

**OPERATIONAL PROCEDURES OF CCASS**

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## Definitions

- (a) For the convenience of readers, the definitions contained in the Rules are repeated below.

**“Assessments”**

means additional contributions to the Guarantee Fund provided or required to be provided by a Clearing Participant pursuant to Rule 2508;

**“Base Currency”**

means Hong Kong dollars, or such other currency as designated by HKSCC and notified to Clearing Participants and Clearing Agency Participants from time to time;

**“Capped Liability Period”**

means the period beginning from the date on which HKSCC declares a Clearing Participant or Clearing Agency Participant to be a defaulter for an Event of Default and ending on the 5th Business Day following such declaration, provided that each time another Clearing Participant or Clearing Agency Participant is declared a defaulter for an Event of Default during a prevailing Capped Liability Period, such Capped Liability Period shall be extended until the 5th Business Day following each such declaration and no new Capped Liability Period will be established for such declaration;

**“Clearing Service Termination Event”**

means an event in relation to the winding down of clearing and settlement services by HKSCC in relation to Market Contracts pursuant to Rule 4301;

**“Dynamic Contribution”**

means (i) a contribution made or required to be made by a Clearing Participant to the Guarantee Fund pursuant to Rule 2502(ii); (ii) where any Assessment has been demanded by HKSCC, any Assessment provided or required to be provided by the Clearing Participant; and (iii) where any Voluntary Recap Amount has been requested by HKSCC, any Voluntary Recap Amount provided by the Clearing Participant which will not be refunded by HKSCC to such Clearing Participant in accordance with Rule 2509A(iv);

**“Dynamic Contribution Credit”**

means a credit limit in respect of Dynamic Contribution (other than any Assessment or Voluntary Recap Amount) that may be allowed to each Clearing Participant, as referred to in Rule 2502;

**“Early Termination Date”**

means, in respect of a Market Contract registered in the name of a Clearing Participant or Clearing Agency Participant, the date determined as an Early Termination Date for such Market Contract in accordance with Rule 3705 or 3706, as the case may be. A Market Contract shall be terminated or novated with effect from the Early Termination Date relating to it;

**“Failure to Pay Notice”**

means a written notification provided by a Clearing Participant or Clearing

Agency Participant to HKSCC pursuant to Rule 3705 upon the failure by HKSCC to make, when due, any payment to a Clearing Participant or Clearing Agency Participant (other than a defaulting Clearing Participant or Clearing Agency Participant) under a Market Contract;

**“Former Clearing Participant”**

means, at any time, a person who was a Clearing Participant but whose participantship had been terminated prior to such time;

**“Guarantee Fund Contribution Balance”**

means, on any Business Day, with respect to each Clearing Participant, the aggregate value of the Basic Contribution and Dynamic Contribution provided by the Clearing Participant, as reduced by payments out of the Guarantee Fund allocated to such Basic Contribution and/or Dynamic Contribution, as applicable, in accordance with Rule 2507;

**“Guarantee Fund Resources”**

means the Guarantee Fund and any other amounts specified as forming part of the Guarantee Fund Resources in the Rules;

**“HKSCC Default Applicable Percentage”**

means, in respect of an HKSCC Failure to Pay Event or an HKSCC Insolvency Event, a percentage applied by HKSCC to determine the HKSCC Default CP Receivable of a Clearing Participant and the amount payable by HKSCC in respect of its Guarantee Fund Contribution Balance pursuant to Section 17B.1 of the Operational Procedures;

**“HKSCC Default CP Receivable”**

means, in respect of an HKSCC Failure to Pay Event or an HKSCC Insolvency Event, the amount payable by HKSCC to each relevant Clearing Participant or Clearing Agency Participant pursuant to Section 17B.1.3(ii) of the Operational Procedures;

**“HKSCC Default Final CP Payable”**

means, in respect of an HKSCC Failure to Pay Event or an HKSCC Insolvency Event, the final net amount payable by each relevant Clearing Participant or Clearing Agency Participant to HKSCC, after taking into account the operation of Sections 17B.1.3(i)(a) and 17B.1.3(i)(b) of the Operational Procedures;

**“HKSCC Default Interim CP Payable”**

means, in respect of an HKSCC Failure to Pay Event or an HKSCC Insolvency Event, the amount payable by each relevant Clearing Participant or Clearing Agency Participant to HKSCC, after taking into account any Margin Balance applied pursuant to Section 17B.1.3(i)(a) of the Operational Procedures;

**“HKSCC Failure to Pay Event”**

means an event arising from the failure of HKSCC to make all relevant payments under a Market Contract to a Clearing Participant or Clearing Agency Participant by the end of the relevant HKSCC Failure to Pay Grace Period, provided that no such event shall occur if (1) such failure to pay arises as a result of technical or administrative reasons beyond the control of HKSCC; or (2) during the HKSCC Failure to Pay Grace Period, HKSCC has exercised its powers under Rules 3705(iii)(1) and/or 3705(iii)(2);

**“HKSCC Failure to Pay Grace Period”**

means the period from (but excluding) the day on which HKSCC receives a Failure to Pay Notice from a Clearing Participant or Clearing Agency Participant to (and including) the 21st Business Day following such day;

**“HKSCC Insolvency Event”**

means an event relating to the insolvency of HKSCC as referred to in Rule 3706;

**“Identified Market Contracts”**

means the Market Contracts (including the unsettled Market Contracts of a defaulting Clearing Participant or Clearing Agency Participant and those of any non-defaulting Clearing Participants or Clearing Agency Participants so determined by HKSCC pursuant to Rule 3709, but excluding the Market Contracts between HKSCC and each China Connect Clearing Participant arising from China Connect Securities Trades) to be terminated under the contract termination process as referred to in Rule 3709;

**“Limited Recourse Applicable Percentage”**

means, in respect of a Clearing Service Termination Event, a percentage applied by HKSCC to determine the Limited Recourse CP Receivable of a Clearing Participant and the amount payable by HKSCC in respect of its Guarantee Fund Contribution Balance pursuant to Section 17A.1 of the Operational Procedures;

**“Limited Recourse CP Receivable”**

means, in respect of a Clearing Service Termination Event, the amount payable by HKSCC to each relevant Clearing Participant or Clearing Agency Participant pursuant to Section 17A.1.3(ii) of the Operational Procedures;

**“Limited Recourse Final CP Payable”**

means, in respect of a Clearing Service Termination Event, the final net amount payable by each relevant Clearing Participant or Clearing Agency Participant to HKSCC, after taking into account the operation of Sections 17A.1.3(i)(a) and 17A.1.3(i)(b) of the Operational Procedures;

**“Limited Recourse Interim CP Payable”**

means, in respect of a Clearing Service Termination Event, the amount payable by each relevant Clearing Participant or Clearing Agency Participant to HKSCC, after taking into account any Margin Balance applied pursuant to Section 17A.1.3(i)(a) of the Operational Procedures;

**“Margin Balance”**

means, in respect of a Clearing Participant or Clearing Agency Participant, the aggregate value of Marks, Margin and other Collateral (including any excess Collateral but excluding the Mainland Settlement Deposit, Mainland Security Deposit, Marks and other Collateral provided for its China Connect Securities Trades) provided by such Clearing Participant or Clearing Agency Participant, in each case, as recorded in its CCMS Collateral Account;

**“Notice of Assessment”**

means a written notification provided by HKSCC to Clearing Participants of any demand for Assessments pursuant to Rule 2508;

**“Relevant CP Contracts”**

means the Market Contracts of the relevant Clearing Participant or Clearing Agency Participant to be terminated under an HKSCC Failure to Pay Event as referred to in Rule 3705;

**“Relevant Event”**

means an event or circumstances, including but not limited to an Event of Default, which results in or, in the opinion of HKSCC, may result in payments out of the Guarantee Fund under Rule 2507 to satisfy the obligations and liabilities of HKSCC referred to in Rule 2506; and in the case of a Clearing Participant or Clearing Agency Participant being declared a defaulter because of an Event of Default, the date of occurrence of the Relevant Event refers to the date the Clearing Participant or Clearing Agency Participant is declared to be a defaulter;

**“Termination Value Applicable Percentage”**

means, under the contract termination process, a percentage applied by HKSCC to determine the Termination Value Receivable of a Clearing Participant pursuant to Section 10.16 of the Operational Procedures;

**“Termination Value Payable”**

means, under the contract termination process, the amount payable by each relevant Clearing Participant or Clearing Agency Participant to HKSCC pursuant to Section 10.16 of the Operational Procedures;

**“Termination Value Receivable”**

means, under the contract termination process, the amount payable by HKSCC to each relevant Clearing Participant or Clearing Agency Participant pursuant to 10.16 of the Operational Procedures;

**“Unadjusted HKSCC Default CP Receivable”**

means, in respect of an HKSCC Failure to Pay Event or an HKSCC Insolvency Event, the amount determined to be payable by HKSCC to each relevant Clearing Participant or Clearing Agency Participant, without taking into account any adjustment pursuant to Section 17B.1.3(ii) of the Operational Procedures;

**“Unadjusted Limited Recourse CP Receivable”**

means, in respect of a Clearing Service Termination Event, the amount determined to be payable by HKSCC to each relevant Clearing Participant or Clearing Agency Participant, without taking into account any adjustment pursuant to Section 17A.1.3(ii) of the Operational Procedures;

**“Unadjusted Termination Value Receivable”**

means, under the contract termination process, the amount payable by HKSCC to each relevant Clearing Participant or Clearing Agency Participant, without taking into account any adjustment pursuant to Section 10.16.3(ii) of the Operational Procedures;

**“Voluntary Recap Amount”**

means a voluntary contribution to the Guarantee Fund, as requested by HKSCC pursuant to a Voluntary Recap Request Notice;

**“Voluntary Recap Request Notice”**

means a written notification provided by HKSCC pursuant to Rule 2509A to a Clearing Participant requesting for a Voluntary Recap Amount;

## Section 10

### Exchange Trades - CNS System

#### 10.16 RISK MANAGEMENT: CONTRACT TERMINATION

##### 10.16.1 General

Following the occurrence of an Event of Default, if HKSCC reasonably believes that: (i) it will not be able to effect Closing-out Contracts with respect to all or any Market Contracts of the defaulting Clearing Participant or Clearing Agency Participant within a reasonable time as determined by HKSCC; or (ii) there will not be sufficient resources to satisfy its obligations and liabilities arising out of prevailing Market Contracts with non-defaulting Clearing Participants and Clearing Agency Participants as a result of such Event of Default, HKSCC may, without prejudice to any other rights under the Rules, invoke the contract termination process as provided for in Rule 3709 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.

If HKSCC invokes contract termination in accordance with Rule 3709, it shall determine the Identified Market Contracts under Rule 3709 and notify the relevant Clearing Participants and Clearing Agency Participants of its determination, including details of the Identified Market Contracts and the effective date of termination of such Identified Market Contracts. Notwithstanding the above, at any time during the contract termination process but prior to the effective date of termination of the relevant Identified Market Contracts, HKSCC may instead of proceeding with the termination of such Market Contracts, declare the occurrence of a Clearing Service Termination Event, and in such case the Identified Market Contracts shall not be terminated in accordance with the contract termination process but shall be terminated in accordance with Rule 4301.

##### 10.16.2 Calculation of termination value

The termination value for each Identified 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.

On the basis of the termination value established for each Identified Market Contract, HKSCC shall, with respect to the CNS positions of each relevant Clearing Participant or Clearing Agency Participant arising from its Identified Market Contracts, determine the resulting net sum payable by such Clearing Participant or Clearing Agency Participant to HKSCC (the “Termination Value Payable”) or the resulting net sum receivable by such Clearing Participant or Clearing Agency Participant from HKSCC (the “Unadjusted Termination Value Receivable”). The Unadjusted Termination Value Receivable of a Clearing Participant is subject to adjustment in accordance with Section 10.16.3 below.

### 10.16.3 Payment of Termination Value Payable and Termination Value Receivable

(i) Termination Value Payable

HKSCC will notify each relevant Clearing Participant or Clearing Agency Participant of its Termination Value Payable and each such Clearing Participant or Clearing Agency Participant shall pay the specified Termination Value Payable to HKSCC in full within one Business Day or within such other time specified by HKSCC in the notice. If the relevant Clearing Participant or Clearing Agency Participant fails to pay the Termination Value Payable within the time specified in the notice, HKSCC may declare such Clearing Participant or Clearing Agency Participant as a defaulter.

In the event that HKSCC does not receive any part of the Termination Value 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 Termination Value 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) Termination Value Receivable

The amount payable by HKSCC to each relevant Clearing Participant or Clearing Agency Participant with respect to its CNS positions arising from Identified Market Contracts shall be known as the “Termination Value Receivable”. The Termination Value Receivable of a Clearing Agency Participant shall be equal to its Unadjusted Termination Value Receivable determined in accordance with Section 10.16.2 above. In the case of a Clearing Participant, its Termination Value Receivable shall be calculated by multiplying its Unadjusted Termination Value Receivable by a percentage (“Termination Value Applicable Percentage”) which is equal to the lesser of (a) and (b) below provided that if such percentage is a negative number, it should be set to zero:

(a) 100%; and

$$(b) \frac{\sum (\text{Termination Value Payable received by HKSCC}) + \sum (\text{available default resources}) - \sum (\text{Termination Value Receivable of Clearing Agency Participants})}{\sum (\text{Unadjusted Termination Value Receivable of Clearing Participants})}$$

where:

“Termination Value Payable received by HKSCC” means the amount of Termination Value Payable actually received from relevant Clearing Participants and Clearing Agency Participants by the time prescribed by HKSCC; and

“available default resources” means the aggregate of the resources (if any) that may be available to HKSCC including those available to be applied under Rules 2507, 2507A and 3702(ii).

HKSCC will notify each relevant Clearing Participant or Clearing Agency Participant of its Termination Value Receivable upon determination.

(iii) Payment

Payment of any Termination Value Payable and Termination Value 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. The Termination Value Payable and Termination Value Receivable shall be settled in the Eligible Currency in which the relevant Eligible Securities are denominated. To the extent that HKSCC determines that it is not possible or reasonably practicable to make payment in such Eligible 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 termination of one or more Identified Market Contracts under Rule 3709, all prevailing obligations of HKSCC and the relevant Clearing Participant or Clearing Agency Participant in respect of each such Identified Market Contracts between them (including the obligation to deliver any Eligible Securities under the Identified Market Contracts) 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 equal to the aggregate termination value of each Identified Market Contract between them, as determined by HKSCC and where applicable adjusted in accordance with Rule 3709 and this Section of the Operational Procedures.

## 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
  - (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 (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 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.

## **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.

**Section 18**

**Guarantee Fund**

**18.3 FORM OF CONTRIBUTIONS**

Any further amount required of a Clearing Participant as its Basic Contribution (i.e.

in excess of the minimum cash Basic Contribution required) and any amount required of a Clearing Participant as its Dynamic Contribution (other than Assessments and Voluntary Recap Amounts) may be provided in cash in Hong Kong dollars or in any other currency prescribed by HKSCC from time to time. Any Assessments required or Voluntary Recap Amounts requested of a Clearing Participant must be made in cash.

## **18.4 REVIEW OF CONTRIBUTIONS**

### **18.4.1 Monthly reviews**

The Basic Contribution and Dynamic Contribution required from each Clearing Participant will be reviewed on a monthly basis, subject to Rule 2509B.

At the beginning of each month, each Clearing Participant will be advised of each of the Basic Contribution and the Dynamic Contribution required from that Clearing Participant, for that month.

### **18.4.2 Ad hoc reviews**

If:

- (i) the daily risk exposure of the Guarantee Fund as calculated by HKSCC on each Business Day exceeds 90% of; and
- (ii) the Guarantee Fund Threshold is higher than

the existing Guarantee Fund size plus the aggregate Dynamic Contribution Credit utilized by all Clearing Participants or if HKSCC considers it appropriate to do so in any other circumstances, HKSCC may, from time to time and in its absolute discretion, review the size of the Guarantee Fund and the Basic Contribution and Dynamic Contribution required from each Clearing Participant. Such review by HKSCC may be undertaken at any time, regardless of whether or not a monthly review of Contributions has recently been, or is soon due to be, completed, subject to Rule 2509B. At a minimum, HKSCC will review the size of Guarantee Fund monthly and HKSCC may, as a result of the ad hoc review or monthly review, require additional amounts as Basic Contributions and/or Dynamic Contributions from Clearing Participants.

### **18.4.4 Appropriation and redelivery of HKSCC resources following reviews**

If as a result of a review described in Section 18.4.1 and Section 18.4.2, additional resources should be appropriated by HKSCC as contributions to the Guarantee Fund or surplus resources should be redelivered to HKSCC, such appropriation or redelivery will under normal circumstances be effected or set aside on the same day as the day of collection from or redelivery to Clearing Participants of Contributions following such review.

## **18.6 ASSESSMENTS, VOLUNTARY RECAPITALIZATION AND REPLENISHMENT OF GUARANTEE FUND**

### **18.6.1 Assessments**

Upon the occurrence of a Relevant Event, whenever the whole or any part of the Guarantee Fund is applied in accordance with Rules 2507 and 2507A or HKSCC determines that the resources available to HKSCC under the Guarantee Fund and those that may be applied under Rules 2507A and 3702(ii) will not be sufficient to satisfy the obligations and liabilities of HKSCC in relation to a Relevant Event, HKSCC may issue a Notice of Assessment demanding each Clearing Participant to provide Assessments, subject to the limit set out in Rule 2509. Each Clearing



Participant shall provide its Assessments to HKSCC no later than the first Business Day after the date of the Notice of Assessment, or within such other time period as may be specified by HKSCC.

Any Assessments required from the Clearing Participants must be paid in full by the Clearing Participants in cash in Hong Kong dollars or in any other currency prescribed by HKSCC from time to time. HKSCC may require the amounts to be satisfied in full before any application is made. Any Assessment provided by a Clearing Participant shall form part of its Guarantee Fund Contribution Balance.

#### **18.6.2 Cessation of participation in CCASS**

A Relevant Clearing Participant's liability to provide Assessments will not be affected by its subsequent cessation of participation in CCASS, whether voluntary or involuntary.

Upon ceasing to be a Clearing Participant, HKSCC may deliver or return to the 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 (less any pending applications of the Guarantee Fund, up to the time when the Clearing Participant ceased to be a Participant and, if applicable, including without limitation any outstanding obligation to provide Assessments under Rule 2509). Any such redelivery or refund will normally be made by HKSCC six months after termination of a Clearing Participant's participation in CCASS. In the case of a Relevant Clearing Participant, HKSCC shall have the right (without prejudice to any other rights it may have) to retain, and not to redeliver or return, such Contributions or any part thereof as cover for any contingent liability of the Relevant Clearing Participant under Rules 2507, 2507A, 2508, 2509, 3707, 3709 and 4301.

#### **18.6.3 Limit on Clearing Participant's liability to Assessments**

The liability of a Clearing Participant to provide Assessments under Rule 2508 shall be limited in accordance with Rule 2509.

In respect of one or more Relevant Events occurring during a Capped Liability Period, the aggregate liability of a Clearing Participant to provide Assessments during a Capped Liability Period pursuant to Rule 2508 shall be limited to an amount which is equal to the Clearing Participant's Basic Contribution required and Dynamic Contribution calculated pursuant to Section 18.2.1 of the Operational Procedures on the Business Day immediately preceding the start of the Capped Liability Period, plus one time such amount, as prescribed in Rule 2509. For example, assume that the Clearing Participant's Basic Contribution required and Dynamic Contribution calculated on the Business Day immediately preceding the start of the Capped Liability Period is HK\$2,000,000 and the Clearing Participant is not in default. In this case, the maximum liability of the Clearing Participant to provide Assessments would be HK\$4,000,000 (i.e. the Clearing Participant would only be obliged to pay a further sum of HK\$4,000,000 in addition to its existing Contributions of HK\$2,000,000).

Clearing Participants should refer to Rule 2509 of the Rules for further details.

#### **18.6.4 Voluntary Recapitalization**

- (i) If HKSCC determines at any stage that the loss arising from a Relevant Event is expected to exceed the financial resources available including the Guarantee Fund and the relevant amount received or to be received under Rule 2508 and those available to be applied under Rules 2507A and 3702(ii), HKSCC may issue a Voluntary Recap Request Notice requesting each Clearing Participant to make

a Voluntary Recap Amount to HKSCC.

- (ii) Upon receipt of a Voluntary Recap Request Notice issued by HKSCC in accordance with Rule 2509A(i), a Clearing Participant may, but is not obliged to, provide its Voluntary Recap Amount to HKSCC within one Business Day following receipt of the Voluntary Recap Request Notice. The Voluntary Recap Amount provided by Clearing Participants must be paid in cash in Hong Kong dollars or in any other currency prescribed by HKSCC from time to time. Any Voluntary Recap Amount made by a Clearing Participant to HKSCC may not be withdrawn.
- (iii) Any Voluntary Recap Amount received by HKSCC from a Clearing Participant shall form part of such Clearing Participant's Guarantee Fund Contribution Balance after such Voluntary Recapitalization is declared successful by HKSCC, and the application of such amount will be subject to Rules 2506 and 2507.
- (iv) If the total Voluntary Recap Amount received by HKSCC is less than the aggregate of the Voluntary Recap Amounts requested by HKSCC from the Clearing Participants, any amounts received will be refunded to the relevant Clearing Participants on the next Business Day and will not form part of the Dynamic Contributions or Guarantee Fund Contribution Balances of the relevant Clearing Participants.

#### **18.6.5 Clearing Participants to replenish Guarantee Fund**

Following the occurrence of a Relevant Event, any review of the Guarantee Fund size apart from under Rule 2508 shall be suspended during the relevant Capped Liability Period. Upon the expiry of the relevant Capped Liability Period, HKSCC shall review the size of the Guarantee Fund and the Basic Contribution and/or Dynamic Contribution required from each Clearing Participant in accordance with Rule 2502. HKSCC will notify the Clearing Participant of any replenishment amount required as Basic Contributions and/or Dynamic Contributions as a result of the review. The Clearing Participant shall make such Contributions no later than the first Business Day after the date of the notice, or within such other time period as may be specified by HKSCC. Any such Contributions made by the Clearing Participant following the expiry of such Capped Liability Period shall only be applied in respect of Relevant Events which occur after the expiry of the relevant Capped Liability Period and shall not be applied in respect of any Relevant Event that occurred prior to the expiry of such Capped Liability Period.

#### **18.6.6 HKSCC to make appropriations for Guarantee Fund**

Following the expiry of a Capped Liability Period following a Relevant Event, if the whole or any part of HKSCC's contribution to the Guarantee Fund is applied in accordance with Rule 2507, HKSCC shall make appropriations for the deficiency of its contribution to the Guarantee Fund following the same replenishment time period as specified in Rule 2509B, subject to the approval of the Board and regulatory capital requirements applicable to HKSCC. Any part of HKSCC's contribution to the Guarantee Fund following the expiry of such Capped Liability Period shall only be applied in respect of Relevant Events which occur after the expiry of the relevant Capped Liability Period and shall not be applied in respect of any Relevant Event that occurred prior to the expiry of such Capped Liability Period.

### **Section 19**

#### **Financial and Accounting Requirements**

#### **19.1 FINANCIAL REQUIREMENTS**

##### **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 :

- (i) the provision of its Basic Contribution and Dynamic Contribution to HKSCC and 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;
- (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.