

CCASS OPERATIONAL PROCEDURES

Definitions

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

“Guarantee Fund Net Projected Loss”

has the meaning given to it in Section 10.11.3C of the Operational Procedures;

“Guarantee Fund Risk Collateral”

means collateral collected by HKSCC under Section 10.11.3C of the Operational Procedures;

“Guarantee Fund Risk Predefined Limit”

means an amount equal to 50% of the Guarantee Fund Threshold or such other percentage as HKSCC deems appropriate from time to time;

“Guarantee Fund Threshold”

means the Guarantee Fund size prescribed by HKSCC from time to time pursuant to Rule 2501;

Section 10

Exchange Trades – CNS System

10.11.3C Guarantee Fund Risk Collateral

HKSCC may require a Clearing Participant to provide from time to time on demand Guarantee Fund Risk Collateral if, when assessed by reference to the historical data from each of the realized stressed market conditions and/or hypothetical data for each of the unrealized stressed market conditions as HKSCC may determine:

- (i) the stressed default loss, determined by HKSCC at a pre-defined stress market movement level fixed by HKSCC from time to time in light of market conditions and such other factors as HKSCC may consider appropriate (less any Margin and Collateral except Guarantee Fund Risk Collateral collected), arising from all the CNS stock positions of the Clearing Participant (“Guarantee Fund Net Projected Loss”) exceeds the Guarantee Fund Risk Predefined Limit; and

(ii) the prevailing Guarantee Fund size is equal to the Guarantee Fund Threshold.

The amount of Guarantee Fund Risk Collateral required from the Clearing Participant is:

$$\begin{array}{r} \text{Guarantee Fund Net} \\ \text{Projected Loss} \end{array} - \begin{array}{r} \text{Guarantee Fund Risk} \\ \text{Predefined Limit} \end{array}$$

For the avoidance of doubt, if Guarantee Fund Risk Collateral is required under two or more stressed market conditions, the higher or highest (as the case may be) Guarantee Fund Risk Collateral amount shall be imposed.

Notwithstanding the above requirements of this Section, should HKSCC accept the Clearing Participant's request to waive the whole or part of the Guarantee Fund Risk Collateral requirement, the Clearing Participant must close out such positions as may reduce the Guarantee Fund Net Projected Loss to an amount which is less than the sum of the Guarantee Fund Risk Predefined Limit and Guarantee Fund Risk Collateral maintained by HKSCC if any by the end of the same Business Day as the Guarantee Fund Risk Collateral requirement collection due date, failing which HKSCC may subsequently close out such positions on behalf of the Clearing Participant.

10.11.3D Example (Computation of Guarantee Fund Risk Collateral)

Suppose: Guarantee Fund Threshold = HK\$320M
Guarantee Fund Risk Predefined Limit = HK\$160M

| | | HK\$ million |
|-----------------------------------|---|--------------|
| Guarantee Fund size | = | 320 |
| Guarantee Fund Net Projected Loss | = | 180 |

The Guarantee Fund size is equal to the Guarantee Fund Threshold and the Guarantee Fund Net Projected Loss exceeds the Guarantee Fund Risk Predefined Limit.

The amount of Guarantee Fund Risk Collateral required from the Clearing Participant
= HK\$180 million – HK\$160 million
= HK\$20 million.

Section 18
Guarantee Fund

18.2 CALCULATION OF CONTRIBUTIONS

18.2.1 Determination of amount

A Clearing Participant's share of the average daily CNS positions of all Clearing Participants during the most recent 60 Business Days as mentioned above will also be used by HKSCC as the basis for calculating the Clearing Participant's share of the Dynamic Contribution calculated in respect of all Clearing Participants. The "Dynamic Contribution calculated" in respect of all Clearing Participants means the required size of the Guarantee Fund determined by HKSCC (which is an amount below or equal to the Guarantee Fund Threshold) following a review of the size of the Guarantee Fund by HKSCC, less:

- (i) the aggregate Basic Contributions required from all Clearing Participants;
- (ii) resources amounting to 10% or such other percentage of the Guarantee Fund size as HKSCC may determine from time to time which may be appropriated by HKSCC as contributions to the Guarantee Fund; and
- (iii) any other amounts which HKSCC, in its absolute discretion, considers as appropriate to reduce the Dynamic Contribution calculated in respect of all Clearing Participants. Such Clearing Participant's share of the Dynamic Contribution calculated in respect of all Clearing Participants, in money terms, will be the Dynamic Contribution calculated in respect of the Clearing Participant.

18.4 REVIEW OF CONTRIBUTIONS

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. 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 on the same day as the day of collection from or redelivery to Clearing Participants of Contributions following such review.