

---

## Section 17B

### HKSCC Failure to Pay Event or HKSCC Insolvency Event

#### 17B.1 CALCULATIONS OF NET PAYMENTS UNDER AN HKSCC FAILURE TO PAY EVENT OR AN HKSCC INSOLVENCY EVENT

##### 17B.1.1 General

Upon the designation of an Early Termination Date pursuant to either Rule 3705(iii) or Rule 3705(iv) in respect of an HKSCC Failure to Pay Event or under Rule 3706 in respect of an HKSCC Insolvency Event, HKSCC shall, without prejudice to any other rights under the Rules, terminate the Market Contract between HKSCC and the relevant Clearing Participant or Clearing Agency Participant in accordance with Rules 3707 to 3708.

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.

##### 17B.1.2 Calculation of termination value

The termination value for each Market Contract shall be determined based on the prevailing market price on the Early Termination Date, 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 designation of the Early Termination Date.

HKSCC shall on, or as soon as reasonably practicable after, the Early Termination Date, with respect to the CNS positions of each relevant 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 3707 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Margin Balance (ii) any income and redemption proceeds on any non-cash Collateral that have not already been paid to or withdrawn by the Clearing Participant or Clearing Agency Participant and/or (iii) the Guarantee Fund Contribution Balance to the relevant Clearing Participant or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 HKSCC Default CP Receivable” and the Unadjusted HKSCC Default CP Receivable of a Clearing Participant is subject to adjustment in accordance with Section 17B.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.

##### 17B.1.3 Payment of HKSCC Default Interim CP Payable, HKSCC Default Final CP Payable and HKSCC Default CP Receivable

- 
- (i) **HKSCC Default Interim CP Payable and HKSCC Default Final CP Payable**
- (a) If, pursuant to Section 17B.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 “**HKSCC Default Interim CP Payable**”), HKSCC will, as soon as reasonably practicable, notify the relevant Clearing Participant or Clearing Agency Participant of the HKSCC Default Interim CP Payable, and the relevant Clearing Participant or Clearing Agency Participant shall pay HKSCC the HKSCC Default 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 HKSCC Default 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 HKSCC Default 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 HKSCC Default Interim CP Payable of any Clearing Participant is not satisfied in full following such application, HKSCC may set off the Guarantee Fund Contribution Balance in respect of such Clearing Participant against the unpaid HKSCC Default 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 HKSCC Default Interim CP Payable, if any (“**HKSCC Default Final CP Payable**”). Each Clearing Participant or Clearing Agency Participant that receives a notice to pay any HKSCC Default 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 HKSCC Default 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 HKSCC Default 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) **HKSCC Default 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 “**HKSCC Default CP Receivable**”. The HKSCC Default CP Receivable of a Clearing Agency Participant shall be equal to its Unadjusted HKSCC Default CP Receivable determined in accordance with Section 17B.1.2 above. In the case of a Clearing Participant, its HKSCC Default CP Receivable shall be calculated by multiplying its Unadjusted HKSCC Default CP Receivable by a percentage

(“HKSCC Default Applicable Percentage”) which is equal to the lesser of (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 HKSCC Default Interim CP Payables and/or HKSCC Default Final CP Payables received by HKSCC, less the aggregate value of all HKSCC Default CP Receivables of the relevant Clearing Agency Participants, divided by
  - (B) the aggregate value representing the sum of (I) all Unadjusted HKSCC Default CP Receivables of the relevant 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 17B.1.3(i)(b) above;

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

(iii) Payment

Payment of any HKSCC Default Interim CP Payable, HKSCC Default Final CP Payable and HKSCC Default 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 designation of an Early Termination Date pursuant to either Rule 3705(iii) or Rule 3705(iv) in respect of an HKSCC Failure to Pay Event or under Rule 3706 in respect of an HKSCC Insolvency Event, every Market Contract between HKSCC and the relevant Clearing Participant or Clearing Agency Participant shall be 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 this Section of the Operational Procedures.

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

With respect to each relevant Clearing Participant or Clearing Agency Participant, taking into account (if applicable) the operation of Sections 17B.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.

#### **17B.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 the HKSCC Default Interim CP Payable or after determination of the HKSCC Default CP Receivable, as the case may 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 HKSCC Default 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.