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## **Section 17A**

### **Clearing Service Termination Event**

#### **17A.1 CALCULATIONS OF NET PAYMENTS FOLLOWING A CLEARING SERVICE TERMINATION EVENT**

##### **17A.1.1 General**

If a Clearing Service Termination Event occurs under Rule 4301, HKSCC shall, without prejudice to any other rights under the Rules, wind down the clearing and settlement services in respect of the relevant Market Contracts in accordance with Rule 4301, in consultation with the Commission.

For the purposes of this Section, (i) references to “Eligible Securities” mean Eligible Securities other than China Connect Securities; and (ii) references to “Market Contract” mean a Market Contract other than a contract between HKSCC and a China Connect Clearing Participant arising as a result of the Novation of a China Connect Securities Trade to be settled under the CNS System.

##### **17A.1.2 Calculation of termination value**

The termination value for each Market Contract shall be determined based on the prevailing market price at the time of contract termination, or if such market price is not available, the price shall be such price as HKSCC may reasonably determine. HKSCC may also take into account any unpaid amounts that have become due and payable in respect of any Market Contract on or prior to the occurrence of the Clearing Service Termination Event.

As soon as reasonably practicable following a Clearing Service Termination Event, HKSCC shall, with respect to the CNS positions of each Clearing Participant or Clearing Agency Participant arising from its Market Contracts, calculate a net sum payable by or to such Clearing Participant or Clearing Agency Participant. In calculating such net sum, HKSCC will take into account the termination value determined for each Market Contract pursuant to Rule 4301 and this Section of the Operational Procedures, and the value of all other amounts which are payable to HKSCC from the Clearing Participant or Clearing Agency Participant under these Rules or which are payable to the Clearing Participant or Clearing Agency Participant from HKSCC (other than any amounts arising from HKSCC’s obligation to pay an amount equal to (i) the Margin Balance (ii) any income and redemption proceeds on any non-cash Collateral that have not already been paid to or withdrawn by the Clearing Participant or Clearing Agency Participant and/or (iii) the Guarantee Fund Contribution Balance to the relevant Clearing Participant or Clearing Agency Participant, or Former Clearing Participant), whether such amounts are presently payable or not and whether they are liquidated or unliquidated, actual or contingent. Any net sum calculated to be payable by HKSCC to a Clearing Participant or Clearing Agency Participant shall be known as the “Unadjusted Limited Recourse CP Receivable”, and the Unadjusted Limited Recourse CP Receivable of a Clearing Participant is subject to adjustment in accordance with Section 17A.1.3 below. HKSCC will determine any such net sum payable by, or to, a Clearing Participant or Clearing Agency Participant in the Base Currency. For the purpose of the determination under this Section of the Operational Procedures, HKSCC may convert any amounts denominated in any other currency into the Base Currency at such exchange rate determined by HKSCC from such source and on such basis as it shall consider appropriate.

##### **17A.1.3 Payment of Limited Recourse Interim CP Payable, Limited Recourse Final CP Payable and Limited Recourse CP Receivable**

- (i) Limited Recourse Interim CP Payable and Limited Recourse Final CP Payable

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- (a) If, pursuant to Section 17A.1.2 above, a net sum is determined to be payable by a Clearing Participant or Clearing Agency Participant to HKSCC, HKSCC shall deduct all or part of such sum from the Margin Balance consisting of cash in the Base Currency, if any, of the Clearing Participant or Clearing Agency Participant. If, after applying such Margin Balance there remains an amount payable by the Clearing Participant or Clearing Agency Participant to HKSCC (the “Limited Recourse Interim CP Payable”), HKSCC will, as soon as reasonably practicable, notify the relevant Clearing Participant or Clearing Agency Participant of the Limited Recourse Interim CP Payable, and the relevant Clearing Participant or Clearing Agency Participant shall pay HKSCC the Limited Recourse Interim CP Payable within one Business Day following receipt of such notification or within such other time period as may be specified by HKSCC.
- (b) If the Clearing Participant or Clearing Agency Participant fails to pay the Limited Recourse Interim CP Payable within the time frame set out in sub-paragraph (a) above, HKSCC may declare such Clearing Participant or Clearing Agency Participant as a defaulter. HKSCC may, in satisfaction of any due but unpaid Limited Recourse Interim CP Payable, apply any remaining Margin Balance including any cash in other currencies and the cash proceeds of any Collateral Securities (which HKSCC shall be entitled to liquidate) of the Clearing Participant or Clearing Agency Participant, and if the Limited Recourse Interim CP Payable of any Clearing Participant is not satisfied in full following such application, HKSCC will set-off the Guarantee Fund Contribution Balance in respect of such Clearing Participant against the unpaid Limited Recourse Interim CP Payable.
- (c) Following the application by way of set-off of any remaining Margin Balance and, if applicable, any Guarantee Fund Contribution Balance as described in sub-paragraph (b) above, HKSCC shall determine and notify each relevant Clearing Participant or Clearing Agency Participant of the final net sum payable by the Clearing Participant or Clearing Agency Participant in respect of its Limited Recourse Interim CP Payable, if any (“Limited Recourse Final CP Payable”). Each Clearing Participant or Clearing Agency Participant that receives a notice to pay any Limited Recourse Final CP Payable shall pay each such amount to HKSCC in full within one Business Day or within such other time period as may be specified by HKSCC.
- (d) In the event that HKSCC does not receive any part of the Limited Recourse Final CP Payable from a Clearing Participant or Clearing Agency Participant, HKSCC shall take reasonable steps to recover such amount. Such Clearing Participant or Clearing Agency Participant shall be responsible for any costs HKSCC reasonably incurs in attempting to recover such amounts and accordingly the Limited Recourse Final CP Payable actually received from such Clearing Participant or Clearing Agency Participant shall be deemed to be decreased by an amount equal to such costs, unless such costs are paid by such Clearing Participant or Clearing Agency Participant.
- (ii) Limited Recourse CP Receivable  
The amount payable by HKSCC to each relevant Clearing Participant or Clearing Agency Participant with respect to its CNS positions arising from Market Contracts shall be known as the “Limited Recourse CP Receivable”. The Limited Recourse CP Receivable of a Clearing Agency Participant shall be equal to its Unadjusted Limited Recourse CP Receivable determined in accordance with Section 17A.1.2 above. In the case of a Clearing Participant, its Limited Recourse CP Receivable shall be calculated by multiplying its Unadjusted Limited Recourse CP Receivable by a percentage (“Limited Recourse Applicable Percentage”) which is equal to the lesser of

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(1) and (2) below provided that if such percentage is a negative number, it should be set to zero:

- (1) 100%; and
- (2) (A) the aggregate value of (I) the Guarantee Fund Resources then held by HKSCC; (II) any Margin Balance applied pursuant to paragraphs (i)(a) and (i)(b) above; and (III) all Limited Recourse Interim CP Payables and/or Limited Recourse Final CP Payables received by HKSCC, less the aggregate value of all Limited Recourse CP Receivables of all Clearing Agency Participants, divided by  
  
(B) the aggregate value representing the sum of (I) all Unadjusted Limited Recourse CP Receivables of all Clearing Participants and (II) the Guarantee Fund Contribution Balance in respect of all Clearing Participants or Former Clearing Participants taking into account the operation of Section 17A.1.3(i)(b) above;

HKSCC will notify each relevant Clearing Participant or Clearing Agency Participant of its Limited Recourse CP Receivable upon determination.

(iii) Payment

Payment of any Limited Recourse Interim CP Payable, Limited Recourse Final CP Payable and Limited Recourse CP Receivable shall be settled by HKSCC issuing DDIs or DCIs, where applicable, to the Designated Bank of the relevant Clearing Participant or Clearing Agency Participant as part of the CCASS money settlement process, or in any other manner determined by HKSCC from time to time. All payments made under this Section of the Operational Procedures shall be made in the Base Currency. To the extent that HKSCC determines that it is not possible or reasonably practicable to make payment in the Base Currency, 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.

(iv) HKSCC's liability

Upon the occurrence of a Clearing Service Termination Event, every Market Contract between HKSCC and a Clearing Participant or Clearing Agency Participant shall be automatically terminated and all prevailing obligations of HKSCC and such Clearing Participant or Clearing Agency Participant in respect of each such Market Contract between them (including the obligation to deliver any Eligible Securities under the Market Contract) shall cease and be replaced with the obligation of HKSCC or the relevant Clearing Participant or Clearing Agency Participant, as the case may be, to pay the other party a net sum which shall take into account the termination value and any unpaid amounts of each such Market Contract as determined by HKSCC and where applicable adjusted in accordance with Rule 4301 and this Section of the Operational Procedures.

#### **17A.1.4 Return of Margin Balance**

With respect to each Clearing Participant or Clearing Agency Participant, taking into account (if applicable) the operation of Section 17A.1.3 above, HKSCC shall pay an amount equal to the Margin Balance to such Clearing Participant or Clearing Agency Participant in accordance with the Rules.

#### **17A.1.5 Return of Guarantee Fund Contribution Balance**

With respect to each Clearing Participant or Former Clearing Participant which has a positive Guarantee Fund Contribution Balance after payment of its Limited Recourse Interim CP Payable or after determination of its Limited Recourse CP Receivable, as the case may

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be, HKSCC shall pay to each relevant Clearing Participant or Former Clearing Participant an amount equal to its Guarantee Fund Contribution Balance multiplied by the Limited Recourse Applicable Percentage provided that the aggregate sum payable by HKSCC in respect of the Guarantee Fund Contribution Balance for all Clearing Participants and Former Clearing Participants shall not in any event exceed the value of the Guarantee Fund Resources then held by HKSCC. HKSCC may deliver or return to a Clearing Participant or Former Clearing Participant assets in such form and in such amount, as HKSCC deems appropriate, equivalent to the assets recorded as part of its Guarantee Fund Contribution Balance. Once the Guarantee Fund Resources have been exhausted, the unpaid balance of the Guarantee Fund Contribution Balance shall be extinguished and the relevant Clearing Participant(s) and Former Clearing Participant(s) shall have no further recourse to HKSCC (its affiliates, a recognized exchange controller which is the controller of HKSCC, or any of their respective Representatives) in respect thereof.