

**GENERAL RULES OF CCASS**

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CHAPTER 1

INTERPRETATION

101. Definitions

“Basic Contribution”	means a contribution made or required to be made by a Clearing Participant to the Guarantee Fund pursuant to Rule 2502(i);
“CCMS”	means the Common Collateral Management System, a common sub-system of CCASS and DCASS operated by HKSCC, HKFE Clearing Corporation Limited and The SEHK Options Clearing House Limited, which enables Participants to manage their collateral paid, provided or delivered to, or deposited with HKSCC;
“CCMS Collateral Account”	means an account established in CCMS for each Participant (other than an Investor Participant) for debiting and crediting collateral, as referred to in Rule 601A. For the purposes of the Rules and the Operational Procedures, unless otherwise specified, the term “CCMS Collateral Account” does not include an account established in CCMS for a Participant by another Recognized Clearing House under its rules;
“Charged Property”	means the Collateral Securities and any Derived Assets of a Participant, as referred to in Rule 3608;
“Collateral Security”	means an Eligible Security which is from time to time held by or deposited with HKSCC by a Participant for credit into the CCMS Collateral Account of such Participant, in accordance with Rule 3601, 3601A, 3603 or 3608;
“Contributions”	means, in relation to a Clearing Participant, both the Basic Contribution and the Dynamic Contribution of the Clearing Participant;
“Dynamic Contribution”	means a contribution made or required to be made by a Clearing Participant to the

Guarantee Fund pursuant to Rule 2502(ii);

- “Dynamic Contribution Credit” means a credit limit in respect of Dynamic Contribution that may be allowed to each Clearing Participant, as referred to in Rule 2502;
- “Margin” means an amount determined by HKSCC as required to be provided by a Clearing Participant or Clearing Agency Participant pursuant to Rule 3601A;
- “Margin Credit” means a credit limit in respect of Margin that may be allowed to each Clearing Participant or Clearing Agency Participant, as referred to in Section 10.10A of the Operational Procedures;
- “Margining Position” means the Mark-to-market value of the unsettled stock position of a Clearing Participant or Clearing Agency Participant under the CNS System, as determined by HKSCC for computation of Margin;
- “Mark” means an amount required to be provided by a Clearing Participant or a Clearing Agency Participant to HKSCC pursuant to Rule 3601;
- “Mark-to-market” means the evaluation of the extent, in money terms, to which the value of an unsettled position in Eligible Securities of a Clearing Participant or a Clearing Agency Participant has changed, in accordance with Rule 3601;
- “Relevant Clearing Participant” means, in relation to a Relevant Event, a Participant which participates in CCASS as a Clearing Participant on the date of occurrence of the Relevant Event, notwithstanding the subsequent cessation of its participation in CCASS of a Clearing Participant for whatever reason. For the purposes of the Rules and the Operational Procedures, unless otherwise specified, the term “Relevant Clearing Participant” includes the Clearing Participant in default (if applicable);

“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;
“Specific Cash Collateral”	means cash in the relevant Eligible Currency which is from time to time provided by a Participant to HKSCC in accordance with Rule 3601 or 3601A;

### CHAPTER 3 ADMISSION OF PARTICIPANTS

#### 303. Criteria for admission

In the case of an application to become a Direct Clearing Participant, the applicant must:-

- (iii) undertake, if its application is successful, to sign a Participant Agreement; to pay to HKSCC as provided in the Participant Agreement an admission fee of HK\$50,000 in respect of each Stock Exchange Trading Right held by the applicant (or such other amount as may be specified by HKSCC from time to time); to pay to HKSCC its Basic Contribution and Dynamic Contribution in accordance with the Rules; to arrange indemnity insurance in a form acceptable to or as prescribed by HKSCC; and to provide, if required, assurances acceptable to HKSCC in respect of its obligations to HKSCC as a result of its participation in CCASS, including, but not limited to, liabilities for defective Eligible Securities deposited by it into CCASS, such assurances to be in the form of insurance, a guarantee from a bank or in such other form as shall be acceptable to HKSCC; and to procure the agreement of its Designated Bank to comply with the requirements of HKSCC for CCASS money settlement purposes.

In the case of an application to become a General Clearing Participant, the applicant must: -

- (v) undertake, if its application is successful, to sign a Participant Agreement; to pay to HKSCC as provided in the Participant Agreement an admission fee of HK\$50,000 or HK\$50,000 in respect of each Stock Exchange Trading Right held by the applicant (if applicable) whichever is the higher (or such other amount as may be specified by HKSCC from time to time); to pay to HKSCC its Basic Contribution and Dynamic Contribution in accordance with the Rules; to arrange indemnity insurance in a form acceptable to or as prescribed by HKSCC; and to provide, if required, assurances

acceptable to HKSCC in respect of its obligations to HKSCC as a result of its participation in CCASS, including, but not limited to, liabilities for defective Eligible Securities deposited by it into CCASS, such assurances to be in the form of insurance, a guarantee from a bank or in such other form as shall be acceptable to HKSCC; and to procure the agreement of its Designated Bank to comply with the requirements of HKSCC for CCASS money settlement purposes.

## **CHAPTER 5**

### **ELIGIBLE SECURITIES AND ELIGIBLE CURRENCIES**

#### **504. Acceptance of Eligible Securities as Collateral Security**

HKSCC shall have absolute discretion to accept or refuse for credit to any CCMS Collateral Account an Eligible Security from a Participant as Collateral Security (i) for the discharge and satisfaction of any Marks, Margin and Collateral obligations of such Participant, (ii) for the discharge and satisfaction of all other obligations and liabilities (actual or contingent) of such Participant to HKSCC arising directly in connection with HKSCC ensuring the settlement of Market Contracts to which such Participant is a party, (iii) for the discharge and satisfaction of all liabilities (actual or contingent) of the Participant to HKSCC arising from a loss of or defects affecting Eligible Securities pursuant to Rule 812, Rule 813, Rule 814 and Rule 815 and (iv) for the discharge and satisfaction of all other obligations (actual or contingent) of such Participant to HKSCC.

HKSCC shall also have absolute discretion to accept or refuse for credit to any CCMS Collateral Account an Eligible Security from a Clearing Participant or Clearing Agency Participant as Collateral Security for HKSCC's (i) waiver in computation of Marks required from the Participant; and (ii) reduction of Margining Position of the Participant for computation of Margin required from the Participant.

## **CHAPTER 6**

### **STOCK ACCOUNTS AND CCMS COLLATERAL ACCOUNTS**

#### **604. Right to invest**

Without prejudice to any other rights of HKSCC in respect of the amounts standing to the credit of any CCMS Collateral Account established for a Participant, HKSCC may invest such amounts or any part thereof in such manner and to such extent as HKSCC considers expedient and financially prudent. For the avoidance of doubt, any obligation of HKSCC to pay the Participant the remaining balance of such amounts after satisfaction of all obligations and liabilities of the Participant to HKSCC and any interest or cost HKSCC may allow and/or charge to the Participant on such amounts in accordance with the Rules and the Operational Procedures shall not be affected by any gain or loss arising from the investment activities. Any such gain or loss is for HKSCC.

## CHAPTER 12A

### FOREIGN EXCHANGE SERVICES

#### 12A14. Collateral

Without prejudice to any other provisions of the Rules, HKSCC shall be entitled from time to time to require a TSF CCASS Participant which is (pursuant to Rule 901(ia)) a party to a TSF FX Transaction or (pursuant to Rule 12A12) a party to a Stock Release FX Transaction to pay to it forthwith on demand a cash sum of such amount as HKSCC shall consider appropriate as Collateral to be used by HKSCC as collateral for the TSF CCASS Participant's obligations and liabilities under a TSF FX Transaction or a Stock Release FX Transaction or to be applied in or towards the satisfaction of such obligations and liabilities, the payment of any sums or expenses incurred by HKSCC in respect of such TSF FX Transaction or Stock Release FX Transaction (including fees arising from a reversal of any transactions) or the payment of any fees or penalties due to or imposed by HKSCC from time to time.

Where Collateral is paid to HKSCC under this Rule, HKSCC shall have the right to apply all or part of the Collateral at any time without prior notice being given to a TSF CCASS Participant in or towards satisfaction or payment of the obligations and liabilities (actual or contingent) of such Participant as referred to above, and the only obligation of HKSCC in respect of such Collateral received shall be to pay the TSF CCASS Participant an amount equal to the balance remaining after satisfaction of all such obligations and liabilities.

A TSF CCASS Participant providing Collateral to HKSCC under this Rule represents and warrants to HKSCC that it has title and authority to provide such Collateral to HKSCC free from all encumbrances and third party rights of any nature whatsoever; and shall not create or permit to subsist any encumbrance over all or any part of the Collateral.

## CHAPTER 14

### STATEMENTS AND REPORTS

#### 1404. Audited accounts of HKSCC

HKSCC shall furnish Participants (other than Investor Participants) and the Commission with a copy of its audited accounts every year, together with a copy of the audited accounts of the Guarantee Fund.

HKSCC shall furnish Investor Participants with a copy of its annual audited accounts if so requested by the Participant.

## CHAPTER 20 DISCIPLINARY ACTIONS

### 2004. Expulsion of Participant

- (iii) A Participant that has been expelled from participation in CCASS shall not have any claim in respect of its Contributions, if any, to the Guarantee Fund and/or any other fees paid to HKSCC except as provided for in the Rules.

## CHAPTER 22 TERMINATION OF PARTICIPATION

### 2202. Forthwith termination by HKSCC

Without prejudice to any other rights HKSCC may have and notwithstanding anything to the contrary in the Rules, HKSCC may terminate the participation in CCASS of a Participant forthwith by notice: -

- (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, or a failure to provide additional amounts as Basic Contribution or Dynamic Contribution in respect of any pending applications thereof pursuant to Rule 2508 or Rule 2509; or

### 2204. Consequences of termination

Within six months of the termination of participation in CCASS of a Participant, or as soon thereafter as is practicable, HKSCC shall, subject as otherwise provided in the Rules, cause to be returned to, or make available for collection by, the Participant all property or assets held by HKSCC for the Participant provided always that HKSCC shall have the right (without affecting any other rights it may have):-

- (i) to set off amounts due or which may become due to HKSCC from the Participant, if applicable; and/or
- (ii) to retain property or assets (but not Eligible Securities in the Stock Segregated Accounts of the Participant other than Derived Assets credited into the Entitlement Account of the Participant) or to refrain from arranging for the determination or cancellation of (as well as to require the provision of) insurance, assurances, guarantees, indemnities, to provide in full for the fulfilment of the Participant's obligations and liabilities, actual or contingent, to HKSCC.

The termination of participation in CCASS of a Participant will not affect any rights or liabilities of the Participant arising out of matters which have taken place prior thereto and for the purpose of settlement of any such rights or liabilities of the Participant, HKSCC may continue to treat the Participant as a Participant.

Any provision which expressly or by implication is intended to come into or continue in force on or after termination of a Participant's participation in CCASS shall remain in full force and effect and binding on the Participant.

Notwithstanding anything 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 and 2509, 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 has established, in accordance with the Rules, a fund called the Guarantee Fund. The Guarantee Fund shall only be used in accordance with the Rules.

HKSCC may apply any amounts standing to the credit of the Guarantee Fund as a short-term source of liquid funds to meet any immediate obligations arising out of Market Contracts and/or pursuant to Rules 813, 814, 815 and 816.

### **2502. Contributions by Clearing Participants**

Each Clearing Participant shall pay to HKSCC the Basic Contribution and the Dynamic Contribution, being two types of contributions to the Guarantee Fund, in accordance with the Rules. HKSCC shall credit the Basic Contributions and Dynamic Contributions by Clearing Participants to the Guarantee Fund.

#### **(i) Basic Contribution**

Subject to this Rule, Rule 2508 and Rule 2509, 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.

The minimum amount of Basic Contribution to be made by each DCP shall be HK\$50,000 or HK\$50,000 in respect of each Stock Exchange Trading Right held by such DCP in the Exchange, whichever is the higher. The minimum amount of Basic Contribution to be made by each GCP shall be HK\$150,000 or the aggregate of HK\$50,000 in respect of each Stock Exchange Trading Right held by it and HK\$50,000 in respect of each NCP with whom such GCP has entered into a Clearing Agreement, whichever is the higher. The minimum amount of Basic Contribution to be made by each Clearing Participant shall be made in cash. HKSCC may from time to time specify such other amount as the minimum amount of Basic Contribution by each Clearing Participant.

The size of the aggregate Basic Contributions required from all Clearing Participants shall generally be not less than HK\$100,000,000 provided that HKSCC reserves the



right to determine from time to time the required size of the aggregate Basic Contributions.

(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 and Rule 2509, 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 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.

The arrangement of allowing a Dynamic Contribution Credit to each Clearing Participant is put in place by HKSCC with the financial support of HKEx. Neither HKEx nor HKSCC shall be required to make any actual payment to a Clearing Participant at any time in respect of the whole or any part of the Dynamic Contribution Credit that has been utilized and/or applied as above mentioned.

Unless otherwise determined by HKSCC, where the whole or any part of the amount of Dynamic Contribution Credit utilized by a Clearing Participant is applied by HKSCC towards satisfaction of the Clearing Participant's (as the Relevant Clearing Participant's) share of the remaining obligations and liabilities pursuant to Rule 2507A, the Dynamic Contribution Credit to be allowed to the Clearing Participant thereafter will correspondingly be reduced by the amount applied. Unless otherwise determined by HKSCC, such reduction of Dynamic Contribution Credit follows the Clearing Participant even on its re-admission as a Clearing Participant after cessation of its existing participation in CCASS of Clearing Participant for any reason.

**2503. Form of Contributions**

(i) Basic Contributions in excess of the minimum amount of Basic Contribution required under Rule 2502 and (ii) Dynamic Contributions may be provided by Clearing Participants in cash in Hong Kong dollars or in any other currency prescribed by HKSCC from time to time or by way of bank guarantees or in such other form as may be acceptable to HKSCC. The use of bank guarantee by a Clearing Participant shall be subject to the prior approval of HKSCC and the Clearing Participant shall be liable for all disbursements and expenses that may be incurred by HKSCC in respect of or incidental to the acceptance, expiry and early termination of any bank guarantee that may be provided by the Clearing Participant. The bank guarantee shall be in the form prescribed by HKSCC and issued by a bank acceptable to HKSCC from time to time.

Where applicable, a Clearing Participant providing Basic Contribution and/or Dynamic Contribution shall be deemed to represent and warrant in favour of HKSCC that it has title to and authority over such Contributions, free from all liens, charges, encumbrances, equities and other third party rights of any nature whatsoever.

**2504. Additional resources to Guarantee Fund**

HKSCC may from time to time establish such additional arrangements, including but without limitation, bank facilities and policies of insurance, as it may from time to time consider appropriate for the purposes of providing additional resources to the Guarantee Fund. Such arrangements may be terminated by HKSCC from time to time at its discretion.

The costs and expenses incurred in establishing, maintaining, managing, administering and terminating such arrangements shall from time to time be paid out of the Guarantee Fund and/or the interest or other sums accruing to the assets of the Guarantee Fund. Further, HKSCC may require Clearing Participants to reimburse it in respect of such costs and expenses, pro-rata to their respective Contributions required under Rule 2502 or in such other manner as HKSCC considers fair and appropriate.

HKSCC may from time to time appropriate any of its resources to the Guarantee Fund and may, from time to time, with the approval of the Risk Management Committee, in respect of the amounts representing such resources so appropriated which are surplus to the requirements of the Guarantee Fund, appropriate such amounts out of the Guarantee Fund, either temporarily or permanently.

For the avoidance of doubt, the Dynamic Contribution Credit and Margin Credit arrangements put in place by HKSCC are not (i) additional arrangements for the purposes of providing additional resources to the Guarantee Fund; or (ii) appropriation of HKSCC resources to the Guarantee Fund.

**2505. Investment of assets of Guarantee Fund**

Without prejudice to any other rights of HKSCC in respect of the Guarantee Fund, HKSCC may invest the assets and resources of the Guarantee Fund or any part thereof in such manner and to such extent as shall be approved by the Risk Management Committee. Any gain or loss arising from the investment activities is for the Guarantee Fund.

Interest or any other sums accruing to the assets of the Guarantee Fund shall, unless otherwise provided in the Rules, be appropriated by HKSCC to the Guarantee Fund. Interest at negative rates on or other sums chargeable in respect of the assets of the Guarantee Fund will be charged by HKSCC to the Guarantee Fund and paid out of the Guarantee Fund unless otherwise provided.

For the avoidance of doubt, any obligation of HKSCC to redeliver Basic Contribution and Dynamic Contribution to a Clearing Participant and any interest on or other sums accruing to such Contributions HKSCC may pay and/or charge to the Clearing Participant in accordance with the Rules and the Operational Procedures shall not be affected by any gain or loss arising from the investment activities in respect of the assets

and resources of the Guarantee Fund. Any such gain or loss, as mentioned above, is for the Guarantee Fund.

**2507. Order of application of Guarantee Fund**

Without prejudice to HKSCC's right to draw on other resources available to the Guarantee Fund and subject to the terms of any guarantees, facilities, policies or other assets from time to time forming part of the resources of the Guarantee Fund, payments out of the assets of the Guarantee Fund to satisfy the obligations and liabilities of HKSCC in relation to a Relevant Event shall be in the following order of priority: -

- (i) first, the Basic Contributions and Dynamic Contributions made by the Relevant Clearing Participants in default (if applicable);
- (ii) second, subject to Rule 2507A(ii), interest or any other sums accruing to the assets of the Guarantee Fund and appropriated by HKSCC to the Guarantee Fund;
- (iii) third, resources of HKSCC appropriated to the Guarantee Fund, which have not been appropriated out of the Guarantee Fund;
- (iv) fourth, the Basic Contributions made by all other Relevant Clearing Participants (or all Relevant Clearing Participants if sub-paragraph (i) above is not applicable); and
- (v) fifth, the Dynamic Contributions made by all other Relevant Clearing Participants (or all Relevant Clearing Participants if paragraph (i) above is not applicable).

The application of the Basic Contributions and Dynamic Contributions under paragraphs (iv) and (v) above shall also be subject to Rules 2507A(iii) and (iv) respectively.

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 in Rule 2508, Rule 2509 and Section 18.6 of the Operational Procedures as “notice of application”.

For the purposes of application of Guarantee Fund under this Rule and all matters arising therefrom or in relation thereto, where a Relevant Clearing Participant whose participation in CCASS as a Clearing Participant has been effectively terminated before the application, HKSCC shall be entitled to treat and apply the Basic Contribution and Dynamic Contribution made by the Relevant Clearing Participant as assets of the Guarantee Fund as if the termination of the Relevant Clearing Participant's participation in CCASS had not occurred.

For the avoidance of doubt, Relevant Clearing Participants in relation to the Relevant Event do not include (a) Clearing Participants admitted into CCASS after the date of occurrence of the Relevant Event and (b) Clearing Participants whose participation in CCASS had been effectively terminated on or before the date of occurrence of the Relevant Event.

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

- (i) In this Rule, “Dynamic Contribution calculated” has the same meaning as referred to in Section 18.2.1 of the Operational Procedures.
- (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) 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).

The Margin Credit arrangement, as referred to in Section 10.10A.2 of the Operational Procedures, is put in place by HKSCC with the financial support of HKEx. Neither HKEx nor HKSCC shall be required to make any actual payment to a Clearing Participant in respect of the whole or any part of the Margin Credit that has been utilized as provided in the Operational Procedures and/or applied as mentioned above.

- (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 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 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 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.

- (c) The amount of Dynamic Contribution made by the Relevant Clearing Participant shall be paid out of the Guarantee Fund pursuant to Rule 2507(v) to satisfy the share of remaining obligations and liabilities borne by the Dynamic Contribution required, as determined under sub-paragraph (b) above. HKSCC will apply the amount of the Dynamic Contribution Credit utilized by the Relevant Clearing Participant to satisfy the share of remaining obligations and liabilities borne by the Dynamic Contribution Credit utilized (up to but not exceeding the amount of Dynamic Contribution Credit allowed to the Relevant Clearing Participant), as determined under sub-paragraph (b) above and subject to paragraph (v) below.
- (v) Where the whole or any part of the amount(s) of Dynamic Contribution Credit utilized and/or Margin Credit utilized is applied to satisfy the remaining obligations and liabilities pursuant to this Rule 2507A, the Relevant Clearing Participant in default (if applicable) shall be liable to repay to HKSCC the relevant amounts and HKSCC shall be entitled to recover the amounts from such Relevant Clearing Participant in default (if applicable), without prejudice to any other rights which HKSCC may have. To the extent that the amount recovered by HKSCC from such Relevant Clearing Participant in default (if applicable) represents the financial support provided by HKEx, HKSCC will pay the amount received by it to HKEx.

#### **2508. Replenishment of Contributions**

Whenever the whole or any part of the Basic Contribution and/or Dynamic Contribution of a Relevant Clearing Participant is applied in accordance with Rules 2507 and 2507A, HKSCC shall require the Relevant Clearing Participant to replenish the deficiency of its Basic Contribution and Dynamic Contribution as a result of such application. HKSCC will notify the Relevant Clearing Participant and demand for replenishment of such deficiency of Contributions in the notice of application to the Relevant Clearing Participant. The Relevant Clearing Participant shall replenish the deficiency of Contributions no later than the third Business Day after the date of the notice of application, or within such other time period as may be specified by HKSCC.

For the avoidance of doubt, HKSCC may at any time require a Relevant Clearing Participant to provide additional amounts as its Basic Contribution and/or Dynamic Contribution in respect of any pending applications thereof pursuant to Rules 2507 and 2507A. HKSCC will notify the Relevant Clearing Participant and demand for payment of such additional amounts in a notice to the Relevant Clearing Participant and such notice may be included in the notice of application to the Relevant Clearing Participant.

The Relevant Clearing Participant shall provide to HKSCC such additional amounts within the time specified by HKSCC.

The replenishment of Contributions and the provision of additional amounts in respect of pending applications by Relevant Clearing Participants under this Rule 2508 must be paid in full by the Relevant Clearing Participant in cash in Hong Kong dollars or in any other currency prescribed by HKSCC from time to time.

The obligations and liabilities of a Relevant Clearing Participant under this Rule shall survive the cessation of the Relevant Clearing Participant's participation in CCASS.

**2509. Limit on Relevant Clearing Participant's liability to replenish Contributions**

- (i) Notwithstanding Rule 2508, unless otherwise approved by the Risk Management Committee and the Commission, if a Relevant Clearing Participant (other than a Relevant Clearing Participant in default) gives a notice of termination of its participation in CCASS of Clearing Participant pursuant to Rule 2203 in response to a notice of application given to it and HKSCC actually receives such notice of termination on a Business Day which is within three Business Days from and excluding the date of the notice of application, such Relevant Clearing Participant's aggregate liability to HKSCC to replenish the deficiency of Contributions and provide additional amounts as Contributions in respect of pending applications pursuant to Rule 2508 shall be limited in the manner prescribed below. For the avoidance of doubt, the obligation of the Relevant Clearing Participant to pay to HKSCC the required Basic Contribution and Dynamic Contribution pursuant to Rule 2502 shall in no way be affected. The giving of notice of termination by a Relevant Clearing Participant pursuant to Rule 2203 hereunder shall be without prejudice to Rule 2202 and, for the avoidance of doubt, without prejudice to HKSCC's right to cease to act for the Relevant Clearing Participant immediately.

Where HKSCC has actually received the notice of termination of participation in CCASS of the Relevant Clearing Participant as mentioned in the preceding paragraph, the aggregate liability of the Relevant Clearing Participant to replenish deficiency of Contributions and to provide additional amounts as Contributions pursuant to notices of application given by HKSCC (a) within the three Business Days immediately preceding the Business Day on which HKSCC actually receives the notice of termination from the Relevant Clearing Participant; and (b) on or after the Business Day HKSCC actually receives such notice of termination shall be limited to an amount which equals to the Relevant Clearing Participant's required Basic Contribution and Dynamic Contribution on the Business Day HKSCC actually receives the notice of termination by the Relevant Clearing Participant, plus two times such amount. For the avoidance of doubt, any replenishment of Contributions and/or provision of additional amounts in respect of pending applications required from the Relevant Clearing Participant pursuant to notices of application given by HKSCC more than three Business Days preceding the Business Day on which HKSCC actually receives the notice of termination from the Relevant Clearing Participant shall be replenished and provided in full by the Relevant Clearing Participant.

- (ii) Where HKSCC received from a Relevant Clearing Participant (other than a Relevant Clearing Participant in default) a notice of termination of its participation in CCASS of Clearing Participant pursuant to Rule 2203 prior to HKSCC giving a notice of application to such Relevant Clearing Participant, the aggregate liability of such Relevant Clearing Participant to replenish deficiency of its Contributions and to provide additional amounts as Contributions pursuant to the notice of application and subsequent notices of application shall be limited to an amount which equals the Relevant Clearing Participant's required Basic Contribution and Dynamic Contribution on the Business Day HKSCC received the notice of termination by the Relevant Clearing Participant, plus two times such amount. For the avoidance of doubt, any replenishment of Contributions and/or provision of additional amounts in respect of pending applications required from the Relevant Clearing Participant pursuant to all other notices of application given by HKSCC shall be replenished and provided in full by the Relevant Clearing Participant. Also for the avoidance of doubt, the obligation of the Relevant Clearing Participant to pay to HKSCC the required Basic Contribution and Dynamic Contribution pursuant to Rule 2502 shall in no way be affected.
- (iii) Where a Relevant Clearing Participant's liability to HKSCC to replenish deficiency of Contributions and provide additional amount as Contributions in respect of pending applications is limited under paragraph (i) or (ii) of this Rule and the maximum limit of liability of such Relevant Clearing Participant has not been reached before the effective termination of the Relevant Clearing Participant's participation in CCASS, the Relevant Clearing Participant's liability to HKSCC to replenish Contributions and provide additional amounts, to the extent of the remaining limit of liability, shall survive the effective termination until the maximum limit of liability is reached. For the avoidance of doubt, the liability of a Relevant Clearing Participant in default shall not be limited.

HKSCC has the right to require a terminating Relevant Clearing Participant to provide an amount which is determined by HKSCC to be adequate to meet the outstanding liability or contingent liability of the Relevant Clearing Participant under Rule 2508, subject to this Rule. The amount shall not exceed the maximum limit of liability applicable to the Relevant Clearing Participant under paragraph (i) or (ii) of this Rule, as the case may be, and the Relevant Clearing Participant shall provide the amount in cash within the time and in the manner as specified by HKSCC.

**2510. Recovery of sums**

If any amount paid out of the Guarantee Fund pursuant to Rule 2507 or any amount of Dynamic Contribution Credit or Margin Credit utilized and applied to satisfy any obligations and liabilities pursuant to Rule 2507A is subsequently recovered from the Relevant Clearing Participant in default by HKSCC in whole or in part, 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 and 2507A.

The amounts recovered (less any costs and expenses of recovery) may, but need not necessarily, be credited to the Guarantee Fund and repaid to HKSCC. If the amounts

recovered are so credited and applied, it will be in the reverse order of priority as that for payments out of the Guarantee Fund and application of Dynamic Contribution Credit utilized and Margin Credit utilized to satisfy obligations and liabilities pursuant to Rules 2507 and 2507A, and where any such payment or application is made on pro-rata basis, the credit and repayment would be made on the same pro-rata basis. To the extent any amount credited to the Guarantee Fund represents Basic Contribution or Dynamic Contribution made by a Relevant Clearing Participant (other than the Relevant Clearing Participant in default) whose 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 credited to the Guarantee Fund or repaid to HKSCC.

For the avoidance of doubt, a Relevant Clearing Participant in default shall be liable to reimburse HKSCC in full for any amount paid out of the Guarantee Fund and to repay HKSCC in full for any amount of Dynamic Contribution Credit and Margin Credit that has been utilized and applied, as a result of its default.

#### **2511. Information on assets and resources of Guarantee Fund**

HKSCC shall maintain a separate record of all amounts standing to the credit of and all guarantees, facilities or policies enuring for the benefit of the Guarantee Fund from time to time. Without prejudice to the aforesaid, HKSCC shall maintain a separate account or separate accounts in respect of the Contributions.

HKSCC shall notify Clearing Participants and the Commission (on an annual basis) of the assets and resources available to the Guarantee Fund.

#### **2512. Return of Contributions**

For the avoidance of doubt, once credited to the Guarantee Fund, the Basic Contributions and Dynamic Contributions made by Clearing Participants shall be dealt with in accordance with the Rules and will not be returned to Clearing Participants except in accordance with the Rules.

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, HKSCC may return to the Clearing Participant the balance of its Basic Contribution and Dynamic Contribution (taking into account any pending and previous applications of the Guarantee Fund at the time of such termination and, if applicable, the extent of liability or the remaining limit of liability to replenish and provide additional amounts under Rule 2509). 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 return, such Contributions or any part thereof as cover for any contingent liability of the Relevant Clearing Participant under Rules 2507, 2507A, 2508 and 2509.



**2514. Application upon dissolution of Guarantee Fund**

Upon dissolution of the Guarantee Fund, HKSCC may apply the Guarantee Fund in respect of one or more of the following matters:-

- (i) in payment of all sums to be paid out of the Guarantee Fund;
- (ii) in payment of the costs and expenses of and incidental to the administration and management of the dissolution of the Guarantee Fund;
- (iii) at the discretion of HKSCC, the balance of the Basic Contributions and Dynamic Contributions may be returned to Clearing Participants; and
- (iv) with the approval of the Risk Management Committee and the Commission, for use in such manner as HKSCC considers appropriate, including but not limited to the transfer to a new fund having similar objectives as the Guarantee Fund of all amounts standing to the credit of and all guarantees, facilities or policies enuring for the benefit of the Guarantee Fund.

**CHAPTER 33  
CONTINUOUS NET SETTLEMENT SYSTEM**

**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 Rule 2502.

**CHAPTER 35  
LATE DELIVERY OF SECURITIES - CNS SYSTEM**

**3501. Default fee, stock borrowing and Buy-in**

In respect of any sums paid and/or Charged Property provided as Collateral by a Clearing Participant or Clearing Agency Participant, as the case may be, which has failed to deliver Eligible Securities under the CNS System, the only obligation of HKSCC in respect of any such sum so paid by such Participant and/or Charged Property provided by the Participant shall be to pay such Participant an amount equal to the balance remaining after satisfaction of all obligations and liabilities (actual or contingent) of such Participant to HKSCC and/or to return to such Participant the balance of the Charged Property remaining after satisfaction of all obligations and liabilities (actual or contingent) of such Participant to HKSCC.

**CHAPTER 36**  
**RISK MANAGEMENT MEASURES - CNS SYSTEM**

**3601. Marks**

HKSCC shall be entitled from time to time and at any time to Mark-to-market all unsettled Market Contracts (whether or not due for settlement) by reference to the market price of the Eligible Securities that are the subject of Market Contracts, as determined by HKSCC.

Each Clearing Participant and Clearing Agency Participant shall on demand provide to HKSCC such amounts ("Marks") as may be considered appropriate by HKSCC as a result of the Mark-to-market of all unsettled Market Contracts to which such Participant is a party.

Where a Clearing Participant or Clearing Agency Participant wishes HKSCC to waive computation of Marks on a part or the whole of a short stock position not due for settlement, it may provide the relevant quantity of Eligible Security representing the short stock position to HKSCC as Collateral Security. HKSCC will have absolute right to use such Collateral Security to settle the covered portion of the short stock position on or before its Settlement Day.

Where a Clearing Participant or Clearing Agency Participant wishes HKSCC to waive computation of Marks and Concentration Collateral on a part or the whole of a long stock position not due for settlement, it may provide to HKSCC the relevant amount of Specific Cash Collateral representing the corresponding money position of the long stock position as cover for such long stock position. The Specific Cash Collateral paid to and accepted by HKSCC will be recorded in the CCMS House Collateral Account of such Participant as a credit entry. HKSCC will have absolute right to use such Specific Cash Collateral to settle the money position of the covered portion of the long stock position on or before its Settlement Day. The only obligation of HKSCC in respect of such Specific Cash Collateral shall be to pay to such Participant an amount equal to the balance (if any) remaining after satisfaction of all obligations and liabilities (actual or contingent) of such Participant to HKSCC.

A Clearing Participant or Clearing Agency Participant which provides Specific Cash Collateral to HKSCC represents and warrants to HKSCC that it has title and authority to provide such Specific Cash Collateral to HKSCC, free from all liens, charges, encumbrances, equities and all other third party rights of any nature whatsoever.

The calculation and collection of Marks, and the provision of Collateral Security and Specific Cash Collateral for HKSCC to waive computation of Marks and Concentration Collateral shall be made in accordance with the Operational Procedures. For the avoidance of doubt, HKSCC may at any time Mark-to-market the unsettled stock positions of Clearing Participants and Clearing Agency Participants in respect of Clearing Agency Transactions to be settled under the CNS System, and demand Marks from such Participants who are parties to the Clearing Agency Transactions.

**3601A.Margin**

HKSCC shall be entitled from time to time and at any time to compute Margin on all unsettled Market Contracts (whether or not due for settlement) using the formula set forth in the Operational Procedures or such other methods and assumptions as HKSCC may from time to time consider appropriate. Unless HKSCC otherwise specifies, Margin will be computed with reference to the Margining Position of a Clearing Participant or Clearing Agency Participant. Such Margining Position will be determined by HKSCC in accordance with the Operational Procedures.

Each Clearing Participant and Clearing Agency Participant shall on demand provide to HKSCC such amounts as determined by HKSCC to be the required amount of Margin on all unsettled Market Contracts to which such Participant is a party.

Where a Clearing Participant or Clearing Agency Participant wishes HKSCC to reduce the Margining Position for computation of Margin in the manner as provided in the Operational Procedures, it may provide to HKSCC the relevant quantity of Eligible Security representing a part or the whole of a short stock position not due for settlement as Collateral Security. HKSCC will have absolute right to use such Collateral Security to settle the covered portion of the short stock position on or before its Settlement Day.

Where a Clearing Participant or Clearing Agency Participant wishes HKSCC to reduce the Margining Position for computation of Margin in the manner as provided in the Operational Procedures, it may provide to HKSCC the relevant amount of Specific Cash Collateral representing the corresponding money position of a part or the whole of a long stock position not due for settlement as cover for such long stock position. The Specific Cash Collateral paid to and accepted by HKSCC will be recorded in the CCMS House Collateral Account of such Participant as a credit entry. HKSCC will have absolute right to use such Specific Cash Collateral to settle the money position of the covered portion of the long stock position on or before its Settlement Day. The only obligation of HKSCC in respect of such Specific Cash Collateral shall be to pay to such Participant an amount equal to the balance (if any) remaining after satisfaction of all obligations and liabilities (actual or contingent) of such Participant to HKSCC.

A Clearing Participant or Clearing Agency Participant which provides Specific Cash Collateral to HKSCC represents and warrants to HKSCC that it has title and authority to provide such Specific Cash Collateral to HKSCC, free from all liens, charges, encumbrances, equities and all other third party rights of any nature whatsoever.

The calculation and collection of Margin, and the provision of Collateral Security and Specific Cash Collateral for HKSCC to reduce the Margining Position for computation of Margin, shall be made in accordance with the Operational Procedures. For the avoidance of doubt, HKSCC may at any time calculate Margin on unsettled stock positions of Clearing Participants and Clearing Agency Participants in respect of Clearing Agency Transactions to be settled under the CNS System, and demand Margin from such Participants who are parties to the Clearing Agency Transactions.

HKSCC may at any time in its absolute discretion determine the Margin amount required to be provided by a Clearing Participant or Clearing Agency Participant, and the time and manner of payment of the Margin amount by the Participant.

**3602. Collateral**

HKSCC shall be entitled from time to time to require a Clearing Participant or a Clearing Agency Participant to provide on demand collateral (including Concentration Collateral) or additional collateral ("Collateral") in such form, to such extent and in such manner as is determined by HKSCC to be appropriate by reference to, inter alia, the level of exposure of such Participant to HKSCC (including, but not limited to, the risks associated with the effecting of Closing-out Contracts pursuant to Rule 3607 and the risks of effecting Buy-ins pursuant to Rule 3501 in the event of a default by the Participant) and such other matters as HKSCC shall consider relevant, all in accordance with the Rules.

Without limiting the generality of the above, a Clearing Participant or Clearing Agency Participant with a net long CNS stock position in an Eligible Security which HKSCC considers a high risk security is subject to a Concentration Collateral as determined by HKSCC from time to time in accordance with the Operational Procedures. HKSCC may waive the computation of Concentration Collateral on a part or the whole of a stock position not due for settlement as provided in Rule 3601.

A Clearing Participant or Clearing Agency Participant providing Collateral to HKSCC, where applicable, represents and warrants in favour of HKSCC that it has title and authority to provide such Collateral to HKSCC, free from all liens, charges, encumbrances, equities and all other third party rights of any nature whatsoever.

For the avoidance of doubt, HKSCC may at any time require Clearing Participants and Clearing Agency Participants who are parties to Clearing Agency Transactions to be settled under the CNS System to provide Collateral, including Concentration Collateral, to HKSCC.

**3603. Form of Marks, Margin and Collateral**

Unless HKSCC otherwise agrees or the Operational Procedures otherwise provided, Clearing Participants and Clearing Agency Participants shall provide Marks, Margin and Collateral required pursuant to Rules 3601, 3601A and 3602 in the form of cash in the currency in which Marks, Margin and/or Collateral is calculated and denominated. The provision of Marks, Margin and Collateral in any other currency or any other form, if it is accepted by HKSCC, shall be subject to such conditions and up to such limits as HKSCC may from time to time determine.

HKSCC shall be entitled from time to time to accept Eligible Securities from Participants as Collateral Securities for discharge and satisfaction of Marks, Margin and/or Collateral of the Participants required pursuant to Rules 3601, 3601A and 3602. The calculation and collection of Collateral Securities shall be made in accordance with the Operational Procedures.

HKSCC shall also be entitled from time to time to accept bank guarantees arranged by Clearing Participants or Clearing Agency Participants as collateral for Marks, Margin

and/or Collateral obligations of the Participants required pursuant to Rules 3601, 3601A and 3602. The bank guarantees shall be in the form prescribed by HKSCC and issued by a licensed bank under the Banking Ordinance which is acceptable to HKSCC from time to time. The Participant shall seek prior approval from HKSCC for the use of bank guarantees as collateral. HKSCC has absolute right to determine the limits of obligations of Participants that may be covered by means of bank guarantees and the value of any bank guarantees provided. The Participant shall be liable for all disbursements and expenses that may be incurred by HKSCC in respect of or incidental to the acceptance, expiry and early termination of any bank guarantee that may be provided by the Participant.

Without prejudice to Rules 3601, 3601A and 3602, HKSCC may, for the purposes of deciding whether or not to require Clearing Participants and Clearing Agency Participants to provide Marks, Margin or Collateral, prescribe position limits on such Participants.

HKSCC may apply all or any of the Marks, Margin, and/or Collateral (including all rights and entitlements thereto, if any) and/or Charged Property or the proceeds thereof at any time without prior notice to a Clearing Participant or Clearing Agency Participant, as the case may be, which has made the provision of Marks, Margin, Collateral and/or Charged Property in or towards satisfaction of the obligations and liabilities (actual or contingent) of such Participant to HKSCC.

Where bank guarantees have been accepted as collateral for Marks, Margin and/or Collateral obligations of a Clearing Participant or Clearing Agency Participant, HKSCC may apply the proceeds of the bank guarantees at any time without prior notice to the Participant in or towards satisfaction of the obligations and liabilities (actual or contingent) of such Participant to HKSCC.

HKSCC has absolute discretion to determine the order of application of such Marks, Margin, Collateral, Charged Property and proceeds of bank guarantees in such manner as it considers appropriate.

A Clearing Participant or Clearing Agency Participant, as the case may be, which provides Marks, Margin, Collateral and/or Charged Property shall not create or permit to subsist any mortgage, charge or other encumbrance over all or any of the Marks, Margin, Collateral or Charged Property. The Marks, Margin, Collateral, bank guarantees and Charged Property shall be in addition to and independent of any cover provided to HKSCC and any security which HKSCC may at any time hold for the obligations and liabilities of such Participant.

In respect of any sums received by HKSCC and/or Eligible Securities deposited with HKSCC as Marks, Margin, Collateral and/or Charged Property from a Clearing Participant or Clearing Agency Participant, as the case may be, the only obligation of HKSCC to such Participant shall be to pay such Participant an amount equal to the balance remaining after satisfaction of all obligations and liabilities (actual or contingent) of such Participant to HKSCC and/or to return to such Participant the

balance of the Charged Property remaining after satisfaction of all obligations and liabilities (actual or contingent) of such Participant to HKSCC.

**3603A. Marks, Margin and Collateral in the form of cash**

Cash in Hong Kong dollar and other currencies provided by a Clearing Participant or Clearing Agency Participant to HKSCC pursuant to Rules 3601, 3601A, 3602 and/or 3603 are amounts paid by the Participant to HKSCC. Such amounts shall be recorded as credit entries in the CCMS House Collateral Account (or any other CCMS Collateral Account as determined by HKSCC) established for the Participant. The only obligation of HKSCC to the Participant in respect of such amounts shall be to pay the Participant an amount equal to the balance remaining after satisfaction of all obligations and liabilities (actual or contingent) of such Participant to HKSCC.

**3608. Charged Property**

Collateral Securities accepted by HKSCC pursuant to Rule 3603 shall be credited to the CCMS House Collateral Account (or any other CCMS Collateral Account as determined by HKSCC) of the Participant.

HKSCC shall have a first fixed charge over:-

- (a) the Collateral Securities from time to time credited to any CCMS Collateral Account of the Participant; and
- (b) the Derived Assets

by way of a continuing security (i) for the discharge and satisfaction of any Marks, Margin and Collateral obligations of such Participant, (ii) for the discharge and satisfaction of all other obligations and liabilities (actual or contingent) of such Participant to HKSCC arising directly in connection with HKSCC ensuring the settlement of Market Contracts to which such Participant is a party, (iii) for the discharge and satisfaction of all liabilities (actual or contingent) of such Participant to HKSCC arising from a loss of or defects affecting Eligible Securities pursuant to Rule 812, Rule 813, Rule 814 and Rule 815 and (iv) for the discharge and satisfaction of all other obligations (actual or contingent) of such Participant to HKSCC. Each of the charges created over the assets specified in (a) and (b) and in respect of the Participant's obligations in (i), (ii), (iii) and (iv) above shall form a separate security.

Without prejudice to the above, the Charged Property shall also be a continuing security for HKSCC's waiver of computation of Marks and reduction of Margining Position for computation of Margin required from such Participant.

The Participant shall, at its own cost, promptly execute and do, all such acts, deeds and things as HKSCC may from time to time require for perfecting, preserving or protecting the security created under this Rule or for facilitating the realisation of HKSCC's security over the Charged Property.

Collateral Securities credited to the CCMS Collateral Account of a Participant may not be transferred from such Account without the express consent of HKSCC.

Without prejudice to HKSCC's rights in Rule 3702, upon any failure by a Participant to perform its obligations to HKSCC under the CNS System or when HKSCC otherwise deems it necessary for its own protection:

- (i) HKSCC may sell or apply the Charged Property of the Participant without further reference to the Participant and the provisions of Rule 3702 shall apply equally to such sale. Following such sale or application, the only obligation of HKSCC to such Participant in respect of its Charged Property shall be to pay such Participant an amount equal to the balance and/or to return to such Participant the balance of the Charged Property remaining after satisfaction of all obligations and liabilities (actual or contingent) of such Participant to HKSCC;
- (ii) Derived Assets credited to the Entitlement Account may not be transferred from such Account without the express consent of HKSCC and may be transferred to the Participant's CCMS Collateral Account by HKSCC; and
- (iii) all dividends, interests and other distributions in respect of the Charged Property not forming part of the Derived Assets may be retained and used by HKSCC.

### **3609. Bank Guarantee**

Bank guarantees accepted by HKSCC pursuant to Rule 3603 shall be recorded in the CCMS House Collateral Account (or any other CCMS Collateral Account as determined by HKSCC) of the Participant, in such manner as HKSCC considers appropriate.

Any bank guarantee provided for use as collateral for Marks, Margin and/or Collateral obligations of a Participant shall be a continuing guarantee in accordance with its terms and shall form a separate security.

The Participant shall, at its own cost, promptly execute and do all such acts, deeds and things as may from time to time require for preserving or maintaining the collateral provided by way of bank guarantees, or for facilitating the exercise of rights of HKSCC under the bank guarantees.

Without prejudice to HKSCC's rights in Rule 3702, upon any failure by a Participant to

perform its obligations to HKSCC under the CNS System or when HKSCC otherwise deems it necessary for its own protection, HKSCC may exercise all its rights under the bank guarantees and apply the proceeds of the bank guarantees, without notice or further reference to the Participant.

## **CHAPTER 37**

### **DEFAULT RULES - CNS SYSTEM**

#### **3702. Actions on default**

Without prejudice to any other provision of the Rules, the actions which HKSCC may take as referred to in Rule 3701 are:-

- (i) to effect Closing-out Contracts in accordance with Rule 3607;
- (ii) to sell or apply Marks, Margin, Collateral, Specific Cash Collateral, Charged Property (including, but not limited to, Derived Assets credited to the Entitlement Account of a defaulting Clearing Participant or Clearing Agency Participant), any Eligible Securities held by HKSCC (irrespective of whether they are held in lieu of Marks, Margin and/or Collateral, or for HKSCC's waiver in computation of Marks and reduction of Margining Position for computation of Margin) and any security furnished by a defaulting Clearing Participant or Clearing Agency Participant, without further reference to the Clearing Participant or Clearing Agency Participant and to execute all such documents and take all such action as may be necessary in connection therewith, if appropriate, on behalf of the Clearing Participant or Clearing Agency Participant;
- (iii) to exercise its rights of set-off pursuant to Rules 1207 and 12A15;
- (iv) to take any other action or measure open to HKSCC under the Rules;
- (v) to debit Eligible Securities from the Stock Clearing Account of a defaulting Clearing Participant or Clearing Agency Participant without further reference to the Clearing Participant or Clearing Agency Participant;
- (vi) to exercise all rights attaching to the Charged Property, including, but not limited to voting rights;
- (via) to exercise all rights under bank guarantees provided for use as collateral for Marks, Margin, Collateral or other obligations (actual or contingent) of a defaulting Clearing Participant or Clearing Agency Participant, without notice or further reference to the defaulting Clearing Participant or Clearing Agency Participant; and