (or by the first Batch-settlement-run on the last subscription day if the last subscription day falls on the second settlement day following the last trading day of the warrants), HKSCC will not process the subscription request of the Long Clearing Participants or will only process partial subscription based on the quantity of warrants received by the Long Clearing Participants; and
- (iii) HKSCC will refund the whole subscription money or the balance of the subscription money, as the case may be, to the Long Clearing Participants.

In such case, the Long Clearing Participants will have to pursue their counterparty Short Clearing Participants for the new shares unable to be subscribed by HKSCC on their behalf. The following procedures will normally apply:

- (i) Long Clearing Participants wishing to subscribe for or purchase securities under the warrants will have to inform the relevant counterparty Short Clearing Participants in writing of their election to subscribe or purchase securities under the warrants not later than 12:00 noon on the last day of subscription of the warrants or such other time as may be specified by HKSCC (or the last day to participate in corporate action affecting the warrants, as the case may be) provided that, if the last day of subscription falls on a Saturday, the Long Clearing Participants will have to inform the counterparty Short Clearing Participants of their election not later than 12:00 noon on the Business Day before the last day of subscription or such other time as may be specified by HKSCC;
- (ii) based on the election of Long Clearing Participants, the relevant counterparty Short Clearing Participants will have to deliver to the Long Clearing Participants on or before the date of distribution of securities under the warrants, the relevant number

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of such securities the Long Clearing Participants wish to apply for (up to the number capable of being subscribed or purchased in respect of the relevant unsettled stock positions under the Isolated Trades System); and

- (iii) concurrently against receipt from the Short Clearing Participants of securities under the warrants, the relevant counterparty Long Clearing Participants will have to deliver to the Short Clearing Participants cheques for the relevant amounts, based on the subscription price of the securities under the warrants as well as cheques for the purchase price in respect of the relevant unsettled stock positions under the Isolated Trades System. The two counterparty Clearing Participants will then have to apply jointly to HKSCC by submitting an Application for cancellation of Settlement Position (see CCASS Terminal User Guide for Participants for the form) to cancel the stock positions in respect of such Isolated Trades.

HKSCC will not be responsible to deliver new securities to Long Clearing Participants. If Long Clearing Participants do not receive such new securities from the relevant Short Clearing Participants, Long Clearing Participants will have to pursue claims against the relevant counterparty Short Clearing Participants.

#### **11.9.8A Automatic exercise / Redemption of listed Structured Products at expiry**

Structured Products listed on the Exchange which are in-the-money will be exercised automatically at expiry upon the lapse of the date of expiry specified in the relevant listing document (“normal expiry”) or upon the Structured Products being early terminated as a result of the occurrence of the relevant call event (“early expiry”). In relation to the cash payments to which Participants are entitled upon the automatic exercise of such Structured Products at expiry, the Short Clearing Participants are obliged to deliver to the relevant counterparty Long Clearing Participants cheques for the relevant amounts representing the cash payments due to such Long Clearing Participants (or by foreign currency bank drafts in relation to cash payments in a foreign currency) on or before the relevant payment day.

In relation to redemption proceeds in the form of cash payment in an Eligible Currency, the Short Clearing Participants are obliged to deliver to the relevant counterparty Long Clearing Participants cheques for the relevant amounts representing the cash payments due to such Long Clearing Participants (or by foreign currency bank drafts in relation to cash payments in a foreign currency) on or before the relevant payment day.

In relation to redemption proceeds in the form of underlying securities, the Short Clearing Participants are obliged to deliver to the relevant counterparty Long Clearing Participants the relevant quantities of underlying securities accruing to their unsettled stock positions under the Isolated Trades System on or before the relevant distribution day.

HKSCC will not be responsible for paying/delivering to the Long Clearing Participants the cash payments/underlying securities accruing to their unsettled stock positions under the Isolated Trades System. If the Long Clearing Participants do not receive such cash payments/underlying securities from the relevant counterparty Short Clearing Participants, the Long Clearing Participants will have to pursue their own claims against the relevant counterparty Short Clearing Participants.

**11.9.8B** Repealed

**11.9.8C** Repealed

#### **11.9.9 Interest payments**

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In relation to interest payments, the Short Clearing Participants are obliged to deliver to the relevant counterparty Long Clearing Participants cheques for the relevant amounts representing the interest due to such Long Clearing Participants on or before the relevant interest payment date.

HKSCC will not be responsible for paying Long Clearing Participants the interest payments accruing to their unsettled stock positions under the Isolated Trades System in Debt Securities. If Long Clearing Participants do not receive such entitlements from the relevant counterparty Short Clearing Participants, Long Clearing Participants will have to pursue claims against the relevant counterparty Short Clearing Participants.

#### **11.9.10 Conversion of Debt Securities**

In relation to conversion of eligible Debt Securities close to maturity or otherwise subject to corporate actions, the following procedures will normally apply:

- (i) Long Clearing Participants wishing to subscribe for or purchase securities accruing to their unsettled stock positions under the Isolated Trades System in Debt Securities through CCASS must complete and return the Debt Securities Conversion Request Form - IT Positions (see CCASS Terminal User Guide for Participants for the form) and Declaration Form to HKSCC together with a cashier order for the relevant amount by 2:00 p.m. on the Business Day before the last day for subscription/conversion of the Debt Securities (or the Business Day before the last day to participate in corporate actions affecting the Debt Securities, as the case may be) or such other means and time as may be specified by HKSCC. This will be dealt with by HKSCC in the normal way (see Section 8.16);
- (ii) if the Long Clearing Participants fail to receive any of the Debt Securities or only receive part of the Debt Securities from their counterparty Short Clearing Participants before the last day for subscription/conversion (or by the first Batch-settlement-run on the last subscription/conversion day if the last subscription day falls on the second settlement day following the last trading day of the Debt Securities), HKSCC will not process the subscription/conversion request of the Long Clearing Participants or will only process partial subscription/conversion based on the quantity of Debt Securities received by the Long Clearing Participants; and
- (iii) HKSCC will refund the whole subscription/conversion money or the balance of the subscription/conversion money, as the case may be, to the Long Clearing Participants.

In such case where the Long Clearing Participants fail to receive all or any part of the securities due under the Debt Securities conversion/corporate action they will have to pursue their counterparty Short Clearing Participants for the securities unable to be subscribed/converted by HKSCC on their behalf. The following procedures will normally apply:

- (i) Long Clearing Participants wishing to subscribe for or purchase securities under the conversion of Debt Securities will have to inform the relevant counterparty Short Clearing Participants in writing of their election to subscribe or purchase securities under the Debt Securities not later than 12:00 noon on the last day of subscription/conversion of the Debt Securities or such other time as may be specified by HKSCC (or the last day to participate in corporate action affecting the Debt Securities, as the case may be) provided that, if the last day of subscription/conversion falls on a Saturday, the Long Clearing Participants will have

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to inform the counterparty Short Clearing Participants of their election not later than 12:00 noon the Business Day before the last day of subscription/conversion or such other time as may be specified by HKSCC;

- (ii) based on the election of Long Clearing Participants, the relevant counterparty Short Clearing Participants will have to deliver to the Long Clearing Participants on or before the date of distribution of securities under the Debt Securities conversion, the relevant number of such securities (and the relevant amount of accrued interest, if applicable) the Long Clearing Participants wish to apply for (up to the number capable of being subscribed or purchased in respect of the relevant unsettled stock positions under the Isolated Trades System); and
- (iii) concurrently against receipt from the Short Clearing Participants of securities under the Debt Securities, the relevant counterparty Long Clearing Participants will have to deliver to the Short Clearing Participants cheques for the relevant amounts, based on the Debt Securities as well as cheques for the purchase price in respect of the relevant unsettled stock positions under the Isolated Trades System. The two counterparty Clearing Participants will then have to apply jointly to HKSCC by submitting an Application for cancellation of Settlement Position (see CCASS Terminal User Guide for Participants for the form) to cancel the stock position in respect of such Isolated Trades.

HKSCC will not be responsible to deliver securities accruing as a result of the Debt Securities conversion/corporate action to Long Clearing Participants. If Long Clearing Participants do not receive such securities from the relevant Short Clearing Participants, Long Clearing Participants will have to pursue claims against the relevant counterparty Short Clearing Participants.

#### **11.9.11 Redemption of Debt Securities**

In relation to redemption applying to all relevant eligible Debt Securities holders, the Short Clearing Participants are obliged to deliver to the relevant counterparty Long Clearing Participants cheques for the relevant amounts representing the principal and interest due to such Long Clearing Participants on or before the relevant payment date.

HKSCC will not be responsible for paying Long Clearing Participants the principal and interest payments accruing to their unsettled stock positions under the Isolated Trades System. If Long Clearing Participants do not receive such entitlements from the relevant counterparty Short Clearing Participants, Long Clearing Participants will have to pursue claims against the relevant counterparty Short Clearing Participants.

In relation to redemption which requires the input of redemption instructions by Participants, the following procedures will normally apply:

- (i) Long Clearing Participants wishing to redeem Debt Securities for principal and accrued interest through CCASS in respect of their unsettled stock position under the Isolated Trades System in the Debt Securities must complete and return the Debt Securities Redemption Request Form - IT Positions (see CCASS Terminal User Guide for Participants for the form) and Declaration Form to HKSCC by 2:00 p.m. on the Business Day before the last day for redemption of the Debt Securities or such other means and time as may be specified by HKSCC. This will be dealt with by HKSCC in the normal way (see Section 8.17);

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- (ii) if the Long Clearing Participants fail to receive any of the Debt Securities or only receive part of the Debt Securities from their counterparty Short Clearing Participants before the last day for redemption (or by the first Batch-settlement-run on the last redemption day if the last redemption day falls on the second settlement day following the last trading day of the Debt Securities), HKSCC will not process the redemption request of the Long Clearing Participants or will only process partial redemption based on the quantity of Debt Securities received by the Long Clearing Participants.

In such case, the Long Clearing Participants will have to pursue their counterparty Short Clearing Participants for the principal and accrued interest unable to be redeemed by HKSCC on their behalf. The following procedures will normally apply:

- (i) Long Clearing Participants wishing to redeem for principal and accrued interest under the Debt Securities will have to inform the relevant counterparty Short Clearing Participants in writing of their election to redeem principal and interest under the Debt Securities not later than 12:00 noon on the last day of redemption of the Debt Securities or such other times as may be specified by HKSCC (or the last day to participate in corporate action affecting the Debt Securities, as the case may be) provided that, if the last day of redemption falls on a Saturday, the Long Clearing Participants will have to inform the counterparty Short Clearing Participants of their election not later than 12:00 noon on the Business Day before the last day of redemption or such other time as may be specified by HKSCC;
- (ii) based on the election of Long Clearing Participants, the relevant counterparty Short Clearing Participants will have to deliver to the Long Clearing Participants on or before the date of distribution of cash entitlements under the Debt Securities, the relevant amount of principal and accrued interest the Long Clearing Participants wish to redeem (up to the amount capable of being redeemed for in respect of the relevant unsettled stock positions under the Isolated Trades System); and
- (iii) concurrently against receipt from the Short Clearing Participants of cash entitlements under the Debt Securities, the relevant counterparty Long Clearing Participants will have to deliver to the Short Clearing Participants cheques for the purchase price in respect of the relevant unsettled stock positions under the Isolated Trades System. The two counterparty Clearing Participants will then have to apply jointly to HKSCC by submitting an Application for cancellation of Settlement Position (see CCASS Terminal User Guide for Participants for the form) to cancel the stock position in respect of such Isolated Trades.

HKSCC will not be responsible to deliver cash entitlements to Long Clearing Participants. If Long Clearing Participants do not receive such cash entitlements from the relevant Short Clearing Participants, Long Clearing Participants will have to pursue claims against the relevant counterparty Short Clearing Participants.

#### **11.10 LATE DELIVERY : ACCRUED INTEREST OF INTEREST BEARING DEBT SECURITIES**

In case of a Short Clearing Participant cannot deliver the Debt Securities on the due settlement day of the Exchange Trade in such Eligible Securities, the accrued interest amount of that Exchange Trade concerned will remain unchanged even if the Debt Securities involved are settled at a later day.

The above procedures do not apply if the due settlement day is affected by typhoon, Extreme Conditions, black rainstorm and other contingency situations. (see Section 17).