

GENERAL RULES OF HKSCC

CHAPTER 9

CLEARING SERVICES

901. Clearance of Exchange Trades

(i) Provision of Exchange Trades Details

In relation to Exchange Trades on each Business Day, details thereof are to be reported to HKSCC by the Exchange.

HKSCC shall be entitled to rely on the accuracy of the details of the Exchange Trades so reported (and may, in its absolute discretion, accept from the Exchange amendments to such details, including, without limitation, amendments relating to Trade Amendments, “late” Exchange Trades and trades subsequently reported as not recognized by the Exchange) and act on them in accordance with the Rules.

For the avoidance of doubt, HKSCC shall not be responsible for any delays or inaccuracies in relation to the reporting of details of Exchange Trades by the Exchange to HKSCC.

HKSCC may require Clearing Participants and Clearing Agency Participants to provide, or to procure their NCPs or Special Participants to provide, details of Exchange Trades to it, such details to be in such form as may be specified by HKSCC from time to time.

(ia) Substitution Process

Where a party to an Exchange Trade is an NCP, the GCP of that NCP designated for clearing such Exchange Trade of that NCP shall become a party to the Exchange Trade as principal in substitution for, and with exactly the same rights and obligations under the Exchange Trade as, that NCP.

Where a party to an Exchange Trade is a Special Participant, the relevant Clearing Agency Participant which clears Exchange Trades for the Special Participant shall become a party to the Exchange Trade as principal in substitution for, and with exactly the same rights and obligations under the Exchange Trade as, that Special Participant.

In relation to a TSF Exchange Trade of a TSF Exchange Participant, the TSF Clearing Participant of that TSF Exchange Participant designated for clearing such TSF Exchange Trade of that TSF Exchange Participant shall become a party to the relevant TSF Exchange Trade and the corresponding TSF FX Transaction as principal in substitution for, and with exactly the same rights and obligations under the relevant TSF Exchange Trade and the

corresponding TSF FX Transaction as, that TSF Exchange Participant at the same time as the relevant TSF Exchange Trade is effected on the Exchange Trading System.

(ii) CNS System/Isolated Trades System for Exchange Trades

Subject to the Rules, Exchange Trades are to be cleared and settled in CCASS either:-

- (a) under the Continuous Net Settlement System; or
- (b) under the Isolated Trades System.

An Exchange Trade will be cleared and settled in CCASS under the CNS System unless, (a) in accordance with the Exchange Rules, the two counterparty Exchange Participants to an Exchange Trade elect to settle such trade under the Isolated Trades System or (b) the Exchange Trade is not accepted for clearance and settlement under the CNS System by HKSCC in accordance with the Rules.

Notwithstanding the foregoing, HKSCC shall have the right at any time prior to acceptance for settlement under the CNS System to exclude Exchange Trades for settlement thereunder in which case such trades will be settled under the Isolated Trades System.

For the avoidance of doubt, if HKSCC exercises its right pursuant to Rule 901 to rely on the accuracy of the details of the Exchange Trades reported to it by the Exchange and elects not to accept any Trade Amendment affecting an Exchange Trade which has been accepted for settlement under the CNS System, the acceptance of such Exchange Trade for settlement under the CNS System will be binding on the Clearing Participants and Clearing Agency Participants concerned; and if HKSCC accepts that certain trades shall not be recognized, such trades shall be excluded from clearing and settlement in CCASS and shall be deemed not to have been accepted by HKSCC.

(iii) Settlement period for Exchange Trades

Subject to the Rules, settlement of Exchange Trades effected on each day shall take place on the second Settlement Day thereafter.

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CLEARING BY GENERAL CLEARING PARTICIPANTS

4003. Obligations of GCP

A GCP shall capture all liabilities for all the Exchange Trades or Clearing Agency Transactions concluded and, where applicable, designated to it for clearing by each NCP and/or China Connect Securities Trades concluded by each NCCCP with which it has entered into a Clearing Agreement, as if it were a party to these trades and transactions and shall not be entitled to decline to settle and clear any such Exchange Trades or Clearing Agency Transactions of the NCP, and/or China Connect Securities Trades of the NCCCP. A GCP shall have arrangement in place with each NCP or NCCCP for the NCP or NCCCP to notify it of all Exchange Trades and Clearing Agency Transactions concluded and, where applicable, designated to it for clearing by the NCP and/or all China Connect Securities Trades concluded by the NCCCP.

A GCP shall have arrangement in place to monitor the ability of each NCCCP with whom it has entered into a Clearing Agreement to satisfy promptly all obligations arising from the Exchange Trades, Clearing Agency Transactions and/or China Connect Securities Trades, as the case may be, concluded by such NCCCP. A GCP must forthwith notify HKSCC of any failure of an NCCCP to meet its obligations under the Clearing Agreement, and in the case of an NCP, HKSCC may disclose such information to any other GCP of the NCP.

A GCP shall, within a period as HKSCC may specify, provide information in its possession about its NCCCPs to HKSCC, including but not limited to, financial position, an NCCCP's underlying client information or any other information or documents as HKSCC may demand.

A GCP shall ensure that the Clearing Agreement to which it is a party, and all subsequent agreements to amend the Clearing Agreement do not contain any provision which is inconsistent with the Rules and has terms and conditions to facilitate the performance of, and be consistent with, the GCP's obligations under the Rules. The Clearing Agreement shall incorporate any additional conditions prescribed by HKSCC from time to time. A GCP shall be bound by and comply strictly with the terms of each Clearing Agreement to which it is a party, to the extent that those Clearing Agreements are consistent with the Rules.

A GCP shall notify HKSCC of any changes to any of the Clearing Agreements it entered into forthwith upon such changes being made. Such notification shall be in a form as HKSCC may from time to time specify and be accompanied by a certified copy of a document evidencing such changes. For the avoidance of doubt, a GCP must ensure that any changes to the Clearing Agreement and any amendment agreement are in compliance with these Rules.

Every GCP which is a TSF CCASS Participant which intends to clear and settle TSF Exchange Trades for NCPs shall, in addition to the above, comply with Rule 12A21. Every GCP which is a



China Connect Clearing Participant which intends to clear and settle China Connect Securities Trades for NCPs shall, in addition to the above, comply with Rule 4104.

4004. Termination of Clearing Agreement

A GCP shall give prior written notice to HKSCC if it or an NCCCP intends to terminate the Clearing Agreement between them, unless the NCCCP has already given notice to terminate the Clearing Agreement to the Exchange in accordance with the Exchange Rules.

When HKSCC receives a termination notice from a GCP or when HKSCC receives notification from the Exchange that notice to terminate the Clearing Agreement had been given by an NCCCP, HKSCC will issue a confirmation of termination to the GCP (with a copy to the NCCCP concerned) in writing and unless and until written confirmation has been issued to the GCP, the Clearing Agreement shall be treated as valid, binding and effective by HKSCC for the purposes of these Rules notwithstanding any provision to the contrary in the Clearing Agreement and/or the termination notice from the GCP or the NCCCP and the GCP shall continue to be bound by the Clearing Agreement and responsible for all the Exchange Trades, Clearing Agency Transactions and/or China Connect Securities Trades, as the case may be, concluded and, where applicable, designated to it for clearing by such NCCCP.

Notwithstanding the above, the Clearing Agreement is deemed to be terminated when the GCP is declared as a defaulter or suspended from further activities in CCASS under the Rules.

The termination of Clearing Agreement will not affect any rights or liabilities of the GCP and the NCCCP arising out of matters which have taken place prior to the termination of the relevant Clearing Agreement and for the purpose of settlement of any such rights or liabilities of the GCP and the NCCCP, HKSCC may continue to treat the GCP as the GCP of the relevant NCCCP.