



**HKEx**  
香港交易所

編號

LSD/45/2014

Ref. No.:

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Date: 26/09/2014

**香港聯合交易所有限公司**

(香港交易及結算所有限公司全資附屬公司)

**The Stock Exchange of Hong Kong Limited**

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

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## 通告 CIRCULAR

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Subject : Amendments to the Rules of the Exchange, the Disciplinary Procedures, the Operation Procedures for Stamp Duty Collection and the Operation Procedures for Trading Fee of The Stock Exchange of Hong Kong Limited

Enquiry : Participant General Enquiry Hotline Tel : 2840 3626 E-mail : [trd@hkex.com.hk](mailto:trd@hkex.com.hk)

Holders of Stock Exchange Trading Rights and Exchange Participants are requested to note that the Securities and Futures Commission has approved amendments to the Rules of the Exchange, the Disciplinary Procedures, the Operation Procedures for Stamp Duty Collection and the Operation Procedures for Trading Fee of The Stock Exchange of Hong Kong Limited to facilitate the implementation of Shanghai-Hong Kong Stock Connect (“Stock Connect”).

The amendments, set out in the Appendices, will take effect upon the launch of the Stock Connect, which will be announced in due course. The Chinese version of the rule amendments will be issued when they are available.

The marked-up version of the amendments can be downloaded from the following sections of the HKEx website:

- “Rule Update - Rules of the Exchange”
- “Rule Update - Disciplinary Procedures”
- “Rule Update - Operation Procedures for Stamp Duty Collection”
- “Rule Update - Operation Procedures for Trading Fee”

Please note these amendments are the first batch of amendments on the implementation of Stock Connect. Further changes will be made to the Rules of the Exchange before the launch of the Stock Connect. Please refer to the circular (Ref No.: CT/049/14) issued by the Exchange dated today’s date for further information.

Christine Wong  
Chief Counsel & Head  
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**通告 CIRCULAR**

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事項： 交易所規則、紀律程序、印花稅集體收集制度運作程序及交易費收費細則之修訂

查詢： 參與者一般查詢熱線 電話：2840 3626 電子郵箱：[trd@hkex.com.hk](mailto:trd@hkex.com.hk)

請各位香港聯合交易所有限公司交易權持有人及交易所參與者注意，證券及期貨事務監察委員會已批准交易所規則、紀律程序、印花稅集體收集制度運作程序及交易費收費細則，有關促進滬港股票市場交易互聯互通機制（「滬港通」）的實施之修訂。

有關修訂載於附錄，將於滬港通推出時隨即生效。滬港通的推出時間將於適當時候公布。規則修訂的中文版本將於稍後發布。

有關規則的標明修訂本可在香港交易所網站中下載：

- "規則修訂 - 交易所規則"
- "規則修訂 - 紀律程序"
- "規則修訂 - 印花稅集體收集制度運作程序"
- "規則修訂 - 交易費收費細則"

請注意，上述修訂為實施滬港通的首輪修訂。滬港通推出前，交易所規則將會再作修訂。詳情請參閱聯交所今天發出的通告（編號：CT/049/14）。

法律服務部  
首席法律顧問及主管  
黃凱明 謹啟

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Rules of the Exchange

## CHAPTER 1

## INTERPRETATION

101. In these Rules, unless the context otherwise requires:-

“applicable laws”	in the context of the China Connect Service or the trading of China Connect Securities or SEHK Securities, means, in relation to a market, security, transaction, entity or a person, the laws and regulations applicable to such market, security, transaction, entity or person from time to time, including but not limited to any Mainland China and Hong Kong laws, administrative regulations and judicial interpretations, and any departmental regulations and other regulatory documents promulgated by relevant governmental or regulatory bodies, as well as the rules and requirements of any exchange or clearing house. The aforesaid governmental or regulatory bodies include but are not limited to the China Securities Regulatory Commission, the People’s Bank of China and the State Administration of Foreign Exchange of Mainland China, and the Commission and the Monetary Authority of Hong Kong;
“Authorized Person”	means a person employed or engaged by an Exchange Participant or a Special Participant to gain access to the System, and where an Exchange Participant is registered as a China Connect Exchange Participant, a person employed or engaged by it to gain access to the CSC;
“Backup China Connect Open Gateway”	means a China Connect Open Gateway installed for backup purposes pursuant to Rule 1410(2);
“Backup Special Participant Open Gateway”	means a Special Participant Open Gateway installed for backup purpose pursuant to Rule 1512;
“China Connect CCASS Clearing Participant”	means “China Connect Clearing Participant” as defined in the CCASS Rules;
“China Connect Clearing House”	has the same meaning as defined in the CCASS Rules;
“China Connect Exchange Participant”	means an Exchange Participant which is registered as a China Connect Exchange Participant by the Exchange;
“China Connect Exchange Participant Registration	means the eligibility criteria (including technical standards, system, risk management, client documentation and other

Criteria”	requirements) which the Exchange may prescribe from time to time for an Exchange Participant to be, and to remain, registered as a China Connect Exchange Participant;
“China Connect Market”	means a stock market in Mainland China acceptable to the Exchange and included in the list of China Connect Markets from time to time, as referred to in Rule 1409(1)(c) and, where the context so requires, includes the “China Connect Market Operator” operating the relevant stock market and the “China Connect Market System” operated by such China Connect Market Operator;
“China Connect Market Operator”	means an exchange that operates a China Connect Market and that has entered into Trading Links with the Exchange, whose name is included in the list of China Connect Market Operators from time to time, as referred to in Rule 1409(1)(d);
“China Connect Market Participant”	in relation to a China Connect Market, means a member or participant of the relevant China Connect Market Operator who trades in SEHK Securities through a Special Participant, whether as agent or principal;
“China Connect Market System”	means the system used for the trading of China Connect Securities on a China Connect Market, as operated by the relevant China Connect Market Operator;
“China Connect Open Gateway”	means the hardware and software component operated by a China Connect Exchange Participant, which provides the communications interface between the CSC, the BSS of the China Connect Exchange Participant and other devices;
“China Connect order”	means an order input into the CSC via a China Connect Open Gateway of a China Connect Exchange Participant for routing to a China Connect Market System to buy or sell China Connect Securities (including an order to sell Special China Connect Securities), and the terms “China Connect buy order” and “China Connect sell order” shall be construed accordingly;
“China Connect Securities”	means any securities listed on a China Connect Market which the Exchange (after consulting the relevant China Connect Market Operator) accepts as eligible for China Connect buy orders and China Connect sell orders through the use of the China Connect Service, and are included in the list of China Connect Securities from time to time, as referred to in Rules 1407 and 1409(1)(a). Unless the context otherwise requires, any reference in these Rules to “China Connect Securities” includes “Special China Connect Securities” as referred to in Rules 1408 and

1409(1)(b);

“China Connect Securities Trade”	means a trade in China Connect Securities (including Special China Connect Securities) executed on a China Connect Market through the use of the China Connect Service, and the terms “China Connect Securities Buy Trade” and “China Connect Securities Sell Trade” shall be construed accordingly;
“China Connect Service”	means the order-routing service referred to in Rule 1403(1) through which China Connect orders placed by a China Connect Exchange Participant may be transmitted by the SEHK Subsidiary to a China Connect Market for the buying and selling of China Connect Securities and for the selling of Special China Connect Securities, and unless the context otherwise requires, the related supporting services referred to in Rule 1403(2);
“China Connect Service Special Rules”	in relation to a China Connect Market, means the additional rules prescribed by the Exchange from time to time that govern China Connect Exchange Participants when trading in the China Connect Market, as referred to in Rule 1444;
“Clearing Links”	has the same meaning as defined in the CCASS Rules;
“CNS System” or “Continuous Net Settlement System”	has the same meaning as defined in the CCASS Rules;
“CSC”	means the China Stock Connect System for receiving and routing China Connect orders to a China Connect Market System for automatic matching and execution;
“Eligible Security”	has the same meaning as defined in the CCASS Rules;
“Exchange Participant”	means a person: (a) who, in accordance with these Rules, may trade on or through the Exchange; and (b) whose name is entered in a list, register or roll kept by the Exchange as a person who may trade on or through the Exchange as an Exchange Participant and “Exchange Participants” shall be construed accordingly;
“Exchange Trade”	means a trade in an Eligible Security (other than a China Connect Security) either reported to the Exchange by an Exchange Participant or effected on the Exchange;
“group of companies”	has the meaning assigned to it by section 2 of the Companies Ordinance, and any reference to “a group company” or “group companies” shall be construed accordingly;

“Mainland China”	means the People’s Republic of China other than Hong Kong, the Macau Special Administrative Region and Taiwan;
“Participant”	means a person which is admitted or registered as an Exchange Participant or a Special Participant, and “Participantship” shall be construed accordingly;
“registered business address”	means the business address of an Exchange Participant at which it carries on its business of dealing in securities, or the business address of a Special Participant in Hong Kong at which it carries on its order routing business, as the case may be;
“Responsible Officer”	means an individual registered by the Exchange as a Responsible Officer of an Exchange Participant under these Rules;
“SEHK Securities”	means, for a given Special Participant, those Eligible Securities that have been determined by the Exchange (after consulting the relevant China Connect Market Operator) as eligible for buy orders and sell orders through the order-routing services provided by the Special Participant and which are included in the list of SEHK Securities from time to time, as referred to in Rule 1505. Unless the context otherwise requires, any reference in these Rules to “SEHK Securities” includes “Special SEHK Securities”;
“SEHK Subsidiary”	means a wholly-owned subsidiary of the Exchange duly authorised as an ATS provider under the Ordinance and licensed under applicable laws in Mainland China to provide the order-routing service referred to in Rule 1403(1);
“Special China Connect Securities”	means any securities listed on a China Connect Market which the Exchange (after consulting the relevant China Connect Market Operator) accepts or designates as eligible only for China Connect sell orders and not for China Connect buy orders through the use of the China Connect Service, as referred to in Rule 1408 and 1409(1)(b);
“Special Participant”	means a subsidiary of a China Connect Market Operator duly authorised or licensed under applicable laws to receive and route orders in SEHK Securities (including sell orders in Special SEHK Securities) from the relevant China Connect Market Participants to the System for automatic order matching and whose name is entered in the Register of Special Participants, as referred to in Rule 1510, and “Special Participantship” shall be construed

accordingly;

- “Special Participant Open Gateway” means a hardware and software component operated by a Special Participant, which provides the communications interface between the System and the Special Participant’s trading devices;
- “Special SEHK Securities” in relation to a Special Participant, means those Eligible Securities that have been determined or designated by the Exchange (after consulting the relevant China Connect Market Operator) as eligible only for sell orders but not for buy orders through the order-routing services of the Special Participant, as referred to in Rules 1506;
- “standard China Connect throttle rate” means the standard throughput rate of a China Connect order into the CSC via a China Connect Open Gateway, as determined by the Exchange from time to time;
- “Stock Exchange Trading Right” means a right to be eligible to trade on or through the Exchange as an Exchange Participant and entered as such a right in a list, register or roll kept by the Exchange;
- “subsidiary” has the meaning assigned to it by section 15 of the Companies Ordinance;
- “trading day” means a day on which trading is conducted on the Exchange as specified in Rule 501 and/or Rule 501A;
- “Trading Links” means the cross-boundary order-routing arrangements referred to in Rules 1401 and 1501;

105. The Exchange, the SEHK Subsidiary and a recognized exchange controller which is the controller of the Exchange will not be liable to any Participant or to any other person with respect to any action or omission by any of them in connection with the operations of the System, the provision of services and facilities available thereunder, and all other matters as contemplated in these Rules.

### **Notice**

110. Unless otherwise provided in these Rules, all notices, requests, demands or other communications from the Exchange to holders of Stock Exchange Trading Rights, Exchange Participants and/or Special Participants may be given orally or in writing, in person or by post, by electronic or wire transmission, by telephone or facsimile, by posting on the HKEx website, or by any means of computer data transmission including, but in no way limited to, broadcast messages via HKATS or DCASS or e-mail or ECP.

## **CHAPTER 2**

### **ADMINISTRATION**

204. Without prejudice to Rule 203 above and any other provisions in the Articles or

these Rules, the following powers shall in addition be vested in the Board, to be exercised in such manner, on such terms and at such times as it shall see fit:-

- (1) to admit or refuse to admit any person or company as a Participant;
- (7) to give and issue directions by means of circulars to holders of Stock Exchange Trading Rights, Exchange Participants and/or Special Participants from time to time for the purpose of enforcing or implementing these Rules;
- (8) to order an investigation into the affairs of any Exchange Participant or its Responsible Officers, or any Special Participant suspected or having violated any of the provisions of the CCASS Rules, the Ordinance or these Rules and for this purpose, to inspect and demand the production of all books, accounts, records and any other documents which it may deem necessary and to engage an accountant or any other person or persons to assist in the investigation;
- (9) to release at its absolute discretion information concerning any Participant to the Commission or an authorised officer of the Commission when so requested by either of them;
- (10) to reprimand, fine, suspend or expel any Exchange Participant or its Responsible Officers, or any Special Participant and to exercise such other disciplinary measures as hereinafter provided in these Rules;
- (12) to grant, suspend or revoke the Stock Exchange Trading Rights of any Exchange Participant or the registration of any of its Responsible Officers;
- (12A) to grant, suspend or revoke the admission of any person as a Special Participant.

205. The Board or the Exchange shall not be required to give any reasons for the exercise of any of its powers and its decision shall be final and binding on all Exchange Participants and their Responsible Officers save and except for matters referred to in Rule 303A(2) and Rule 304(7), and on all Special Participants.

#### **The Chief Executive**

223. The Chief Executive shall be appointed by the Board and shall hold office upon such terms as may be prescribed by the Board. The Chief Executive shall have the general supervision of and be responsible for the day to day management of the Exchange and supervision of Participants as provided in these Rules.

226. Without prejudice to Rule 225 above and any other provisions in these Rules expressly conferring power upon the Chief Executive, the Chief Executive shall have such powers as the Board or any Committee may confer upon him including, in particular, the following powers:-



- (1) to supervise the trading activities in the Trading Hall and to take all necessary steps to maintain orderly and efficient trading, in accordance with these Rules and to suspend trading in any issue of securities or by any Participant as provided for in these Rules or as directed or authorised by the Board or any Committee;
- (3) to report periodically to the Board on all matters concerning the Exchange or on such occasions as may be expedient;
- (4) to scrutinise and manage all matters relating to listing, Exchange Participantship and Special Participantship, including applications for Exchange Participantship and Special Participantship;
- (5) to exercise such disciplinary measures over the holders of Stock Exchange Trading Rights, Exchange Participants or their Responsible Officers, and Special Participants in any manner as hereinafter provided in the Rules in order to ensure compliance with the CCASS Rules, the Ordinance and these Rules;
- (7) to ensure good order and behaviour in the Trading Hall and for this purpose, to refuse entry to any person and to remove any person from the Trading Hall;
- (7A) to ensure the proper operation of the System, and for this purpose, to prevent any person from accessing or using the System;
- (7B) to ensure the proper operation of the CSC, and for this purpose, to prevent any person from accessing or using the CSC;
- (8) to attend all meetings of the Committees; and
- (9) to release at his absolute discretion information concerning any holder of a Stock Exchange Trading Right or Participant to a recognized exchange controller which is the controller of the Exchange, the Commission or any of their authorised officers of the Commission when so requested by any of them.

### **Registers**

228. The Secretary shall keep the Registers of Exchange Participants, Special Participants, Responsible Officers and Designated Specialists.
229. The Register of Exchange Participants shall include the name and address of and the number of Stock Exchange Trading Rights held by Exchange Participants and such other information required by law or by the Board from time to time. The Register of Special Participants shall include the name and address of Special Participants and such other information required by law or by the Board from time to time.
235. The Registers kept by the Secretary under Rule 228 shall be open for inspection at any time during office hours by an authorised officer of the Commission or any Participant. Members of the public may also inspect the Register of Exchange

Participants and Register of Special Participants at such place and time as the Exchange may from time to time prescribe.

236. Any Participant or other person may require a copy of the Register of Exchange Participants or Special Participants, or of any part thereof. The Exchange shall cause any copy so required by any person to be sent to that person within a period of 10 days commencing on the day immediately after the day on which the request for the copy is received by the Exchange.

### **Employees**

240. Save with the written approval of the Board, no person appointed by the Board nor any officer or employee of the Exchange shall:-
- (1) deal directly or indirectly in any securities on the Exchange or any China Connect Securities on the relevant China Connect Market;
  - (2) accept directly or indirectly any gifts, compensation, or any form of remuneration or benefit whatsoever from any Participant; or
242. Any Participant which causes or attempts to cause or induces any employees or officers of the Exchange, HKEx, or a company of which HKEx is a controller to contravene Rule 240 above or which is privy to such contravention shall be guilty of improper conduct and may be subject to any disciplinary measure, including suspension and expulsion as the Board may consider appropriate in the circumstances.

## **CHAPTER 3A**

### **STOCK EXCHANGE TRADING RIGHTS**

#### **Entitlement to trade**

- 3A02. Subject to fulfilling the conditions required under these Rules, a holder of a Stock Exchange Trading Right shall be eligible to trade on or through the Exchange as an Exchange Participant.

## **CHAPTER 5**

### **TRADING**

#### **Operational Trading Rules**

#### **Trading Hours**

501. (1) Trading on the Exchange is conducted on every weekday, unless otherwise determined by the Board (excluding Saturdays and public holidays) at the times specified below or at such other times as may be determined by the Chief Executive in consultation with the Chairman and the Commission:-
- (a) The Morning Session shall commence at 9:30 a.m. and end at 12:00 noon; and
  - (b) The Afternoon Session shall commence at 1:30 p.m. and end at 4:00 p.m. provided that with effect from 5 March 2012, the Afternoon Session shall commence at 1:00 p.m. and end at 4:00 p.m..

There is no Afternoon Session on the eves of Christmas, New Year and Lunar New Year.

- (2) In addition to the trading hours specified in Rule 501(1), trading on the Exchange is also conducted during the Pre-opening Session unless otherwise determined by the Board from time to time.

#### **Quotations**

505. Rules 506, 506A, 507 and 507A do not apply to auction orders and such orders can only be input into the System during the Pre-opening Session subject to Rule 501G. Limit orders, enhanced limit orders and special limit orders can only be input into the System during the trading hours prescribed in Rule 501(1) provided that, if applicable, such orders in respect of the Extended Trading Securities can also be input into the System during the Extended Morning Session. For the avoidance of doubt,

- (1) if an order is input into the System through the Open Gateway of an Exchange Participant or the Central Gateway session designated to an Exchange

Participant, the order is taken for all purposes under these Rules to have been input into the System by and with the knowledge of the Exchange Participant; and

- (2) if an order is input into the System through the Special Participant Open Gateway or Backup Special Participant Open Gateway of a Special Participant, the order is taken for all purposes under these Rules to have been input into the System by and with the knowledge of the Special Participant.

517B. All transactions in respect of an Eligible Security (other than a China Connect Security) that are recognized by the Exchange shall be settled in CCASS, and delivery and settlement in relation to such transactions shall be effected in accordance with the CCASS Rules. Notwithstanding the foregoing, subsequent to a transaction having been made between two Exchange Participants, the method of settlement may be amended by mutual agreement between the Exchange Participants concerned or in accordance with the CCASS Rules.

#### **Day-end Review of Sales/Purchases**

528. (1) (a) It is the duty of every Exchange Participant to review both sales and purchases journals at the end of each trading session. Any discrepancy, erroneous transaction or complaint should be reported to the Exchange in the form prescribed by the Board from time to time not later than 15 minutes after the commencement of the Morning Session of the next trading day.
- (b) A Special Participant shall review all sales and purchases at the end of each trading session. Any discrepancy, erroneous transaction or complaint should be reported to the Exchange in the form prescribed by the Board from time to time not later than 15 minutes after the commencement of the Morning Session of the next trading day.
- (2) If a typhoon or rainstorm warning signal is hoisted or issued as stipulated in Rule 571(1) or an emergency as stipulated in Rule 572 occurs, the Board may in its absolute discretion extend or vary the time within which any discrepancy, erroneous transaction or complaint should be reported to the Exchange.

#### **Market Misconduct etc.**

##### **False trading**

545. (1) A Participant shall not do anything or cause anything to be done, with the intention that it has, or is likely to have, the effect of creating a false or misleading appearance:-
- (a) of active trading in securities traded on the Exchange; or
- (b) with respect to the market for, or the price for dealings in securities traded on the Exchange.
- (1A) A Participant shall not take part in, be concerned in, or carry out, directly or

indirectly, one or more transactions, with the intention that it or they has or have, or is or are likely to have, the effect of creating an artificial price, or maintaining at a level that is artificial (whether or not it was previously artificial) a price, for dealings in securities traded on the Exchange.

- (1B) Without limiting the generality of Rule 545(1), where a Participant:-
- (a) enters into or carries out, directly or indirectly, any transaction of sale or purchase, or any transaction which purports to be a transaction of sale or purchase, of securities that does not involve a change in the beneficial ownership of them;
  - (b) offers to sell securities at a price that is substantially the same as the price at which it has made or proposes to make, an offer to purchase the same or substantially the same number of them; or
  - (c) offers to purchase securities at a price that is substantially the same as the price at which it has made or proposes to make, an offer to sell the same or substantially the same number of them,

then, unless the transaction in question is an off-market transaction, the Participant shall, for the purposes of Rule 545(1), be regarded as doing something or causing something to be done, with the intention that it has, or is likely to have, the effect of creating a false or misleading appearance of active trading in securities traded on the Exchange or with respect to the market for, or the price for dealing in, securities so traded.

### **Price rigging**

- (3) A Participant shall not:-
- (a) enter into or carry out, directly or indirectly, any transaction of sale or purchase of securities that does not involve a change in the beneficial ownership of those securities, which has the effect of maintaining, increasing, reducing, stabilizing, or causing fluctuations in, the price of securities traded on the Exchange; or
  - (b) enter into or carry out, directly or indirectly, any fictitious or artificial transaction or device, with the intention that, it has the effect of maintaining, increasing, reducing, stabilizing, or causing fluctuations in, the price of securities traded on the Exchange.

### **Disclosure of information about prohibited transactions**

- (4) A Participant shall not disclose, circulate or disseminate, or authorize or be concerned in the disclosure, circulation or dissemination of, information to the effect that the price of securities of a corporation that are traded on the Exchange will be maintained, increased, reduced or stabilized, or is likely to be maintained, increased, reduced or stabilized, because of a prohibited transaction relating to securities of the corporation, if it:-

- (a) has entered into or carried out, directly or indirectly, the prohibited transaction; or
- (b) has received, or expects to receive, directly or indirectly, a benefit as a result of the disclosure, circulation or dissemination of the information.

**Fraudulent or deceptive devices, etc. in transactions in securities**

- (5) A Participant shall not, directly or indirectly, in a transaction involving securities trading:-
  - (a) employ any device, scheme or artifice with intent to defraud or deceive; or
  - (b) engage in any act, practice, or course of business which is fraudulent or deceptive or would operate as a fraud or deception.

**Stock market manipulation**

- (6) A Participant shall not:-
  - (a) enter into or carry out, directly or indirectly, 2 or more transactions in securities of a corporation that by themselves or in conjunction with any other transaction increase, or are likely to increase, the price of any securities traded on the Exchange, with the intention of inducing another person to purchase or subscribe for, or to refrain from selling, securities of the corporation;
  - (b) enter into or carry out, directly or indirectly, 2 or more transactions in securities of a corporation that by themselves or in conjunction with any other transaction reduce, or are likely to reduce, the price of any securities traded on the Exchange, with the intention of inducing another person to sell, or to refrain from purchasing, securities of the corporation; or
  - (c) enter into or carry out, directly or indirectly, 2 or more transactions in securities of a corporation that by themselves or in conjunction with any other transaction maintain or stabilize, or are likely to maintain or stabilize, the price of any securities traded on the Exchange, with the intention of inducing another person to sell, purchase or subscribe for, or to refrain from selling, purchasing or subscribing for, securities of the corporation.

**Disclosure of false or misleading information inducing transactions**

- (7) A Participant shall not disclose, circulate or disseminate, or authorize or be concerned in the disclosure, circulation or dissemination of, information that is likely:-
  - (a) to induce another person to subscribe for securities traded on the

Exchange;

- (b) to induce the sale or purchase of securities by another person; or
- (c) to maintain, increase, reduce or stabilize the price of securities traded on the Exchange,

if -

- (i) the information is false or misleading as to material fact, or is false or misleading through the omission of a material fact; and
- (ii) the Participant knows that the information is false or misleading as to a material fact, or is false or misleading through the omission of a material fact.

### **Insider dealing**

- (8) A Participant shall not participate in any insider dealing in relation to any securities listed or admitted to trading on the Exchange. For the purposes of this Rule 545(8), insider dealing shall have the same meaning as that used in Division 4 of Part XIII of the Ordinance.

### **Equipment Failure**

- 551. (1) In case of a failure, error or defect in any of the trading equipment supplied by the Exchange (including but not limited to terminals, host computers, communication lines and so on supplied by the Exchange to an Exchange Participant and installed in the Trading Hall) and installed in the address of a Participant or any other locations, the Participant shall report the same to the Exchange immediately and the Exchange shall have absolute discretion in assigning or re-assigning or allocating or reallocating Dealing Desks (if applicable) and equipment, where possible, to the affected Participant. Under no circumstances shall the Exchange be responsible for losses or damages arising from any such failure, error or defect in the equipment.
  - (2) A Participant shall maintain the equipment assigned to it, including the additional AMS terminal and the Standby Terminal assigned to an Exchange Participant, in accordance with the procedures and instructions provided by the Exchange from time to time.
- 558A. Any Exchange Participant which fails, in relation to a transaction in an Eligible Security (other than a China Connect Security), to comply with Rules 552 to 557 where applicable, shall be liable to disciplinary action by the Board.

### **Miscellaneous Provisions**

#### **Disputes**

- 564. Any dispute between Participants, whether arising from a breach of these Rules or otherwise, shall be immediately reported to the Exchange.

566. Information, communication, documents, recordings, or computer records of transactions maintained by the Exchange and/or Participants are admissible evidence of transactions of Participants.

567. Any adjustments to a Participant's trading records kept by the Exchange can only be made after a dispute has been reported and a decision made by the Exchange. Any such decision shall be final and conclusive and binding on the parties involved.

### **Power of the Board to Investigate and Demand Documents**

569. (1) The Board shall designate any HKEx staff or authorize any other person from time to time when it thinks fit to carry out investigation at the registered business address of a Participant and any other locations at which it carries out its business of dealing in securities or order routing, as the case may be, and to make enquiries relating to the business of a Participant to determine whether or not the Participant has complied with the provisions of these Rules.

(2) A Participant shall grant access to its registered business address and any other locations, at which it carries out its business of dealing in securities or order routing, as the case may be, and make available such accounts, and other records or documents of that Participant to any person appointed pursuant to Rule 569(1), or his designate, and allow that person to make copies of such accounts, records or documents as that person appointed or authorized under Rule 569(1) above shall require.

(3) (a) A Participant shall promptly and within the period as the person appointed or authorized under Rule 569(1) may specify, answer any enquiries made by that person truthfully and fully.

(b) A Participant shall within such period as the Board may specify, of the receipt of a written demand from the Board, submit to it such accounts, records and documents as the Board may demand.

(4) If any investigation is carried out and a written report is produced to the Board, the Participant concerned shall have the right to request a copy of such report. The Board may also at the request of an authorized officer of the Commission or of the Exchange's recognized exchange controller, provide a copy of such a report to him and the Participant shall be deemed to have authorized the Board to do so.

(5) Any expenses incidental to or consequential upon an investigation under Rule 569 shall be borne by the Participant concerned unless the Board otherwise determines.

(6) In the event of the Board exercising its discretion in ordering an investigation, the Participant concerned shall not be entitled to claim against the Exchange, its recognized exchange controller, the Board, the officers and employees of the Exchange or any other authorized person for any loss or damage whatsoever.

### **Disclosure of Information**



- 569A. The Board shall regard information concerning a Participant as confidential and disclosure of such information shall not be made to any body or persons without the prior approval of the Participant except that the Board may disclose the information without such prior approval:
- (d) in the form of a summary compiled from similar or related information obtained from other Participants if the summary is so compiled as to prevent particulars relating to the business or identity, or the trading particulars, of any Participant being ascertained from it;
  - (k) to any company of which a recognized exchange controller which is a controller of the Exchange is a controller;
  - (l) to the chief executive or the chief operating officer of HKEx for the time being appointed or deemed to have been appointed in accordance with the Ordinance or, as the context may require, their designees; and
  - (m) in respect of information concerning a China Connect Exchange Participant, to the SEHK Subsidiary, the relevant China Connect Market Operator or governmental or regulatory bodies.
- 569B. The Board may direct a Participant to provide it with any information requested by an exchange, regulatory authority or an organization (whether within or outside Hong Kong) with which HKEx or the Exchange has entered into an information sharing arrangement or agreement.

### **China Connect Exchange Participants**

589. An Exchange Participant acting in the capacity as a China Connect Exchange Participant shall comply at all times with these Rules, including but not limited to Chapter 14 of these Rules, as approved by the Exchange from time to time, the applicable China Connect Service Special Rules and the regulations, requirements, conditions, restrictions, arrangements and other stipulations that may be made, issued or published pursuant to Chapter 14 or the applicable China Connect Service Special Rules.

### **Exchange Participants trading through China Connect Exchange Participants**

590. (1) For the purpose of this Rule 590, unless the context otherwise requires, an Exchange Participant means an Exchange Participant, other than a China Connect Exchange Participant, who conducts or intends to conduct trading in China Connect Securities through the China Connect Service for the account of its clients through a China Connect Exchange Participant, whether directly or indirectly.
- (2) An Exchange Participant who wishes to buy or sell China Connect Securities for the account of its clients shall submit to the Exchange a declaration in a form and manner prescribed by the Exchange from time to time confirming such matters as the Exchange may require, including the Exchange Participant's awareness of and ability and undertaking to comply with

applicable laws in respect of the trading of China Connect Securities. From time to time, the Exchange may, but is not obliged to, publish on the HKEx website or by such other means as it considers appropriate a list of Exchange Participants who have submitted declarations to the Exchange under this Rule 590(2). An Exchange Participant shall not provide instructions to a China Connect Exchange Participant, whether directly or indirectly, to buy or sell China Connect Securities for the account of its clients before its name is included in such published list of Exchange Participants.

- (3) Subject to Rule 590(2), any instruction provided by an Exchange Participant, whether directly to a China Connect Exchange Participant or indirectly through another Exchange Participant, to sell or buy China Connect Securities shall be subject at all times to any provision in these Rules that applies to the use of the China Connect Service or the trading of China Connect Securities or in China Connect Markets, including Chapter 14 of these Rules (except Rules 1404-1406 and 1410-1414), the applicable China Connect Service Special Rules and any regulations, requirements, conditions, restrictions, arrangements and other stipulations that may be made, issued or published pursuant to Chapter 14 or the applicable China Connect Service Special Rules.
- (4) An Exchange Participant shall not provide instructions to a China Connect Exchange Participant or accept instructions from any client to sell or buy China Connect Securities through the China Connect Service which may be in breach of or not be in compliance with any provision in these Rules that applies to the use of the China Connect Service or the trading of China Connect Securities or in China Connect Markets, including Chapter 14 of these Rules, the applicable China Connect Service Special Rules and any regulations, requirements, conditions, restrictions, arrangements or other stipulations that may be made, issued or published pursuant to Chapter 14 or the applicable China Connect Service Special Rules.
- (5) By providing instructions to a China Connect Exchange Participant as referred to in Rule 590(3), the Exchange Participant agrees and represents to the Exchange that it shall abide by all applicable laws with regard to the trading of China Connect Securities on the relevant China Connect Market, including but not limited to any provision in these Rules that applies to the use of the China Connect Service or the trading of China Connect Securities or on China Connect Markets, Chapter 14 of these Rules (except Rules 1404-1406, 1410-1414), the applicable China Connect Service Special Rules and any regulations, requirements, conditions, restrictions, arrangements and other stipulations that may be made, issued or published pursuant to Chapter 14 or the applicable China Connect Service Special Rules, in the same manner as if it were a China Connect Exchange Participant trading on the relevant China Connect Market through the use of the China Connect Service.

## **CHAPTER 6**

### **PROFESSIONAL CONDUCT**

601. All Participants and where the context admits, their Responsible Officers, nominated representatives, directors, partners, Authorized Persons, officers, employees, agents and representatives, and all persons acting on behalf of Participants, Market Makers, Securities Market Makers, Structured Product Hedging Participants and Structured Product Liquidity Providers, shall strictly comply with and adhere to the CCASS Rules, the Clearing Rules, the Options Trading Rules, the Ordinance and these Rules.
602. Participants shall accept as final and binding and abide by all decisions, rulings and directions of the Board and any other person or body of persons authorized by the Board in the lawful execution of its powers pursuant to the Articles, these Rules and the Regulations.
603. A Participant shall not do or cause to be done any act, matter or thing which:-
- (a) would adversely affect the goodwill or public image of the Exchange, SEHK Subsidiary and a recognized exchange controller which is the controller of the Exchange; or
  - (b) brings or is likely to bring the Exchange, the SEHK Subsidiary and a recognized exchange controller which is the controller of the Exchange into disrepute.
  - (c) [Repealed]
605. A Participant shall immediately notify the Exchange in writing of any events or matters as from time to time specified in these Rules and the Regulations or as the Board may from time to time specify or direct by means of circulars to the Participants.
606. A Participant shall report in writing to the Exchange any breach, infringement of or non-compliance with any of these Rules or the Regulations, or where it has reason to suspect any such breach, infringement or non-compliance whether by:-
- (a) itself;
  - (b) its Responsible Officers or nominated representatives (as the case may be), directors, partners, Authorized Persons, officers, employees, agents and representatives, or persons acting on its behalf, Market Makers, Securities Market Makers, Structured Product Hedging Participants, Structured Product Liquidity Providers or registered arbitrageurs (as defined in the Fifteenth Schedule) (as the case may be); or
  - (c) any other Participant,
- giving particulars of and/or the reasons for suspecting such breach, infringement or non-compliance and all other relevant information and documents.

## CHAPTER 7

### DISCIPLINARY

#### Disciplinary Powers

701. (1) For the purpose of these disciplinary rules, the word "Exchange Participant" includes, where the context admits, a Responsible Officer, director, partner, Authorized Person, officer, employee, agent, representative and persons acting on behalf of an Exchange Participant, Market Maker, Securities Market Maker, Structured Product Hedging Participant, and/or Structured Product Liquidity Provider (as the case may be). For the avoidance of doubt, these disciplinary rules apply to an Exchange Participant where it is registered as a TSF Exchange Participant and/or a China Connect Exchange Participant.
- (2) For the purpose of these disciplinary rules, the word "Special Participant" includes, where the context admits, a nominated representative, director, partner, Authorized Person, officer, employee, agent, representative and persons acting on behalf of a Special Participant.
- 701A. Where the acts or omissions of a Responsible Officer, director, partner, Authorized Person, Designated Specialist, officer, employee, agent, representative or persons acting on behalf of an Exchange Participant, Market Maker, Securities Market Maker, Structured Product Hedging Participant, Structured Product Liquidity Provider or registered arbitrageur (as defined in the Fifteenth Schedule), or of a nominated representative, director, partner, Authorized Person, officer, employee, agent, representative or persons acting on behalf of a Special Participant, would have been subject to these Rules had such acts or omissions been committed by the Exchange Participant or the Special Participant (as the case may be), then such acts or omissions shall be deemed to be committed by that Exchange Participant or Special Participant and disciplinary action may be taken against it.
702. In addition to any other action that the Exchange may take, the Board may exercise any of the following disciplinary powers:-
- (1) to expel a Participant by serving on it a notice of expulsion;
  - (2) to call upon a Participant, by written notice, to resign. Failing the receipt of notice of such resignation from the Participant within seven clear days of the date of notice, the Board may exercise the power of expulsion in Rule 702(1);
  - (3) to suspend a Participant from Participantship of the Exchange on such terms and for such period as the Board shall think fit;
  - (4) to impose a fine on a Participant;
  - (5) to censure a Participant and to direct whether and if so in what manner such censure shall be published;

- (6) to suspend or revoke the registration of a Responsible Officer of an Exchange Participant;
- (6A) to suspend, withdraw or revoke the right of a Participant's access to the System on such terms and for such period as the Board shall think fit;
- (6B) to restrict a Participant's trading activities on or through the Exchange including but not limited to (in the case of an Exchange Participant) its Exchange Traded Options Business, on such terms and for such period as the Board shall think fit;
- (13) to prohibit an Exchange Participant from being appointed or acting as a Structured Product Hedging Participant on such terms and for such period as the Board shall think fit;
- (14) to suspend, withdraw or revoke a Securities Market Maker's and/or a Structured Product Liquidity Provider's access to the System through a Market Making Open Gateway, Market Making Central Gateway Session and/or Market Making AMS Terminal on such terms and for such period as the Board shall think fit;
- (15) to suspend, withdraw or revoke an Exchange Participant's registration as a TSF Exchange Participant or its use of or access to the TSF on such terms and for such period as the Board shall think fit; and
- (16) to suspend, withdraw or revoke an Exchange Participant's registration as a China Connect Exchange Participant or its use of or access to the China Connect Service or the CSC on such terms and for such period as the Board shall think fit.

704. The Chief Executive may exercise the power referred to in Rules 702(3), 702(6), 702(6A), 702(6B), 702(7), 702(8), 702(9), 702(11), 702(12), 702(13), 702(14), 702(15) and 702(16) above provided he has first obtained the approval of the Chairman of the Board or in his absence any member of the Board which may be given either orally or in writing. Where the Chief Executive has exercised any of his powers referred to in this Rule, the affected Participant may at any time thereafter apply to the Chief Executive for the lifting of his decision by submitting to the Chief Executive such information, including any information as to the financial condition of the relevant Participant, as the Chief Executive may require in order for him to be satisfied that it is proper in all the circumstances to lift the decision. The Chief Executive may lift his decision conditionally or unconditionally.

705. The disciplinary powers referred to above may be exercised separately or cumulatively and in no circumstances shall the exercise of such powers prejudice in any way any right that may be vested in the Exchange to seek redress against a Participant.

#### **Disciplinary Proceedings**

706. The Board may convene a meeting at any time to consider the exercise of its disciplinary powers against a Participant. If at such meeting it is satisfied that a

prima facie case has been established calling for disciplinary action against the Participant concerned the Board shall request the Participant to attend a meeting and explain its conduct in regard to the matter.

707. The Board may exercise any of its disciplinary powers against a Participant if, at such meeting or any adjournment thereof, it is of the opinion, after considering the explanation, if any, tendered by the Participant, that the case against the Participant is substantiated. The Board shall also be entitled to exercise any of its disciplinary powers against the Participant concerned should it fail to attend the hearing called for by the Board.
708. The Board shall have unfettered discretion to decide upon the disciplinary action to be taken against a Participant.
709. The Board shall notify the Commission whenever it considers taking disciplinary action against a Participant and shall notify the Commission forthwith of the result of such consideration and the disciplinary action taken. In the event of a Participant giving notice to resign pursuant to Rule 702(2) the Board shall forthwith notify the Commission of such fact.
- 709A. The Board shall notify HKSCC whenever it considers taking disciplinary action against:
- (1) an Exchange Participant in relation to any breaches of Rules 401, 406, 408, 414 to 416, 418A to 418C, 422(6) and (7), 425, 429(1), 501 to 508, 510 to 514, 516, 517, 517B to 530, 534(3), 537, 539 to 545, 548, 552 to 562, 563A to 563D, 723 or the CCASS Rules; or
  - (2) a Special Participant in relation to any breaches of Rules 501, 501G to 501I, 502A to 502B, 502D, 503 to 505A, 506A, 507A, 508, 511, 512, 514, 516, 516A, 517(1), 517(4), 517(6), 517B to 519, 522, 528, 544(1), 544(3), 544(4), 545, 723 or the CCASS Rules,

and shall notify HKSCC forthwith of the result of such consideration and the disciplinary action taken, if any. In the event of a Participant giving notice to resign pursuant to Rule 702(2), the Board shall forthwith notify HKSCC of such fact.

710. Any resolution shall specify full details of the disciplinary action to be taken against a Participant and when recorded in the Minute Book of the Board or the Disciplinary Committee and signed by the chairman of the meeting deciding on the disciplinary action or a following meeting, shall be conclusive evidence thereof.
711. The Board shall have power to suspend if it thinks fit, any Participant whose conduct is under investigation until it has enquired into such matter and come to a decision thereon. The Participant whose conduct is under investigation shall not be entitled to complain about the length of time required for such investigation to be completed and the Board shall be under no obligation whatsoever to compensate a Participant suspended under these Rules even if the investigation subsequently vindicates the conduct of such Participant. An Exchange Participant which is suspended shall not be entitled to deal in securities or trade on or through the Exchange under any Stock Exchange Trading Right and shall not be exchange

participants for the purpose of the Legislative Council Ordinance. A Special Participant which is suspended shall not provide order-routing and related services, or trade on or through the Exchange.

714. The Exchange shall have power to publish in the local newspapers or in circulars or via electronic or computer data transmission to Participants the name of any Participant expelled or whose Participantship or right to access the System has been suspended by the Exchange and also to publish such expulsion or suspension in any other way it may think fit. No action or other proceedings shall under any circumstances be taken by the Participant referred to in such publication or notification against any person or body authorising printing, publishing or circulating the same.
715. No Participant which has been expelled from the Exchange shall be eligible for re-admission.
716. (1) A Participant shall have the right to be represented at any meeting of the Board held for disciplinary purposes by a solicitor or counsel. Alternatively, in respect of an Exchange Participant, it may, if it so desires, solicit the assistance of another Exchange Participant to represent it or to make submissions on its behalf.
- (2) The Board shall have the power to order payment to or by a Participant of costs and expenses incurred in obtaining legal representation for attending a meeting held for disciplinary purposes, such costs and expenses to be limited to professional legal fees and expenses of attending (but not preparing for) the meeting. Costs ordered to be paid by a Participant shall be recoverable by the Exchange as a civil debt.
717. Where disciplinary measures are taken against a Participant by the Chief Executive under Rule 704:-
- (1) the Participant shall be entitled as of right to appeal to the Disciplinary Committee within fourteen days of being notified of the Chief Executive's decision;
- (2) the Chief Executive shall not be obliged to give reasons to the Participant for his decision but shall be obliged to do so to the Disciplinary Committee in the event of an appeal;
- (4) no action shall accrue to a Participant (whether against the Chief Executive or the Chairman or member of the Board who approved his decision or any other person) and the Participant shall not institute any legal action in respect of any loss that the Participant may have suffered (including any loss of profit) by reason of a suspension or any damage to reputation by reason of the fact that a Participant's appeal is upheld by the Disciplinary Committee or the Disciplinary Appeals Committee in whole or in part.
718. Where a Participant whose Participantship or right to access the System is suspended for any reason whatsoever:-

- (1) any monies due to the Exchange, including amounts for the replenishment of the Compensation Fund (if applicable) and any fees prescribed under these Rules shall nevertheless remain due and payable by the Participant as if its Participants'hip or right to access the System had not been suspended;
- (2) the right of an Exchange Participant to be eligible to trade on or through the Exchange under its Stock Exchange Trading Right or the eligibility of a Special Participant to route orders to the Exchange, as the case may be, shall also be suspended and it shall not be permitted to trade either directly or indirectly during such suspension, except as may otherwise be permitted by the Board or the Chief Executive;
- (3) the suspension shall not operate so as to avoid or affect the validity or enforceability of any agreement, transaction or arrangement in relation to the Participant's dealing in securities or order routing business entered into by the Participant prior to suspension;

719. Where a Participant is expelled from the Exchange it shall forthwith lose all rights or its eligibility to trade on the Exchange.

721. In the event that (1) an Exchange Participant is expelled as referred to in Rule 719 and any Stock Exchange Trading Right of the Exchange Participant is revoked as referred to in Rule 720 or (2) a Special Participant is expelled as referred to in Rule 719, such Participant shall remain indebted to the Exchange for all monies owed to the Exchange, including but not limited to all legal and other incidental costs or disbursements incurred by the Exchange in connection with the expulsion and revocation and any sums owing by the Participant to the Exchange (whether in its capacity as an Exchange Participant, holder of a Stock Exchange Trading Right, Special Participant or in any other capacity), the SEHK Subsidiary, any recognized exchange controller which is the controller of the Exchange or any company of which a recognized exchange controller which is a controller of the Exchange is a controller.

#### **Situations Calling for Disciplinary Action**

723. (1) The Board and (subject to Rule 704 hereof) the Chief Executive may exercise their disciplinary powers against a Participant in such manner as they think fit if the Participant:-
- (a) is or has been in breach of these Rules or disobeys or challenges any lawful exercise of any power pursuant or incidental thereto; or has shielded or assisted or omitted to report or has dealt with any Participant with the knowledge that such Participant has acted contrary to these Rules;
  - (k) in relation to a Securities Market Maker, is or has been in breach of the Securities Market Maker Regulations;
  - (l) in relation to a Structured Product Liquidity Provider, is or has been in breach of the Structured Product Liquidity Provider Regulations;



- (m) in relation to a TSF Exchange Participant, is or has been in breach of any provision in these Rules that applies to the use of the TSF Service; or.
  - (n) in relation to a China Connect Exchange Participant, is or has been in breach of any provision in these Rules that applies to the use of the China Connect Service or the trading of China Connect Securities or any Regulations, requirements, conditions, restrictions, arrangements or other stipulations that may be made, issued or published pursuant to these Rules.
- (2) Without prejudice to the generality of the foregoing, the Board and the Chief Executive may exercise their disciplinary powers against a Participant in the following instances, in such manner as they think fit, if the Participant:-
- (a) (in the case of an Exchange Participant) after becoming aware of any inability on the part of the Exchange Participant to comply with the Financial Resources Rules and/or the financial resources requirements made under Rule 408, fails to notify the Commission and the Board forthwith of such inability or fails to cease dealing in securities, otherwise than for the purpose of giving effect to any agreement or arrangement entered into before the time when it becomes so aware;
  - (g) has dealt with any person, body, firm, corporation or company who or which may have been posted in the Exchange or otherwise notified to the Participants as one who or which has made default in carrying out his or its engagements relating to securities;
  - (h) is under investigation by the Commission under the Ordinance including where an auditor is appointed by the Commission to investigate the affairs of the Participant;
  - (k) makes a material mis-statement to the Board, any Committee, the Chief Executive, the Exchange, the SEHK Subsidiary (if applicable), any designated HKEx staff, a recognized exchange controller which is the controller of the Exchange, or their respective employees or officers, where appropriate;
  - (p) refuses to grant access to its registered business address and any other locations, at which it carries out its business of dealing in securities or order routing, or make available all information, books, records and documents as may be required by any designated HKEx staff, appointed officers or employees of the Exchange, the SEHK Subsidiary (if applicable) or a recognized exchange controller which is a controller of the Exchange or any other authorized person in the course of any inspection provided for by these Rules;

- (q) makes use of or reveals any confidential information obtained by reason of participating in any investigative proceedings or hearing, or revealed to it confidentially by the Board, any Committee, the Chief Executive, any designated HKEx staff, employees or officers of the Exchange, the SEHK Subsidiary or of a recognized exchange controller which is a controller of the Exchange;
- (s) accepts an order from a client including, in the case of a Special Participant, a China Connect Market Participant for the sale or purchase of securities without causing such order to be executed on or routed to an exchange or in accordance with the rules, bye-laws, regulations, customs and practice of such exchange;
- (v) has shielded or assisted, or omitted to report, or dealt with, any Participant which it knows has acted contrary to these Rules;
- (w) fails to fulfill, observe or comply with any confirmation, representation, undertaking or statement given by it or makes a material mis-statement;
- (x) (in the case of an Exchange Participant) has failed to display the Exchange Participant Certificate, duplicate Exchange Participant Certificate, replacement Exchange Participant Certificate and/or certified copy of the Exchange Participant Certificate in accordance with these Rules;
- (dd) fails to give notice of termination of Clearing Agreement under Rule 358(4) (in the case of an Exchange Participant) or ceases to have a valid, binding and effective clearing agreement referred to in Rule 1507(6) (in the case of a Special Participant).

724. Without prejudice to the scope of the power of suspension or other disciplinary powers vested in the Board and the Chief Executive, the Board and (subject to Rule 704) the Chief Executive may exercise the powers referred to in Rules 702(3), 702(6), 702(6A), 702(6B), 702(7), 702(8), 702(9), 702(11), 702(12), 702(13), 702(14), 702(15) and 702(16) in the following circumstances or if the Board or the Chief Executive, as the case may be, has reason to believe that any of the following circumstances has occurred:-

- (1) where a Participant has conducted itself in such a manner as to call for disciplinary action and an investigation is being conducted into the affairs of the Participant for this purpose;
- (2) where a Participant is unable to pay its debts as they fall due or has entered into any arrangement with its creditors for the payment of debts or is otherwise insolvent;
- (3) where a Participant is in breach of any of the conditions (if any) in the grant of its Participantship or (in the case of an Exchange Participant) its Stock Exchange Trading Right;

- (5) where a Participant has failed to pay any monies including any fees that are due and owing to the Exchange, the SEHK Subsidiary (if applicable) or SEOCH (if applicable) or any fine imposed on that Participant;
- (6) where a Participant which is also a CCASS Clearing Participant has failed to meet any of its obligations to HKSCC;
- (10) where a Participant is or may be in such financial or operational difficulty that the Participant may not be permitted to continue to do business as a Participant with safety to clients, China Connect Market Participants, other Participants, the Exchange, the SEHK Subsidiary, HKSCC or SEOCH, as the case may be;
- (11) where such action is necessary to protect the interests of the Exchange, the SEHK Subsidiary, a recognized exchange controller which is the controller of the Exchange, HKSCC or SEOCH;
- (12) where such action is necessary to ensure the orderly trading of securities and Option Contracts on the Exchange, the orderly routing of orders to the Exchange or a China Connect Market and/or the operation of HKSCC or SEOCH;
- (13) where a petition is presented or a proceeding is commenced or an order is made or an effective resolution is passed or any other step is taken by any person for the winding-up, administration, re-organisation, reconstruction, amalgamation, dissolution or bankruptcy of the Participant or for the appointment of a provisional liquidator, liquidator, receiver, administrator, trustee or similar officer over all or any part of the Participant's business or assets; or
- (14) where a prohibition or requirement is imposed by the Commission on the Exchange Participant pursuant to section 204, 205 or 206 of the Ordinance, or on the Special Participant pursuant to the Ordinance or any rules made by the Commission under section 100 of the Ordinance.

## CHAPTER 8

### PAYMENT OF FEES AND CHARGES

801. Subject to such approvals as may be required under the Ordinance, the Board shall have the power to impose fees and charges in relation to such matters or things and in such amount as the Board may from time to time think fit in addition to any fees and charges specifically required to be paid by or imposed on Participants under these Rules and to require the payment of such fees and charges by Participants or other persons and to prescribe the time and method of payment thereof.
802. Without limitation to the generality of Rule 801 above, the Board may impose fees and charges in respect of:-

Fee Type	Amount (HK\$)
(16) monthly user fee for:	
(b) an Open Gateway, a Market Making Open Gateway, a Backup Open Gateway for backup of an Open Gateway under Rule 364A(1)(a), a Backup Open Gateway for backup of a Market Making Open Gateway, a China Connect Open Gateway, a Backup China Connect Open Gateway;	1,250
(l) standard throttle rate(s) assigned to a Backup Open Gateway for backup of a Market Making Open Gateway ;	480 for each standard throttle rate assigned
(la) standard China Connect throttle rate(s) assigned to a Backup China Connect Open Gateway;	480 for each standard China Connect throttle rate assigned
(m) an increase in the throughput rate of an order into the System through an existing Open Gateway pursuant to Rule 365B;	960 for each standard throttle rate
(ma)an increase in the throughput rate of a China Connect order into the CSC through an existing China Connect Open Gateway;	960 for each standard China Connect throttle rate
(n) standard throttle rate(s) assigned to a new Open Gateway under Rule 365B;	960 for each standard throttle rate assigned
(na) standard China Connect throttle rate(s) assigned to a China Connect Open Gateway or a new China Connect Open Gateway	960 for each standard China Connect throttle

- |       |  |  |
|-------|--|--|
|       |  | rate assigned  |
| (16J) | application for an increase in the throughput rate of an Open Gateway pursuant to Rule 365B(1), application for the throughput rate of a China Connect Open Gateway or application for an increase in the throughput rate of a China Connect Open Gateway; | 50,000 for each standard throttle rate or each standard China Connect throttle rate (as the case may be) |
803. The amount of any fees and charges which the Board may impose shall be specified in these Rules and shall be notified to the Participants by means of circulars from the Board to Participants.
804. The amount of any fees and charges imposed by the Board pursuant to these Rules may from time to time be revised by the Board as it shall in its absolute discretion think fit and the Board shall notify such revised fees and charges to Participants by means of circulars.
805. The Board shall also prescribe the time and method of payment of any fees and charges imposed pursuant to these Rules by means of circulars to Participants and all Participants shall comply with the requirements, instructions or directions contained in such circulars including the payment of interest, surcharge, penalty or fine for late payment of such fees and charges. For the avoidance of doubt, the Board may prescribe different requirements, instructions or directions in respect of different categories of Participants.
806. (a) Without prejudice to Rule 805, an Exchange Participant shall pay the Trading Fee to the Exchange in the manner as provided in and subject to the Trading Fee Operation Procedures as prescribed by the Board from time to time.
- (b) Without prejudice to Rule 805, a Special Participant shall pay the Trading Fee and the trading tariff in the manner as prescribed by the Board from time to time.

## CHAPTER 10

### SPECIAL LEVY

1001. A levy (“the special levy”) shall be payable to the Exchange on every purchase or sale of securities listed or admitted to trading on the Exchange carried out by a Participant whether as principal or agent, whether or not in the Trading Hall, whether or not the transaction is arranged or concluded in Hong Kong or elsewhere and which is recorded on the Exchange. The special levy is payable in order to reimburse the Exchange in respect of its obligations under the Exchanges (Special Levy) Ordinance. For the avoidance of doubt, both the buyer and the seller shall each pay to the Exchange the amount of the special levy specified by the Exchange

under Rule 1003.

1002. (a) Every Exchange Participant which operates a business of dealing in securities shall collect the special levy from its clients, or shall be liable itself if it deals as a principal. In the event that an Exchange Participant fails to collect the special levy from its clients, that Exchange Participant shall nevertheless be liable to the Exchange for payment of the special levy.
- (b) Every Special Participant shall collect the special levy from the relevant China Connect Market Participants. In the event that a Special Participant fails to collect the special levy from such China Connect Market Participants, the Special Participant shall nevertheless be liable to the Exchange for payment of the special levy.
1003. The rate of the special levy shall be such rate as specified under section 4 of the Exchanges (Special Levy) Ordinance or as varied from time to time under section 4A of that Ordinance, (rounded to the nearest cent) of the amount of the consideration for each purchase or sale of securities recorded on the Exchange. The rate of the special levy shall be notified to Participants by circular or by notice posted in the Trading Hall.
- 1003A. No special levy shall be payable for so long as a suspension order made under section 4A of the Exchanges (Special Levy) Ordinance is in force. The Participants shall be notified of the suspension order by circular or by notice posted in the Trading Hall.
1004. (a) An Exchange Participant shall state in every contract note to clients as a separate item the amount of the special levy payable to the Exchange.
- (b) A Special Participant shall state in every contract note as a separate item the amount of the special levy payable to the Exchange.
1005. (a) An Exchange Participant shall keep complete and true records of and maintain separate accounts for the special levy collected from clients and remitted to the Exchange. An Exchange Participant shall whenever called upon by the Board produce its books and records for inspection by any person authorised by the Exchange.
- (b) A Special Participant shall keep complete and true records of the special levy paid by it to the Exchange under Rule 1002(b). A Special Participant shall whenever called upon by the Board produce its books and records for inspection by any person authorised by the Exchange.
1006. (a) Within 4 days from the beginning of each month, an Exchange Participant shall submit to the Exchange a complete and signed return of the special levy payable in respect of transactions carried out as principal or agent during the previous month and shall separately show the amounts it collected from clients during that month, in such form as specified by the Exchange from time to time. Without prejudice to the foregoing, the Exchange shall have power to require an Exchange Participant to make such returns at such other time(s) and in respect of such other period(s) as the Exchange may think fit. The return

shall be accompanied by the amount of the special levy payable to the Exchange.

- (b) Within 4 days from the beginning of each month, a Special Participant shall submit to the Exchange a complete and signed return of the special levy payable in respect of transactions carried out by it during the previous month in such form as specified by the Exchange from time to time. Without prejudice to the foregoing, the Exchange shall have power to require a Special Participant to make such returns at such other time(s) and in respect of such other period(s) as the Exchange may think fit. The return shall be accompanied by the amount of the special levy payable to the Exchange.

1007. If any Participant fails to remit the special levy to the Exchange within the period specified in Rule 1006, interest shall be payable at such rate as the Board may by resolution determine and which shall be notified to the relevant Participant in writing or notified to all Participants by circular or notice in the Trading Hall. If the special levy and any interest thereon remains unpaid at the end of the month in which the special levy or any part thereof was due, the Participant shall be liable to be suspended from trading and may be subject to any other disciplinary action as the Board may think fit. Notwithstanding any such action which the Board may take against the Participant in default, the Exchange may also take legal action to recover the outstanding amount of the special levy and any interest thereon, and all the expenses for taking such action shall be borne by the Participant.

1008. Where the total amount of the special levy computed by a Participant and the accompanying return(s) it submits to the Exchange pursuant to Rule 1006 differs from the Exchange's own computation as to the amount of special levy payable, the Participant shall within 2 days after being required to do so pay to the Exchange the difference between its computation and the Exchange's computation and the determination of the Exchange as to the amount of special levy payable shall be final and binding on the said Participant. If the amount payable to the Exchange under this provision is not paid to the Exchange within the time specified, interest shall be payable thereon at the rate determined pursuant to Rule 1007.

1009. (a) Where an Exchange Participant suspends or ceases its business of dealing in securities, it shall immediately notify the Exchange in writing, and such Exchange Participant shall submit a return up to and including the date of suspension or cessation within 4 days after the date of suspension or cessation, such return to be accompanied by the amount of the special levy payable up to the date of suspension or cessation. In the event that the Exchange Participant fails to pay the said amount within the said period, interest shall be payable on the said amount at the rate determined pursuant to Rule 1007.

- (b) Where a Special Participant suspends or ceases its order-routing business, it shall immediately notify the Exchange in writing, and such Special Participant shall submit a return up to and including the date of suspension or cessation within 4 days after the date of suspension or cessation, such return to be accompanied by the amount of the special levy payable up to the date of suspension or cessation. In the event that the Special Participant fails to pay the said amount within the said period, interest shall be payable on the said

amount at the rate determined pursuant to Rule 1007.

1010. Where a Participant fails to make a return required under the foregoing Rules, the Exchange may assess the amount of the special levy payable in respect of such Participant which shall be computed on the basis of the amount shown in the records of the Exchange for the month in respect of which the special levy is due, subject to any adjustments which the Board considers appropriate. The right to make an assessment shall be without prejudice to the right of the Exchange to obtain recovery of the special levy under any of the foregoing Rules.



## CHAPTER 11

### TRANSACTION AND INVESTOR COMPENSATION LEVIES

1101. A Transaction Levy and an Investor Compensation Levy shall be payable to the Exchange on every purchase or sale of securities admitted to trading, listed, or approved to be listed on the Exchange carried out by a Participant whether as principal or agent whether in the Trading Hall and whether the transaction is arranged or concluded in Hong Kong or elsewhere. For the avoidance of doubt, both the buyer and the seller shall each pay the amount of the Transaction Levy and the Investor Compensation Levy as specified by the Board under Rule 1103.
1102. (a) Every Exchange Participant which operates a business of dealing in securities shall collect the Transaction Levy and the Investor Compensation Levy from its client, or shall be liable itself if it deals as principal. In the event that an Exchange Participant fails to collect the Transaction Levy and/or the Investor Compensation Levy from its clients, that Exchange Participant shall nevertheless be liable to the Exchange for payment of the Transaction Levy and/or the Investor Compensation Levy.
- (b) Every Special Participant shall collect the Transaction Levy and the Investor Compensation Levy from the relevant China Connect Market Participants. In the event that a Special Participant fails to collect the Transaction Levy and/or the Investor Compensation Levy from such China Connect Market Participants, the Special Participant shall nevertheless be liable to the Exchange for payment of the Transaction Levy and/or the Investor Compensation Levy.
1103. The rate of the Transaction Levy shall be at a rate as specified from time to time in the Securities and Futures (Levy) Order of the amount of the consideration for each purchase or sale of securities (rounded to the nearest cent). The rate of the Investor Compensation Levy shall be at a rate as specified from time to time in the Securities and Futures (Investor Compensation - Levy) Rules of the amount of the consideration for each purchase or sale of securities (rounded to the nearest cent). Both the rates of the Transaction Levy and the Investor Compensation Levy and the manner of collection (determined by the Board from time to time) will be notified to Participants by circular or by notice posted in the Trading Hall.
- 1103A. No Investor Compensation Levy shall be payable for so long as an exemption notice made under section 25 of the Securities and Futures (Investor Compensation – Levy) Rules is in force. Participants will be notified of the exemption notice (and its termination) by circular or by notice posted in the Trading Hall.
1104. (a) An Exchange Participant shall state in every contract note to clients as separate items the amounts of the Transaction Levy and the Investor Compensation Levy payable to the Exchange.
- (b) A Special Participant shall state in every contract note as separate items the amounts of the Transaction Levy and the Investor Compensation Levy payable to the Exchange.

1105. (a) An Exchange Participant shall keep complete and true records of and maintain separate accounts for the Transaction Levy and the Investor Compensation Levy actually collected from clients and remitted to the Exchange. An Exchange Participant shall whenever called upon by the Board so to do produce its books and records for inspection by any person authorised by the Board.
- (b) A Special Participant shall keep complete and true records of the Transaction Levy and the Investor Compensation Levy actually paid by it to the Exchange under Rule 1102(b). A Special Participant shall whenever called upon by the Board so to do produce its books and records for inspection by any person authorised by the Board.
1106. (a) Within 7 days from the beginning of each month, an Exchange Participant shall submit to the Exchange a complete and signed return of the Transaction Levy and the Investor Compensation Levy payable in respect of transactions carried out as principal or agent during the previous month and shall separately show the amounts it collected from clients during that month, in such form as specified by the Board from time to time. Without prejudice to the foregoing, the Board shall have power to require an Exchange Participant to make such returns at such other time(s) and in respect of such other period(s) as the Board may require.
- (b) Within 7 days from the beginning of each month, a Special Participant shall submit to the Exchange a complete and signed return of the Transaction Levy and the Investor Compensation Levy payable in respect of transactions carried out by it during the previous month in such form as specified by the Board from time to time. Without prejudice to the foregoing, the Board shall have power to require a Special Participant to make such returns at such other time(s) and in respect of such other period(s) as the Board may require.
1107. (a) An Exchange Participant shall remit within 15 days from the beginning of each month the total Transaction Levy and Investor Compensation Levy as stated in its return under Rule 1106(a) to the Exchange in such manner as the Board may from time to time specify. Without prejudice to the foregoing, upon demand by the Exchange, immediate payment of all Transaction Levy and Investor Compensation Levy due from an Exchange Participant or its clients, whether collected or not, relating to transactions of any period prior to the date of payment, shall be effected.
- (b) A Special Participant shall remit within 15 days from the beginning of each month the total Transaction Levy and Investor Compensation Levy as stated in its return under Rule 1106(b) to the Exchange in such manner as the Board may from time to time specify. Without prejudice to the foregoing, upon demand by the Exchange, immediate payment of all Transaction Levy and Investor Compensation Levy due from a Special Participant referred to in Rule 1102(b), whether collected from the relevant China Connect Market Participants or not, relating to transactions of any period prior to the date of payment, shall be effected.

1108. If any Participant fails to remit the Transaction Levy and/or the Investor Compensation Levy to the Exchange within the period specified in Rule 1107, a surcharge at the same rate as the rate of the late remittance charge specified in the Securities and Futures (Levy) Rules or Securities and Futures (Investor Compensation-Levy) Rules (as the case may be) on the total Transaction Levy and/or Investor Compensation Levy payable shall be imposed. If the Transaction and the Investor Compensation Levies and the surcharges remain unpaid at the end of the month in which the Transaction Levy and/or the Investor Compensation Levy is/are due, the Participant shall be liable to be suspended from trading and may be subject to any other disciplinary action as the Board may think fit. Notwithstanding any such action which the Board may take against the Participant in default, the Board may also take legal action to recover the outstanding amount of Transaction and Investor Compensation Levies and surcharges, and all expenses incurred or to be incurred by the Board for taking recovery action against the Participant shall be borne by such Participant.
1109. Where the total amount of the Transaction Levy or the Investor Compensation Levy in a return of a Participant under Rule 1106 is different from the sum computed by the Exchange on the basis of transactions as recorded by the Exchange, such Participant shall take immediate actions to verify the records to ascertain the correct amount that should be payable. It shall however remit the lesser of the two sums to the Exchange under Rules 1107 and 1108. Upon the correct amount being ascertained, the amount owing, if any, shall be paid to the Exchange immediately. In case of dispute, the amounts computed by the Exchange as aforesaid shall, in the absence of manifest error, be final and binding.
1110. (a) When an Exchange Participant suspends or ceases its business of dealing in securities, it shall immediately notify the Exchange in writing, and such Exchange Participant shall submit a return up to and including the date of suspension or cessation within 7 days after such date and shall effect payment within 15 days after such date and Rules 1106 to 1109 (where they apply to an Exchange Participant) shall apply accordingly.
- (b) When a Special Participant suspends or ceases its order-routing business, it shall immediately notify the Exchange in writing, and such Special Participant shall submit a return up to and including the date of suspension or cessation within 7 days after such date and shall effect payment within 15 days after such date and Rules 1106 to 1109 (where they apply to a Special Participant) shall apply accordingly.

## CHAPTER 13

### STAMP DUTY COLLECTION

1301. A Participant shall pay to the Exchange in the manner and in accordance with the Operation Procedures for Stamp Duty Collection (“Operation Procedures”) as prescribed by the Exchange from time to time the stamp duty chargeable under the Stamp Duty Ordinance on each and every contract note issued in respect of all transactions recognized by the Exchange under Rule 544, save and except:
- (a) Market Maker jobbing transactions; and
  - (b) applicable market making transactions of Securities Market Makers subject to stamp duty remission or refund under Section 52 of the Stamp Duty Ordinance,
- for which any applicable stamp duty shall be paid directly to the Collector of Stamp Revenue or in such other way as prescribed in the Stamp Duty Ordinance from time to time.
1302. All Exchange Participants which carry on the business of dealing in securities on the Exchange and all Special Participants shall at all times maintain a deposit in the amount as specified by the Exchange and notified to the Participants from time to time as security for their liabilities for the chargeable recognized transactions. Should the deposit at any time fall below the amount specified by the Exchange because of deduction under Rule 1303 or for any other reason, the Participant shall forthwith deposit sum or sums to make up the shortfall.
1303. Each and every Participant unconditionally and irrevocably authorizes the Exchange to deduct from the deposit referred to in Rule 1302 such sum or sums to satisfy its outstanding liabilities for stamp duty in the event it fails to pay to the Exchange the stamp duty in accordance with the Operation Procedures. All sums deducted shall, in the absence of manifest error, be final and binding.
1304. In addition to any penalty imposed under the Stamp Duty Ordinance, the Exchange shall have the right to charge a Participant surcharge and penalty at such rate as may from time to time be determined by the Exchange for any late payment of stamp duty to the Exchange, such payment to be made to the Exchange within 7 trading days from the date of demand from the Exchange. All amounts computed by the Exchange, shall in the absence of manifest error, be final and binding.
1305. (a) Without prejudice to the Operation Procedures, the Exchange may demand from an Exchange Participant immediate payment of any stamp duty due from it or its clients relating to any transaction concluded by the Exchange Participant, whether such stamp duty has been collected by the Exchange Participant or not.
- (b) Without prejudice to the Operation Procedures, the Exchange may demand from a Special Participant immediate payment of any stamp duty due from it

relating to any transaction concluded by the Special Participant, whether such stamp duty has been collected by the Special Participant from the relevant China Connect Market Participants or not.

1306. All Participants remain liable to the Collector of Stamp Revenue for the chargeable stamp duty on contract notes issued in respect of transactions not recognized by the Exchange (if any).
1307. Without prejudice to any other rights the Exchange may have in recovering monies due to it from the Participants, all monies owing to the Exchange by them under these Rules shall be recoverable by the Exchange as a civil debt.
1308. (a) Where an Exchange Participant suspends or ceases its business of dealing in securities, it shall immediately notify the Exchange in writing, and such Exchange Participant shall remain liable to the Exchange for the stamp duty chargeable on contract notes issued prior to the suspension or cessation on transactions recognized by the Exchange.
- (b) When a Special Participant suspends or ceases its order-routing business, it shall immediately notify the Exchange in writing, and such Special Participant shall remain liable to the Exchange for the stamp duty chargeable on contract notes issued prior to the suspension or cessation on transactions recognized by the Exchange.
1309. (a) An Exchange Participant shall keep complete and true records of and maintain separate accounts for the chargeable stamp duty due and collected from clients and paid to the Exchange. An Exchange Participant shall whenever called upon by the Board so to do produce its books and records for inspection by any person authorized by the Board.
- (b) A Special Participant shall keep complete and true records of the chargeable stamp duty paid by it to the Exchange. A Special Participant shall whenever called upon by the Board so to do produce its books and records for inspection by any person authorized by the Board.
1310. A Participant shall at the same time as it submits a return to the Collector of Stamp Revenue submit a copy of such return to the Exchange, certified by the Participant that the copy submitted to the Exchange is a copy of the return submitted to the Collector of Stamp Revenue.

## CHAPTER 14

### CHINA CONNECT SERVICE

#### Cross-boundary Trading Links

1401. The Exchange and a China Connect Market Operator may enter into Trading Links to establish and operate:
- (1) an order-routing arrangement to enable Exchange Participants and their clients to trade in securities listed on the relevant China Connect Market through the SEHK Subsidiary (which shall be a member or participant of the relevant China Connect Market), and
  - (2) an order-routing arrangement to enable China Connect Market Participants of a China Connect Market Operator and their clients to trade in securities listed on the Exchange through a subsidiary of the China Connect Market Operator (which shall be a Special Participant of the Exchange subject to these Rules),

for the purpose of facilitating cross-boundary mutual market access and connectivity.

1402. This Chapter 14 sets out the provisions that apply to Exchange Participants who wish to participate in the trading of China Connect Securities through the use of the China Connect Service.

#### The China Connect Service

1403. (1) For the purposes of establishing and operating the Trading Link referred to in Rule 1401(1), the Exchange may enter into arrangements, upon such terms and conditions as the Exchange considers appropriate, with the SEHK Subsidiary pursuant to which the SEHK Subsidiary will provide services to China Connect Exchange Participants for the routing of China Connect orders to a China Connect Market System. Where such services are provided, China Connect orders input by a China Connect Exchange Participant into the CSC via a China Connect Open Gateway will, subject to these Rules, be routed to the relevant China Connect Market System by the SEHK Subsidiary for automatic matching and execution. Any reference in these Rules to “through the China Connect Service” or “through the use of the China Connect Service” shall, unless the context otherwise requires, be construed accordingly.
- (2) In conjunction with the order-routing service referred to in Rule 1403(1), the Exchange may, on its own or through the SEHK Subsidiary, provide related supporting services to China Connect Exchange Participants as the Exchange considers appropriate. These may include the following:
- (a) order receipt and order rejection reporting service in respect of China Connect orders;

- (b) trade confirmation reporting service in respect of China Connect Securities Trades; and
  - (c) order cancellation reporting service in respect of China Connect orders which China Connect Exchange Participants have submitted a cancellation request.
- (3) To facilitate the provision of the order-routing and related supporting services referred to in Rules 1403(1) and (2) by the SEHK Subsidiary to China Connect Exchange Participants, the Exchange will provide the SEHK Subsidiary with technical infrastructure and related support and services on such terms and conditions and upon payment of such fees as the Exchange and the SEHK Subsidiary may from time to time agree.
- (4) The use of the China Connect Service by China Connect Exchange Participants shall be subject to such terms and conditions and the payment of such fees as the Exchange and/or the SEHK Subsidiary may from time to time prescribe.

### **China Connect Exchange Participants and Eligibility Criteria for Registration**

1404. Only China Connect Exchange Participants may use the China Connect Service. An Exchange Participant, other than a China Connect Exchange Participant, who wishes to conduct trading through the China Connect Service for the account of its clients through a China Connect Exchange Participant, whether directly or indirectly, shall refer to and comply with Rule 590.
1405. The Exchange may by notice from time to time prescribe the eligibility criteria for Exchange Participants to be accepted for registration and to remain registered as China Connect Exchange Participants. The Exchange may prescribe different eligibility criteria for registration in respect of different China Connect Markets and different China Connect Securities.
1406. (1) Only the following Exchange Participants shall be eligible to apply for registration and to remain registered as China Connect Exchange Participants:
- (a) Exchange Participants that are CCASS Clearing Participants; and
  - (b) Exchange Participants that are not CCASS Clearing Participants but have entered into a valid, binding and effective CCASS Clearing Agreement with a CCASS GCP.
- (2) In the case of an Exchange Participant that is a CCASS Clearing Participant, to be accepted for registration and to remain registered as a China Connect Exchange Participant, it must:
- (a) meet the relevant China Connect Exchange Participant Registration Criteria;
  - (b) be approved as a China Connect Exchange Participant and such approval must not have been withdrawn by the Exchange; and

- (c) be approved as a China Connect CCASS Clearing Participant and such approval must not have been withdrawn by HKSCC.
- (3) In the case of an Exchange Participant that is not a CCASS Clearing Participant, to be accepted for registration and to remain registered as a China Connect Exchange Participant, it must:
- (a) meet the relevant China Connect Exchange Participant Registration Criteria;
  - (b) be approved as a China Connect Exchange Participant and such approval must not have been withdrawn by the Exchange; and
  - (c) have entered into a CCASS Clearing Agreement with a CCASS GCP which is registered and which remains registered by HKSCC as a China Connect CCASS Clearing Participant.
- (4) Applications under Rule 1406(1) must be made in writing in such form as the Exchange may from time to time prescribe. Exchange Participants may be required to make separate applications with respect to the trading of China Connect Securities in different China Connect Markets.
- (5) The Exchange’s decision in respect of an application shall be final and conclusive, and approval may be given subject to such terms and conditions (including such system testing requirements, market readiness rehearsals and market contingency rehearsals) as the Exchange may consider appropriate. Where an application is rejected, the Exchange is not obliged to give any reasons for its decision.
- (6) The Exchange may publish the China Connect Exchange Participant Registration Criteria and a list of the China Connect Exchange Participants registered from time to time on the HKEx website or by such other means as it considers appropriate.
- (7) Exchange Participants must sign an undertaking in the prescribed form with the SEHK Subsidiary prior to their being accepted for registration as China Connect Exchange Participants.

**China Connect Securities, Special China Connect Securities and China Connect Markets**

1407. The Exchange may (after consulting the relevant China Connect Market Operator) accept any securities that are listed on a China Connect Market as eligible for China Connect buy orders and China Connect sell orders through the use of the China Connect Service, such securities are referred to as “China Connect Securities” in these Rules. The Exchange may apply different criteria in accepting securities as China Connect Securities with respect to different China Connect Markets.



1408. (1) Notwithstanding Rule 1407, the Exchange may (after consulting the relevant China Connect Market Operator) accept or designate any security (including any security not within the scope of Rule 1407) as only eligible for China Connect sell orders and not for China Connect buy orders through the use of the China Connect Service, such securities are referred to as “Special China Connect Securities” in these Rules.
- (2) Where securities are accepted or designated by the Exchange under Rule 1408(1), China Connect Exchange Participants shall not input or accept instructions from any person to input any China Connect buy orders for Special China Connect Securities.
- (3) Unless the context otherwise requires, any reference in these Rules to “China Connect Securities” shall include “Special China Connect Securities”.
1409. (1) The Exchange may establish and maintain the following lists and may publish them on the HKEx website or by such other means as it considers appropriate:
- (a) a list of China Connect Securities referred to in Rule 1407 in respect of a China Connect Market;
- (b) a list of Special China Connect Securities referred to in Rule 1408(1) in respect of a China Connect Market;
- (c) a list of China Connect Markets; and
- (d) a list of China Connect Market Operators.
- (2) The Exchange may (after consulting with the relevant China Connect Market Operator) exclude any securities from the list of China Connect Securities and the list of Special China Connect Securities.

#### **China Connect Open Gateway and Backup China Connect Open Gateway**

1410. (1) In order to access the CSC and use the China Connect Service, a China Connect Exchange Participant must apply to the Exchange in the prescribed form for:
- (a) one or more China Connect Open Gateways; and
- (b) in respect of each China Connect Open Gateway applied for, a single standard China Connect throttle rate or multiples of a standard China Connect throttle rate for assignment to the China Connect Open Gateway.
- (2) A China Connect Exchange Participant which has connected a China Connect Open Gateway with its BSS to access the CSC in accordance with Rule 1411(1) may, subject to Rule 1414(1), apply to the Exchange in the prescribed form for a Backup China Connect Open Gateway to backup such China Connect Open Gateway.
- (3) Applications made under Rules 1410(1) and (2) are subject to the approval of the Exchange on such terms and conditions and payment of such fees and charges as

the Exchange may consider appropriate. The Exchange's decision in respect of an application shall be final and conclusive. Where an application is rejected, the Exchange is not obliged to give any reasons for its decision.

1411. (1) Upon approval of an application made under Rule 1410(1) or Rule 1413(5), a China Connect Exchange Participant may:
- (a) connect its BSS with the China Connect Open Gateway; and
  - (b) connect the China Connect Open Gateway with the CSC.
- (2) Where an application for a Backup China Connect Open Gateway under Rule 1410(2) is approved, the Backup China Connect Open Gateway shall be used for backup purposes in accordance with Rule 1414.
- (3) A China Connect Exchange Participant shall comply with all such terms and conditions and pay all such fees and charges as the Exchange may prescribe from time to time with respect to the use of a China Connect Open Gateway, a standard China Connect throttle rate and/or a Backup China Connect Open Gateway.
1412. (1) Notwithstanding Rules 1411, 1413(5) and 1414, the Exchange has the right to suspend, withdraw or revoke a China Connect Exchange Participant's use of a China Connect Open Gateway or a Backup China Connect Open Gateway or access to the CSC on such terms and for such period as the Exchange thinks fit, whether requested by the China Connect Exchange Participant or not.
- (2) A China Connect Exchange Participant may request the Exchange to suspend, withdraw or revoke its use of any China Connect Open Gateway or Backup China Connect Open Gateway or access to the CSC any time.
- (3) A China Connect Exchange Participant seeking to install a China Connect Open Gateway, a Backup China Connect Open Gateway or its BSS for the purpose of connecting it to a China Connect Open Gateway in any location must:
- (a) provide prior written notification to the Exchange;
  - (b) ensure at all times that the environment is suitable for the location of such facilities; and
  - (c) comply at all times with such other requirements for the installation and operation of such facilities as the Exchange may prescribe from time to time.
- (4) A China Connect Exchange Participant shall ensure that only it or its Authorized Persons can operate or have access to a China Connect Open Gateway or a Backup China Connect Open Gateway, and shall be solely responsible and liable for monitoring and supervising such grant of access and operation by it or its Authorized Persons. A China Connect Exchange Participant shall be fully liable for any consequences resulting from any unauthorized use of its China Connect Open Gateway or Backup China Connect Open Gateway.

- (5) A China Connect Exchange Participant shall not modify or attempt to modify a China Connect Open Gateway or Backup China Connect Open Gateway.
- (6) A China Connect Exchange Participant shall ensure that its BSS is operated in such a way as not to affect the proper functioning of the CSC.
- (7) A China Connect Exchange Participant shall submit to the Exchange a declaration in a form prescribed by the Exchange from time to time in relation to its BSS:
  - (a) prior to the connection or re-connection of its BSS to the CSC via a China Connect Open Gateway; and
  - (b) prior to the implementation of material changes to its BSS or at any time as required by the Exchange during any period that its BSS is connected to the CSC .

### **Increase and Transfer of China Connect Open Gateway Throughput Rate**

- 1413.
- (1) The Exchange may, upon the application of a China Connect Exchange Participant, approve the increase of the throughput rate of a China Connect order into the CSC via a China Connect Open Gateway. An application for an increase in the throughput rate shall be for a standard China Connect throttle rate or multiples of a standard China Connect throttle rate.
  - (2) The Exchange may, upon the application of a China Connect Exchange Participant that has more than one China Connect Open Gateway, approve the transfer of any standard China Connect throttle rate assigned to one of its China Connect Open Gateways to another China Connect Open Gateway of the China Connect Exchange Participant.
  - (3) The Exchange may, upon the application of a China Connect Exchange Participant, approve the transfer of any standard China Connect throttle rate assigned to an existing China Connect Open Gateway of such China Connect Exchange Participant to a new China Connect Open Gateway of such China Connect Exchange Participant approved under Rule 1413(5).
  - (4) The Exchange may, upon the application of a China Connect Exchange Participant, approve the transfer of any standard China Connect throttle rate assigned to a China Connect Open Gateway of such China Connect Exchange Participant to a China Connect Open Gateway of any of its group companies.
  - (5) The Exchange may, upon the application of a China Connect Exchange Participant which has a China Connect Open Gateway, approve the application of the China Connect Exchange Participant for a new China Connect Open Gateway.
  - (6) Applications made by a China Connect Exchange Participant under Rules 1413(1) to (5) shall be subject to the approval of the Exchange on such terms and conditions and payment of such fees and charges as the Exchange may consider appropriate from time to time. The Exchange's decision in respect of an application shall be final and conclusive. Where an application is rejected, the Exchange is not obliged to give any reasons for its decision.

### **Use of Backup China Connect Open Gateway**

- 1414.
- (1) The number of Backup China Connect Open Gateways that a China Connect Exchange Participant may apply for under Rule 1410(2) must not exceed the total number of China Connect Open Gateways connected to the CSC at the time of the application. The number of standard China Connect throttle rates to be assigned to a Backup China Connect Open Gateway for the backup of a China Connect Open Gateway must be the same as the number of standard China Connect throttle rates assigned to that China Connect Open Gateway.
  - (2) Upon installation of a Backup China Connect Open Gateway, a China Connect Exchange Participant shall keep it in the "non-trading" mode until such time as it is activated by the Exchange at the request of the China Connect Exchange Participant under Rule 1414(3).
  - (3) A China Connect Exchange Participant wishing to activate a Backup China Connect Open Gateway in case of failure of a China Connect Open Gateway must submit a request to the Exchange to disconnect the China Connect Open Gateway concerned from the CSC and to activate the corresponding Backup China Connect Open Gateway to the "trading" mode in such form and manner as prescribed by the Exchange from time to time.
  - (4) Notwithstanding anything to the contrary contained in these Rules, upon activation of a Backup China Connect Open Gateway, such Backup China Connect Open Gateway shall for the purposes of these Rules be deemed as a "China Connect Open Gateway" as defined and shall be used as such by the China Connect Exchange Participant until such time as it is returned by the Exchange to the "non-trading" mode.
  - (5) A China Connect Exchange Participant wishing to de-activate its activated Backup China Connect Open Gateway and revert to using its corresponding China Connect Open Gateway for connection with the CSC must submit in the manner as prescribed by the Exchange from time to time:
    - (a) a request in the prescribed form in respect of the de-activation of the Backup China Connect Open Gateway; and
    - (b) a declaration referred to in Rule 1412(7) in respect of the re-activation of the China Connect Open Gateway.

### **Operational Hours of the China Connect Service**

- 1415.
- (1) The Exchange has absolute discretion to determine from time to time the operational hours of the China Connect Service, including the arrangements relating to the hoisting and lowering of Typhoon Signals and the issuance and cancellation of Black Rainstorm Warnings. The Exchange will prescribe the operational hours and related arrangements of the China Connect Service by making rules or through publication on the HKEx website or such other means as the Exchange considers appropriate. Different operational hours and arrangements may be prescribed in respect of different China Connect Markets.

- (2) The Exchange has absolute discretion to change the operational hours and arrangements of the China Connect Service at any time and without advance notice, whether on a temporary basis, due to operational needs, inclement weather, under emergency situations or otherwise. Except in the case of emergency, changes will be announced on the HKEx website or through such other means as the Exchange considers appropriate.

### **Order Input and Transactions Executed Through the China Connect Service**

1416. For China Connect orders to be routed to a China Connect Market for automatic matching and execution, a China Connect Exchange Participant must input such China Connect orders into the CSC via a China Connect Open Gateway connected with its BSS. A China Connect Exchange Participant shall at all times be responsible for all the China Connect orders routed through its China Connect Open Gateway to the relevant China Connect Market irrespective of whether the China Connect orders are executed on the China Connect Market System or not. Where China Connect orders are executed, a China Connect Exchange Participant shall bear responsibility for the China Connect Securities Trades.
1417. The Exchange has absolute discretion to determine the types of China Connect orders that may be input by a China Connect Exchange Participant. Such order types may differ for different China Connect Markets and/or different China Connect Securities. The Exchange will prescribe or change the order types to be used for a China Connect Market by making rules or through publication on the HKEx website or such other means as the Exchange considers appropriate.
1418. Without limiting Rule 1417, China Connect Exchange Participants must input China Connect orders in accordance with and subject to the scale of spreads, limitations on lot size, price limit, order size and other quotation requirements or restrictions (including but not limited to shareholding restrictions and restrictions on turnaround trading arrangements) set by the China Connect Market Operator for or otherwise applicable to the relevant China Connect Market from time to time. Different quotation requirements or restrictions may apply to different China Connect Markets and different China Connect Securities. The Exchange will set out such requirements or restrictions as are communicated to the Exchange by the relevant China Connect Market Operator by making rules or through publication on the HKEx website or such other means as it considers appropriate. The Exchange has the power to reject China Connect orders that do not comply with the relevant requirements and restrictions. Further, the Exchange has absolute discretion to prescribe additional quotation requirements or restrictions under Rule 1430.
1419. Unless the Exchange otherwise determines, China Connect orders shall be made in RMB.
1420. Unless the Exchange otherwise determines, all inputs into the CSC via a China Connect Open Gateway of a China Connect Exchange Participant are valid and binding on the China Connect Exchange Participant subject to these Rules, and by inputting a China Connect order into the CSC, a China Connect Exchange Participant is deemed to have authorised the SEHK Subsidiary to route such China Connect order through the China Connect Service to the relevant China Connect Market System for automatic matching

and execution. A China Connect Exchange Participant shall be responsible for the accuracy of all information and messages input into the CSC via a China Connect Open Gateway of the China Connect Exchange Participant, and it is deemed to have authorised and have knowledge of all inputs that bear the China Connect Exchange Participant's unique identifier.

1421. (1) A China Connect Exchange Participant shall not accept instructions from any client to sell or buy China Connect Securities through the China Connect Service which may be in breach of or not be in compliance with any provision in these Rules that applies to the use of the China Connect Service or the trading of China Connect Securities or in China Connect Markets.
- (2) Before a China Connect Exchange Participant inputs a China Connect sell order for routing through the China Connect Service, it shall ensure that it or its clients have sufficient securities at the time of placement of such order to settle the delivery obligation assuming that the China Connect order will be matched and executed on the relevant China Connect Market System.
1422. A China Connect order input by a China Connect Exchange Participant may, subject to the rules of the relevant China Connect Market Operator that apply to the SEHK Subsidiary, be cancelled at the request of the China Connect Exchange Participant through the input of a cancellation request into the CSC via a China Connect Open Gateway provided that such China Connect order has not been matched and executed by the relevant China Connect Market System. No China Connect order is regarded as cancelled unless and until a cancellation confirmation has been issued by the relevant China Connect Market System. Neither the Exchange nor the SEHK Subsidiary shall have any liability in the event that a China Connect order which a China Connect Exchange Participant has requested be cancelled is not cancelled for any reason whatsoever.
1423. Unless the Exchange otherwise determines, all China Connect Securities Trades executed by a China Connect Exchange Participant, whether as agent or principal, shall be binding on the China Connect Exchange Participant and cannot be revoked, amended or cancelled.
1424. Where a China Connect buy order is executed through the use of the China Connect Service by a China Connect Exchange Participant, the China Connect Exchange Participant shall ensure that it or its clients will have sufficient funds to settle the payment obligation of the China Connect Exchange Participant on the settlement day. Funds should be sufficient to cover all fees, charges and taxes payable in respect of the purchase of the relevant China Connect Securities on the relevant China Connect Market.
1425. All China Connect Securities Trades shall be settled through CCASS in accordance with the CCASS Rules. Where a China Connect order is executed on a China Connect Market System through the use of the China Connect Service by a China Connect Exchange Participant, the China Connect Exchange Participant shall cause such transaction to be settled through CCASS as a China Connect Securities Trade in accordance with the CCASS Rules.

#### **Quotas on the Trading of China Connect Securities**

1426. Relevant governmental or regulatory bodies may impose quotas on the trading of China Connect Securities from time to time depending on market conditions and readiness, the level of cross-boundary fund flows, stability of the markets and other factors and considerations. Where quotas are imposed in respect of a China Connect Market, the Exchange will prescribe relevant details including the quota limit, level of quota utilisation, balance of available quota and the applicable restrictions and arrangements by making rules or through publication on the HKEx website or such other means as the Exchange considers appropriate.
1427. Where a quota referred to in Rule 1426 is imposed, the Exchange has absolute discretion to take all such actions, steps or measures as it considers necessary or appropriate to ensure or facilitate compliance with the relevant quota requirements or restrictions including, without limitation, the following:
- (a) restricting or rejecting China Connect buy orders;
  - (b) suspending or restricting the access to or the use of all or any part of the China Connect Service under Rule 1438 or 1439; and
  - (c) amending the operational hours and related arrangements of the China Connect Service under Rule 1415,

provided that China Connect sell orders will not be restricted or rejected so long as the Exchange considers it appropriate to make the China Connect Service or any part of it available. China Connect Exchange Participants shall comply with all such actions, steps or measures as are taken or required by the Exchange.

1428. (1) A China Connect Exchange Participant shall not enter into or carry out, directly or indirectly, any fictitious or artificial transaction or device or any other act with the intention that, or being reckless as to whether, it has or is likely to have the effect of artificially using or filling any quota or quota balance referred to in Rule 1426 or causing any such quota limit to be exceeded, whether through artificial, unauthorised or bulk input of China Connect buy orders, input of China Connect buy orders at an artificially low price, or through the creation of a false market in, or a misleading appearance of active China Connect orders for, any China Connect Securities or otherwise.
- (2) For the purpose of preventing the acts referred to in Rule 1428(1), the Exchange and the SEHK Subsidiary may set restrictions in the CSC and related system connections to block the input of China Connect orders at an artificially low price at such thresholds as the Exchange and the SEHK Subsidiary may consider appropriate.

### **Fees and Charges on the Trading of China Connect Securities**

1429. China Connect Exchange Participants shall pay all fees, charges, levies and taxes payable in respect of the buying and selling of China Connect Securities as required by the relevant China Connect Market Operator and applicable laws from time to time. The Exchange will provide information on such fees, charges, levies and taxes payable in respect of a China Connect Market as are communicated to it by the relevant China

Connect Market Operator and the manner of collection by making rules or through publication on the HKEx website or such other means as the Exchange considers appropriate.

### **Conditions and Restrictions on the Use of the China Connect Service**

1430. The Exchange has absolute discretion to impose or amend conditions or restrictions for access to or the use of the China Connect Service from time to time for the purpose of ensuring that the trading of China Connect Securities will not contravene applicable laws or for any other reasons which the Exchange considers appropriate. To comply with applicable laws in Mainland China and the requirements of the relevant China Connect Market Operator, such conditions or restrictions may include requirements to comply with certain shareholding thresholds and disclosure obligations, restrictions in conducting off-exchange transactions, and obligations to alert investors of investment risk and their obligations to comply with applicable laws, and to communicate with investors on regulatory warnings or investigations. Different conditions or restrictions may be prescribed in respect of different China Connect Securities and China Connect Markets. The Exchange will prescribe the conditions or restrictions or change of such conditions or restrictions by making rules or through publication on the HKEx website or such other means as the Exchange considers appropriate. China Connect Exchange Participants shall comply with the conditions and restrictions in all respects.

1431. Where any condition or restriction referred to in Rule 1430 is imposed, the Exchange has absolute discretion to take all such actions, steps or measures as it considers necessary or appropriate to ensure or facilitate compliance with such condition or restriction including, without limitation, the following:

- (1) restricting or rejecting China Connect buy orders in respect of any or all of the China Connect Securities;
- (2) suspending or restricting the access to or use of all or any part of the China Connect Service under Rule 1438 or 1439;
- (3) amending the operational hours and related arrangements of the China Connect Service under Rule 1415;
- (4) imposing a forced sale of the relevant China Connect Securities in circumstances where a shareholding limit under applicable laws is or may be breached or exceeded; and
- (5) taking actions as required under the applicable laws or as requested by the Commission, a relevant governmental or regulatory body or a China Connect Market Operator,

provided that China Connect sell orders will not be restricted or rejected so long as the Exchange considers it appropriate to make the China Connect Service or any part of it available. China Connect Exchange Participants shall comply with all such actions, steps or measures as are taken or required by the Exchange.

### **Compliance with Applicable Laws and the Rules**



1432. By applying for registration and being registered as a China Connect Exchange Participant, a China Connect Exchange Participant agrees, and represents to the Exchange, that it shall, and shall ensure that its Authorized Persons, Responsible Officers, directors, managers, officers, employees, representatives and persons acting on its behalf shall, for so long as the China Connect Exchange Participant remains registered as a China Connect Exchange Participant, comply with and abide by all applicable laws with regard to the trading of China Connect Securities on the relevant China Connect Market including but not limited to laws and regulations prohibiting insider dealing, market manipulation, price rigging, false trading or the creation of a false or misleading appearance of active trading on any China Connect Securities.
1433. By applying for registration and being registered as a China Connect Exchange Participant, a China Connect Exchange Participant agrees, and represents to the Exchange, that it shall, and shall ensure that its Authorized Persons, Responsible Officers, directors, managers, officers, employees, representatives and persons acting on its behalf shall, for so long as the China Connect Exchange Participant remains registered as a China Connect Exchange Participant, comply with and abide by these Rules and any requirements, conditions, restrictions, arrangements and other stipulations that may be issued or published pursuant to these Rules with regard to the trading of China Connect Securities or the access to or use of the China Connect Service. The prohibitions in Rule 545 on market misconduct shall apply to China Connect Exchange Participants in relation to their use of the China Connect Service, provided that any reference in Rule 545 to securities traded on the Exchange shall be construed, *mutatis mutandis*, to include China Connect Securities.
1434. For informational purposes only, the Exchange may publish or make available on the HKEx website or through such other means as the Exchange considers appropriate a list of laws, rules and regulations of Mainland China which may be relevant to the trading of China Connect Securities on the relevant China Connect Market. Publication of such list by the Exchange shall be for ease of reference only and shall not be regarded as the giving of legal or professional advice by the Exchange to any China Connect Market Participants. The Exchange does not make any representations or warranties as to the accuracy, completeness, suitability or timeliness of any of the information included in such list and does not accept any liability for any person's reliance or use of the information. Each China Connect Exchange Participant shall be responsible on an ongoing basis for seeking its own advice with regard to compliance with applicable laws as may be in force from time to time.
1435. (1) A China Connect Exchange Participant is subject to and shall comply with the provisions in this Chapter 14 in addition to those applicable to it as an Exchange Participant, unless otherwise determined by the Exchange. For the avoidance of doubt, nothing in this Chapter 14 shall affect or relieve the obligations and liabilities of a China Connect Exchange Participant as an Exchange Participant under these Rules.
- (2) Without prejudice to Rule 569A, the Exchange may, without obtaining the prior approval of a China Connect Exchange Participant, disclose information concerning the China Connect Exchange Participant (including information relating to its use of the China Connect Service, the China Connect orders and , order cancellation requests input by it and China Connect Securities Trades made by it) to the China Connect Market Operator which operates the China Connect

Market and the relevant governmental or regulatory bodies.

- (3) Without prejudice to the generality of Rule 569B, the Board may direct a China Connect Exchange Participant to provide the Exchange with such information or documents in Chinese (or where the information or document is not in the Chinese language, a Chinese translation thereof) as may be required by a China Connect Market Operator or a relevant governmental or regulatory body for the purpose of any investigation or otherwise pursuant to Rule 569B within a period specified by the Exchange.

1436. The Exchange may suspend, restrict or terminate a China Connect Exchange Participant's access to or use of the China Connect Service where the China Connect Exchange Participant fails to comply with these Rules including any provision in this Chapter 14. This is without prejudice to any other action that the Exchange may take against the China Connect Exchange Participant or any other rights of the Exchange.

1437. In the event that the Exchange, the SEHK Subsidiary or HKSCC is notified by a China Connect Market Operator, China Connect Clearing House or a relevant governmental or regulatory body that there is reasonable cause to believe that a China Connect Exchange Participant or its client has failed to comply with or has breached any applicable laws of Mainland China with regard to the trading of China Connect Securities on the relevant China Connect Market through the use of the China Connect Service, the Exchange shall, in addition to any other powers that it may have under these Rules, have the following powers:

- (1) require the relevant China Connect Exchange Participant to provide the Exchange with such information as it may request to assess, or to enable the relevant China Connect Market Operator, China Connect Clearing House or governmental or regulatory body to assess, whether there is any non-compliance or breach of the applicable laws or the extent of any non-compliance or breach;
- (2) require the relevant China Connect Exchange Participant to take such actions, steps or measures to stop and/or to remedy or rectify the breach; and
- (3) commence disciplinary action against the relevant China Connect Exchange Participant for its failure to comply with Rule 1432 or 1433.

**Suspension, Restriction and Cessation of Operation of the China Connect Service, and Emergency Arrangements**

1438. (1) The Exchange or the SEHK Subsidiary (after consulting the Exchange) may temporarily suspend or restrict the China Connect Service or any part thereof in its sole and absolute discretion. Suspension or restriction may be in respect of all or part of the order-routing and related supporting services or with regard to all or any China Connect Securities or one or more China Connect Markets, and for such duration and frequency as the Exchange may consider appropriate.

(2) The circumstances under which the powers under Rule 1438(1) may be exercised include, without limitation, the following:

- (a) in the judgement of the Exchange or the SEHK Subsidiary (after consulting

the Exchange), any applicable quota prescribed under Rule 1426 or 1427 may not be sufficient to support the fulfilment of China Connect orders, or any restrictions or measures put in place for quota management as referred to in Rule 1428 may not be effective;

- (b) in the judgement of the Exchange or the SEHK Subsidiary (after consulting the Exchange), a fair and orderly market for the trading of the relevant China Connect Securities may not exist or be maintained, or there is unusual trading of the relevant China Connect Securities through the use of the China Connect Service;
  - (c) in the judgement of the Exchange or the SEHK Subsidiary (after consulting the Exchange), the normal operation of any Trading Link is affected or there are operational or technical issues which must be resolved before the China Connect Service should continue to be made available or not be restricted;
  - (d) where the Commission, a relevant governmental or regulatory body, competent authority or a China Connect Market Operator has requested for a suspension or restriction of the China Connect Service or any part thereof; and
  - (e) where the Exchange or the SEHK Subsidiary is notified by HKSCC in writing confirming that there are operational or technical issues in respect of HKSCC, a China Connect Clearing House or any of the Clearing Links which must be resolved before the China Connect Service should continue to be made available or not be restricted.
- (3) If the Exchange or the SEHK Subsidiary decides to suspend or restrict the China Connect Service or any part thereof under Rule 1438(1), the Exchange shall (except in the case of emergency) publish an announcement on the HKEx website or by such other means as the Exchange considers appropriate, stating the nature of the suspension or restriction, the effective date and time of suspension or restriction and any other information as the Exchange considers appropriate.

1439. If, in the opinion of the Exchange or the SEHK Subsidiary (after consulting the Exchange), the operation or functioning of the China Connect Service is, or is likely to be, severely or adversely threatened or affected by an emergency (including but not limited to fire or other casualty or accident, typhoon, rainstorm, power outage, communications breakdown, system failure, computer malfunction, war, riot, civil commotion, labour strike, material change of law or issue of any governmental or regulatory order, decree or judgment or other similar events) having significant impact on the continuous operation of the China Connect Service, the CSC, a China Connect Market System or a China Connect Market Operator, the Exchange and the SEHK Subsidiary (after consulting the Exchange) shall have full authority to take such actions, steps or measures in relation to the China Connect Service, the CSC or otherwise, as it may deem necessary or appropriate to deal with such emergency. For the avoidance of doubt, in order to deal with an emergency, the Exchange shall have full authority to suspend or restrict access to or the use of the China Connect Service, change its operational hours and related arrangements, or cancel or request for the cancellation of any or all China Connect orders input by any or all China Connect Exchange

Participants, irrespective of whether such China Connect orders have already been routed to the China Connect Market System.

1440. The Exchange or the SEHK Subsidiary (with the agreement of the Exchange) may, in respect of any or all of the China Connect Markets, decide to cease the provision of the China Connect Service and the operation of the CSC permanently, with immediate effect or otherwise by publishing an announcement on the HKEx website or through such other means as the Exchange considers appropriate. Subject to the requirements of the relevant governmental or regulatory bodies, the Exchange and the relevant China Connect Market Operator will cooperate to implement the winding-down arrangements in respect of the relevant Trading Link as the Exchange and the relevant China Connect Market Operator may from time to time agree.

#### **Disclosure of Information and Publication of Trade Information**

1441. (1) In addition to other powers which the Exchange may have in these Rules, the Exchange may require China Connect Exchange Participants to provide information on their clients' profiles, and the type and value of China Connect orders and the China Connect Securities Trades executed for them at such intervals and in such form as the Exchange may specify from time to time.
- (2) Without prejudice to any other rights which it may have to disclose information in its possession, the Exchange may, in such manner and form and at such intervals as it considers appropriate, publish, disseminate or publicly distribute aggregated information in respect of China Connect Securities Trades, trading volumes, investor profiles and other related data, provided that the identities of investors and China Connect Exchange Participants cannot reasonably be determined from the information published, disseminated or publicly distributed by the Exchange.

#### **Responsibilities of the Exchange and the SEHK Subsidiary**

1442. In allowing access to the CSC or making the China Connect Service available, the Exchange and the SEHK Subsidiary are only providing the system connection arrangements and related services to facilitate the trading of China Connect Securities on the relevant China Connect Market System. The Exchange, HKEx and the SEHK Subsidiary and their respective directors, employees and agents shall not be liable for any obligation with respect to a transaction concluded through the use of the China Connect Service, and all obligations in relation to or arising from any China Connect order or any transaction concluded through the use of the China Connect Service shall be borne by the China Connect Exchange Participant concerned. In addition to any indemnities given by a China Connect Exchange Participant as an Exchange Participant under these Rules, a China Connect Exchange Participant shall fully indemnify the Exchange, HKEx and the SEHK Subsidiary and their respective directors, employees and agents and keep each of them indemnified against all third party claims, actions and proceedings in relation to or arising from, directly or indirectly, any China Connect order routed to a China Connect Market for execution or any transaction concluded through the use of the China Connect Service by the China Connect Exchange Participant and for all losses, damages, costs and expenses incurred by the Exchange, HKEx and the SEHK Subsidiary and their directors, employees and agents in relation to such claims, actions and proceedings.

1443. The Exchange, HKEx and the SEHK Subsidiary, and their respective directors, employees and agents shall not be responsible or held liable for any loss or damage directly or indirectly suffered by a China Connect Exchange Participant, its clients or any third parties arising from or in connection with the China Connect Service or the CSC including, without limitation, the following:
- (1) a suspension, restriction or cessation of the China Connect Service or the CSC, or any inability to access or use the CSC or the China Connect Service;
  - (2) any special arrangement put in place or any action, step or measure taken or not taken to deal with an emergency, including but not limited to the cancellation of any or all China Connect orders input by China Connect Exchange Participants;
  - (3) the trading of any China Connect Securities through the use of the China Connect Service;
  - (4) any suspension, delay, interruption or cessation of trading of any China Connect Securities on a China Connect Market;
  - (5) any delay or failure to route any China Connect orders, order cancellation requests or to provide the China Connect Service due to any system or connection failure, power outage, software or hardware malfunction or events beyond the control of the Exchange;
  - (6) any delay, failure or error of any China Connect Market System or any system upon which the SEHK Subsidiary is reliant in providing the China Connect Service;
  - (7) any delay or failure to execute, or any error in matching or executing any, China Connect order due to reasons beyond the control of the Exchange, HKEx or the SEHK Subsidiary including but not limited to any action or decision taken or made, or not taken or made, by any China Connect Market Operator or a relevant governmental or regulatory body;
  - (8) any delay, failure or error of any China Connect Market Operator in communicating any quotation requirements or restrictions, fees, charges, levies and taxes payable in respect of the trading of any China Connect Securities set or prescribed by the China Connect Market Operator or the relevant governmental or regulatory bodies to the Exchange as referred to in Rules 1418 and 1429;
  - (9) the imposition, introduction or change of any quota or quota limit, or any condition, restriction or requirement on the input of China Connect orders, the trading of China Connect Securities or the use of the China Connect Service under these Rules;
  - (10) any consequences arising from unauthorized access to the CSC via the China Connect Open Gateway or Backup China Connect Open Gateway of a China Connect Exchange Participant;
  - (11) the taking of any action or the exercise of any discretion, or not doing so, by any China Connect Market Operator or any relevant governmental or regulatory body;

and

- (12) the taking of any action or the exercise of any discretion, or not doing so, by the Exchange, HKEx or the SEHK Subsidiary pursuant to these Rules or otherwise.

**China Connect Service Special Rules**

1444. (1) As set out in various parts of this Chapter 14, the Exchange may prescribe rules that govern China Connect Exchange Participants when trading in a China Connect Market. Different rules may be prescribed in respect of different China Connect Markets and different China Connect Securities.
- (2) In addition to this Chapter, China Connect Exchange Participants engaged in the trading of securities listed on the Shanghai Stock Exchange through the use of the China Connect Service shall comply with Chapter 14A.

## CHAPTER 14A

### CHINA CONNECT SERVICE - SHANGHAI

#### Application

- 14A01. (1) This Chapter 14A sets out the China Connect Service Special Rules that apply to Shanghai-Hong Kong Stock Connect as a Trading Link referred to in Rule 1401, and the use of the China Connect Service for the trading of securities listed on SSE as a China Connect Market.
- (2) China Connect Exchange Participants who wish to trade in eligible SSE-listed securities through the China Connect Service shall comply with this Chapter.
- (3) The general provisions of Chapter 14 on the China Connect Service apply to the trading of SSE-listed securities as China Connect Securities and shall be read in conjunction with this Chapter.

#### Interpretation

- 14A02. (1) Unless defined below or the context otherwise requires, terms used in this Chapter have the same meanings as defined in Chapter 1 of these Rules.

- (2) In this Chapter, unless the context otherwise requires:

“A shares” means the shares of Mainland China-incorporated companies which are accepted for listing and admitted to trading on the stock exchanges of Mainland China from time to time;

“Aggregate Quota” means the aggregate quota of RMB 300 billion for Shanghai-Hong Kong Stock Connect as announced by the CSRC and the Commission on 10 April 2014 or such revised amount as both regulators shall decide from time to time;

“Aggregate Quota Balance” has the meaning ascribed to it in Rule 14A07(3);

“China Connect order” has the meaning as defined in Chapter 1 and in the context of this Chapter, shall be construed in light of the SSE Market System being the “China Connect Market System”;

“China Connect Securities” has the meaning as defined in Chapter 1 and in the context of this Chapter, shall be construed in light of the eligible securities listed on SSE being accepted as “China Connect Securities”, under Rule 14A04;

“China Connect” has the meaning as defined in Chapter 1 and in

Securities Trade”	the context of this Chapter, shall be construed in light of the SSE Market being the “China Connect Market”;
“CSRC”	means the China Securities Regulatory Commission;
“Daily Quota”	means the daily quota of RMB 13 billion for Shanghai-Hong Kong Stock Connect as announced by the CSRC and the Commission on 10 April 2014 or such revised amount as both regulators shall decide from time to time;
“Daily Quota Balance”	has the meaning ascribed to it in Rule 14A07(6);
“H shares”	means the shares of Mainland China-incorporated companies which are accepted for listing and admitted to trading on the Exchange from time to time;
“operational hours”	means the hours in a CSC trading day during which the China Connect Service is available for order-routing of China Connect orders, as referred to in Rule 14A03(3);
“price stabilization period”	in relation to the listing of H shares on the Exchange, means the price stabilization period referred to in the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) and as set out in the prospectus of the relevant H shares;
“Shanghai-Hong Kong Stock Connect”	means the pilot programme jointly announced by the CSRC and the Commission dated 10 April 2014 comprising, among others, the order-routing arrangements to be entered into between the Exchange, SSE, the SEHK Subsidiary and a subsidiary of SSE which shall become a Special Participant;
“Special China Connect Securities”	has the meaning as defined in Chapter 1 and in the context of this Chapter, shall be construed in light of the securities listed on SSE being accepted or designated as “Special China Connect Securities” under Rule 14A05;
“SSE”	means Shanghai Stock Exchange, a China Connect Market Operator as defined in Chapter 1;
“SSE Market”	means the stock market operated by SSE, a China Connect Market as defined in Chapter 1;



“SSE Market System”	means the trading system of SSE, a China Connect Market System as defined in Chapter 1;
“SSE Rules”	means the SSE Regulations on the Shanghai-Hong Kong Stock Connect Pilot Programme and the business and trading rules and regulations of SSE; and
“CSC trading day”	means a day on which the China Connect Service is available for order-routing of China Connect orders, as referred to in Rule 14A03(3);
“under risk alert”	in relation to A shares, means the relevant shares are placed under “risk alert” by SSE including shares of “ST companies”, *ST companies and shares subject to the delisting process under the SSE Rules.

- (3) Unless the context otherwise requires:
- (a) where there is any conflict or inconsistency between a provision in this Chapter and Chapter 14, the provision in this Chapter shall prevail insofar as it relates to the trading of eligible SSE-listed securities as China Connect Securities, otherwise, the provision in Chapter 14 shall prevail; and
  - (b) any reference in this Chapter to “China Connect Securities” includes “Special China Connect Securities”.
- (4) Any description of or reference to Mainland China laws or regulations in this Chapter 14A is not intended to be, nor should it be regarded as, legal or other professional advice for China Connect Exchange Participants or their clients. China Connect Exchange Participants are solely responsible for determining whether they are subject to any compliance or other obligations under applicable Mainland China laws or regulations, as may be amended from time to time, as a result of their use of the China Connect Service and are advised to seek their own professional advice.

#### **Operational Hours of the China Connect Service in relation to SSE**

- 14A03. (1) Pursuant to the Exchange’s powers under Rule 1415(1) (discretion to determine the operational hours), the operational hours of the China Connect Service in relation to SSE are set out in Rules 14A03(3) to (5).
- (2) The trading days and trading hours of SSE are set out below, which may be subject to change in accordance with the SSE Rules. Except between 9:20 and 9:25, SSE normally accepts order cancellation requests during its trading hours.

<b>SSE trading days</b>	Monday to Friday (“T”) except where T is a public holiday in Mainland China
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<b>Trading hours on a SSE trading day</b>	Opening Call Auction session in the morning : 09:15 – 09:25 Continuous Auction session in the morning: 09:30 – 11:30 Continuous Auction session in the afternoon: 13:00 – 15:00
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- (3) The trading days of the China Connect Service and the operational hours are set out below, which may be subject to change in accordance with Rule 1415.

<b>CSC trading days</b>	Monday to Friday (“T”) except where: (a) T is a public holiday in Mainland China or Hong Kong; or (b) banking services are not available in Mainland China or Hong Kong on T+1, the corresponding settlement day.
<b>Operational hours</b>	Morning session: 09:10 – 11:30 Afternoon session 12:55 – 15:00

- (a) If a CSC trading day falls on a day on which only half-day trading is available on the Exchange, the China Connect Service will remain available until the SSE Market closes on that day unless otherwise advised by the Exchange.
- (b) China Connect Exchange Participants may input China Connect orders for transmission to the CSC on a CSC trading day starting from:
- (i) 9:10 in respect of the Opening Call Auction session in the morning;
  - (ii) 9:25 in respect of the Continuous Auction session in the morning; and
  - (iii) 12:55 in respect of the Continuous Auction session in the afternoon.

This means that the CSC will normally accept China Connect orders five minutes before commencement of each trading session. Processing of China Connect orders in the SSE Market System normally starts at the beginning of each SSE trading session, as referred to in Rule 14A03(2).

- (4) If a Typhoon Signal No. 8 or above is hoisted or where the Black Rainstorm Warning is issued in Hong Kong on a trading day, the operational hours will be adjusted as set out below.

- (a) Hoisting of Typhoon Signal No. 8 (or above)

<b>Hoisting Time</b>	<b>Service Availability</b>
Before 09:15	Subject to Rule 14A03(4)(c), no service available.
At or after 09:15	Normal service will be available for 15 minutes after announcement of the hoisting of the relevant Typhoon

<b>Hoisting Time</b>	<b>Service Availability</b>
	Signal. During this period, China Connect Exchange Participants may input or cancel China Connect orders. After this period, CSC will only accept cancellation of China Connect orders until the end of that SSE trading day.

(b) Issuance of Black Rainstorm Warning

<b>Issuing Time</b>	<b>Service Availability</b>
Before 09:00	Subject to Rule 14A03(4)(c), no service available.
At or after 09:00	Normal service available

(c) Lowering of Typhoon Signal No. 8 or Cancellation of Black Rainstorm Warning

<b>Lowering/Cancellation Time</b>	<b>Service Commencement or Resumption Time</b>
At or before 07:00	09:10
After 07:00 to 07:30	09:25
After 07:30 to 08:00	10:00
After 08:00 to 08:30	10:30
After 08:30 to 09:00	11:00
After 09:00 to 11:00	12:55
After 11:00 to 11:30	13:30
After 11:30 to 12:00	14:00
After 12:00	No service available

For the avoidance of doubt, where service commences or resumes after lowering of Typhoon Signal No.8 or cancellation of Black Rainstorm Warning, the trading status will follow the trading session of the SSE as referred to in Rule 14A03(2). This means that where service commences or resumes at 9:25 or thereafter, there will be no Opening Call Auction trading on that day.

- (5) If Shanghai is or may be affected by severe weather conditions on a CSC trading day and an announcement on the adjustment of SSE trading hours is made by SSE, the Exchange will, as soon as practicable after SSE issues an announcement, publish a corresponding announcement on the HKEx website or through such other means as the Exchange considers appropriate, informing the market of the adjustment to the operational hours of the China Connect Service.

**SSE-listed Securities as China Connect Securities**

- 14A04. (1) Pursuant to the Exchange's powers under Rule 1407 (power to accept securities as China Connect Securities), securities which meet the criteria set out in Rules 14A04(2) shall, subject to Rules 14A04(3) and (4) be accepted as China Connect Securities and be eligible for China Connect buy orders and China Connect sell orders.
- (2) Unless the Exchange otherwise determines, SSE-listed securities set out below will be accepted as China Connect Securities:
- (a) constituent stocks of SSE180 Index;
  - (b) constituent stocks of SSE380 Index; or
  - (c) A shares listed on SSE that are not constituent stocks of the SSE 180 Index or SSE 380 Index but which have corresponding H shares accepted for listing and trading on the Exchange,

provided that:

- (i) they are not traded on SSE in currencies other than RMB; and
  - (ii) they are not under risk alert.
- (3) Without prejudice to its powers under Rules 1407 and 1409, the Exchange will include and exclude securities as China Connect Securities based on the criteria set out in Rule 14A04(2), the adjustments made to the SSE 180 Index and SSE 380 Index, the timing at which relevant A shares and H shares are listed on or delisted from SSE and/or the Exchange, and the timing at which relevant A shares are placed under risk alert or released from risk alert.
- (4) Where (i) any A shares are approved for listing on SSE, (ii) any H shares are approved for listing on the Exchange (assuming that there are existing A shares already listed on SSE), or (iii) any A shares and H shares are approved for simultaneous listing on SSE and the Exchange:
- (a) in respect of (i), the relevant A shares will be accepted as China Connect Securities after they have been traded on the SSE for 10 trading days;
  - (b) in respect of (ii), the relevant A share will be accepted as China Connect Securities after the price stabilization period of the relevant H shares has ended or expired; and
  - (c) in respect of (iii), the relevant A shares will be accepted as China Connect Securities after they have been traded on the SSE for 10 trading days and after the price stabilization period of the relevant H shares has ended or expired, whichever is later,

provided that, notwithstanding the foregoing, the Exchange shall have discretion to determine the timing of the acceptance of such A shares as China Connect Securities.

- (5) The Exchange will publish a list of China Connect Securities in respect of SSE in accordance with Rule 1409(1)(a) based on the criteria and principles set out

in this Rule. For the avoidance of doubt, no SSE-listed securities are eligible for China Connect buy orders or China Connect sell orders unless and until such securities have been included in the list of China Connect Securities published by the Exchange.

### **SSE-listed Securities as Special China Connect Securities**

- 14A05. (1) Pursuant to the Exchange's power under Rule 1408 (power to accept or designate securities as Special China Connect Securities), the securities referred to in Rules 14A05(2) and (3) shall be accepted and designated as Special China Connect Securities and be eligible only for China Connect sell orders and not for China Connect buy orders.
- (2) Without prejudice to its powers under Rules 1408 and 1409, the Exchange will accept or designate securities which cease to meet the eligibility criteria set out in Rule 14A04(2) as Special China Connect Securities provided that they remain listed on SSE. These include:
- (a) shares accepted as China Connect Securities under Rules 14A04(2)(a) or (b) but which have subsequently been adjusted out of the relevant SSE Index and do not fall under Rule 14A04(2)(c);
  - (b) shares accepted as China Connect Securities under Rule 14A04(2)(c) but the H shares of which have been delisted from the Exchange, and the shares do not fall under Rule 14A04(2)(a) or (b); and
  - (c) shares accepted as China Connect Securities under Rule 14A04(2)(a), (b) or (c) but which have been placed under risk alert.
- (3) In addition to Rule 14A05(2), where, as a result of any distribution of rights or entitlements, conversion, takeover, other corporate actions or abnormal trading activities, any China Connect Exchange Participant receives (whether as principal or agent through their or their China Connect CCASS Participant's account with HKSCC) any securities or options which are not already accepted as China Connect Securities, provided that such securities or options are listed on SSE and traded in RMB, the Exchange will accept or designate such securities or options as Special China Connect Securities.
- (4) The Exchange will publish a list of Special China Connect Securities in respect of SSE in accordance with Rule 1409(1)(b) based on the principles set out in this Rule. For the avoidance of doubt, no SSE-listed securities are eligible for China Connect sell orders unless and until such securities have been included in the list of Special China Connect Securities by the Exchange.

### **Trading Arrangements**

- 14A06. (1) Pursuant to the Exchange's powers under Rules 1417 (power to determine the order types), 1418 (power to stipulate quotation requirements) and 1430 (conditions and restrictions on the use of the China Connect Service), Rules 14A06(2) to (11) shall apply to the use of the China Connect Service for the trading of China Connect Securities listed on SSE.

### **Quotation requirements and restrictions**

- (2) China Connect orders shall comply with the following:

<b>Trading Mode</b>	Automatic order matching and execution through the SSE Market System
<b>Trading Currency</b>	RMB
<b>Stock Code</b>	6 digits
<b>Order Type</b>	Only limit orders with a specified price are allowed: <ul style="list-style-type: none"> <li>– China Connect buy orders may be executed at or lower than the specified price</li> <li>– China Connect sell orders may be executed at or higher than the specified price</li> </ul>
<b>Spread</b>	RMB 0.01
<b>Board Lot (applicable to China Connect buy orders only)</b>	100 shares
<b>Odd Lots</b>	Only China Connect sell orders are allowed subject to Rule 14A06(3)
<b>Maximum Order Size</b>	1,000,000 shares
<b>Price Limit of the China Connect Market</b>	±10% (and ±5% for stocks under risk alert based on the previous closing price)
<b>Additional price restrictions</b>	As set out in Rule 14A07(12)
<b>Turnaround Trading</b>	Not allowed as set out in Rule 14A06(4).
<b>Block Trades</b>	Not allowed
<b>Manual Trades</b>	Not available in the SSE Market
<b>Order Amendment</b>	Not available in the SSE Market
<b>Pre-trade Checking</b>	Required as set out in Rule 14A06(5) to (10)
<b>Naked Short Selling</b>	Not allowed

#### **Odd lots**

- (3) China Connect buy orders involving odd lots are not allowed. A sale of odd lots is allowed provided that the China Connect sell order relates to the sale of all, and not part, of the odd lots held in respect of a China Connect Security for a China Connect Exchange Participant or for a client (as the case may be).

#### **No Turnaround Trading**

- (4) Prior to the settlement of a China Connect buy order, China Connect Exchange Participants shall not sell or input any China Connect sell order in respect of any China Connect Securities which are the subject of the China Connect buy order. China Connect Exchange Participants shall also make appropriate arrangements to ensure that their clients will not sell or instruct it to sell any China Connect Securities before the relevant China Connect buy order is

settled. For the avoidance of doubt, this means that China Connect Exchange Participants must put in place appropriate measures to ensure that China Connect Securities purchased by or through it on a CSC trading day will not be sold on the same day whether as principal or as agent.

### **Pre-trade checking**

- (5) As SSE will conduct pre-trade checking of all sell orders routed to the SSE Market System to ensure that there will be sufficient securities to settle delivery obligation on the settlement day assuming that all submitted sell orders will be executed, pre-trade checking procedures with respect to all China Connect sell orders will be applied by the Exchange and the SEHK Subsidiary to ensure that the relevant accounts have sufficient securities available for settlement before they are routed to the SSE Market System for execution.
- (6) In respect of a China Connect Exchange Participant which is a China Connect CCASS Clearing Participant, pre-trade checking will be conducted on the stock holding position of the China Connect Exchange Participant's designated CCASS stock account(s).
- (7) In respect of a China Connect Exchange Participant which is not a China Connect CCASS Clearing Participant, pre-trade checking will be conducted on the stock holding position of the CCASS stock account(s) designated to the China Connect Exchange Participant by the CCASS GCP who has been authorized to settle China Connect Securities Trades for the China Connect Exchange Participant under the clearing agreement referred to in Rule 1406(3)(c).
- (8) The total number of shares which can be the subject of China Connect sell orders in respect of each China Connect Security on a CSC trading day shall not exceed the total stock holding position in respect of the same China Connect Security as shown in the relevant designated CCASS stock account referred to in Rule 14A06(6) or (7) immediately before the commencement of operation of the China Connect Service on that CSC trading day. In respect of overdue short stock positions in China Connect Securities of a China Connect CCASS Clearing Participant under the CNS System which are outstanding for settlement on the due date where such China Connect CCASS Clearing Participant is a China Connect Exchange Participant, HKSCC will request the Exchange to deduct the overdue short stock position quantities from the sellable balances of such China Connect CCASS Clearing Participant on the next CSC trading day, and if such China Connect CCASS Clearing Participant is a CCASS GCP of any China Connect Exchange Participant(s), from the sellable balances of each of such China Connect Exchange Participant(s) on the next CSC trading day. Any China Connect sell order input by a China Connect Exchange Participant which may, upon execution, exceed the total stock holding position mentioned above will be rejected.
- (9) To enable the Exchange and the SEHK Subsidiary to apply the pre-trade checking procedures, HKSCC will, in accordance with the CCASS Rules, reproduce and replicate the stock holding records of the CCASS accounts (both client and house account positions) referred to in Rule 14A06(6) and (7) and

transmit the information to the CSC before the commencement of each CSC trading day on each CSC trading day. Each China Connect Exchange Participant agrees to and authorizes the reproduction, replication and transmission of the stock holding records for the purpose of enabling the Exchange and the SEHK Subsidiary to carry out the pre-trade checking procedures.

- (10) Consistent with Rule 1421(2), China Connect Exchange Participants shall put in place appropriate arrangements to ensure that there are sufficient China Connect Securities in their client and house accounts within CCASS before placing a China Connect sell order. Upon matching of a China Connect sell order on the SSE Market System, the relevant number of China Connect Securities recorded in CCASS account will be used for stock settlement in accordance with the CCASS Rules.

#### **Suspension of trading on A shares and H shares**

- (11) Where any H shares with corresponding A shares accepted as China Connect Securities are suspended from trading on the Exchange but the China Connect Securities are not suspended from trading on the SSE, the China Connect Service will normally remain available for routing China Connect sell orders and China Connect buy orders for such China Connect Securities to the SSE Market System for execution. The Exchange, however, reserves its discretion to restrict or suspend the China Connect Service for trading in such China Connect Securities and will publish an announcement on the HKEx website or through such other means as it considers appropriate accordingly. For the avoidance of doubt, the Exchange will restrict or suspend the China Connect Service for trading in such China Connect Securities if it is so directed or required by a relevant governmental or regulatory body.

#### **Quotas on SSE-listed Securities as China Connect Securities**

- 14A07. (1) Pursuant to the Exchange's powers under Rules 1426 (discretion to prescribe quota limits and controls), 1427 (discretion to take actions to ensure compliance with quota controls) and 1428(2) (power to set price restrictions to block artificial transactions), the Aggregate Quota, the Daily Quota and quota monitoring and management provisions under Rules 14A07(2) to (13) shall apply.

#### **Aggregate Quota and Daily Quota**

- (2) The Aggregate Quota and Daily Quota shall apply to the trading of China Connect Securities through the use of the China Connect Service.

#### **Aggregate Quota**

- (3) The Aggregate Quota limits the maximum net value of all the buy trades that can be executed by all the China Connect Exchange Participants in respect of all the China Connect Securities through the use of the China Connect Service while Shanghai-Hong Kong Stock Connect is in operation. The Aggregate Quota Balance is calculated based on the following formula:

$\text{Aggregate Quota Balance} = \text{Aggregate Quota} - \text{aggregate value of China}$
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Connect Securities Buy Trades + aggregate value of China Connect Securities Sell Trades
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- (4) If the Aggregate Quota Balance at the end of a CSC trading day, as calculated in accordance with the above formula, is less than the Daily Quota, China Connect buy orders will not be accepted on the following CSC trading day and each subsequent CSC trading days unless and until the Aggregate Quota Balance is equal to or greater than the Daily Quota, in which event China Connect buy orders will be accepted on the following CSC trading day. Provided that the Aggregate Quota Balance at the end of a CSC trading day is the same as or higher than the Daily Quota, China Connect buy orders will be accepted on the following CSC trading day.
- (5) At the end of each CSC trading day, the Exchange will publish the Aggregate Quota information on the HKEx website or through such other means as it considers appropriate.

### **Daily Quota**

- (6) The Daily Quota limits the maximum value of all the buy trades that can be executed by all the China Connect Exchange Participants in respect of all the China Connect Securities through the China Connect Service on each CSC trading day. The Daily Quota Balance is monitored on a real-time basis during the operational hours and is calculated based on the following formula:

<b>Daily Quota Balance</b> = Daily Quota – value of China Connect buy orders + value of China Connect Securities Sell Trades + value of China Connect buy orders that have been cancelled or rejected + difference between the execution price and the specified price in respect of those China Connect buy orders that have been executed at a better price than the specified price
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- (7) Provided that the Aggregate Quota Balance is the same as or higher than the Daily Quota at the end of a CSC trading day, the full amount of Daily Quota will apply to the following CSC trading day. Where the Aggregate Quota Balance falls below the Daily Quota, Rule 14A07(4) applies.
- (8) Regardless of the level of the Daily Quota Balance at the end of a CSC trading day, the Daily Quota Balance will not be carried forward for utilization on the following or subsequent CSC trading days.
- (9) In respect of each CSC trading day, if the Daily Quota Balance drops to zero or below (i.e. if the Daily Quota is fully utilized):
  - (a) during the SSE Opening Auction session and before commencement of the SSE Continuous Auction session in the morning at 9:30, China Connect buy orders input after the time at which the Daily Quota Balance drops to zero or below will not be accepted by the CSC, but China Connect buy orders input before such time will not be affected and will be transmitted by the CSC to the SSE Market System for execution in the usual manner. Only if the Daily Quota Balance resumes to a positive level before commencement of the SSE Continuous Auction session in the morning will new China Connect buy orders be accepted by CSC; and

(b) after commencement of the SSE Continuous Auction (Morning) session at 9:30, no China Connect buy orders will be accepted for the rest of the CSC trading day unless the Exchange otherwise determines, but China Connect buy orders input before the time at which the Daily Quota Balance drops to zero or below will not be affected and will be transmitted by the CSC to the SSE Market System for execution in the usual manner.

(10) For the avoidance of doubt:

(a) references in the formula in Rules 14A07(3) and 14A07(6) to “China Connect buy orders”, “China Connect sell orders”, “China Connect Securities Buy Trades” and “China Connect Securities Sell Trades” do not include the value of any transaction fees, taxes, levies or stamp duties payable or collected in respect of such trades; and

(b) only China Connect buy orders will be subject to quota controls under this Rule. Unless otherwise determined by the Exchange, China Connect sell orders will be accepted by the CSC during the operational hours of a CSC trading day and will not be affected by the level of the Aggregate Quota Balance or the Daily Quota Balance.

(11) The following table summarizes the treatment of China Connect orders as described in Rules 1407A(6) to (10) depending on the Daily Quota Balance on a given CSC trading day:

	<b>Daily Quota Balance drops to zero or below before 09:30</b>	<b>Daily Quota Balance drops to zero or below at or after 09:30</b>
<b>China Connect sell order</b>	Accepted	Accepted
<b>China Connect buy order submitted after the time at which the Daily Quota Balance drops to zero or below</b>	Not accepted (unless and until the Daily Quota Balance becomes larger than zero before 09:30)	Not accepted for the rest of the trading day
<b>China Connect buy orders submitted before the time at which the Daily Quota Balance drops to zero or below</b>	Not affected	Not affected

### **Quota Management**

(12) Pursuant to its power under Rule 1428(2) (power to set price restrictions to block artificial transactions), restrictions are set in CSC and the related system connections to block the input of China Connect buy orders of all China Connect Securities at a price less than a certain percentage, as prescribed by the Exchange from time to time, below the current best bid price, and if no current best bid price is available, the latest trade price, and if that is not

available, the previous closing price of all China Connect Securities. Such price restriction does not apply during the Opening Call Auction session of SSE.

- (13) If there is any change in the operational procedures relating to the quota limits and related arrangements as set out in this Rule 14A07, the Exchange will publish the details on the HKEx website or through such other means as the Exchange considers appropriate.

### **Shareholding Restrictions on China Connect Securities**

- 14A08. (1) Under Rule 1430, the Exchange has absolute discretion to impose conditions or restrictions for the use of the China Connect Service for the purpose of ensuring that the trading of China Connect Securities will not contravene applicable laws or for any reasons which the Exchange considers appropriate. In light of the shareholding restrictions and forced sale requirements imposed by the CSRC, SSE and applicable laws of Mainland China, the conditions and requirements set out in Rules 14A08(2) to (12) shall apply.

#### **Shareholding limits on foreign investors**

- (2) China Connect Exchange Participants shall comply, and shall make appropriate arrangements to ensure that their clients will comply, with the 10% individual shareholding limit applicable to foreign investors (including Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors approved under the applicable laws of Mainland China, and other investors using the China Connect Service) as stipulated in applicable laws of Mainland China including the CSRC regulations concerning Shanghai-Hong Kong Stock Connect. China Connect Exchange Participants shall put appropriate monitoring arrangements in place to comply with this Rule and to alert their clients to comply with the individual shareholding limit.
- (3) China Connect Exchange Participants shall note and understand the 30% aggregate shareholding limit in relation to A shares and the related forced-sale requirements applicable to foreign investors who invest in China Connect Securities as stipulated in applicable laws of Mainland China including the CSRC regulations concerning Shanghai-Hong Kong Stock Connect. China Connect Exchange Participants shall alert their clients to the 30% aggregate shareholding limit and the forced-sale arrangements under this Rule.

#### **Shareholding Monitoring Procedures**

- (4) Where foreign investors (including investors holding China Connect Securities through CCASS) hold more than 28% of the issued shares of a relevant issuer in aggregate, SSE will notify the SEHK Subsidiary, and the Exchange and SEHK Subsidiary will as soon as practicable thereafter suspend accepting China Connect buy orders in respect of the relevant China Connect Securities until the aggregate shareholding of foreign investors is reduced to below 26%, as advised by SSE.

#### **Forced-sale Procedures**

- (5) Notwithstanding Rule 14A08(4), where the aggregate shareholding of foreign investors (including investors holding through CCASS) in respect of a relevant issuer exceeds 30% on a SSE trading day, SSE may, pursuant to the SSE Rules, issue a forced-sale notice to the SEHK Subsidiary on the following trading day, requiring it to arrange for a sell down of the portion of the China Connect Securities that exceeds 30% within 5 SSE trading days on a “last-in, first-out” basis (as determined in accordance with Rule 14A08(11)).
- (6) Upon receipt of a forced-sale notice under Rule 14A08(5), the SEHK Subsidiary will notify the relevant China Connect Exchange Participant(s) through the Exchange, requiring or directing them to, or arrange for their clients to, sell and liquidate the specified number of China Connect Securities within a period specified by the Exchange.
- (7) Upon receipt of the notice under Rule 14A08(6), the China Connect Exchange Participant shall comply with the notice, and where applicable, it shall issue a corresponding notice to the relevant client(s) or their custodian(s) requesting for the sale and liquidation of the number of China Connect Securities specified by the China Connect Exchange Participant within the period specified by the Exchange. If a client fails to comply with the China Connect Exchange Participant’s notice, the China Connect Exchange Participant shall, if necessary, exercise its power to sell the specified number of China Connect Securities through the use of the China Connect Service on the client’s behalf before expiry of the period specified by the Exchange.
- (8) China Connect Exchange Participants shall implement appropriate measures to enable them to comply with Rule 14A08(7) on a timely basis including entering into legally enforceable client agreements to facilitate compliance with the forced-sale arrangements referred to in that Rule.
- (9) Where a forced-sale notice is issued by SSE under Rule 14A08(5), no China Connect buy orders for the relevant China Connect Securities will be accepted by the CSC until SSE informs the SEHK Subsidiary or the Exchange that the aggregate foreign shareholding falls below 30%. China Connect sell orders for the relevant China Connect Securities will not be affected by a forced-sale notice.
- (10) If, within the 5-day period mentioned in Rule 14A08(5), the aggregate foreign shareholding is reduced to below 30% due to other foreign investors selling down the relevant shares, the China Connect Exchange Participants and/or their clients referred to in Rules 14A08(6) and (7) may apply for permission to hold the relevant shares without a sell down at such time and in such manner as the Exchange may prescribe from time to time.
- (11) The relevant China Connect Exchange Participants referred to in Rule 14A08(6) will be identified by the Exchange based on its or the SEHK Subsidiary’s own records (which shall be final and conclusive) generally by reference to the time of purchase of the relevant China Connect Securities, on a “last in, first out” basis. Notwithstanding the foregoing, the Exchange has absolute discretion to determine which China Connect Exchange Participants and what quantity of China Connect Securities should be subject to a forced sale notice.

- (12) Where the 30% aggregate foreign shareholding limit is exceeded due to a share repurchase conducted by the relevant issuer, investors and China Connect Exchange Participants holding China Connect Securities through CCASS may continue to hold the relevant shares without being subject to a forced-sale. However, the SEHK Subsidiary and the Exchange will suspend acceptance of China Connect buy orders for those China Connect Securities until the aggregate foreign shareholding limit is reduced to below 26%.

### **Disclosure Obligations regarding China Connect Securities**

- 14A09. China Connect Exchange Participants shall comply, and shall make appropriate arrangements to ensure that their clients will comply, with the 5% shareholding disclosure requirement applicable to persons who invest in A shares under applicable laws of Mainland China. China Connect Exchange Participants shall put appropriate monitoring arrangements in place to comply with this Rule and to alert their clients to comply with the relevant disclosure requirements.

### **Compliance with applicable laws in Mainland China**

- 14A10. As required by SSE. China Connect Exchange Participants shall:
- (1) comply, and advise their clients to comply, with SSE Rules (to the extent applicable to the trading of China Connect Securities in the SSE Market, and not inconsistent with these Rules and any regulations, requirements or conditions prescribed or published pursuant to these Rules) and laws and regulations of Mainland China relating to the use of the China Connect Service and the trading of China Connect Securities;
  - (2) make adequate disclosure to their clients the risks associated with investing in China Connect Securities;
  - (3) acknowledge, and make appropriate arrangements to require their clients to acknowledge, that the Exchange has the power not to extend the China Connect Service to them if it is found that the China Connect Exchange Participant has or may have committed any abnormal trading conduct set out in the SSE Rules;
  - (4) acknowledge, and make appropriate arrangements to require their clients to acknowledge, that if the SSE Rules are breached, or the disclosure and other obligations referred to in the SSE Listing Rules or SSE Rules is breached, SSE has the power to carry out an investigation, and may, through the Exchange, require China Connect Exchange Participants to provide relevant information and materials and to assist in its investigation; and
  - (5) acknowledge that where there is a serious breach of the SSE Rules, SSE may request the Exchange to take appropriate regulatory actions or commence disciplinary proceedings against China Connect Exchange Participants, or request the Exchange to require China Connect Exchange Participants to issue warning statements (verbally or in writing) to their clients, and not to extend the China Connect Service to them or to their clients.

### **Fees and Taxes**

- 14A11. (1) Pursuant to Rule 1429, the fees, charges, levies and taxes set out in Rules 14A11(2) and (3) shall be payable in respect of the trading of China Connect Securities.
- (2) The following fees shall be paid to the Exchange on every purchase or sale of China Connect Securities executed through the China Connect Service:

<b>Fee Type</b>	<b>Rate</b>
<b>Handling Fee</b>	0.00696% (rounded to the nearest cent) of the amount of the consideration for each purchase or sale
<b>Securities Management Fee</b>	0.002% (rounded to the nearest cent) of the amount of the consideration for each purchase or sale
<b>Stamp Duty</b>	0.1% (rounded to the nearest cent) of the amount of the consideration for each sale
<b>Transfer Fee</b>	0.06% of the face value of a transaction

The above fees will be paid to SSE, the relevant China Connect Clearing House or the relevant governmental or regulatory bodies in Mainland China, as the case may be.

- (3) Where SSE, any relevant governmental or regulatory bodies or applicable laws imposes any other fees, charges, levies or taxes on or in relation to the sale and purchase of China Connect Securities, the receipt of any cash dividend or other entitlements in respect of any China Connect Securities or otherwise, China Connect Exchange Participants shall be responsible for paying all such fees, charges, levies and taxes or complying with any filing or registration obligations as may be required.

#### **Off-market Trades Prohibited**

- 14A12. Except where the CSRC otherwise provides or allows, the SEHK Subsidiary and Exchange Participants shall not trade or provide services to facilitate trading of any China Connect Securities held within CCASS through any venue other than through the SSE Market System, and an Exchange Participant shall not match, execute or arrange the execution of any sale and purchase instructions or any transfer instructions of its clients in respect of any China Connect Securities in any manner otherwise than through the use of the China Connect Service in accordance with these Rules.

#### **Record Keeping**

- 14A13. To comply with applicable laws in Mainland China and the requirements of SSE, China Connect Exchange Participants should keep proper books and records of the China Connect orders and China Connect Securities Trades input or executed by it and the related client instructions and account information for a period of not less than 20 years.

## CHAPTER 15

### SPECIAL PARTICIPANTS

#### **Cross-boundary Trading Links**

1501. This Chapter sets out the provisions that apply to Special Participants in relation to the trading of SEHK Securities as part of the order-routing arrangements between the Exchange and a China Connect Market Operator to enable the relevant China Connect Market Participants and their clients to trade in securities listed on the Exchange, for the purpose of facilitating cross-boundary mutual market access and connectivity.

#### **Special Participants and Order-routing Service for China Connect Market Participants**

1502. (1) Subject to these Rules, a Special Participant may provide services to China Connect Market Participants by routing orders in SEHK Securities placed by them or their clients to the System for automatic order matching.
- (2) As part of the order-routing services referred to in Rule 1502(1), a Special Participant may:
- (a) receive confirmations issued by the Exchange in respect of the receipt, rejection and cancellation of orders placed through it;
  - (b) receive confirmations issued by the Exchange in respect of the Exchange Trades executed through it; and
  - (c) transmit confirmations referred to in Rules 1502(2)(a) and (b) to the relevant China Connect Market Participants.
1503. A Special Participant shall at all times be fully responsible and liable for all the orders routed through its Special Participant Open Gateway to the System irrespective of whether they are executed or not. Where orders are executed on the System, a Special Participant shall bear full responsibility and liability for the relevant Exchange Trades.

#### **Securities Eligible for the Order-routing Service of Special Participants**

1504. Unless otherwise determined by the Exchange, a Special Participant may only route buy and sell orders in SEHK Securities and only sell orders in Special SEHK Securities placed by China Connect Market Participants to the System for automatic order matching for the purpose of its order-routing services or business referred to in Rule 1502.
1505. (1) The Exchange may from time to time determine (after consulting the relevant China Connect Market Operator) which Eligible Securities are eligible for buying and selling through Special Participants (such securities are referred to as “SEHK Securities” in these Rules), and the eligibility

criteria to be applied in making such determination. Different SEHK Securities may be eligible for buying and selling by different Special Participants.

- (2) The Exchange will establish and maintain a list of SEHK Securities referred to in Rule 1505(1) in respect of each Special Participant and will publish it on the HKEx website or by such other means as it considers appropriate.
  - (3) For the avoidance of doubt, China Connect Securities will not be included in the list of SEHK Securities.
- 1506.
- (1) Notwithstanding Rule 1505(1), the Exchange may (after consulting the relevant China Connect Market Operator) accept or designate any Eligible Security (including any Eligible Security not within the scope of Rule 1505(1)) as only eligible for selling and not for buying through Special Participants (such securities are referred to as “Special SEHK Securities” in these Rules). Different Special SEHK Securities may be accepted or designated for selling only by different Special Participants. .
  - (2) Where securities are accepted or designated by the Exchange under Rule 1506(1), Special Participants shall not input any order to buy Special SEHK Securities or accept instructions from any China Connect Market Participants or any other persons to buy Special SEHK Securities on the System. Unless the context otherwise requires, any reference in these Rules to “SEHK Securities” includes “Special SEHK Securities”
  - (3) The Exchange will establish and maintain a list of Special SEHK Securities referred to in Rule 1506(1) in respect of each Special Participant and will publish it on the HKEx website or by such other means as it considers appropriate.
  - (4) For the avoidance of doubt, China Connect Securities will not be included in the list of Special SEHK Securities.
  - (5) Unless the context otherwise requires, any reference in these Rules to “SEHK Securities” shall include “Special SEHK Securities”.

#### **Eligibility Criteria for Special Participants**

1507. A person applying to the Exchange to be admitted as a Special Participant must satisfy the following criteria:
- (1) be a company limited by shares incorporated in Hong Kong;
  - (2) be an ATS provider authorised by the Commission under section 95(2) of the Ordinance;
  - (3) be a subsidiary of a China Connect Market Operator and be duly authorised by all relevant regulators in Mainland China to provide order-routing services on the Exchange for the relevant China Connect Market Participants;



- (4) be of good financial standing and integrity;
- (5) meet any financial resources requirements and other conditions under the Ordinance or as specified by the Commission, including in relation to the authorisation of the Special Participant as an ATS provider by the Commission;
- (6) have entered into a valid, binding and effective clearing agreement with a China Connect Clearing House duly licensed under applicable laws and acceptable to the Exchange and HKSCC, under which the China Connect Clearing House shall, as a clearing agency participant of HKSCC, assume the obligation to settle all the Exchange Trades entered into by the Special Participant; and
- (7) meet such other requirements for Special Participantship as the Exchange may from time to time prescribe including those set out in Rule 1514 and requirements on additional financial resources as the Exchange may consider appropriate.

1508. For the avoidance of doubt, Stock Exchange Trading Right is not a pre-requisite to admission as a Special Participant.

#### **Application Procedure**

1509. (1) Applications made under Rule 1507 must be in writing and in such form as the Exchange may from time to time prescribe, and must be supported by such documentation and information as the Exchange may require for the assessment of the application. Upon request, an applicant must demonstrate to the satisfaction of the Exchange that it is able to comply with any eligibility criteria including the financial requirements applicable to an ATS provider under the Ordinance or as specified by the Commission in relation to the authorisation of the Special Participant as an ATS provider.
- (2) The Exchange's decision in respect of an application shall be final and conclusive, and admission may be granted subject to such terms and conditions as the Exchange may consider appropriate. Where an application is rejected, the Exchange is not obliged to give any reasons for its decision.
1510. An applicant shall become a Special Participant when its name is included in the Register of Special Participants. The Exchange will publish the Register of Special Participants on the HKEx website or by such other means as it considers appropriate.

#### **Special Participant Open Gateway**

1511. (1) In order to access the System for trading in the SEHK Securities, a Special Participant may apply to the Exchange for the installation of a Special Participant Open Gateway and for the connection of the Special Participant

Open Gateway to the system of the Special Participant in Mainland China used for the routing of orders from the China Connect Market Participants.

- (2) A Special Participant with a Special Participant Open Gateway may apply to the Exchange for an increase in the throughput rate of an order into the System through the Special Participant Open Gateway. Any increase in the throughput rate shall be for a standard throttle rate or multiples of a standard throttle rate.
- (3) Notwithstanding the approval of the application of a Special Participant under Rule 1511(1) by the Exchange, the Exchange has the right to suspend, withdraw, or revoke a Special Participant's use of a Special Participant Open Gateway or its access to the System on such terms and for such period as the Exchange thinks fit, whether requested by the Special Participant or not.

### **Backup Special Participant Open Gateway**

- 1512.
- (1) Subject to Rule 1513, a Special Participant which has installed and connected a Special Participant Open Gateway to its system to access the System may apply to the Exchange for a Backup Special Participant Open Gateway provided that the number of Backup Special Participant Open Gateways applied for by the Special Participant must not exceed the number of its Special Participant Open Gateways connected to the System. Each Backup Special Participant Open Gateway shall be assigned with the same number of standard throttle rate as that assigned to the Special Participant Open Gateway for which it serves as backup.
  - (2) Each Backup Special Participant Open Gateway shall be kept in the "non-trading" mode until such time as it is activated by the Exchange at the request of the Special Participant under Rule 1512(3).
  - (3) A Special Participant wishing to activate a Backup Special Participant Open Gateway in case of failure of a Special Participant Open Gateway must submit a request to the Exchange to disconnect the Special Participant Open Gateway concerned from the System and to activate the corresponding Backup Special Participant Open Gateway to "trading" mode in such form and manner as prescribed by the Exchange from time to time.
  - (4) Notwithstanding anything to the contrary contained in these Rules, upon activation of a Backup Special Participant Open Gateway, such Backup Special Participant Open Gateway shall for the purposes of these Rules be deemed to be a Special Participant Open Gateway as defined and shall be used as such by the Special Participant until such time as it is returned by the Exchange to a "non-trading" mode.
  - (5) A Special Participant wishing to de-activate its activated Backup Special Participant Open Gateway and revert to using its corresponding Special Participant Open Gateway to access the System must submit to the Exchange a request in a form and in such manner as prescribed by the Exchange from time to time in respect of the de-activation of the Backup Special Participant Open Gateway to a "non-trading" mode and the re-

activation of the corresponding Special Participant Open Gateway to connect to the System.

1513. A Special Participant which has installed a Special Participant Open Gateway or a Backup Special Participant Open Gateway shall comply with such terms and conditions and pay such fees and charges as specified by the Exchange from time to time.

#### **Continuing Obligations of Special Participants**

1514. A Special Participant shall at all times:
- (1) comply with the eligibility criteria set out in Rule 1507;
  - (2) comply with and be bound by these Rules as in force from time to time and all procedures, requirements, regulations, conditions and guidance published by the Exchange pursuant to these Rules;
  - (3) comply with all applicable laws in the conduct of its business and the order-routing services referred to in Rule 1502 including but not limited to the applicable rules, regulations and interpretations promulgated or issued by the China Securities Regulatory Commission and the relevant China Connect Market Operator from time to time;
  - (4) pay when due all amounts required by the Exchange including but not limited to fees, levies, duties, charges and fines, in such currency and at such exchange rate as specified by the Exchange from time to time;
  - (5) have, to the satisfaction of the Exchange, adequate personnel, operational capability, systems, facilities, equipment and controls in place to carry out the order-routing services referred to in Rule 1502 and its obligations under these Rules; and
  - (6) cause all Exchange Trades to be settled through CCASS in accordance with the CCASS Rules.
1515. (1) A Special Participant shall only allow those China Connect Market Participants who have satisfied any eligibility criteria (including technical standards, system, risk management and client documentation requirements) from time to time prescribed by it or the relevant China Connect Market Operator to place orders through its order-routing services. A Special Participant shall require China Connect Market Participants to pass such system testing requirements, market readiness rehearsals and market contingency rehearsals as it may from time to time prescribe before allowing them to place orders in SEHK Securities through its order-routing services.
- (2) A Special Participant shall require China Connect Market Participants that trade through it to comply with all applicable laws and its requirements in connection with the trading of SEHK Securities when making its order-routing services available to them.

- (3) A Special Participant shall provide appropriate guidance to China Connect Market Participants that trade through it and their clients to enable them to understand the Hong Kong securities market, their investment objectives, the order and trade flow arrangements, the legal and regulatory framework and other related matters and requirements relating to the use of its order-routing services and the risks associated in trading and investing in SEHK Securities. A Special Participant shall require China Connect Market Participants who trade through it to enter into an agreement with those clients who wish to invest in SEHK Securities to set out their respective rights and obligations and to adequately disclose the risks associated with investing in SEHK Securities.
- (4) A Special Participant shall make appropriate arrangements to require its China Connect Market Participants that trade through it to comply with, and to require those China Connect Market Participants to remind its clients to comply with, all applicable laws and requirements in connection with the use of its order-routing services and the trading of and investment in SEHK Securities. A Special Participant shall also require China Connect Market Participants to alert their clients of the risks associated with investing in SEHK Securities.
- (5) A Special Participant shall report to the Exchange promptly if any major incident or event has occurred which may materially affect its order-routing services or business. Such report should describe the incident or event, explain the reason for its occurrence, the current status, impact on the Special Participant's order-routing services and the actions or measures that need to be taken to address the incident or event.
- (6) Where the Exchange has provided market data on SEHK Securities to a Special Participant and China Connect Market Participants, the Special Participant shall not, and shall ensure that China Connect Market Participants shall not, disseminate such market data to third parties other than to their clients or allow any third parties other than their clients to use such market data. Further, the Special Participants and China Connect Market Participant shall not develop any indices or other products based on such market data.
- (7) Where a Special Participant is aware of any acts of or potential market misconduct as referred to in Rule 545, it shall notify the Exchange promptly.
- (8) Upon request by the Exchange and subject to applicable laws, a Special Participant shall cooperate with and assist the Exchange in any enquiry or investigation regarding suspected breaches of Rule 545 and other provisions in this Chapter 15.
- (9) Except where the CSRC otherwise provides or allows, Special Participants and their China Connect Market Participants shall not trade or provide services to facilitate trading of any SEHK Securities held within the relevant China Connect Clearing House through any venue other than through the System, and a Special Participant shall not, and shall ensure that its China Connect Market Participants shall not, match, execute or arrange the

execution of any sale and purchase instructions or any transfer instructions of China Connect Market Participants or their clients in respect of any SEHK Securities in any manner otherwise than through the System.

1516. For the purpose of assuming the obligation to settle all Exchange Trades of a Special Participant, the China Connect Clearing House under the clearing agreement referred to in Rule 1507(6) shall become a party to the Exchange Trades as principal in substitution for, and with exactly the same rights and obligations under such Exchange Trades, as the Special Participant. A Special Participant shall give at least seven days' prior notice in writing to the Exchange of the termination of such clearing agreement before the effective date of the termination, unless the China Connect Clearing House has already given notice to terminate such clearing agreement to HKSCC in accordance with the CCASS Rules.
1517. A Special Participant shall notify the Exchange in writing promptly of any change in any information supplied to the Exchange for its Special Participantship, whether at the time of application or any time thereafter.
1518. It is the duty of a Special Participant and its Authorized Person to keep confidential any passwords and any other credentials or access means to the Special Participant Open Gateway or Backup Special Participant Open Gateway.

#### **Nominated Representative and Management of a Special Participant**

1519. A Special Participant must nominate at least one senior executive to act as a nominated representative of the Special Participant. A Special Participant must provide such particulars of the nominated representative as the Exchange may require and promptly notify the Exchange where there is any change in the particulars of the nominated representative.
1520. The responsibilities of a nominated representative are as follows:
- (1) at all times act as the liaison officer and principal channel of communication between the Exchange and the Special Participant, and to provide the Exchange with his updated contact details; and
  - (2) ensure that whenever he is outside Hong Kong, a suitable person acceptable to the Exchange is appointed as his alternate, whose contact details have been provided to the Exchange.
1521. If the Exchange is not satisfied that a nominated representative is fulfilling his responsibilities, it may require the Special Participant to nominate another senior executive acceptable to the Exchange as replacement.
1522. A Special Participant shall be responsible for all the acts done, and all the contracts entered into, by its nominated representative and employees and any other persons acting on its behalf in relation to its order-routing business.
1523. (1) In the event that a Special Participant passes a resolution for winding up, or a court order is issued for the appointment of a provisional liquidator or for the winding up of a Special Participant, all the rights and benefits of and in the

Special Participant shall immediately be suspended.

- (2) Where an event under Rule 1523(1) occurs, the receiver or liquidator (as the case may be) who has been given full charge and power over the assets of a Special Participant shall abide by these Rules and any decision of the Exchange as if he were the Special Participant concerned, except that the receiver or liquidator shall not be entitled to be registered as a Special Participant.

1524. A Special Participant shall notify the Exchange in writing of any business which it intends to engage in other than the order-routing business referred to in Rule 1502. Without prejudice to the foregoing, a Special Participant shall give reasonable advance notice to the Exchange of the commencement, suspension, cessation and recommencement of any business in which it engages or intends to engage other than the order-routing business.

1525. Unless otherwise determined by the Exchange, where any sum of money is deposited with the Exchange by a Special Participant under these Rules or otherwise, for general or specific purposes, no interest shall be payable in respect of such deposit.

### **Trading**

1526. All orders in SEHK Securities submitted to or executed on the System through the order-routing services provided by a Special Participant shall be subject to these Rules, the procedures specified by the Exchange and the applicable laws of Hong Kong from time to time in force.

1527. Unless the Exchange otherwise determines, all orders input or transmitted into the System through a Special Participant Open Gateway or a Backup Special Participant Open Gateway shall be deemed to be orders placed by a Special Participant and shall be valid and binding on the Special Participant.

1528. (1) Unless otherwise determined by the Exchange, the following Rules in Chapter 5 apply to a Special Participant, orders placed by it and trades executed by it:

501 (Trading Hours)

501G, 501H and 501I (Pre-opening Session)

502A (Cancellation of orders)

502B (Designation and re-designation of automatch or non-automatch stock)

502D (Trading of automatch stocks during the Pre-opening Session)

503 and 504 (Opening Quotations)

505, 505A, 506A, 507A, 508, 511 and 512 (Quotations) and Second Schedule (Spread Table)

514, 516 and 516A (Odd Lot and Special Lot Quotations)

517(1), 517(4), 517(6), 518, 519, 522 (Transactions)

528 (Day-end Review of Sales/Purchases)

544(1), 544(3), 544(4) (Transactions not Recognized)

545 (Market Misconduct, etc.)

551 (Equipment Failure)

564, 566 and 567 (Disputes)

569 (Power of the Board to Investigate and Demand Documents)  
569A, 569B (Disclosure of Information)  
571 (Typhoons and Rainstorms)  
572 and 573 (Emergency)  
574 (Settlement under CCASS)

- (2) For the avoidance of doubt, a Special Participant shall not engage in securities borrowing and lending, and short selling of SEHK Securities.

1529. All transactions in SEHK Securities shall be settled via CCASS as Exchange Trades, and delivery and settlement in relation to such transactions shall be effected in accordance with the CCASS Rules.

### **Quotas on the Trading of SEHK Securities**

1530. Relevant governmental or regulatory bodies may impose quotas on the trading of SEHK Securities by China Connect Market Participants or the order-routing services of a Special Participant from time to time depending on market conditions and readiness, the level of cross-boundary fund flows, stability of the markets and other factors and considerations. Where quotas are imposed, the Special Participant shall comply with the relevant quota limits and all applicable laws, and shall ensure that appropriate arrangements are made to:

- (1) monitor the level of quota utilisation and the balance of available quota;
- (2) require China Connect Market Participants to comply at all times with all applicable laws and quota restrictions and arrangements, including restrictions and arrangements which the Exchange may from time to time consider appropriate.

1531. Where quotas are imposed by any relevant governmental or regulatory bodies referred to in Rule 1530:

- (1) the Special Participant shall publish the quota utilization and the quota balance on each trading day; and
- (2) the Special Participant shall not submit orders on, and shall be restricted from trading in, SEHK Securities once the quota limits are reached, provided that sell orders will not be restricted or rejected so long as the Exchange considers it appropriate to continue process and accept sell orders.

1532. Where quotas are imposed by any relevant governmental or regulatory bodies referred to in Rule 1530, the Exchange has absolute discretion to take all such actions, steps or measures as it considers necessary or appropriate to facilitate compliance with the relevant quota requirements and restrictions. A Special Participant shall comply with all such actions, steps or measures as are taken or required by the Exchange.

### **Breach of Rules**

1533. In addition and without prejudice to the Exchange's powers under these Rules,

where a Special Participant is or may be in breach of these Rules or any requirements set out in this Chapter 15, the Exchange may:

- (1) issue warnings (verbal or in writing) to the Special Participant;
- (2) direct the Special Participant to rectify or remedy the breach;
- (3) conduct enquiries or investigations in respect of the suspected breach;
- (4) issue a private or public censure or criticism against the Special Participant; and/or
- (5) impose any other regulatory or disciplinary measures as the Exchange considers appropriate, including but not limited to reporting the matter to the Commission or any relevant governmental or regulatory bodies.

### **Record Keeping, Disclosure of Information and Publication of Trade Information**

1534. A Special Participant shall keep proper books and records of all orders submitted by it, the Exchange Trades executed by it and the related instructions from China Connect Market Participants, and shall take appropriate measures to require its China Connect Market Participants to keep information relating to their clients' instructions, orders or account, for a period of not less than 20 years.
1535. (1) Upon the request of the Exchange, a Special Participant shall promptly provide the Exchange with information as it may from time to time require for the purposes of these Rules or for the performance of its functions under applicable laws.
- (2) A Special Participant shall, upon the request of the Board or any designated HKEx staff, disclose or cause the relevant China Connect Market Operator to disclose to the Board or such designated HKEx staff within such period as is specified by the Board, information regarding a China Connect Market Participant whose instruction the Special Participant has acted on in the placing of an order. Such information includes the identity, address and contact details of:
- (a) the China Connect Market Participant;
  - (b) the person or entity ultimately responsible for providing the instruction to the China Connect Market Participant;
  - (c) the dealing control procedures of the Special Participant; and
  - (d) such other information as the Board or any designated HKEx staff may request.
1536. (1) The Exchange may provide information regarding a Special Participant to the Commission, any recognized exchange company under the Ordinance, any clearing house, any recognized exchange controller and any company of



which a recognized exchange controller is a controller, and the provision of such information shall not be treated as publication under the law of defamation, and the Exchange and a recognized exchange controller which is the controller of the Exchange shall not incur any liability as a consequence of providing any such information.

- (2) The Commission may demand from the Exchange such information, including information relating to the affairs of any Special Participant, as the Commission may reasonably require for the performance of its statutory functions, and the provision of such information by the Exchange shall not be treated as publication under the law of defamation, and the Exchange and a recognized exchange controller which is the controller of the Exchange shall not incur any liability as a consequence of providing any such information.
- (3) In addition to other powers which the Exchange may have in these Rules, the Exchange may require a Special Participant to require China Connect Market Participants to provide it with information on their clients' profiles, the types and value of orders and the Exchange Trades executed for them at such intervals and in such form as the Exchange may specify from time to time.
- (4) Without prejudice to any other rights which it may have to disclose information in its possession, the Exchange may, in such manner and form and at such intervals as it considers appropriate, publish, disseminate or publicly distribute aggregated information in respect of Exchange Trades concerning SEHK Securities, trading volumes, investor profiles and other related data, provided that the identities of investors and China Connect Market Participants cannot reasonably be determined from the information published, disseminated or publicly distributed by the Exchange.

### **Exchange's Power to Carry Out Inspection**

1537. Where appropriate and as required by the Exchange, the Exchange may conduct audits or inspections on the affairs of Special Participants and the internal controls and systems (including risk management measures, system maintenance and security arrangements and operational procedures and rules) which Special Participants have put in place to comply with these Rules and applicable laws.

### **Suspension of Access to the System or Special Participantship**

1538. (1) The Exchange may suspend or restrict a Special Participant's participantship in the Exchange or its access to the System in its sole and absolute discretion when in the Exchange's opinion, suspension or restriction is necessary to ensure the existence of a fair and orderly market or for the purpose of complying with applicable laws. Suspension or restriction may be in respect of a Special Participant's ability to the access the System or to place buy or sell orders in all or any SEHK Securities and for such duration and frequency as the Exchange may consider appropriate.
- (2) Where the Exchange has serious concerns regarding whether a Special

Participant should continue be allowed to provide its order-routing services for China Connect Market Participants to trade in SEHK Securities, the Exchange may, subject to applicable laws and the approvals of the relevant governmental and regulatory bodies and after consulting the relevant China Connect Market Operator, terminate its Special Participantship. In such circumstance, the Exchange and the relevant China Connect Market Operator will cooperate to implement any winding-down arrangements as may be required.

- (3) The circumstances under which the powers under Rules 1538(1) and (2) may be exercised include, without limitation, the following:
- (a) in the judgment of the Exchange, any applicable quota referred to in Rule 1530 may be breached or exceeded;
  - (b) in the judgement of the Exchange, a fair and orderly market for the trading of the relevant SEHK Securities may not exist or be maintained, or there is unusual trading of the relevant SEHK Securities;
  - (c) in the judgement of the Exchange, there are operational or technical issues which must be resolved before access to the System should continue be made available to a Special Participant;
  - (d) where the Commission, a relevant governmental or regulatory body, competent authority or a China Connect Market Operator has requested that access to the System be suspended or restricted; and
  - (e) where the Exchange is notified by HKSCC in writing confirming that there are operational or technical issues in respect of the China Connect Clearing House referred to in Rule 1507(6) which must be resolved before access to the System should continue be made available to a Special Participant.

### **Resignation of a Special Participant**

1539. No person may resign as a Special Participant except with the prior written approval of the Exchange which may be given subject to any conditions that the Exchange thinks fit. Pending such approval, these Rules shall continue to bind a Special Participant which has given notice of resignation as if such notice had not been given, and the jurisdiction of the Exchange over the Special Participant, its business, affairs and employees shall in no way be affected by such notice. Where a Special Participant resigns pursuant to this Rule 1539, the Exchange and the relevant China Connect Market Operator will cooperate to implement any winding-down arrangements as may be required.

### **Interpretation**

1540. Chapter 1 of these Rules applies to the interpretation of this Chapter 15.

### **Application of the Other Chapters and Schedules to Special Participants**

1541. For clarity and for ease of reference, the following shall apply to Special Participants to the extent as set out below:
- (1) Chapters 1 (Interpretation), 2 (Administration), 6 (Professional Conduct), 7 (Disciplinary), Chapters 8 (Payment of Fees and Charges), 10 (Special Levy), 11 (Transaction and Investor Compensation Levies) 13 (Stamp Duty Collection) apply to Special Participants as set out therein;
  - (2) Chapters 3 (Exchange Participants), 3A (Stock Exchange Trading Rights), 4 (Financial Resources Rules and Accounting Requirements), 9 (Exchange Participants' Compensation), 12 (Investors' Compensation (Unified Exchange Compensation Fund)) do not apply to Special Participants;
  - (3) Except as set out in this Chapter 15, Chapter 5 (Trading) does not apply to Special Participants;
  - (4) the Second Schedule (Spread Table) and Third Schedule (Currencies Table) apply to Special Participants; and
  - (5) the Fourth Schedule (Rules for Out-Cry), Sixth Schedule (Securities Borrowing and Lending Regulations), Eleventh Schedule (Short Selling Regulations), Fourteenth Schedule (Securities Market Maker Obligations), Fifteenth Schedule (Designated Index Arbitrage Short Selling, Stock Futures Hedging Short Selling, Structured Product Hedging Short Selling and Options Hedging Short Selling Regulations) and Eighteenth Schedule (Structured Product Liquidity Provider Regulations) do not apply to Special Participants.

#### **No Participation in Unified Exchange Compensation Fund**

1542. Special Participants have no right to participate in the Compensation Fund (as defined in Rule 1201). China Connect Market Participants or investors trading through a Special Participant have no entitlement to make any claim for any compensation under the Unified Exchange Compensation Fund.

#### **No Application of the Legislative Council Ordinance**

1543. Pursuant to Section 20U of the Legislative Council Ordinance, Special Participants shall not be regarded as "exchange participants" for the purposes of the Legislative Council Ordinance.

## **Disciplinary Procedures**

### **INTRODUCTION**

The Disciplinary Procedures forms part of the Rules of the Exchange and is binding on all Exchange Participants and Special Participants, and all holders of Stock Exchange Trading Rights (irrespective of whether they are Exchange Participants or not). The terms "Participant", "Exchange Participant" and "Special Participant" have been used in the Disciplinary Procedures for simplicity purposes but the disciplinary proceedings and disciplinary powers that may be exercised against Participants or Exchange Participants set out in Chapter 7 of the Rules of the Exchange and the Disciplinary Procedures shall mutatis mutandis apply to disciplinary proceedings and disciplinary powers that may be instituted or exercised against holders of Stock Exchange Trading Right.

This "Disciplinary Procedures" is applicable to all disciplinary cases where proceedings are instituted with the Disciplinary Committee after the Scheme Effective Date.

Rules referred to in the "Disciplinary Procedures" mean the Rules of the Exchange and the terms used herein where applicable bear the same meaning as in the Rules of the Exchange.

In this "Disciplinary Procedures", unless the context otherwise requires, the following terms shall bear the following meanings:

"Disciplinary Section" means the division, department, section or unit of the Exchange or HKEx delegated from time to time with the responsibilities and functions set out in Clause 1 of Part I of the Disciplinary Procedures.

"Enforcement Section" means the division, department, section or unit of the Exchange or HKEx delegated from time to time with the responsibilities and functions set out in Clause 2 of Part I of the Disciplinary Procedures.

The "Disciplinary Procedures" provides for:-

1. the functions of the Disciplinary Section in disciplinary matters;

2. the allocation of responsibility to the Enforcement Section for investigation of alleged offences and, if thought fit, prosecution of disciplinary proceedings before the Disciplinary Committee;
3. the functions of the Disciplinary Committee, the Disciplinary Appeals Committee, the Chief Executive and SEOCH in disciplinary matters;
4. the categorisation of offences into offences to be dealt with under the Standard Penalty Procedures and offences to be dealt with by hearings, and the adoption of the Standard Penalty Procedures and the Schedule of Penalties in relation to offences to be dealt with under the Standard Penalty Procedures;
5. procedures for legal representation and costs; and
6. comprehensive and straightforward procedures to be followed in the case of disciplinary actions.

The "Disciplinary Procedures" is divided into two parts. Part I deals with the responsibilities, powers and functions of the Exchange's Committees, divisions, departments, sections and units as well as those of SEOCH concerning disciplinary matters while Part II contains the actual procedures which will be followed whenever there is situation calling for disciplinary action.

## **PART I**

### **RESPONSIBILITIES, POWERS AND FUNCTIONS OF COMMITTEES, DIVISIONS, DEPARTMENTS, SECTIONS, UNITS AND SEOCH CONCERNING DISCIPLINARY MATTERS**

#### **1. Disciplinary Section**

The responsibilities and functions of the Disciplinary Section include the following:-

- 1.1 to act as a co-ordinator between the Disciplinary Appeals Committee, the Disciplinary Committee, SEOCH and other divisions and departments of the Exchange;
- 1.2 to ensure that the "Disciplinary Procedures" is properly understood and followed by the Exchange and the Participants;

- 1.3 to keep all records of and relating to disciplinary matters;
- 1.4 to notify the Commission whenever the Exchange considers taking disciplinary action against a Participant and to notify the Commission of the result of such consideration and the disciplinary action taken, if any; in the event of a Participant being called upon to resign pursuant to Rule 702(2), to notify the Commission of such fact [Rule 709];
- 1.5.1 to notify the Hong Kong Securities Clearing Company Limited ("HKSCC") whenever the Exchange considers taking disciplinary action against an Exchange Participant in relation to any breaches of Rules 401 to 429, 501 to 548, 552 to 563D, 723 or the CCASS Rules and to notify HKSCC of the result of such consideration and the disciplinary action taken, if any; in the event of an Exchange Participant being called upon to resign pursuant to Rule 702(2), to notify HKSCC of such fact [Rule 709A(1)];
- 1.5.2 to notify HKSCC whenever the Exchange considers taking disciplinary action against a Special Participant in relation to any breaches of Rules 501, 501G to 501I, 502A to 502B, 502D, 503 to 505A, 506A, 507A, 508, 511, 512, 514, 516, 516A, 517(1), 517(4), 517(6), 517B to 519, 522, 528, 544(1), 544(3), 544(4), 545, 563C to 563D, 723 or the CCASS Rules and to notify HKSCC of the result of such consideration and the disciplinary action taken, if any; in the event of a Special Participant being called upon to resign pursuant to Rule 702(2), to notify HKSCC of such fact [Rule 709A(2)];
- 1.5.3 to notify SEOCH whenever the Exchange considers taking disciplinary action against an Exchange Participant in relation to any breaches of Rules 401 to 429, 534(3), 537 to 543, 545, 563C to 563D, 723, the Options Trading Rules or the Clearing Rules and to notify SEOCH of the result of such consideration and the disciplinary action taken, if any; in the event of an Exchange Participant being called upon to resign pursuant to Rule 702(2), to notify SEOCH of such fact [Rule 709B];
- 1.6 to review the "Disciplinary Procedures" from time to time and make recommendations to the Disciplinary Committee to ensure that the procedures remain efficient and appropriate in the light of experience;

- 1.7 to assist in the arrangement of meetings of the Disciplinary Committee and of disciplinary hearings before the Disciplinary Committee, and to be responsible for supplying the members of the Disciplinary Committee with the necessary papers for use at disciplinary hearings;
- 1.8 to arrange for the service of notices referred to in the "Disciplinary Procedures" upon both the Participant charged with an offence and the Enforcement Section;
- 1.9 to arrange for the service of the decisions of the Disciplinary Committee;
- 1.10 to collect fines from the Participants charged as ordered by the Disciplinary Committee;
- 1.11 to arrange for the publication, if so required by the Disciplinary Committee or the Disciplinary Appeals Committee, of the decision in any particular case;
- 1.12 to arrange for the collection from and payment of costs to the Participant charged as ordered by the Disciplinary Committee or the Disciplinary Appeals Committee (as the case may be);
- 1.13 upon request by the Participant charged, to produce or arrange to produce a copy of the notes taken and evidence adduced at the hearing by the Disciplinary Committee; and
- 1.14 to carry out the duties specified in the Standard Penalty Procedures.

## **2. Enforcement Section**

The responsibilities and functions of the Enforcement Section include the following:-

- 2.1 to investigate alleged offences to be dealt with under the Standard Penalty Procedures, to be followed, if thought fit, by the issue of a Warning Letter to the Participant concerned;

- 2.2 to investigate alleged offences to be dealt with by hearings by the Participant concerned and to notify the Commission of the commencement of any such investigation and the result of such investigation if no disciplinary proceedings are commenced;
- 2.3 following an investigation of an alleged offence to be dealt with by hearings, if it is satisfied that a prima facie case has been established, to institute disciplinary proceedings before the Disciplinary Committee by providing a statement of case including details of the charges to the Secretary to the Disciplinary Committee for service on the Participant charged or if thought fit, to issue a warning letter to the Participant concerned;
- 2.4 to carry out the duties specified in the Standard Penalty Procedures, including notifying the Participant concerned of its right to have the matter referred to the Disciplinary Committee and to do so if required by the Participant concerned;
- 2.5 to provide a statement of case including details of the charges to the Secretary to the Disciplinary Committee for service on the Participant charged in matters where an alleged offence to be dealt with under the Standard Penalty Procedures is being referred to the Disciplinary Committee;
- 2.6 to present the case before the Disciplinary Committee and, if applicable, the Disciplinary Appeals Committee, and produce witnesses and evidence in support of the charges made;
- 2.7 to refer the decision on penalty of the Disciplinary Committee to the Disciplinary Appeals Committee in accordance with Clause 4.14.2 of Part II; and
- 2.8 in cases where the Enforcement Section is not satisfied with the verdict of not guilty reached by the Disciplinary Committee, to refer that decision to the Disciplinary Appeals Committee for an opinion and/or guidelines on points of principles for future reference in accordance with Clause 4.14.3 of Part II, if in the view of the Enforcement Section:-
  - 2.8.1 the Disciplinary Committee has misdirected itself; or
  - 2.8.2 the Disciplinary Committee's decision is:-



- (i) one which no reasonable committee could have reached;
- (ii) unsupported by the evidence presented at the hearing;
- (iii) based on an error of law; or
- (iv) based on a misinterpretation or misapplication of the Rules of the Exchange or of established market practice.

For the avoidance of doubt, the Enforcement Section shall have no right to seek to reverse the not guilty verdict made by the Disciplinary Committee and the hearing by the Disciplinary Appeals Committee of the matter referred under this clause shall not affect the hearing in relation to which the referral is made or any not guilty verdict.

### **3. Other Divisions, Departments, Sections and Units**

The responsibilities and functions of divisions, departments, sections and units other than the Disciplinary Section and the Enforcement Section include the following:-

- 3.1 to conduct an investigation into alleged offences to be dealt with under the Standard Penalty Procedures and to issue a Warning Letter, if thought fit; and
- 3.2 to conduct a preliminary investigation into alleged offences to be dealt with by hearings prior to a full investigation by the Enforcement Section.

In these roles, the divisions, departments, sections and units may require production of books and records by the Participants concerned.

### **4. Disciplinary Committee**

The responsibilities and functions of the Disciplinary Committee include the following:-

- 4.1 to hear appeals from disciplinary measures taken by the Chief Executive against a Participant under Rule 704;

- 4.2 to hear charges brought against any Participant;
- 4.3 to refer the matter to SEOCH if the charges may lead to the expulsion of the Exchange Participant charged from SEOCH;
- 4.4 to fix a date for the disciplinary hearing and instruct the Secretary to the Disciplinary Committee to serve the notice of the disciplinary hearing upon the Participant charged and the Enforcement Section;
- 4.5 to summon the Participant charged and the Enforcement Section to attend before it to give evidence in relation to the charges made against the Participant;
- 4.6 to consider and determine, after conclusion of the hearing, whether or not each charge has been proved;
- 4.7 to hear and consider pleas in mitigation;
- 4.8 to impose any of the penalties listed in Rule 702;
- 4.9 to order payment to or by a Participant charged of costs and expenses incurred in obtaining external legal representation for the purposes of the disciplinary hearing, such costs and expenses to be limited to professional legal fees and expenses at the disciplinary hearing;
- 4.10 to notify the Participant charged of the decision in writing including any award of costs and its right to refer the decision of the Disciplinary Committee to the Disciplinary Appeals Committee;
- 4.11 in the event that the Participant charged requires the matter to be referred to the Disciplinary Appeals Committee in accordance with Clause 4.14.1 of Part II, the Disciplinary Committee to produce a written statement of findings of fact, the reasons for its verdict and the reasons for any penalty imposed to the Participant charged, the Enforcement Section and the Secretary to the Disciplinary Appeals Committee;

- 4.12 in the event that the Enforcement Section requires the matter to be referred to the Disciplinary Appeals Committee in accordance with Clause 4.14.2 of Part II, the Disciplinary Committee to produce to the Participant charged, the Enforcement Section and the Secretary to the Disciplinary Appeals Committee a decision in writing setting out its reasons for the penalty;
- 4.13 in the event that the Enforcement Section requires the decision to be referred to the Disciplinary Appeals Committee in accordance with Clause 4.14.3 of Part II, the Disciplinary Committee to produce a written statement of findings of fact, the reasons for its verdict and the reasons for any penalty imposed to the Enforcement Section and the Secretary to the Disciplinary Appeals Committee;
- 4.14 to review the disciplinary rules and procedures from time to time and make recommendations to the Board if appropriate;
- 4.15 to extend, vary or waive any period of time referred to in the Disciplinary Procedures or as previously ordered by the Disciplinary Committee;
- 4.16 to require the Participant charged or the Enforcement Section to supply such further information and documents in its possession or under its control relating to the case as the Disciplinary Committee sees fit;
- 4.17 to delegate to a member of the Disciplinary Committee the power to give instructions to the Participant charged and the Enforcement Section through the Secretary to the Disciplinary Committee on procedural matters relating to the disciplinary proceedings; and
- 4.18 to reconsider the verdict and the penalty of disciplinary cases remitted by the Disciplinary Appeals Committee under Clause 5.8 of Part II.

## **5. Disciplinary Appeals Committee**

The responsibilities and functions of the Disciplinary Appeals Committee include the following:-

- 5.1 to hear matters referred by the Participant charged following verdict reached by the Disciplinary Committee in accordance with Clause 4.14.1 of Part II;

- 5.2 to summon the Participant charged to attend before the Disciplinary Appeals Committee to give evidence in relation to the charges, if fresh evidence is to be adduced and to summon the Participant charged to attend before it to make submissions in respect of the matter referred by the Enforcement Section under Clause 4.14.2 of Part II;
- 5.3 to summon the Enforcement Section to attend before the Disciplinary Appeals Committee to make submissions in respect of the matter referred by the Participant charged under Clause 4.14.1 of Part II;
- 5.4 to consider and determine, after conclusion of the hearing, whether to uphold or quash the verdict of the Disciplinary Committee;
- 5.5 to consider whether to impose the same, or substitute a lesser or greater penalty for that imposed by the Disciplinary Committee on the Participant charged if it upholds the verdict of the Disciplinary Committee;
- 5.6 to provide a written decision;
- 5.7 to consider and determine, in the case of a referral from the Enforcement Section on penalty, whether to uphold the penalty imposed by the Disciplinary Committee or to impose a lesser or greater penalty in substitution;
- 5.8 to consider the points of principles referred by the Enforcement Section in accordance with Clause 4.14.3 of Part II and give its opinion and/or guidelines to the Disciplinary Committee and the Enforcement Section;
- 5.9 to extend, vary or waive any period of time referred to in the Disciplinary Procedures or as previously ordered by the Disciplinary Appeals Committee;
- 5.10 to require the Participant charged or the Enforcement Section to supply such further information and documents in its possession or under its control relating to the case as the Disciplinary Appeals Committee sees fit;
- 5.11 to order payment to or by a Participant charged of costs and expenses incurred in obtaining external legal representation for the purposes of the hearing, such costs and expenses to be limited to professional legal fees and expenses at the hearing of the referral;

- 5.12 to vary an order for costs and expenses only when hearing a referral made to it under Clauses 4.14.1 and 4.14.2 of Part II;
- 5.13 to delegate to a member of the Disciplinary Appeals Committee the power to give instructions to the Participant charged and the Enforcement Section through the Secretary to the Disciplinary Appeals Committee on procedural matters relating to the disciplinary proceedings; and
- 5.14 to remit disciplinary cases to the Disciplinary Committee for reconsideration under Clause 5.8 of Part II.

## **6. The Chief Executive**

- 6.1 the Chief Executive has certain disciplinary powers under Rules 226 and 704 and they should only be used in the event of emergency or extreme need for swift action in any particular case. The Chief Executive should keep the Disciplinary Committee informed, at the earliest opportunity, of any exercise of those disciplinary powers; and
- 6.2 the Chief Executive or his delegates shall have the power to summon any Participant to attend before him or his delegates.

## **7. SEOCH**

The responsibilities and functions of SEOCH include the following:-

- 7.1 to investigate alleged breaches of the Clearing Rules;
- 7.2 to refer, at its discretion, reports and findings regarding any alleged offences to be dealt with by hearings to the Enforcement Section for investigation and/or further disciplinary action; and
- 7.3 to hear any case of which the Disciplinary Committee or the Disciplinary Appeals Committee is of the opinion that the penalty to be imposed is expulsion of the Exchange Participant charged from SEOCH participation, in accordance with the procedures as determined by SEOCH from time to

time.

## **PART II**

### **DISCIPLINARY PROCEDURES**

#### **1. Offences to be Dealt with under the Standard Penalty Procedures and Offences to be Dealt with by Hearings**

1.1 The following are classified as "offences to be dealt with under the Standard Penalty Procedures":-

1.1.1 misconduct in the Trading Hall such as smoking, gaming, gambling and any other acts considered by the Board to be detrimental to the interests of the Exchange contrary to Rule 549;

1.1.2 failure to display Exchange Participant Certificate or certified copy thereof, duplicate Exchange Participant Certificate or replacement Exchange Participant Certificate as required by Rules 351A(1), 352B(4) and 352B(5);

1.1.3 [Repealed]

1.1.4 failure to return to the Exchange the Exchange Participant Certificate upon cessation of business as required under Rule 351A(2);

1.1.5 failure to report to the Exchange on loss of an Exchange Participant Certificate as required under Rule 352B(4);

1.1.6 failure of an Exchange Participant to give advance notice of commencement, suspension (except as a result of the event referred to in Rule 345 or by order of the Exchange), cessation or recommencement of business as required under Rule 353;

- 1.1.7 failure of an Exchange Participant to be a licensed corporation or deemed to be a licensed corporation licensed to carry on Type 1 regulated activity under the Securities and Futures Ordinance as required under Rule 302(2); and
  - 1.1.8 failure of a Special Participant to be an ATS provider authorised by the Commission under section 95(2) of the Ordinance as required under Rule 1507(2).
- 1.2 All other situations calling for disciplinary action are classified as "offences to be dealt with by hearings".
  - 1.3 Any person, whether an Exchange official or a member of the Board, the Disciplinary Committee or the Disciplinary Appeals Committee, who is an interested party by virtue of his connection with the Participant being charged or his involvement in the matters being dealt with shall declare his interest to the Exchange and abstain from taking any part in the procedures set out below (unless required to give information or evidence to those Committees).

## **2. Standard Penalty Procedures**

- 2.1 The Enforcement Section or the Disciplinary Section, as the case may be, shall conduct an investigation into any alleged offence to be dealt with under the Standard Penalty Procedures.
- 2.2.1 Upon being satisfied that an offence to be dealt with under the Standard Penalty Procedures referred to in Clause 1.1.1 of Part II has been committed, the Enforcement Section or the Disciplinary Section, as the case may be, shall issue a Warning Letter to the Exchange Participant, warning that if the action required to be taken in the Warning Letter was not complied with within the period stipulated in the Warning Letter, the penalty as prescribed for that particular offence in the Schedule of Penalties would be imposed. In the Warning Letter, it shall be clearly stated that the Exchange Participant, if it so wishes, may request the matter be dealt with by a hearing before the Disciplinary Committee within the time limit stipulated in the Warning Letter.

- 2.2.2 Upon being satisfied that an offence to be dealt with under the Standard Penalty Procedures referred to in any of the Clauses 1.1.2 to 1.1.4 and 1.1.6 of Part II has been committed, the Disciplinary Section or the Enforcement Section, as the case may be, shall issue a letter to the Exchange Participant, advising that the penalty as prescribed for that particular offence or offences in the Schedule of Penalties has been imposed and shall be paid within the period stipulated in the letter. In the letter, it shall be clearly stated that the Exchange Participant, if it so wishes, may request the matter be dealt with by a hearing before the Disciplinary Committee within the time limit stipulated in the letter.
- 2.2.3 Upon being satisfied that an offence to be dealt with under the Standard Penalty Procedures referred to in Clause 1.1.5 of Part II has been committed, the Disciplinary Section or the Enforcement Section, as the case may be, shall issue a Warning Letter, warning that in case of any repeated offence, the penalty as prescribed for that particular offence in the Schedule of Penalties would be imposed. In the Warning Letter, it shall be clearly stated that the Exchange Participant, if it so wishes, may request the matter be dealt with by a hearing before the Disciplinary Committee within the time limit stipulated in the Warning Letter.
- 2.2.4 Upon being satisfied that an offence to be dealt with under the Standard Penalty Procedures referred to in Clauses 1.1.7 and 1.1.8 of Part II has been committed, the Disciplinary Section or the Enforcement Section, as the case may be, shall issue a letter to the Participant, advising that the penalty as prescribed for that particular offence in the Schedule of Penalties would be imposed at the date stipulated in the letter. In the letter, it shall be clearly stated that the Participant, if it so wishes, may request the matter be dealt with by a hearing before the Disciplinary Committee within the time limit stipulated in the letter.
- 2.3.1 If in response to a Warning Letter issued by the Enforcement Section or the Disciplinary Section under Clause 2.2.1 of Part II, the Participant requests that the matter be referred to the Disciplinary Committee, the Enforcement Section shall handle the case in accordance with the Procedures for Offences To Be Dealt With By Hearings thereafter leading to a hearing before the Disciplinary Committee.



- 2.3.2 If in response to a Warning Letter or letter respectively issued by the Enforcement Section or the Disciplinary Section under Clause 2.2.1 or Clause 2.2.2 of Part II, the Participant requests that the matter be referred to the Disciplinary Committee, the Enforcement Section shall handle the case in accordance with the Procedures for Offences To Be Dealt With By Hearings thereafter leading to a hearing before the Disciplinary Committee.
- 2.3.3 If in response to a letter or Warning Letter, as the case may be, issued by the Enforcement Section or the Disciplinary Section under Clause 2.2.2, or Clause 2.2.3 or Clause 2.2.4 of Part II, the Participant requests that the matter be referred to the Disciplinary Committee, the Enforcement Section shall handle the case in accordance with the Procedures for Offences To Be Dealt With By Hearings thereafter leading to a hearing before the Disciplinary Committee.
- 2.4 The Disciplinary Committee may after hearing the matter referred to it in accordance with Clauses 2.3.1 to 2.3.3 of Part II, in addition to any penalty which it may impose, order the Participant charged to pay the standard penalty prescribed in the Schedule of Penalties.
- 2.5 A Participant may at any time after having requested the matter to be referred to the Disciplinary Committee admit the offence to be dealt with under the Standard Penalty Procedures and pay the penalty prescribed in the Schedule of Penalties for the offence or offences with which it had been charged.

### **3. Procedures for Offences to be Dealt with by Hearings**

- 3.1 The relevant division, department, section, unit or SEOCH (as the case may be) shall conduct preliminary investigation on suspected breaches and report the findings of such investigation to the Enforcement Section.
- 3.2 The Enforcement Section may, if necessary, conduct further investigation on all referred cases and may initiate investigation on suspected breaches. If it is satisfied that a prima facie case has been established, it may institute disciplinary proceedings by providing a statement of case including details of the charges to the Secretary to the Disciplinary Committee or if thought fit, issue a warning letter to the Participant concerned. If the Enforcement Section is not so satisfied, the case shall not be pursued further.

- 3.3 The Secretary to the Disciplinary Committee shall serve the statement of case upon the Participant charged.

#### **4. Disciplinary Proceedings before the Disciplinary Committee**

- 4.1 In any case referred to the Disciplinary Committee, in addition to those members of the Disciplinary Committee who have declared an interest under Clause 1.3 of Part II and excused himself from taking any part in the case (unless required to give information or evidence to any Committee), no member of the Disciplinary Appeals Committee shall be permitted to attend any hearing of the Disciplinary Committee whilst it is considering any matter relating to that case.
- 4.2 If the Participant charged wishes to contest the disciplinary proceedings, it shall, within 14 days from being served with a statement of case, submit a statement of defence to the Secretary to the Disciplinary Committee.
- 4.3 If the Participant charged wishes to admit the charges, it shall inform the Disciplinary Committee in writing of that fact within 14 days from being served with a statement of case, and if it so wishes, may at the same time and in the same notification make a plea in mitigation to the Disciplinary Committee. If the Participant charged wishes to make such a plea, it may make it in writing or orally at its option, however, if the plea is made in writing, the Disciplinary Committee may require the Participant charged to attend before it in person to explain its plea. Thereafter the Disciplinary Committee shall decide upon a penalty without the need for a further hearing. The fact that the Participant charged has admitted the charges will of itself be regarded as a mitigating circumstance.
- 4.4 Within 21 days of service of the statement of case by the Secretary to the Disciplinary Committee, the Participant charged and the Enforcement Section shall provide the following, where applicable, to the Secretary to the Disciplinary Committee:-
- 4.4.1 a list of the witnesses to be called at the hearing; and
- 4.4.2 copies of the documents to be produced at the hearing.

- 4.5 The Secretary to the Disciplinary Committee shall as soon as practicable after receipt of the list and the documents referred to in Clause 4.4 of Part II forward the same to the Disciplinary Committee, the Participant charged and the Enforcement Section (as the case may be).
- 4.6 After receipt of the list and/or the documents, if any, referred to in Clause 4.4 of Part II, the Disciplinary Committee shall fix a date for the hearing and its Secretary shall notify the Participant charged and the Enforcement Section of the date for hearing.
- 4.7 A notice under Clause 4.6 of Part II shall set out the time, date and place of the hearing and shall be served no later than 14 days before the day fixed for the hearing.
- 4.8 The hearing shall be held in private.
- 4.9 If the Participant charged fails to attend the hearing before the Disciplinary Committee, the Disciplinary Committee may proceed in its absence and dispose of the matter in whatever manner as it sees fit.
- 4.10 At the hearing, the Participant charged and the Enforcement Section shall have the right to call and question witnesses including those called by the other party and to address the Disciplinary Committee; and the Disciplinary Committee may question the witnesses, the Participant charged and the representatives of the Enforcement Section.
- 4.11 After the hearing, the Disciplinary Committee shall consider whether each charge has been proved, and shall notify the Participant charged and the Enforcement Section in writing of its verdict on each charge, its penalty and any award as to costs.

- 4.12 If the Participant charged is found to have committed the offence charged, it may make a plea in mitigation. The plea in mitigation must be made in writing within 5 days from the date of the notification of the verdict of the Disciplinary Committee, save that if the verdict is given immediately upon conclusion of the hearing the plea in mitigation may (at the Participant's choice) be made immediately thereafter and orally. If a written plea in mitigation is made by the Participant charged, the Disciplinary Committee may require the Participant charged to attend before it to explain the plea.
- 4.13 After considering any plea in mitigation, the Disciplinary Committee shall make its decision in writing, containing the verdict and penalty on each charge.
- 4.14.1 If the Participant charged is not satisfied with the decision of the Disciplinary Committee, it may within 14 days of service of the decision require the matter to be referred to the Disciplinary Appeals Committee. In so doing, the Participant charged shall specify that it is dissatisfied with the verdict or the penalty or both.
- 4.14.2 If the Enforcement Section is not satisfied with the decision of the Disciplinary Committee on penalty, it may within 14 days of service of the decision require the matter to be referred to the Disciplinary Appeals Committee.
- 4.14.3 If the Enforcement Section is not satisfied with the decision of the Disciplinary Committee on verdict, it may within 14 days of service of the decision require the matter to be referred to the Disciplinary Appeals Committee for opinion and/or guidelines on points of principles.
- 4.15 If the Participant charged requires the matter to be referred to the Disciplinary Appeals Committee in accordance with Clause 4.14.1 of Part II, the Disciplinary Committee shall produce a reasoned decision in writing, setting out its findings of fact, the reasons for its verdict and any penalty imposed and its Secretary shall issue the same to the Participant charged, the Enforcement Section and the Secretary to the Disciplinary Appeals Committee.

- 4.16.1 In requiring the matter to be referred to the Disciplinary Appeals Committee in accordance with Clause 4.14.1 of Part II, the Participant charged may apply in writing to the Secretary to the Disciplinary Committee for a full transcript of the hearing by the Disciplinary Committee at which all parties are present. A copy of the full transcript, if obtained by the Participant charged, shall be served by it on the Enforcement Section. The costs of producing the full transcript shall be borne by the Participant charged.
- 4.16.2 In requiring the matter to be referred to the Disciplinary Appeals Committee in accordance with Clause 4.14.2 of Part II, the Enforcement Section may request the Secretary to the Disciplinary Committee for a full transcript of the hearing by the Disciplinary Committee at which all parties are present. The Enforcement Section shall cause a copy of the full transcript, if obtained, to be served on the Participant charged.
- 4.17.1 If the Enforcement Section requires a decision of the Disciplinary Committee on penalty to be referred to the Disciplinary Appeals Committee in accordance with Clause 4.14.2 of Part II, the Disciplinary Committee shall produce a decision in writing, setting out its reasons for the penalty and its Secretary shall issue the same to the Participant charged, the Enforcement Section and the Secretary to the Disciplinary Appeals Committee.
- 4.17.2 If the Enforcement Section requires a decision of the Disciplinary Committee on verdict to be referred to the Disciplinary Appeals Committee in accordance with Clause 4.14.3 of Part II, the Disciplinary Committee shall produce a reasoned decision in writing, setting out its findings of fact, the reasons for its verdict and of its penalty imposed and its Secretary shall issue the same to the Enforcement Section and the Secretary to the Disciplinary Appeals Committee.
- 4.18.1 If the Disciplinary Committee after being satisfied that a prima facie case has been established against the Exchange Participant charged in respect of breach of the Clearing Rules, is of the opinion that the penalty to be imposed is expulsion of the Exchange Participant charged from SEOCH, the Disciplinary Committee shall refer the matter to SEOCH for hearing through the company secretary of SEOCH.

4.18.2 If the matter is being referred to the SEOCH in accordance with Clause 4.18.1 of Part II, the Secretary to the Disciplinary Committee shall within 14 days after the decision has been made by the Disciplinary Committee serve on the Exchange Participant charged, the Enforcement Section and the Secretary to the SEOCH:-

- a written notice of the referral; and
- copies of all documents related to the matter.

## **5. Disciplinary Proceedings before the Disciplinary Appeals Committee**

5.1 In any case referred to the Disciplinary Appeals Committee under Clauses 4.14.1, 4.14.2 and 4.14.3 of Part II, in addition to those members of the Disciplinary Appeals Committee who have declared an interest under Clause 1.3 of Part II and excused himself from taking any part in the case (unless required to give information or evidence to any Committee), no member of the Disciplinary Committee shall be permitted to attend any hearing in the Disciplinary Appeals Committee whilst it is considering any matter relating to that case.

5.2.1 If the matter is referred to the Disciplinary Appeals Committee in accordance with Clause 4.14.1 of Part II, the Participant charged shall, within 14 days of receipt of the reasoned decision in writing referred to in Clause 4.15 of Part II, lodge a statement of grounds of referral, and particulars of any fresh evidence it wishes to adduce, with the Secretary to the Disciplinary Appeals Committee.

5.2.2 If the decision of the Disciplinary Committee on penalty is referred to the Disciplinary Appeals Committee in accordance with Clause 4.14.2 of Part II by the Enforcement Section, it shall, within 14 days of receipt of the decision in writing referred to in Clause 4.17.1 of Part II, lodge a statement of grounds of referral with the Secretary to the Disciplinary Appeals Committee.

- 5.2.3 If the decision of the Disciplinary Committee is being referred to the Disciplinary Appeals Committee in accordance with Clause 4.14.3 of Part II by the Enforcement Section, it shall, within 14 days of receipt of the reasoned decision in writing referred to in Clause 4.17.2 of Part II, lodge a statement of grounds of referral with the Secretary to the Disciplinary Appeals Committee, together with points on which opinion and/or guidelines it wishes the Disciplinary Appeals Committee to give.
- 5.3 The Secretary to the Disciplinary Appeals Committee shall as soon as practicable after receipt of the documents referred to in Clauses 5.2.1, 5.2.2 or 5.2.3 of Part II forward the same to the Disciplinary Appeals Committee and either the Participant charged or the Enforcement Section as the case may be.
- 5.4 The Disciplinary Appeals Committee shall fix a date for the hearing and its Secretary shall notify the Participant charged and the Enforcement Section of the date for hearing.
- 5.5 A notice under Clause 5.4 of Part II shall set out the time, date and place of the hearing and shall be served no later than 14 days before the hearing.
- 5.6 The hearing shall be held in private.
- 5.7 If the Participant charged or the Enforcement Section fails to attend the hearing before the Disciplinary Appeals Committee, the Disciplinary Appeals Committee may proceed in its absence and dispose of the matter in whatever manner as it sees fit.
- 5.8 If fresh evidence is produced at the hearing by the Participant charged, and the Disciplinary Appeals Committee considers that such fresh evidence should be allowed, the Disciplinary Appeals Committee may hear the case itself. Should the Disciplinary Appeals Committee determine that it is not appropriate to do so, it shall remit the matter to the Disciplinary Committee for reconsideration of the verdict and the penalty.

- 5.9.1 If the Participant charged does not seek to introduce fresh evidence, the Disciplinary Appeals Committee shall consider the matter on the basis of the reasoned decision given by the Disciplinary Committee, the record of evidence given before the Disciplinary Committee, the statement of the grounds of referral and the oral submissions made by the Participant charged and the Enforcement Section at the hearing. Having done so, the Disciplinary Appeals Committee may either dismiss the charges or, if it upholds the verdict of the Disciplinary Committee, either impose the same, or substitute a lesser or a greater penalty for that imposed by the Disciplinary Committee.
- 5.9.2 In dealing with the referral of decisions on both verdict and penalty required by the Enforcement Section, the Disciplinary Appeals Committee shall consider the matter on the basis of the reasoned decision given by the Disciplinary Committee, the record of evidence given before the Disciplinary Committee, the statement of the grounds of referral and the oral submissions made by the Participant charged and the Enforcement Section before the Disciplinary Committee and the Disciplinary Appeals Committee. Having done so, the Disciplinary Appeals Committee may either uphold the penalty imposed by the Disciplinary Committee, or substitute a lesser or a greater penalty, or give its opinion and/or guidelines on points of principles for future reference to the Enforcement Section and the Disciplinary Committee, as the case may be.
- 5.10 The Secretary to the Disciplinary Appeals Committee shall notify the Participant charged and the Enforcement Section in writing of the decision of the Disciplinary Appeals Committee.
- 5.11 The decision of the Disciplinary Appeals Committee on a referral shall be final and conclusive and the Disciplinary Appeals Committee shall not be required to give reasons for its decision.

## **6. Legal Representation and Costs**

- 6.1.1 The Participant charged shall have the right to be represented by a solicitor or counsel at the hearing before the Disciplinary Committee or the Disciplinary Appeals Committee (as the case may be) [Rule 716(1)].



- 6.1.2 The Enforcement Section may seek external legal representation in cases where external legal representation is obtained by the Participant charged.
- 6.2 If the Participant charged wishes to be represented by a solicitor or counsel at the hearing before the Disciplinary Committee or the Disciplinary Appeals Committee (as the case may be), it shall notify the Disciplinary Committee or the Disciplinary Appeals Committee (as the case may be) of the name of the solicitor or counsel representing it within 14 days from being served with a statement of case.
- 6.3 The Disciplinary Committee and the Disciplinary Appeals Committee (as the case may be), may order a payment:-
- to a Participant charged in relation to costs and expenses incurred by it in obtaining external legal representation for the purposes of the disciplinary hearing or the hearing of the referral; or
  - by a Participant charged in relation to costs and expenses incurred by the Enforcement Section, the Disciplinary Committee and the Disciplinary Appeals Committee (as the case may be) in obtaining external legal representation for the purposes of the disciplinary hearing or the hearing of the referral.

The above costs and expenses to be limited to professional legal fees and expenses of attending (but not preparing for) the disciplinary hearing or the hearing of the referral (as the case may be) [Rule 716(2)].

- 6.4 If the Disciplinary Committee or the Disciplinary Appeals Committee (as the case may be) in the exercise of its discretion sees fit to make an order for costs and expenses including hearing of fresh evidence produced by the Participant charged and the Enforcement Section, it shall order the payment of costs and expenses to follow the event except where it appears to the Disciplinary Committee or the Disciplinary Appeals Committee (as the case may be) that in the circumstances of the case any other order should be made as to the whole or any of the costs and expenses.
- 6.5 The amount of costs and expenses to be paid:-

- to a Participant charged in relation to costs and expenses incurred by it in obtaining external legal representation for the purposes of the disciplinary hearing or the hearing of the referral; or
- by a Participant charged in relation to costs and expenses incurred by the Enforcement Section, the Disciplinary Committee and the Disciplinary Appeals Committee (as the case may be) in obtaining external legal representation for the purposes of the disciplinary hearing or the hearing of the referral,

shall be determined by the Disciplinary Committee or the Disciplinary Appeals Committee (as the case may be), and any sum so ordered to be paid by a Participant charged shall be recoverable by the Exchange as a civil debt [Rule 716(2)].

- 6.6 Any order for costs and expenses made under Clause 6.3 of Part II shall be final and conclusive and not subject to appeal. Provided that the Disciplinary Appeals Committee in hearing a referral in accordance with Clauses 4.14.1 or 4.14.2 of Part II may reverse or vary an order of costs.

## **7. Publicity**

After conclusion of disciplinary proceedings, the Disciplinary Committee or the Disciplinary Appeals Committee (as the case may be) may direct that the name of any Participant charged, their charges and penalties imposed be published in any manner or medium which the relevant Committee shall determine.

## **SCHEDULE OF PENALTIES**

1. Misconduct in the Trading Hall [Rule 549]:-
  - 1.1 for the first offence within a period of 12 months:-
    - issue of a Warning Letter by the Disciplinary Section.
  - 1.2 for the second offence within a period of 12 months:-

- issue of a second Warning Letter by the Enforcement Section and the posting of a notice in the Trading Hall naming the Exchange Participant for misconduct under Rule 549.
- 1.3 for the third offence within a period of 12 months:-
- issue of a third Warning Letter by the Enforcement Section, the posting of a second notice in the Trading Hall naming the Exchange Participant for misconduct under Rule 549 and imposition of a fine of \$500.
- 1.4 any subsequent offence to be treated as an offence to be dealt with by hearings in accordance with the Procedures For Offences To Be Dealt With By Hearings.
2. Failure to display Exchange Participant Certificate or certified copy thereof, duplicate Exchange Participant Certificate or replacement Exchange Participant Certificate contrary to Rule 351A(1), 352B(4) or 352B(5):-
- an imposition of a fine of \$5,000 each time.
3. [Repealed]
4. Failure to return to the Exchange the Exchange Participant Certificate upon cessation of business, contrary to Rule 351A(2):-
- an imposition of a fine of \$5,000.
5. Failure to report to the Exchange of loss of an Exchange Participant Certificate contrary to Rule 352B(4):-
- for the first offence, issue of a Warning Letter by the Disciplinary Section;
  - any subsequent offence, an imposition of a fine of \$5,000.
6. Failure of an Exchange Participant to give advance notice of commencement, suspension (except as a result of the event referred to in Rule 345(1) or 345(2) or by order of the Exchange), cessation or recommencement of business, contrary to Rule 353:-

- for the first offence, an imposition of a fine of \$5,000;
  - any subsequent offence to be treated as an offence to be dealt with by hearings in accordance with the Procedures For Offences To Be Dealt With By Hearings.
7. Failure of an Exchange Participant to be a licensed corporation or deemed to be a licensed corporation licensed to carry on Type 1 regulated activity under the Securities and Futures Ordinance, contrary to Rule 302(2):-
- Suspension of Exchange Participantship.
8. Failure of a Special Participant to be an ATS provider authorised by the Commission under section 95(2) of the Securities and Futures Ordinance, contrary to Rule 1507(2).
- Suspension of Special Participantship.

**Operation Procedures for Stamp Duty Collection**

Updated: [\*] 2014

**OPERATION PROCEDURES FOR STAMP DUTY COLLECTION**

This Operation Procedures shall be read in conjunction with and shall form part of the Rules of the Exchange. Unless otherwise indicated, the terms used herein shall have the same meaning as contained in the Rules of the Exchange. In the event of inconsistencies between this Operation Procedures and the Rules of the Exchange, the Rules of the Exchange shall prevail.

1. **PURPOSE**

The purpose of this document is to prescribe the procedures for stamp duty collection that a Participant shall follow pursuant to Chapter 13 of the Rules of the Exchange.

2. **GENERAL**

2.1 Stamp duty shall be payable to the Exchange on each and every contract note issued in respect of all transactions recognized by the Exchange on a Trading Day (T day) basis unless the transaction is:

- (a) a Market Maker jobbing transaction; or
- (b) an applicable market making transaction of a Securities Market Maker (“SMM Market Making transaction”) which is subject to stamp duty remission or refund under Section 52 of the Stamp Duty Ordinance

as specified under Rule 1301.

2.2 The stamp duty shall be at a rate, subject to adjustments from time to time, as prescribed under Head 2 (1) of the First Schedule of the Stamp Duty Ordinance. The stamp duty amount shall be rounded to the nearest \$1.00.

2.3 (a) An Exchange Participant shall state in every contract note to clients the amount of the stamp duty payable to the Government of the Hong Kong Special Administrative Region through the Exchange as a separate item.

(b) A Special Participant shall state in every contract note the amount(s) of stamp duty payable to the Government of the Hong Kong Special Administrative Region through the Exchange.

2.4 (a) Prior to 11:00 a.m. on the second trading day following T day (T+2 day), an Exchange Participant shall submit to the Exchange a completed return (Form SD-1) of the stamp duty payable in respect of transactions carried out as principal or agent during T day through the ECP or in any other manner as prescribed by the Exchange from time to time. The Form SD-1 submitted to the Exchange shall be in the format as notified to the Exchange Participants by the Exchange from time to time.

(b) Prior to 11:00 a.m. on the second trading day following T day (T+2 day), a Special Participant shall submit to the Exchange a completed return (Form SD-

1) of the stamp duty payable in respect of transactions carried out as agent for China Connect Market Participants (for itself or for client) during T day through the ECP or in any other manner as prescribed by the Exchange from time to time. The Form SD-1 submitted to the Exchange shall be in the format as notified to the Special Participants by the Exchange from time to time.

2.5 Unless otherwise determined by the Exchange, the amount of stamp duty payable for T day as reported in the Form SD-1 referred to under Clause 2.4 shall be directly debited on T+2 day by means of electronic payment instructions from the bank account designated by the Participant for stamp duty payment. A Participant shall furnish to the Exchange details of such designated bank account and ensure that sufficient funds are available in the bank account for stamp duty payment. A Participant shall not close or change its designated bank account for stamp duty payment without prior approval from the Exchange.

2.6 A Participant shall also submit to the Exchange a completed and signed monthly stamp duty summary (Form SD-2) for the month, in duplicate, in person or by post, or in such other form or manner as prescribed by the Exchange from time to time, within 5 days from the beginning of the following month.

2.7 (a) If an Exchange Participant suspends or ceases its business of dealing in securities, it shall submit to the Exchange a completed and signed Form SD-2 for the month of suspension or cessation in person or by post, or in such other form or manner as prescribed by the Exchange from time to time, within 3 days following suspension or cessation of business.

(b) If a Special Participant suspends or ceases its order-routing business, it shall submit to the Exchange a completed and signed Form SD-2 for the month of suspension or cessation in person or by post, or in such other form or manner as prescribed by the Exchange from time to time, within 3 days following suspension or cessation of business.

### 3. IDENTIFICATION OF MARKET MAKER JOBBING TRANSACTIONS AND SMM MARKET MAKING TRANSACTIONS BY MARKET MAKERS OR SECURITIES MARKET MAKERS

3.1 Prior to 10:15 a.m. on the next trading day following T day (T+1 day), a completed Form SD-4 to report Market Maker jobbing transactions of the T day shall be submitted by a Market Maker and a completed Form SD-5 to report SMM Market Making transactions of the T day by a Securities Market Maker. The forms shall be in the format as notified to the Market Makers or the Securities Market Makers by the Exchange from time to time and submitted to the Exchange through the ECP or in any other manner as prescribed by the Exchange from time to time.

3.2 Where the specified forms are not received by the Exchange under Clause 3.1, a Market Maker who executes a Market Maker jobbing transaction, or a Securities Market Maker who executes an SMM Market Making transaction, shall pay to the Exchange stamp duty at the rate stipulated in Clause 2.2 on the transaction and shall be responsible to contact Inland Revenue Department (IRD) directly to obtain a refund or otherwise.

3.3 Without prejudice to Clause 3.1, (i) a Market Maker shall not identify a transaction as a Market Maker jobbing transaction if the transaction concerned does not meet the

criteria or directives prescribed by the Collector of Stamp Revenue in accordance with the Stamp Duty (Jobbing Business) (Options Market Makers) Regulation and agreed to by the Exchange from time to time; and (ii) a Securities Market Maker shall not identify a transaction as an SMM Market Making transaction if the transaction concerned does not meet the criteria or directives prescribed in the relevant stamp duty remission or refund order pursuant to Section 52 of the Stamp Duty Ordinance.

3.4 The Exchange may, without prior notice to the Market Maker or the Securities Market Maker concerned, notify the Collector of Stamp Revenue immediately whenever it has reasonable grounds to believe that a transaction not satisfying the criteria or directives prescribed in the relevant Regulation and order as referred to in Clause 3.3 has been identified by a Market Maker as a Market Maker jobbing transaction or by a Securities Market Maker as an SMM Market Making transaction.

#### 4. UNDERPAYMENT OF STAMP DUTY FOR T DAY TRANSACTIONS

4.1 A Participant shall be responsible to account for any underpayment of stamp duty for T day transactions as recorded by the Exchange.

4.2 A Participant shall indicate in the Form SD-1 submitted to the Exchange the nature of the underpayment and provide the Original Allowance Ticket from IRD (if applicable). A Participant shall also furnish direct to IRD details of the underlying transactions accounting for the underpayment upon a written request from IRD. If the Participant's written explanations in respect of the underpayment are not acceptable to IRD, the Participant shall, upon demand from IRD, pay the additional duty to IRD to make up the payment shortfall within 7 days from the date of demand.

4.3 Without prejudice to the aforementioned, upon oral or written notification by the Exchange, a Participant shall pay the underpayment of stamp duty for T day transactions into the Exchange's designated bank account and submit by fax or in such other manner as prescribed by the Exchange from time to time (i) a revised Form SD-1 to replace any incomplete or invalid Form SD-1 and (ii) the proof of payment prior to 4:00 p.m. on the day of notification.

#### 5. TRADE AMENDMENT FOR T DAY TRANSACTIONS

5.1 A Participant shall be responsible to apply for approval for trade amendment for T day transactions to the Exchange no later than 9:45 a.m. on T+1 day. No late application will be entertained.

5.2 A Participant shall be responsible to adjust the amount of stamp duty payable for T day in respect of any trade amendment. Prior to making any adjustment, the relevant trade amendment must be approved by the Exchange for that day.

#### 6. OVERSEAS TRANSACTIONS

6.1 An Exchange Participant shall be responsible to report all overseas transactions concluded by it either as a principal or an agent to the Exchange by entering details of the transactions into the Exchange's trading system.

6.2 For the purpose of stamp duty payment, the reporting date shall be deemed as the T

day for the reported overseas transactions.

- 6.3 Overseas transactions as reported under Clause 6.2 shall be subject to the same stamp duty collection procedures as specified under Section 2 of this Operation Procedures.

7. TRANSACTIONS NOT RECORDED IN THE SYSTEM BEFORE MARKET CLOSE

- 7.1 Any transactions not recorded in the Exchange's trading system before the end of the Afternoon Session on a trading day (or before the end of the Morning Session on a trading day which does not have an Afternoon Session) shall be reported to the Exchange by Exchange Participants within the order input period and the pre-order matching period of the Pre-opening Session on the next trading day, or within the first 15 minutes after the commencement of the Continuous Trading Session on the next trading day, and the Exchange will treat the reporting date as the transaction date.
- 7.2 The stamp duty payment of the transaction shall be based on the value and the date of the contract note.
- 7.3 The stamp duty payable as calculated by the Exchange, based on the date on which the report has been made may be different from the stamp duty payable as calculated by the Exchange Participant based on the date of the contract note. An Exchange Participant shall be responsible to itemize and reconcile the discrepancy (if any) in the Form SD-1.

8. PENALTY ON LATE PAYMENT OF STAMP DUTY

- 8.1 If a Participant fails to pay the stamp duty to the Exchange on T+2 day under Clause 2.5, a surcharge of 2% on the defaulted amount shall be imposed. A Participant shall settle the surcharge within 7 trading days upon demand from the Exchange.
- 8.2 If the defaulted amount remains unpaid at the end of T+3 day, from T+4 day on each and every trading day the defaulted amount remains outstanding, the Participant shall be subject to a daily penalty equivalent to 10% of stamp duty on T day transactions or \$200, whichever is higher. A Participant shall settle the penalty within 7 trading days upon demand from the Exchange.

9. NON-PAYMENT OF STAMP DUTY ON T+6 DAY

- 9.1 If the stamp duty on T day transactions remains unpaid at the end of T+6 day, the Participant may be suspended from trading and subject to any other disciplinary action as the Board may think fit.
- 9.2 Without prejudice to the disciplinary and other powers of the Board and the Chief Executive under the Rules of the Exchange and the Exchange's right to impose surcharge and penalty as specified in Section 8 of this Operation Procedures, the Exchange, or an external auditor appointed by the Exchange, shall have the power to carry out an investigation on the financial position of a Participant whose stamp duty payment for T day transactions remains outstanding by T+7 day. Costs incurred on any such investigations shall be borne by the Participant.
- 9.3 Notwithstanding any action which the Board may take against the Participant in default, the Board may also take legal action to recover the outstanding amount of



stamp duty and penalties.

10. DEPOSITS FOR STAMP DUTY COLLECTION

- 10.1 A deposit shall be payable by a Participant to the Exchange as prescribed in Rule 1302.
- 10.2 The amount of deposit payable by a Participant shall be in proportion to its accumulated stamp duty payment for 3 days based on its average daily turnover over a 6-month period.
- 10.3 A Participant shall, upon demand from the Exchange, pay a specified amount of deposit to the Exchange within 7 trading days from the date of demand in the form and manner as prescribed by the Exchange from time to time. The amount of deposit is as follows:

Class	Stamp Duty Payment for a 3-day Period (\$)	Amount of Deposit (\$)
A	0 - 15,000	5,000
B	15,001 - 60,000	30,000
C	60,001 - 120,000	75,000
D	120,001 - 200,000	150,000
E	200,001 - 500,000	250,000
F	500,001 and above	500,000

- 10.4 Unless otherwise notified by the Exchange, a Participant's deposit shall be subject to a half-yearly review.
- 10.5 The amount of deposit so collected pursuant to Clause 10.2 shall earn interest at savings rate and such interest shall be payable to Participants on a half-yearly basis.
- 10.6 Notwithstanding the aforementioned, a Participant shall maintain the specified amount of deposit in accordance with Rules 1302 and 1303 at all times with the Exchange.
- 10.7 For the purpose of Clause 10.6, a Participant shall pay to the Exchange any shortfall in the deposit within 3 trading days from the date of demand from the Exchange in the form and manner as prescribed by the Exchange from time to time.

11. FORMS AND INFORMATION

The Exchange has the right to copy, print, release and disseminate the forms and information received by the Exchange pursuant to this Operation Procedures for the purposes of or otherwise in connection with this Operation Procedures.

**Operation Procedures for Trading Fee**

Updated: [\*] 2014

**OPERATION PROCEDURES FOR TRADING FEE**

Unless the context otherwise requires, the terms used in these Operation Procedures shall have the same meanings as contained in the Rules of the Exchange.

**Exchange Participants**

- (1) A Trading Fee shall be payable to the Exchange on every purchase or sale of securities admitted to trading, listed, or approved to be listed on the Exchange carried out by an Exchange Participant whether as principal or agent whether in the Trading Hall and whether the transaction is arranged or concluded in Hong Kong or elsewhere. For the avoidance of doubt, both the buying Exchange Participant, and the selling Exchange Participant shall each pay to the Exchange the amount of the Trading Fee as specified by the Board under Clause (3) below.
- (2) Every Exchange Participant which operates a business of dealing in securities shall be liable to the Exchange for payment of the Trading Fee himself or itself whether he or it deals as principal or agent provided that the Exchange Participant shall have the right to collect the Trading Fee, whether in whole or in part, from his or its clients.
- (3) The rate of the Trading Fee shall be 0.005% (rounded to the nearest cent) of the amount of the consideration for each purchase or sale of securities, or such other rate as determined by the Board from time to time. The rate of the Trading Fee and the manner of collection (as determined by the Board from time to time) will be notified to Exchange Participants by circular or by notice posted in the Trading Hall.
- (4) Where an Exchange Participant is to collect the Trading Fee, whether in whole or in part, from his or its clients, the Exchange Participant shall state in the relevant contract notes the amount of the Trading Fee to be paid by his or its clients, or shall otherwise notify his or its clients in writing of the amount of Trading Fee required to be paid by his or its clients and provide his or its clients with documentary evidence of payment of the said amount by his or its clients.
- (5) An Exchange Participant shall keep complete and true records of and maintain separate accounts for the Trading Fee and remitted to the Exchange. An Exchange Participant shall whenever called upon by the Board so to do produce his or its books and records for inspection by any person authorised by the Board.
- (6) Within 7 days from the beginning of each month, an Exchange Participant shall submit to the Exchange a complete and signed return of the Trading Fee payable in respect of transactions carried out as principal or agent during the previous month, in such form as specified by the Board from time to time. Without prejudice to the foregoing, the Board shall have power to require an Exchange Participant to make such returns at such other time(s) and in respect of such other

period(s) as the Board may require.

- (7) An Exchange Participant shall remit within 15 days from the beginning of each month the total Trading Fee as stated in his or its return under Clause (6) to the Exchange in such manner as the Board may from time to time specify. Without prejudice to the foregoing, upon demand by the Exchange, immediate payment of all Trading Fee due from an Exchange Participant relating to transactions of any period prior to the date of payment shall be effected.
- (8) If any Exchange Participant fails to remit the Trading Fee to the Exchange within the period specified in Clause (7), a surcharge of 2% on the total Trading Fee payable shall be imposed. If the Trading Fee and the surcharge remains unpaid at the end of the month in which the Trading Fee is due, the Exchange Participant shall be liable to be suspended from trading and may be subject to any other disciplinary action as the Board may think fit. Notwithstanding any such action which the Board may take against the Exchange Participant in default, the Board may also take legal action to recover the outstanding amount of Trading Fee and surcharge, and all expenses incurred or to be incurred by the Board for taking recovery action against the Exchange Participant shall be borne by the Exchange Participant.
- (9) Where the total amount of the Trading Fee in a return of an Exchange Participant under Clause (6) is different from the sum computed by the Exchange on the basis of transactions as recorded by the Exchange, such Exchange Participant shall take immediate actions to verify the records to ascertain the correct amount that should be payable. He or it shall however remit the lesser of the two sums to the Exchange under Clauses (7) and (8). Upon the correct amount being ascertained, the amount owing, if any, shall be paid to the Exchange immediately. In case of dispute, the amounts computed by the Exchange as aforesaid shall, in the absence of manifest error, be final and binding.
- (10) When an Exchange Participant suspends or ceases his or its business of dealing in securities, he or it shall immediately notify the Exchange in writing, and such Exchange Participant shall submit a return up to and including the date of suspension or cessation within 7 days after such date and shall effect payment within 15 days after such date and Clauses (6) to (9) shall apply accordingly.
- (11) Notwithstanding Clause (3) above, the rate of the Trading Fee, in relation to Exchange Traded Options is 0%.
- (12) [Repealed]
- (13) Notwithstanding Clause (3) above, the rate of the Trading Fee, in relation to transactions concluded by an Exchange Participant acting in the capacity as a Securities Market Maker for a Market Making Security, is 0%.

### **Special Participants**

- (14) A Trading Fee shall be payable to the Exchange on every purchase or sale of securities admitted to trading, listed, or approved to be listed on the Exchange carried out by a Special Participant. For the avoidance of doubt, where a Special Participant is both the buying party and the selling party to a transaction, the Special Participant shall pay to the Exchange the amount of the Trading Fee as

specified by the Board under Clause (15) below in respect of both the purchase and the sale.

- (15) The rate of the Trading Fee shall be 0.005% (rounded to the nearest cent) of the amount of the consideration for each purchase or sale of securities, or such other rate as determined by the Board from time to time. The rate of the Trading Fee and the manner of collection (as determined by the Board from time to time) will be notified to Special Participants by circular or by such other means as the Exchange considers appropriate.
- (16) Notwithstanding anything contained herein, the Exchange may separately prescribe additional procedures for the payment of Trading Fee to be followed or observed by Special Participants. For the avoidance of doubt, the Exchange may prescribe different procedures for different Special Participants.