

GENERAL RULES OF CCASS

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CHAPTER 1

INTERPRETATION

101. Definitions

When used herein, the following expressions shall, unless the context otherwise requires, bear the following meanings:

“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;

CHAPTER 22

TERMINATION OF PARTICIPATION

2202. Forthwith termination by HKSCC

- (vii) in the event that an Event of Default as referred to in Rule 3701 has occurred in respect of a Clearing Participant, including a failure to provide or replenish its Basic Contribution or Dynamic Contribution pursuant to Rules 2502 and 2509B, or a failure to provide Assessments pursuant to Rules 2508 and 2509; or

2204. Consequences of termination

Subject to Rules 2508 and 2509 but notwithstanding any other provisions contained in the Rules, a Clearing Participant's obligations as a Relevant Clearing Participant shall survive the termination of the Clearing Participant's participation in CCASS. Without prejudice to any other rights of HKSCC, HKSCC shall be entitled to treat such Clearing Participant whose participation in CCASS has been terminated as a Relevant Clearing Participant for the purposes of Rules 2507, 2507A, 2508, 2509, 3705, 3706, 3709 and 4301, and all matters arising therefrom or in relation thereto so as to give full force and effect to the Rules. Such Clearing Participant shall remain bound by those provisions and the related provisions as if the termination of its participation had not been effected.

CHAPTER 25

GUARANTEE FUND

2501. Establishment of Guarantee Fund

HKSCC may apply any amounts standing to the credit of the Guarantee Fund as a short-term source of liquid funds or otherwise to meet any immediate obligations and liabilities arising out of Market Contracts regardless of the order of priority set out in Rule 2507 and/or pursuant to Rules 813, 814, 815 and 816, other than the following:

- (a) obligations and liabilities between HKSCC and a Clearing Agency Participant arising out of a Market Contract between HKSCC and the Clearing Agency Participant which is participating in CCASS pursuant to a Clearing Link as referred to in Chapter 42; and
- (b) liabilities between HKSCC and a Clearing Agency Participant which is participating in CCASS pursuant to one or more Clearing Links as referred to in Chapter 42 for a loss of or defects affecting Eligible Securities pursuant to Rules 813, 814, 815 and/or 816.

2502. Contributions by Clearing Participants

- (i) Basic Contribution

Subject to this Rule and Rule 2509B, the amount of Basic Contribution from time to time required to be made by each Clearing Participant shall be determined by reference to and shall be subject to such adjustments as are provided in the Operational Procedures.

(ii) **Dynamic Contribution**

There is no minimum amount of Dynamic Contribution required to be made by each Clearing Participant or minimum size of the aggregate Dynamic Contributions by all Clearing Participants. Subject to this Rule, Rule 2507A, Rule 2508, Rule 2509 and Rule 2509B, the amount of the Dynamic Contribution from time to time required to be made by each Clearing Participant shall be determined by reference to and shall be subject to such adjustments as are provided in the Operational Procedures or as HKSCC may from time to time prescribe.

Each Clearing Participant may be allowed a Dynamic Contribution Credit, up to such limit as HKSCC may from time to time determine in its absolute discretion. For the avoidance of doubt, such limit may be determined by HKSCC on an individual Clearing Participant basis. The Dynamic Contribution Credit shall only be utilized for the purpose of reducing the amount of Dynamic Contribution (other than any Assessment or Voluntary Recap Amount) payable by a Clearing Participant to HKSCC in the manner as provided in the Operational Procedures. The amount of Dynamic Contribution Credit utilized by a Clearing Participant may be applied by HKSCC towards satisfaction of a Clearing Participant's share of obligations and liabilities in accordance with Rule 2507A.

2507. Order of application of Guarantee Fund

Where HKSCC exercises its right to draw on any other resources available to the Guarantee Fund or other assets forming part of the Guarantee Fund, HKSCC may vary the order of priority of payments set forth above by including in it payment out of such other resources or assets, including the proceeds thereof, in such manner as HKSCC considers fair and appropriate.

HKSCC shall notify the Relevant Clearing Participants concerned in the case of an application under paragraph (i) of this Rule and shall notify all Relevant Clearing Participants in the case of an application under paragraphs (iv) and/or (v) of this Rule. Such notice to Relevant Clearing Participants of any application is referred to as a "notice of application". Following such application, the Guarantee Fund Contribution Balance of each Relevant Clearing Participant shall be reduced by an amount equal to the amount so applied in respect of such Clearing Participant.

2507A. Application of Dynamic Contribution Credit and Margin Credit, etc.

(ii) In the event that there are obligations and liabilities of HKSCC remaining after payment under Rule 2507(i) (if applicable), HKSCC will first apply the amount of Dynamic Contribution Credit and the amount of Margin Credit utilized by the Relevant Clearing Participant in default (if applicable) on the Business Day immediately before the occurrence of the Relevant Event to satisfy the remaining obligations and liabilities, prior to making any further payments out of the Guarantee Fund in accordance with the order set out in Rules 2507(ii) – (v).

(iii) The amount of Basic Contribution in respect of each Relevant Clearing

Participant to be applied pursuant to Rule 2507(iv) shall be calculated on a pro-rata basis by reference to the Relevant Clearing Participant's share of the aggregate Basic Contributions made or required to be made by all the Relevant Clearing Participants on the Business Day immediately before the occurrence of the Relevant Event, excluding the Basic Contribution made or required to be made by the Relevant Clearing Participant in default (if applicable).

- (iv) The amount of Dynamic Contribution in respect of each Relevant Clearing Participant to be applied pursuant to Rule 2507(v) shall be determined as follows:-
- (a) HKSCC will first calculate the Relevant Clearing Participant's share of the remaining obligations and liabilities by reference to the Relevant Clearing Participant's share of the Dynamic Contribution calculated in respect of all the Relevant Clearing Participants on the Business Day immediately before the occurrence of the Relevant Event, excluding the Dynamic Contribution calculated in respect of the Relevant Clearing Participant in default (if applicable).
 - (b) The Relevant Clearing Participant's share of the remaining obligations and liabilities calculated under sub-paragraph (a) above shall be borne by way of the Dynamic Contribution required from the Relevant Clearing Participant and the Dynamic Contribution Credit utilized by the Relevant Clearing Participant on a pro-rata basis, by reference to their respective proportions in the Dynamic Contribution calculated in respect of the Relevant Clearing Participant on the Business Day immediately before the occurrence of the Relevant Event, provided that the share borne by the Dynamic Contribution Credit utilized shall not exceed the Dynamic Contribution Credit allowed to the Relevant Clearing Participant. Any amount in excess of the Dynamic Contribution Credit allowed to the Relevant Clearing Participant shall be borne by the Relevant Clearing Participant by way of the Dynamic Contribution required from it.

2508. 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 written notice ("Notice of Assessment") demanding each Clearing Participant to provide such additional contributions to bring the Guarantee Fund to the same level as that before any application is made or to be made and/or such additional contributions as HKSCC may require to meet any obligations and liabilities in relation to a Relevant Event, subject to the limit set out in Rule 2509 ("Assessments"). 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.

The Assessments to be provided by Clearing Participants under this Rule 2508 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. Any Assessment provided by a Clearing Participant shall form part of its Guarantee

Fund Contribution Balance.

The obligations and liabilities of a Clearing Participant to provide Assessments under this Rule in respect of any Relevant Events which occur during a Capped Liability Period which commenced prior to the Clearing Participant's termination of participation in CCASS shall survive the termination of the Clearing Participant's participation in CCASS notwithstanding the fact that the expiry of such Capped Liability Period occurs after termination, provided that the aggregate liability of the Clearing Participant shall be limited as provided for in Rule 2509 and provided that the Clearing Participant shall not have any obligations or liabilities to provide Assessments in respect of any Relevant Events which occur during a Capped Liability Period which commences after the termination of the Clearing Participant's participation in CCASS.

2509. Limit on Clearing Participant's liability to Assessments

In respect of one or more Relevant Events occurring during a Capped Liability Period, the aggregate liability of a Clearing Participant to provide Assessments pursuant to one or more Notices of Assessment given by HKSCC during a Capped Liability Period 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.

2509A. 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 written notice (the "Voluntary Recap Request Notice") requesting each Clearing Participant to make a payment of funds (each 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.

2509B. 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.

2509C. 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.

2510. Recovery of sums

If HKSCC receives any amounts from a Relevant Clearing Participant in default, or any other amounts howsoever recovered relating to the Relevant Event of the Relevant Clearing Participant in default, HKSCC shall, in the absence of any obligation of HKSCC to deal with the amounts so recovered in any other way, deal with the amount so received in accordance with this Rule, having regard to Rules 2507, 2507A, 2509A and 3709.

The amounts recovered (less any uncovered costs and expenses of recovery) may, but need not necessarily, be repaid to the Relevant Clearing Participants and HKSCC, subject to the terms of any relevant guarantee, bank facility or policy of insurance. If the amounts recovered are repaid to the Relevant Clearing Participants and HKSCC, it will be in the reverse order of priority with reference to the amounts and credits that have been utilized and applied to satisfy obligations and liabilities in relation to the Relevant Event including:

- (i) any amount paid out of the Guarantee Fund pursuant to Rule 2507;
- (ii) any amount of Dynamic Contribution Credit and Margin Credit that has been utilized and applied to satisfy any obligations and liabilities pursuant to Rule 2507A;

- (iii) any Voluntary Recap Amount that has been applied pursuant to Rule 2509A; and
- (iv) any amount of Unadjusted Termination Value Receivable which is not fully paid to the non-defaulting Clearing Participants or Clearing Agency Participants pursuant to Rule 3709 and Section 10.16 of the Operational Procedures.

Where any such payment or application is made on a pro-rata basis, the credit and repayment would be made on the same pro-rata basis. To the extent that a Relevant Clearing Participant's (other than the Relevant Clearing Participant in default) participation in CCASS has been effectively terminated, HKSCC may return such amount to the Relevant Clearing Participant or deal with it in such other manner as HKSCC considers appropriate, without prejudice to any other rights of HKSCC. To the extent that the amount repaid to HKSCC represents the financial support provided by HKEX, HKSCC will pay the relevant amount received by it to HKEX.

It may be a term of any guarantee, bank facility or policy of insurance that recoveries from the Relevant Clearing Participant in default be applied in a particular fashion other than repaid to the Relevant Clearing Participants or HKSCC, in which case the recoveries shall be applied in accordance with such term.

For the avoidance of doubt, a Relevant Clearing Participant in default shall be liable to reimburse or repay HKSCC in full for:

- (i) any amount paid out of the Guarantee Fund pursuant to Rule 2507;
- (ii) any amount of Dynamic Contribution Credit and Margin Credit that has been utilized and applied to satisfy any obligations and liabilities pursuant to Rule 2507A;
- (iii) any Voluntary Recap Amount that has been applied pursuant to Rule 2509A; and
- (iv) any unpaid amount of Termination Value Payable by the Relevant Clearing Participant in default pursuant to Rule 3709 and Section 10.16 of the Operational Procedures

as a result of its default.

2512. Return of Contributions

Six months after the termination of the participation in CCASS of a Clearing Participant, provided that all liabilities of such Clearing Participant to HKSCC at the time of termination, actual and contingent, shall have been satisfied or provided for in full (including without limitation any pending applications of the Guarantee Fund at the time of such termination and, if applicable, any outstanding obligation to provide Assessments under Rule 2509), 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. 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.

CHAPTER 33

CONTINUOUS NET SETTLEMENT SYSTEM

3307. HKSCC's obligations under Market Contracts

To the extent that the aggregate of the funds or assets available to HKSCC are insufficient at any time to meet the aggregate of HKSCC's liabilities to Clearing Participants or Clearing Agency Participants under all Market Contracts subsisting at any time, based on the amount of the funds or assets available to HKSCC for the purpose at the time (taking into account HKSCC's other liabilities then subsisting), as certified in writing by HKSCC, each Participant to whom HKSCC is liable under such Market Contracts shall, subject to Rules 3705 to 3707, 3709, 4107(xi) and 4301, only be entitled to receive payment pro-rata to the amount due to it as compared with the aggregate amount due to all Clearing Participants or Clearing Agency Participants under such Market Contracts; subject to Rules 3708, 3709 and 4302, HKSCC shall remain liable for such Market Contracts but payment of the balance of such amounts due shall only be made as and when and to the extent that funds or assets are subsequently available. In relation to the funds or assets available to HKSCC to meet both its liabilities to Clearing Participants or Clearing Agency Participants under Market Contracts and its liabilities to Participants pursuant to Rules 813, 814, 815 and 816 (as referred to in Rule 816), HKSCC may, subject to Rule 4107(xi), apportion the funds or assets so available to it between its liabilities to Clearing Participants or Clearing Agency Participants under such Market Contracts and such liabilities to Participants pursuant to Rules 813, 814, 815 and 816, either on a pro-rata basis or in such other manner as HKSCC shall consider fair and reasonable in the circumstances. HKSCC shall only exercise its powers to defer making payment to Clearing Participants or Clearing Agency Participants under this Rule in consultation with the Commission.

3308. Non-operation of CNS System

For the avoidance of doubt, each Clearing Participant shall still provide to HKSCC its Basic Contribution and Dynamic Contribution as referred to in Rules 2502 and 2509B.

CHAPTER 37

DEFAULT RULES - CNS SYSTEM

3705. HKSCC Failure to Pay Event

- (i) For the purposes of this Rule, 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.

- (ii) Notwithstanding Rule 3307, if HKSCC fails to make, when due, any payment to a Clearing Participant and Clearing Agency Participant (other than a defaulting Clearing Participant or Clearing Agency Participant) under a Market Contract, the relevant Clearing Participant or Clearing Agency Participant may provide written notification (the “Failure to Pay Notice”) to HKSCC formally informing HKSCC of such failure pursuant to this Rule 3705.

An “HKSCC Failure to Pay Event” shall be deemed to occur if after the receipt of the Failure to Pay Notice by HKSCC, HKSCC has not made all relevant payments to the Clearing Participant or Clearing Agency Participant by the end of the relevant HKSCC Failure to Pay Grace Period, provided that no HKSCC Failure to Pay 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). The exercise by HKSCC of its rights pursuant to either a Clearing Service Termination Event or contract termination pursuant to Rule 3709 shall not constitute an HKSCC Failure to Pay Event. During the HKSCC Failure to Pay Grace Period, the relevant Clearing Participant or Clearing Agency Participant shall continue to be obliged to pay when due all amounts required by HKSCC in accordance with the Rules and the Operational Procedures and shall satisfy in full all its other obligations under the Rules and the Operational Procedures.

- (iii) During the HKSCC Failure to Pay Grace Period, HKSCC may take the following action or actions:
 - (1) designate an Early Termination Date in respect of all the Market Contracts of the relevant Clearing Participant or Clearing Agency Participant (each a “Relevant CP Contract”) by delivering a notice to the relevant Clearing Participant or Clearing Agency Participant whereupon all the Relevant CP Contracts shall be novated with effect from the day that falls on the second Business Day following the date of delivery of such notice by HKSCC. Upon the delivery of such notice, the relevant Clearing Participant or Clearing Agency Participant agrees that HKSCC shall novate all the Relevant CP Contracts on the designated Early Termination Date by terminating such Relevant CP Contracts and registering in the name of any other Clearing Participant or Clearing Agency Participant (other than a defaulting Clearing Participant or Clearing Agency Participant) Market Contracts on substantially similar terms as any Relevant CP Contract with the agreement of such other Clearing Participant or Clearing Agency Participant, and the provisions as set out in Rules 3707 to 3708 shall apply; or
 - (2) declare and notify all Clearing Participants and Clearing Agency Participants of the occurrence of a Clearing Service Termination Event pursuant to the terms set out in Rule 4301, whether or not HKSCC has, prior to such declaration of Clearing Service Termination Event, exercised its power pursuant to sub-paragraph (1) above. Upon the occurrence of a Clearing Service Termination Event, the clearing and settlement services in relation to Market Contracts, including the Relevant CP Contracts, will be wound down in accordance with Rules 4301 to 4302.

- (iv) Upon the occurrence of an HKSCC Failure to Pay Event, if HKSCC has not taken any action under Rule 3705(iii)(1) or Rule 3705(iii)(2) above, the relevant Clearing Participant or Clearing Agency Participant may terminate and liquidate all the Relevant CP Contracts by delivering a notice to HKSCC. In the event that the relevant Clearing Participant or Clearing Agency Participant delivers a notice to HKSCC to terminate all the Relevant CP Contracts pursuant to this Rule 3705, HKSCC shall:
- (1) terminate all the Relevant CP Contracts on the day that falls on the second Business Day following the date of delivery of such notice by the relevant Clearing Participant or Clearing Agency Participant (such day being the “Early Termination Date” for the purpose of this Rule 3705) by registering in the name of any other Clearing Participant or Clearing Agency Participant (other than a defaulting Clearing Participant or Clearing Agency Participant) one or more Market Contracts on substantially similar terms as any Relevant CP Contract with the agreement of such other Clearing Participant or Clearing Agency Participant on the Early Termination Date and Rules 3707 to 3708 shall apply; or
 - (2) declare and notify all Clearing Participants and Clearing Agency Participants of the occurrence of a Clearing Service Termination Event, upon which the clearing and settlement services in relation to Market Contracts, including the Relevant CP Contracts, will be wound down in accordance with Rules 4301 to 4302.

3706. HKSCC Insolvency Event

For the purposes of this Rule, 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.

An “HKSCC Insolvency Event” shall occur if HKSCC voluntarily commences a procedure seeking or proposing liquidation, administration, receivership, judicial management or a scheme of arrangement, or other similar relief with respect to itself or its debts under any bankruptcy, insolvency, regulatory, supervisory or similar law, or if any of the foregoing case or procedure (other than one that is frivolous or vexatious in nature) is commenced in relation to HKSCC by any other person and either:

- (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for the winding-up or liquidation of HKSCC; or
- (ii) such case or procedure is not dismissed, discharged, stayed or restrained in each case within 21 Business Days of the institution or presentation thereof.

Upon the occurrence of an HKSCC Insolvency Event, a non-defaulting Clearing Participant or Clearing Agency Participant may by written notice to HKSCC, declare the HKSCC Insolvency Event and designate an Early Termination Date for the termination and liquidation of all Market Contracts then registered in its name.

In the event that a non-defaulting Clearing Participant or Clearing Agency

Participant delivers a notice to HKSCC to terminate all of its Market Contracts then registered with HKSCC pursuant to this Rule 3706 as a result of the occurrence of an HKSCC Insolvency Event, then all Market Contracts of all Clearing Participants and Clearing Agency Participants will be terminated with effect from (and including) the day that falls on the second Business Day following the date of delivery of such notice by the non-defaulting Clearing Participant or Clearing Agency Participant (such day being the “Early Termination Date” for the purpose of this Rule 3706) and Rules 3707 to 3708 will apply to each Clearing Participant and Clearing Agency Participant. Upon receipt of a notice from a non-defaulting Clearing Participant or Clearing Agency Participant declaring the occurrence of an HKSCC Insolvency Event, HKSCC will notify all Clearing Participants and Clearing Agency Participants of (1) the occurrence of such event and (2) the Early Termination Date with respect to all Market Contracts registered in the name of all Clearing Participants and Clearing Agency Participants.

3707. Calculations of Net Payments under an HKSCC Failure to Pay Event or an HKSCC Insolvency Event

For the purposes of this Rule, (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.

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 obligations to deliver any Eligible Securities under such 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 under this Rule and Section 17B.1 of the Operational Procedures. 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.

Following the payment by each relevant Clearing Participant or Clearing Agency Participant of the HKSCC Default Interim CP Payable or HKSCC Default Final CP Payable with respect to the CNS positions from its Market Contracts, HKSCC shall pay an amount equal to the Margin Balance in respect of a Clearing Participant or Clearing Agency Participant to such Clearing Participant or Clearing Agency Participant in accordance with Section 17B.1 of the Operational Procedures; and HKSCC shall pay an amount equal to the Guarantee Fund Contribution Balance in respect of a Clearing Participant or Former Clearing Participant to such Clearing Participant or Former Clearing Participant in accordance with Section 17B.1 of the Operational Procedures.

HKSCC will, as soon as reasonably practicable, inform the Commission of the occurrence of an HKSCC Failure to Pay Event or HKSCC Insolvency Event upon becoming aware of the same.

3708. Liability of HKSCC under an HKSCC Failure to Pay Event or an HKSCC Insolvency Event

Notwithstanding the provisions of Rule 3307, settlement (by payment, set-off or otherwise) of the HKSCC Default CP Receivable with respect to the CNS positions of each relevant Clearing Participant or Clearing Agency Participant arising from such Market Contracts pursuant to Rule 3707 and Section 17B.1 of the Operational Procedures discharges in full the obligations of HKSCC in respect of these Market Contracts and no Clearing Participant, Clearing Agency Participant or client of a Clearing Participant or Clearing Agency Participant shall have any recourse against HKSCC or to any fund or other entity, including without limitation any affiliate or recognized exchange controller which is the controller of HKSCC in relation to any Market Contract once the resources available to HKSCC including those available to be applied under Rules 2507, 2507A and 3702(ii) have been exhausted. In particular, no Clearing Participant, Clearing Agency Participant or client of a Clearing Participant or Clearing Agency Participant shall be entitled to instigate any action for the winding-up or the appointment of a receiver or manager over any property of HKSCC.

3709. Contract Termination

For the purposes of this Rule, (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.

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 Rules 3307, 3705, 3706 and 4301, invoke the contract termination process as provided for in this Rule in consultation with the Commission.

HKSCC will terminate all unsettled Market Contracts of the defaulting Clearing Participant or Clearing Agency Participant and will determine which unsettled Market Contracts of the non-defaulting Clearing Participants or Clearing Agency Participants shall be terminated under this Rule (such unsettled Market Contracts of the defaulting Clearing Participant or Clearing Agency Participant and those of the non-defaulting Clearing Participants or Clearing Agency Participants so determined by HKSCC shall collectively be referred to as “Identified Market Contracts”). HKSCC will notify 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. In making this determination, HKSCC may:

- (i) select those Market Contracts which are in the same Eligible Securities as, but whose side is opposite to, the unsettled Market Contracts to which the defaulting Clearing Participant or Clearing Agency Participant is a party. The Market Contracts to be terminated shall, to the extent practicable, be allocated among the non-defaulting Clearing Participants and Clearing Agency Participants holding such Market Contracts on a pro-rata basis with reference to the CNS positions in the relevant Eligible Securities held by such non-defaulting Clearing Participants and Clearing Agency Participants; or
- (ii) select some or all of the Market Contracts in one or more Eligible Securities, regardless of whether the side of such Market Contracts is the same as or opposite to that of the unsettled Market Contracts to which the defaulting Clearing Participant or Clearing Agency Participant is a party; or
- (iii) select all of the Market Contracts in all Eligible Securities which are to be cleared and settled in CCASS.

Upon termination of one or more Identified Market Contracts under this Rule, 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 under this Rule and Section 10.16 of the Operational Procedures.

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.

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.

Notwithstanding the provisions of Rule 3307, payment by HKSCC of the Termination Value Receivable with respect to the CNS positions of each relevant Clearing Participant or Clearing Agency Participant arising from its Identified Market Contracts pursuant to this Rule and Section 10.16 of the Operational Procedures discharges in full HKSCC's obligations in respect of these Identified Market Contracts and no Clearing Participant, Clearing Agency Participant or client of a Clearing Participant or Clearing Agency Participant shall have any recourse against HKSCC or to any fund or other entity, including without limitation any affiliate or recognized exchange controller which is the controller of HKSCC in relation to any Identified Market Contract once the resources

available to HKSCC including those available to be applied under Rules 2507, 2507A and 3702(ii) have been exhausted. In particular, no Clearing Participant, Clearing Agency Participant or client of a Clearing Participant or Clearing Agency Participant shall be entitled to instigate any action for the winding-up or the appointment of a receiver or manager over any property of HKSCC.

CHAPTER 43

CLEARING SERVICE TERMINATION EVENT

4301. Clearing Service Termination Event

For the purposes of this Rule, (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.

Notwithstanding Rules 3307, 3705, 3706 and 3709, if HKSCC, in consultation with the Commission, determines at any stage that:

- (1) the losses resulting from one or more Events of Default occurring within the same Capped Liability Period will exceed the resources available to it including those available to be applied under Rules 2507, 2507A and 3702(ii) with respect to all such Events of Default; or
- (2) the clearing and settlement services in relation to Market Contracts shall cease to be provided,

HKSCC shall notify all Clearing Participants and Clearing Agency Participants of its determination to cease providing clearing and settlement services in relation to Market Contracts (a “Clearing Service Termination Event”) and the clearing and settlement services in respect of the Market Contracts will be wound down in accordance with this Rule.

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 obligations 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 under this Rule and Section 17A.1 of the Operational Procedures. 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.

Following the payment by each relevant Clearing Participant or Clearing Agency

Participant of the Limited Recourse Interim CP Payable or Limited Recourse Final CP Payable with respect to the CNS positions from its Market Contracts, HKSCC shall pay an amount equal to the Margin Balance in respect of a Clearing Participant or Clearing Agency Participant to such Clearing Participant or Clearing Agency Participant in accordance with Section 17A.1 of the Operational Procedures; and HKSCC shall pay an amount equal to the Guarantee Fund Contribution Balance in respect of a Clearing Participant or Former Clearing Participant to such Clearing Participant or Former Clearing Participant in accordance with Section 17A.1 of the Operational Procedures.

4302. Liability of HKSCC under a Clearing Service Termination Event

Notwithstanding the provisions of Rule 3307, settlement (by payment, set-off or otherwise) of the Limited Recourse CP Receivable with respect to the CNS positions of each relevant Clearing Participant or Clearing Agency Participant arising from its Market Contracts pursuant to Rule 4301 and Section 17A.1 of the Operational Procedures discharges in full HKSCC's obligations in respect of these Market Contracts and no Clearing Participant, Clearing Agency Participant or client of a Clearing Participant or Clearing Agency Participant shall have any recourse against HKSCC or to any fund or other entity, including without limitation any affiliate or recognized exchange controller which is the controller of HKSCC in relation to any Market Contract once the resources available to HKSCC including those available to be applied under Rules 2507, 2507A and 3702(ii) have been exhausted. In particular, no Clearing Participant, Clearing Agency Participant or client of a Clearing Participant or Clearing Agency Participant shall be entitled to instigate any action for the winding-up or the appointment of a receiver or manager over any property of HKSCC.