

CCASS OPERATIONAL PROCEDURES

Definitions

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

"Collateral"

means collateral, in such form as HKSCC may from time to time require, to be provided by a Participant pursuant to Rule 602, 806, 3501, 3501A or 3602 and additionally, to be provided by a TSF CCASS Participant pursuant to Rule 12A14 or a China Connect Clearing Participant pursuant to Rule 4107(iii) or 4107(viii);

"Electronic Payment Instruction" or "EPI"

means a payment instruction generated by HKSCC and forwarded for processing to the Designated Bank of a Participant via the Clearing House of HKAB, to effect (i) money settlement between two Participants in relation to Isolated Trades or SI or ISI Transactions in CCASS on a DVP basis; (ii) payment of application monies to Issuers and refund monies to Participants; (iii) payment of money by Clearing Participants or Custodian Participants to their SSA Statement Recipients in respect of STI Transfers on a DVP basis; (iv) payment of fees and expenses by Participants other than Investor Participants to HKSCC for CCASS services; or (v) redelivery to China Connect Clearing Participants of Collateral provided to HKSCC for the early release of China Connect Securities that are Securities-on-hold;

"Government Bonds"

means bonds which are issued or to be issued by the Hong Kong Government acting through the HKMA under the Loans Ordinance (Chapter 61 of the Laws of Hong Kong) for the purpose of promoting the further development of the Hong Kong bond market and the proceeds of which will be credited to a special purpose fund established under the Public Finance Ordinance (Chapter 2 of the Laws of Hong Kong);

"Issuer"

means any company or other legal person (i) any of whose shares, warrants, Structured Products or Debt Securities, or (ii) whose shares are represented by Depositary Receipts of which or (iii) which is the trustee or manager of any Units and the Units in which, are the subject of an application for listing on the Exchange in connection with an initial public offering of those shares, warrants, Depositary Receipts, Structured Products, Debt Securities or Units or are listed on the Exchange or are otherwise accepted by HKSCC as Eligible Securities;

"USD"

means United States dollar, the lawful currency of the United States of America, for settlement in Hong Kong;

Section 6

Operational and Service Schedule

6.2.2 Daily Processing and Service Schedule in relation to China Connect Securities

Time	CCASS events
2:00 p.m.	Deadline for submitting the following instructions in relation to the Collateral provided for the early release of Securities-on-hold, in order to have such instructions effected on the same Settlement Day: (i) standing instructions to request HKSCC not to redeliver the Collateral or instructions to cancel such standing instructions; and (ii) withdrawal instructions to request HKSCC to redeliver all or any of the Collateral
4:00 p.m. (after)	Application for the early release of Securities-on-hold available
5:30 p.m.	Deadline for submitting an application for the early release of Securities-on-hold and transferring same day available funds as Collateral for the early release to HKSCC's specified bank account

Section 8

Nominee Service

8.17 BOND, EXCHANGE FUND NOTES, GOVERNMENT BONDS, SPECIFIED INSTRUMENTS AND CMU INSTRUMENTS REDEMPTION

8.17.1 General

The redemption of Exchange Fund Notes, Government Bonds, Specified Instruments or CMU Instruments involves debiting them from the Participants' Stock Accounts and crediting the corresponding redemption amounts to the Participants' Money Ledgers. Redemption of Exchange Fund Notes will occur on their maturity dates. Redemption of Specified Instruments or CMU Instruments or Government Bonds will occur at or before their maturity dates, (and if before, either in whole or in part) in accordance with their terms and conditions.

8.19 TENDER INSTRUCTIONS FOR EXCHANGE FUND NOTES, GOVERNMENT BONDS, SPECIFIED INSTRUMENTS AND CMU INSTRUMENTS

8.19.1 Where Tender Instructions for Government Bonds or CMU Instruments are given, the Participant is deemed to have agreed with and confirmed to HKSCC the following:

- (viii) the Participant other than an Investor Participant agrees to check if any of its clients has made multiple applications and satisfied the relevant eligibility criteria and will reject as required under the terms and conditions of the issue of the Government Bonds or the CMU Instruments or any other document governing the issue of and application for the Government Bonds or the CMU Instruments.

Section 10

Exchange Trades - CNS System

10.9.2 General principles

The facilities and procedures in CCASS in relation to adjustments or claims to entitlements as a result of late deliveries under the CNS System reflect HKSCC's role as the settlement counterparty to the Long Clearing Participants and to the Short Clearing Participants.

Under these facilities and procedures in CCASS, HKSCC will pass on entitlements it receives from the Short Clearing Participants to the Long Clearing Participants. HKSCC may also require the Short Clearing Participants to pay such additional amount to ensure that, Long Clearing Participants will, in so far as practicable, be put in the same position as if there had been no late delivery under the CNS System. Accordingly, even if Short Clearing Participants fail to deliver securities or other cash entitlements accruing to Eligible Securities, HKSCC will still be responsible to Long Clearing Participants in the manner as indicated below. Except as expressly provided, HKSCC, the Exchange, and a recognized exchange controller which is the controller of HKSCC shall have no liability to Long Clearing Participants.

10.9.5 Cash dividend entitlements

In the case of cash dividends in an Eligible Currency, the following procedures will usually apply :

- (i) on the Business Day following the last Settlement Day preceding the relevant book-close or record date, HKSCC will debit the Entitlements Account (a sub-account of the Money Ledger) of the Short Clearing Participants to collect from them amounts in respect of dividends accruing to their outstanding short CNS stock positions; and
- (ii) on the dividend payment date, HKSCC will credit the Entitlements Accounts of the Long Clearing Participants with amounts in respect of dividends accruing to their outstanding long CNS stock positions.

In the case of cash dividends in a foreign currency which is not an Eligible Currency, the following procedures will usually apply :

- (i) Short Clearing Participants will be required to arrange for funds of the exact amount and currency in respect of dividends accruing to their outstanding short CNS stock positions to be directly paid into the stated bank account of HKSCC by telegraphic transfers (see below);
- (ii) such transfers by the Short Clearing Participants, as referred to in paragraph (i) above, are to be provided to HKSCC at the latest by the close of business on the Business Day following the book-close or record date or other time specified by HKSCC. At the time of arranging such transfers, Short Clearing Participants are also required to submit evidence of such transfers, such as application forms to their banks, to HKSCC; and
- (iii) on the dividend payment date, HKSCC will make available for collection by the Long Clearing Participants relevant foreign currency bank drafts for the amounts in respect of dividends accruing to their outstanding long CNS stock positions. The costs and expenses of arranging these bank drafts will be charged to the Long Clearing Participants.

Any funds derived from payment of cash dividends in a currency which is not an Eligible Currency from Short Clearing Participants must be transferred to one or more bank accounts of HKSCC as from time to time specified by it.

Without prejudice to the above, if HKSCC is reasonably satisfied that the Long Clearing Participants in respect of any or all of their long outstanding CNS stock positions are exempt from or are eligible for a lower rate of withholding tax but the dividends accruing to the Short Clearing Participants' outstanding short CNS stock positions are net of a higher rate of withholding tax (whether withheld by HKSCC or any other parties), HKSCC may require Short Clearing Participants to pay such additional amount, in any Eligible Currency as may be determined by HKSCC from time to time, so that the Long Clearing Participants will receive such amount of cash dividend entitlements as if there had been no late delivery under the CNS System.

HKSCC will be responsible, following the distribution date, to pay Long Clearing Participants the cash dividend entitlements accruing to their outstanding CNS long stock positions irrespective of whether or not HKSCC receives such entitlements from Short Clearing Participants.

10.12 RISK MANAGEMENT: SECURITIES-ON-HOLD

10.12.2 Quantity of Eligible Securities allocated which can be used

10.12.6 Example (Quantity of Eligible Securities which can be used)

Section 10A
China Connect Securities Trades - CNS System

10A.14 RISK MANAGEMENT: SECURITIES-ON-HOLD OF CHINA CONNECT SECURITIES

10A.14.1 Purpose of Securities-on-hold

To guard against this risk exposure, the Rules provide that until such time as HKSCC is satisfied that (i) it has received payment in full in respect of China Connect Securities delivered by HKSCC to a China Connect Clearing Participant under the CNS System on a Settlement Day; and (ii) such payment is good and irrevocable or the required amount of Collateral has been received in good and irrevocable funds pursuant to an application for the early release of Securities-on-hold that has been approved by HKSCC in accordance with Section 10A.14.5A of the Operational Procedures, or unless otherwise agreed by HKSCC, title, property or any interest in such China Connect Securities shall not pass to the China Connect Clearing Participant. Until then, China Connect Clearing Participants will not be allowed to use some or all of such China Connect Securities, except as permitted by HKSCC.

10A.14.2 Quantity of China Connect Securities allocated which can be used

The quantity of China Connect Securities allocated to the Stock Clearing Account of a China Connect Clearing Participant under the CNS System on a Settlement Day which will not be allowed to be used by the China Connect Clearing Participant will depend on the amount to be paid by the China Connect Clearing Participant to HKSCC under the CNS System on that day.

If a China Connect Clearing Participant wishes to make use of any of such China Connect Securities in its Stock Clearing Account before payment of the amount owed to HKSCC is confirmed good and irrevocable, as long as the value of such China Connect Securities which are to remain in the Stock Clearing Account of the China Connect Clearing Participant (determined by using the Mark-to-market values of the relevant China Connect Securities at the time), discounted by a percentage to be decided by HKSCC (normally ten percent), is not less than the China Connect Clearing Participant's "Outstanding Net Payment Liabilities for the Early Release of Securities-on-hold", the China Connect Clearing Participant will be allowed by HKSCC to make use of the China Connect Securities. The China Connect Clearing Participant's "Outstanding Net Payment Liabilities for the Early Release of Securities-on-hold" referred above in this Section 10A.14.2 shall be the total amount owed to HKSCC deducting the amount of Collateral accepted and received by HKSCC in accordance with Sections 10A.14.4A and 10A.14.5A (in RMB equivalent subject to haircut). The conversion shall be at such exchange rate and subject to such haircut rate as determined by HKSCC from time to time. For the purpose of calculating the total amount owed by a China Connect Clearing Participant to HKSCC, sums so owed and denominated in one Eligible Currency shall not be reduced by sums owed to that China Connect Clearing Participant by HKSCC which are denominated in any other Eligible Currency.

10A.14.3 Example (Quantity of China Connect Securities which can be used)

On a Settlement Day, China Connect Clearing Participant A was allocated 4,000 of Stock X (denominated in RMB) and 3,000 of Stock Y (denominated in RMB) and has RMB80,000 due to HKSCC. China Connect Clearing Participant A has provided to HKSCC cash prepayment of RMB30,000 and Collateral of HKD10,000 in accordance with Section 10A.14.4 and Section 10A.14.4A respectively. The prevailing Mark-to-market price for Stock X is RMB10 and for Stock Y is RMB20. The exchange rate is HKD1 = RMB0.8 and the haircut rate is 3%.

Then:

- (i) Mark-to-market value of China Connect Securities allocated to China Connect Clearing Participant A
 = RMB10 x 4,000 (stock X) + RMB20 x 3,000 (stock Y)
 = RMB100,000
- (ii) Discounted market value of such allocated China Connect Securities
 = RMB100,000 x (1 - 0.1)
 = RMB90,000
- (iii) Discounted market value of allocated China Connect Securities which could be withdrawn
- | | | | |
|---|---|---|---|
| = | Discounted market value -
of allocated China
Connect Securities | - | (Amount due to HKSCC not covered
by cash prepayment – Collateral for the early
release of Securities-on-hold) |
| = | RMB90,000 | - | RMB(80,000 - 30,000 - 10,000 x 0.8 x
(1 - 0.03)) |
| = | RMB47,760 | | |

China Connect Clearing Participant A will be allowed by HKSCC to use allocated China Connect Securities with a total discounted market value of not more than RMB47,760.

China Connect Clearing Participant A can therefore use no more than either: -

- (i) 5,306 of Stock X (derived from RMB47,760 ÷ RMB10 ÷ (1 - 0.1)); or
- (ii) 2,653 of Stock Y (derived from RMB47,760 ÷ RMB20 ÷ (1 - 0.1)); or
- (iii) a combination of Stock X and Stock Y so long as their total discounted market value does not exceed RMB47,760.

The amount of Stock X and Stock Y which must be retained in the Stock Clearing Account of China Connect Clearing Participant A will be treated by HKSCC as Securities-on-hold.

10A.14.4A China Connect Clearing Participant may deposit HKD or USD as Collateral

China Connect Clearing Participants that have outstanding payment obligations to HKSCC but wish to utilize any or all of the Securities-on-hold covering such outstanding payment obligations for any purpose, including to settle SI Transactions during a Settlement Day, may, in addition to or in lieu of effecting cash prepayment, apply for the early release of Securities-on-hold by delivering the required amount of same day available funds in HKD or USD as Collateral to HKSCC's specified bank account in accordance with the procedures set out in Section 10A.14.5A.

HKSCC has the power to approve or reject a China Connect Clearing Participant's application for the early release of Securities-on-hold in its sole and absolute discretion.

Without prejudice to Section 10A.14.5A, HKSCC may impose such limit on the amount of Collateral that may be accepted, require such Collateral to be provided in such form and manner, and prescribe such exchange and haircut rates that may be applied as it considers appropriate by reference to, inter alia, the level of exposure of such China Connect Clearing Participant to HKSCC (including, but not limited to, the risks associated with the clearing and settlement of China Connect Securities Trades) and such other matters as HKSCC may consider relevant.

Unless HKSCC otherwise approves or the Operational Procedures otherwise provide, no interest will be payable by HKSCC on the Collateral provided by a China Connect Clearing Participant in connection with any early release of Securities-on-hold.

10A.14.5 Procedures relating to cash prepayment

10A.14.5A Procedures relating to the provision of Collateral for the early release of Securities-on-hold

The following is a brief description of the procedures relating to the provision of Collateral for the early release of Securities-on-hold on each Settlement Day:

- (i) China Connect Clearing Participants that wish to apply for the early release of Securities-on-hold shall submit the prescribed application form to HKSCC between 4:00 p.m. and 5:30 p.m. or during such other period as may be specified by HKSCC from time to time;
- (ii) to avoid undue concentration of HKSCC's exposure to a bank appointed by HKSCC as receiving bank for Collateral, acceptance of Collateral is subject to the concentration limit pre-determined by HKSCC in respect of each appointed receiving bank. HKSCC will only accept Collateral within the predetermined concentration limit of the appointed receiving bank;
- (iii) to avoid undue concentration of HKSCC's FX exposure, the amount of Collateral acceptable by HKSCC on each Settlement Day is subject to such maximum limit as may be prescribed by HKSCC from time to time;

- (iv) China Connect Clearing Participants must ensure that the full amount of Collateral set out in the application for the early release of Securities-on-hold, in the form of same day available funds in HKD or USD, are transferred to HKSCC's specified bank account as Collateral by no later than 5:30 p.m. on the same Settlement Day or such other time as may be prescribed by HKSCC from time to time, failing which the application will be rejected. For China Connect Clearing Participants using the same banks as HKSCC, they can make use of the internal account transfer function of their banks or electronic banking services to transmit available funds. For others, they can instruct their banks to make payment to HKSCC via inter-bank transfer with CHATS payment;
- (v) acceptance of the application for the early release of Securities-on-hold will be at HKSCC's full discretion. HKSCC may approve or reject a China Connect Clearing Participant's application and impose such limit on the acceptable Collateral in its sole and absolute discretion. If a China Connect Clearing Participant fails to follow the procedures, and/or for any other reasons the application is subsequently rejected by HKSCC, any Collateral received will be redelivered to the China Connect Clearing Participant on the following Settlement Day without interest;
- (vi) if the application is approved, HKSCC will release the Securities-on-hold up to the equivalent discounted market value (see Section 10A.14.3) upon receipt of the full amount of acceptable Collateral from the China Connect Clearing Participant;
- (vii) China Connect Clearing Participants can operate ATIs to check whether the Securities-on-hold have been released and rely on DIs or Batch-settlement-runs to settle their SI Transactions;
- (viii) since HKSCC allocates shares according to a pre-set algorithm, China Connect Clearing Participants applying for the early release of Securities-on-hold may not have received all allocated shares. Any surplus Collateral received by HKSCC will only be redelivered to the China Connect Clearing Participants on the next Settlement Day without interest;
- (ix) subject to the relevant default rules under the Rules and Operational Procedures, all Collateral received pursuant to an application for the early release of Securities-on-hold will be redelivered to the relevant China Connect Clearing Participant without interest on the next Settlement Day via EPI unless HKSCC has received a standing instruction from the China Connect Clearing Participant in prescribed form by 2:00 p.m. on the day of redelivery or such other time as may be prescribed by HKSCC from time to time requesting HKSCC not to effect the redelivery of Collateral. For the purposes of calculating the handling fee in Section 21.1A, any Collateral that is not redelivered to a China Connect Clearing Participant pursuant to a standing instruction shall, unless and until any such Collateral is accepted by HKSCC in relation to a separate application for the early release of Securities-on-hold, be excluded; and

- (x) in the event of default of payment (e.g., for any transfers subsequently reversed by the Clearing House of HKAB), HKSCC shall have recourse against the relevant China Connect Clearing Participant and may take such action against the China Connect Clearing Participant as it considers appropriate.

In respect of any Collateral received pursuant to an application for the early release of Securities-on-hold that is not redelivered to a China Connect Clearing Participant in accordance with the procedures mentioned above, the relevant China Connect Clearing Participant may at any time request HKSCC to redeliver all or any of such amount of surplus Collateral by submitting a withdrawal instruction in prescribed form at or before 2:00 p.m. on a Settlement Day or such other time as may be prescribed by HKSCC from time to time.

Section 14

Money Settlement

14.5 ELECTRONIC PAYMENT INSTRUCTIONS

14.5.1 Usage

EPIs are used to effect (i) money settlement between Participants in relation to trade for trade transactions settled in CCASS on a DVP basis (i.e. Isolated Trades, ISI and SI Transactions settled on a DVP basis); (ii) payment of application monies to Issuers and refund monies to Participants; (iii) payment of money by Clearing Participants or Custodian Participants to their SSA Statement Recipients in relation to STI Transfers on a DVP basis; (iv) payment of fees and expenses by Participants other than Investor Participants on a weekly basis to HKSCC for CCASS services; and (v) redelivery to China Connect Clearing Participants of Collateral provided to HKSCC for the early release of China Connect Securities that are Securities-on-hold.

14.5.2 Procedures

The following is a brief description of the procedures relating to EPIs issued by HKSCC:

- (iic) on each Settlement Day, to effect the redelivery of Collateral provided to HKSCC for the early release of China Connect Securities that are Securities-on-hold, HKSCC will determine the relevant amount of Collateral to be redelivered and a corresponding credit EPI will be issued to the Designated Bank of the China Connect Clearing Participant upon HKSCC being fully satisfied that all payments by the China Connect Clearing Participant under the CNS System (as a result of CPI issued by HKSCC) are good and irrevocable;

Section 16 Statement and Reports

16.6 REPORTS AND STATEMENTS FOR PARTICIPANTS

16.6.1 Reports and Statements for Participants other than Investor Participants

Report ID	Report name	Frequency	Time available
CSECC03	Handling Fee Collection Report for the Early Release of Securities-on-hold for China Connect Markets	Daily	from the time when the report retrieval function is available (for previous day's handling fee)

Section 21 Costs and Expenses

21.1A CLEARING AND SETTLEMENT OF CHINA CONNECT SECURITIES TRADES

- Handling fee for the acceptance of Collateral in relation to the early release of Securities-on-hold at the request of a China Connect Clearing Participant.

Notes:

The fee will be debited in HKD on the day of application and (where applicable) on the day of completion of settlement.

Accrued daily at 1% per annum on the amount of the Collateral accepted by HKSCC in relation to an application for the early release of Securities-on-hold (Collateral in Eligible Currencies other than HKD will be converted to HKD equivalent at such exchange rate as determined by HKSCC from time to time for computation), from the day of application until the day on which the outstanding payment obligations to HKSCC as secured by such Collateral are fully discharged.

21.7 OTHER MONEY SETTLEMENT FEES

- Money settlement fees for other miscellaneous amounts to be paid to or collected from Participants (eg. Marks, Margin, Basic Contributions, Dynamic Contributions, application and refund monies under Electronic Application Instructions for New Issue Shares and Tender Instructions, and any redelivery of Collateral in relation to the early release of China Connect Securities that are Securities-on-hold).

HK\$0.50 for HKD items, CNY items and USD items for each DDI/DCI/EPI issued or each CPI settled by HKSCC.

Notes:

Fee debited on the day of money settlement.

Fee not applicable to EPIs issued by HKSCC on a weekly basis for effecting fee payment as referred to in Section 21.14.