

HKSCC Operational Procedures

Section 9

Overview of Clearing and Settlement in CCASS

9.2 EXCHANGE TRADES

Under the Exchange Rules, all Exchange Trades (excluding those not recognized by the Exchange) will have to be settled in CCASS.

Where at least one of the parties 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.

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.

Exchange Trades will be settled in CCASS either under:

- (i) the CNS System (see Section 10) pursuant to which HKSCC becomes substituted as the settlement counterparty and settlement will be effected between Clearing Participants and HKSCC on a net basis; or
- (ii) the Isolated Trades System (see Section 11) where settlement will be effected directly between the Clearing Participants concerned.

Settlement under the CNS System will always be effected on a DVP basis.

Settlement under the Isolated Trades System may be effected on a DVP or FOP basis, as selected by delivering Clearing Participants.

Section 10

Exchange Trades – CNS System

10.1 ACCEPTANCE FOR SETTLEMENT UNDER THE CNS SYSTEM

10.1.1 Details of Exchange Trades

Arrangements have been made by HKSCC for details of Exchange Trades to be reported to HKSCC on a daily basis. Participants will not, therefore, generally have to input into CCASS details of Exchange Trades. However, HKSCC reserves the right to require Participants to provide details of Exchange Trades executed by them or, in the case of GCPs, including those concluded and designated to them for clearing by their NCPs to it.

Subject to any Trade Amendments, any “late” Exchange Trades and trades not recognized by the Exchange as referred to in Section 10.2, Exchange Trades will be settled under the CNS System unless they are isolated from the CNS System by the counterparty Exchange Participants at the time of trade or unless they are isolated from the CNS System by HKSCC.

10.2 TRADE AMENDMENTS, “LATE” EXCHANGE TRADES AND TRADES NOT RECOGNIZED BY THE EXCHANGE

10.2.5 Information contained in FCSs

A FCS will contain the following information in relation to (a) trades of a Participant and, in the case of a GCP, including those of its NCPs concluded on the Exchange and designated to it for clearing, or in the case of a Clearing Agency Participant, including those of its Special Participants concluded on the Exchange and/or (b) Clearing Agency Transactions of a Participant and, in the case of a GCP, including those of NCPs, effected on the previous Business Day (i.e. T-day) and which are to be settled on the following Settlement Day (i.e. T+2):

- (i) the net stock positions with HKSCC in each Eligible Security (which will each be assigned a unique settlement position number) and their related money positions under the CNS System (taking into account any Trade Amendments accepted by HKSCC, any “late” Exchange Trades accepted by HKSCC and the exclusion of any trades not recognized by the Exchange) as well as details of individual Exchange Trades and Clearing Agency Transactions of a Participant effected on the previous Business Day;
- (ii) the net money position with HKSCC for all net stock positions under the CNS System;
- (iii) details of Exchange Trades accepted for settlement under the Isolated Trades System and their related money positions (including any Trade Amendments thereto approved by the Exchange) and accrued interest amounts of Exchange Trades in eligible interest-bearing Debt Securities;
- (iv) details of Clearing Agency Transactions accepted for settlement under the CNS System or accepted for settlement under the Isolated Trades System and their related money positions

(including any amendments thereto accepted by HKSCC);

- (v) details of Trade Amendments, any "late" Exchange Trades accepted by HKSCC and the exclusion of any trades not recognized by the Exchange, if any;
- (vi) details of trades effected in securities listed on the Exchange which are not Eligible Securities (and any Trade Amendments thereto); and
- (vii) details of fees payable in relation to the settlement of Exchange Trades and Clearing Agency Transactions in CCASS (see Section 21.1).

Where a Participant is in the process of opening a bank account in an Eligible Currency for money settlement of Exchange Trades and/or Clearing Agency Transactions accepted under CNS System, a message will be posted on the FCS of the Participant concerned to alert the Participant about the alternative payment methods available.

10.5 MONEY SETTLEMENT UNDER THE CNS SYSTEM

10.5.5 CNS positions involving both delivery and payment by HKSCC or by Participants

In some cases, it is possible that a Participant may have a CNS stock position under which it is obliged to deliver Eligible Securities to HKSCC as well as to pay HKSCC (or the other way round, where HKSCC is obliged to deliver Eligible Securities to it as well as to make payment to it). This may, for example, arise if on a particular day, the purchases and sales in a particular Eligible Security are made by a Participant or in the case of a GCP, including those made by its NCPs designated to it for clearing, or in the case of a Clearing Agency Participant, including that made by a Special Participant in such a way that whilst having a net long stock position (i.e. net buy position), the proceeds of its sales more than offset the purchase prices payable by it.

In such cases, money settlement in respect of such CNS positions will be effected on the due dates irrespective of whether or not such CNS stock positions have been settled in CCASS.

10.8 LATE DELIVERY : BUY-IN

10.8.3 Exemption from Buy-in

HKSCC may grant an exemption from a Buy-in on behalf of a short Participant on T+3 if such Participant is able to provide HKSCC with satisfactory evidence in accordance with Section 10.8.4 that a ground for exemption as set out below applies:

- (i) the Participant applying for exemption or the delivering Participant has made a deposit of sufficient Eligible Securities into the CCASS Depository prior to 4:15 p.m. on a Settlement Day but the CCASS Depository is unable to process the stock deposit before the final Batch-settlement-run;
- (ii) defects in the relevant instruments of transfer (such as use of outdated instruments of transfer, the transferor's signature not being in the correct place or defacement of the instrument of

transfer) provided that there is prima facie evidence that the transferor has signed the instrument of transfer;

- (iii) [Repealed]
- (iv) the relevant Eligible Securities are not credited to the Stock Clearing Account of the Participant applying for exemption due to the hoisting of Typhoon Signal No. 8 or above, the announcement of Extreme Conditions, the issuance of a Black Rainstorm Warning, acts of God or due to the occurrence of other events beyond the relevant Participant's reasonable control such as labour disputes, strike, mechanical breakdowns, computer or electronic system or network failures, unavailability of or restrictions on any communication media or any other event (including sanctions or the issuance of a court order or a restriction notice or order by a competent authority) as determined by HKSCC at its sole discretion to be an acceptable ground for exemption on a case-by-case basis;
- (v) in respect of oversold trades due to clerical or calculation error of the short Participant applying for exemption (or in the case of a GCP, including such oversold trades of its NCP designated to it for clearing), the delivery obligations of the Participant applying for exemption will be settled fully on T+3 pursuant to purchase transactions executed on T+1, or, if trading of the underlying Eligible Security is suspended on T+1, within two Settlement Days after resumption of trading;
- (vi) in respect of assigned Clearing Agency Transactions, the delivery obligations of the Participant applying for exemption will be settled fully on T+3 pursuant to purchase transactions executed on T+1, or, if trading of the underlying Eligible Security is suspended on T+1, within two Settlement Days after resumption of trading;
- (vii) for trades where a client buys and sells the same Eligible Securities on the same day through different Exchange Participants), sufficient Eligible Securities which are due to be credited to the Stock Clearing Account of the delivering Participant by HKSCC for onward delivery to the Participant applying for exemption have not been so credited as a result of relevant Eligible Securities not having been made available to HKSCC by Participants with short stock positions under the CNS System for allocation on the relevant due Settlement Day;
- (viii) [Repealed]
- (ix) in respect of Units or Eligible Securities to be received from a creation or redemption of Units, the Participant applying for exemption has an unconditional entitlement to receive sufficient Units or Eligible Securities to cover the relevant short position on T+2;
- (x) the Participant applying for exemption can provide evidence satisfactory to HKSCC that it or the delivering Participant has sufficient Eligible Securities in its Stock Account on T+2 to cover the relevant short position and the Participant applying for exemption or the delivering Participant has received valid instruction from the selling client to make delivery of the relevant Eligible Securities for settlement on T+2 but is unable to do so due to clerical error;

- (xi) in respect of transactions in Eligible Securities which are subject to parallel trading on the Exchange or transfers of Multi-counter Eligible Securities as referred to in Rule 816A or Rule 1008, the Participant applying for exemption or the delivering Participant has: (a) long positions in Eligible Securities or Multi-counter Eligible Securities of the relevant issuer (as the case may be); or (b) sufficient Eligible Securities or Multi-counter Eligible Securities of the relevant issuer (as the case may be) in its Stock Account, which following conversions of such long positions or holdings of Eligible Securities (as applicable) or transfers of Multi-counter Eligible Securities in CCASS, are sufficient to settle the relevant short positions on T+2;
- (xii) in respect of market making transactions in any Market Making Security as specified by HKSCC from time to time, the Participant applying for exemption has duly executed Cross-Border Transfer Instructions transferring sufficient Eligible Securities to HKSCC's account with the Appointed Depository to cover the relevant short position resulting from the market making activities as aforesaid on T+2 but is unable to cover such short position on T+2 due to clerical error of the Participant or the Appointed Depository;
- (xiii) in respect of market making transactions in any Market Making Security as specified by HKSCC from time to time, the Participant applying for exemption has sufficient Eligible Securities to cover the relevant short position resulting from the market making activities as aforesaid on T+2 but the transfer of the Eligible Securities by Cross-Border Transfer Instructions to HKSCC's account with the Appointed Depository cannot be effected to cover the relevant short position as a result of a holiday in the market of the Appointed Depository;
- (xiv) the person who is under an obligation to deliver, whether directly or indirectly, to the Participant applying for exemption the relevant quantity of Eligible Securities for settlement had lent such Eligible Securities and has duly executed a notice of recall pursuant to which such Eligible Securities will be delivered to the Participant on T+3 for settlement of its delivery obligation in full, and that person is an approved lending agent as defined in the Securities and Futures (Disclosure of Interests – Securities Borrowing and Lending) Rules; or
- (xv) in respect of market making transactions in any Market Making Security as specified by HKSCC from time to time, the Participant applying for exemption can provide evidence satisfactory to HKSCC that a creation, borrowing and/or purchase of sufficient Eligible Securities has been effected but the relevant Eligible Securities will only be delivered on T+3 to cover the short positions resulting from the market making activities. HKSCC will review this exemption from time to time and may suspend the availability of this exemption for any Participant and any Market Making Security at any time and for such period in its absolute discretion.

For the avoidance of doubt, the market making transactions in a Market Making Security in respect of which an exemption is claimed under Section 10.8.3(xii), (xiii) or (xv) may be conducted by a Securities Market Maker for its own account, or for the account of any of its affiliates or for the

account of any of its Designated Specialists as part of its or their market making activities in accordance with the Exchange Rules.

The short Participant to whom an exemption from a Buy-in is granted shall be obliged to settle all overdue short positions of which exemption is granted by day-end of T+3. In the event that such Participant fails to do so for whatever reason, HKSCC may consider executing on behalf of such Participant a Buy-in on T+4 (or, if it is not practicable to do so on T+4, at any time thereafter) in its absolute discretion as it may think fit.

10.10 RISK MANAGEMENT : MARKS

10.10.2 Various terms explained

For the purpose of this Section, the term "Favourable Marks" refers to Marks computed by the Mark-to-market of a CNS stock position which are favourable to a Participant and the term "Unfavourable Marks" has the opposite meaning.

A "day-end Marks position", in relation to the calculation and collection of day-end Marks, comprises the following stock positions of a Participant:

- (i) "pending CNS stock positions", which are the unsettled CNS stock positions of the Participant which are not yet due for settlement.

Under a T+2 settlement system, pending CNS stock positions of a Participant on a Business Day will be derived from Exchange Trades which were effected by the Participant and, in the case of a GCP or a Clearing Agency Participant, will include Exchange Trades effected and, where applicable, designated to it for clearing by each NCP or Special Participant with which such GCP or Clearing Agency Participant has entered into a Clearing Agreement, on that Business Day ("Current Day") and the immediately preceding Business Day ("Previous Day") and which had been accepted by HKSCC for settlement under the CNS System. Such pending CNS stock positions on the Current Day and Previous Day shall be referred to in this Section 10.10.2 as "Current Day positions" and "Previous Day positions" respectively. Unless otherwise stated, "pending CNS stock positions" in this Section 10.10.2 cover both Current Day positions and Previous Day positions;

- (ii) "overdue CNS stock positions", which are the CNS stock positions of the Participant which are due for settlement but not yet settled; and
- (iii) "corporate action entitlement positions", which are the stock positions to which the Participant is entitled under CCASS, as determined by HKSCC based on the holding of that Participant in the relevant Eligible Securities as at the date by reference to which the entitlement is determined.

An "intra-day Marks position", in relation to the calculation and collection of intra-day Marks, may comprise any of the following stock positions of a Participant which are not covered by cash prepayment or credit from settlement activities:

- (i) pending CNS stock positions, as referred to in this Section 10.10.2;
- (ii) overdue CNS stock positions, as referred to in this Section 10.10.2;
- (iii) corporate action entitlement positions, as referred to in this Section 10.10.2; and
- (iv) Allocated Positions.

Section 11

Exchange Trades – Isolated Trades System

11.1 SETTLEMENT UNDER THE ISOLATED TRADES SYSTEM

11.1.1 Details of Exchange Trades

As mentioned, arrangements have been made by HKSCC for details of Exchange Trades to be reported to HKSCC on a daily basis. Participants will not, therefore, generally have to separately input into CCASS details of Exchange Trades. However, HKSCC reserves the right to require Clearing Participants to provide details of Exchange Trades executed by them or in the case of GCPs, including those executed and designated to them for clearing by their NCPs to it.

To recap, subject to any Trade Amendments, any “late” Exchange Trades and trades not recognized by the Exchange, Exchange Trades will be settled in CCASS under the Isolated Trades System only if they are isolated from the CNS System by the counterparty Exchange Participants at the time of trade or by HKSCC.

11.1.5 Availability of and information contained in PCSs

Hard copies of PCSs issued by HKSCC on each Business Day can be obtained by Clearing Participants via their CCASS Terminals or Participant Gateways. PCSs are generated twice daily on each Business Day.

A PCS will provide a Clearing Participant with information in relation to all Exchange Trades and/or Clearing Agency Transactions effected by it and in the case of a GCP, including those effected and designated to it for clearing by its NCPs on that day. For a particular day, a PCS will set out the details of such Participant's and in the case of a GCP, including its NCPs', Exchange Trades and/or Clearing Agency Transactions to be settled by it under the Isolated Trades System and the details of its net stock position in each Eligible Security traded that day (and the relevant money positions).

For Exchange Trades relating to interest-bearing eligible Debt Securities, accrued interest amount and trade amount of the trades will be displayed separately in the PCSs. In addition, other information such as interest calculation method, interest rate used and number of days used in the

calculation of accrued interest will also be provided in the PCSs.

Details of the Exchange Trades of the relevant Clearing Participant and in the case of a GCP, including its NCPs to be settled by it under the CNS System and details of trades in non-Eligible Securities will also be provided in the PCSs.

Details of Clearing Agency Transactions to be settled under the CNS System or the Isolated Trades System will be included in the second batch of PCSs only.

The information contained in a PCS will only be indicative of the settlement obligations of the Clearing Participant on the due settlement date (i.e. T+2). Trade Amendments may be made, "late" Exchange Trades may be accepted, trades not recognized by the Exchange may be excluded and the settlement obligations may be affected by unsettled positions under the CNS System in the intervening day (i.e. T+1) before the due settlement date.

The main purpose of a PCS, in addition to allowing the Clearing Participant to make initial preparation for settlement, is to allow a Clearing Participant to carry out daily reconciliation with its internal records relating to the Exchange Trades and/or Clearing Agency Transactions it clears and settles.

Where a Clearing Participant is in the process of opening a bank account in an Eligible Currency for money settlement of Exchange Trades and/or Clearing Agency Transactions in that Eligible Currency accepted under the Isolated Trades System, a message will be posted on the PCSs of the Clearing Participant to alert the Clearing Participant that the transaction must be settled on a FOP basis by input of a DI.

11.1.6 Availability of and information contained in FCSs

Hard copies of FCSs are available to Clearing Participants via CCASS Terminals and Participant Gateways.

A FCS will contain the following information in relation to the Exchange Trades and Clearing Agency Transactions of Clearing Participant and in the case of a GCP, including those of its NCP designated to it for clearing, concluded on the Exchange on the previous Business Day (i.e. T-day) and which are to be settled on the following Settlement Day (i.e. T+2):

- (i) the net stock positions with HKSCC in each Eligible Security (which will each be assigned a unique settlement position number) and their related money positions under the CNS System (taking into account any Trade Amendments accepted by HKSCC, any "late" Exchange Trades accepted by HKSCC and the exclusion of any trades not recognized by the Exchange) as well as details of individual Exchange Trades;
- (ii) the net money position with HKSCC for all net stock positions under the CNS System;
- (iii) details of Exchange Trades accepted for settlement under the Isolated Trades System and

their related money positions (including any Trade Amendments thereto approved by the Exchange); and accrued interest amounts of Exchange Trades in interest-bearing eligible Debt Securities;

- (iv) details of Clearing Agency Transactions accepted for settlement under the Isolated Trades System and their related money positions (including any amendments thereto accepted by HKSCC);
- (v) details of Trade Amendments, any "late" Exchange Trades accepted by HKSCC and the exclusion of any trades not recognized by the Exchange, if any;
- (vi) details of trades effected in securities listed on the Exchange which are not Eligible Securities (and any Trade Amendments thereto); and
- (vii) details of fees payable in relation to the settlement of Exchange Trades and Clearing Agency Transactions in CCASS (see Section 21.1).

Where a Participant is in the process of opening a bank account in an Eligible Currency for money settlement of Exchange Trades in that Eligible Currency accepted under the Isolated Trades System, a message will be posted on the FCS of the Participant to alert the Participant that the transaction must be settled on a FOP basis by input of a DI.