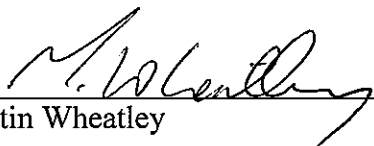


**Side Letter to the Memorandum of Understanding between the Securities and Futures Commission ("SFC") and Hong Kong Exchanges and Clearing Limited ("HKEx") dated and signed on 20 February 2001 on matters relating to SFC oversight, supervision of exchange participants and market surveillance as supplemented by 6 side letters and amended by 2 agreements dated 23 January 2007 and 24 September 2007 (collectively the "MOU")**

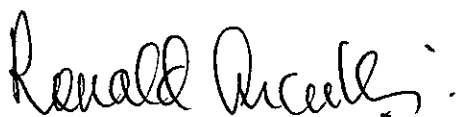
This side letter sets out new Appendices I, II, III and IV incorporating changes made to the existing Appendices I, II, III and IV of the MOU to extend the scope of the MOU to include information relating to clearing participants which are not exchange participants. The new Appendices I, II, III and IV form part of the MOU in place of the existing Appendices I, II, III and IV respectively.

Dated: 23 June 2008



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Mr Martin Wheatley  
Chief Executive Officer  
For the Securities and Futures Commission



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Mr Ronald Arculli  
Chairman  
For Hong Kong Exchanges and Clearing Limited

**Agreed amendments to Appendices I, II, III and IV as marked up to extend the scope of the MOU to include information relating to clearing participants which are not exchange participants**

**Appendix I**

**DESIGNATION OF SERIOUS MATTERS**

**For the purposes of this MOU, the SFC and HKEx designate the following matters as “serious matters”:**

Part A - In relation to supervision of market participants

**I. For notification by HKEx to the SFC as soon as practicable when HKEx becomes aware of the matter:**

1. Declaration of an exchange participant in default by an Exchange Company or declaration of a clearing participant in default by a clearing house.
2. Rejection by a bank of a Direct Debit Instruction issued by a clearing house in relation to payment by a clearing participant of margin, variation adjustment or settlement obligations of trades conducted on a market operated by HKEx or an Exchange Company.
3. Forced liquidation of open positions of a clearing participant with a clearing house in relation to a market operated by HKEx or an Exchange Company.
4. Suspension / revocation of, or imposition / revision of restrictions on, a market participant’s trading or clearing rights or a breach of such restrictions by the market participant, on a market operated by HKEx or an Exchange Company, including an event originated from a matter set out in Item 2 of Part A(I) above.
5. Facts and circumstances that may require the SFC to exercise its power of intervention, including restricting the business and/or the handling of assets by a market participant.
6. Failure by a market participant which is a licensed corporation to comply with the minimum liquid capital requirement under the Financial Resources Rules and the rectification thereof.
7. Cancellation by a bank of credit facilities granted to a market participant in connection with trading or clearing and settlement of trades conducted on a market operated by HKEx or an Exchange Company.
8. Reports or allegations, including but not limited to over-the-counter activities relating to stocks or derivatives, concerning a market participant and/or its related company, as obtained from market intelligence or otherwise, which if substantiated would impact materially and adversely on a market participant's operation and financial integrity.

9. Alleged misappropriation of client assets by a market participant or the market participant's officer, employee or agent.
10. Abscondment of an officer, employee or agent of a market participant.
11. Unauthorised pledging of securities belonging to a market participant's client which if substantiated would be in material breach of provisions relating to client asset protection or pose a risk to client assets.
12. Alleged conduct by a market participant which if substantiated would pose a material risk of default by the market participant in respect of clearing and settlement obligations or other financial obligations due to a third party.

**II. For notification by the SFC to HKEx as soon as practicable when the SFC becomes aware of the matter:**

1. Suspension / revocation of, or imposition / revision of restrictions on, a market participant's licence or registration or a breach of such restrictions by the market participant.
2. Facts and circumstances that may require HKEx to exercise its power to suspend or impose restrictions on a market participant's trading or clearing right.
3. Failure by a market participant which is a licensed corporation to comply with the minimum liquid capital requirement under the Financial Resources Rules and the rectification thereof.
4. Cancellation by a bank of credit facilities granted to a market participant in connection with trading or clearing and settlement of trades conducted on a market operated by HKEx or an Exchange Company.
5. Reports or allegations, including but not limited to over-the-counter activities relating to stocks or derivatives, concerning a market participant and/or its related company, as obtained from market intelligence or otherwise, which if substantiated would impact materially and adversely on a market participant's operation and financial integrity.
6. Alleged misappropriation of clients assets by a market participant or a market participant's officer, employee or agent.
7. Abscondment of an officer, employee or agent of a market participant.
8. Unauthorised pledging of securities belonging to a market participant's client which if substantiated would be in material breach of provisions relating to client asset protection or pose a risk to client assets.
9. Alleged conduct by a market participant which if substantiated would pose a material risk of default by the market participant in respect of clearing and settlement obligations or other financial obligations due to a third party.

**Part B - In relation to supervision of trading and clearing operations**

**For notification by HKEx to the SFC as soon as practicable when HKEx becomes aware of the matter:**

1. Any suspension of or disruption to the normal trading and clearing services provided by HKEx caused by any event or circumstance which may include, but shall not be limited to, failures of the major shared financial or settlement systems, computer systems or communication network, equipment breakdowns, interruptions of power supplies and other utility services, fires, bomb threats and other emergencies.
2. Any emergency or extraordinary situation which has triggered HKEx to activate its contingency plans or measures to deal with matters affecting the market operations of HKEx.
3. A decision being made or action taken by HKEx to suspend the trading and clearing operations, together with the reasons therefor.
4. Any emergency decision made or action taken by HKEx to exercise its discretion as stipulated in relevant Rules to change the existing policies, practices and procedures relating to the trading, clearing and settlement operations and risk management.
5. Any material non-compliance with or breach of laws by HKEx, an Exchange Company or a clearing house acting in its capacity as such.

**PROVISION OF INFORMATION BY HKEX TO THE SFC**

The sharing of information between the SFC and HKEx should be within the scope of this MOU between the two parties and subject to applicable laws and regulations.

1. HKEx shall provide the SFC with agreed reports in a manner and within such time periods that are agreed between the SFC and HKEx under a side letter.
2. As and when HKEx becomes aware of, or obtains information on, the following, it shall send the information to the SFC as soon as reasonably practicable:
  - Admission and resignation of an exchange participant;
  - Registration and de-registration of an exchange participant's staff, including a branch manager, with an Exchange Company under its Rules;
  - Revocation, suspension or cessation of the rights of an exchange participant;
  - Revocation, suspension or cessation of the rights of an exchange participant's staff registered with an Exchange Company under its Rules;
  - Change of business name of an exchange participant;
  - Change in holder of a trading right, director, shareholder, capital structure and control of an exchange participant;
  - Commencement and re-commencement of trading by an exchange participant upon notification by the exchange participant; and
  - Opening and closing of local or overseas branches by an exchange participant upon notification by the exchange participant.
3. As and when HKEx becomes aware of, or obtains information on, the following, it shall send the information to the SFC as soon as reasonably practicable:
  - Admission of a clearing participant other than an exchange participant with a clearing house;
  - Cessation of a participantship of a clearing participant other than an exchange participant with a clearing house; and
  - Change of name of a clearing participant other than an exchange participant
4. HKEx shall advise the SFC as soon as reasonably practicable when there are material changes to its trading, settlement and risk management systems which would affect the markets operated by HKEx or an Exchange Company.

5. In relation to futures and index options contracts, as and when HKEx becomes aware that any client of a market participant who has failed to meet two or more successive margin calls or demands for variation adjustment or interest rate cash adjustment which in aggregate exceed the amount as specified in Rules, Regulations and Procedures of HKFE, it shall inform the SFC together with copy of any related correspondence received by HKEx from the market participant as soon as reasonably practicable.
6. As and when HKEx becomes aware of an alleged conduct by a market participant which if substantiated would be in breach of provisions relating to client asset protection or pose a risk to client assets, HKEx shall notify the SFC details of the particulars as soon as practicable.
7. HKEx shall advise the SFC as soon as reasonably practicable when it uplifts a trading cap on an exchange participant's trades, or gives approval to an exchange participant to resume trading, after the exchange participant (or in the case the exchange participant is not a clearing participant of HKSCC, its clearing participant) has made good the payment of a Direct Debit Instruction previously issued by HKSCC and rejected by the designated bank of that exchange participant (in its capacity as a clearing participant of HKSCC) or of that exchange participant's HKSCC clearing participant, as the case may be.
8. HKEx shall require a HKSCC clearing participant which is a licensed corporation to provide the SFC with a liquid capital computation at the same time when it requires that HKSCC clearing participant to furnish such computation to HKEx following that HKSCC clearing participant's designated bank's rejection of a Direct Debit Instruction previously issued by the HKSCC.
9. HKEx shall provide the SFC as soon as reasonably practicable a copy of an assessment report on a HKSCC clearing participant's future settlement ability as and when such a report is produced by HKEx following the HKSCC clearing participant's designated bank's rejection of a Direct Debit Instruction previously issued by the HKSCC.
10. HKEx shall require a HKSCC clearing participant to provide the SFC with a copy of an external accountant's review report on the HKSCC clearing participant's internal control policies and procedures at the same time when it requires the HKSCC clearing participant to furnish such report to HKEx following the HKSCC clearing participant's designated bank's rejection of a Direct Debit Instruction previously issued by HKSCC.
11. HKEx shall notify the SFC as soon as reasonably practicable all subsequent amendments to market participants' (which are licensed corporations) liquid capital if HKEx has been notified the same by market participants.

12. As and when a market participant which is a licensed corporation files an ad hoc financial return with HKEx and where HKEx considers that such information has significant and material impact on the operation and the financial position of the market participant, HKEx shall notify the SFC of such a case. HKEx shall, upon the request of the SFC, provide the relevant data in the financial return to the SFC as soon as reasonably practicable. HKEx shall, upon an enquiry of the SFC, provide an explanation concerning the financial return to the SFC where such explanations are readily available to HKEx.
13. HKEx shall provide the SFC with particulars relating to a market participant's (which is a licensed corporation) failure in complying with the minimum liquid capital requirement under the Financial Resources Rules as soon as reasonably practicable as and when HKEx become aware of the circumstances.
14. Pursuant to clause 18 of the MOU, a cross market contingency plan shall be formulated by HKEx after consultation with the SFC. HKEx shall, in the crises circumstances outlined in that contingency plan, liaise and exchange information with the SFC about market participants. Such information may include information on participants regarding stockholding, clearing and financial position. The manner and the time frame for such liaison and exchange of information shall be in accordance with those specified in the cross market contingency plan.
15. As and when HKEx issues a warning letter to a market participant or one of its officers or employees, or institutes disciplinary action in respect of a market participant or one of its officers or employees, HKEx shall as soon as reasonably practicable pass to the SFC a copy of the letter that is issued. HKEx shall thereafter inform the SFC of the result of the disciplinary action and any appeal action initiated by the market participant, its officers or employees.
16. HKEx shall provide the SFC with real time electronic access to the SMARTS System, and with daily Market Surveillance System data in an agreed manner as soon as reasonably practicable, which contain such trading and other information as agreed between HKEx and the SFC.
17. In relation to securities listed on the Main Board and the GEM, HKEx shall upon a reasonable request of the SFC send to the SFC information relating to identities of all participants and share holding position of each participant in a stock in an agreed manner not later than the next trading day.
18. HKEx shall provide to the SFC the SEHK Monthly Bulletin in an agreed manner not later than 5 business days following the end of each month or such other time frame as agreed between the parties.

19. As and when HKEx receives a notification from a listed company about changes in the directorate of the company, HKEx shall provide a copy of the notification to the SFC as soon as reasonably practicable.
20. In relation to notifications submitted by directors, chief executives and substantial shareholders of listed companies under the Securities and Futures Ordinance, HKEx shall provide details of the notifications to the SFC in an agreed manner not later than 3 working days after receipt of the notifications by HKEx.
21. In relation to apparent late submissions filed by directors, chief executives and substantial shareholders of listed companies under the Securities and Futures Ordinance, HKEx shall provide the SFC with a covering report accompanied by copies of the apparent late submissions on a weekly basis.
22. In relation to share re-purchase notifications as stipulated by the listing rules of HKEx, HKEx shall provide details of the notifications to the SFC in an agreed manner not later than 3 working days after receipt of the notifications by HKEx.
23. In relation to stock options contracts, HKEx shall upon a reasonable request of the SFC provide to the SFC trading activities, open positions and reported large open positions of selected stock options contracts in the next business day following the day of request.
24. In relation to futures and index options contracts, HKEx shall provide the SFC with real time electronic access to the CIBOIS terminal and a daily trading data feed in an agreed manner, which contain such trading and other information as agreed between HKEx and the SFC.
25. In relation to futures and index options contracts, HKEx shall send daily the following reports to the SFC :-
  - large open positions report for all futures and index options contracts;
  - risk concentration report on HSI and MHI futures and options contracts;
  - position delta report in relation to HSI and MHI futures and options contracts showing the running delta position for those clients of market participants with large open position; and
  - market report on HSI and MHI futures contracts for the extended sessions.
26. HKEx shall provide the SFC with all circulars that are issued to market participants in an agreed manner.
27. HKEx shall provide the SFC with access to the EMSIS data feed.



28. HKEx shall provide the SFC with real time electronic access to CCASS terminal in an agreed manner, which contains such functions and information as agreed between HKEx and the SFC.
29. HKEx shall inform the SFC as and when it initiates an intraday margin call or mark including the time when margin call or mark is initiated, the number of clearing participants and the amounts involved.
30. As and when any amount in respect of an intraday margin or mark cannot be collected within the period stipulated by HKEx, HKEx shall inform the SFC the name of the respective clearing participant and the outstanding amount.
31. HKEx shall provide the SFC with its updated cross market contingency plan as soon as reasonably practicable.
32. HKEx shall provide the SFC with the monthly financial statements of HKSCC Guarantee Fund, HKCC Reserve Fund and SEOCH Reserve Fund.
33. HKEx shall provide the SFC with cross market information in an agreed manner and containing such information as agreed between HKEx and the SFC.
34. HKEx shall provide the SFC in such periodical intervals as agreed between the two parties with a sensitivity analysis on HKSCC Guarantee Fund, HKCC Reserve Fund and SEOCH Reserve Fund under different market movements and default rate assumptions in an agreed manner and containing such information as agreed between HKEx and the SFC.
35. HKEx shall provide the SFC with the breakdown of HKSCC Guarantee Fund, HKCC Reserve Fund and SEOCH Reserve Fund insofar the information has not been covered under the respective financial statements in item 32 above on a half-yearly basis or upon change of the respective Guarantee Fund/Reserve Fund by 10% or more.
36. HKEx shall provide the SFC monthly with the following report :-
  - CCASS Trade, Settlement & Depository Statistics
  - Summary on measures of handling late delivery
  - Margin deposits received from participants of HKCC and SEOCH
37. HKEx shall provide the SFC weekly with the following report :-
  - Statistics information on trade and settlement activities in CCASS
38. HKEx shall provide the SFC daily with the following report :-

- Summary of exemption and buy-in of HKSCC

39. HKEx shall provide the SFC regularly with an updated organisation chart containing names of senior executives and their contact telephone numbers.

**PROVISION OF INFORMATION BY THE SFC TO HKEx**

The sharing of information between the SFC and HKEx should be within the scope of this MOU between the two parties and subject to applicable laws and regulations.

1. As and when the SFC becomes aware of, or obtains information on, the following, it shall send the information to HKEx as soon as reasonably practicable:
  - Registration, revocation, suspension or cessation of a corporation or an individual as a dealer, dealing director or dealer's representative, as the case may be;
  - Change or cessation of employment of a dealer, dealing director or dealer's representative;
  - Discrepancy in registration record in relation to a dealer, dealing director or dealer's representative upon checking the relevant information received from HKEx; and
  - Failure in paying the annual registration fee by a dealer, dealing director or dealer's representative
  
2. As and when approval is given by the SFC on the following matters, the SFC shall pass to HKEx a copy of the approval letter that is issued to a market participant which is a licensed corporation:
  - (a) SFC approved modification of provisions under the Financial Resources Rules relating to liquid assets, ranking liabilities, minimum liquid capital requirement and capital requirement of a market participant which is a licensed corporation;
  
  - (b) SFC approved designation of a market participant's (which is a licensed corporation) subordinated loan as an approved subordinated loan;

- (c) SFC approved repayment or partial payment of a market participant's (which is a licensed corporation) approved subordinated loan;
  - (d) SFC approved designation of a market participant's (which is a licensed corporation) stand-by subordinated loan facility as an approved stand-by subordinated loan facility; and
  - (e) SFC approved a person to become a substantial shareholder of a market participant which is a licensed corporation.
3. As and when the SFC completes an inspection on a market participant which is a licensed corporation, the SFC shall as soon as reasonably practicable pass a copy of its letter issued to the market participant to HKEx. The SFC shall, upon the request of HKEx, inform HKEx to the extent permitted by law and relevant to the functions of HKEx as a recognized exchange controller of the follow up actions taken by the SFC and the market participant.
4. As and when the SFC exercises its power of intervention restricting the business and / or the handling of assets by a market participant which is a licensed corporation, the SFC shall as soon as reasonably practicable provide HKEx with particulars relating to the circumstances leading to the intervention and the financial status of the market participant, including but not limited to details of the amount owed to clients, the status of clients' assets and collateral, extent of client assets at risk and extent of deficiency in market participant's assets in meeting its obligations due to the clients.
5. In relation to monthly financial returns of market participants which are licensed corporations filed with the SFC, the SFC shall provide HKEx with the following information in an agreed manner and within the time period agreed between the SFC and HKEx under side letter:-
- (a) agreed data extracted from the financial returns pursuant to the Financial Resources Rules of market participants which are licensed corporations;

- (b) agreed exception reports generated from the financial returns pursuant to the Financial Resources Rules of market participants which are licensed corporations;
  - (c) other data in the financial returns pursuant to the Financial Resources Rules of market participants which are licensed corporations as soon as reasonably practicable upon the request of HKEx where such data are readily available to the SFC.
6. The SFC shall notify HKEx as soon as reasonably practicable all subsequent amendments to market participants' (which are licensed corporations) liquid capital if the SFC has been notified the same by the market participants.
  7. As and when a market participant (which is a licensed corporation) files an ad hoc financial return with the SFC and where the SFC considers that such information has significant and material impact on the operation and the financial position of the market participant, the SFC shall notify HKEx of such a case. The SFC shall, upon the request of HKEx, provide the relevant data in the financial return to HKEx as soon as reasonably practicable to the extent permitted by law and relevant to the functions of HKEx as a recognized exchange controller.
  8. In relation to financial returns of market participants (which are licensed corporations) filed with the SFC, the SFC shall, upon an enquiry of HKEx, provide an explanation concerning the financial returns to HKEx where such explanations are readily available to the SFC, or shall endeavour to do so as soon as reasonably practicable to the extent permitted by law and relevant to the functions of HKEx as a recognized exchange controller.
  9. The SFC shall as soon as practicable provide HKEx with particulars relating to a market participant's (which is a licensed corporation) failure in complying with the minimum liquid capital requirement under the Financial Resources Rules. The SFC

shall also advise HKEx on the major actions that it may take pertaining to the rectification of the failure and the remedial action taken or to be taken by the market participant as and when the SFC becomes aware of the circumstances.

10. Pursuant to clause 18 of the MOU, a cross market contingency plan shall be formulated by HKEx after consultation with the SFC. The SFC shall, in the crises circumstances outlined in that contingency plan, liaise and exchange information with the HKEx about market participants. Such information may include information on participants regarding stockholding and financial position; or compliance with the minimum liquid capital requirement as defined under the Financial Resources Rules. The manner and the time frame for such liaison and exchange of information shall be in accordance with those specified in the cross market contingency plan.
11. The SFC shall notify HKEx as soon as reasonably practicable of complaint of a serious nature against a market participant to the extent permitted by law and relevant to the functions of HKEx as a recognized exchange controller.
12. As and when the SFC issues a warning letter to a market participant or one of its officers or employees, or institutes disciplinary action in respect of a market participant or one of its officers or employees, the SFC shall as soon as reasonably practicable pass to HKEx a copy of the letter that is issued. The SFC shall thereafter inform HKEx of the result of the disciplinary action and any appeal action initiated by the market participant, its officers or employees.
13. The SFC shall provide HKEx as soon as reasonably practicable with the following information:
  - (a) possible breaches of trading and clearing rules by market participants detected by the SFC in the performance of its functions;

- (b) commission of serious trading malpractice (e.g. rat trading, front running and market manipulation) by market participants or their staff detected by the SFC in the performance of its functions; and
  - (c) disciplinary or restrictive actions of a serious nature to be taken by the SFC against market participants.
14. As and when the SFC becomes aware of an alleged conduct by a market participant which if substantiated would be in breach of provisions relating to client asset protection or pose a risk to client assets, the SFC shall notify HKEx details of the particulars as soon as practicable.
15. The SFC shall provide HKEx regularly with an updated organisation chart containing names of senior executives and their contact telephone numbers.

**CONSULTATION IN THE EVENT OF CERTAIN MATTERS AFFECTING CCASS**

1. HKEx hereby undertakes to consult the SFC if HKSCC intends:
  - a) to waive any or all of the conditions or requirements of participation in CCASS of any Participant under CCASS Rule 303;
  - b) to enter into arrangements with other clearing entities concerning clearing and settlement services related to CCASS or to provide services to Participants other than in respect of Eligible Securities under CCASS Rule 702;
  - c) to cease or suspend operation of the CCASS or to restrict any one or more of its services in respect to any Eligible Securities previously admitted for settlement under the CNS System of CCASS;
  - d) to declare a Securities Loss under CCASS Rule 2401 or to allocate such Securities Loss to Participants under CCASS Rule 2403;
  - e) to allow Clearing Participants (as defined in CCASS Rules) to provide Guarantee Fund Contributions in any form other than cash or bank guarantee under CCASS Rule 2503;
  - f) to establish additional arrangements for the Guarantee Fund, or appropriate HKSCC's own resources to the Guarantee Fund, or to terminate any Guarantee Fund arrangements, or to appropriate any of HKSCC's own resources out of the Guarantee Fund, including under CCASS Rule 2504; HKSCC will also consult the SFC if the Guarantee Fund is not or is likely not to be maintained at the minimum level of \$100 million in Contributions plus additional coverage of \$100 million comprised of insurance and/or such other facilities as may be agreed to by the parties hereto;



- g) to require reimbursement from Clearing Participants (as defined in CCASS Rules) under CCASS Rule 2504 other than pro-rata to the minimum amount of their respective Contributions under CCASS Rule 2502;
- h) to suspend the whole or any part of the operations of CCASS or the services and facilities of CCASS available to all Participants;
- i) to make any material change to: its insurance coverage concerning clearing and settlement services related to CCASS; HKSCC form of bank guarantee; or any HKSCC agreement with Participants or Designated Banks, as shall from time to time be in existence;
- j) to enter into, revoke or make any material change to any agreement, arrangement or the like, between itself and any Appointed Depository concerning CCASS;
- k) to make a determination under CCASS Rule 201 that the Operational Procedures shall prevail over the CCASS Rules; or

2. In consulting the SFC, the procedures set out in Appendix V shall be followed.