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## **Section 19**

### **Financial and Accounting Requirements**

#### **19.1 FINANCIAL REQUIREMENTS**

##### **19.1.1 General**

Other than certain financial requirements applicable to certain types of Participants to qualify for their admission into and continuing participation in CCASS, Participants will be notified by HKSCC if any additional financial requirements are to be imposed by HKSCC in the future.

For convenience, the financial commitments which Participants may have as a result of participation in CCASS are set out in Section 19.1.2. Clearing Participants will have additional financial commitments as a result of participation in CCASS and for convenience, these are set out in Section 19.1.3.

It is the responsibility of each Participant to comply with all financial requirements applicable to it under relevant statutes or regulations.

##### **19.1.2 Financial commitments of Participants**

In summary, the main financial commitments of a Participant as a result of its participation in HKSCC will include :

- (i) payment of admission fee to HKSCC at the time of admission;
- (ii) the provision of assurances (e.g. insurance) in respect of its obligations to HKSCC, which may be required by HKSCC at the time of admission or thereafter from time to time;
- (iii) responsibility for defective Eligible Securities deposited into CCASS;
- (iv) payment in respect of money obligations arising out of the settlement of transactions in CCASS on a DVP basis and money obligations in respect of nominee transactions effected in CCASS; and
- (v) payment to HKSCC in respect of costs and expenses of HKSCC's services and facilities and, in the case of services relating to China Connect Securities, fees, expenses, levies and taxes collected by HKSCC for the relevant China Connect Clearing House or other regulatory or tax authority.

##### **19.1.3 Additional financial commitments of Clearing Participants in CCASS**

In addition to the financial commitments referred to in Section 19.1.2, a Clearing Participant will, in summary, also have the following financial commitments as a result of its participation in CCASS :

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- (i) the provision of its Basic Contribution and Dynamic Contribution to HKSCC and, subject to Rule 2509D, the replenishment of its Basic Contribution and Dynamic Contribution upon the expiry of the Capped Liability Period for the account of the Guarantee Fund;
  - (ii) the provision of Assessments to HKSCC;
  - (iii) arranging for indemnity insurance in respect of its liabilities to HKSCC, the Exchange, and a recognized exchange controller which is the controller of HKSCC for defective Eligible Securities deposited into CCASS;
  - (iv) [Repealed]
  - (v) compliance with the risk management measures of HKSCC under the CNS System such as the provision of Marks, Margin and Collateral, as may be required by HKSCC from time to time;
  - (vi) payment in respect of money obligations to HKSCC under the CNS System and to other Clearing Participants under the Isolated Trades System; and
  - (vii) payment in respect of money obligations to HKSCC including but not limited to Termination Value Payable in the contract termination process, Limited Recourse Interim CP Payable or Limited Recourse Final CP Payable in the Clearing Service Termination Event and HKSCC Default Interim CP Payable or HKSCC Default Final CP Payable pursuant to Section 17B.1 of the Operational Procedures.

It is expected that indemnity insurance by Clearing Participants in a form acceptable to HKSCC will be required shortly.

## **19.2 ACCOUNTING REQUIREMENTS**

### **19.2.1 Duty to check accuracy of statements and reports**

It is the responsibility of each Participant to check and reconcile with its own records the advices, statements and reports from time to time issued by HKSCC in relation to a System. A Participant shall immediately notify HKSCC in writing of any error or omission contained in such advices, statements and reports.

### **19.2.2 Duty to keep records**

It is the responsibility of each Participant to keep proper records in relation to its use of the services and facilities of a System, including but not limited to transactions settled in CCASS, the deposits and withdrawals of Eligible Securities into or out of CCASS, and matters relating to nominee transactions effected in CCASS or FINI. Such records shall be kept in sufficient detail to show the dates of the transactions, the parties involved, the quantity of securities involved, the amounts involved etc.

Such records shall be maintained by Participants for a period of at least twenty years where

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such records relate to China Connect Securities and at least seven years (or such longer period as HKSCC may prescribe) for all other records and shall be made available for inspection by HKSCC upon its request.

### **19.2.3 Information and returns**

All GCPs which are not Exchange Participants, Clearing Agency Participants, Custodian Participants, Stock Lender Participants and Stock Pledgee Participants are required to submit to HKSCC their audited accounts as soon as they are available.

Further, HKSCC may by notice in writing from time to time require a Participant to supply to HKSCC information and to file returns in respect of matters relating to its use of HKSCC's services and facilities or for risk management purposes. Participants shall supply to HKSCC the required information or file the required returns in such manner and within such time period as may be specified by HKSCC.

In addition, all GCPs which are registered institutions under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) are required to submit the following to HKSCC:

- (i) audited financial statements and audited consolidated financial statements, including balance sheet and profit and loss accounts, with the auditor's report drawn up in accordance with applicable law and accounting standards within 120 days of the end of the GCP's fiscal year;
- (ii) quarterly balance sheet and profit and loss statements that are signed by authorized signatory or signatories of such GCP, drawn up in accordance with applicable law and accounting standards, within 30 days of its quarter-end date, together with evidence of signing authority and specimen signatures. Save and except for any changes made to a GCP's list of authorized signatory(ies), a GCP is only required to provide evidence of signing authority and specimen signatures for the first time its quarterly balance sheet and profit and loss statements are delivered to HKSCC;
- (iii) copies of all financial returns made by a GCP to its regulator as soon as reasonably practicable following such returns having been submitted to the relevant regulator; and
- (iv) such financial or other relevant information which relates to the GCP's clearing activities or its exposure to general and financial risks, in addition to what is required by this Section 19.2.3, as may be requested by HKSCC at its reasonable discretion from time to time.

### **19.2.4 Audits**

HKSCC may by notice in writing from time to time demand that a Participant furnish to it a certificate of its auditors (in a form acceptable to HKSCC) certifying and reporting on matters specified in HKSCC's notice, including, inter alia :

- (i) that the Participant has complied at all times with the conditions or requirements of its admission or of its continuing participation in HKSCC; and

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- (ii) that the Participant has complied at all times with the provisions of the Rules applicable to it.

The costs and expenses of such audit certificates will be borne by Participants.

#### **19.2.5 Apportionment of liquid capital**

Where a Clearing Participant is a Common Participant or carries on regulated activities under the Securities and Futures Ordinance other than Type 1 or Type 2 regulated activity, it must apportion either a designated amount or a percentage of the liquid capital (as per its latest monthly return filed with the Commission under the Financial Resources Rules and received by HKSCC from the Commission) for the purpose of settling stock positions concluded or to be concluded under the CNS System or satisfying its payment, risk management or other obligations as a Clearing Participant to HKSCC, and, unless otherwise expressly provided, any risk management measures applicable to the Clearing Participant which are calculated based on its liquid capital will be calculated on the basis of its apportioned liquid capital as notified to HKSCC. Notification of a Clearing Participant's initial liquid capital apportionment or any change thereof shall be made by such Clearing Participant submitting to HKSCC an Application/Change Request for Liquid Capital Apportionment Form in the form set out in the CCASS Terminal User Guide for Participants according to the schedule determined by HKSCC from time to time. Any notification of changes to the apportionment received by HKSCC before a time specified by HKSCC from time to time, shall become effective on the same trading day the notification is received by HKSCC. Otherwise, changes to the apportionment shall become effective on the commencement of the next trading day following receipt of the notification by HKSCC. Notwithstanding the foregoing, HKSCC reserves the right to accept or reject any initial apportionment or change of apportionment notified to it at its sole discretion. If no apportionment is notified to HKSCC, HKSCC reserves the right to apportion the liquid capital on behalf of the Clearing Participant.