

GENERAL RULES OF CCASS

PART A: RULES OF GENERAL APPLICATION

CHAPTER 1

INTERPRETATION

101. Definitions

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

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| “Guarantee Fund Net Projected Loss” | has the meaning given to it in Section 10.11.3C of the Operational Procedures; |
| “Guarantee Fund Risk Collateral” | means collateral collected by HKSCC under Section 10.11.3C of the Operational Procedures; |
| “Guarantee Fund Risk Predefined Limit” | means an amount equal to 50% of the Guarantee Fund Threshold or such other percentage as HKSCC deems appropriate from time to time; |
| “Guarantee Fund Threshold” | means the Guarantee Fund size prescribed by HKSCC from time to time pursuant to Rule 2501; |

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 or otherwise to meet any immediate obligations and liabilities arising out of Market Contracts 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.

For the purpose of calculating the Guarantee Fund size under Rule 2504 and Section 18.2.1 of the Operational Procedures, HKSCC may, from time to time in its absolute discretion, prescribe an amount which is projected to be the maximum required size for the time being of the Guarantee Fund, known as the Guarantee Fund Threshold, taking into account such relevant factors as it shall consider appropriate, including any historical data and prevailing market conditions.

2504. Additional resources to Guarantee Fund

In the event that payments out of the Guarantee Fund under paragraph (iii) of Rule 2507 are required, HKSCC will appropriate its resources up to 10% or such other percentage of the Guarantee Fund size as HKSCC may from time to time determine as contributions to the 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.

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.

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;
- (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).

2511. Information on assets and resources of Guarantee Fund

HKSCC shall maintain a separate record of:-

- (i) all amounts standing to the credit of;
- (ii) all resources appropriated by HKSCC as contributions to; and
- (iii) 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.

CHAPTER 36

RISK MANAGEMENT MEASURES – CNS SYSTEM

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, Guarantee Fund Risk Collateral and Collateral required under Rule 4107(iii)) or additional 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 or 4107(x), the risks of effecting Buy-ins pursuant to Rule 3501 or 3501A in the event of a default by the Participant, the risks associated with the clearing and settlement of China Connect Securities Trades and in the case of a Clearing Agency Participant which is a China Connect Clearing House, the risks associated with the clearing and settlement of Exchange Trades in respect of each of its Special Participants) and such other matters as HKSCC shall consider relevant, all in accordance with the Rules.

Unless otherwise approved by HKSCC, it shall be mandatory for a Clearing Agency Participant which is participating in CCASS pursuant to a Clearing Link to provide to HKSCC as Collateral Security on T-day the relevant quantity of Eligible Securities representing its short stock positions in Market Contracts arising from Exchange Trades and no Marks will be payable on such short stock positions to the extent that they are so covered.

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.

Without limiting the generality of the above, when the Guarantee Fund Net Projected Loss exceeds the Guarantee Fund Risk Predefined Limit, a Clearing Participant is subject to a Guarantee Fund Risk Collateral as determined by HKSCC from time to time in accordance with the Operational Procedures, in order to cover the residual risk exposure when the size of the Guarantee Fund has reached the Guarantee Fund Threshold.

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 and Guarantee Fund Risk Collateral (if applicable), to HKSCC.