HONG KONG MONETARY AUTHORITY
香港金融管理局

Central Moneymarkets Unit

CMU Reference Manual

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AMENDMENT SUMMARY

Effective Date	Part	Clause	Amendments
29 April 2019		List of Appendices	Added Bond Connect forms
	I	3.1.1	Updated membership criteria
	II	2.1.8.2	Updated settlement currency
	III	2.1.3, 2.2.4	Updated web link on eligible securities for EUR repo
	IV	6.4, 6.5, 6.9 7.4, 7.5, 7.9	Updated Bond Connect services
	Appendix	B.1	Updated special run for FPS DW
		P.13	Added Euroclear cash correspondent for GBP
		T.4b, T.7 – T.9	Added Bond Connect appendices

CONTENTS

Clause **Page**

AMENDMENT SUMMARY ii

CONTENTS iii

ABBREVIATIONS AND ACRONYMS xxii

LIST OF APPENDICES xxiv

ANNEX. xxx

Part I General Information for Membership with the CMU 1

1 INTRODUCTION 2

1.1 Background for Establishment of Exchange Fund Bills and Notes Clearing and Settlement Service 2
1.1.1 Exchange Fund Bills and Notes 2
1.1.2 Government Bonds 3

1.2 Background for Establishment of CMU Service 3

1.3 Purpose 4

1.4 Operating Procedures 4

1.5 CMU Contact 5

1.6 Related Documents 5

2 SERVICES OFFERED BY THE CMU 7

2.1 DvP Settlement Capability 7

2.2 Money Settlement of CMUS and EFCS Transactions 7

2.3 Types of CMU Instruments 8

2.4 Types of EFCS Securities 8

2.5 Domestic Equities 9

2.6 Investment Fund 9

2.7 Form of Debt Securities 9
2.7.1 CMU Instrument 9
2.7.2 Exchange Fund Papers and Government Bonds 10

2.8 Legal Title 10

2.9 Sub-custodian 10

2.10 Business Day 10

3 MEMBERSHIP 11

3.1 CMU Membership 11

3.1.1 Membership Criteria 11
3.1.2 Membership Procedure 11

3.2 Appointment of RD/MM/Retail EFNs Distributor/Primary Dealer/Placing Bank 11
3.2.1 Appointment of RD for EFBN and Specified Instruments, MM, and/or RD for Government Bonds 11
3.2.2 Appointment of MM/Retail EFNs Distributor 12
3.2.3 Appointment of RD for Government Bonds 12

3.3 Terms used in this Manual 12

3.4 Termination of CMU Membership and Revocation of RD Status by the CMU Participant 13
3.4.1 Termination Notice 14
3.4.2 Termination of CMU Membership 14
3.4.3 Termination of RD Status 14

3.5 Suspension/Termination of CMU Membership and Revocation of RD Status for EF Papers and GBs by the MA 14
3.5.1 Suspension/Termination 14
3.5.2 Suspension or Termination of Specific Custody Account 16

3.6 Operational Information 16

3.7 Obligations of CMU Participant 17

3.8 Anti-Money Laundering (AML) 18

3.9 Foreign Account Tax Compliance Act (FATCA) 18
3.9.1 FATCA Status of the CMU 19
3.9.2 FATCA Withholding 19
3.9.3 FATCA Documentation and Other Obligations of CMU Participant 20

3.10 Contracts (Rights of Third Parties) Ordinance 21

4 SECURITIES ACCOUNTS 22

4.1 Types of Securities Accounts 22

4.2 Account Holder 22

4.3 Confirmation of Holdings 23

4.4 CMU Reports 23
4.4.1 Types of Reports 23
4.4.2 Reconciliation of Reports 23

4.5 Blocking of Securities 24
4.5.1 General Rules 24
4.5.2 Blocking by the MA 24

5 CONNECTIVITY 25

5.1 Central Moneymarkets Unit Terminal (CMT) 25

5.2 Manual Processing of Transfer Instruction by the CMU 25

5.3 Authentication of Instructions 26
5.3.1 Validity of Instructions sent by Securities Transfer Form 26
5.3.2 Validity of Instructions sent via CMT and SWIFT 26
5.3.3 Validity of Instructions sent via CMT through the Interface with Trading Platform 27
5.3.4 Validity of Instructions submitted via FTS 27
5.3.5 Validity of Instructions submitted via FileAct 27

5.3.6 Exchange of RMA for SWIFT Communication 27

5.4 Contingency Arrangements 28
5.4.1 Local Terminal Service (LTS) 28
5.4.2 Responsibility of CMU Participants 28

6 BILLING 30

6.1 Fees 30

6.2 Billing Arrangement 30

6.3 Custodian Fees 31
6.3.1 Handling of Custodian Fees 31
6.3.2 Disclosure to Retail Investors 31
6.3.3 Calculation of Custodian Fees 31

7 CMU OPERATIONAL TIMETABLE 33

7.1 CMU Normal Daily Schedule 33

7.2 CMU Service Available during General Holidays in Hong Kong 35
7.2.1 Services Available 35
7.2.2 US Dollar/Euro/renminbi Intraday and Overnight Repos 35
7.2.3 Provision of renminbi Liquidity Facility by the MA 36
7.2.4 Real-time House Transfer 36
7.2.5 Linkage Services 36
7.2.6 CMU Fund Order Routing and Settlement Service 36
7.2.7 Reporting 37
7.2.8 Timetable for Operating Holiday 37

8 TYPHOON AND RAINSTORM PROCEDURES 39

8.1 Services Available under Various Scenarios 39

8.2 Special Arrangements 41
8.2.1 Key Dates for EFBN and GB 41
8.2.2 Additional Information for Typhoon Scenario 2 under clause 8.1 42

8.3 Typhoon and Black Rainstorm Arrangements for MPF Money Settlement Service 46
8.3.1 Typhoon Arrangements 46
8.3.2 Rainstorm Arrangements 47
8.3.3 Types of transactions included in CMU optimiser run during Full Day Typhoon: 48

Part II Clearing, Settlement and Custodial Services 50

1 ISSUES IDENTIFICATION IN CMU 51

1.1 Identification of CMU Instruments 51
1.1.1 Issue Number Format for Debt Securities Lodged with CMU 51
1.1.2 Types of Money Market and Capital Market Instruments 51
1.1.3 Issue Number Format for Euroclear Eligible Securities 52
1.1.4 Issue Number Format for Clearstream Eligible Securities 52
1.1.5 Issue Number Format for Investment Fund 52

1.2 Identification of Exchange Fund Papers and GBs 53
1.2.1 Issue Number Format for EFBs 53
1.2.2 Issue Number Format for EFNs 53

1.2.3 Issue Number Format for Government Bonds 53

2 NEW ISSUANCE 55

2.1 Lodgement, Allotment and Withdrawal of CMU Instrument 55
2.1.1 Information Required for New Issue of CMU Instrument 55
2.1.2 Form of Instruments 56
2.1.3 CMU's Sub-custodian 56
2.1.4 Lodging Authority from the Issuer 57
2.1.5 Procedures for Lodgement 57
2.1.6 New Issue Allotment 58
2.1.7 Settlement Procedure for Hong Kong dollar, US dollar, euro and renminbi New Issue Allotment 59
2.1.8 Settlement procedures for foreign currency (other than US dollar, euro and renminbi) DvP New Issue Allotment 60
2.1.9 Withdrawal of Instrument 62
2.1.10 Fees 63
2.1.11 Cancellation of Instrument 63

2.2 CMU BID 63
2.2.1 Subscription to CMU BID 63
2.2.2 Issuing Procedure for Debt Securities 64
2.2.3 Tender Procedure 65
2.2.4 Tender Processing 67
2.2.5 Tender Result 69
2.2.6 Lodgement of the CMU Instrument tendered through the CMU BID 69
2.2.7 Settlement of the CMU Instrument tendered through the CMU BID 70
2.2.8 Coupon/Redemption Payment 71
2.2.9 Fees 72

2.3 Tendering of EF Paper, SI and GB 72
2.3.1 Tender, Subscription and Allotment of Exchange Fund Paper and Specified Instruments 72
2.3.2 Tender, Subscription and Allotment of Government Bonds- Institutional Bond Issuance Programme 78
2.3.3 Tender, Subscription and Allotment of Government Bond - Retail Bond Issuance Programme 83

3 GOVERNMENT BOND SWAP FACILITY AND SWITCH TENDER 88

3.1 Government Bond Swap Facility 88
3.1.1 General 88
3.1.2 Eligible Counterparties 88
3.1.3 Swapping Limit 89
3.1.4 Operation Window 89
3.1.5 Parameters of a Valid Request 89
3.1.6 Settlement 91
3.1.7 Failure to Effect Transactions and Penalties 93
3.1.8 Operational timetable 94
3.1.9 Fees and other Matters 94

3.2 Government Bond Switch Tender 95
3.2.1 General 95
3.2.2 Eligible Counterparties 95
3.2.3 Nominal value-neutral 96
3.2.4 Announcements of Tender 96
3.2.5 Tender 97
3.2.6 Settlement 97

3.2.7 Failure to Effect Transactions and Penalties 98
3.2.8 Fees 99

4 SECURITIES TRANSFERS AND SETTLEMENT SERVICES 100

4.1 Transfer Between Securities Accounts 100
4.1.1 Transfer of Title 100
4.1.2 Means of Sending Transfer Instruction 100
4.1.3 Input Cut-off Times 101
4.1.4 Instruction Involving Unknown Issue Number 102
4.1.5 Linked Transactions 103
4.1.6 Matching Process 105
4.1.7 Tolerance Limit of Settlement Amount 107
4.1.8 Cancellation 107
4.1.9 Settlement 107
4.1.10 Handling of Unsettled Matched Transactions and Unmatched Instructions 109

4.2 Delivery versus Payment Facility 110
4.2.1 Delivery versus Payment Facility 110
4.2.2 Availability 110
4.2.3 Settlement Currency 111
4.2.4 Securities Clearing and Settlement Procedures for Hong Kong dollar, US dollar, euro and renminbi DvP 111
4.2.5 Foreign Currency (other than US dollar, euro and renminbi) Settlement 113
4.2.6 Securities clearing and settlement procedures for foreign currency (other than US dollar, euro and renminbi) DvP transactions 114
4.2.7 Simultaneous Processing of DvP and Collateralisation for EF Paper 114

4.3 Settlement Arrangements 115
4.3.1 Money Settlement arising from DvP/Investment Fund Order Instruction 115
4.3.2 Direct Debit Limit 116
4.3.3 Reset of DDL by System 116

4.4 Market Making Arrangement for Market Maker of EFBN / Specified Instruments 117
4.4.1 Appointment of MM 117
4.4.2 Short-selling Arrangement 117
4.4.3 Failure to Close Short Position 120
4.4.4 Short-selling not Available for Gross Real-time Securities Transfer 120
4.4.5 Un-accepted Securities 121
4.4.6 Closing of Short Position 121
4.4.7 Termination of Market Making Arrangement 121
4.4.8 Selection Criteria for Debt Securities to Cover Short Position by Long Positions 122

4.5 CMU Optimiser 123
4.5.1 Introduction 123
4.5.2 Types of CMU Transactions included in a CMU Optimiser Run 124
4.5.3 Processing Flow of a typical CMU Optimiser 124

5 CUSTODIAL SERVICES 134

5.1 Introduction 134

5.2 The MA as Paying Agent for EFBN, Specified Instruments and Paying Representative for Government Bonds 134
5.2.1 Operating Procedure 134
5.2.2 Reports Available 135
5.2.3 On-line Enquiry 135

5.2.4 Payment/Securities Arrangement 135

5.3 CMU Member as Paying Agent for CMU Instrument 136
5.3.1 Reports Available to the Paying Agent 136
5.3.2 Record Date 137
5.3.3 Payment Arrangement 137
5.3.4 Securities Arrangement 138
5.3.5 Information Change on Coupon Rate and Dates 138

5.4 Income Distribution Service 139
5.4.1 Role of the MA 139
5.4.2 Subscription of Service 139
5.4.3 Record Date 141
5.4.4 Payments by the Paying Agent to the MA 141
5.4.5 Releasing or Withholding Payment by Paying Agent on Payment Date 143
5.4.6 Payments by MA to the Legal Title Holders 143
5.4.7 Information Change on Coupon Rate and Dates 145
5.4.8 Cancellation or Adjustment 145
5.4.9 On-line Enquiry 146
5.4.10 Fees 146
5.4.11 Termination 146

5.5 General Custody Operations 148
5.5.1 Corporate Action in General 148
5.5.2 Representation and Acknowledgement 149
5.5.3 Scope of CA Service provided by CMU 150
5.5.4 Types of Corporate Actions 152
5.5.5 Securities in Default 153
5.5.6 Subscription of CA Service 153
5.5.7 Corporate Action Announcements 154
5.5.8 Recipients of CA Notifications 156
5.5.9 Corporate Action Instructions 157
5.5.10 Securities and Cash Movement arising from CA Instructions 162
5.5.11 Entitlement to the Proceeds of Custody Distribution 164
5.5.12 Confirmation of Securities and Cash Proceeds 164
5.5.13 Reporting 164
5.5.14 Fees 165

5.6 Specific Custody Operations 166
5.6.1 Exchange of Temporary Global for Permanent Global Securities 166
5.6.2 Restricted Period 167
5.6.3 Certification Processing 167
5.6.4 Call, Put and Partial Redemption 170
5.6.5 Meeting Event and Proxy Voting Service 171
5.6.6 Fees 172

***Part III Collateral Management* 174**

1 HONG KONG DOLLAR REPO FACILITY PROVIDED BY THE MA 175

1.1 HKD Intraday Repo 175
1.1.1 Eligibility to Enter Hong Kong dollar Intraday Repo with the MA 175
1.1.2 Eligible Securities 175
1.1.3 Intraday Repo Period 175
1.1.4 Minimum Size 176
1.1.5 Triggering of Automatic Intraday Repo Transaction 176

1.1.6 Generation of Multiple Intraday Repo Transactions 176
1.1.7 Settlement of Automatic Intraday Repo Transaction 177
1.1.8 Discretionary Intraday Repo Transaction 177
1.1.9 Repurchase of Intraday Repo Transaction 178
1.1.10 Suspension 180
1.1.11 Event of Default 180

1.2 SPDC Intraday Repo Transaction 181
1.2.1 SPDC Intraday Repo Period 181
1.2.2 Triggering of SPDC Intraday Repo Transaction 182
1.2.3 Settlement of SPDC Intraday Repo Transaction 182
1.2.4 Repurchase of SPDC Intraday Repo Transactions 183
1.2.5 Settlement of SPDC Intraday Repo Repurchase Transaction 184

1.3 Hong Kong Dollar Liquidity Adjustment Window 185
1.3.1 Purpose and Agreement 185
1.3.2 Eligibility to Enter LAW with MA 185
1.3.3 Eligible Securities 186
1.3.4 Minimum Size 186
1.3.5 Operating Time for LAW 186
1.3.6 Triggering of LAW-Intraday Repo Transaction 187
1.3.7 Generation of Multiple Repo Transaction 188
1.3.8 Settlement of LAW-Intraday Repo Transaction 188
1.3.9 Price Differential 189
1.3.10 Repurchase of LAW-Intraday Repo Transaction 190
1.3.11 Suspension 191
1.3.12 Event of Default 191

1.4 Discount Window /Faster Payment System (FPS) Discount Window 192
1.4.1 Eligibility to Enter DW/FPS DW with the MA 192
1.4.2 DW Availability Period 192
1.4.3 Minimum Size 193
1.4.4 Eligible Securities 193
1.4.5 Determination of Threshold Holdings for DW Repo 194
1.4.6 DW/FPS DW Repo Transaction 195
1.4.7 Repurchase of DW/FPS DW Repo Transaction 198
1.4.8 Price Differential for DW Repo Transaction 199
1.4.9 Price Differential for FPS DW Repo Transaction 199
1.4.10 Outstanding DW/FPS DW Repo Transaction 200
1.4.11 Suspension 201
1.4.12 Event of Default 201

1.5 Hong Kong Dollar Discount Facility for Hong Kong Government Bonds 201
1.5.1 Introduction 201
1.5.2 Eligibility to enter into HKD Overnight Repo with the MA by using GBs 202
1.5.3 HKD Overnight Repo Period 202
1.5.4 Eligible Securities 202
1.5.5 Minimum Repo Transaction Size 203
1.5.6 Price Differential 203
1.5.7 Value and Required Margin 203
1.5.8 Determination of Threshold 204
1.5.9 Initiating HKD Overnight Repo Transactions 204
1.5.10 Repurchase of HKD Overnight Repo Transaction 206
1.5.11 Interest Payable 207
1.5.12 Interest Payment related to Eligible Securities 208
1.5.13 Suspension 208

1.5.14 Event of Default 208

2 FOREIGN CURRENCY REPO FACILITY WITH THE SI/CB 210

2.1 Foreign Currency Intraday Repo with the SI/CB 210
2.1.1 US dollar/euro/renminbi Intraday Repo Transaction 210
2.1.2 Eligibility to Enter Repo with the SI/CB 210
2.1.3 Eligible Securities 211
2.1.4 US dollar/euro/renminbi Intraday Repo Period 212
2.1.5 Minimum Size 212
2.1.6 Triggering of Automatic US Dollar / euro / renminbi Intraday Repo Transaction 212
2.1.7 Discretionary US dollar / euro / renminbi Intraday Repo Transaction 213
2.1.8 Processing of Discretionary US dollar / euro / renminbi Intraday Repo Transaction 214
2.1.9 Repurchase of US dollar/euro/renminbi Intraday Repo Transaction 215
2.1.10 Suspension 217
2.1.11 Event of Default 217

2.2 Foreign Currency Overnight Repo with the SI/CB 218
2.2.1 US dollar/euro/renminbi Overnight Repo Transaction 218
2.2.2 Eligibility to enter into Overnight Repo with the SI/CB 218
2.2.3 US dollar/euro Overnight Repo Period 219
2.2.4 Eligible Securities 219
2.2.5 Minimum Size 220
2.2.6 Create US dollar/euro Overnight Repo Transaction 221
2.2.7 Repurchase of US dollar/euro/renminbi Overnight Repo Transaction 224
2.2.8 Interest Payment 227
2.2.9 Suspension 227
2.2.10 Event of Default 227

3 RENMINBI (RMB) INTRADAY AND OVERNIGHT REPO PROVIDED BY THE MA 229

3.1 Background 229

3.2 Eligibility to enter into RMB Intraday and Overnight Repo with the MA 229

3.3 Operational Window 229
3.3.1 Intraday Repurchase Period 230
3.3.2 Overnight Repurchase Period 230

3.4 Eligible Securities 230

3.5 Minimum Repo Transaction Size 231

3.6 Price Differential 231
3.6.1 RMB Intraday Repo Transaction 231
3.6.2 RMB Overnight Repo Transaction 232

3.7 Value and Required Margin 232
3.7.1 Value 232
3.7.2 Required Margin 232
3.7.3 Cross-currency Haircut 233

3.8 RMB Discretionary Intraday Repo 233
3.8.1 Initiating RMB Discretionary Intraday Repo Transactions 233
3.8.2 Repurchase of RMB Intraday Repo Transaction 236

3.9 RMB Discretionary Overnight Repo 237
3.9.1 Initiating RMB Discretionary Overnight Repo Transaction 238
3.9.2 Repurchase of RMB Overnight Repo Transaction 240

3.10 Limit Checking for Discretionary RMB Repo Transactions ... 243
3.10.1 Limit Checking Applicable to all Participating AIs (except PLPs) ... 243
3.10.2 Limit Checking Applicable to borrowers who are PLPs ... 244
3.11 Interest Payment related to Eligible Securities ... 245
3.12 Collection of Price Differentials ... 245
3.13 Suspension ... 246
3.14 Event of Default ... 246
4 LENDING AND BORROWING PROGRAMME ... 248
4.1 General ... 248
4.2 Borrower ... 248
4.3 Loan Amount ... 249
4.4 Types of Accounts ... 249
4.4.1 Lending Account ... 249
4.4.2 Suspense Account ... 249
4.4.3 Collateral Account ... 249
4.5 Eligible Instruments and Collateral ... 249
4.5.1 Eligible Instruments ... 249
4.5.2 Eligible Collateral ... 250
4.6 Daily Mark-to-Market and Haircut ... 250
4.7 Operational Procedures ... 251
4.7.1 Lending Arrangement ... 251
4.7.2 Borrowing Arrangement ... 252
4.7.3 Termination of Loan ... 252
4.8 Substitution of Collateral ... 253
4.9 Top Up of Collateral ... 253
4.10 Allocation of the Pool of Eligible Instruments among Borrowers ... 254
4.11 Duration and Termination of Loan ... 254
4.11.1 Delivery of Equivalent Instruments to the Lenders ... 255
4.11.2 Recall of Loan ... 255
4.12 Sale of Collateral ... 256
4.13 Coupon Payment and Exercise of Rights ... 257
4.14 Settlement Arrangement ... 258
4.15 Compensation in case of default on Coupon Payment and Principal Redemption ... 258
4.16 Daily Operational Timetable ... 259
4.17 Fees ... 260
4.17.1 Fees Calculation ... 260
4.17.2 Billing Arrangements ... 260
4.18 Withdrawal from the Programme ... 261
4.18.1 Withdrawal by Lender ... 261
4.18.2 Withdrawal by Borrower ... 261

5 BANK REPO 262

5.1 General 262

5.2 Registration 262
5.2.1 Documentation 262
5.2.2 Arrangements 262
5.2.3 Amendments to Counterparty and Eligible Securities Acceptance List 263

5.3 Submission Channels 264

5.4 Input Cut-off Times 264

5.5 Conditions for Bank Repo Transaction 265

5.6 Types of Bank Repo Transaction 265

5.7 Eligible Securities and Other Securities 265
5.7.1 Eligible Securities 265
5.7.2 Maturity Date 266
5.7.3 Transaction initiated in Auto Mode 266
5.7.4 Transaction initiated in Manual Mode 266

5.8 Market Value and Haircut 266
5.8.1 Market Value 266
5.8.2 Haircut Percentage for Different Maturity Bands of Eligible Securities 267
5.8.3 Cross-currency Haircut 268

5.9 Mark-to-Market Threshold Range 268

5.10 Transaction Processing 268
5.10.1 Initiating Bank Repo Purchase Request 268
5.10.2 Real-time Matching and Processing 269
5.10.3 Matching Fields 269
5.10.4 Cancellation 270
5.10.5 Settlement 270

5.11 Repurchase 272
5.11.1 Manual input for Early Repurchase of Bank Repo Transaction 273
5.11.2 Automatic Repurchase of Bank Repo 274
5.11.3 Bank Repo Completed as Permanent Trade 275

5.12 Daily Mark-to-Market Operation 276
5.12.1 Handling of Surplus/Shortfall of Purchased Securities during Mark-to-Market Operation 276
5.12.2 Failure to Correct Shortfall 277
5.12.3 Substitution 278

5.13 Collateral Management 279

5.14 Income, Redemption and other Corporate Events 280
5.14.1 Entitlement 280
5.14.2 EFBNs or GBs or certain CMU Instruments 280
5.14.3 Securities with Income Payment not settled via the MA 280

5.15 Reporting 281

5.16 Daily Operational Timetable 281

5.17 Fees 282

5.18 Withdrawal from the Service 282

5.19 Cross-Border Collateral Management Service with Global Tripartite Repo Systems (GTRS) 282

5.19.1 Euroclear's Collateral Management Service 282
5.19.2 J.P. Morgan's Collateral Management Service 283
5.19.3 Clearstream's Collateral Management Service 284
5.19.4 FATCA Considerations to Tripartite Repo Service 284

***Part IV Linkage Services with ICSDS/CSDS* 285**

1 EUROCLEAR 286

1.1 Euroclear Linkage Service – General 286
1.1.1 The Service 286
1.1.2 Representation and Acknowledgement 286
1.1.3 Definitions 291
1.1.4 Account Structure 291
1.1.5 Account Opening Procedure 291
1.1.6 Processing Windows 292
1.1.7 Euroclear End-of-day Processing Run 293
1.1.8 Reporting 293

1.2 Euroclear Linkage Service – Securities Clearance And Transfer 294
1.2.1 Settlement of Euroclear Eligible Securities 294
1.2.2 Forward Value Transactions 295
1.2.3 Eligible Securities 295
1.2.4 Acceptance of Euroclear Eligible Securities in CMU System 295
1.2.5 Transactions between Two CMU Members 295
1.2.6 House Transfer between Two Accounts of a CMU Member 297
1.2.7 House Transfer between Main Account and Intraday Repo/Bank Repo Account 297
1.2.8 Transactions with a non-CMU Member 298
1.2.9 Input Deadlines 299
1.2.10 Validation 303
1.2.11 Matching 303
1.2.12 Processing of Matched Transactions 305
1.2.13 Cancellation 305

1.3 Euroclear Linkage Service – Money Transfer 306
1.3.1 Money Transfer Services 306
1.3.2 Forward Value Transaction 306
1.3.3 CMU Eligible Settlement Currencies 307
1.3.4 Euroclear Cash Correspondents 307
1.3.5 Deposit of Funds via Correspondent Bank 307
1.3.6 Preadvice of Funds 308
1.3.7 Deposit of Funds via Book Transfer from another Euroclear Participant 309
1.3.8 Deposit of Funds via RTGS systems in Hong Kong for Hong Kong dollar, US dollar and euro 310
1.3.9 Wire Transfer 311
1.3.10 Book Transfer to another Euroclear Participant 312
1.3.11 Withdrawal of Funds to Hong Kong dollar RTGS System in Hong Kong 313
1.3.12 Input Deadlines of Money Instructions 314
1.3.13 Validation 315
1.3.14 Impact of Holidays on Money Transfer Instructions 316
1.3.15 Cancellation 316

1.4 Euroclear Linkage Service – Custody 317
1.4.1 Provision of Information in respect of Corporate Events 317
1.4.2 Deadlines and Corporate Events Notices 317
1.4.3 Notification of Interest Payment and Redemption 318

1.4.4 Cash Distributions Processing by Euroclear 318
1.4.5 Processing of Custody Operations 318
1.4.6 Input Deadlines 319
1.4.7 Validation 320
1.4.8 Certification 320
1.4.9 Credit of Money and Security as a Result of Corporate Events 321
1.4.10 Reporting 321

2 CLEARSTREAM 323

2.1 Clearstream Linkage Service – General 323
2.1.1 The Service 323
2.1.2 Representation and Acknowledgement 323
2.1.3 Definitions 328
2.1.4 Account Structure 328
2.1.5 Account Opening Procedure 328
2.1.6 Processing Windows 329
2.1.7 Reporting 331

2.2 Clearstream Linkage Service – Securities Clearance And Transfer 331
2.2.1 Settlement of Clearstream Eligible Securities 331
2.2.2 Forward Value Transactions 332
2.2.3 Eligible Securities 332
2.2.4 Acceptance of Clearstream Eligible Securities in CMU System 332
2.2.5 Transactions between Two CMU Members 332
2.2.6 House Transfer between Two Accounts of a CMU Member 334
2.2.7 House Transfer between Main Account and Intraday Repo/Bank Repo Account 334
2.2.8 Transactions with a non-CMU Member 335
2.2.9 Input Deadlines 335
2.2.10 Validation 339
2.2.11 Matching 339
2.2.12 Processing of Matched Transactions 341
2.2.13 Cancellation 341

2.3 Clearstream Linkage Service – Money Transfer 342
2.3.1 Money Transfer Services 342
2.3.2 Forward Value Transaction 342
2.3.3 Clearstream Cash Correspondents 343
2.3.4 CMU Eligible Settlement Currencies 343
2.3.5 Deposit of Funds via Corresponding Bank 343
2.3.6 Preadvice of Funds 344
2.3.7 Deposit of Funds via Book Transfer from another Clearstream Participant 345
2.3.8 Deposit of Funds via RTGS systems in Hong Kong for Hong Kong dollar, US dollar and euro 346
2.3.9 Wire Transfer 347
2.3.10 Book Transfer to another Clearstream Participant 348
2.3.11 Withdrawal of Funds to Hong Kong dollar RTGS System in Hong Kong 349
2.3.12 Input Deadlines of Money Instructions 350
2.3.13 Validation 351
2.3.14 Impact of Holidays on Money Transfer Instructions 352
2.3.15 Cancellation 352

2.4 Clearstream Linkage Service – Custody 353
2.4.1 Provision of Information in respect of Corporate Events 353
2.4.2 Deadlines and Corporate Events Notices 353
2.4.3 Notification of Interest Payment and Redemption 354

2.4.4 Processing of Custody Operations 354
2.4.5 Input Deadlines 355
2.4.6 Validation 355
2.4.7 Certifications 356
2.4.8 Credit of Money and Security as a Result of Corporate Events 357
2.4.9 Reporting 357

3 BILATERAL LINKAGE SERVICE - AUSTRALIA 359

3.1 General 359

3.2 Linkage with Australia 359

3.3 Representation and Acknowledgement 359

3.4 Accounts with Austraclear and RBA 361
3.4.1 Securities Account with Austraclear 361
3.4.2 Cash Account with RBA 361

3.5 System Access 362

3.6 Operational Details 362
3.6.1 Daily Processing Cycle 362

3.7 Settlement Arrangements 363
3.7.1 General 363
3.7.2 CMU Member's Purchases 364
3.7.3 CMU Member's Sales 365
3.7.4 Payment Method 366

3.8 Reporting 367

3.9 Business Day 367
3.9.1 Winter Timetable (End October - End March) 368
3.9.2 Summer Timetable (End March - End October) 369

4 BILATERAL LINKAGE SERVICE – SOUTH KOREA 370

4.1 General 370

4.2 Prerequisite of Investing in Korean Debt Market 370
4.2.1 Standing Proxy Appointment / Investment Registration 370
4.2.2 Account Opening at Correspondent Bank in South Korea 371
4.2.3 Account Opening at Securities Brokerage Firm in South Korea 372

4.3 Securities Accounts with KSD 372
4.3.1 Regulation 372
4.3.2 Account Details 373

4.4 KSD Accounts with CMU and its Settlement Bank 373

4.5 The Responsibility of CMU and KSD 374

4.6 Representation and Acknowledgement 374

4.7 Communication Link 376

4.8 Operational Procedures for Korean Won Debt Securities Transactions 376
4.8.1 Daily Processing Cycle 376
4.8.2 Processing 376
4.8.3 Reference Number 377
4.8.4 System Cut-off 377

4.9 Corporate Actions ... 377
4.9.1 Information of Corporate Actions ... 377
4.9.2 Withholding Tax ... 378
4.9.3 Equity Linked Bonds ... 378

4.10 Korean Won Debt Securities Settlement Arrangements ... 379

4.11 Payment Obligations ... 380
4.11.1 Fund Transfers ... 380
4.11.2 Funding Arrangements ... 380
4.11.3 Trades Settlement ... 380

4.12 CMU Member's Purchase ... 381

4.13 CMU Member's Sales ... 382

4.14 Trading among CMU Members ... 384
4.14.1 Securities Settlement ... 384
4.14.2 Money Settlement ... 384
4.14.3 Direct Fund Transfer among CMU Members' Correspondent Banks ... 384
4.14.4 Fund Transfer via KSD's BOK-WIRE Account ... 385

4.15 Reporting ... 387

4.16 Business Day ... 387

4.17 Operational Timetable ... 388
4.17.1 Daily Operational Timetable for Debt Securities Trade Settlement ... 388
4.17.2 Timetable for redemption and interest payments of Korean Won securities: ... 389

5 CENTRAL CLEARING AND SETTLEMENT SYSTEM LINKAGE SERVICE ... 391

5.1 General ... 391

5.2 Service Scope ... 391

5.3 Responsibilities and Service Governing Documents ... 391

5.4 Operational Terms ... 393

5.5 Definitions ... 393

5.6 Account Structure ... 394
5.6.1 Stock Clearing Account ... 394
5.6.2 Cash Account ... 395

5.7 Eligible Securities ... 395
5.7.1 Types of Eligible Securities ... 395
5.7.2 Acceptance of CCASS Eligible Securities ... 395

5.8 Types of CCASS Transactions Supported by the CMU ... 395
5.8.1 Settlement Instruction Transaction ... 395
5.8.2 SI Transactions between a CMU Member and a non-CMU Member ... 396

5.9 Transaction Processing ... 397
5.9.1 Validation ... 397
5.9.2 Matching ... 398
5.9.3 Matching Rules ... 398
5.9.4 Settlement of SI ... 399

5.10 Revocation and Cancellation of SI Transactions ... 400

5.11 Money Settlement Services ... 400

5.11.1 Deposit of Funds via Hong Kong dollar RTGS System 400
5.11.2 Transfer out of Funds 401
5.11.3 Input Deadlines 401
5.11.4 Cancellation 402

5.12 Corporate Actions 402
5.12.1 Provision of Information 402
5.12.2 Notification 403
5.12.3 Processing 403
5.12.4 Input Deadlines of Corporate Action Instructions 404
5.12.5 Validation 404
5.12.6 Credit of Cash and/or Security arising from Corporate Actions 404

5.13 Notification of Dividend Payment 405

5.14 Operational Timetable 405

5.15 Reporting 406

5.16 Typhoon and Rainstorm Arrangement 407

6 BOND CONNECT LINKAGE SERVICE - CHINA CENTRAL DEPOSITORY & CLEARING CO., LTD 408

6.1 General 408

6.2 Overview of Northbound Trading 408
6.2.1 Trading link 409
6.2.2 Settlement Link 409
6.2.3 Role of the CMU 409
6.2.4 Eligible Investors 410

6.3 Representation and Acknowledgement 410

6.4 Operational Details 412
6.4.1 Account Structure 412
6.4.2 Account Opening Procedure 413
6.4.3 System Access 414
6.4.4 Eligible Securities 414
6.4.5 Instruction Involving Unknown Issue Number 415
6.4.6 CFETS Trade Reference Number 415
6.4.7 Validation 416
6.4.8 Matching / Affirmation 416
6.4.9 Real-time Gross Settlement 416
6.4.10 Transfer of Securities between two CMU Accounts 417
6.4.11 Amendment and Cancellation of Instructions 417
6.4.12 Change of Custodian by Eligible Investor/Change of Settlement Bank by CMU Member 417
6.4.13 Business Days 418
6.4.14 Typhoon and Black Rainstorm Days in Hong Kong 419

6.5 Settlement Arrangements and Money Transfer 419
6.5.1 Settlement Model for Trades Executed in Trading Platform(s) 419
6.5.2 Settlement of Trades 420
6.5.3 Settlement for New Securities Issues in Primary Market 421
6.5.4 Funding Arrangements 423
6.5.5 Funding Arrangement in CCDC - Deposit of Funds via RMB RTGS System in Hong Kong 424
6.5.6 Wire Transfer of Funds 425
6.5.7 Foreign Currency Conversion Arising from Bond Connect Transactions 426

6.5.8 Reporting on Failed Trades 427
6.5.9 Operational Timetable 428

6.6 Corporate Actions 429
6.6.1 Provision of Information 429
6.6.2 Notification of Corporate Events 430
6.6.3 Notification of Coupon Payment and Redemption 430
6.6.4 Processing of Custody Operations 430
6.6.5 Credit of Cash and/or Security arising from Corporate Actions 431

6.7 Certification of Beneficial Ownership 431

6.8 Enforcement of Legal Rights 432

6.9 Reports 432

7 BOND CONNECT LINKAGE SERVICE - SHANGHAI CLEARING HOUSE .. 433

7.1 General 433

7.2 Overview of Northbound Trading 433
7.2.1 Trading link 434
7.2.2 Settlement Link 434
7.2.3 Role of the CMU 434
7.2.4 Eligible Investors 435

7.3 Representation and Acknowledgement 435

7.4 Operational Details 437
7.4.1 Account Structure 437
7.4.2 Account Opening Procedure 438
7.4.3 System Access 439
7.4.4 Eligible Securities 439
7.4.5 Instruction Involving Unknown Issue Number 439
7.4.6 CFETS Trade Reference Number 440
7.4.7 Validation 440
7.4.8 Matching / Affirmation 441
7.4.9 Real-time Gross Settlement 441
7.4.10 Transfer of Securities between two CMU Accounts 441
7.4.11 Amendment and Cancellation of Instructions 442
7.4.12 Change of Custodian by Eligible Investor/Change of Settlement Bank by CMU Member 442
7.4.13 Business Days 443
7.4.14 Typhoon and Black Rainstorm Days in Hong Kong 444

7.5 Settlement Arrangements and Money Transfer 444
7.5.1 Settlement Model for Trades Executed in Trading Platform(s) 444
7.5.2 Settlement of Trades 444
7.5.3 Settlement for New Securities Issues in Primary Market 446
7.5.4 Funding Arrangements 447
7.5.5 Funding Arrangement in SHCH - Deposit of Funds via RMB RTGS System in Hong Kong 448
7.5.6 Wire Transfer of Funds 450
7.5.7 Foreign Currency Conversion Arising from Bond Connect Transactions 451
7.5.8 Reporting on Failed Trades 452
7.5.9 Operational Timetable 453

7.6 Corporate Actions 454
7.6.1 Provision of Information 454
7.6.2 Notification of Corporate Events 454

7.6.3 Notification of Coupon Payment and Redemption 454
7.6.4 Processing of Custody Operations 454
7.6.5 Credit of Cash and/or Security arising from Corporate Actions 455

7.7 Certification of Beneficial Ownership 456

7.8 Enforcement of Legal Rights 456

7.9 Reports 456

Part V MPF Money Settlement Service and 458

CMU Fund Order Routing and Settlement Service 458

1 MPF MONEY SETTLEMENT SERVICE 459

1.1 Background 459

1.2 The Service 459
1.2.1 Service Subscription 459
1.2.2 Settlement Bank 459
1.2.3 Settlement Bank Account Maintenance 460

1.3 Communication Channels 461
1.3.1 File Transmission Channels 461
1.3.2 File Submission at MPF Scheme Level 461

1.4 Settlement Arrangement 461
1.4.1 Submission of MPF Payment Files by Trustees 461
1.4.2 Receipt of MPF Data Capture Response File by Trustees 462
1.4.3 Clearing Process 463
1.4.4 Return Process 464
1.4.5 Settlement Process 464
1.4.6 Receipt of MPF Settlement File by Trustees 464
1.4.7 Reconciliation 465

1.5 Reports/Files 465

1.6 Daily Operating Timetable 466

1.7 Fees 467

1.8 Termination 467

1.9 Suspension of Trustee and Settlement Bank 467
1.9.1 Suspension of Trustee 467
1.9.2 Refusal/Suspension of Settlement Bank 468

1.10 Inward/Outward via Contingency Media 468
1.10.1 File Encryption 469
1.10.2 File Layouts 469

2 CMU FUND ORDER ROUTING AND SETTLEMENT SERVICE 470

2.1 CMU Fund Order Routing And Settlement Service- Transfer Agent 470
2.1.1 General 470
2.1.2 The Service 471
2.1.3 Account Structure with TA 473
2.1.4 Service Subscription and Account Opening Procedure 474
2.1.5 Types of Orders 475

2.1.6 Input Deadline of Service Instructions 476
2.1.7 Communication Means 477
2.1.8 Order Processing 479
2.1.9 Settlement Arrangement 481
2.1.10 Corporate Actions 483
2.1.11 Reporting 484
2.1.12 Fees 484
2.1.13 Termination 485
2.1.14 Contingency Procedures 485

2.2 Clearstream Linkage – CMU Fund Order Routing And Settlement Service 486
2.2.1 General 486
2.2.2 Funds Eligible for the Service 487
2.2.3 Account Structure 487
2.2.4 Service Subscription and Account Opening Procedures 488
2.2.5 Acceptance of Investment Fund for the Service 489
2.2.6 Types of Orders 490
2.2.7 Input Deadlines of Service Instructions 491
2.2.8 Communication Means 492
2.2.9 Order Processing 494
2.2.10 Settlement Arrangements 496
2.2.11 Corporate Actions 499
2.2.12 Reporting 500
2.2.13 Fees 501
2.2.14 Termination 501

2.3 Euroclear Linkage – Cmu Fund Order Routing And Settlement Service 502
2.3.1 General 502
2.3.2 Funds Eligible for the Service 503
2.3.3 Account Structure 503
2.3.4 Service Subscription and Account Opening Procedures 504
2.3.5 Acceptance of Investment Fund for the Service 506
2.3.6 Types of Orders 507
2.3.7 Input Deadlines of Service Instructions 508
2.3.8 Communication Means 509
2.3.9 Order Processing 511
2.3.10 Settlement Arrangements 512
2.3.11 Corporate Action 514
2.3.12 Reporting 516
2.3.13 Fees 517
2.3.14 Termination 517

2.4 Mainland-Hong Kong Mutual Recognition Of Funds (MRF) 518
2.4.1 Introduction 518
2.4.2 Service Scope for Mainland Funds sold to HK Investors (Southbound Trade) 519
2.4.3 Account Structure with TA 521
2.4.4 Service Subscription and Account Opening Procedures 522
2.4.5 Order 522
2.4.6 Communication Means 524
2.4.7 Order Handling 525
2.4.8 Settlement Arrangements 527
2.4.9 Distribution of Daily NAV 529
2.4.10 Corporate Actions 530
2.4.11 Reporting 531
2.4.12 Fees 532

2.4.13 Operating Schedule 532
2.4.14 Termination 532
2.4.15 Contingency Procedures 533

ABBREVIATIONS AND ACRONYMS

Abbreviation/Acronym	Description
AI	Authorized Institution
BIC	Bank Identification Code
CB	Clearing Bank
CCASS	Central Clearing and Settlement System
CHATS	Clearing House Automated Transfer System
CMT	Central Moneymarkets Unit Member Terminal
CMU	Central Moneymarkets Unit
CMUP	Central Moneymarkets Unit Processor
CMUS	CMU Service System
CRN	CMU Reference Number
CSD	Central Securities Depository
CSV	Comma separated value
DN	Distinguished Name
DvP	Delivery versus Payment
DP	Direct Participant
eCMT	Central Moneymarkets Unit Member Terminal accessed via SWIFTNet
EFCS	Exchange Fund Clearing and Settlement System
EFB	Exchange Fund Bill
EFN	Exchange Fund Note
EMM	Eligible Market Maker
FoP	Free of Payment
FORS	Fund Order Routing and Settlement
eMBT	IP-based Member Bank Terminal
FPS	Faster Payment System
FTS	File Transfer Service
GB	Government Bond
GTRS	Global Tripartite Repo System
HKICL	Hong Kong Interbank Clearing Limited
HKMA	Hong Kong Monetary Authority

HKSAR	Hong Kong Special Administrative Region
HRN	HKICL Reference Number
iCMT	Central Moneymarkets Unit Member Terminal accessed via the Internet
ICSD	International Central Securities Depository such as Euroclear and Clearstream Banking
IFTP	Interbank Fund Transfer Processor
ISIN	International Securities Identification Number
MA	Monetary Authority
MM	Market Maker
MPF	Mandatory Provident Fund
MRF	Mutual Recognition of Funds
PB	Participating Bank
PD	Primary Dealer
PLP	Primary Liquidity Provider
RD	Recognised Dealer
RDP	Real time delivery versus payment
RTGS	Real Time Gross Settlement
SAB	SWIFTAlliance Webstation
SAP	Settlement Account Processor
SI	Settlement Institution
STP	Straight Through Processing
TR	Trade Repository in Hong Kong which maintains records of over-the-counter derivatives transactions
TRN	Transaction Reference - the sender's reference in a SWIFT message

LIST OF APPENDICES

Part I - General Information For Membership With The CMU

A. Membership Maintenance Forms

A.1 CMU Membership Application Form
A.2 Specimen Letter for applying a Recognized Dealer status
A.3 Record of Authorized Signatures
A.4 Membership Maintenance Form
A.5 Opening of Specific Custody Accounts Form
A.6 Custody Account Opening Form for General Custody Account - Retail Individual Investors
A.7 Declaration for Exemption of CMU Custodian Fee for Retail Individual Investors
A.8 Guideline for Exemption of Custodian Fees for Retail Investors
A.9 Direct Debit Limit
A.10 Arrangement for Settling CMU Transactions with the Monetary Authority/Settlement Institution/Clearing Bank
A.11 Settlement Arrangement for MPF Money Settlement Service with the Monetary Authority
A.12 Confirmation of MPF Settlement Information
A.13 CMU Related Payment Setting
A.14 Authorization for Collection of Test Key
A.15 SWIFT Registration for CMU Transaction
A.16 HKICL's Local Terminal Service Invocation
A.17 Confirmation of Holdings

B Daily Operational Timetable

B.1 Daily Operational Timetable for Hong Kong dollar, US dollar, euro and renminbi Settlement
B.2 Daily Operational Timetable for Foreign Currency (other than US dollar, euro and renminbi) Settlement

Part II - Clearing and Settlement Services

F. Lodgement and Withdrawal Forms

F.1 Lodgement Slip
F.2 Lodging Agent's Undertaking
F.3 Lodging Authority from the Issuer
F.4 Allotment of CMU Instruments - for Allottees
F.5 Allotment of CMU Instruments - for Lodging Agents
F.6 Withdrawal Request at Maturity
F.7 Withdrawal Request for Early Redemption

F.8 Replacement of Global Certificate
F.9 Endorsement of Global Instruments

G. CMU BID Forms, EFCS Tender Forms and Underwriting Arrangement
G.1 CMU BID Service - Tender Notice and Lodgement Slip
G.2 CMU BID Service - CMU Instrument (for Yield/Coupon-Bid issue) Bid Form
G.3 CMU BID Service - CMU Instrument (for Price-Bid issue) Bid Form
G.4 Price-Yield Conversion Algorithm
G.5 Exchange Fund Bills Tender Form
G.6 Exchange Fund Notes Competitive Tender Form
G.7 Exchange Fund Notes Non-Competitive Tender Form
G.8 MTR Corporation Ltd Notes Tender Form
G.9 Airport Authority Notes Tender Form
G.10 The Hong Kong Mortgage Corporation Ltd Notes Tender Form (Prospectus dated 15 Oct 1999)
G.11 The Hong Kong Mortgage Corporation Ltd Notes Tender Form for Competitive Tenders
G.12 The Hong Kong Mortgage Corporation Ltd Notes Tender Form for Non-Competitive Tenders
G.13 The Kowloon Canton Railway Corporation Notes Tender Form
G.14 The Hong Kong Special Administrative Region of the People's Republic of China Government Bond Programme (Institutional Bond Issuance Programme) Competitive Tender Form
G.15 The Hong Kong Special Administrative Region of the People's Republic of China Government Bond Programme (Retail Bond Issuance Programme) Subscription Application Form
G.16 Underwriting Arrangement for EFCS issues

H. Government Bond Swap Facility and Switch Tender
H.1 Request Form
H.2 Bond Swap Facility Confirmation
H.3 Eligible Bonds required at Initiation
H.4 Failed Reversal Penalty
H.5 Failed Bond Swap Facility Transaction Notification Form
H.6 Switch Tender Failed Penalty
H.7 Failed Switch Tender Transaction Notification Form

I. Securities Transfer
I.1 Securities Transfer Form
I.2 Example of Single Delivery Linked Transaction
I.3 Example of Multiple Delivery Linked Transaction
I.4 Example of a Chain of Linked Transaction involving Multiple

Intermediaries
I.5 Example of Linked Receipt Instruction but missing Linked Delivery Instruction
I.6 Example of Linked Delivery Instruction but missing Linked Receipt Instruction
I.7 Example of Single House Transfer with Pool Reference
I.8 Example of Broken Link
I.9 Settlement Flow diagram of real-time CMU Securities Transfer
I.10 Examples to show hold fund and offsetting process of a typical CMU Optimiser Run

J. Custodial Services
J.1 Corporate Action Service including Income Distribution Subscription Form
J.2 Income Distribution Service Notification of Interest/Redemption* Payment Details

Part III - Collateral Management

L. Collateral Management
L.1 The Value of Securities to be acquired under Repo Transactions
L.2 Example to illustrate the Applicable Discount Rates
L.3 Repurchase Price of DW Repo Transactions
L.4 Repurchase Price of LAW/Intraday Repo Transactions
L.5 Confirmation Form for HKD/USD/EUR/CNY Intraday Repo Transaction
L.6 Confirmation Form for DW/US dollar/euro/renminbi Overnight Repo Transaction
L.7 Example to illustrate the generation of multiple Repo Transactions
L.8 Specimen Letter for setting Intraday Repo Limit
L.9 Setting of Maximum Size for an individual HKD/CNY Repo Transaction

M. Securities Lending & Borrowing Programme
M.1 Application Form for Market Maker for Eligible Securities
M.2 Borrowing Request Form
M.3 Request for Substitution of Collateral
M.4 Request for Top-up of Collateral
M.5 Delivery of Equivalent Instruments
M.6 Recall of Loan

N. Bank Repo
N.1 Bank Repo Registration Form
N.2 Haircut for Bank Repo Transaction initiated in Auto Mode
N.3 DMV of Securities to be acquired under Bank Repo Transaction
N.4 Illustrated Example to show calculation of DMV of Eligible Securities to be acquired for Bank Repo Purchase initiated in Auto Mode
N.5 Example of a Purchased Securities Shortfall for Bank Repo Transaction initiated in Auto Mode

N.6 Bank Repo Purchase Request Form
N.7 Bank Repo Collateral Management Form – Auto Mode
N.8 Bank Repo Collateral Management Form – Manual Mode

Part IV - Linkage Services With ICSDS/CSDS

P. Linkage Services with International Central Securities Depository

P.1 Opening of Euroclear/ Clearstream Sub-Accounts Form
P.2 Acceptance of Eligible Securities in CMU System Form
P.3 Linkage Securities Transfer Form
P.4 Deposit of Funds via Corresponding Bank – Preadvice of Funds Form
P.5 Deposit of Funds – via RTGS Systems in Hong Kong Form
P.6 Wire Transfer – Financial Institution Transfer Form
P.7 Wire Transfer – Customer Transfer Form
P.8 Book Transfer Form
P.9 Withdrawal of Funds to Hong Kong dollar RTGS System in Hong Kong Form
P.10 Custody Operation Form
P.11 Linkage Securities Transfer Cancellation Form
P.12 Linkage Money Transfer Cancellation Form
P.13 List of Euroclear Cash Correspondents
P.14 Euroclear - Input Deadlines for Money Transfer Instructions
P.15 List of Clearstream Cash Correspondents
P.16 Clearstream - Input Deadlines for Money Transfer Instructions
P.17 Instruction for Euroclear Custody Operation Form
Proceed Securities Delivery Instruction – Type 64
P.18 Instruction for Euroclear Custody Operation Form
General Custody Operation Instruction – Type 54
P.19 Instruction for Euroclear Custody Operation Form - Certification of Exchange - Type 30
P.20 Instruction for Euroclear Custody Operation-Authorization to disclose – Type 37
P.21 Instruction for Clearstream Custody Operation
Bond Holder Meeting

Q. Bilateral Linkage with Australia

Q.1 Bilateral Securities Linkage - Deposit of Fund/Money Transfer Form
Q.2 Bilateral Securities Linkage - Securities Transfer Form

R. Bilateral Linkage with South Korea

R.1 Bilateral Securities Linkage - Standing Instruction of Payment
R.2 Bilateral Securities Linkage - Securities Transfer Form
R.3 Application for Investment Registration
R.4 Application for Account Opening
R.5 Agreement for Local Currency Demand Deposit Account
R.6 List of Major Correspondent Banks in South Korea

R.7 List of Major Brokerage Firms in South Korea
R.8 Standing Proxy Agreement
R.9 Tax Treaty Rate Classified by Nationality
R.10 Declaration Form for Applying Treaty Rate of Withholding Tax

S. Linkage Service with Central Clearing and Settlement System (CCASS)

S.1 Settlement Instruction Transaction (SI) Input Form
S.2 Deposit of Funds – via HKD RTGS Systems (Input/Cancel)
S.3 Transfer Out of Funds (Input / Cancel)
S.4 Voting Request Form (Input / Cancel)
S.5 Cash / Scrip Dividend Election Form (Input / Cancel)
S.6 Subscription of Open Offers Form (Input / Cancel)
S.7 Takeover Offer Acceptance/Election Form (Input / Cancel)
S.8 Rights Issue Subscription Request Form (Input / Cancel)
S.9 Warrant Conversion Request (Input / Cancel)
S.10 Conversion Voucher (Input / Cancel)
S.11 Dividend/Bonus Claim Letter (Input / Cancel)
S.12 Letter of Indemnity (Input / Cancel)
S.13 Bond Conversion Election Form (Input / Cancel)
S.14 Bond Redemption Acceptance/Election Form (Input / Cancel)

T. Bond Connect Linkage Service

T.1 Enrolment Form for Bond Connect Linkage Service
T.2 SWIFT Format for Deposit of Fund via RTGS in HK
T.3 Sample Payment Message Sent to Settlement Banks in Mainland China
T.4a Mainland Dealer Settlement Information
T.4b Bond Connect Participating Dealers – Holding account number and BIC information
T.5 Disclosure of Investor Information
T.6 Reporting on Bond Connect Failed Trades
T.7 Bond Connect Securities Transfer Form
T.8 Deposit of Fund via RMB RTGS System Form
T.9 Wire Transfer of Funds Form

Part V - CMU Fund Order Routing and Settlement Services

W. CMU Fund Order Routing and Settlement Services

W.1 Service Subscription Form
W.2 Account Opening and Specification Form with Transfer Agents
W.3 Application for Acceptance of Investment Fund Form
W.4 Authorization Form
W.5 Authorization Letter from CMU Member to TA
W.6 Subscription / Redemption Instructions Form
W.7 Switch Instructions Form
W.8 Transfer Order Instruction Form
W.9 Transfer Order Within Instruction Form
W.10 Cut-Off Time for Service Instructions

W.11 Settlement Arrangement
W.12 Data Flow and Cut off Time for Mainland Funds Selling to Hong Kong Investors (Southbound)

ANNEX

	Name of Document	Version date	Remarks
1	Central Moneymarkets Unit Service Membership Agreement	November 2015	Available on request
2	Letter of Appointment as Market Maker for EFBN		
3	Letter of Appointment as Recognised Dealer for EFBN		
4	Letter of Appointment as Primary Dealer for Government Bond under the Government Bond Programme		
5	Letter of Appointment as Recognised Dealer for Government Bond under the Government Bond Programme		
6	Terms and Conditions governing the use of eCMT and iCMT	September 2014	Available on request
7	Master Sale and Repurchase Agreement (Master DW Repo Agreement) for use in connection with the operation of the Discount Window		Available on request
8	Master Sale and Repurchase Agreement (Master Intraday Repo Agreement) for the purpose of providing intraday liquidity		Available on request
9	Master Sale and Repurchase Agreement for the purpose of providing intraday and overnight renminbi liquidity	November 2015	Available on request
10	Bank Repo Service Agreement for Buyers; and Bank Repo Service Agreement for Sellers	November 2011	Available on request
11	Applicable Terms and Conditions Lending and Borrowing Programme	November 2004	Available on request

	Name of Document	Version date	Remarks
	relating to CMU Instruments		
12	Agreement on Cross-border Collateral Management Service (Euroclear Bank)	June 2012	Available on request
13	Agreement on Cross-border Collateral Management Service (J.P. Morgan Chase Bank N.A.)	June 2012	Available on request
14	Agreement on Cross-border Collateral Management Service (Clearstream Banking)	July 2014	Available on request
15	Applicable Terms and Conditions for CMU BID	June 2007	Available on request
16	CMU MPF Money Settlement Service – Applicable Terms and Conditions for CMU Members	November 2013	Available on request
17	CMU Fund Order Routing and Settlement Service - Applicable Terms and Conditions for CMU Members	July 2015	Available on request
18	An Agreement between the MA and the TA/Fund House to cater for the Provision of the CMU Fund Order Routing and Settlement Service	July 2015	Available on request
19	CMU Tariff	April 2017	Published in the HKMA's website

Part I
General Information for Membership with the CMU

1 INTRODUCTION

1.1 Background for Establishment of Exchange Fund Bills and Notes Clearing and Settlement Service

The Exchange Fund Bills and Notes Clearing and Settlement Service (EFCS) was established by the MA through CMU in order to facilitate the clearing and settlement of primary and secondary trading of Exchange Fund Paper. The services of the EFCS have been expanded to clear and settle primary and secondary trading of bonds issued under the Government Bond Programme. The EFCS provides:

(a) a computerized book-entry system for certain Hong Kong dollar Exchange Fund Paper, bonds issued under the Government Bond Programme (Government Bonds) as well as other capital market instruments for the time being specified (Specified Instruments) as capable of being held with the EFCS, and

(b) a central depository for debt securities and an electronic book-entry system which eliminates the physical delivery of debt securities held with the CMU between RDs. It, therefore, provides a speedy, efficient and secure way of transferring ownership of debt securities between one Securities Account holder to another through book-entry.

1.1.1 Exchange Fund Bills and Notes

On 1 March 1989, the Financial Secretary of Hong Kong announced in the 1989/90 Budget Speech the intention to develop a programme for the issuance of short-term Exchange Fund Bills (EFBs) denominated in Hong Kong dollar. The EFBs are to serve as an additional instrument for conducting money market operations. Given this purpose, the EFBs are issued under the Exchange Fund Ordinance (Chapter 66 of the Laws of Hong Kong) for the account of the Exchange Fund and not for the general revenue as is the case with Treasury Bills elsewhere.

On 3 March 1993, the Financial Secretary announced in the 1993/1994 Budget Speech that it was his intention to replace the then prevailing Government Bond Programme with an Exchange Fund Notes Programme. Exchange Fund Notes (EFNs) are issued under the Exchange Fund Ordinance (Chapter 66 of the Laws of Hong Kong) and for the account of the Exchange Fund.

Currently, EFBs of 91 days, 182 days, 364 days, and EFNs of two years, three years, five years, seven years, ten years and fifteen years to maturity are being issued at regular intervals or at any time as the MA may determine. EFBs and EFNs (Exchange Fund Paper) of other maturities may be offered from time to time at the discretion of the Financial Secretary. Since January 2015, the MA has stopped new issuance of EFNs of tenors of three years or above.

1.1.2 Government Bonds

On 25 February 2009, the Financial Secretary announced in the 2009/2010 Budget Speech that it was his intention to establish a programme for the issuance of Government Bonds (Government Bond Programme). Government Bonds will be issued under the Loans Ordinance (Chapter 61 of the Laws of Hong Kong) for the purpose of promoting the further development of the Hong Kong bond market and the proceeds will be credited to the Bond Fund set up under the Public Finance Ordinance (Chapter 2 of the Laws of Hong Kong) for such purpose and approved by the necessary resolutions passed by the Legislative Council.

Currently, Government Bonds with tenors of two years or longer may be issued under the Program at such time as the Financial Secretary may determine.

1.2 Background for Establishment of CMU Service

At the request of the Hong Kong Capital Markets Association in December 1993, the MA had established through his CMU a system to provide:

(a) a computerized book-entry system for certain Hong Kong dollar money market and capital market instruments for the time being specified as capable of being held within the CMU Service (CMU Instruments) and other services as the MA may offer from time to time, and

(b) a central depository for debt securities lodged with the CMU and an electronic book-entry system which eliminates the physical delivery of CMU Instruments between CMU Members. It, therefore, provides a speedy, efficient and secure way of transferring ownership of CMU Instruments between one Securities Account holder to another through book-entry.

1.3 Purpose

This CMU Reference Manual (Manual) sets out the procedures for CMU membership and appointment of RD, the communications, security provisions underlying the CMU and details of the various processes under the CMU system. It describes:

(a) the CMU Service supplied to CMU Members in accordance with, and subject to any limitations contained in, their CMU Membership Agreements; and
(b) the services of the EFCS provided to the following parties in accordance with and subject to any limitations contained in such parties' respective appointment letters:

For Exchange Fund Bills and Notes and Specified Instruments:

(i) Recognized Dealer (RD) (as defined in the Terms used in this Manual below) for Exchange Fund Bills and Notes and/or Specified Instruments (as defined in Part I – clause *3.2.1* below) (RD for EFBN/Specified Instrument);
(ii) RD appointed as Market Maker (MM); and
(iii) RD appointed as Retail Exchange Fund Notes (EFNs) Distributor (Retail EFNs Distributor); and

For the Hong Kong Special Administrative Region (Hong Kong) Government Bond Programme (Government Bond Programme):-

(i) RD for Government Bonds issued under the Government Bond Programme (as defined in Part I - clause *3.2.3* below) (RD for Government Bonds);
(ii) RD appointed as primary dealers (Primary Dealers); and
(iii) RD appointed as placing banks (Placing Banks).

1.4 Operating Procedures

For the sake of clarity, the term "Operating Procedures" mentioned in the Annex of this Manual include the following:

(a) This Manual; and
(b) Operational circular issued by the MA from time to time

Any of the provisions of this Manual or of operational circulars may be varied at any time upon written notice to that effect being given by the MA to the CMU Participants without their agreements.

1.5 CMU Contact

All requests for further business information relating to the EFCS and CMU Service (CMUS) must be directed to:

The Central Moneymarkets Unit,
Monetary Authority,
55th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Telephone	:	(852) 2878 8147 – 8149; (852) 8100 0136
Facsimile	:	(852) 2878 1676 – 1679
e-mail	:	cmuenquiry@hkma.gov.hk

For technical support and enquiries in respect of CMT, please contact the Services Management of the HKICL:

Hong Kong Interbank Clearing Limited

Telephone	:	(852) 2533 1100
Facsimile	:	(852) 2533 1123
E-mail	:	hkicl@hkicl.com.hk

1.6 Related Documents

The following reference documents issued by the HKMA, HKICL and SWIFT contain further information in relations to the operations of the CMU:

1. CMT User Manual - Administrator Guide

2. CMT User Manual – User Guide

3. CMT User Manual - Reporting Guide

4. SWIFT Message Format Specification for CMU Transactions and CMU Linkage Transactions

5. Operating Procedures for CHATS - eMBT User Manual for Members

6. SWIFT User Handbook

7. Reference Manual for Government Bond Fixings

8. CMU Fund Order Routing and Settlement Service – Interface Guide

9. Agreement on Cross-border Collateral Management Service – Euroclear Bank - Operating Procedure

10. Agreement on Cross-border Collateral Management Service – J.P. Morgan - Operating Procedure

11. Agreement on Cross-border Collateral Management Service – Clearstream Banking- Operating Procedure

12. MPF Money Settlement Service – Interface Guide

2 SERVICES OFFERED BY THE CMU

The EFCS and CMUS provide for the safe custody of Exchange Fund Bills and Notes, Government Bonds and Specified Instruments and CMU Instruments held within the CMU, the recording of the ownership of the securities in a computerized book-entry system and the transfer of title of debt securities between holders of Securities Accounts within the CMU system.

Over the years, the CMU has developed external links with international debt securities settlement systems (i.e. Euroclear and Clearstream) as well as domestic debt securities settlement systems to assume a more global reach. These links with International Central Securities Depositories (ICSDs) allow overseas investors to hold and settle debt securities lodged with the CMU, and local investors to hold and settle debt securities lodged with overseas systems.

In addition to debt and equities securities, the CMU also facilitates the processing of investment fund orders routing between local and overseas investment houses, distributors, and transfer agents as well as settlement of investment fund shares.

2.1 DvP Settlement Capability

In December 1995, CMU provided Delivery versus Payment (DvP) facility for transaction denominated in Hong Kong Dollar. In January 1996, CMU further provided DvP facility for transactions denominated in multi-currencies.

2.2 Money Settlement of CMUS and EFCS Transactions

Settlement of payments between CMU Participants, between CMU Participants and their customers and between designated paying agents and CMU Participants will continue to depend on the Real Time Gross Settlement (RTGS) systems, interbank settlement system and traditional payment methods. In particular, money settlement of DvP transactions in CMU is effected through participant's settlement account or its corresponding settlement bank via the RTGS systems.

With the launch of the Faster Payment System (FPS) in September 2018, the structure of the settlement account is modified in a way to comprise two separate ledgers, namely CHATS Ledger Account and FPS Ledger Account, for settling CHATS transactions and FPS transactions respectively. Each direct participant of HKD CHATS and/or RMB CHATS will continue to

maintain one settlement account with the MA and/or the Clearing Bank for settlement transactions among direct participants, either through the CHATS Ledger Account or the FPS Ledger Account.

For clarity's sake, the term "settlement account" referred to in this Manual for settlement of the money legs of CMU transactions is referring to the CHATS Ledger Account.

2.3 Types of CMU Instruments

The following types of money market and capital market instruments are handled by the CMU Service:

(a) Fixed Rate Certificate of Deposit;
(b) Floating Rate Certificate of Deposit;
(c) Bonds;
(d) Fixed Rate Notes;
(e) Floating Rate Notes;
(f) Commercial Papers;
(g) Mortgage-backed Securities;
(h) Fixed Rate Linked Securities;
(i) Floating Rate Linked Securities;
(j) Zero Coupon;
(k) Sukuk;
(l) Bills of Exchange other than trade bills; and
(m) any other money market and capital market instruments as the MA may specify from time to time.

Full details of individual CMU Instruments held within the CMU Service are published periodically and made available for downloading at the CMU Bond Price Bulletin at https://www.cmu.org.hk as well as on the website of the HKMA located at http://www.hkma.gov.hk/media/eng/doc/key-functions/finanical-infrastructure/infrastructure/cmup8026.pdf

2.4 Types of EFCS Securities

The following types of debt securities are handled by the EFCS:

(a) EFBs;
(b) EFNs;
(c) Government Bonds; and
(d) any other Specified Instrument as the MA may specify from time to time.

Full details of Exchange Fund Papers, Specified Instruments and Government Bonds held within the EFCS are published periodically and made available for downloading on the CMU Bond Price Bulletin at: https://www.cmu.org.hk as well as on the website of the HKMA located at http://www.hkma.gov.hk/media/eng/doc/key-functions/finanical-infrastructure/infrastructure/cmup8025.pdf

2.5 Domestic Equities

Besides debt securities, the CMU also clears and settles on behalf of CMU Members the domestic equities by virtue of its link with the Central Clearing and Settlement System (CCASS) operated by the Hong Kong Securities and Clearing Company Limited (HKSCC), and other equities by virtue of its links with International Central Securities Depositories / Central Securities Depositories (ICSDs/CSDs).

2.6 Investment Fund

The CMU develops the Fund Order Routing and Settlement Service in 2009 to provide a standardised platform for the processing of investment funds orders between local and international market participants including investment houses, distributors, and custodians initiating investment fund orders, and transfer agents and fund houses receiving them. Besides connecting to local transfer agents/fund houses in Hong Kong, the CMU also links up with the investment fund platforms of the ICSDs and such platforms in the Mainland.

2.7 Form of Debt Securities

2.7.1 CMU Instrument

Pursuant to section 137B under the Banking Ordinance, in particular, section 137B(1)(b)(ii), CMU Instrument can be issued in either definitive or global instrument form. Following issuance, the instrument is lodged with a sub-custodian appointed by the MA and kept by such sub-custodian. The identity, nominal value and description of CMU Instruments held by CMU Members and their customers within the CMU Service are recorded in the appropriate Securities Accounts in computerized book-entry form.

The MA is not bound to recognise any proprietary or equitable interest in or any other right in respect of any CMU Instrument other than an absolute

right to that CMU Instrument in the CMU Member to whose Securities Account that CMU Instrument is for the time being credited or held.

2.7.2 Exchange Fund Papers and Government Bonds

Exchange Fund Papers and Government Bonds are scripless issues in computerized form. Specified Instruments, on the other hand, are issued in global note form. Following the issue of a Specified Instrument, the relevant global certificate is lodged with and kept by the sub-custodian appointed by the MA. The identity, nominal value and description of the Specified Instruments held by RDs and their customers within the EFCS are recorded in the appropriate Securities Accounts in computerized book-entry form.

2.8 Legal Title

Legal title to debt securities maintained in a Securities Account is vested in the CMU Participant in whose name such Securities Account is maintained.

All transfers of title to debt securities within the CMU system are effected by debiting the relevant Securities Account of the transferor and crediting the relevant Securities Account of the transferee.

2.9 Sub-custodian

The MA has appointed the Hongkong and Shanghai Banking Corporation Limited (HSBC) as his sub-custodian, or any other sub-custodian as may be appointed by the MA from time to time, for the safe-keeping of physical global instruments. Debt securities issued in global forms and lodged with the CMU will be lodged to HSBC, or any other sub-custodian as may be appointed by the MA from time to time, on the issue date.

The CMU will periodically reconcile its records of holdings of CMU Instrument and Specified Instrument in all Securities Accounts with the sub-custodian's holding records.

2.10 Business Day

The term "business day" as stipulated in this Manual means a day other than a Saturday, a Sunday or a day which is a general holiday as specified in the General Holidays Ordinance (Chapter 149 of the Laws of Hong Kong) except otherwise specified in the relevant chapters of this Manual.

3 MEMBERSHIP

3.1 CMU Membership

3.1.1 Membership Criteria

A financial institution regulated by any one of the following authorities:

(i) Hong Kong Monetary Authority;
(ii) Securities and Futures Commission;
(iii) Insurance Authority; or
(iv) Mandatory Provident Fund Schemes Authority

may apply to the MA to become a CMU Member.

The MA may, in MA's absolute discretion, approve or dis-approve an application from such a financial institution to become a CMU Member. The MA may also exercise his discretion to grant CMU membership to any institution (overseas or otherwise) which is not regulated by an authority referred to above.

3.1.2 Membership Procedure

Applications must be made in writing to the MA. Prior to becoming a CMU Member, each successful applicant is required to enter into a contractual agreement with the MA (the CMU Membership Agreement).

The CMU Membership Agreement, which incorporates the provisions of this Manual as updated from time to time, together with any directions given in CMU operational circulars by the MA, sets out the terms and conditions of CMU Membership Agreement with which the CMU Member is required to comply.

3.2 Appointment of RD/MM/Retail EFNs Distributor/Primary Dealer/Placing Bank

3.2.1 Appointment of RD for EFBN and Specified Instruments, MM, and/or RD for Government Bonds

Appointment of RD for EFBN/Specified Instrument, MM, and/or RD for Government Bonds is open to any authorized institution in Hong Kong

("authorized institution" has the meaning given to that term in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong).

Application from other domestic or overseas financial institution may also be considered at the discretion of the MA. All applications must be made in writing to the MA.

The respective appointment letters, which incorporate the provisions of this Manual as updated from time to time, together with any directions given in any operational circulars by the MA, set out the terms and conditions of the appointment with which the respective RD are required to comply.

3.2.2 Appointment of MM/Retail EFNs Distributor

An RD for EFBN/Specified Instrument may be additionally appointed as a MM and/or Retail EFNs Distributor based on selection criteria determined by the MA from time to time. Upon acceptance of the appointment as a MM, the RD for EFBN or Specified Instruments must sign a Master Sale and Repurchase Agreement for market making arrangement with the MA.

A number of MMs have been appointed as Eligible MMs for EFB and EFN respectively. All bids in tenders of EFB and EFN must be submitted through Eligible MMs and in return for this exclusive right to participate directly in tenders, Eligible MMs have agreed with the MA that they will, if the MA so requires, subscribe for unsubscribed EFP on the basis set out in the Information Memorandum of Exchange Fund Bills Programme and Information Memorandum of Exchange Fund Notes Programme.

3.2.3 Appointment of RD for Government Bonds

An RD for Government Bonds may be additionally appointed as a Primary Dealer (PD) and/or Placing Bank based on selection criteria determined by the MA from time to time. A Primary Dealer can participate in the competitive tender of Government Bonds offered under the institutional bond issuance programme of the Government Bond Programme (Institutional Bond Issuance Programme), and a Placing Bank can help its customers to submit subscription applications for Government Bonds offered under the retail bond issuance programme of the Government Bond Programme (Retail Bond Issuance Programme).

3.3 Terms used in this Manual

In this Manual the term "CMU Member" includes all those who have entered into a Membership Agreement with the MA pursuant to which they are entitled to use the CMU Service in whatever name(s) their Securities Accounts are held. Where reference is made to the lodgement of instruments with the CMU Service by the CMU Member who is the issuer or acceptor of those instruments or who is the authorized agent of the issuer or acceptor, the term issuer or acceptor shall be read as applying, in the case of bills of exchange only, to the acceptor of bills and, for all other types of instruments, to the issuer of those instruments.

Unless otherwise specified, the term "RD" used in this Manual refers to any user who has accepted the appointment as RD for EFB and EFN or Specified Instruments, RD for Government Bonds, MM, Retail EFNs Distributor, Primary Dealer and/or Placing Bank pursuant to which it is entitled to use the EFCS through its securities accounts held with the EFCS (Securities Accounts).

The term "issuer" of EFCS shall be read as applying, in the case of

(a) Exchange Fund Bills and Notes, to the Hong Kong Government for the account of the Exchange Fund; and
(b) Government Bonds, to the Government of the HKSAR; and
(c) Specified Instruments, to the issuer of any such instruments.

The term "CMU Participant" generally refers to CMU Member and RD. Whenever the clauses and provisions described in this Manual are applicable to both CMU Member and RD, the term CMU Participant will be used wherever applicable.

An updated list of CMU Members and list of RD/MM/PDs are posted onto the CMU Bond Price Bulletin of the Central Moneymarkets Unit of the MA at https://www.cmu.org.hk

as well as on the website of the HKMA located at http://www.hkma.gov.hk/media/eng/doc/key-functions/finanical-infrastructure/infrastructure/cmup8030.pdf; and

http://www.hkma.gov.hk/media/eng/doc/key-functions/finanical-infrastructure/infrastructure/cmup8027.pdf

3.4 Termination of CMU Membership and Revocation of RD Status by the CMU Participant

3.4.1 Termination Notice

At least 30 calendar days' notice in writing to the MA is required if a CMU Member is to terminate its CMU Membership or if an RD wishes to terminate its appointment.

3.4.2 Termination of CMU Membership

By the close of business on the date of termination, all the Securities Accounts in the name of the CMU Member will be closed. The CMU Member is required to transfer out all the CMU Instruments in the Securities Accounts before 6:30 p.m. on that day.

3.4.3 Termination of RD Status

By close of business on the date of termination, all the Securities Accounts in the name of the RD concerned will be closed. The RD concerned will be required to transfer out all the debt securities in such Securities Accounts before the 6:30 p.m. on that day.

For the withdrawal of its other capacity such as MM, Retail EFNs Distributor, Primary Dealer or Placing Bank, the RD concerned shall follow the termination requirements as stipulated in the respective appointment letter.

3.5 Suspension/Termination of CMU Membership and Revocation of RD Status for EF Papers and GBs by the MA

3.5.1 Suspension/Termination

3.5.1.1 Under the terms of the CMU Membership Agreement and the appointment letter of RD, the MA may suspend/terminate the membership of a CMU Member or revoke the status of an RD in specified circumstances of which the possible scenarios are defined in Part I - clause *3.5.1.2* below. On suspension/ termination/revocation of a CMU Participant, the CMU will:

(a) prevent the CMU Participant from accessing the CMU Service and/or EFCS and its Securities Accounts are frozen until the MA authorises otherwise; and

(b) inform other CMU Participants as soon as practicable about the suspension or termination by issuing circular via e-mail or via the CMU Bond Price Bulletin located at https://www.cmu.org.hk.

3.5.1.2 The MA reserves the right to freeze the holdings and/or suspend/terminate the membership of a CMU Member, or revoke the status of an RD, at his sole and absolute discretion if he deems appropriate. Furthermore, as CMU Participant would be suspended/terminated if any of the following events occurs:

(a) the presentation of any petition for the bankruptcy or winding up of the CMU Participant or for the appointment of an administrator in relation to the CMU Participant;

(b) the convening of any meeting to consider a resolution for the voluntary winding up of the CMU Participant;

(c) the appointment or purported appointment of a receiver in respect of any property of the CMU Participant;

(d) the failure of the CMU Participant to meet the solvency test (within the meaning of Section 205 of the Companies Ordinance);

(e) the making of any arrangements and compromises by the CMU Participant (within the meaning of Division 2 of Part 13 of the Companies Ordinance);

(f) the making of an order for winding up of the CMU Participant;

(g) the making of a director's voluntary winding up statement in respect of the CMU Participant;

(h) the occurrence in any relevant jurisdiction of any event in relation to the CMU Participant analogous to those described in paragraphs (a) to (g) above;

(i) the failure of the CMU Participant to comply with any laws, regulations, rules, guidelines or requirements which are applicable to the CMU Participant, or the Participant's licence/authorisation with the relevant regulator(s) mentioned in Part I - clause *3.1.1* above is suspended, revoked or terminated;

(j) the occurrence of any event which may cause, permit to cause or result in the CMU Participant being liable to be wound up under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong); or

(k) the occurrence in relation to the parent entity, being an entity holding shares either directly or indirectly in the CMU Participant, or any of the

events described in paragraphs (a) to (j) above and where the occurrence of such an event places the CMU Participant at financial risk (and so that for this purpose any reference in those paragraphs to "the CMU Participant " shall be construed as a reference to the parent entity).

3.5.1.3 The CMU will, however, continue to be in operation subject to the terms and conditions of the CMU Membership Agreement and/or appointment letter for RD and the procedures set out in this Manual. Insofar as any settled securities transfer (whether local or otherwise) of the defaulting CMU Participant are concerned, they will remain as settled and will not be unwound; and insofar as any unsettled securities transfer (whether local or otherwise) of the defaulting CMU Participant are concerned, they will be cancelled by the CMU system. Further securities transfer instructions with the defaulting CMU Participant will be prohibited.

For those other CMU Participants having securities transfer related to the defaulting CMU Participant, they should reconcile the transaction status with their daily CMU reports.

3.5.2 Suspension or Termination of Specific Custody Account

The MA reserves the right to suspend the specific custody account(s) of a CMU Participant under special circumstances. Further transactions through such suspended specific custody account(s) will be rejected by the CMU system and neither the MA nor the CMU shall be held liable for any loss or damage suffered by the CMU Participant concerned or its customers in any way.

3.6 Operational Information

Once the financial institution's CMU membership or its appointment for RD is approved, it has to provide the MA with certain operational information by completing the CMU Membership Application Form as per Appendix A.1 of this Manual:

(a) Full details of the corporate name, type of institution and a four letter code representing the identity of the CMU Participant; it is required that if a code has been chosen by an RD under the EFCS, the same code must be used under the CMU Service. The CMU Participant can also adopt its Reuters code as its CMU Participant code. In order to ensure that the code of each CMU Participant is unique within the services in CMU, the MA reserves the right to assign a code to any CMU Participant if he considers that the code chosen by the member itself is undesirable;

(b) The names of authorized signatories together with their specimen signatures as per Appendix A.3;

(c) The address, contacting telephone number, facsimile number, e-mail address of the applicant; and the name(s) of person(s) with whom the MA can contact on matters relating to the CMU Service and EFCS, if applicable;

(d) The appropriate withholding certificate and/or withholding statement for the CMU Participant for the purposes of the Foreign Account Tax Compliance Act, which is set forth in Sections 1471 through 1474 of the US Internal Revenue Code, as amended (known as FATCA).

(e) The name of the Hong Kong dollar settlement bank if it is not a direct participant of the Hong Kong dollar Real Time Gross Settlement (RTGS) system, and the account number opened with that settlement bank. (Appendix A.9 and A.10).

(f) The name of the US dollar/euro/renminbi settlement bank(s) if it is not a direct participant/participating bank of the US dollar/euro/renminbi RTGS system(s), and the account number opened with that settlement -bank(s) (for CMU Participants who intend to facilitate US dollar/euro/renminbi securities settlement through CMU). (Appendix A.9 and A.10)

After the CMU Participant has commenced operations with the CMU, any changes to the above information must be notified immediately to the CMU in writing. The revised forms can be sent:

- by post or by hand to 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong; or

- by authenticated facsimile using the following numbers:

  (852) 2878 1676
  (852) 2878 1677
  (852) 2878 1678
  (852) 2878 1679

3.7 Obligations of CMU Participant

The following obligations have to be observed by all CMU Participants:

(a) All CMU Participants shall have systems in place which are complementary to the MA/HKICL's contingency arrangements so as to enable MA/HKICL to ensure the timely recovery of its usual operations in

the event of the occurrence of an adverse contingency affecting such operation. Such contingency arrangements shall be modified from time to time in the manner required by the MA, and the MA shall notify CMU Participants the changes accordingly.

(b) All CMU Participants shall participate in the contingency drills arranged by the MA/HKICL from time to time so as to verify the readiness of CMU Participants' contingency arrangements.

(c) All CMU Participants shall participate in various member/simulation tests arranged by the MA/HKICL from time to time so as to prepare themselves ready for any new service to be launched.

The MA shall, through HKICL, monitor the performance by CMU Participants of the above-mentioned obligations.

In the event that HKICL becomes aware of any non-performance by any CMU Participant of its obligations under these arrangements, the MA/HKICL shall as soon as practicable inform the CMU Participant concerned and shall request it to ensure performance of the relevant provision, and inform the MA of such incident.

3.8 Anti-Money Laundering (AML)

The CMU Participant undertakes to the MA that it will comply with, perform and discharge its statutory obligations (including those under Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance, or other equivalent requirements of the place of incorporation of the CMU Participant) and the regulatory requirements relating to AML (including the Supervisory Policy Manual relating to AML or, as the case may be, the respective AML Guidelines issued by Securities Future and Commission and Office of the Commissioner of Insurance).

It is the sole responsibility of each CMU Participant to comply with the AML requirements, and the CMU Participant must demonstrate that it has an adequate AML mechanism in place when required. In utilizing services in CMU, all CMU Participants are deemed compliant with all statutory and regulatory obligations including the AML requirements, and the MA does not accept any liability to any CMU Participant or any other party regarding CMU Participant's compliance with such obligations including the AML requirements.

3.9 Foreign Account Tax Compliance Act (FATCA)

3.9.1 FATCA Status of the CMU

The CMU, being a unit of the MA, is viewed as a part of the HKSARG for FATCA purposes. The CMU is considered to be an Active Non-Financial Foreign Entity (Active NFFE) under FATCA, and not a Foreign Financial Institutions (FFI). In addition, since 1 July 2014, CMU's status as Qualified Intermediary (QI) has been changed to Non-Qualified Intermediary (NQI).

3.9.2 FATCA Withholding

FATCA asks a payor of "withholdable payments" (within the meaning of FATCA rules) to determine the FATCA status of its payees and withhold on such payments where payees are "nonparticipating FFI" (generally, FFIs that do not comply with FATCA) or do not timely furnish adequate FATCA documentation (including but not limited to withholding certificates) upon request.

"Withholdable payments" can be paid by CMU (or another party) to a CMU Participant as a result of the following:

(a) clearing and settlement of "non-grandfathered" (within the meaning of FATCA rules) US debt securities held in CMU, or CMU's holding of such securities on behalf of a CMU Participant through CMU's linkages with Euroclear and Clearstream Banking;

(b) income distribution services with respect to "non-grandfathered" US debt securities; and

(c) certain bank repos, and certain tripartite repos through cross-border collateral management services with Euroclear and JPMorgan.

If a CMU Participant is a "nonparticipating FFI" or does not timely furnish adequate FATCA documentation upon request, a 30% FATCA withholding tax may be imposed on certain U.S. source interest income or other "withholdable payments" (including, starting in 2017, gross proceeds on the sale of "non-grandfathered" US debt securities) made to it. Information on CMU Participants that are "nonparticipating FFIs", US entities, those "passive non-financial foreign entities" (within the meaning of FATCA rules) that have controlling US persons, or "Non-Consenting US Accounts" (within the meaning of FATCA rules) may be reported to the US Internal Revenue Service (IRS). In addition, information relating to FATCA from a CMU Participant (including but not limited to its withholding certificate) may be forwarded by CMU to ICSDs, paying agents or other parties in connection with FATCA. CMU and other parties receiving such information on CMU

Participants may use such FATCA information to determine FATCA withholding and reporting and to apply any other FATCA rules.

CMU Participant should also note that FATCA will operate in parallel to the existing US tax withholding system, including the QI regime. Should the withholding turn out to be not applicable to a CMU Participant, the participant may still be subject to withholding under the QI regime.

3.9.3 FATCA Documentation and Other Obligations of CMU Participant

3.9.3.1 CMU Participants shall timely provide FATCA documentation (including but not limited to withholding certificates, withholding statements and other documentation regarding CMU Participants' FATCA status) upon request by CMU. In addition, a CMU Participant that is acting as an "intermediary" (within the meaning of FATCA rules) shall, upon request by CMU or where relevant to FATCA documentation provided by such CMU Participant to CMU, timely obtain appropriate FATCA documentation from such CMU Participant's customers and provide such documentation to CMU. CMU shall be entitled to provide such information to ICSDs, paying agents or other parties conducting withholding or requesting such information under FATCA (or under local laws or other local guidance in jurisdictions that have a Model 1 intergovernmental agreement in place with the US government). A CMU Participant shall provide CMU with any waiver of Hong Kong law that may be required in order for its information to be furnished by CMU to ICSDs, paying agents or any other parties in connection with FATCA. A CMU Participant shall obtain from its customers any waivers of Hong Kong law that may be required in order for such customers' information to be furnished to CMU, ICSDs, paying agents or any other parties in connection with FATCA.

3.9.3.2 The FATCA documentation a CMU Participant shall provide to CMU pursuant to Part I - clause *3.9.3.1* of this Manual shall include, but not be limited to, FATCA information requested by a "withholding agent" (within the meaning of FATCA rules) that makes payments to CMU or other requesting parties so that such parties can conduct FATCA withholding or reporting (or otherwise address FATCA rules) based on such documentation.

3.9.3.3 A CMU Participant shall timely notify CMU if it changes its FATCA status or any FATCA documentation provided by such CMU Participant becomes inaccurate. A CMU Participant agrees to timely provide revised FATCA documentation to CMU when previously provided FATCA documentation is no longer accurate.

3.9.3.4 A CMU Participant acknowledges and agrees that FATCA information provided by the CMU Participant to CMU (including but not limited to FATCA information regarding customers of such CMU Participant) may be reported to the IRS under FATCA.

3.9.3.5 A CMU Participant acknowledges and agrees that it may be withheld upon under FATCA by CMU (or any other party, e.g. ICSDs, in connection with CMU Services) on "withholdable payments". In addition, a CMU Participant acknowledges and agrees that CMU shall have no obligation to gross-up any such payments or to pay any additional amount to such CMU Member as a result of any FATCA withholding by CMU or any such other party.

3.10 Contracts (Rights of Third Parties) Ordinance

An institution which is bound by the CMU Membership Agreement and/or the respective appointment letters as stated in Part I – clause *3* to this Manual hereby declares that nothing in this Manual confers or purports to confer on any third party any benefit or any right to enforce any terms, conditions or provisions of this Manual pursuant to the Contracts (Rights of Third Parties) Ordinance (Chapter 623 of the Laws of Hong Kong).

4 SECURITIES ACCOUNTS

4.1 Types of Securities Accounts

On admission to membership or upon accepting appointment as an RD, each CMU Participant will be allocated the following Securities Accounts:

(a) a Main Account (000) for recording securities beneficially owned by the CMU Participant itself;

(b) a General Custody Account (001) for recording securities held for and on behalf of its customers. The account description is in the form of "[Name of the CMU Participant] – General Custody A/C" ; and

(c) Specific Custody Account(s) (nnn) for recording securities held on behalf of specific customers (opened at the request of CMU Participant using the Form at Appendix A.5).

For securities held in the General Custody Account and the Specific Custody Account(s), the CMU Participant will need to refer to its own internal records to identify the beneficial ownership of securities held in these Account(s).

Any CMU Participant who is also a direct participant of the Hong Kong dollar RTGS system, US dollar RTGS system, the euro RTGS system and/or a participating bank of the renminbi RTGS system will be allocated an Intraday Repo Account (999) for intraday liquidity management. Such account cannot be used for securities trading but is available for house transfer between the CMU Participant's Main Account and Intraday Repo Account for intraday repo purposes.

4.2 Account Holder

Securities Accounts are opened only in the name of a CMU Participant. Non-CMU Participant must hold debt securities through a CMU Participant either in its General Custody Account or in one of its Specific Custody Accounts.

All instructions to debit or credit a Securities Account, including the General Custody Account or the Specific Custody Account, must be sent to the MA by the CMU Participant in whose name the Account is maintained. CMU Participants can send securities transfer instructions, where applicable, via CMT, SWIFT, authenticated facsimile, FTS, FileAct, post or hand delivery.

Subject to Part I - clause *5.2* of this Manual, CMU Participants can submit transfer instructions by authenticated facsimile or by hand only if both of their CMTs and SWIFT terminals are inoperable.

4.3 Confirmation of Holdings

The CMU system will generate the "Account Position Report" (CMUD5101) on a daily basis. CMU Participants shall retrieve such report daily via the report function of CMT for reconciliation. As required, CMU Participants may also confirm the securities balances in their Securities Accounts with the MA using the Confirmation of Holdings form attached at Appendix A.17 of this Manual.

4.4 CMU Reports

4.4.1 Types of Reports

There are three types of reports:

(a) System Reports – generated automatically by the system.

(b) User Requested Reports – CMU Participants may request on-line reports via the enquiry functions of CMT.

(c) Non-CMT Reports – Not retrievable via the CMT but will be sent to CMU Participants by CMU as and when required.

Please refer to the CMT User Manual – Report Guide for a summary of report list, report samples and the procedures in retrieving reports via the CMT Report function.

4.4.2 Reconciliation of Reports

CMU Participants are required to download all CMU reports from CMT on a daily basis and reconcile their reports everyday. Any discrepancies should be reported to the MA as soon as practicable and in any event, no later than 3 business days from the date of the relevant report. If any report is reported to be incorrect, the MA will make the relevant investigation and if applicable, re-issue the revised report as necessary.

4.5 Blocking of Securities

4.5.1 General Rules

The MA may block securities in Securities Accounts if the MA either:

(a) has notice or reasons to believe such action is required under any applicable law, decree, regulation, order, judgement, injunction, asset freeze or other action of any receiver (including persons fulfilling a similar function), government, court, other instrumentality of government (including central banks), or international regulatory authority; or
(b) otherwise determine such action is necessary, advisable or in the best interests of the MA;

(c) The MA may also block securities on Securities Accounts if he deems it necessary to enforce any right he has under the CMU Membership Agreement, this Manual or any other agreement the MA signed with the CMU Participant.

4.5.2 Blocking by the MA

The MA may block securities, among others, in the following circumstances:

(a) if securities are being collected in a Securities Account to enable an instruction for a linked instruction (see Part II – clause *4.1.5.4)*;

(b) if securities are subject to a Certification Event and the response deadline to receive the certification has been reached (see Part II – clause *5.6.3.5*);

(c) if the MA deems it necessary for custody operations (e.g. proxy voting, see Part II – clause *5.6.5.3*);

(d) if securities are subject to a custody operation with default actions which require the blocking of securities. However, if CMU receives an instruction from participants informing us not to take such default actions, we will lift the blocking on the day after the response deadline.

5 CONNECTIVITY

5.1 Central Moneymarkets Unit Terminal (CMT)

To facilitate daily operation of their Securities Accounts in the CMU, CMU Participants are required to install either or both of the following software to enable them to access the CMU System:

(a) eCMT – a front-end browser software which enables CMU Participants to connect to the CMU system through SWIFTNet.

(b) iCMT - another type of front-end browser software which enables CMU Participants to connect to the CMU system through internet.

eCMT and iCMT provide the same functionalities and are collectively known as "CMT". The CMT software shall remain the property of the MA. Participants are required to complete and return to the CMU the form and abide by the "The Terms and Conditions governing the use of eCMT and iCMT" as set out therein in the Annex.

CMU will, through HKICL (CMU's computer operator), provide technical support to assist CMU Participants to install CMT software. Please refer to the below mentioned CMT User Manual issued to CMU Participants from time to time on how to install eCMT and iCMT and for the details of functions available:

(i) CMT User Manual – User Guide
(ii) CMU User Manual – Administrator Guide
(iii) CMU User Manual – Report Guide

Besides CMT, CMU Participants may also send securities transfer instructions to the CMU via SWIFT, authenticated facsimile or by hand delivery to the MA's office.

5.2 Manual Processing of Transfer Instruction by the CMU

CMU will support transfer instructions sent by authenticated facsimile or by hand only if both the CMT and SWIFT terminal of a CMU Participant fail to function. The manual processing of transfer instruction is subject to an input fee charged by the MA. A CMU Participant should ensure that it has adequate and sufficient backup arrangement for continuing its CMU operation under contingency circumstances. CMU Participant should not

consider CMU's support of instruction input to be a substitute of its own backup facilities for ensuing robust CMU operation.

However, for specific CMU services not available for direct input by participants using CMT or SWIFT, this special input fee will not apply and service users will continue to be charged at prevailing rates.

5.3 Authentication of Instructions

All instructions in relation to a Securities Account submitted to the MA, by means of CMT, SWIFT FIN message, FTS, FileAct, facsimile, post, or hand delivery must be authenticated.

5.3.1 Validity of Instructions sent by Securities Transfer Form

The MA shall only act upon any instruction in respect of a Securities Account:

(a) sent by hand or by post if it bears the required number of authorized signatures of officers who have been authorized to operate the Securities Account. If such signatures do not appear to the MA to be consistent with those on the list of authorized signatories provided by the relevant CMU Participants, the instruction shall be deemed to be invalid and the MA shall not be required to, and shall not, process the instruction. The MA shall, thereupon, inform the CMU Participant the invalidity of such instruction.

(b) sent by authenticated facsimile if it bears a test number calculated by reference to the Test Keys provided by the MA. If the test number is incorrect, incomplete, or otherwise appears to the MA not calculated in accordance with the procedures for the Test Keys arrangement, the instruction shall be deemed to be invalid and the MA shall not be required to, and shall not, process the instruction. The MA shall, thereupon, inform the relevant CMU Participant the invalidity of such instruction.

An instruction shall be deemed to be genuine and correct if the signatures or test number, as the case may be, are verified to be correct by the MA.

5.3.2 Validity of Instructions sent via CMT and SWIFT

For instructions sent via CMT or SWIFT in respect of a Securities Account, participant should ensure that only authorized personnel may access the

terminals for CMT and SWIFT related system facilities. As passwords and other security devices are used by the CMU Participant, instructions sent via these two channels are deemed to be genuine and MA is authorized to rely and act on them.

5.3.3 Validity of Instructions sent via CMT through the Interface with Trading Platform

For instructions sent via CMT (with transaction information propagated from the interface between the trading platform and the CMU system) in respect of a Securities Account, participant should ensure that only authorized personnel may access the terminals for CMT and the trading platform related system facilities. As passwords and other security devices are used by the CMU Participant, instructions sent via this channel are deemed to be genuine and MA is authorized to rely and act on them.

5.3.4 Validity of Instructions submitted via FTS

Investment fund order instructions, MPF payment files, or any other instructions which the MA may define from time to time, can be uploaded by means of FTS via ICLNet operated by HKICL. Prior registration for the service with HKICL is required. Secured features including the use of Connect:Direct software with Secure+ feature to transmit/receive data. Connect:Direct is a communication infrastructure component that provides reliable, automated exchange of information between participants and system. Data will be carried across ICLNet. Instructions sent by FTS via ICLNet are deemed to be genuine and the MA is authorized to rely and act on them.

5.3.5 Validity of Instructions submitted via FileAct

Besides FTS, investment fund order instructions, MPF payment files, or any other instructions which the MA may define from time to time, can also be sent by means of file transfer via the SWIFT network. Instructions sent via FileAct through the SWIFT network are deemed to be genuine and MA is authorized to rely and act on them.

5.3.6 Exchange of RMA for SWIFT Communication

Instructions sent via SWIFT FIN messages or FileAct must be authenticated. CMU Participants are required to establish Relationship Management (RMA) with the CMU SWIFT BIC (HKMAHKHC) prior to

sending FIN or FileAct messages to the CMU. For details on how to arrange RMA, please refer to the SWIFT User Handbook issued by SWIFT.

5.4 Contingency Arrangements

5.4.1 Local Terminal Service (LTS)

In case CMT breakdown, a CMU Participant can also send transfer instructions to the CMU via SWIFT, authenticated facsimile or by hand delivery to the MA in case the CMU Participant foresees that its CMT system cannot be rectified within a short period of time.

In case a CMU Participant cannot access the CMU system via CMT and its production facilities become inoperable due to prolonged system or site problem or FTS server problem on the part of the CMU Participant or SWIFT network, the CMU Participant may make use of the LTS provided by HKICL (subject to a charge) to continue its business.

LTS provides the same functionality as CMT. User may use the same access right to logon to LTS without needing SWIFT user certificate or digital certificate. In case of contingency, LTS will be provided to users according to the following priority:

(a) MA
(b) member banks
(c) TR participants who are not member banks
(d) non-bank CMU participants

LTS should only be used as the last resort for CMU operations. CMU Participants should rely on their own backup facilities for contingency operations. In case a CMU Participant needs to utilise LTS under contingency situation, please complete the “HKICL’s Local Terminal Service Invocation” form as at Appendix A.16 and make application to HKICL directly.

5.4.2 Responsibility of CMU Participants

CMU Participants must ensure that they have put in place an appropriate back-up solution in order for them to be able to keep transmitting transfer instructions to the CMU in case of contingency situation. In particular:

(a) for CMU Participants which are sending instructions via FTS or FileAct, (e.g. investment fund order service and MPF money settlement service), the CMT should be used as back-up solution in contingency situation;

(b) for CMU Participants using the CMT as a normal means of communication with the CMU, the CMU Participants recognize that there will be no automated back-up solution. CMU Participants are required to arrange with HKICL for contingency procedure described in this Part I - clause *5.4.1* above.

6 BILLING

6.1 Fees

In entering into the CMU Membership Agreement or upon acceptance of the appointment as RD, CMU Participants will undertake to pay annual membership fees, if applicable.

Participants using CMU service will be subject to fees, including but not limited to, transaction fees, custodian fees, enquiry fees, report fees based on their usage of the services. Details of fee rate are set out in the prevailing CMU tariff schedule available in the website of the HKMA located at:

http://www.hkma.gov.hk/media/eng/doc/key-functions/finanical-infrastructure/infrastructure/CMU_Tariff.pdf

The MA reserves the right to charge a penalty fee on a daily basis for any late payment and/or non-payment of service fees.

6.2 Billing Arrangement

All fees are invoiced in Hong Kong dollar and billed monthly to CMU Participants. The arrangements are as follows:

(a) The total amount of fees payable will be advised to the participants on the 20th day of the following month or the next business day if the 20th is not a business day (Report CMUM3801).

(b) On the business day falling on the billing day, participants shall ensure that sufficient funds are arranged in their settlement accounts.

(c) The total fees will be automatically debited from the participants' Hong Kong dollar settlement accounts with the MA (for direct participants) or the settlement accounts of their correspondent banks (for non-direct participants) on the 25th or the following business day if 25th is not a business day.

(d) Upon completion of the billing process, RTGS system will format the settlement advices in MT900 format and distribute to the CMU Participants or its settlement banks via SWIFT.

6.3 Custodian Fees

6.3.1 Handling of Custodian Fees

Custodian fees on account holders are only applied to EFBs, EFNs and GBs issued through the CMU on or after 1 January 2015. No custodian fees will be charged for such securities issued before 1 January 2015.

Retail investors, who are individuals but not corporations, can enjoy exemption from custodian fees. CMU Participants have to sign the "Declaration for Exemption of CMU Custodian Fees for Retail Individual Investors" (Appendix A.7) to claim exemption of custodian fees on CMU Instruments, EFBs, EFNs and GBs held by retail investors. Guideline for exemption of custodian fees is appended at Appendix A.8.

Upon receipt of Appendix A.7 from the CMU Participants, custodian fees of the designated CMU "specific custody accounts" will be waived.

Besides claiming exemption through "specific custody account", members can choose to safe-keep debt securities of all their eligible clients in the "general custody account" to claim exemption. The "General Custody Account – Retail Individual Investors" (XXXX801) is reserved for the purpose. Please return Appendix A.6 together with Appendix A.7 to the CMU if you wish to open such sub-account.

Once the CMU Participants returned the completed declaration forms Appendix A.7 to the CMU for account XXXX801, the CMU Participants undertake that their underlying clients holding CMU Instruments, EFBs, EFNs and GBs in this sub-account are all individuals and not corporations.

6.3.2 Disclosure to Retail Investors

CMU Participants have to disclose to their clients the exemption of custodian fees by the CMU, though CMU Participants retain their right to charge any custodian fees on their clients.

6.3.3 Calculation of Custodian Fees

Calculation of custodian fees is illustrated as follows:

(a) Custodian fees are calculated based on monthly average nominal value of chargeable CMU Instruments, EFBs, EFNs and GBs held in the CMU Participant's accounts except for those exempt accounts. For the

avoidance of doubt, calculation of custodian fees for EFBs and EFNs of MMs are based on their holding position before securities repo arrangement. These average amounts are converted into Hong Kong dollar at the exchange rate prevailing at the end of the month and aggregated to obtain the monthly average value.

(b) Custodian fees are invoiced in Hong Kong dollar.

(c) Custodian fees are computed on an actual/365 day basis and expressed in basis points per annum. (1bp=0.01%)

(d) An example illustrating the calculation of custodian fees for a participant with an average monthly holding of CMU Instruments, EFBs, EFNs and GBs of HK$23,000 million is shown below (assuming 31 days for the month).

Holdings (HK$ mn)	**Fee Rate (b.p.)**	**Holdings by Participant (HK$ mn)**	**Custodian Fees for the month (HK$)**
≤15,000	0.37	The first 15,000	47,136.99
15,000-20,000	0.35	The next 5,000	14,863.01
>20,000	0.30	The next 3,000	7,643.84
	Total	**23,000**	**69,643.84**

7 CMU OPERATIONAL TIMETABLE

As set out in the CMU Membership Agreement, the MA reserves the right, if and whenever the MA in his absolute discretion considers it appropriate to do so, to vary the CMU timetable either in a particular case or on an on-going basis. The MA also reserves the right to suspend for so long as the MA shall in any particular case consider necessary or appropriate the operation of the CMU as a whole or of one or more processes or transactions.

7.1 CMU Normal Daily Schedule

CMU Events	Time
CMUP Re-open	8:30 a.m.
CNY Overnight Repo Open	8:30 a.m.
Euroclear / Clearstream Processing Window Open	Around 9:30 a.m.
Tender	9:30 – 10:30 a.m.
CMU Billing	9:30 a.m.
Allotment	11:30 a.m.
Commencement of 1st CMU optimiser run	11:47 a.m.
Repurchase of DW/Overnight/Bank Repo Due	2:30 p.m.
Commencement of 2nd CMU optimiser run	2:47 p.m.
CMUS Coupon and Redemption Process starts	3:45 p.m.
CMUS Coupon and Redemption Process ends	4:00 p.m.
• Commencement of 3rd CMU optimiser run:Payment of interest and redemption proceeds of EFBN/GB • Market Making Arrangement for MM of EFBN (including repurchase of securities repo due) • Money settlement of investment fund transactions	4:00 p.m.
Discount Window/ Overnight Repo Open	

• HKD, USD, EUR	5:30 p.m.
Euroclear Processing Window Close	6:00 p.m.
CMUS/EFCS Cutoff	6:30 p.m.
Intraday Repo/Discount Window/Overnight Repo Close • HKD, USD, EUR • CNY	 6:30 p.m. 5:00 a.m.*
Clearstream Processing Window Close	11:00 p.m.
Value Day Cutoff and System Close	5:15 a.m.*

* of the next calendar day

Please refer to Appendices B.1 and B.2 for the detailed tasks on the CMU daily schedule

7.2 CMU Service Available during General Holidays in Hong Kong

To develop Hong Kong as a settlement hub for multi-currency fund transfers in the region, the US dollar, euro and renminbi RTGS systems are open for Direct Participants (DPs) or Participating Banks (PBs) to conduct interbank transfers of funds on general holidays (except 1st January) as specified in the General Holidays Ordinance (Chapter 149 of the Laws of Hong Kong) in addition to normal business days. To facilitate DPs and PBs to better manage their liquidity, the CMU is also open on all normal business days and general holidays in Hong Kong except 1st January, all Saturdays and Sundays.

Hong Kong general holidays on which the RTGS and CMU systems are open is known as "Operating Holidays" for the purpose of this Manual.

7.2.1 Services Available

The CMU only provides the following services during Operating Holidays:

(a) intraday repo (see Part III – clause *2.1* and clause *3*)
(b) overnight repo and repurchase of overnight repo (see Part III – clause *2.2* and clause *3*)
(c) linkage transactions (see Part IV)
(d) real-time house transfer (see Part II – clause *4.1*)
(e) corporate action announcements and instructions (see Part II – clause 5.5 and 5.6)
(f) CMU fund order routing and settlement service (see Part V – clause *2*)

7.2.2 US Dollar/Euro/renminbi Intraday and Overnight Repos

Only US dollar/euro/renminbi intraday repos are available on Operating Holidays. The intraday repo period and arrangements are the same as that on a business day.

Outstanding intraday repos that cannot be repurchased on the same day will be converted into overnight repo transactions.

However, if the Repurchase Date of a renminbi overnight repo transaction is not a Business Day, it will be automatically rolled over to the next Business Day if the borrower does not have sufficient funds in its renminbi settlement account at the Conversion Time on the Operating Holiday.

Details of the arrangements for US dollar/euro/renminbi intraday and overnight repos conducted with SI/CB are described in Part III – clause *2* of this Manual.

7.2.3 Provision of renminbi Liquidity Facility by the MA

Renminbi intraday repos conducted between the MA and PBs are available on Operating Holidays. The intraday repo period and arrangements are the same as that on a business day. Outstanding intraday repos that cannot be repurchased on the same day will be converted into overnight repo transactions.

New overnight repo transaction will not be supported during Operating Holidays. However, if the Repurchase Date of an overnight repo transaction is not a Business Day, it will be automatically rolled over to the next Business Day if the borrower does not have sufficient funds in its renminbi settlement account at the Conversion Time on the Operating Holiday.

Details of the arrangements for renminbi intraday and overnight repos provided by the MA are described in Part III – clause *3* of this Manual.

7.2.4 Real-time House Transfer

Please refer to Part II - clause *4.1.3* of this Manual for the input cut-off time for real-time house transfer.

7.2.5 Linkage Services

The operating timetable and service available for linkage transactions are the same as that on a business day. Detailed operation procedures are outlined in Part IV of this Manual.

7.2.6 CMU Fund Order Routing and Settlement Service

The operating timetable and service available for CMU fund order routing and settlement service are the same as that of a business day. However, money settlement of all Service Instructions with settlement date falling on an Operating Holiday date will <u>not</u> be made through the CMU. The order of all these Service Instructions will be in "**order routing only**" status. If CMU Participants wish to settle these Service Instructions, CMU Participants have

to co-ordinate with the transfer agents / fund houses to arrange money settlement.

Except for money settlement, other fund order routing service will be carried out. Detailed operational procedures are described in Part V – clause *2* of this Manual.

7.2.7 Reporting

CMU reports currently available on a business day will also be available at the specified time or interval on an Operating Holiday.

7.2.8 Timetable for Operating Holiday

There will be no CMU optimiser runs triggered on Operating Holiday.

Time	Tasks
8:30 a.m.	● System re-open ● House transfer, Intraday Repo services, corporate action announcements and instructions available
Around 9:30 a.m.	Euroclear/Clearstream Processing Window Open
2:30 p.m.	Repurchase/rollover of US dollar/euro/renminbi Overnight Repos
5:30 p.m.	US dollar/euro Overnight Repos windows open
6:00 p.m.	Euroclear Processing Window Close
6:30 p.m.	● Cut-off time for US dollar/euro Intraday Repos ● US dollar/euro Overnight Repos windows close ● Automatic repurchase of outstanding US dollar /euro Intraday Repo Transactions and conversion of those that cannot be repurchased into Overnight Repos

11:00 p.m.	Clearstream Processing Window Close
5:00 a.m. of the next calendar day	● Cut-off time for renminbi Intraday Repos ● Automatic repurchase of outstanding renminbi Intraday Repo Transactions and conversion of those that cannot be repurchased into Overnight Repo
5:15 a.m.* *	● Cancellation of unsettled real-time house transfer transactions ● Value date cut-off

*of the next calendar day or at any such other time as determined by the MA from time to time.

The MA reserves the right, if and whenever the MA at his absolute discretion considers it appropriate to do so, to vary the service timetable either in a particular case or on an on-going basis.

The MA also reserves the right to suspend for so long as the MA shall in any particular case considers necessary or appropriate the operation of the system as a whole or of one or more processes or transactions.

8 TYPHOON AND RAINSTORM PROCEDURES

The CMU system will stay opened when typhoon no. 8 signal or above is hoisted or "BLACK" rainstorm warning is issued on Operating Holidays. The services available will be the same as that described in Part I - clauses *7.2.2* to *7.2.6*. The typhoon and rainstorm procedures on business days are summarised in the following sections.

8.1 Services Available under Various Scenarios

Scenario	Daily Events	DW / RMB liquidity facility provided by the MA	Processing of Govt Bond Swap Facility Request
1. Typhoon No. 8 signal is hoisted at or before 9:00 a.m. and lowered at or before 12:00 noon or Black rainstorm warning is issued at or before 9:00 a.m. and lowered at or before 12:00 noon	All events will be processed as normal subject to any announcement by the MA Settlement deadline for Government Bond Swap Facility postponed from 10:00 a.m. to 2:30 p.m., subject to any further confirmation by the MA.	Normal operation subject to any announcement by the MA	The MA will process bond swap requests only if Official Fixings are published on that day. PDs should make reference to the prevailing typhoon and rainstorm procedures set out in the prevailing "Reference Manual of Government Bond Fixings".
2. Typhoon No. 8 signal is hoisted at or before 9:00 a.m. and lowered after 12:00 noon or Black rainstorm warning is issued at or before 9:00 a.m. and lowered after 12:00 noon	**Services available**:- (a) all Intraday Repo Transactions (b) DW Repo / FPS DW Repo Transactions (c) all Overnight Repo Transactions (d) Repurchase of DW Repo / FPS DW Repo Transactions and	Normal operation subject to any announcement by the MA	

Scenario	Daily Events	DW / RMB liquidity facility provided by the MA	Processing of Govt Bond Swap Facility Request
(full day typhoon case) Refer to clause *8.2.2* for additional information to be noted	foreign currency Overnight Repo Transactions (e) real- time securities transfers including DvP , FoP and house transfers (f) Bank Repo (g) Linkage services (h) Corporate action announcements and instructions (i) CMU optimiser runs at 11:47 a.m., 2:47 p.m. and 4:00 p.m. (j) Income distribution (only for issues opted for payment made during typhoon day*) **Services NOT available:** (a) securities repo (market making arrangement), substitution, additional purchase and sale (b) tendering (c) CMU BID (d) CMU allotment (e) coupon payment & redemption of Exchange Fund Paper, Specified Instruments and Government		

Scenario	Daily Events	DW / RMB liquidity facility provided by the MA	Processing of Govt Bond Swap Facility Request
	Bonds (f) settlement of Government Bond Swap Facility / Switch Tender (g) money settlement for Investment Fund orders		
3. Typhoon No. 8 signal is hoisted at any time after 9:00 a.m. or Black rainstorm warning is issued after 9:00 a.m.	CMU will remain open until all events are completed, subject to any announcement by the MA	Normal operation subject to any announcement by the MA	

In exceptional circumstances or for operational reasons, the MA may vary any of the above arrangements, times and the processing schedule specified below and will announce such changes to the CMU Participants accordingly.

8.2 Special Arrangements

8.2.1 Key Dates for EFBN and GB

For any postponement caused by typhoon or black rainstorm in accordance with this chapter 8 of the following activities:

(a) <u>interest payment</u> to be received - the interest rate originally applicable will apply to the principal amount for the deferred period. For the avoidances of doubt, the record date of Exchange Fund Paper and Government Bonds to be used for the calculation of interest will be the day immediately before the revised interest payment date.

(b) <u>the allotment date</u> for any issue of Exchange Fund Paper or Government Bonds, irrespective of whether it is a new issue; re-opening of an existing issue - the settlement amount to be paid and the maturity date for that issue will remain unchanged. That is:

- In the case of any new issue of Exchange Fund Paper or Government Bonds, the settlement amount to be paid, and the maturity date and interest payment dates originally specified will remain unchanged.

- The number of days accrued for the affected interest payment period will however be adjusted accordingly.

- For any issue of Exchange Fund Paper or Government Bonds which is re-opened for tendering in the primary market, the allotment date will be postponed to the following business day with an adjustment of the accrued interest and the settlement amount. A "Final Allotment (Adjusted) Notification" Report will be generated and sent to the RDs concerned.

(c) the maturity date of any issue of Exchange Fund Paper or Government Bonds, the amount to be paid will remain unchanged. For any issue of Exchange Fund Paper or Government Bonds, the amount of interest payable will be adjusted to include the interest accrued during the deferred period.

(d) If the original scheduled tender day is deferred due to typhoon or black rainstorm situation, at the discretion of the MA, allotment may take place on the deferred tender day instead.

8.2.2 Additional Information for Typhoon Scenario 2 under clause 8.1

(a) Payment of principal and/or interest of EFBN and GB

The payment of principal plus interest or interest will be made on the following business day which will then be deemed to be the maturity date or interest payment date (as the case may be). In the latter case, all subsequent interest payment dates and the maturity date specified for the issue will remain unchanged.

(b) CMU BID will not be processed

- If the tender date of a CMU Instrument tendered through the CMU BID is for any reason not a business day, the above tender date will be postponed to the immediately succeeding business day which will then be deemed to the tender date.

- Upon any postponement of the tender date, the issue date and coupon commencement date of such CMU Instrument will likewise be postponed to the same extent.

- The coupon payment dates and maturity date originally specified will however remain unchanged.

(c) Allotment for CMU Instruments will not be processed

If the lodging agent wishes to carry out allotment, it is required to contact the CMU to arrange.

(d) Income Distribution Service

- The CMU system will process income distribution for CMU Instruments that have opted for distributing income proceeds during full day typhoon.

- However, if the paying agent considers appropriate to distribute income proceeds on the day, it is the responsibility of the paying agent to review the terms and conditions of the relevant CMU Instrument in order to decide whether payment of interest, coupon or redemption proceeds or all of them can be made when a No. 8 typhoon signal or higher is hoisted or "BLACK" rainstorm warning is issued.

- In any case, the paying agent shall indicate whether income distribution will be performed for each individual CMU Instrument by updating the "Payment on full-day typhoon for all interest periods" indicator via the "Maintain Income Payment Details" function of CMT on or before typhoon day. Holders of the securities can view the latest setting via the "View Income Payment Details" function accordingly.

- For securities issued before 23 April 2018, unless informed by the paying agent via Appendix J.1 beforehand, the initial value of this indicator is set to "No".

(e) Money settlement for investment fund orders will not be processed

- Money settlement for current value date investment fund order instructions will be carried forward for processing at the specified time, currently at 4:00 p.m. on the following business day. The instruction details including the settlement amount will remain unchanged.

- Similar to that on a normal business day, status for order routing only investment fund instructions will be changed from "confirmed" to "completed" at 6:30 p.m.

(f) Government Bond Swap Facility

- Initiation Date

  If the scheduled Initiation Date of a Request is so postponed, the scheduled Reversal Date will not be postponed. If the postponed Initiation Date then falls on or after the scheduled Reversal Date, or fails to meet some of the parameters set out in Part II – clause *3.1.5* the Request will not be processed, and the MA will inform the Requesting PD accordingly.

- Reversal Date

  If the scheduled Reversal Date is postponed under the contingency arrangements and falls on a date that is also the maturity date or an interest payment date of either the Requested Bonds or Eligible Bonds, in addition to the settlement arrangements as described in Part II – clause *3.1.6* below following will apply :-

  - if the postponed Reversal Date is also an interest payment date of Bonds of the same issue as that of the Eligible Bonds, the MA will credit the Requesting PD's settlement account on the same day with an amount equal to the amount of interest payable on such Bonds on that interest payment date in respect of the Equivalent Eligible Bonds;

  - if the postponed Reversal Date is also the maturity date of Bonds of the same issue as that of the Eligible Bonds, the MA will not deliver the Equivalent Eligible Bonds to the Requesting PD, but will credit the Requesting PD's settlement account on the same day with an amount equal to the nominal value of the Equivalent Eligible Bonds *plus* an amount equal to the amount of interest payable on such Bonds on that maturity date in respect of the Equivalent Eligible Bonds. The Requesting PD will remain required to deliver the Equivalent Requested Bonds as scheduled;

- if the postponed Reversal Date is also an interest payment date of Bonds of the same issue as that of the Requested Bonds, the MA will debit from the Requesting PD's settlement account on the same day an amount equal to the amount of interest payable on such Bonds on that interest payment date in respect of the Equivalent Requested Bonds;

- if the postponed Reversal Date is also the maturity date of Bonds of the same issue as that of the Requested Bonds, the Requesting PD will not be required to deliver the Equivalent Requested Bonds to the MA, and the MA will debit from the Requesting PD's settlement account on the same day an amount equal to the nominal value of the Equivalent Requested Bonds *plus* an amount equal to the amount of interest payable on such Bonds on that maturity date in respect of the Equivalent Requested Bonds. The MA will remain required to deliver the Equivalent Eligible Bonds as scheduled; and

- where there has been any interest or principal payment made on Bonds of the same issue as that of the Eligible Bonds or the Requested Bonds (as the case may be) between the Initiation Date and the postponed Reversal Date, and the Counterparty would have been entitled to receive such interest payment in respect of the Equivalent Eligible Bonds or the Equivalent Requested Bonds (as the case may be) had the Reversal Date not been postponed, the MA will: -

  (i) in the case of the Equivalent Eligible Bonds, credit the Requesting Primary Dealer's settlement account on the postponed Reversal Date with an amount equal to such interest or principal amount (as the case may be) paid on such Bonds in respect of the Equivalent Eligible Bonds; and

  (ii) in the case of the Equivalent Requested Bonds, debit from the Requesting Primary Dealer's settlement account on the postponed Reversal Date an amount equal to the amount of interest or principal amount (as the case may be) paid on such Bonds in respect of the Equivalent Requested Bonds.

(g) <u>Switch Tender</u>

- If the settlement date is postponed, the relevant amount of interest will be adjusted.

- Allotment date of Switch Tender will be postponed and accordingly, the receipt of Redeemed Bonds by the MA for the successful bidder will also be postponed.

8.3 Typhoon and Black Rainstorm Arrangements for MPF Money Settlement Service

8.3.1 Typhoon Arrangements

8.3.1.1 Typhoon signal no. 8 or above is hoisted on a business day (Day D)

Scenario	Time at which typhoon signal no. 8 or above is hoisted on Day D	Clearing, Return and Settlement Arrangements
(1)	At or before 9:00 a.m.	• Trustees are not required to submit MPF payment files to the CMU. • The return and settlement of MPF items will be cancelled.
(2)	After 9:00 a.m. up to and including 3:00 p.m.	• Trustees are not required to submit MPF payment files to the CMU. • If original trustees have already submitted MPF payment files to the CMU, these files will <u>not</u> be processed by the CMU. Original trustees are required to re-submit these files again on the next business day together with any new MPF payment files. • The return and settlement of MPF items of the preceding business day will remain unchanged.
(3)	After 3:00 p.m.	• The clearing, return and settlement of MPF items will remain unchanged.

8.3.1.2 Typhoon signal no. 8 is lowered on a business day (Day L)

Scenario	Time at which typhoon signal no. 8 is lowered on Day L (Time T)	Clearing, Return and Settlement Arrangements
(1)	At or before 7:00 a.m.	• The clearing, return and settlement of MPF items will remain unchanged.
(2)	Any time during the day after 7:00 a.m. and at or before 12:00 noon*	• Cut-off time for submission of MPF payment files by trustees will remain unchanged. • Cut-off time for submission of the outward return files by trustees' settlement banks will be postponed to Time T+2.5 hours or according to the normal submission schedule (i.e. 10:00 a.m.), whichever is later. • Settlement of MPF items will be postponed to Time T+3.5 hours or according to the normal schedule (i.e. 11:30 a.m.), whichever is later. • Therefore, depending on the lowing time of typhoon signal, MPF Settlement Result File will be available at Time T+4.5 hours or 1:00 p.m. whichever is later.
(3)	At 12:00 noon	• No clearing, return and settlement will be performed. • The clearing and settlement arrangements as stipulated in Part I - clause *8.3.1.1* (1) will apply.

* Banks will re-open two hours after Time T in accordance with the guidelines issued by the Hong Kong Association of Banks.

8.3.2 Rainstorm Arrangements

Scenario	Time at which black rainstorm warning is issued on Day D	Clearing, Return and Settlement Arrangements
1	Black rainstorm warning is issued before 9:00 a.m. and remains in effect at 12:00 noon	The arrangements as stipulated in Part I - clause *8.3.1.1* (1) will apply.
2	Black rainstorm warning is issued at or after 9:00 a.m.	The clearing, return and settlement of MPF items will remain unchanged.
3	Black rainstorm warning necessitates a delayed start to the day (i.e. cancelled after 7:00 a.m. and at or before 12:00 noon)	The arrangements as stipulated in Part I - clause *8.3.1.2* (2) will apply.

8.3.3 Types of transactions included in CMU optimiser run during Full Day Typhoon:

Types of Transactions	Schedule		
	1st CMUO Run 11:47	2nd CMUO Run 14:47	3rd CMUO Run 16:00
CMU Securities Transfer (DvP / FoP / House Transfer)	✓	✓	✓
Allotment	✓	✓	✓
Deposit of Funds via HK RTGS	✓	✓	✓
Bank Repo Sale	✓	✓	✓
Bank Repo Repurchase	✓	✓	×
SPDC Intra-day Repo Repurchase	✓	✓	✓
MA Overnight Repo Repurchase (CNY)	×	✓	×
DW/Overnight Repo Repurchase	×	✓	×
Investment Fund	×	×	×
EFCS Issue Interest	×	×	×

Types of Transactions	**Schedule**		
	1st CMUO Run 11:47	**2nd CMUO Run 14:47**	**3rd CMUO Run 16:00**
Payment & Redemption			
Substitution / additional purchase and sale related to Securities Repo Sales and Repurchase	×	×	×
Securities Repo Sale & Repurchase	×	×	×

Part II
Clearing, Settlement and Custodial Services

1 ISSUES IDENTIFICATION IN CMU

1.1 Identification of CMU Instruments

Each CMU Instrument held within the CMU Service will be allocated a unique Issue Number for identification purposes.

1.1.1 Issue Number Format for Debt Securities Lodged with CMU

For the money market and capital market instruments lodged with CMU, Issue Number is 11 characters in length made up of four parts to include the Account Code of the issuer or the lodging member, the type of instrument, the year of issue and the serial number.

Example: AAAACD93008

where AAAA is the Account Code of the issuer or the lodging member;
CD is the type of instrument;
93 denotes that the instrument was issued in 1993;
008 denotes that this is the 8th issue arranged by the member AAAA in 1993.

1.1.2 Types of Money Market and Capital Market Instruments

The CMU Service accepts the following types of money market and capital market instruments:

Code	Instrument
AB	Asset Backed Securities;
BE	Bills of Exchange other than trade bills;
CP	Commercial Papers;
EL	Equity Linked Instrument;
FB	Bonds;
FC	Fixed Rate Certificate of Deposit;
FL	Fixed Rate Linked Securities;
FN	Fixed Rate Notes;
GB	Government Bond;
LC	Floating Rate Certificate of Deposit;
LL	Floating Rate Linked Securities;
LN	Floating Rate Notes;
MB	Mortgage-backed Securities;

SK	Sukuk;
ZC	Zero Coupon Certificate of Deposit;
ZN	Zero Coupon Notes; and

Any other money market and capital market instruments as the MA may specify from time to time.

1.1.3 Issue Number Format for Euroclear Eligible Securities

For Euroclear eligible securities, the Issue Number is 11 characters in length with the format of:

EC999999999

where	EC	denotes the instrument is an Euroclear eligible securities
	999999999	denotes the common code of the Euroclear eligible securities

1.1.4 Issue Number Format for Clearstream Eligible Securities

For Clearstream eligible securities, the Issue Number is 11 characters in length with the format of:

CS999999999

where	CS	denotes the instrument is an Clearstream eligible securities
	999999999	denotes the common code of the Clearstream eligible securities

1.1.5 Issue Number Format for Investment Fund

For investment fund, the Issue Number is 11 characters in length with the format of:

FU999999999 or FUD99999999

where	FU/FUD	denotes the instrument is an investment fund
	999999999	denotes the common code/internal number of the investment fund

1.2 Identification of Exchange Fund Papers and GBs

Each issue of Exchange Fund Paper, Government Bonds, and Specified Instruments held with the EFCS will be allocated a unique issue number for identification purpose.

1.2.1 Issue Number Format for EFBs

The format of issue number for EFB (effective from 1 January 2007) is:

Mnnnn, Qnnnn, Hnnnn, Ynnnn, where the first character denotes the type of issue as follows:

M	for tap issues,
Q	for quarterly issues,
H	for half-yearly issues,
Y	for yearly issues,
the first two “n”	denotes issuing year, and
the last two “n”	denotes sequence number of the issue

Example:

The first 3-month EFB issued in 2007 bears the issue no. of “Q0701”

1.2.2 Issue Number Format for EFNs

The format of issue number for EFN (effective from 1 January 2007) is:

nnYnnnn, where,

nnY	denotes tenor of the EFN in years, and
last four “n”	denotes maturity year and month.

Example:

A 2-year EFN issued in 2015, having the maturity date of 22 May 2017, bears the issue no. of “02Y1705”.

1.2.3 Issue Number Format for Government Bonds

1.2.3.1 **Institutional Bond Issuance Programme**

The format is:

nnGBnnnn, where,

nnGB	denotes tenor of the Government Bonds in years, and
last four "n"	denotes maturity year and month.

Example:

A 3-year institutional Government Bonds issued in 2009, having the maturity date of 10 Sep 2012, bears the issue no. of "03GB1209".

1.2.3.2 **Retail Bond Issuance Programme**

The format is:

nnGBnnnnR, where,

nnGB	denotes tenor of the Government Bonds in years,
last four "n"	denotes maturity year and month, and
R	denotes retail Government Bonds

Example:

A 3-year retail Government Bonds issued in 2009, having the maturity date of 12 Oct 2012, bears the issue no. of "03GB1210R".

2 NEW ISSUANCE

2.1 Lodgement, Allotment and Withdrawal of CMU Instrument

2.1.1 Information Required for New Issue of CMU Instrument

Issuers or lodging agents should note the following:

(a) All instruments admitted into the CMU Service must be payable at maturity by a CMU Member or, if not so payable, at an office of a CMU Member who has been appointed as paying agent by the issuer/acceptor of the CMU Instruments.

(b) Only a CMU Member who is the issuer/acceptor of instruments, or who is the authorized agent of the issuer/acceptor, may lodge the instrument with the MA.

(c) Except for the subsequent issues of a continuous facility, at least one full business day before the proposed lodgement date of a CMU Instrument, the issuer/acceptor, or the authorized agent of the issuer/acceptor, must obtain the approval of the MA for the Instrument to be admitted into the CMU Service and agree the lodgement date with the MA. In seeking the MA's approval, the following information where appropriate must be provided:

(i) Name of Issuer
(ii) Instrument Type
(iii) Proposed Lodgement Date
(iv) Proposed Maturity Date
(v) Proposed Issue Size
(vi) Name of Lodging CMU Member
(vii) Coupon Rate
(viii) Interest Payment Dates
(ix) Name of Paying Agent
(x) Registrar
(xi) Registration
(xii) Collection Agent
(xiii) Minimum tradable amount
(xiv) Multiple tradable amount

(d) For further issuance of fungible issues, the following additional information must be provided for the MA's approval:

(i) Instrument number
(ii) Certificate of indemnity
(iii) Legal opinions from authorized legal consultant
(iv) Proposed issue size for further allotment
(v) Proposed lodgement date
(vi) Name of Lodging CMU Member

(e) Under special circumstances, the MA reserves the right to suspend issue(s) in the CMU Service. Further transactions with the suspended issue(s) will be rejected. However, the effecting of a repurchase under any Hong Kong dollar DW Repo/FPS DW Repo Transaction (as defined in Part III – clause *1.4.7*), Hong Kong dollar LAW Intraday Repo Transaction (as defined in Part III – clause *1.3.10*), US dollar/euro/renminbi Intraday Repo Transaction (as defined in Part III – clause *2.1.9*), US dollar/euro/renminbi Overnight Repo Transaction (as defined in Part III – clause *2.2.7*), or Bank Repo (as defined in Part III – clause *5.11*) of Eligible Securities from or forming part of an issue suspended by the MA will not be treated as a further transaction within the meaning of this clause. Therefore, a repurchase of such Eligible Securities may still be effected notwithstanding the fact that the issue of which such Eligible Securities form part may have been suspended after the initial purchase.

2.1.2 Form of Instruments

All CMU Instruments held within the CMU may be issued in either definitive or global instrument form.

2.1.3 CMU's Sub-custodian

CMU Instruments lodged with the CMU Service shall be held with sub-custodian(s) appointed by the MA and such appointment shall be notified to all CMU Members. If there is any change in the appointment of sub-custodian(s), the MA shall inform all CMU Members accordingly.

The instrument must be lodged with the appointed sub-custodian by a CMU Member who is the issuer/acceptor of the CMU Instrument (or who is the authorized agent of the issuer/acceptor). This is because only that CMU Member can guarantee the validity of the instrument. Physical lodgement of the instrument can be undertaken either by the CMU Member or by an authorized third party. In both cases, the CMU Member agrees to guarantee the validity of the instrument, even though it may not be wholly under his control at all times before the lodgement.

The MA is not liable for any defective or fraudulent instruments held in the CMU system, nor for any misrepresentation of the issue and lodgement details recorded on the CMU system.

2.1.4 Lodging Authority from the Issuer

Where instruments are lodged with the CMU Service by a CMU Member as the authorized agent of an issuer/acceptor, the lodging CMU Member must have obtained an appropriate authority from the issuer/acceptor authorising the CMU Member to lodge on its behalf.

The lodging CMU Member must inform the MA of all such Lodging Agency Agreements, by way of a Lodging Authority from Issuer (example at Appendix F.3) at least one full business day before the lodgement day. The MA maintains a register of all such undertakings and checks that the lodging CMU Member is authorized to lodge the instrument concerned.

CMU Instruments issued or accepted by non-CMU Members cannot be lodged with the CMU Service unless there is a duly appointed CMU Member lodging agent who has given a Lodging Agent's Undertaking (Appendix F.2) to the MA.

CMU Members must lodge instruments in accordance with statutory and other requirements in force at the time covering the issue of the instruments.

Should the MA detect any discrepancies in the instrument lodged, then the lodging CMU Member is obliged to replace the instrument without delay.

2.1.5 Procedures for Lodgement

The issuer or the lodging agent should note the following procedures before the issue day:

(a) All CMU Instruments shall be lodged direct by the CMU Member or its appointed agent to the sub-custodian upon the approval of the MA.

(b) The lodging agent is required to complete the Lodgement Slip (Appendix F.1) in excel format and send the completed file to the CMU via email to: cmuenquiry@hkma.gov.hk. The file name of the lodgement slip will be the same as the CMU instrument number.

(c) After emailing the Lodgement Slip, the lodging agent is also required to print it out and sign on the hard copy for delivery to the CMU at least one business day before the issue date.

- The MA will inform the sub-custodian concerning the expected arrival of such CMU Instruments.

- Confirmation from the sub-custodian shall be conveyed to the MA upon receipt of such CMU Instruments.

One business day before the issue date of each CMU Instrument,

- the lodging CMU Member shall arrange for the signed Lodgement Slip to be delivered to the MA before 3:00 p.m. one business day before issue date. After the lodging agent has delivered the Lodgement Slip to MA, it is required to lodge the global instrument to the sub-custodian before 11:00 a.m. on the issue date.

2.1.6 New Issue Allotment

Issuer/lodging agent can arrange with allottees to deliver new issues to their accounts by either DvP or FoP mode. In case DvP settlement cannot be arranged for some allottees, Issuer/lodging agent can also choose to allot part of the issue on a FoP basis.

2.1.6.1 New Issue Account

A "new issue account" will be opened by the CMU system for each lodging agent. The account no. is in the format of XXXX333 where XXXX is the CMU member code of the lodging agent. On the issue date, the whole issue size of the new CMU Instrument will be credited automatically to the new issue account of the lodging agent at 11:30 a.m. by a FoP transaction.

2.1.6.2 Allottee

Allottees can choose to receive the new issue securities in either its Main Account (XXXX000) or General/Specific Custody Accounts except the Intraday Repo Account (XXXX999) and bank repo accounts (XXXX777 and XXXX778). For receipt instruction sent by the allottee, the counterparty's account no. must be XXXX333.

For lodging agent who is also one of the allottees, new issue securities will be credited to its Main Account or General/Specific Custody Accounts by using the following means:

(a) Real-time "house transfer" transaction i.e. to transfer from XXXX333 account to XXXXNNN account; or

(b) Real-time DvP transaction as mentioned in Part II - clause *2.1.7* below.

2.1.6.3 **Allotment Transaction**

Any securities transfer involving the new issue account as one of the parties is defined as allotment transaction. The new issue account is not a trading account. Securities can only be withdrawn from this account and lodging agent cannot use this account to receive securities.

2.1.7 Settlement Procedure for Hong Kong dollar, US dollar, euro and renminbi New Issue Allotment

The input settlement mode for allotment transaction must be real-time. Both issuer/lodging agent and the allottee are required to send real-time DvP or FoP securities transfer instructions to CMU system for further matching. General principles for securities transfer and DvP as described in Part II – clause *4.1* and *4.2* including the cut-off time apply to allotment transaction as well.

Similar to other secondary securities transfer instructions, allotment instructions can be sent via

(a) CMT, or

(b) SWIFT (MT54* messages) or

(c) subject to Part I - clause *5.2* of this Manual, authenticated facsimile (Appendix F.4 or F.5) or

(d) subject to Part I - clause *5.2* of this Manual, by hand or by post (Appendix F.4 or F.5) to the MA's office at 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong and marked for the attention of "Central Moneymarkets Unit"

Once these DvP/FoP allotment instructions are matched and settled, the new issue securities will be credited to the allottees' accounts in real-time.

On the allotment day,

(a) CMU system will automatically credit the whole issue size to the new issue account of the lodging agent at 11:30 a.m. (allotment time) by a FoP transaction.

(b) Thereafter, the lodging agent can carry out the subsequent delivery of the new issue securities to the allottees.

(c) Depending on the CMU-related payment setting at RTGS system of the allottee or its settlement bank, an IFT06 payment will be automatically generated or needs to be constructed manually (making use of the payment notification SWIFT MT298) by the allottee or its settlement bank for making payment to the lodging agent.

(d) Allotment transactions can be settled in real-time during the day up to CMUS cut off at 6:30 p.m. For failed allotment arising from insufficient funds of the allottees, the related portion of the new issue securities will still be kept in the new issue account of the lodging agent. Whether to skip or reject an allotment transaction follows the settlement operations as stipulated in Part II – clause *4.1.9* below. For those allotment transactions that have been skipped/rejected, the lodging agent and the allottee concerned will need to arrange between themselves for follow up action.

2.1.8 Settlement procedures for foreign currency (other than US dollar, euro and renminbi) DvP New Issue Allotment

2.1.8.1 Settlement Account

CMU Members who wish to settle their allotment transactions in DvP mode in foreign currency other than US dollar, euro and renminbi are required to maintain a multi-currency settlement account with the agent bank, HSBC. An explicit authorization must be given to the agent bank to execute settlement instructions from the MA arising from transactions in CMU Instruments.

2.1.8.2 Settlement Currency

CMU Members can choose to settle CMU Instruments in currency other than the denominated currency. For example, it can transact in a US dollar instrument and use Pound Sterling as the settlement currency, or vice versa. Foreign currencies available for settlement is defined by the MA from time to time.

The DvP transaction can only be executed when both counterparties specified the same settlement currency in their transfer instructions.

2.1.8.3 Foreign Currency DvP Allotment

This is an optional facility available to issuers/lodging agents to reduce their settlement risk at the time of allotment of new issues. In order to make the facility more user friendly, issuer who opts to use this service can choose to allot part of its issue on a FoP basis in case DvP settlement cannot be arranged for some allottees.

2.1.8.4 Foreign Currency DvP Allotment Procedure

The arrangements are as follows:

One business day before the lodgement date,

(a) the lodging agent must submit the form "Allotment of CMU Instruments - for Lodging Agent" (Appendix F.5) to the CMU. The lodging agent must specify all the necessary details such as the nominal value and settlement amount for each allottee and the accounts to be credited to.

(b) The allottees are required to complete the form "Allotment of CMU Instruments - for Allottees" (Appendix F.4) and send it to the CMU.

(c) The transfer forms for primary allotment must reach the CMU before 3:30 p.m. that day. Issuer/allottees will be notified by the CMU in case of discrepancies are found in the instructions before 4:30 p.m.

On the allotment day,

(d) the allottees shall undertake that sufficient funds will be available in their settlement accounts with the agent bank for DvP allotment of the new issue before 10:00 a.m.

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(e) Allotment to each allottee shall be in strict accordance with the instructions as stipulated in the "Allotment of CMU Instruments-for Lodging Agent" (Appendix F.5). Partial allotment in case of insufficient fund is not allowed.

(f) The agent bank will check whether the settlement accounts of the respective allottees have sufficient funds which will then be put on hold. The agent bank will inform the CMU of any insufficient funds and CMU will then inform the concerned party to rectify the situation before 11:30 a.m.

(g) At 11:30 a.m. (the allotment time), the CMU system will credit the whole issue size of the new issue to the new issue account (XXXX333) of the lodging agent by a FoP transaction.

(h) After the credit of the new issue to the lodging agent's new issue account, the agent bank will effect the debit to the allottees and credit the settlement account of the lodging agent. The CMU will effect the allotment to the allottees by way of a FoP transaction.

(i) Upon the completion of allotment process, the CMU will confirm to the issuer/lodging agent that the funds have been debited from the accounts of the allottees and credited to the lodging agent's settlement account with the agent bank.

(j) For failed allotment arising from insufficient funds in the allottee's settlement account, the related portion of the instruments will still be kept in the new issue account of the lodging agent. The lodging agent and the concerned allottee will need to arrange between themselves for follow up action.

2.1.9 Withdrawal of Instrument

The withdrawal procedure is as follows:

(a) CMU Member shall notify the MA by authenticated facsimile message or by letter with authorized signatures 3 business days in advance for any physical withdrawal of the CMU Instruments (Appendix F.6 or F.7).

(b) The CMU Member shall take physical delivery of the CMU Instruments from the MA's nominated Sub-custodian as advised by the MA. The procedures for exchanging global instruments with definitives will be the same.

(c) CMU Member must inform the MA beforehand the name and the Identity Card Number or Company Staff Card Number of the person taking physical delivery for identification on the spot.

(d) The MA shall provide the Sub-custodian with these details to facilitate the physical withdrawal of the CMU Instruments from the custody of the Sub-custodian.

(e) The MA shall, upon receiving notice from a CMU Member pursuant to Part II - clause *2.1.9* (a) above, notify the lodging CMU Member and paying agent, and issuer if the issuer is a CMU Member, of the receipt of such notice before 12:00 noon on the next business day.

(f) If either the lodging CMU Member or paying agent or issuer, if issuer is also notified, upon receipt of notification from the MA of notice of withdrawal of the CMU Instruments by the CMU Member, wish to take

physical delivery of the CMU Instruments from the MA's nominated Sub-custodian for the purpose of endorsing the CMU Instruments the MA shall be provided with details of the party nominated to endorse including the name and Identity Card Number or Company Staff Card Number of the person taking physical delivery for the purpose of endorsement for identification on the spot before 12:00 noon on the next business day. The MA shall provide the Sub-custodian with these details to facilitate the physical withdrawal of the CMU Instrument from the custody of the Sub-custodian.

2.1.10 Fees

The issuer or the lodging agent (where appropriate) shall pay the MA a new issue administration/withdrawal fee for new issue lodgement /withdrawal according to a fee scale as specified by the MA from time to time.

All fees are invoiced in Hong Kong dollar irrespective of the currency of the denomination of the securities and billed on a monthly basis. For the avoidance of doubt, the lodging agent shall not be required to pay such fee to the MA if the lodgement was subsequently called off by the lodging agent.

2.1.11 Cancellation of Instrument

The lodging agent or the issuer must perform physical withdrawal of the CMU Instruments within two months after the intended maturity date or the actual maturity date due to exercise of call/put option. In the event that the expired global note is not withdrawn within the specified time frame, the MA's designated sub-custodian reserves the right to destroy the global note without giving prior notice.

2.2 CMU BID

CMU BID is a CMU Service which provides issuers of debt securities with a platform in Hong Kong to raise funds by issuance of debt securities through competitive tender bids.

2.2.1 Subscription to CMU BID

Any person who is a CMU Member or through a CMU Member is eligible to issue, arrange to issue or bid for debt securities via the CMU BID. The MA is the system administrator and services provider of such service.

Any CMU Member who would like to subscribe to the CMU BID must register by signing and returning Form A (Appendix A) of the "CMU BID Applicable Terms and Conditions" (T&Cs), together with other documents specified in this Manual to the MA, where appropriate.

Acceptance of a CMU Member to use the CMU BID is at the MA's sole and absolute discretion.

2.2.2 Issuing Procedure for Debt Securities

For debt securities to be issued through the CMU BID, the issuer, issuing and lodging agent and other relevant parties need to comply with the following:

(a) debt securities must comply with the terms & conditions set out in information memorandum, paying agency agreement, trust deed and other relevant legal documents relating to the issue(s);

(b) The documentation mentioned in (a) above must be executed by all relevant parties before the issuance of the debt securities; and

(c) each issue of the debt securities (which is a type of capital market instrument) will be represented by a CMU Instrument (to be issued in either definitive or global instrument form), which shall be lodged with the CMU for safe custody. The CMU will keep the relevant CMU Instrument in its sub-custodian until the maturity date or early redemption date, whichever is earlier. Submission of the CMU Instrument to the CMU by the issuer or issuing and lodging agent (where appropriate) must be at least one business day before the issue date.

The arrangements are as follows:

(a) In case the issuer is not a CMU Participant, the issuing and lodging agent shall submit Form B (Appendix B) of the T&Cs for each issue of the CMU Instrument which is duly executed by such issuer (who is not a CMU Member) to the MA before the issuing and lodging agent can access and use the CMU BID.

(b) Issuer or issuing and lodging agent (where appropriate) shall complete the Tender Notice of the CMU instrument attached to Appendix G.1 of this Manual (Tender Notice and Lodgement Slip) and submit the above Tender Notice to the CMU at least **two** business days before the tender date. In case there are amendments or additional information the issuer

or issuing and lodging agent (where appropriate) would like to make, the above amendments or information (as the case may be) shall reach the CMU no later than **one** business day before the tender date.

(c) Upon receipt of the Tender Notice, the CMU will provide the issuer or issuing and lodging agent (where appropriate) with an acknowledgement of such Tender Notice.

(d) The CMU will post such Tender Notice and the amendments and additional information of and relating to the Tender Notice (if any) to the CMU BID information area of the CMU Bond Price Bulletin (https://www.cmu.org.hk) at least one business day before the tender date, or such other day where the Tender Notice and the amendments and additional information of and relating to the Tender Notice (if any) is available to the CMU, whichever is later. The MA assumes no liabilities or responsibilities for the availability, efficiency, accuracy or completeness of the information displayed in the CMU BID information area and is not liable for any misrepresentation of the issue details recorded on the Tender Notice and the amendments and additional information of and relating to the Tender Notice.

(e) Tender information available in the relevant Tender Notice must include, without limitation, the following details:

- name of the issuer;
- the type of debt securities;
- tender date;
- tender method;
- tender bid method
- issue date;
- maturity date;
- nominal currency and issue size; and
- coupon rate (where applicable).

It is the responsibility of the issuer or issuing and lodging agent (where appropriate) to ensure that all information of and relating to the relevant CMU Instrument sent to the CMU is correct.

The issuer or issuing and lodging agent (where appropriate) can withdraw the Tender Notice of a CMU instrument by giving a notice in writing to the CMU at least **one** business day before the tender date.

2.2.3 Tender Procedure

The arrangements are as follows:

(a) All CMU Members who have signed and returned Form A (Appendix A) of the T&Cs to the MA are eligible to bid for the relevant CMU Instrument.

(b) A CMU Member can submit tender application on its own via the Main Account (XXXX000) or on behalf of its client(s) via the General/Specific Custody Account except the Intraday Repo Account (XXXX999) and bank repo accounts (XXXX777 and XXXX778).

(c) All bids must reach the CMU during 9:30 a.m. and 10:30 a.m. (tender hour) on the tender date. A bid may be transmitted via the following means:

(i) CMT;

(ii) subject to Part I - clause *5.2* of this Manual, Bid Notice attached to Appendix G.2 (for yield-bid and coupon-bid issue) or G.3 (for price-bid issue) of this Manual (collectively the "Bid Notice") transmitted via authenticated facsimile or by hand to the following numbers:

Facsimile No: (852) 2878 1676, 2878 1677, 2878 1678 or 2878 1679

(d) The CMU may from time to time vary the tender hour. Any such variation will be notified to the CMU Members in advance.

(e) Submission of a bid by a CMU Member will constitute an unconditional offer by the CMU Member to the issuer to subscribe for the CMU Instrument in the amount and at the price/yield/coupon specified in the relevant bid. The CMU Member must honour the obligation if its bid submitted is successful. The MA is not liable to the issuer, issuing and lodging agents and other persons for any claim, loss, damage, cost and expense arising from or in connection with the bid submitted by the CMU Member.

(f) For bidders who are not eligible to tender for an issue (for example, CMU Member not selected by the issuer or arranger to submit bids for a particular issue) but have submitted bids to the CMU during tender hour, CMU will cancel/reject these non-eligible bids.

(g) A bid must be made on a bid-price, bid-yield or bid-coupon basis in integral multiples of the minimum denomination, minimum tradable amount or multiple tradable amount, whichever appropriate as specified by the relevant documentation of the issue. The CMU system supports a maximum of 4 decimal places for yield-bid, price-bid and coupon-bid (in percentage) tender application. As to the number of decimal places for the yield-bid, price-bid or coupon-bid to be

submitted, qualified bidders have to refer to the tender offer memorandum or equivalent documents of the relevant new issue securities at the time of issuance.

Settlement amount for a CMU Instrument is calculated based on the following formulae:

$$\text{Settlement Amount for yield-bid issue} = \frac{\text{Nominal Value}}{1 + \frac{M}{\text{Year Basis}} \times \frac{\text{Yield}}{100}}$$

where M = Days to maturity; number of days from the allotment date to the maturity date.

Year Basis = Assumed number of days per annum defined in the relevant documentation of the issue

$$\text{Settlement Amount for price-bid issue} = \text{Nominal Value} \times \frac{\text{Price}}{100}$$

For those yield-bid or coupon-bid which needs to be converted to an equivalent price-bid, please refer to Appendix G.4 for the conversion formulae in calculating the settlement amount.

(h) A CMU Member who has already submitted a bid during the tender hour on a tender date, can cancel the bid before the expiry of the tender hour on the same tender date. However, the CMU Member is allowed to cancel the whole bid only, but cannot cancel the bid in part or at individual bid level. Cancellation of a bid may be transmitted via the method described in (c) above.

2.2.4 Tender Processing

The arrangements are as follows:

(a) The successful CMU Members will normally be allotted the CMU Instrument in descending order of price-bid from the highest to the lowest accepted price or in ascending order of yield-bid or coupon-bid from the lowest to the highest accepted yield/coupon.

(b) The successful CMU Members whose bids are accepted will be allotted the CMU Instrument in part or in full at the price/yield/coupon at which they tendered.

(c) Bids which are accepted and which are above the lowest accepted price or below the highest accepted yield/coupon will be allotted the CMU Instrument in full; those which are accepted and which are at the lowest accepted price/highest accepted yield/coupon may be allotted the CMU Instrument in full or in part only.

(d) If the CMU Instrument is oversubscribed at a particular price/yield/coupon level (Level), a successful CMU Member will be allotted the CMU Instrument in accordance with the following formula:

Allocation Amount = $A \times \frac{P}{T}$

Where A = Amount of the CMU Instrument available for allotment at such Level;

P = Amount of the CMU Instrument applied for at such Level by that successful CMU Member; and

T = Total amount of the CMU Instrument applied for at such Level by all successful CMU Members.

The above Allocation Amount will be rounded down to the nearest multiple of minimum denomination.

(e) The issuer or issuing and lodging agent (where appropriate) reserves the right to set a floor price for tenders and may reject the bids even if they are above the floor price. It may also cancel the issuance of the relevant CMU Instrument on offer or scale down the allotment to successful CMU Members, where the tenders are made at an unacceptably deep discount to the prevailing market level or to avoid a disproportionate market share being held by a market participant.

(f) If the issuer or issuing and lodging agent (where appropriate) for any reason decided to cancel the issuance of the relevant CMU Instrument on offer, the CMU Instrument concerned and the relevant tender bids submitted will be automatically cancelled by the CMU.

(g) If the issue is under- or over-subscribed, the issuer has the right to decrease or increase the issue size (as the case may be).

(h) After the expiry of the tender hour on the tender date, the CMU will inform the issuer or issuing and lodging agent (where appropriate) of the amounts and prices of bids by authenticated facsimile. The issuer or issuing and lodging agent (where appropriate) is required to confirm the CMU by return authenticated facsimile before 12:00 noon at the

same tender date of the result. Once the result is confirmed by the issuer or issuing and lodging agent (where appropriate), no amendments are allowed and the result is considered as final and irrevocable.

(i) If the CMU Instrument is undersubscribed, the issuer or issuing and lodging agent (where appropriate) has the sole discretion to allocate the non-subscribed issue to the underwriter at the underwritten price as determined by the issuer or issuing and lodging agent (where appropriate).

2.2.5 Tender Result

Successful CMU Members will be informed of their allotments and the amounts payable before 4:00 p.m. on the same tender date by an allotment notification report.

After confirmation of the tender result, the issuer or issuing and lodging agent (where appropriate) shall lodge the CMU Instrument with the CMU Service within the tender date.

2.2.6 Lodgement of the CMU Instrument tendered through the CMU BID

The arrangements are as follows:

(a) The issuer or issuing and lodging agent (where appropriate) shall prepare, complete, authenticate and deliver the CMU Instrument for the relevant issue to the sub-custodian of the CMU.

(b) All CMU Instruments held within the CMU may be issued in either definitive or global form. CMU Instruments lodged with the CMU Service shall be held with a sub-custodian appointed by the MA and such appointment shall be notified to all CMU Members. If there is any change in the appointment of sub-custodian, the MA shall inform all CMU Members accordingly.

(c) The MA is not liable for any defective or fraudulent CMU Instruments held in the CMU system, nor for any misrepresentation of the issue and lodgement details recorded on the CMU system.

(d) Where CMU Instruments are lodged with the CMU Service by an issuing and lodging agent as the authorized agent of an issuer, the issuing and lodging agent must have obtained an appropriate authority

from the issuer authorising the issuing and lodging agent to lodge on its behalf.

(e) Issuers or issuing and lodging agents (where appropriate) must lodge CMU Instruments in accordance with statutory and other requirements in force at the time covering the issue of the CMU Instruments.

(f) Should the MA detect any discrepancies in the CMU Instrument lodged, then the issuer or issuing and lodging agent (where appropriate) is obliged to replace the CMU Instrument without delay. However, it is not the responsibility of the MA to verify the correctness of the CMU Instrument prepared by the issuer or issuing and lodging agent (where appropriate).

2.2.7 Settlement of the CMU Instrument tendered through the CMU BID

Payment for, and issue of, the CMU Instrument will be for value on the issue date of such CMU Instrument. The arrangements are as follows:

(a) Settlement of payments will be effected by direct debit of the settlement accounts maintained with the MA for Hong Kong dollar or the SI for US dollar/euro or the CB for renminbi by CMU Members or their designated correspondent banks for the purpose of settling interbank payments.

(b) In the case of a CMU Member which is a licensed bank, the CMU will debit the CMU Member's settlement account with the MA or the Settlement Institution or the Clearing Bank at 11:30 a.m. on the issue date (allotment time). In the case of a CMU Member which is not a licensed bank:

i) the MA will debit the settlement account of the designated settlement bank of that CMU Member at the allotment time and it is the responsibility of that CMU Member to arrange with its settlement bank to maintain sufficient direct debit limit for this debit entry; and

ii) the settlement bank will debit the appropriate account of that CMU Member.

(c) At the same time, CMU system will effect the allotment to the Main Account or General/Specific Custody Account of those successful CMU Members. At the allotment time, the settlement account of the settlement bank of those successful CMU Members will be debited via the interbank settlement system. Upon completion of the allotment process, RTGS system will format the settlement advices in MT900 format to the allottees or its settlement bank via SWIFT.

(d) Upon receipt of allotment proceeds from the bidders, money will be credited to the settlement account of lodging agent/issuer as indicated in p.4 of Appendix G.1 at around 11:30 a.m.

(e) If the issue date specified for any issue of the CMU Instrument is for any reason not a business day, payment for the CMU Instrument will be postponed to the immediately succeeding business day which will then be deemed to be the issue date.

(f) Where the interest commencement date of any CMU Instrument is expressed to be the same date as the issue date, then upon any postponement of the issue date such interest commencement date shall likewise be postponed to the same extent. The interest payment dates and maturity date originally specified will however remain unchanged.

(g) Settlement of all payments between CMU Members and their clients will continue to depend on the interbank clearing system and traditional payment methods.

In the event that a successful CMU Member fails to pay at the allotment time, such allotment payment will be queued in the system until the HKD Discount Window Close, currently at 6:30 p.m. If still unsettled by then, the unsettled allotted nominal amount of the CMU Instrument will be credited to the issuer's or issuing and lodging agent's Main Account (where appropriate). The issuer or the issuing and lodging agent (where appropriate) and the default CMU Member will need to settle the unsettled transaction outside the CMU system.

2.2.8 Coupon/Redemption Payment

If any interest payment date for any CMU Instrument is not a business day, the payment of interest will be made on the immediately succeeding business day which will then be deemed to be the interest payment date. All subsequent interest payment dates and the maturity date specified for the issue of the CMU Instrument will remain unchanged.

If the maturity date for any CMU Instrument is not a business day, the payment of principal plus interest will be made on the immediately succeeding business day which will then be deemed to be the maturity date of the CMU Instrument. Unless that day falls in the next calendar month, in which case payment will be made on the day immediately preceding the due date which is a business day in Hong Kong.

In both cases, the interest payable will be adjusted to include interest accrued during the deferred period.

2.2.9 Fees

The issuer or the issuing and lodging agent (where appropriate) shall pay the MA a service fee and a new issue administration fee for the use of CMU BID according to a fee scale as specified by the MA from time to time. All fees are invoiced in Hong Kong dollar irrespective of the currency of the denomination of the securities and billed on a monthly basis. For the avoidance of doubt, the lodging agent shall not be required to pay such fee to the MA if the tender was subsequently cancelled by the lodging agent.

2.3 Tendering of EF Paper, SI and GB

2.3.1 Tender, Subscription and Allotment of Exchange Fund Paper and Specified Instruments

2.3.1.1 Tendering Method

Exchange Fund Paper and Specified Instruments are issued through competitive and/or non-competitive tender bids.

(a) Competitive tenders are only open to Eligible MMs as appointed by the MA from time to time. Anyone wishing to bid for Exchange Fund Paper and Specified Instruments can only do so through an Eligible MM.

(b) Non-competitive tenders must be submitted through Retail EFNs Distributors or Hong Kong Securities Clearing Company Limited (the HKSCC).

Unless specified elsewhere in this Manual, tenders for EFBs will normally be held weekly on Tuesday while tenders for EFNs or a Specified Instrument will be held at such time as the MA or the issuer (as the case may be) may determine.

From time to time, subject to the MA's acceptance, the MA may act as arranger, agent, clearing agent or custodian of any Specified Instrument. The relevant processes are as follows:

(a) The issuer of such Specified Instrument will send details of the issuance programme to the MA at least six business days before the issue date.

(b) Issue details of debt securities will be published at least 4 business days before the tender date of the relevant issue on Reuters, Bloomberg or through any other means as specified by the MA from time to time.

(c) Tender notice and the issue procedure memorandum will be confirmed by the MA with the issuer on the day of receipt.

(d) The MA will send the tender notice of such issue of the Specified Instrument to the relevant trustee, if necessary.

Retail EFNs Distributors can submit non-competitive bids for EFNs on behalf of their retail customers. Eligible MM who are Retail EFNs Distributors may apply for EFNs through both competitive and non-competitive tenders held on the same tender day, but such Eligible MM are not permitted to apply for EFNs on their own behalf or on behalf of other RDs through the non-competitive tender procedure.

2.3.1.2 **Tendering Period**

All competitive tender applications must reach the MA during the specified tendering period (i.e., from 9:30 a.m. to 10:30 a.m.) on the relevant tender day, and:

- for Retail EFNs Distributors, they are required to submit non-competitive tender applications before 12:00 noon on the business day falling immediately before the relevant tender day;

- for the HKSCC, it is required to submit non-competitive tender applications before 10:30 a.m. on the relevant tender day.

2.3.1.3 **Means of Submitting Tender Applications**

Eligible MMs should use their Main Accounts to submit the tender applications which can be sent to the CMU via the following means or any other means as specified by the MA from time to time: -

(a) CMT during the specified tendering period;

(b) subject to Part I - clause *5.2* of this Manual, authenticated facsimile using the following facsimile numbers using the corresponding application forms at Appendices G.5 to G.13:

(852) 2878 1676
(852) 2878 1677
(852) 2878 1678
(852) 2878 1679

(c) subject to Part I - clause *5.2* of this Manual, by hand using the corresponding application forms at Appendices G.5 to G.13 to the MA's offices at 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong; or

(d) (only for non-competitive bids submitted by Retail EFNs Distributors) CD Rom (or other media as announced by the MA from time to time) accompanied by a cover letter bearing the authorised signature(s) of the relevant Retail EFNs Distributor and addressed for the attention of "Central Moneymarkets Unit" to the MA's offices.

No tender application in any event can be sent via CMT after the tender cut-off time (i.e. 10:30 a.m.). All tender (both competitive and non-competitive) applications submitted within the tendering period will be binding on the applicants and cannot be revoked as from the tender cut-off time on the tender day.

2.3.1.4 **Tender Application Amount**

Tenders for EFB must be made on a bid-yield basis subject to a minimum bid of HK$500,000 each. Tenders above this minimum must be in integral multiples of HK$500,000. As for tenders for EFN, it must be made on a bid-price basis subject to a minimum bid of HK$50,000 each. Tenders above this minimum must be in integral multiples of HK$50,000.

2.3.1.5 **Allocation**

Allotment price to successful bidders in the non-competitive tender will be the lowest price accepted at the competitive tender held on the same tender day expressed as a percentage and rounded to two decimal places.

The MA will set no maximum yield on the EFBs offered at any tender and will expect to allot the whole amount on offer. The MA reserves the rights:

(a) not to allot all the EFBs on offer or to scale down the allotment to a successful bidder, though he would only consider doing so in exceptional circumstances, e.g. where the tender is made at an unacceptably deep discount to the prevailing market level or to avoid disproportionate market share by a market participant; and

(b) to acquire EFBs at any tender at the highest accepted yield bid in the event of under-subscription.

The MA will set no minimum price on the EFNs offered through competitive tender and will expect to allot the whole amount on offer. If the amount of EFNs reserved for non-competitive tender is under-subscribed, the MA may add the unsubscribed portion back to the amount on offer through competitive tender. The MA reserves the rights:

(a) to vary the allotment in respect of non-competitive tenders by adopting other methods based on a pro-rata form of distribution as the MA may consider appropriate;

(b) not to allot all the EFNs on offer or to scale down the allotment to a successful bidder, either in competitive or in non-competitive tenders, though the MA would only consider doing so in exceptional circumstances, e.g. where the tender is made at an unacceptably deep discount to the prevailing market level or to avoid disproportionate market share by a market participant; and

(c) to acquire EFNs at a tender at the lowest accepted price bid in the event of under-subscription.

The MA may reserve a portion of any issue of EFNs for offer on a non-competitive tender basis:

(a) through the HKSCC. All applicants for these EFNs must submit tender bids through the HKSCC; and

(b) under the Retail Exchange Fund Notes Programme. Non-competitive tenders in respect of EFNs available under the Retail Exchange Fund Notes Programme will only be open to applications through Retail EFNs Distributors.

For non-competitive tenders which are open to Retail EFNs Distributors, only one non-competitive bid may be submitted for the benefit of any one investor through the same Retail EFNs Distributor. Multiple applications or suspected multiple applications in a non-competitive tender made through the same Retail EFNs Distributor are liable to be rejected by the Retail EFNs Distributor. The MA reserves the right to require evidence from a Retail EFNs Distributor to verify that it has not accepted multiple applications or submitted more than one tender bid in a non-competitive tender for the benefit of any one investor.

2.3.1.6 **Cancellation of Tender Bids**

Eligible MMs who have already submitted competitive tender bids to the MA during the specified tendering period can cancel their bids before the tender cut-off time (i.e., 10:30 a.m.) on the tender day. However, CMT users are allowed to cancel the whole tender application only, but not at individual bid level. Any cancellation of tender may be submitted via any of the methods as described in Part II - clause 2.3.1.3 (a), (b) and (c).

2.3.1.7 **Underwriting Arrangement**

Where, in any issue of EFBs or EFNs, the amount applied for through competitive tender is less than the whole amount on offer through competitive tender (including any unsubscribed EFBs or EFNs in a non-competitive tender which are added back to the amount on offer through competitive tender), the MA may call upon any Eligible MM who has subscribed less than the Average Amount in the competitive tender to subscribe for the unsubscribed EFBs or EFNs:

(a) at the Average Accepted Yield for EFBs or the Average Accepted Price for EFNs (as the case may be) in the competitive tender; and

(b) in an amount which is no more than the difference between the Average Amount and the amount of EFBs or EFNs (as the case may be) subscribed by that Eligible MM in the competitive tender.

The terms:

- "Average Amount" means the whole amount of the EFBs or EFNs (as the case may be) on offer through competitive tender divided by the total number of Eligible MM;

- "Average Accepted Price" means the weighted average price of accepted bids in a competitive tender; and

- "Average Accepted Yield" means the weighted average yield of accepted bids in the relevant competitive tender.

The MA may, without notice or other formality, exercise the above right by notifying each relevant Eligible MM of the amount of EFNs for which it is required to subscribe through the Allotment Notification Report (CMUD3211) on completion of the relevant tender. Each Eligible MM, even if it has not submitted any tender applications on the tender day, is still required to download the report via the report function of CMT to check the tender result.

Detailed underwriting mechanism is described at Appendix G.16.

2.3.1.8 Tender Results

Final tender results will be announced at or before 3:00 p.m. on the tender day on Reuters, Bloomberg or through any other means as specified by the MA from time to time. Eligible MM, Retail EFNs Distributors and the HKSCC which have submitted their tender bids shall enquire the results via the on-line enquiry and report functions of the CMT. The tender applications which are successful in whole or in part or unsuccessful will be available in the "Allotment Notification Report" (CMUD 3211).

2.3.1.9 Settlement

Before 11:30 a.m. on the allotment day which is the business day immediately after the tender day, the successful Eligible MM, Retail EFNs Distributors and the HKSCC shall ensure that sufficient funds are available in their settlement accounts or their settlement banks' accounts (as the case may be) for DvP allotment of the new issue. Allotment to each allottee shall be in accordance with the tender results, partial allotment in case of insufficient funds is not allowed.

At 11:30 a.m. on the allotment day, the nominated settlement account of each allottee or of each allottee's settlement bank will be debited via the Hong Kong dollar RTGS system. At the same time, the EFCS will effect the allotment to the Main Account of the allottee. Upon completion of the allotment process, RTGS system will format the settlement advice in MT900 format to each allottee or its settlement bank (as the case may be) via SWIFT.

In the event that a successful Eligible MM, Retail EFNs Distributors or the HKSCC fails to pay at the allotment time, such allotment payment will be queued in the system until the commencement of the CMU optimiser run at 4:00 p.m. and settled altogether with other CMU transactions. If still unsettled by then, the unsettled allotted nominal amount of the bond will be credited to the issuing agent's Main Account.

2.3.1.10 Information Memoranda of EFBN

Information on EFBs and EFNs including tender arrangement, tendering procedure and settlement arrangement is available in the Information Memorandum of the Exchange Fund Bills Programme and the Information Memorandum of the Exchange Fund Notes Programme or through the links below: -

http://www.hkma.gov.hk/media/eng/doc/key-functions/finanical-infrastructure/debt-market-development/im_efb_eng_9805.pdf
; and

http://www.hkma.gov.hk/media/eng/doc/key-functions/finanical-infrastructure/debt-market-development/EFN_program_eng.pdf

2.3.1.11 **Re-opening of EFBN and SI**

In order to improve the secondary market liquidity of Exchange Fund Paper and Specified Instruments, the MA may from time to time re-open an existing issue of Exchange Fund Paper or of a Specified Instrument for tendering with an increase in the benchmark issue size.

The tender procedure for re-opened issues by Eligible MM, Retail EFNs Distributors and the HKSCC is the same as that for tender of new issues (i.e., Part II - clause *2.3.1.1* to *2.3.1.9*). The re-opened issues are fungible with the existing trading issues after allotment.

Settlement amount for a re-opened issue of EFBs is calculated based on the allotment date as follows:

$$\text{Settlement Amount} = \frac{\text{Nominal Value}}{1 + \frac{M}{365} \times \frac{\text{Yield}}{100}}$$

where M = days to maturity (number of days from the allotment date to the maturity date)

Settlement amount of a re-opened issue of EFNs will include the accrued interest of the existing trading issue on the allotment date and is calculated as follows:

$$\text{Settlement Amount} = \text{Nominal Value} \times \frac{\text{Price}}{100} + \text{Accrued Interest}$$

where

$$\text{Accrued Interest} = \text{Nominal Value} \times \text{Coupon} \times \frac{\text{no. of days from last interest payment date to allotment date}}{365}$$

2.3.2 Tender, Subscription and Allotment of Government Bonds- Institutional Bond Issuance Programme

2.3.2.1 **Tendering Method**

The MA is the issuing representative of Government Bonds. The Institutional Bond Issuance Programme is issued through competitive

tender bids and is only open to Primary Dealers. Anyone wishing to bid for Government Bonds can only do so through a Primary Dealer.

Tenders will be held at such time as the MA may determine. At least four business days before each tender day, issue details of the Government Bonds on offer will be published on Reuters (screen HKGBINDEX), Bloomberg and the Government Bond Programme's website (www.hkgb.gov.hk), or through any other means, as specified by the MA from time to time.

2.3.2.2 **Tendering Period**

All tender applications must reach the MA during the specified tendering period (i.e., from 9:30 a.m. to 10:30 a.m.) on the tender day. No tender in any event can be submitted after the cut-off time at CMT.

2.3.2.3 **Means of Submitting Tender Applications**

PDs should use their Main Accounts to submit tender applications which can be sent to the CMU via the following means or any other means as specified by the MA from time to time:

(a) CMT during the specified tendering period;

(b) subject to Part I - clause *5.2* of this Manual, authenticated facsimile using the following facsimile numbers using the application form at Appendix G.14:

(852) 2878 1676
(852) 2878 1677
(852) 2878 1678
(852) 2878 1679; or

(c) subject to Part I - clause *5.2* of this Manual, by hand using the application form at Appendix G.14 to the MA's offices at 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong and marked for the attention of "Central Moneymarkets Unit".

All tender applications submitted will be binding on the applicants and cannot be revoked as from the tender cut-off time (i.e., 10:30 a.m.) on the tender day.

2.3.2.4 **Tender Application Amount and Price**

Tenders must be made on a bid-price basis subject to a minimum bid of HK$50,000 each. Tenders above this minimum bid must be in integral multiples of HK$50,000.

Applicants will be required to state in the tender the price (P_0), expressed as a percentage and rounded to two decimal places, and the nominal amount of the Bonds (F_0) tendered for at that price. The amount of payment (A_0) to be effected on the settlement day will be calculated by the following formula:

$$A_0 = F_0 \times P_0$$

The MA will set no minimum price on the Government Bonds offered and will expect to allot the whole amount on offer. The MA reserves the rights:

(a) not to allot all of the relevant issue under the Institutional Bond Issuance Programme on offer or to scale down the allotment to a successful bidder, though the MA would only consider doing so in exceptional circumstances, e.g., where the tender is made at an unacceptably deep discount to the prevailing market level or to avoid disproportionate market share by a market participant; and

(b) to acquire Government Bonds at a tender at the lowest accepted price bid in the event of under-subscription.

2.3.2.5 Cancellation of Tender Bids

Primary Dealers who have already submitted competitive tender bids to the MA during the specified tendering period can cancel their bids before the tender cut-off time (i.e., 10:30 a.m.) on the tender day. However, CMT users are allowed to cancel the whole tender application only, but not at individual bid level. Any cancellation of tender may be submitted via any of the methods as described in Part II - clause *2.3.2.3*.

2.3.2.6 Underwriting Arrangement

Where, in any issue of bonds under the Institutional Bond Issuance Programme, the amount applied for is less than the whole amount on offer, the MA may call upon any Primary Dealer who has subscribed less than the Average Amount in the tender to subscribe for the unsubscribed bonds of that issue under the Institutional Bond Issuance Programme: -

(a) at the Average Accepted Price for that issue under the Institutional Bond Issuance Programme in the tender; and

(b) in an amount which is no more than the difference between the Average Amount and the amount of bonds of that issue under the Institutional Bond Issuance Programme subscribed by that Primary Dealer in the tender.

The terms:

- "Average Amount" means the whole amount of bonds of that issue under the Institutional Bond Issuance Programme on offer through tender divided by the total number of Primary Dealers, and

- "Average Accepted Price" means the weighted average price of accepted bids in the relevant tender.

Underwriting does not apply to switch tenders.

The MA may, without notice or other formality, exercise the above right by notifying each relevant Primary Dealer of the amount of unsubscribed bonds of an issue under the Institutional Bond Issuance Programme for which it is required to subscribe through the "Allotment Notification Report" (CMUD3211) upon completion of the relevant tender. Each Primary Dealer, even if it has not submitted any tender applications on the tender day, is still required to download the report via the report function of CMT to check the tender result.

Detailed underwriting mechanism described at Appendix G.16 is applicable for Government Bonds.

2.3.2.7 Tender Results

Final tender results will be announced at or before 3:00 p.m. on the tender day on Reuters, Bloomberg and the Government Bond Programme's website (www.hkgb.gov.hk) or through any other means as specified by the MA from time to time. Primary Dealers who have submitted their tender bids shall enquire the results via the on-line enquiry and report functions of the CMT. The tender applications which are successful in whole or in part or unsuccessful will be available in the "Allotment Notification Report" (CMUD 3211).

2.3.2.8 Settlement

Before 11:30 a.m. on the allotment day which is the business day immediately after the tender day, the successful Primary Dealers shall ensure that sufficient funds are available in their settlement accounts or their settlement banks' accounts (as the case may be) for DvP allotment of

the new issue. Allotment to each allottee shall be in accordance with the tender results, partial allotment due to insufficient funds is not allowed.
At 11:30 a.m. on the allotment day, the nominated settlement account of each allottee or of each allottee's settlement bank will be debited via the Hong Kong dollar RTGS system. At the same time, the EFCS will effect the allotment to the Main Account of the allottee. Upon completion of the allotment process, RTGS system will format the settlement advice in MT900 format to each allottee or its settlement bank (as the case may be) via SWIFT.

In the event that a successful Primary Dealer fails to pay at the allotment time, such allotment payment will be queued in the system until the commencement of the CMU optimiser run at 4:00 p.m. and settled altogether with other CMU transactions. If still unsettled by then, the unsettled allotted nominal amount of the bond will be credited to the issuing agent's Main Account.
PDs should also make reference to Part II - clause *3.2* for relevant details on switch tenders.

2.3.2.9 Offering Documents for Government Bonds

Information on the Institutional Bond Issuance Programme including tender arrangement, tender procedure and settlement arrangement is available in the offering documents for the Institutional Bond Issuance Programme or through the link below:

http://www.hkgb.gov.hk/en/index.html

2.3.2.10 Re-opening of Government Bonds

In order to improve the secondary market liquidity of the Government Bonds, the MA may from time to time re-open an existing issue of bonds under the Institutional Bond Issuance Programme for tendering with an increase in the benchmark issue size.

The tender procedure for re-opened issues by Primary Dealers is the same as that for tender of new issues under the Institutional Bond Issuance Programme (i.e., Part II – clauses *2.3.2.1* to *2.3.2.8*). The re-opened issues are fungible with the existing trading issues under the Institutional Bond Issuance Programme after allotment.

Settlement amount for a re-opened issue of bonds under the Institutional Bond Issuance Programme will include the accrued interest of the existing trading issue on the allotment date and is calculated as follows:

$$\text{Settlement Amount} = \text{Nominal Value} \times \text{Price} + \text{Accrued Interest}$$

where

$$\text{Accrued Interest} = \text{Nominal Value} \times \text{Coupon} \times \frac{\text{no. of days from last interest payment date to allotment date}}{365}$$

2.3.3 Tender, Subscription and Allotment of Government Bond - Retail Bond Issuance Programme

2.3.3.1 Subscription Arrangement

The MA is the issuing representative of Government Bonds. The Retail Bond Issuance Programme is issued by way of subscription and is only open to Placing Banks and the HKSCC. Retail investors can only submit subscription applications via a Placing Bank, or the HKSCC (directly or indirectly through a CCASS participant).

Subscription offers of issues under the Retail Issuance Programme will be scheduled at such time as the MA may determine. Details of subscription offers will be announced on the Government Bond Programme's website and/or through any other means as specified by the MA from time to time.

2.3.3.2 Subscription Amount

The minimum denomination for subscription is HK$10,000 each. Subscriptions above this minimum must be in integral multiples of HK$10,000.

2.3.3.3 Subscription Period

Placing Banks and the HKSCC are required to submit subscription applications to the MA no later than the specified subscription cut-off time (i.e. 6:00 p.m.) on the business day following the closing date of the relevant subscription period or any time as announced by the MA.

2.3.3.4 Means of Subscription Application

Subscription applications may be submitted via the following means or any other means as specified by the MA from time to time:

(a) CD Rom (or floppy disk or any other media as announced by the MA from time to time) accompanied by a cover letter bearing the authorised signature(s) of the Placing Bank or the HKSCC (as the case may be)

and addressed for the attention of "Central Moneymarkets Unit" to the MA's offices at 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong; or

(b) (only for less than 10 customer applications or any other number as agreed with the MA) authenticated facsimile using the following facsimile numbers using the application form at Appendix G.15:

(852) 2878 1676
(852) 2878 1677
(852) 2878 1678
(852) 2878 1679

For submission of subscription applications, the following points should be noted:

(a) Only one subscription application may be submitted for the benefit of any one investor through the same Placing Bank or through the HKSCC directly or indirectly through the same CCASS Clearing/Custodian participant.

(b) Multiple applications or suspected multiple applications made through the same Placing Bank or through the HKSCC directly or indirectly through the same CCASS Clearing/Custodian participant (as the case may be) are liable to be rejected by the Placing Bank or the HKSCC or the CCASS Clearing/Custodian participant (as the case may be).

(c) The MA reserves the right to require evidence from a Placing Bank or the HKSCC or the CCASS Clearing/Custodian participant (as the case may be) to verify that it has not accepted multiple applications or submitted more than one application for the benefit of any one investor.

(d) All subscription applications by Placing Banks and the HKSCC will be binding on the applicants concerned and cannot be revoked once they are submitted to the CMU under Part II – clause *2.3.3.3* and *2.3.3.4* of this Manual.

2.3.3.5 Allocation

The minimum issue amounts of each issue under the Retail Bond Issuance Programme will be announced in advance of each issue. The Hong Kong Government will decide the total principal amount of the retail bonds to be issued each time in light of the amount of bonds validly applied for. If the total principal amount of the retail bonds to be issued for a particular issue is equal to or less than the aggregate principal amount applied for under all

valid applications for that issue, the relevant issue under the Retail Bond Issuance Programme will be allocated as follows: -

(a) if the total subscription amount applied for is equal to the amount of retail bonds to be issued, applicants of all valid applications will be allotted the full amount for which they apply;

(b) if the total subscription amount applied for exceeds the amount of retail bonds to be issued AND the number of valid applications received is equal to or smaller than the quantity of retail bonds to be issued (based on the minimum denomination to be specified in the relevant offering documents), the applicant of each valid application will be allotted a Bond of minimum denomination. The relevant issue remaining, if any, will be allocated to the applicant of each valid application on a pro rata basis (rounded down to the nearest whole Bond) and in the case of any relevant issue remaining after rounding, by ballot or any other mechanism as determined by the MA; and

(c) if the total subscription amount applied for exceeds the amount of the retail bonds to be issued AND the number of valid applications received is more than the quantity of retail bonds to be issued (based on the minimum denomination to be specified in the relevant offering documents), a ballot will be held in respect of all valid applications and the applicants of those applications which are successful in the ballot will each be allotted a Bond of minimum denomination.

As there is no underwriting arrangement in respect of the Retail Bond Issuance Programme, if the total amount of the relevant issue applied for is less than the minimum amount of the relevant issue to be issued, such issue may not be made. The Hong Kong Government reserves the right to cancel the offering of an issue on or before the issue date. The MA will inform the Placing Banks and the HKSCC in writing and they will in turn refund the application amounts in full without interest to the applicants.

The inflation-linked retail bonds (i.e. the iBonds) may have an allocation mechanism that is different from Part II - clause *2.3.3.5* above. The allocation mechanism is set out in the relevant offering documents, which are accessible as stated in Part II - clause *2.3.3.8* below.

2.3.3.6 Subscription Result

The amount of the relevant issue under the Retail Bond Issuance Programme allotted, the subscription price (expressed as a percentage and rounded up to two decimal places) and other relevant information will be announced not later than the issue date on the Government Bond

Programme's website and/or by any other means as specified by the MA from time to time.

The MA reserves the rights:

(a) to vary the allotment in respect of each issue under the Retail Bond Issuance Programme by adopting other methods based on a pro rata form of distribution as the MA may consider appropriate;

(b) not to allot all of the relevant issue under the Retail Bond Issuance Programme on offer; and

(c) to scale down the allotment to a successful applicant though the MA would only consider doing so in exceptional circumstances.

2.3.3.7 Settlement

Before 11:30 a.m. on the issue day, the Placing Banks and the HKSCC shall ensure that sufficient funds are available in their settlement accounts or their settlement banks' accounts (as the case may be) for DvP allotment of the new issue. Allotment to each Placing Bank and the HKSCC shall be in accordance with the subscription results, partial allotment in case of insufficient funds is not allowed.

At 11:30 a.m. on the issue day, the nominated settlement account of each Placing Bank or of each Placing Bank's settlement bank will be debited via the Hong Kong dollar RTGS system. At the same time, the EFCS will effect the allotment to the Main Account of each Placing Bank. Upon completion of the allotment process, RTGS system will format the settlement advice in MT900 format to each Placing Bank or its settlement bank via SWIFT. The same allotment process applies to the HKSCC.

In the event that a successful Placing Bank or the HKSCC fails to pay at the allotment time, such allotment payment will be queued in the system until the commencement of the CMU optimiser run at 4:00 p.m. and settled altogether with other CMU transactions. If still unsettled by then, the unsettled allotted nominal amount of the bond will be credited to the issuer's or issuing and lodging agent's Main Account (where appropriate).

2.3.3.8 Offering Documents

Information on the Retail Bond Issuance Programme including subscription arrangement, subscription procedure and settlement arrangement is available in the offering documents for the Retail Bond Issuance Programme or through the link below: -

http://www.hkgb.gov.hk/en/index.html

3 GOVERNMENT BOND SWAP FACILITY AND SWITCH TENDER

3.1 Government Bond Swap Facility

3.1.1 General

The Government Bond Swap Facility (Bond Swap Facility) is a facility offered under the Hong Kong dollar part of the institutional bond issuance programme of the Government Bond Programme of the Hong Kong Special Administrative Region Government (HKSAR Government), whereby any PD may request a temporary swap of its holdings in an issue of Government Bonds acceptable to the HKSAR Government (Acceptable Bonds) for a different issue of Government Bonds (Requested Bonds) through entering into an Issuance and Redemption Agreement with the HKSAR Government. The Bond Swap Facility will be operated by the MA on behalf of the HKSAR Government.

The clauses contained in this Manual (as amended from time to time) apply to the Bond Swap Facility and PDs should also observe any other rules and/or regulations in respect of the Bond Swap Facility as prescribed by the MA from time to time.

3.1.2 Eligible Counterparties

Any PD which has entered into a Master Issuance and Redemption Agreement with the HKSAR Government acting through the MA (Master IR Agreement), may access the Bond Swap Facility only if –

(a) the PD's appointment as PD has not been suspended or revoked by the HKSAR Government nor has the PD's right to access the Bond Swap Facility otherwise been suspended or terminated;

(b) the relevant PD holds, as sole legal and beneficial owner free from any security or other interest, sufficient holdings in an issue of any Acceptable Bonds which are specified in the Master IR Agreement (Eligible Bonds) for the intended bond swap. Holdings in client accounts maintained by the PD will not be regarded as owned by that PD for this purpose; and

(c) the nominal value of the Requested Bonds to be obtained is within such swapping limit as may be imposed by the MA on the relevant PD.

3.1.3 Swapping Limit

Each PD will be assigned a swapping limit, i.e. the maximum nominal value of Requested Bonds that are subject to reversal transactions under the Master IR Agreement. Any PD intends to access the Bond Swap Facility will have to ensure the aggregate nominal value of Requested Bonds issued to it subject to outstanding reversal transactions (Aggregate Outstanding Position) does not exceed that PD's swapping limit at all times.

All PDs will be assigned an individual swapping limit which may be revised from time to time by the MA with notice to the PD concerned. The highest swapping limit assigned will be announced by the MA on the Reuters screen (HKGBINDEX) and Bloomberg (GBHK <GO>) or by any other means as specified by the MA.

3.1.4 Operation Window

On any day (other than a Saturday, Sunday or general holiday in Hong Kong) which is a business day, any PD may submit a request for the swapping of certain nominal value of Eligible Bonds for certain nominal value of Requested Bonds (Request) under the Bond Swap Facility based on the clauses set out in the Master IR Agreement and in this Manual. In this chapter, the date of submitting a Request will be referred to as the Requesting Date, the date of initiating the Request (Initiation) will be referred to as the Initiation Date, and the date of reversing the Request (Reversal) will be referred to as the Reversal Date.

3.1.5 Parameters of a Valid Request

A PD (Requesting PD) must submit a request in a form substantively similar to Appendix H.1 (Request Form). The MA will determine whether a Request is valid based on the parameters set out in paragraphs (a) to (f) of this clause below, and confirm with the Requesting PD by 4:00 p.m. on the Requesting Date using a form substantively similar to Appendix H.2 (Confirmation). In particular, the MA will calculate the nominal value of the Eligible Bonds needed based on the formula at Appendix H.3 using the Official Fixings as appropriate. Under exceptional circumstances (e.g., in abnormal market conditions), the MA may use other parameters to determine whether a Request is valid and any pricing other than the Official Fixings in the calculation of the required Eligible Bonds, and the MA's such decision is not to be disputed.

The MA will endeavour to confirm with the Requesting PD as soon as possible after receipt of the Request. A Request will be a valid request

upon the issue of a Confirmation. The Requesting PD is required to reconcile the Confirmation which will be deemed to be correct in the absence of manifest error unless the Requesting PD requests any correction and such requested correction has been verified and confirmed by the MA by 5:00 p.m. on the Requesting Date.

(a) Time of submission

Unless agreed by the MA in advance, all Requests must be submitted by 3:00 p.m. on a business day through authenticated facsimile transmission.

(b) Bonds under the Bond Swap Facility

Eligible Bonds and Requested Bonds must be Hong Kong dollar-denominated bonds issued under the institutional bond issuance programme of the Government Bond Programme as specified in the Master IR Agreement or by the MA from time to time.

(c) Initiation Date and Reversal Date

Unless agreed by the MA in advance, the Initiation Date will be the immediately succeeding business day of the Requesting Date. Bond swap can be of a tenor (calculated from and including the Initiation Date up to but excluding the scheduled Reversal Date) of overnight up to 30 calendar days. The Reversal Date should fall on a business day which is at least three business days prior to the immediate upcoming interest payment date or the maturity date of the Requested Bonds or the Eligible Bonds, whichever comes first.

The Initiation Date should not coincide with the issue date of a tender where Government Bonds on offer at the tender having the same issue number as the Requested Bonds will be involved.

(d) Minimum transaction size

The Requested Bonds under any Request must have a nominal value of at least HK$10 million and in integral multiples of HK$50,000 thereafter.

(e) Maximum transaction size

The nominal value of the Requested Bonds, if issued to the Requesting PD, must not cause the Requesting PD's Aggregate Outstanding Position to exceed its assigned swapping limit.

(f) Rollover

A Requesting PD may submit a new request to rollover (Rollover Request) an existing Request whose scheduled Reversal Date has yet to pass. Both the issue and the nominal value of the Requested Bonds under a Rollover Request must match those of the Requested Bonds under the existing Request, and the issue of the Eligible Bonds under a Rollover Request must also match that of the Eligible Bonds under the existing Request. The MA will calculate the nominal value of the Eligible Bonds needed under the Rollover Request. A Rollover Request will be dealt with in the same manner as that with a Request.

3.1.6 Settlement

3.1.6.1 Initiation

(a) On the Initiation Date of a Request, the Requesting PD is required, as sole legal and beneficial owner, to deliver free from any security or other interest the full nominal value of the Eligible Bonds (as stated in the relevant Confirmation) from the Requesting PD's Main Account to the MA (CMU Account No. AAAA006) at or before 10:00 a.m., such that the HKSAR Government (acting through the MA) may early redeem such Eligible Bonds.

(b) Subject to the satisfactory receipt of the relevant Eligible Bonds by 10:00 a.m. on the Initiation Date, the MA will arrange issuance of the Requested Bonds on behalf of the HKSAR Government for delivery (from CMU Account No. AAAA007) to the Requesting PD's Main Account at or before the CMU optimiser run commencing at 4:00 p.m. on the same day.

(c) The transactions stated in paragraphs (a) and (b) of this clause above will be cash-neutral, and settlement may be effected by way of FoP securities transfer. Unless due to unforeseen situations (in which case the Requesting PD should inform the MA as soon as possible), to ensure timely delivery of the Eligible Bonds on the Initiation Date, the Requesting PD is expected to input the relevant transfer instructions by 6:30 p.m. on Requesting Date and to ensure sufficient nominal value of the Eligible Bonds is held in the Requesting PD's Main Account by the close of business of the Requesting Date.

3.1.6.2 Reversal

(a) On the Reversal Date of a Request, the Requesting PD is required, as sole legal and beneficial owner, to deliver free from any security or other interest Bonds of equivalent nominal value to and of the same issue as those of the Requested Bonds (Equivalent Requested Bonds)

from the Requesting PD's Main Account to the MA (CMU Account No. AAAA007) at or before 10:00 a.m., such that the HKSAR Government (acting through the MA) may early redeem such Equivalent Requested Bonds.

(b) Subject to the satisfactory receipt of the Equivalent Requested Bonds by 10:00 a.m. on the Reversal Date, the MA will arrange issuance of Government Bonds of equivalent nominal value to and of the same issue as those of the Eligible Bonds (Equivalent Eligible Bonds) on behalf of the HKSAR Government for delivery (from CMU Account No. AAAA006) to the Requesting PD's Main Account at or before the CMU optimiser run commencing at 4:00 p.m. on the same day.

(c) The transactions stated in paragraphs (a) and (b) of this clause above will be cash-neutral, and settlement may be effected by way of FoP securities transfer. Unless due to unforeseen situations (in which case the Requesting PD should inform the MA as soon as possible), to ensure timely delivery of the Equivalent Requested Bonds on the Reversal Date, the Requesting PD should input forward-dated transfer instructions as early as possible, and is expected to input the relevant transfer instructions by 6:30 p.m. on the business day immediately preceding the Reversal Date, and to ensure sufficient nominal value of the Equivalent Requested Bonds is held in the Requesting PD's Main Account by the close of business of the business day immediately preceding the Reversal Date.

3.1.6.3 **Rollover**

While the Requesting PD would be considered to have entered into a new request in respect of a Rollover Request, as the same issues of Bonds will be involved under a Rollover Request, for settlement efficiency purposes, it is acceptable to deliver the difference (if any) in the nominal values of the relevant Eligible Bonds delivered for the existing Request and to be delivered for the Rollover Request on the Initiation Date for the Rollover Request. More specifically: –

(a) if the calculated nominal value of the Eligible Bonds required for the Rollover Request is greater than the nominal value of the Eligible Bonds delivered for the existing Request, then the Requesting PD is required to deliver further nominal value of Eligible Bonds equivalent to the difference between the two values to the MA (CMU Account No. AAAA006) in a manner similar to that described in Part II - clause *3.1.6.1* (a) of Initation settlement above;

(b) if the calculated nominal value of the Eligible Bonds required for the Rollover Request is less than the nominal value of the Eligible Bonds

delivered for the existing Request, then the Requesting PD will receive from the MA (CMU Account No. AAAA006) nominal value of Eligible Bonds equivalent to the difference between the two values in a manner similar to that described in Part II - clause *3.1.6.2* (b) of Reversal settlement above;

(c) if the calculated nominal value of the Eligible Bonds required for the Rollover Request is the same as the nominal value of the Eligible Bonds delivered for the existing Request, then there will be no transfer of any Eligible Bonds required between the Requesting PD and the MA; and

(d) in all cases of paragraphs (a) to (c) of this clause above, as the issue and the nominal value of the Requested Bonds under the Rollover Request will be the same as those of the Equivalent Requested Bonds under the existing Request, there will be no transfer of any Requested Bonds or Equivalent Requested Bonds required between the Requesting PD and the MA.

3.1.6.4 **Transfer instructions**

It is the responsibility of Requesting PDs to ensure timely settlement of all transactions under any issuance and redemption agreements. Settlement of all Requested Bonds under the Bond Swap Facility will be effected in a manner consistent with the procedures set out in this Part II - clause *3.1* as well as Part II - clause *4.1* of this Manual. Partial settlement of any Request (including Rollover Request) is not allowed.

3.1.7 Failure to Effect Transactions and Penalties

Unless agreed by the MA in advance, if a Requesting PD fails to effect the required delivery (whether in full or in part) on the Initiation Date as described in this chapter, the Request will not be processed.

Unless agreed by the MA in advance, if a Requesting PD fails to effect the required delivery (whether in full or in part) on the Reversal Date as described in this chapter, the MA will treat it as a failed transaction and will conduct an outright purchase of the entire required amount of the Equivalent Requested Bonds from one or more other PDs (Outright Purchase) as appropriate. If the MA can successfully purchase such amount of the Equivalent Requested Bonds, the MA will then deliver the relevant Equivalent Eligible Bonds to the defaulting PD, and the defaulting PD will no longer be required to deliver the relevant Equivalent Requested Bonds required for the Reversal but will be required to pay the full cost of the Outright Purchase (Outright Purchase Cost). The Outright Purchase Cost will be based on the actual purchase cost of the relevant Government

Bonds incurred by the MA, which may be different from the prices quoted by other market participants, and is not to be disputed.

If the MA is unable to purchase the entire required nominal value of the Equivalent Requested Bonds from any other PDs, Reversal will not be effected and the MA will not be required to deliver the relevant Equivalent Eligible Bonds to the defaulting PD. The defaulting PD will be required to pay the failed reversal penalty as calculated by the relevant formula at Appendix H.4.

The MA will, at or before 12:00 noon (where applicable) on the relevant Reversal Date, inform the defaulting PD of the amount of the Outright Purchase Cost or failed reversal penalty required to be paid in a form substantively similar to Appendix H.5. The MA will debit such specified amount from the defaulting PD's settlement account at or about 3:00 p.m. on the same day.

3.1.8 Operational timetable

Time	Task
10:00 a.m.	• Cut-off time for receipt of relevant Eligible Bonds and/or Equivalent Requested Bonds (as applicable) by the MA.
12:00 noon	• MA to inform defaulting PDs the amount to be charged in relation to a failed Reversal at or before this time.
3:00 p.m.	• Cut-off time for submission of Request on the next following business day. • MA to debit the amount to be charged for a failed Reversal from the defaulting PD's settlement account as applicable.
4:00 p.m.	• MA to confirm with relevant Requesting PDs whether their submitted Requests are valid at or before this time.
5:00 p.m.	• Cut-off time for correction in Confirmations.
6:30 p.m.	• Cut-off time for Requesting PDs to input the relevant transfer instructions for Initiation or Reversal (as applicable) on the next following business day.

3.1.9 Fees and other Matters

The MA does not intend to, but reserves the right to, charge a fee in operating the Bond Swap Facility. Other fees in respect of processing transactions under the Bond Swap Facility, such as but not limited to transaction fees and custodian fees, will be subject to CMU prevailing Fee Schedule.

The Bond Swap Facility serves to support, but not substitute, normal market activities. The MA may refuse access to the Bond Swap Facility by any PD at the sole discretion of the MA. Where the MA decides to exercise this right, the MA will notify the PD(s) concerned. Any suspension or termination of a PD's right to access the Bond Swap Facility will not affect any obligation or liability of any party in respect of any scheduled Initiation and/or Reversal under any issuance and redemption agreements already entered into, or in respect of any Government Bonds under the Government Bond Programme.

In submitting a Request (including a Rollover Request), the Requesting PD will have agreed to be bound by the terms and conditions set out in the clauses of this Manual, and have authorised the MA to debit in respect of the Request (including a Rollover Request) all relevant sums from their Hong Kong dollar settlement accounts, with or without notice, and transfer such debited sums to any account as specified by the MA.

3.2 Government Bond Switch Tender

3.2.1 General

A switch tender involves the issuance of new Government Bonds to a successful bidder in exchange for the early redemption of an equivalent nominal value of a pre-specified issue of Government Bonds from the same bidder. Switch tender is intended to promote liquidity of the Government Bonds by allowing market participants to opt for the switching of a pre-specified issue of Government Bonds into another issue of Government Bonds on offer at a switch tender through competitive tender.

The clauses contained in this Manual (as amended from time to time) will apply to all switch tenders under the institutional bond issuance programme of the Government Bond Programme. PDs should also observe any other rules and/or regulations in respect of switch tenders as prescribed by the MA from time to time.

3.2.2 Eligible Counterparties

Switch tenders will be open only to RDs which are appointed as PDs. Anyone wishing to participate in a switch tender can only do so through a PD.

3.2.3 Nominal value-neutral

Switch tenders will be conducted on a nominal value-neutral basis. Specifically, the nominal value of the pre-specified issue of Government Bonds to be redeemed at a switch tender (Redeemed Bonds) that a successful bidder at that tender is to deliver to the MA for early redemption by the HKSAR Government will equal to that of the Government Bonds on offer at that switch tender (Replacement Bonds) successfully allotted to that bidder. However, the HKSAR Government reserves the right to conduct switch tenders in such other manners as appropriate.

3.2.4 Announcements of Tender

Switch tenders will be held at such times as the MA may determine. At least four business days in advance of a switch tender day, the MA will announce in a tender notice:

(a) the amount(s);
(b) the issue date(s);
(c) the maturity date(s); and
(d) the interest rate(s) of the Replacement Bonds on offer at that tender

as well as
(a) the acceptable issue(s) of the Redeemed Bonds; and
(b) the corresponding redemption price(s).

Such announcements will be published on the Reuters screen (HKGBINDEX), Bloomberg (GBHK<GO>) and the Government Bond Programme's website (www.hkgb.gov.hk), or by any other means specified by the MA.

3.2.5 Tender

PDs should make reference to the tender procedures set out in the Information Memorandum as well as Part II – clause *2.3.2* of this Manual. The MA reserves the right not to allot all the Replacement Bonds on offer at a switch tender or to scale down the allotment to a successful bidder. There is no underwriting arrangement for switch tenders.

3.2.6 Settlement

Issuance and allotment for Government Bonds normally takes place on the immediately succeeding business day of the relevant tender day. For switch tenders, PDs participating in a switch tender is required to input the relevant transfer instructions at or before 6:30 p.m. on the tender day for settlement on the immediately succeeding business day, i.e.:-

(a) At or before 10:00 a.m. on the settlement day for a switch tender, a PD who is a successful bidder will be required to, as sole legal and beneficial owner, deliver free from any security or other interest the required nominal value of the Redeemed Bonds to the MA (CMU Account No. AAAA000), such that the HKSAR Government can procure early redemption of such Redeemed Bonds at the price announced by the MA in the tender notice for that tender.

(b) Subject to the satisfactory receipt of the required nominal value of the Redeemed Bonds from the relevant PD at or before 10:00 a.m. on the settlement day, the MA will arrange allotment of the relevant Replacement Bonds to the PD's Main Account at or about 11:30 a.m. on the same day at the price(s) in which the relevant Replacement Bonds were tendered for by the PD.

To ensure timely allotment of Replacement Bonds on the settlement day for a switch tender, any PD participating in a switch tender is to ensure that sufficient nominal value of the pre-specified issue of Redeemed Bonds is held in its Main Account by close of business of the tender day. Delivery of the required nominal value of the pre-specified issue of Redeemed Bonds to the MA will be effected by way of DvP transfer based on the early redemption price announced by the MA plus the relevant accrued interest (if any).

In addition, the PD is to ensure that sufficient funds are available in its settlement account maintained with the MA for DvP allotment of the relevant Replacement Bonds. Settlement will be effected in a manner consistent with the procedures set out in this chapter as well as the prevailing procedures set out in Part II – clause 2.3.2 as well as Part II –

clause *4.1* of this Manual. Partial settlement of any switch tender is not allowed.

3.2.7 Failure to Effect Transactions and Penalties

Unless agreed by the MA in advance, if a PD fails to deliver the required nominal value of the pre-specified issue of Redeemed Bonds (in full or in part) for its successful bids at a successful tender, the MA will treat this as a failed transaction and will conduct an outright purchase of the entire required amount of Redeemed Bonds from one or more other PDs (Outright Purchase) as appropriate. If the MA can successfully purchase such value of Redeemed Bonds, then the defaulting PD will no longer be required to deliver the relevant Redeemed Bonds to the MA, but will be required to pay the full cost of the Outright Purchase (Outright Purchase Cost). The Outright Purchase Cost will be based on the actual purchase costs of the Redeemed Bonds incurred by the MA, which may be different from the prices quoted by other market participants, and is not to be disputed.

If the MA is unable to purchase the entire required nominal value of the Redeemed Bonds from any other PDs, the accepted bids of the defaulting PD at that switch tender will all be cancelled, i.e., the defaulting PD will be deemed to have refused to accept any of the Replacement Bonds allotted to it at that tender. The size of the switch tender will then be correspondingly reduced by the MA. The defaulting PD will be required to pay the failed penalty as calculated by the relevant formula at Appendix H.6.

The MA will, at or before 12:00 noon (where practicable) on the settlement day, inform the defaulting PD of the amount of the Outright Purchase Cost or failed penalty required to be paid in a form substantively similar to the sample at Appendix H.7. The MA will debit such specified amount from the defaulting PD's settlement account maintained with the MA at or about 3:00 p.m. on the same day.

In participating in a switch tender, the relevant PDs will be deemed to have agreed to be bound by the terms and conditions set out in the Information Memorandum of the Hong Kong dollar-denominated bonds under the institutional bond issuance programme of the Government Bond Programme and the clauses set out in this Manual, and have authorised the MA to debit in respect of the switch tender all relevant sums from their settlement accounts, with or without notice, and transfer such debited sums to any account as specified by the MA.

3.2.8 Fees

The MA does not intend to, but reserves the right to, charge a fee in operating the switch tender. Other fees, such as but not limited to transaction fees and custodian fees, will be subject to CMU prevailing Fee Schedule.

4 SECURITIES TRANSFERS AND SETTLEMENT SERVICES

4.1 Transfer Between Securities Accounts

4.1.1 Transfer of Title

Debt securities held within the CMU can be transferred from one Securities Account to another through book entries across the book of the MA. The following requirements should be followed:

(a) The CMU Participant and its counterparty relating to a securites transfer (i.e. the transferor and the transferee of the securities transaction) are required to send transfer instructions to the CMU. The transfer will take place upon matching of a delivery instruction with the corresponding receipt instruction of two parties and subject to the availability of sufficient securities and funds for settlement.

(b) Transfer instruction involving a General Custody Account or a Specific Custody Account must be submitted by the CMU Participant in whose name the Account is maintained.

4.1.2 Means of Sending Transfer Instruction

Both buyer and seller are required to send transfer instructions to the CMU through any of the following means:

(a) by CMT (refer to CMT User Manual – User Guide for details on operating instructions);

(b) by SWIFT (MT54* series. For detailed field description, please refer to SWIFT Message Format Specification for CMU Transactions and CMU Linkage Transactions);

(c) subject to Part I – clause *5.2* of this Manual, by hand or by post (Appendix I.1) to the MA's office at 55th Floor ,Two International Finance Centre, 8 Finance Street, Central, Hong Kong and marked for the attention of "Central Moneymarkets Unit" ; or

(d) subject to Part I – clause *5.2* of this Manual, by authenticated facsimile using the following facsimile numbers:

(852) 2878 1676
(852) 2878 1677
(852) 2878 1678
(852) 2878 1679;
or

(e) by automatic feeding of transactions (AFT) concluded on the electronic trading platform (only applicable to those CMU Participants who have registered to use electronic trading platform provided by the service provider). After the instructions have been successfully fed into CMT, the instructions can be viewed in CMT for further processing.

Transfer instructions submitted via CMT, SWIFT or facsimile are to be settled in real-time. Transfer instructions having settlement mode (if any) other than "real-time" will be rejected by the CMU system.

Real-time	Types of Securities
(1) DvP	CMU Instruments, EF Papers, GBs and Specified Instruments
(2) FoP	CMU Instruments, EF Papers, GBs and Specified Instruments

CMT and SWIFT only supports DvP securities transfer of CMU Instruments to be settled in Hong Kong dollar and other foreign currency that have RTGS linkage with the CMU. For DvP securities transfer of CMU Instruments to be settled in non-RTGS settlement currencies, CMU Participants must submit transfer instructions via authenticated facsimile to the MA.

4.1.3 Input Cut-off Times

CMU Participants may also send transfer instructions up to 30 calendar days before the intended settlement date. Forward value instructions are accepted round the clock except when the CMU system is performing housekeeping or maintenance job.

The following summarizes the various input cut-off times for instructions sent via CMT, SWIFT, or facsimile:

	Instruction Type	CMT / SWIFT	Facsimile
(a)	Transfer instructions for		

	Instruction Type	CMT / SWIFT	Facsimile
	value the current day:	8:30 a.m. to 6:30 p.m.	8:30 a.m. to 6:00 p.m.
(b)	House transfer instructions for value the current day:	8:30 a.m. to 5:00 a.m. of the next calendar day	8:30 a.m. to 6:00 p.m.
(c)	Forward value instructions:	any time except when the CMU system is performing housekeeping or maintenance job	8:30 a.m. to 6:00 p.m.

The MA reserves the right not to deal with any transfer instructions received after the above cut-off times.

4.1.4 Instruction Involving Unknown Issue Number

For transfer instructions sent via SWIFT MT540-543 with unknown issue number, the CMU system will not reject such MT540-543 messages but will keep them for future processing. Detailed arrangements are as follows:

(a) CMU system will return an MT548 message to the relevant CMU Participant notifying the CMU Participant of the “unknown issue” status.

(b) The MA will endeavour to investigate the eligibility of the securities.

(c) However, if the MT540-543 messages fail to pass the validation on any other fields, these messages will still be rejected by the CMU system.

(d) As these instructions with unknown issue numbers have not yet passed the entire validation process in the CMU system, they will not be available for enquiry via CMT.

(e) If a CMU Participant wishes to cancel such transfer instruction, it is required to send a cancellation request via SWIFT.

(f) Securities Transfer instructions with unknown issue number will be validated again whenever the earlier of the following happens:

(i) the issue number is created in the CMU system; or
(ii) the settlement date is hit.

(g) On the settlement date of a securities transfer instruction, if the relevant issue number remains unknown, such transfer instruction will be rejected by the CMU system when it re-opens at 8:30 a.m.

CMU accepts no liability for any losses incurred in relation to assumptions that a transfer instruction with an unknown issue number will be accepted by the CMU system. CMU Participants should exercise due control to ensure correctness of the issue number when inputting securities transfer instructions into the CMU system.

Unlike securities transfer instructions sent via SWIFT, those instructions sent via CMT or authenticated facsimile with unknown issue number will continue to be rejected during the validation process by the CMU system.

4.1.5 Linked Transactions

4.1.5.1 Conditions for Linked Transactions

A CMU Participant may link the specific receipt and delivery instruction(s) for the same securities and Securities Account for real-time settlement. CMU Participant can assign a "pool reference" to the linked transfer instructions during input. Securities from the linked receipt will then be held up and be used for the specified linked deliveries, and linked deliveries will only be executed upon execution of the linked receipt. The link is maintained until all linked deliveries are settled, or until the conditions as described in Part II – clause *4.1.5.4* (e) below are met. To achieve smooth settlement, CMU Participant is advised to input the linked receipt and delivery instruction(s) at the same time.

The settlement of a linked receipt transaction is the same as a non-linked one, except that the linked receipt transaction must be settled before the settlement of its linked delivery transaction(s). The full amount of received securities of the linked receipt will be reserved for its linked delivery transaction(s) and the quantity cannot be used by any other non-linked delivery transaction(s).

Illustrated examples showing various conditions and processing flow for ked transactions are provided at Appendices I.2 to I.8.

4.1.5.2 Acceptance Criteria

The settlement of linked transactions will only link up the securities movement between one receipt transaction and one or more delivery transaction(s). The amount of securities indicated in the receipt and

delivery transactions need not be the same. For a securities transfer to qualify as a linked transaction, it must:

- be DvP, FoP or house transfer;
- be for the same issue of securities;
- be involving the same Securities Account; and
- bear the same specific pool reference

For a house transfer to qualify as a linked transaction, it must be placed either at the beginning or at the end of a chain of linked transactions.

4.1.5.3 Pool Reference

The pool reference is the unique identifier for all linked transfer transactions. It can be up to 16 alphanumeric characters long and must be unique per instructing member's Securities Account and for all linked transactions involved.

4.1.5.4 Maintenance of Linked Transactions

(a) Unexecuted linked receipt transaction or securities standing to the credit of a Securities Account which are part of a linked set remain linked as long as the linked delivery transactions remain unexecuted.

(b) The amount of linked securities available in a linked set is the sum of the amount of securities in:

(i) the executed linked receipt transactions, plus any available securities in the Securities Account

(ii) minus the amount of securities in executed linked delivery transactions.

(c) If a linked delivery transaction is cancelled, the linked receipt transaction that remains will continue to be processed as usual. If another delivery transaction is linked to this existing linked receipt transaction by using the same pool reference, then these two receipt and delivery transactions will be classified as a qualifying linked instruction belonging to the same linked set.

(d) For transactions to be and remain linked before CMUS/EFCS cut-off, there must be at least one valid linked receipt and/or one valid linked delivery transaction bearing pool reference. Therefore:

(i) when securities are received and credited to Securities Account following the execution of a linked receipt, there must be a valid

delivery transaction with the same pool reference which has not yet been positioned or cancelled

(ii) when a linked delivery transaction is positioned, there must be a valid receipt transaction with the same pool reference awaiting execution which has not been cancelled or already executed with a resulting credit of securities to the Securities Account.

(e) Securities will no longer be available as linked securities for linked transactions if:

- the CMU Participant cancels the linked delivery transaction(s); or
- there is no more linked delivery transaction(s) (including unmatched transaction) pending for settlement during the day; or
- at CMUS/EFCS cut-off (currently set at 6:30 p.m.)

4.1.6 Matching Process

Any transfer instructions sent to the CMU system will undergo a real-time matching process. CMU system will try to match a new record with all available unmatched records in the system. All of the following data fields will be matched during the pre-matching process:

(a) Input settlement date, can be a past date up to 10 calendar days from the current value date and will be matched only if both parties have input the same past settlement date;
(b) Trade date, only if both parties have input the trade date;
(c) Seller account;
(d) Buyer account;
(e) Issue number;
(f) Nominal currency;
(g) Nominal amount;
(h) Settlement currency (for DvP instruction, the field must be matched and for FoP instruction, only if both parties have input the settlement currency.);
(i) Settlement amount (for DvP instruction, the field must be matched and for FoP instruction, only if both parties have input the settlement amount and the matching of the settlement amount is subject to the tolerance limit as mentioned in Part II – clause *4.1.7* below);

All securities transfer will automatically be settled in real-time until EFCS/CMUS cut-off on the settlement date. Therefore, the settlement mode will no longer be an input field in CMT. However, the settlement mode field is an optional field in SWIFT MT540-543. If CMU Participants wish to include this field in their SWIFT instructions, the only acceptable

value is real-time (i.e. "YRTG" in field 22F::RTGS of sequence E). Otherwise, the SWIFT messages will be rejected by the CMU system.

If no match is found, the record will be added to the list of unmatched instructions for subsequent pre-matching process.

4.1.6.1 Unmatched Instruction

The above process will be repeated sequentially for each new unmatched instruction (which can be a new instruction or unmatched instruction as a result of cancellation by either party).

In case of any mismatch caused by late receipt or non-receipt of transfer instructions from any of the CMU Participants, it will be the responsibility of such CMU Participant to rectify its mismatch instructions and follow up with its counterparties directly before 6:30 p.m. on the settlement day.

4.1.6.2 "Matching Only" Indicator for Securities Transfer Transcation

This indicator enables participants to temporarily hold back a securities transfer from settlement, even if securities or cash is available, and to turn it off only when settlement is desired. This function is available for free of payment or against payment instructions.

Instruction matching is not affected by this indicator. Once it is turned off, the instruction follows the normal settlement pattern.

This indicator can be turned on by either party or both parties of the transfer instruction, even if it is in the matched status, it will not proceed for further settlement until both of the buyer and seller have turned off the indicator. This is not a matching field. Below is the system behaviour of this "matching only" indictor for a securities transfer:

Scenario	Transaction Status	"Matching Only" Indicator		Proceed to Settlement by the System
		Seller	Buyer	
Unmatched	Unmatched (UMA)	Yes/No	Yes/No	✘
Matched for matching only	Pending Buyer / Seller Release (PBS)	Yes	Yes	✘
	Pending Seller Release (PSR)	Yes	No	
	Pending Buyer Release (PBR)	No	Yes	
Matched for settlement	Matched (MAT) Insufficient Direct Debit Limit (IDL)	No	No	✓

	Insufficient Stock (ISK) Pending Payment Advice (PPA)			

4.1.7 Tolerance Limit of Settlement Amount

During matching process, if the discrepancy of the settlement amount is not greater than 10.00 (absolute value for all currencies), or any other value as determined by the CMU from time to time, the instructions will be deemed matched. The settlement amount indicated by the seller will be used for execution.

4.1.8 Cancellation

A transfer instruction cannot be amended. A CMU Participant who wishes to amend a transfer instruction will have to cancel the original instruction and submit a new instruction to the CMU in accordance with the above arrangements, and observe the cut-off times as stipulated in Part II - clause *4.1.3*.

Any transfer instructions, irrespective of the means they are sent to the CMU system such as by CMT, SWIFT, automatic feeding through electronic trading platform or authenticated facsimile can be cancelled by the CMU Participant before the CMUS cut-off time if the transaction has not yet been settled.

Cancelling a matched instruction will result in the unwinding of the matched transactions. The counterparty's instruction will become unmatched and the real-time matching processing will be triggered to match the instruction with other unmatched instruction.

4.1.9 Settlement

4.1.9.1 Real-time Settlement

Real-time processing for securities transfer begins after the CMU system re-opens (currently set at 8:30 a.m.), and runs continuously until EFCS/CMUS cut-off (currently set at 6:30 p.m.) on the settlement date. Settlement of a past-settlement-date transaction will be the same as a current-settlement-date transaction, except that the actual settlement date is different from the input settlement date.

In order to debit securities for a delivery transaction that is not linked, there must be sufficient securities available in the Securities Account in real-time.

In order to debit securities for a delivery transaction that is linked, if there are insufficient linked securities available at the time of positioning, there must be sufficient non-linked securities in the Securities Account to cover the shortfall.

To enhance the settlement efficiency of CMU transactions in real-time, a liquidity saving device, the CMU optimiser, is introduced and scheduled to run three times during a business day. CMU optimiser can settle CMU transactions simultaneously on a multilateral offsetting basis, therefore raising the proportion of securities transfer with real-time settlement. More description on CMU optimiser can be found in this Part II - clause *4.5* below.

4.1.9.2 **Insufficient Securities/Funds for Settlement**

In entering into the CMU Membership Agreement and/or upon accepting appointment as an RD, a CMU Participant has undertaken not to incur a short position in any of the debt securities held within the CMU system and if a short position is incurred, it will take whatever actions as may be required to rectify the position. For a securities transfer, if a CMU Participant does not have sufficient securities or funds for settlement, the transaction will be queued in the system until sufficient securities or funds are met.

Real-time securities transfers are posted immediately upon successful debiting of funds from the buyer and debiting of securities from the seller. These transactions are final and irrevocable and will not be subject to skipping/unwinding in case a short position is incurred.

The MA reserves the right to reverse any erroneous credit or debit to any Securities Account.

CMU Participants should monitor the transaction status change via the on-line enquiry functions of the CMT until the transactions reach the end-of-life status.

4.1.9.3 **Settlement Finality**

Notwithstanding the means by which they are submitted, all local securities transfer effected through the CMU system shall be settled by the MA by debiting or crediting the relevant Securities Accounts of the CMU Participants concerned and once debited or credited to such Securities Accounts, such securities transfer shall be deemed made, completed,

irrevocable and final. Money and securities are immediately available for reuse subsequently.

With respect to the securities transfer effected through the cross-border bilateral linkage services as set out in the various chapters of this Manual, the following provisions will apply:

(a) in relation to the securities transfer effected between two CMU Participants through bilateral linkages, such securities transfer shall be deemed made, completed, irrevocable and final once the MA has debited or credited to the relevant Securities Accounts of the CMU Participants concerned;

(b) in relation to the securities transfer effected between a CMU Participant and a non-CMU Participant through the bilateral linkages, the final and irrevocable settlement of such securities transfer will be determined by the law governing the operations of the relevant overseas securities depository; and

(c) in relation to the securities transfer effected between two CMU Participants or between a CMU Participant and a non-CMU Participant through the Euroclear and Clearstream linkages, the final and irrevocable settlement of such securities transfer will be determined by the law governing the operations of Euroclear and Clearstream respectively.

4.1.10 Handling of Unsettled Matched Transactions and Unmatched Instructions

4.1.10.1 **Re-processing of Transaction**

Any matched but unsettled transactions will be carried forward to the next business day for positioning again by the CMU system. In addition, unmatched instructions will also be carried forward for further matching on the following business day. All the original transaction details such as input settlement date and settlement amount will be preserved and kept unchanged. The CMU system will continue to process these transactions until they are executed or cancelled by the CMU Participants or rejected by the MA.

4.1.10.2 **Cancellation by CMU System**

At the specified time described below, the CMU system will automatically cancel all these securities transfer instructions whereby the specified settlement date of such transaction is more than 10 calendar days from the

current value date.

Cancelled at:	Unsettled securities transfer	Unmatched instruction
6:30 p.m.	DvP, FoP	DvP, FoP
5:15 a.m. of the next calendar day	House transfer	n.a.

4.2 Delivery versus Payment Facility

4.2.1 Delivery versus Payment Facility

Delivery Versus Payment (DvP) functionality is available in CMU system although the MA reserves the right to revoke the DvP option of a CMU Participant under exceptional circumstances.

User of this facility will have to pay the necessary charges in accordance with the prevailing fee schedule.

CMU Participants can choose to settle their transactions on DvP or Free of Payment (FoP) basis. CMU will process both DvP and FoP transactions in real-time.

A DvP transaction can only be executed when both counterparties are entitled to use the DvP facility.

4.2.2 Availability

DvP functionality is available both for new issue allotment at the primary market and secondary transfer.

The CMU system will effect allotment or transfer of title upon receipt of the required settlement funds from CMU Participants or their settlement banks.

The MA does not guarantee either transfer of securities title or money settlement, but will execute transactions only when both securities and funds are available at the time of settlement.

Once a DvP transaction or a FoP transaction has been settled pursuant to the provisions of this Manual, the CMU Participant concerned may

immediately use the available balance (if any) in respect of its Securities Account and/or settlement account (as the case may be). CMU Participants who are not direct participants in the RTGS systems should be aware that all DvP transactions will be subject to the credit risk of their respective settlement banks.

4.2.3 Settlement Currency

Hong Kong dollar, US dollar, euro, and renminbi (ISO currency code CNY) are accepted as settlement currencies for transactions settled through the RTGS systems in Hong Kong. The CMU system also supports cross-currencies settlement that allows a transaction to be settled in a currency which is different from the denomination of the securities.

4.2.4 Securities Clearing and Settlement Procedures for Hong Kong dollar, US dollar, euro and renminbi DvP

All DvP transactions will follow the general principles of transfer including the cut-off time as stipulated in Part II – clause *4.1*. The objective of DvP settlement mode is to match money settlement against transfer of title, which are handled and synchronised by the CMU system and the relevant RTGS systems. CMU system will perform real-time matching at the time of input and try to process any matched transactions in real-time on the settlement day. The processes are as follows:

(a) On the settlement day, the CMU system will try to hold sufficient securities in a seller's Securities Account for accepted DvP transactions.

(b) If there are insufficient securities in the seller's Securities Account, real-time DvP transactions will be placed in a queue and the CMU system will check the Securities Account to see if there are sufficient securities at 15-minute intervals until CMUS cut-off at 6:30 p.m.

(c) If sufficient securities are held, and the relevant CMU Participant (i.e. the buyer) or its settlement bank has set the CMU-related payment at RTGS system to "auto-generation" mode, the payment legs of all DvP transactions of the CMU Participant will be generated automatically.

- For the auto-generation mode with "Normal Queue" setting, the payment leg will be appended at the end of the normal queue at RTGS system.

- For the auto-generation mode with "Pending Queue" setting, the payment leg will be appended at the end of the pending queue at RTGS system.

(d) However, if the CMU Participant (i.e. the buyer) or its settlement bank has set the CMU-related payment parameter at RTGS system to "No auto-generation" mode, the payment legs of the relevant DvP transactions will not be generated. The CMU Participant or its settlement bank will have to manually construct (i) IFT05 payment instruction for the DvP trade involving EF Papers, GB, or Specified Instrument; or (ii) the IFT06 payment instruction for the DvP trade involving CMU Instruments via SWIFT MT202 by making use of the payment notification SWIFT MT298 or the CMU payment notification in eMBT.

(e) The MT298 will carry all payment details required for the preparation of the IFT payment 05/06 payment instructions. Please refer to Appendix A.13 for the preferred settings of the operational parameters related to the CMU.

(f) Once the funds and securities held are sufficient, real-time gross settlement can take place immediately. The Securities Accounts and settlement accounts of the buyer and the seller concerned are debited and credited accordingly.

(g) If a transaction is unsettled at the time when a CMU optimiser run commences, it will be settled together with other eligible CMU transactions during that run. CMU optimiser can settle CMU transactions simultaneously on a multilateral offsetting basis. More detailed description of CMU optimiser run can be found in Part II – clause *4.5* of this Manual.

(h) If a real-time transaction is unsettled due to insufficient funds, the IFT05/06 payment request will be queued in IFTP until 6:30 p.m. By then all such unsettled payment requests in the queue (both normal and pending queue) will be cancelled and the real-time DvP transactions, if applicable, will be re-processed on the following business day.

(i) If one of the counterparties of a DvP transaction is the MA and the settlement currency is Hong Kong dollar, payments will be effected by direct debit/credit through the settlement account of the CMU Participant or its settlement bank. No IFT payment request will be generated.

Settlement is done on a multilateral netting basis. RTGS system will format settlement advice in MT900/910/202 format and distribute it to CMU Participants or their respective settlement banks via SWIFT. Settlement entries are displayed individually in bank statements for CMU Participants or their settlement banks for reconciliation of their transactions on a deal-by-deal basis.

4.2.5 Foreign Currency (other than US dollar, euro and renminbi) Settlement

CMU Participants who wish to settle their DvP transactions in foreign currency other than US dollar, euro and renminbi are required to maintain a multi-currency settlement account with the agent bank, HSBC. An explicit authorization must be given to the agent bank to execute settlement instructions from the MA arising from transactions in CMU Instruments.

CMU Participants can choose to settle CMU Instruments in currency other than the denominated currency. For example, he can transact in a US dollar instrument and use Pound Sterling as the settlement currency, or vice versa. The following types of foreign currencies are available for settlement:

UAE Dirham	AED
Australian Dollar	AUD
Canadian Dollar	CAD
Swiss Franc	CHF
Pound Sterling	GBP
Indonesian Rupiah	IDR
Japanese Yen	JPY
Kuwaiti Dinar	KWD
Malaysian Ringgit	MYR
New Zealand Dollar	NZD
Philippines Peso	PHP
Swedish Krona	SEK
Saudi Arabian Rial	SAR
Singapore Dollar	SGD
Thai Baht	THB
South African Rand	ZAR

and other currencies as the MA may specify from time to time.

The DvP transaction can only be executed when both counterparties specified the same settlement currency in their transfer instructions.

4.2.6 Securities clearing and settlement procedures for foreign currency (other than US dollar, euro and renminbi) DvP transactions

All these types of DvP transactions are to be settled during the CMU optimiser run at 4:00 p.m. and will follow the general principles of transfer as stipulated in Part II –clause *4.1* of this Manual. The objective of such DvP is to match money settlement against transfer of title. The role of CMU is to synchronise the two processes.

For securities transfer to be settled in foreign currencies other than US dollar, euro and renminbi, the arrangements are as follows:

(a) CMU Participants must send in "Securities Transfer Form" (Appendix I.1) to the CMU.

(b) The CMU will forward settlement instruction to agent bank who will prepare settlement entries pending the confirmation from CMU.

(c) Amount representing the required money obligation will be put on hold in the settlement account.

(d) Agent bank will inform the CMU of any members with insufficient fund.

(e) Upon completion of securities transfer, CMU will inform agent bank to effect money settlement.

(f) Agent bank will post debit entries to the settlement accounts on a deal-by-deal basis.

CMU Participants will receive the full account details from their bank account statement provided by the agent bank.

4.2.7 Simultaneous Processing of DvP and Collateralisation for EF Paper

The Simultaneous Processing of DvP and Collateralisation (SPDC) facility is provided to enable the smooth settlement of DvP transactions on a real-time basis. The SPDC is available to any RD who is a bank to use Exchange Fund Paper being bought in a DvP transaction as eligible securities for a repo transaction so as to obtain intraday funding from the MA to pay for the DvP transaction concerned. However, only those DvP transactions that are traded using the Main Account (000) of the RD are eligible for the SPDC. A detailed description of the SPDC is set out in Part III – clause *1.2* of this Manual.

4.3 Settlement Arrangements

4.3.1 Money Settlement arising from DvP/Investment Fund Order Instruction

Money settlements arising from DvP transactions are settled through the settlement accounts in the RTGS systems in Hong Kong irrespective of the settlement currencies.

For Hong Kong dollar-denominated securities settlement, the transactions will be settled through the settlement accounts maintained with the MA. For US dollar, euro and renminbi-denominated securities settlements, the transactions will be settled through the settlement accounts maintained with the Settlement Institution (SI) of the US dollar and euro RTGS systems, and Clearing Bank (CB) of the renminbi RTGS system respectively.

4.3.1.1 **CMU Participants which are Direct Participants of RTGS system**

For CMU Participants which are direct participants in the Hong Kong dollar RTGS system, their Hong Kong dollar transactions will be settled through their own settlement accounts maintained with the MA.

A similar requirement is also required for settlement of US dollar, euro and renminbi transactions. For CMU Participants which are direct participants in the US dollar, euro and/or renminbi RTGS systems, their US dollar, euro and renminbi transactions will be settled through their own settlement accounts maintained with the relevant SI or CB (as the case may be).

4.3.1.2 **Non-bank CMU Participants**

In the event that the CMU Participants are not direct participants in the Hong Kong dollar RTGS system, they will be required to appoint settlement banks which are direct participants in the Hong Kong dollar RTGS system, to settle their Hong Kong dollar transactions. Such an appointment of settlement bank shall be made prior to joining the CMU, despite the fact that whether such appointment will facilitate a CMU Participant's DvP settlement in CMU or not.

Unlike the requirement for Hong Kong dollar-related settlement, it is not mandatory for the CMU Participants which are not direct participants, to appoint settlement banks to handle their payments in US dollar, euro and renminbi if they have no need for US dollar-, euro- and renminbi-DvP settlements in the CMU.

A CMU Participant which is neither direct participant in the Hong Kong dollar nor in the US dollar, euro or renminbi RTGS system, may appoint a

bank or different banks to act as its Hong Kong dollar, US dollar, euro and/or renminbi settlement banks (as the case may be).

4.3.2 Direct Debit Limit

Each CMU Participant shall maintain a separate daily direct debit limit (DDL) in Hong Kong dollar, US dollar, euro and renminbi in order to manage its credit exposure caused by settlement in respective currencies.

DDL controls real-time securities transfers as well as other CMU transactions (with IFT payment codes: 05, 06, 31, 38, 39 and SAP payment codes: ALOTDB, PAYINT, PAYREM, RTINT, RTREM, WTX, FEE, RTDVP, FUDSUB, FUDREM, BNKSAL, BNKPUR, CMUPMT) irrespective whether these transactions are settled outside or during the CMU optimiser run. Therefore, DDL for a CMU Participant should always be set during a business day so as to optimise settlement efficiency for CMU transactions.

A CMU Participant who is a direct clearing member of the respective RTGS system will be set to a value of 999,999,999,999,999 by the CMU system. As to the setting of DDL for non-bank CMU Participant, it is maintained by its settlement bank.

4.3.2.1 Enquiry

Those CMU Participants and appointed settlement banks which are direct participants in the Hong Kong dollar, US dollar, euro and renminbi RTGS systems shall have access to enquire about and adjust the relevant direct debit limits through their respective CMTs.

For CMU Participants who are not direct participants in the Hong Kong dollar, US dollar, euro or renminbi RTGS systems, they can only have enquiry access to the latest position of each of the relevant direct debit limits through their CMTs.

4.3.2.2 Maintenance

Daily direct debit limits can be managed by the settlement banks during the time when the CMU system is available. Whenever there is any adjustment made on direct debit limit, the corresponding available direct debit limit will be adjusted accordingly.

4.3.3 Reset of DDL by System

The CMU system shall reset the available direct debit limits for all CMU Participants to the direct debit limits designated by the CMU Participants or their appointed settlement banks before the CMU system opens in the morning of each business day. Available direct debit limits can be increased or reduced during the day as a result of settlement of the following CMU transactions:

(a) DvP allotment (if applicable);
(b) DvP sale and purchase of securities ;
(c) redemption and coupon payment;
(d) money settlement of Investment Fund Order instructions;
(e) Deposit of funds via HK RTGS;
(f) Withdrawal of funds via HKD RTGS;
(g) Bank Repo Sale/Repurchase; and
(h) Billing

4.4 Market Making Arrangement for Market Maker of EFBN / Specified Instruments

4.4.1 Appointment of MM

In order to create a liquid secondary market for Exchange Fund Paper and to avoid any issue from being cornered, an RD for EFBN may be appointed as MM and will be allowed to incur short positions subject to the requirements and procedures set out below. A MM may only hold a short position provided that:

(a) its appointment as MM by the MA has not been revoked;

(b) the short position is within such margin limit as may be imposed by the MA on the MM; and

(c) the MM holds, as sole beneficial owner free from any security or other interest, a long position of sufficient margin in respect of debt securities or such other form or marketable Hong Kong dollar debt securities as the MA may specify from time to time.

4.4.2 Short-selling Arrangement

4.4.2.1 **During CMU Optimiser Runs Scheduled at 11:47 a.m. and 2:47 p.m.**

The following stipulates the arrangement that will happen in the CMU optimiser run when a MM incurs a short position on EFBN where such short

position can be fulfilled after substituting the Purchased Securities in th Sale and Repurchase Agreement entered into between the MA and the MM.

Substitution of Purchased Securities can be done by using the Eligible Securities currently held by the MM's Securities Account, or by purchasing from the MA additional securities. Such arrangement serves to promote the liquidity of EFBN and apply to any outstanding Sale and Repurchase Agreement entered into between the MA and the MM.

(a) Substitution of Purchased Securities

(i) Whenever there is a delivery of an EFBN transaction of a MM of which there is no such or insufficient available securities in its Securities Account, the MA shall proceed to transfer the Purchased Securities or Equivalent Purchased Securities to the MM's Securities Account in exchange for the simultaneous transfer from the MM's Securities Account of any or all of the Eligible Securities (the Substituted Securities) unless the MM notifies the MA in writing to the contrary.

(ii) With respect to an outstanding Sale and Repurchase Agreement, the Substituted Securities must be Eligible Securities, though the Substituted Securities may not be the Purchased Securities or the Equivalent Purchased Securities (as the case may be) of that Sale and Repurchase Agreement.

(iii) The Substituted Securities to be provided by the MM shall have a DMV which is of the same value or greater than the DMV of the Purchased Securities or the Equivalent Purchased Securities. Substitution process will fail if the sum of (i) the DMV of the Purchased Securities or Equivalent Purchased Securities (as the case may be) that will not be substituted; and (ii) the DMV of the Substituted Securities, falls below the Repurchased Price.

(iv) A Sale and Repurchase Agreement that is varied pursuant to this sub-clause shall continue in effect as though the Purchased Securities or the Equivalent Purchased Securities (as the case may be) under that Sale and Repurchase Agreement consisted of or included the Substituted Securities instead of the Purchased Securities or the Equivalent Purchased Securities (as the case may be) in respect of which the Substituted Securities have been transferred to the MA.

(b) Additional purchase of Purchased Securities and additional sale of Securities

(i) Whenever there is a delivery of an EFBN transaction of a MM of which there is neither such securities present in its Securities Account

nor any such (or insufficient) securities existed in an outstanding Sale and Repurchase Agreement, the MA shall proceed to transfer such additional Securities to the MM's Securities Account in exchange for the simultaneous transfer from the MM's Securities Account of such additional Purchased Securities unless the MM notifies the MA in writing to the contrary.

(ii) If the MA purchases additional Purchased Securities from the MM under an outstanding Sale and Repurchase Agreement, the MA shall only deliver the additional Securities to the MM when the MA has received additional Purchased Securities from the MM.

(iii) With respect to an outstanding Sale and Repurchase Agreement, the additional Purchased Securities must be those Eligible Securities, though the additional Purchased Securities may not be the Purchased Securities or the Equivalent Purchased Securities (as the case may be) of that Sale and Repurchase Agreement

(iv) A Sale and Repurchase Agreement that is varied pursuant to this sub-clause shall continue to be in effect as though the Purchased Securities or the Equivalent Purchased Securities (as the case may be) under that Sale and Repurchase Agreement consisted of or included the additional Purchase Securities instead of just the Purchased Securities or the Equivalent Purchased Securities (as the case may be) in respect of which the additional Securities have been transferred to the Securities Account of the MM.

As the Substituted Securities and/or additional Purchased Securities and additional Securities mentioned in sub-clauses (a) and (b) above are part of the Sale and Repurchase Agreement, they will be repurchased altogether with the Repo Transaction of the previous day under the Sale and Repurchase Agreement for market making with the MA at the CMU optimiser run at 4:00 p.m.

4.4.2.2 **During CMU Optimiser Run Scheduled at 4:00 p.m.**

Whenever a short position is incurred for any MM during the CMU optimiser run at 4:00 p.m., the following process will be triggered:

(a) A MM who holds a short position (i.e., the position plus the reversal of i) any sale and repurchase transaction (Repo Transaction) of the previous day under the Sale and Repurchase Agreement for market making with the MA (Repo Agreement) ; and ii) any sale and repurchase transaction related to substitution and additional purchase of Purchased Securities and additional sale of Securities as described in this Part II, clause *4.4.2.1* above) in any issue at the end of a trading day must purchase

from the MA sufficient debt securities of the same type and issue to close its short position by entering into a Repo transaction with the MA.

(b) Through the Repo Transaction, the MM will purchase from the MA the amount of the particular issue of the debt securities necessary to cover the short position, and will sell to the MA Eligible Securities acceptable to the MA of sufficient market value calculated in accordance with a formula determined by the MA.

(c) Under the Repo Agreement, the MM will have agreed to sell and the MA will have agreed to purchase and procure the cancellation of such number of the debt securities equivalent to the short position by 4:00 p.m. (or such other time as the MA may specify) on the next business day following the day of the Repo Transaction.

(c) Upon completion of the CMU optimiser run at 4:00 p.m. on the day of the Repo Transaction, the CMU system will generate the "Securities Repo Report" (CMUD0911/CMUD09A1/CMUD09B1) for MMs detailing any securities sold by the MM and purchased by the MA under a Repo Transaction. MMs are required to reconcile it and such Report shall be deemed to be correct in the absence of manifest error unless the MM requests any correction by 6:00 p.m. on the same business day and such requested correction has been verified and confirmed by the MA.

(d) The MA reserves the right to set a limit on the value of Repo Transactions that any individual MM may enter into with the MA.

(e) Pursuant to the Repo Agreement, the rights, title and interests in the equivalent securities and equivalent purchased securities shall pass to the MA and the MM respectively no later than the completion of the CMU optimiser run on the next business day following the day of the Repo Transaction.

4.4.3 Failure to Close Short Position

Failure by a MM to close its short position on any business day may result in rejection by the MA in whole or in part of the transfer instructions for settlement received on that day involving that MM as a counterparty.

4.4.4 Short-selling not Available for Gross Real-time Securities Transfer

MMs should take note that such market making arrangement will not be available for real-time DvP transactions except for those included into CMU

optimiser run. They must maintain sufficient securities of that particular issue for real-time DvP on gross basis.

4.4.5 Un-accepted Securities

The MA must be notified when any holding of paper acceptable to the MA of a MM whom wishes to enter into a Repo Transaction with the MA is pledged to another party. Any paper so pledged will not be accepted as securities eligible for Repo Transaction purposes.

4.4.6 Closing of Short Position

4.4.6.1 Authorisation to Debit Settlement Account of MM by the MA

In the event that a MM closes its short position in any issue by entering into a Repo Transaction with the MA on the day before maturity (or on the day before interest payment), the MM unconditionally accepts that the MA will debit the MM's interbank settlement account (or its designated settlement account), in addition to any other rights available to the MA by law at any time and without notice to the MM concerned with an amount equal to the nominal value of the short position plus the amount of interest payable (or on interest payment date debit the MM's account with the amount of interest payable).

4.4.6.2 Settlement of Short Position

The MM will ensure that its settlement account has sufficient available funds on the payment date to enable payment of the principal, interest or any other sums due in respect of the short position and will authorise the MA, on the payment date, to debit the amount of such payments from the settlement account of the MM's settlement bank and transfer such debited amount to any account as specified by the MA.

4.4.7 Termination of Market Making Arrangement

The MA may terminate forthwith without notice the right of a MM to incur short positions in respect of debt securities maintained with the CMU at any time if a MM:

(a) becomes incapable of acting, or is adjudged bankrupt or insolvent, or files a voluntary petition in bankruptcy or makes an assignment for the benefit of the MM's creditors or consents to the appointment of an administrator, liquidator or receiver of all or any substantial part of the

MM's property, or if an administrator, liquidator or receiver of all or a substantial part of the MM's property is appointed, or the MM admits in writing the MM's inability to pay or meet the MM's debts as they may mature or suspense payment thereof, or if any order of any court is entered approving any petition filed by or against the MM under the provisions of any applicable bankruptcy or insolvency law or if any public officer takes charge or control of the MM or of the MM's property or affairs for the purpose of restructuring, administration or liquidation;

(b) fails to fulfil any obligation as stipulated in the Repo Agreement, or in this Manual or any other obligation related to the services provided by the CMU; or

(c) defaults in the due and punctual performance of any Repo Transaction and fails to remedy such default before the completion of the CMU optimiser run on that day.

If the issuer of a Specified Instrument revokes the MA's authority to issue on its behalf notes of any issue to cover short positions in that Specified Instrument of any MM, the authority of MMs to incur short position in the Specified Instrument of that issue shall terminate forthwith in which event notice shall be given promptly by the MA to each of the MMs.

4.4.8 Selection Criteria for Debt Securities to Cover Short Position by Long Positions

The process for selecting long positions in a debt security of a MM to cover a short position incurred by the MM is as follows:

(a) the long position with the shortest maturity mismatch with the short position will be selected as Repo security;

(b) if there are two long positions with exactly the same maturity mismatch with the short position, then the one with shorter days to maturity will be selected;

(c) steps (a) and (b) will be repeated if the market value of the selected security calculated using the formula specified by the MA is insufficient to close the short position;

(d) the selection process will stop when sufficient Repo securities have been selected; and

(e) the above process will be conducted by the CMU and the Repo Transaction details will be sent to the MM for action.

The diagrammatic presentation of the process is as follows: -

Legend

MV_S Market value of the short position

DMV_{L1} Discounted market value of the nearest long position, formula for calculation is set out at Appendix L.1
(A haircut of 2% per year of remaining maturity will be applied to Exchange Fund Paper in a Securities Repo Transaction. The MA reserves the right to vary the haircut percentage as he deems appropriate)

DMV_{L2} Discounted market value of the long position next nearest to the short position, formula for calculation is set out at Appendix L.2

4.5 CMU Optimiser

4.5.1 Introduction

To enhance settlement efficiency of CMU transactions in real-time, a liquidity saving device, the CMU optimiser, is introduced. CMU optimiser can settle CMU transactions simultaneously on a multilateral offsetting basis, therefore raising the proportion of securities transfers with real-time settlement. The transactions are treated as settled on a gross basis.

4.5.2 Types of CMU Transactions included in a CMU Optimiser Run

CMU optimiser runs are triggered automatically according to a pre-defined schedule during a business day. There are three CMU optimiser runs scheduled at around 11:47 a.m., 2:47 p.m. and 4:00 p.m. from Mondays to Fridays, except Operating Holidays. An overview of the settlement flow, settlement time and processing flow is illustrated in Appendix I.9

The MA may modify the schedules for CMU optimiser run within the day before the EFCS/CMUS cut-off when he thinks fit and at his absolute discretion.

Types of transactions to be included in each of the CMU optimiser runs are described in the below table:

	Types of Transactions	Daily Schedule		
		1st CMUO Run 11:47 a.m.	2nd CMUO Run 2:47 p.m.	3rd CMUO Run 4:00 p.m.
1.	Securities Transfer (DvP / FoP / House Transfer)*	✓	✓	✓
2.	Allotment	✓	✓	✓
3.	Deposit of Funds via HK RTGS	✓	✓	✓
4a.	Bank Repo Sale	✓	✓	✓
4b.	Bank Repo Repurchase	✓	✓	×
5.	SPDC Intra-day Repo Repurchase	✓	✓	✓
6.	MA Repo Repurchase (CNY)	×	✓	×
7.	DW/Overnight Repo Repurchase	×	✓	×
8.	Investment Fund	×	×	✓
9.	EFCS Issue Interest Payment & Redemption	×	×	✓
10.	Substitution / additional purchase and sale related to Securities Repo Sales and Repurchase	✓	✓	×
11.	Securities Repo Sales & Repurchase	×	×	✓

**excluding Simultaneous Processing of DvP and Collateralization (SPDC)*
Remarks: Linkage Transactions and Coupon & Redemption Payment for CMU Instruments are not included in any CMU optimiser run.

4.5.3 Processing Flow of a typical CMU Optimiser

Each CMU optimiser run consists of 5 sub-runs. The first 4 sub-runs involves only single currency securities transfer and in the processing sequence of the order of EUR, USD, CNY and HKD. After the 4 sub-runs

are completed, the 5th sub-run will be executed which involves cross currency securities transfer for all currencies. In the CMU optimiser run at 4:00 p.m., there is an additional sub-run (i.e. 6th sub-run) which covers securities repo repurchase, money settlement of investment fund and coupon and redemption for EFBN.

Basically, there are four processing stages involved in a typical CMU optimiser sub-run (to be more specific at sub-run level):

1. Initiation process
2. Hold-funds process
3. Offsetting process
4. Posting process

There is a system pre-defined maximum processing time of a CMU optimiser run to control the duration of the whole processing cycle. If the pre-defined maximum processing time for the first 5 sub-runs is reached, the CMU optimiser run will end and all selected transactions will then be released and all CMU securities and/or cash held will be cancelled. In the CMU optimiser run at 4:00 p.m., there is an additional sub-run (i.e. 6th sub-run) with securities repo repurchase which involve all settlement currencies. There is no maximum duration for the 6th sub-run. In case it is pending for follow-up action related to, for example, insufficient funds for settlement, it would be re-run after the situation is resolved.

4.5.3.1 Initiation Process

The initiation process involves the following steps:

(a) on-hold the following CMU related payments in CHATS until completion of the CMU optimiser run
   i) IFT payments such as IFT05, 06, 31, 38, 39; and
   ii) SAP payments with transaction codes such as : RTDVP, BNKSAL, BNKPUR, DWRPUR, ONRPUR, ALOTDB); and then

(b) select and snapshot the eligible CMU transactions (refer to this Part II - clause *4.5.2* above) from the CMU system.

For the avoidance of doubt, for those eligible transactions described in this Part II - clause *4.5.2* above, with the exception of USD transactions, even if the CMU related payments (such as IFT05, 06, 31, 38, 39) are in the pending queue or the payment legs (for IFT05 and 06 only) have not yet been created in CHATS, these eligible CMU transactions will still be selected for processing in the CMU optimiser run.

However, for USD transactions that do not have IFT payment legs in the CMU system, these USD transactions will not be selected for processing in the initiation process of CMU optimiser run. If CMU Participants intend to settle USD transactions in the CMU optimiser run, they need to ensure the related IFT payments are constructed and passed the HSSS screening successfully in USD CHATS.

4.5.3.2 **Hold-Fund Process**

A “CHATS hold fund limit” is introduced for each CMU Participant which is a direct clearing member of the RTGS systems. This is used to cap the hold-fund amount during each CMU optimiser run. It is set by the CMU system and cannot be updated by CMU Participant. Currently, the limit is set to a maximum value of 999,999,999,999,999 by the system.

The hold-fund process consists of the following steps:

(a) calculate the amount of funds to be held up; and
(b) send request to CHATS to hold up the required amount.

4.5.3.2.1 Calculation of cash amounts to be held up

The system will calculate the cash amount of the selected CMU transactions as follows:

(a) Sum up the total amount of funds to be paid for all transactions involving payment of cash. Transactions involving receipt of cash will not be counted at this stage.
(b) Check DDL of relevant CMU Participants.

Example to show calculation of the hold-fund amount is illustrated in the table below:

Settlement Currency	CMU Participant	Its Indirect Clearing Member (Non-Bank)	Total Debit Amount of all Payments (million)	Available (DDL) (million)	Accepted Amount after DDL checking (million)	CHATS hold fund limit	Requested Amount for hold fund (million)
HKD	BBBB (001)	--	500	**999,999, 999,999, 999**	500	**999,999, 999,999, 999**	850
	--	CCCC	200	300	200		
		DDDD	200	150	150		
	EEEE (003)		150	120	120	**999,999, 999,999, 999**	120
	WWWW (020)	--	80	**999,999, 999,999, 999**	80	**999,999, 999,999, 999**	350
	--	XXXX	100	180	100		
		YYYY	500	60	60		
		ZZZZ	300	110	110		

(c) After calculation, the requested amount for hold-fund will be HK$850mn, HK$120mn and HK$350mn for participants BBBB, EEEE and WWWW respectively.

4.5.3.2.2 Send hold-fund request to CHATS

<u>Requested hold-fund amount:</u>
CMUP will then send a request to CHATS to hold up the required amount of funds for each settlement bank concerned.

As the hold-fund amount is computed based on out-going payments only, such amount is expected to be larger than, or at least equal to, the net amounts (total credit amount less than the total debit amount) required to settle all transactions during a CMU optimiser run. The system is designed in a way to request the highest amount of funds on-hold during CMU optimiser run so as to minimize the turnaround time of exchanging balance information between CHATS and CMU systems during the offsetting and elimination process.

Moreover, bank participants are recommended to set DDL for their non-bank CMU Participants to the sum of the total out-going payment amount for the day so as to raise efficiency of passing through the limit checking process at each CMU optimiser run.

Below table shows the hold-fund request processing in CHATS

Settlement Currency	Direct Clearing Member (Bank)	CMUP Request Hold-Fund Amount (million)	Current CHATS		CHATS Held for CMUP Hold-Funds Request		
			Available Bank Balance (million)	Available Intra-day Repo Limit (million)	Available Bank Balance Held (million)	Available Intra-day Repo Limit Held (million)	Actual Hold-Fund Amount
HKD	BBBB (001)	**850**	520	300	520	300	820
	EEEE (003)	**120**	80	120	80	40	120
	WWWW (020)	**350**	200	100	200	100	300

Actual hold-fund amount:

(a) If the available cash balance can cover the requested hold-fund amount, then the actual hold-fund amount will be equal to the requested hold-fund amount.

(b) If the available bank balance is less than the requested hold-fund amount, automatic intraday repo amount (subject to the total intraday repo limit) will be calculated to meet the requested hold-fund amount.

Actual hold-fund amount = bank balance held + intraday repo limit held

The actual hold-fund amount, therefore, may be less than or equal to the requested hold-fund amount.

4.5.3.3 Offsetting Process

CMU optimiser eliminates securities and/or cash transaction automatically to fit the available securities, DDL and cash balances for settlement. In the offsetting process, each trial will go through the following three stages:

Stage	Trial
1.	Securities positioning If a participant's Securities Account is to be debited with securities then it must have sufficient securities in its Securities Account. If securities positioning failed, CMU system will perform automatic elimination of securities transactions until no short securities positions or no more securities transactions for elimination.
2.	Cash positioning for participant's available DDL checking If the available DDL checking fails, CMUP will perform automatic elimination of specific cash payment until passing the available DDL checking or no more cash payment for elimination.

Stage	Trial
3.	Cash positioning for participant's available cash checking If a participant's cash account is to be debited with cash then it must have sufficient cash in its cash account. If the available cash checking fails, CMU system will perform automatic elimination of cash payment until passing the available cash checking or no more cash payment for elimination.

4.5.3.3.1 Elimination of Selected Transactions

If a selected participant has a projected short position for securities and/or cash, CMU optimiser will eliminate its selected transactions one by one until the short position is closed or becomes a long position. The elimination of selected transactions will follow i) the order of settlement currency (in the order of EUR, USD, CNY, HKD); and ii) transaction types as illustrated in the table below on a last-in-first-out basis within each transaction type:

Item	Transaction Type	Elimination Sequence			Transaction Creation Time Used for Elimination
		Insufficient Securities	Insufficient DDL	Insufficient Cash	
1.	Deposit of Funds via HK RTGS	n/a *(Cash only)*	n/a *(Sufficient DDL held for waiting payment)*	1	Transaction input time
2.	Bank Repo Sale	n/a *(Sufficient securities held for waiting payment)*		2	Transaction status time of "matched (MAT)"
3.	Bank Repo Repurchase	n/a *(Release securities)*		3	Repo sale completion time
4.	Securities Transfer (DvP/FoP/House Transfer)	1	1 *(Apply to DvP only)*	4 *(Apply to DvP only)*	For DvP/FoP Transfer, last transaction status time of "matched (MAT)" For House Transfer, transaction input time
5.	SPDC Intra-day Repo Repurchase	n/a *(Release securities)*	n/a *(DDL not applicable)*	5	Repo sale completion time
6.	DW/Overnight Repo Repurchase			6	

7.	Allotment	n/a *(Credit securities)*	n/a *(Sufficient DDL held for waiting payment)*	7	Allotment creation time

Note: "Sequence = 1" means that the first transaction type to be eliminated

(a) the instructions to deliver the securities out of the Securities Account (Debit Instructions) will be arranged chronologically according to the time at which they are received by the MA. Debit Instructions on the same Securities Transfer Form will be arranged in the order as they are presented on the Form;

(b) Debit Instructions will be eliminated starting from the short position working backward to eliminate those instructions last received until the short position is closed or becomes a long position;

(c) a Debit Instruction will never be eliminated partially; it will be eliminated or accepted wholly;

(d) in case a short position of any CMU Participant is identified during the CMU optimiser run, notwithstanding the processing mentioned in this Part II - clause *4.5.3.3.1* (b) above, the MA and his officers and agents shall not be liable for any loss, damage or expense incurred by the CMU Participants so affected;

(e) the elimination of a Debit Instruction may have a knock-on effect on other Securities Accounts of the CMU system. If a short position is incurred by any of the Securities Accounts affected then the procedures under this Part II - clause *4.5.3.3.1* (a) to (d) above will be repeated for these Accounts as well;

(f) if all selected transactions of a selected participant are eliminated, this participant will be released from the offsetting process and its CMU securities and/or cash held will be cancelled. If all selected participants are released, the offsetting process will be terminated and the CMU optimiser run will end;

(g) if positioning is successful, the transactions will be executed during the relevant CMU optimiser run;

(h) if positioning is unsuccessful, the transactions remain unsettled and continue to be entered into subsequent processing for which they are eligible until executed or cancelled;

(i) Unsettled securities transfer can be reprocessed by the system for a maximum of 10 calendar days after the specified settlement date of the instruction;

(j) it is the responsibility of the CMU Participants to monitor the settlement status of all transactions after completion of the CMU optimiser run and follow up directly with their counterparties for any unsettled transactions.

The MA reserves the right to reverse any erroneous credit or debit to any Securities Account.

4.5.3.3.2 **Linked Transactions**

If a Debit Instruction containing a pool reference is required to be eliminated due to insufficient securities or cash during a CMU optimiser run, all of the other outstanding transactions having the same pool reference will also be eliminated at the same time. This will not affect those linked transactions that have already been settled. Like other unlinked securities transfer, if all linked transactions under a link set are eliminated, they can also be carried forward for settlement again on the next business day.

4.5.3.3.3 **Securities Repo Transactions**

During the first and second CMU optimiser runs i.e. those runs starting at 11:47 a.m. and 2:47 p.m. respectively, if a MM incurs a short position for EFBN and has an outstanding Securities Repo Transaction in place, the following securities movement will occur so as to generate the required securities for delivery by the MM:

(a) Substitution; and/or
(b) additional purchase and additional sale of Eligible Securities

During the CMU optimiser run scheduled at 4:00 p.m., a MM who holds a short position (i.e. the position plus the reversal of any sale and repurchase transaction (Repo Transaction) of the previous day under the Sale and Repurchase Agreement for market making with the MA (Repo Agreement)) in any issue at the end of a trading day must purchase from the MA sufficient debt securities of the same type and issue to close its short position by entering into a Repo transaction with the MA.

Through the Repo Transaction, the MM will purchase from the MA the amount of the particular issue of the debt securities necessary to cover the short position, and will sell to the MA Eligible Securities acceptable to the

MA of sufficient market value calculated in accordance with a formula determined by the MA.

No substitution or additional purchase and additional sale of Eligible Securities will be triggered in CMU optimiser run scheduled at 4:00 p.m.

Please refer the detailed short-selling arrangement described in this Part II - clause *4.4.2* of this manual.

4.5.3.3.4 Successful and Unsuccessful Positioning

(a) If positioning is successful, the selected CMU transactions will be executed during the relevant CMU optimiser run.

(b) If positioning is unsuccessful, the transactions remain unexecuted and continue to be entered into subsequent processing until executed or cancelled.

Example to show the detailed offsetting process of a typical CMU optimiser run is illustrated at Appendix I.10

4.5.3.4 **Posting Process**

If the total debit amount of selected transactions of a selected participant is greater than the total credit amount and if the cash balance of that participant is sufficient to cover the balance, CMU/CHATS will hold the net amount from the current balance of the selected participant (which is referred as “Offsetted Debit Amount” and update the account balances and transaction status.

If the total credit amount of selected transactions of a selected participant is greater than the total debit amount (the net amount is referred to as “Offsetted Credit Amount”, CMU/CHATS will proceed to update the balance and transaction status.

4.5.3.4.1 Updating DDL

The offsetted debit/credit cash amount of each selected participants will be recorded for posting. The available DDL will be updated accordingly.

4.5.3.4.2 Updating Transaction Status

Upon completion of the posting process, selected CMU transactions will be updated as “completed” accordingly. All settled transactions during the offsetting process carry the same settlement date and time, which is the posting process start time. CMU Participants can enquire the status update of individual transaction via CMT.

4.5.3.4.3 Updating Securities and Cash Balances

The offsetted debit/credit securities/cash amount of each selected participants will be recorded for posting.

Following the completion of a CMU optimiser run,

(a) the Securities Account of selected participant will be credited for receipt of securities and, if against payment, a debit to the settlement account; and
(b) the Securities Account of selected participant will be debited for delivery of securities and, if against payment, a credit to the settlement account.

Settlement finality occurs for all these transactions upon completion of the CMU optimiser run as a result of which the transactions are successfully executed and balances of Securities Accounts and settlement accounts updated.

5 CUSTODIAL SERVICES

5.1 Introduction

In view of market demand and CMU's ongoing commitment to provide quality services, the MA has developed a centralized corporate action platform in the CMU system to facilitate the processing of corporate events for debt securities. The platform supports corporate actions announcement (e.g. offer, options) and the execution of custody instructions (e.g. certification, exercise of an option) of debt securities lodged with the CMU. It is aimed to facilitate both issuers and investors to process corporate events of debt securities in a more effective and efficient manner.

Comprehensive custody services are provided to CMU Participants for securities held in the CMU. They include collection of coupon and redemption payments, exercise of an option, withholding tax reporting and proxy voting services etc. In accordance with the terms and conditions of an issue, custody operations may be subject to prior certification of beneficial ownership.

5.2 The MA as Paying Agent for EFBN, Specified Instruments and Paying Representative for Government Bonds

The MA is the paying agent for EFBN. Subject to the acceptance by the MA, the issuer of a Specified Instrument may appoint the MA to act as paying agent of the Specified Instrument and will pay to the MA a paying agent fee in accordance with the prevailing fee schedule. In addition, the MA has also been appointed as paying representative for Government Bonds.

5.2.1 Operating Procedure

The MA will be responsible for the disbursement of coupon payments and principal redemption to the respective RDs which are holding EFBN, Specified Instruments and Government Bonds as of the record date. The record date for these securities is the close of business, one business day before the payment date of the coupon or redemption.

One week before the coupon/redemption payment date, the MA will send notification of coupon/redemption payment to the relevant issuers of Specified Instruments or Government Bonds notifying them the total amount to be paid on the coming coupon date.

On the payment date, upon receipt of funds from the relevant issuer, the MA will pay RDs through their settlement accounts according to their holdings of the relevant Specified Instruments or Government Bonds in the EFCS.

5.2.2 Reports Available

On each coupon/redemption payment date for EFBN, Specified Instruments and GB, the CMU system will generate the following reports via the report function of CMT to each RD:

(a) Corporate Action Notification Report (CMUD6202) to each RD holding the relevant debt securities in any of its Securities Accounts or having pending instructions for such securities in the coming 5 business days before the payment date

(b) Coupon/Dividend and Redemption Notification Report (CMUD5601) to each RD with holdings in its clients account(s). The report will show, in respect of each account, the account number, nominal amount, coupon amount (if any) and total receivable amount on redemption.

(c) Issue Position Sub-Report (CMUD5501) to each RD holding any debt securities in any of its Securities Accounts. The report will show the account number, nominal value and description of the debt securities held in each of its Securities Accounts.

5.2.3 On-line Enquiry

RDs can also enquire the coupon/redemption payment transaction status on the payment date via the corporate events function of the CMT.

5.2.4 Payment/Securities Arrangement

The processes on the payment date are as follows:

(a) During the CMU optimiser run at 4:00 p.m., the coupon/redemption amount will be directly credited to or debited from (as the case may be) the settlement account of the relevant RD's designated settlement bank.

(b) Upon completion of the CMU optimiser run at 4:00 p.m.,

(i) RTGS system will format the settlement advice in MT900/910/202 format and distribute it to such RD or its settlement bank via SWIFT.

(ii) A redemption transaction (DvP) will be generated by the CMU system to deliver the matured securities from the relevant Securities Account of such RD.

(iii) The MA will advise the issuer of the relevant Specified Instrument that payments have been effected.

Where an RD holds the EFBN, Specified Instruments or Government Bonds on behalf of its customers, settlement of payments between such RD and its clients will continue to depend on the interbank settlement method and traditional payment methods.

For the avoidance of doubt, EFBN, Specified Instruments or Government Bonds subject to redemption (including early redemption) are not eligible for further transfer on the redemption date.

5.3 CMU Member as Paying Agent for CMU Instrument

The arrangements described in this Part II - clause *5.3* are intended for those income payments made by the paying agents outside the CMU system.

5.3.1 Reports Available to the Paying Agent

The CMU system will generate automatically the:

(a) Corporate Action Notification Report (CMUD6201) 5 business days before the payment date;

(b) Issue Position Report (Payment not Settled via HKMA) (CMUD5403) to the designated paying agent of a CMU Instrument on either:-

(i) the record date for coupon/redemption payment of the relevant CMU Instrument, or

(ii) such other date as may be agreed with such designated paying agent for the provision of such a report. The provision of such

report may not be restricted solely for the purpose of coupon or redemption.

The MA may for operational or other reasons at his sole discretion vary the dates on which such a report will be provided. The date on which such a report is provided (and this includes for the avoidance of doubt any variation as described in the preceding sentence) will be referred to herein as the "Record Date for Coupon or Redemption".

5.3.2 Record Date

Record date is the date on which the paying agent establishes which holders are eligible to receive the coupon, or other entitlement, on debt securities. The MA will send the reports mentioned in Part II section *5.3.1* above to the paying agent based on the record date convention provided by the agent. The record date, for most of the debt securities in the CMU system, is the close of business, one business day before the payment of the coupon (or other entitlement). The record date may vary according to the terms and conditions of each CMU Instrument.

If the record date of a debt securities is more than one business day prior to the payment date, members should note that securities transfer can still be made available during the period from the record date to the payment date. For technical and administrative reasons, the CMU system will NOT block such transfer. No automatic coupon compensation will be made on these securities transfer settled between the record date and actual payment date in the CMU system.

5.3.3 Payment Arrangement

The arrangements are as follows:

(a) In respect of CMU Instrument to which Part II - clause *5.3.1* above applies, the MA will inform CMU Members of the Record Date of coupon payment/maturity for that CMU Instrument.

(b) Each "Issue Position Report (Payment not settled via the HKMA)" (CMUD5403) will show the aggregate nominal value of the relevant CMU Instrument held by each CMU Member as at the Record Date. Each CMU Member acknowledges and agrees that the Issue Position Report as at their respective Record Date shall be used to determine the CMU Members to whom coupon/principal payments are due on the coupon/redemption dates of that CMU Instrument.

(c) Each CMU Member with holdings in the relevant CMU Instrument in any of its Securities Accounts, or having pending securities transfer instruction for such CMU Instrument will receive the Corporate Action Notification Report (CMUD6202) 5 business days before the payment date.

(d) Each CMU Member with holdings in the relevant CMU Instrument in any of its Securities Accounts will also receive an "Issue Position Sub-Report" (CMUD5501) on each Record Date, showing the identity, nominal value and description of that CMU Instrument so held, and a "Coupon/Dividend and Redemption Notification Report" (CMUD5601).

(e) It is the responsibility of the designated paying agent for the relevant CMU Instrument to arrange for coupon/redemption payment. The MA will not be responsible for and accepts no liability for any failure to or delay in the payment of coupon/redemption or deductions or errors made in relation to such coupon/redemption or any other matter directly or indirectly related to the payment of coupon/principal save to the extent caused by the wilful default or gross negligence of the MA, his servants or agents in the provision of the relevant reports.

5.3.4 Securities Arrangement

For redemption (including early redemption), a redemption transaction (FoP) will be generated by the CMU system to deliver the matured securities from the relevant Securities Accounts at CMUS cut-off time (currently set at 6:30 p.m.) on the maturity date.

For CMU Instruments, the MA shall authorise the issuer, the lodging CMU Member or its appointed agent who is also a CMU Member to withdraw the global note of the matured CMU Instrument from the Sub-custodian. Withdrawal of the CMU Instrument must be effected within two months of the date of maturity. In the event that the CMU Instruments are not withdrawn within the said two month period, they will be destroyed by the Sub-custodian or the CMU.

For the avoidance of doubt, securities subject to redemption (including early redemption) are not eligible for further transfer on the redemption date.

5.3.5 Information Change on Coupon Rate and Dates

Paying agents are required to inform the MA of any change in coupon rate (e.g. floating rate certificate of deposit (FRCD), floating rate note (FRN)) or coupon dates via the "Create CA Notification" function of CMT. The event

type to be inputted is "INFO". Please refer to section 1.2 of the CMT User Manual – User Guide (Part II for detailed description on how to input a CA notification.

Failing to input the correct coupon rate and date for a debt security will result in the CMU system generating incorrect CA notification and reports to securities holders.

5.4 Income Distribution Service

Income distribution is a service offered by the CMU to facilitate the CMU Members who are paying agents to distribute interest, coupon or redemption proceeds or all of them (collectively, the "income proceeds") to the legal title holders of CMU Instruments via the CMU system. This is an optional service provided to them for debt securities lodged with CMU before 23 April 2018. As for debt securities lodged on or after 23 April 2018, they will automatically be linked up to the CMU system with income payment distributed via CMU's Corporate Action Platform. Income proceeds distributed through this service must be one of the Hong Kong RTGS supported currencies i.e. Hong Kong dollar, US dollar, euro or renminbi.

5.4.1 Role of the MA

The role of the MA is to facilitate the paying agent to distribute income proceeds to the legal title holders of CMU Instruments but not to act as the agent of the paying agent. The MA shall not, by facilitating the payment of the income proceeds, in any way be liable to make any payment as principal or as agent for and on behalf of any issuers of CMU Instruments or their paying agents or both. The MA shall not be responsible for any loss, damage, cost, expense and liability (whether direct or indirect) arising from, or in connection with, the use of this income distribution service save to the extent caused by the wilful default or gross negligence of the MA, his servants or agents in the provision of such service.

If the paying agent does not subscribe to this income distribution service, the procedure as stipulated in Part II – clause *5.3* of this Manual shall prevail. It remains to be the responsibility of the paying agent to pay the income proceeds or other amounts due on the date when such payments are to be made.

5.4.2 Subscription of Service

For securities issued before 23 April 2018, only the paying agent can subscribe to this income distribution service. It can subscribe to the service by completing and returning "Income Distribution Subscription Form" (Appendix J.1) to the MA. The form must reach the MA no later than one month before the next interest payment date

Before subscribing to the service, the paying agent shall review the master documentation of the relevant CMU Instrument in order to determine whether income proceeds can be distributed via the CMU system. Once subscribed, the MA assumes the paying agent has exercised its due diligence in ensuring the use of the CMU system to distribute income proceeds has no conflict with all terms and conditions of the relevant CMU Instrument.

5.4.2.1 Securities issued on or after 23 April 2018

Except for certain debt securities as agreed by the MA on a case-by-case basis, such as those described in clause *5.4.3* below, new issues lodged with the CMU on or after 23 April 2018 will be arranged to use the income distribution service with income payment debited automatically (unless stated otherwise on the lodgement slip Appendix F.1) by the CMU system from the paying agent's settlement account at 3:45 p.m. (start of "CMUS coupon and redemption processing window"). Unlike those securities issued before 23 April 2018, no subscription of income distribution via Appendix J.1 is required.

If the paying agent subsequently would like to change the default setting for future payments of this CMU Instrument, it is required to submit Appendix J.1 to the CMU at least 6 business days before the next coupon payment date.

5.4.2.2 Securities issued before 23 April 2018

For securities issued before 23 April 2018 that have already subscribed to the income distribution service, they are also defaulted to allow the CMU system to automatically debit income proceeds from their settlement accounts at the scheduled time and perform the income distribution.

In case a paying agent does not wish the CMU system to automatically debit its settlement account at the scheduled time for income payment purpose, it is required to indicate such preference using the Appendix J.1. Once indicated, such option will form the default setting for the entire tenure of that specific CMU Instrument. If the paying agent subsequently would like to change the default setting for future payments of this CMU Instrument, it is required to submit another Appendix J.1 to the CMU at least 6 business days before the next coupon payment date.

5.4.3 Record Date

The record date in respect of the payment of the income proceeds of the CMU Instrument is the business day immediately preceding the payment date of such CMU Instrument. However, the record date may vary according to the terms and conditions of each CMU Instrument. For technical or administrative reasons, the CMU system currently cannot handle income distribution for issues having record date not equal to one day prior to the coupon payment date. i.e. the MA will always distribute income proceeds to legal title holders based on the closing account position record one business day before the payment date.

For debt securities having record date more than one business day prior to the coupon payment date, the MA will still distribute the income proceeds based on the closing account position one business day before the payment date. No automatic coupon compensation will be made on those securities transfer settled between the record date and the actual payment date. Paying agent should not subscribe to the income distribution service if such arrangement is not consistent with the terms and conditions of the issue documentation.

The payment of income proceeds shall be made by the paying agent based on the amount of the relevant instrument held in the CMU as at the record date. In case the payment date is not a business day due to whatever reasons, the payment date will be the next business day in accordance with the business day convention as described in the terms and condition of the relevant CMU Instrument.

5.4.4 Payments by the Paying Agent to the MA

The arrangements are as follows:

(a) The CMU system will generate "Corporate Action Notification Report (CMUD6201)" to the paying agent on the income proceeds to be paid 5 business days before each payment date for income proceeds distribution purposes

(b) The CMU system will generate the "Coupon/Dividend/Redemption Notification Report for Paying Agent (Payment Settled via HKMA)" (CMUD5402) to the paying agent on the actual <u>total</u> amount of the income proceeds to be paid one business day before each payment date for income proceeds distribution purposes.

(c) In case the amount of income proceeds does not agree with the amount shown in the record of the paying agent, the paying agent shall inform the CMU immediately and in any case no later than 12:00 noon on the payment date.

(d) If the paying agent fails to so inform the CMU of any discrepancy in the amount of income proceeds between the record of the paying agent and CMU report on or before 12:00 noon on the payment date, the MA reserves the right not to distribute any income proceeds to such paying agent on the payment date.

(e) At 3:45 p.m. on a payment date, the CMU will:

(i) debit the total amount of the income proceeds of the relevant CMU Instrument from the paying agent's settlement account if it is a direct participant or its settlement bank if it is an indirect participant of the RTGS system; and

(ii) credit that amount of the income proceeds to the MA's designated account.

(e) RTGS system will format the settlement advice in MT900 format and distribute to the paying agent or its settlement bank via SWIFT.

(f) The paying agent shall make sure that sufficient funds or sufficient direct debit limit for the income proceeds payment are arranged with its settlement bank before 3:45 p.m. on a payment date.

(g) If the MA is unable to debit the paying agent's account at 3:45 p.m. due to insufficient direct debit limit, the payment will fail and the agent needs to settle the payment of income proceeds outside the CMU system.

(h) If the MA is unable to debit the paying agent's settlement account at 3:45 p.m. on the relevant payment date due to insufficient fund, payment will be queued up in the settlement account until it has sufficient funds to be debited.

(i) If payment still cannot be made on or before 4:00 p.m. on the same payment date, the CMU will notify the respective legal title holders of the relevant CMU Instrument that payment cannot be made via the CMU system.

(j) Any follow up action on non-payment will be performed by the paying agent outside of the CMU system. CMU will not re-distribute the income proceeds to the legal title holders on the following business day.

5.4.5 Releasing or Withholding Payment by Paying Agent on Payment Date

5.4.5.1 To offer paying agents with better control (e.g. withholding payment in case of non-receipt of funds from the issuer) over the debit of funds from their settlement accounts for income payment on a payment day, a 'Release Payment Indicator' is introduced so that paying agents can choose beforehand whether to release income payments by themselves OR allow the CMU system to automatically debit income proceeds from their settlement accounts at 3:45 p.m. (start of "CMUS coupon and redemption processing window") and perform the income distribution.

5.4.5.2 For CMU Instruments that the paying agents have chosen to allow the system to automatically debit income proceeds from their settlement accounts, no action will be required by the paying agents on the payment day.

5.4.5.3 If a paying agent would like to change the setting for a particular income payment date on an ad-hoc basis (instead of changing the default setting of the CMU Instrument), it can apply such change manually via the "Maintain Income Payment Details" function of CMT for that particular payment day. However, the subsequent payments will still follow the default setting. The ad-hoc changed value will automatically be reset by the CMU system to the default value at day-end.

5.4.5.4 For CMU Instruments that the paying agents have chosen to release payment by themselves, the paying agents are required to release the payment via the "Maintain Income Payment Details" function of CMT before 3:45 p.m. on the payment day so that the CMU system will be able to distribute the income at the start of "CMUS coupon and redemption processing window".

5.4.5.5 If the paying agent does not release the income payment until the "CMUS coupon and redemption processing window" close, which is scheduled at 4:00 p.m. currently, the income payment transaction will be cancelled by the CMU system. CMU Members who are holders can enquire the coupon/redemption payment transaction status on the payment day via the corporate events function of the CMT. The reason code is "payment held by paying agent". The CMU system will not handle the payment again on the following business day. The paying agent is required to follow up the income payment with holders directly on the payment day.

5.4.6 Payments by MA to the Legal Title Holders

The CMU system will generate "Corporate Action Notification Report" (CMUD6202) to holders 5 business days before each payment date for income proceeds distribution purposes.

In addition, legal title holders of the relevant CMU Instrument will receive from the CMU the following reports one business day before each payment date for income proceeds distribution purposes:

(a) "CMUD5501 Issue Position Sub-Report"; and

(b) "CMUD5601 Coupon/ Dividend and Redemption Notification Report".

The arrangements are as follows:

(i) Upon receipt of the income proceeds from the paying agent at 3:45 p.m., the CMU shall distribute the income proceeds, after deduction of applicable withholding tax, if any, by crediting the settlement accounts of <u>all</u> legal title holders if they are direct participants or their settlement banks if they are indirect participants of the RTGS system of the relevant CMU Instrument immediately.

(ii) For redemption (including early redemption), a redemption transaction (DvP) will be generated by the CMU system to deliver the matured securities from the relevant Securities Account of the legal title holders of the relevant CMU Instrument.

(iii) RTGS system will format the settlement advices in MT910/MT202 format and distribute to the legal title holders or its settlement bank via SWIFT.

(iv) In case the legal title holder, which is a CMU Participant, does not have an RTGS account for the subject income currency, the CMU will return that portion of the income payment to the designated paying agent. The legal title holder is required to contact the paying agent for follow-up action.

(v) In case a CMU Participant holds the CMU Instrument on behalf of its customers, such Participant shall arrange for the relevant amount of the income proceeds to be paid to its customers according to the standing arrangements between the Participant and its customers.

(vi) Interest will normally be calculated down to two decimal places.

The MA reserves the right to reverse:

- any credit of income proceeds to any settlement account to reflect any FATCA withholding that is applicable to the amount credited or otherwise to apply any other relevant FATCA rules; and
- any erroneous credit or debit.

For the avoidance of doubt, securities subject to redemption (including early redemption) are not eligible for further transfer on the redemption date.

5.4.7 Information Change on Coupon Rate and Dates

The paying agent shall inform the MA via the "Create CA Notification by Paying Agent" function of CMT; or subject to Part I – clause 5.2 of this Manual, by authenticated facsimile by completing and returning Appendix J.2 to the MA once the following information is available. Please refer to section 1.2 of the CMT User Manual – User Guide (Part II) for detailed description on how to input a CA notification.

- the coupon rate;
- interest amount per minimum denomination (for the avoidance of doubt, interest amount per multiple tradable amount if there exist both the minimum tradable amount and the multiple tradable amount) or interest amount per nominal value of 1,000; and
- the next interest payment date.

Failing to input the correct coupon rate and payment date for debt securities will result in the CMU system generating incorrect CA notification and reports as well as paying the wrong amount of proceeds to securities holders.

Should a payment date falls on a general holiday in Hong Kong, the CMU system is able to postpone the payment date to the next business day. However, the CMU system cannot handle interest payment convention for more than one business day centre at present. Therefore, if there is a change on payment date due to the non-business day of other jurisdiction (e.g. NY holiday), the paying agent is required to update the next payment date information using CA event "INFO" via the "Create CA Notification by paying agent" function of CMT.

5.4.8 Cancellation or Adjustment

In an exceptional case that an income distribution is processed incorrectly, the paying agent may wish to cancel or adjust the cash proceeds that were distributed already. Upon receipt of such advice from the paying agent, the MA will notify the legal title holders by means of "Coupon/Dividend and

Redemption Adjustment Report to Account Holder" (CMUD5003). The report is for reference only.

The paying agent will also receive the "Coupon/Dividend and Redemption Adjustment Report to Paying Agent" (CMUD5002) for its follow up with the legal title holders directly. The CMU system will not handle the reversal or adjustment of the erroneous credit after the payment date. The paying agent is required to manage the adjustment itself. The report is for reference only.

5.4.9 On-line Enquiry

CMU Members can also enquire the coupon/redemption payment transaction status on the payment date via the corporate events function of the CMT.

5.4.10 Fees

CMU Members utilising this income distribution service will be charged with a fee in accordance with the prevailing fee schedule as specified by the MA from time to time.

All fees are invoiced in Hong Kong dollar irrespective of the currency of the income proceeds and billed on a monthly basis. For the avoidance of doubt, the paying agent is still required to pay the transaction fee (cash movement arising from corporate action) to the MA even though no income proceeds are paid to the legal title holders of the relevant CMU Instrument on the payment date due to insufficient funds or insufficient direct debit limit in the paying agent's settlement account. The holders, however, are not required to pay such transaction fee to the MA for failure to receive the income.

If a paying agent, due to whatever reasons (such as non-receipt of funds from the issuer at the appointed time), does not wish to distribute income proceeds on a particular payment date, it has to inform the MA by writing, latest, before 3:00 p.m. on the payment date. The MA will then arrange to stop the payment process for that issue. A manual processing fee will be charged to the paying agent.

5.4.11 Termination

Each party may terminate this income distribution service by giving the other party a notice in writing at least one month before the next payment date or the maturity date of the relevant CMU Instrument. Termination of

this income distribution service is only applicable to debt securities issued before 31 December 2016 in the CMU system.

5.5 General Custody Operations

5.5.1 Corporate Action in General

A Corporate Action[1] (CA) is any event that affects the structure and position of debt securities and has impact on the securities or cash position of securities holders. It may be initiated by the issuer, paying agent, a third party or an action from securities holders in response to such CA. For some CA events, securities holders must respond by selecting from a list of possible actions.

The CMU CA service provides a communication platform which facilities the processing of the following operations in an automatic manner:

(a) A paying agent of CMU Instruments announces information about CAs to CMU Participants which hold the relevant CMU Instruments;
(b) A CMU Participant which holds the eligible CMU Instruments under a CA sends authenticated custody instructions to the respective agents; and
(c) The CMU distributes the proceeds of custody operations accepted in the CMU system to CMU Participants on behalf of the respective paying agents. The custody distributions accepted in the CMU system include CMU Instruments and cash distributions which can be settled through the RTGS systems in Hong Kong.

The CMU CA service shall not replace the role of paying agents which shall continue to be responsible for processing CAs of CMU Instruments on behalf of the respective issuers.

Where an issuer or paying agent has chosen to use CA service for debt securities with CMU, all of the CAs are to be processed through the CMU during the entire tenor of the securities. i.e. the issuer or its agent cannot subscribe to the announcement of Certification event but does not use the income distribution service for the securities.

The CMU sends CA notifications via channels as advised by the MA from time to time.

5.5.1.1 **The Issuer and Issuer agent**

The issuer is the organisation issuing the securities (e.g. bonds). The issuer, in most cases, is responsible for maintaining a register of holders.

[1] For the purposes of the SWIFT ISO20022 standards, corporate action means 'an event affecting holders of an issue of securities which an issuer (or its agent) considers to be a corporate action event'

However, this task is usually undertaken by an issuer agent specialising in such operations. To provide custody service for debt securities in the CMU system, if the issuer is not a CMU Participant, it can appoint an agent, which is a CMU Participant to perform all the custody operation in the system.

5.5.1.2 Role of the Paying Agent

The paying agent, within the CMU system, is responsible for the distribution of cash and securities proceeds related to a specific distribution to holders of the securities. There is only one paying agent per CA. When an issuer appoints its own paying agent, it must be a participant of the CMU.

5.5.2 Representation and Acknowledgement

In consideration of the MA providing the CA service within the CMU Service, any CMU Participant which uses the CA service, represents and acknowledges (such agreement, representation and acknowledgement to be evidenced by the CMU Participant's use of the CA service) that:-

(a) in receiving/providing any CA notification from/to CMU Participants, the MA is not acting as agent of the issuer (or its agent). The role of the MA is to facilitate the issuer (or its agent) to distribute income proceeds to the legal title holders of CMU Instruments but not to act as the agent of the paying agent. The MA shall not, by facilitating the payment of the income proceeds, in any way be liable to make any payment as principal or as agent for and on behalf of any issuers of CMU Instruments or their paying agents or both.

(b) the MA shall not be responsible for any loss, damage, cost, expense and liability (whether direct or indirect) arising from, or in connection with, the use of this CA service save to the extent caused by the wilful default or gross negligence of the MA, his servants or agents in the provision of such service.

(c) moreover, in facilitating the information flow between Issuer (or its agent) and securities holders, the CA notification does not constitute an offer to sell or the solicitation of an offer to buy any securities by anyone in any jurisdiction. It is not, and should not be construed or treated as, investment or financial advice;

(d) by sending a CA instruction to the CMU, the CMU Participant confirms that it (and any beneficial owner(s) for whom it acts) complies with the terms and conditions of the CA and complies with applicable local laws or requirements, including but not limited to holding and transfer

restrictions. If holding and transfer restrictions would prohibit a participant (and any beneficial owner(s) for whom it acts) to hold the proceeds of a CA in the CMU Securities Account, a participant (and any beneficial owner(s) for whom it acts) must ensure to send an instruction to allow the transfer of these proceeds to an account outside the CMU system;

(e) unless stated otherwise, by sending a "certification instruction" to the CMU via CMT or any other communication means as agreed by the MA from time to time, the CMU Participant is deemed to have certified that it (and any beneficial owner(s) for whom it acts) complies with the terms of the certificate provided in the specific certification event as if it (and any beneficial owner(s) for whom it acts) has signed the original form of certificate provided by the issuer or the agent, as appropriate;

(f) if required, the MA is irrevocably authorized by the CMU participant to produce any certification or record the CMU retained based on a certification instruction or any other document a participant delivered to the MA to any interest party in any administrative or legal proceeding or official inquiry with respect to matters covered by this section or any such CA instruction;

(g) the MA, on behalf of the CMU Participant, is entitled to do all such acts and things and execute all such documents as the MA may, in his discretion, consider necessary or desirable to enable the MA to fully observe and perform his duties and obligations under the terms and conditions of the CA, if applicable; and to enter into any arrangement which the MA considers proper for the purpose of facilitating clearance of transactions effected through the CMU's CA platform;

(h) the MA and his servants and agents shall not be liable for any liability, claim, suit, loss, damage, cost or expense of any kind or nature caused directly or indirectly by the operation of the CA platform or any deficiency or defect therein or any delay in the deposit, withdrawal or transfer of any cash or securities into or out of the account, whether such inadequacy, deficiency or defect is caused by the MA; and

(i) for the avoidance of doubt, the MA shall, with the limited exceptions stated in the CMU Membership Agreement, be exempt from any liabilities caused directly or indirectly by the operation of the CMU Service including, without limitation, the CA service.

5.5.3 Scope of CA Service provided by CMU

Provision of information for CAs:

- receive instructions from issuer (or its agent) to create CAs;
- provide real-time enquiry functions;
- provide day-end reports; and
- send reminder to related parties.

Custody instructions from participants:

- receive instructions from participants; and
- provide functions like voting, call/put option, blocking of securities, announcement etc.

5.5.3.1 Information provided for Corporate Actions

(a) Issuer (or its agent)
The issuer (or its agent) which is a CMU Participant is responsible for providing CA information to the CMU via CMT or any other means as agreed by the MA from time to time. Depending on the nature of the CA (e.g. bond default), the MA may require the issuer (or its agent) a formal announcement to the general public of such event notice before the MA does so.

The MA will decide whether the information it has received is related to a particular CA. The MA is not responsible for verifying the accuracy or completeness of information it receives and reports to CMU Participants. As such, the MA accepts no liability for any inaccuracy or incompleteness of such information. Neither does the MA accept liability for the timely delivery of the reported information to the CMU Participants.

(b) Entitled securities holders
Upon receipt of CA notifications, the MA informs participants about the upcoming CA applying to securities held in their accounts as soon as possible, where information about the event has been provided by an authorized and authentication party and where the initiator of the event is recognized as authorized to do so. The entitled holding is fixed on record date or on actual date, according to the terms and conditions of the relevant CA.

(c) Third party offers
It's the policy of the MA not to provide information in respect of offers to purchase securities by unrelated third parties (i.e. not the issuer or its agent). These offers are not considered CA.

5.5.3.2 Communicating with the CA Platform

Access to the CA platform can be made via any of the following communication channels:

(a) eCMT: a screen-based application that offers real-time access to the CA service via the SWIFT network;

(b) iCMT: a screen-based application that offers real-time access to the CA service via the internet;

(c) FTS or FileAct: a file transfer mechanism that securities holders receive CA notification or reports in a straight-through-processing (STP) manner.

5.5.3.3 Message Standard adopted by CMU for CAs

The CMU sends notifications via CMT or FTS or FileAct or any other channels as defined by the MA from time to time. To ensure highest quality, the MA adopts ISO 20022 standards (use of ISO Corporate Action Event Indicators, use of structured fields etc) for the announcement of CAs and indicates whether the message is a new message, a replacement, a cancellation or a reminder.

5.5.3.4 CA Enquiry or Report

When an issuer (or its agent) has made announcement/notification of the CA via the CA platform, such information will then be available for on-line inquiry via CMT by participants. Several CA reports are also available to participants to keep them informed of any CA activity. Information on these reports can be found in the CMT User Manual –Report Guide. Participants without a holding in a particular security can also access the CA information if the issuer (or its agent) decides the CA details can go public at the time when the announcement/notification is made. Participants without a holding in particular securities can enquire such CA details by selecting “CA event” of the “CA notification” function of CMT.

The CA information is not verified by the MA for inaccuracy or incompleteness and may not be up to date; the MA accepts no liability for any inaccuracy or incompleteness of the CA information.

5.5.4 Types of Corporate Actions

CAs are broadly divided into predictable and unpredictable events:

(a) *Predictable events*:
Events already described in the issue’s documentation. Examples are conversion option and call/put option.

(b) *Unpredictable events*:
Events not described in the issue's documentation. They are announced and described in additional documents by the issuing company's management. Examples are purchase or tender offer.

According to the nature of the predictable and unpredictable events, they can be broadly divided into the following categories:

(a) Announcement only events (- general - GENL);
(b) Non-elective events (mandatory – MAND); and
(c) Elective events (voluntary – VOLU, mandatory with options – CHOS)

The following table shows examples of each type of events:

Announcement Only Events	Non-elective Events	Elective Events
Maturity Extension	Coupon Payment	Proxy Voting
Bond Default	Full Redemption	Partial Redemption
Trading Status: Active	Capitalisation	Bonus Issue
Trading Status: Delisted	Conversion	Consent
Place of Incorporation	Attachment	Detachment

5.5.5 Securities in Default

The MA will not take any action, legal or otherwise, to enforce a participant's rights against any issuer or any guarantor in respect of a securities in default. The MA authorizes the participants and/or the underlying beneficial owners of such securities to maintain proceedings against issuers, guarantors and any other parties. This is to the extent that the MA, acting as the operator of the CMU, acts as registered owner of any securities held in the CMU system, or in any other relevant situation.

5.5.6 Subscription of CA Service

A CMU Participant which is an issuer, or an issuer's appointed agent, can register for the use of CA service with the MA. It can subscribe to the CA service by completing and returning Appendix J.1 (CA Service Subscription Form) to the MA when a new issue of the CMU Instrument is lodged with the CMU system or after the CMU Instrument is issued. Securities holders

are not required to register for the CA service. When a CMU Instrument is registered by the issuer (or its agent) for CA service, the corresponding CA service will be available to all securities holders.

Before subscribing to the service, the paying agent shall review the master documentation of the relevant CMU Instrument in order to determine whether income proceeds or custody operation can be carried out in the CMU system. Once subscribed, the MA assumes the paying agent has exercised its due diligence in ensuring the use of the CMU system to distribute custody proceeds has no conflict with all terms and conditions of the relevant CMU Instrument.

5.5.7 Corporate Action Announcements

5.5.7.1 The Issuer (or its agent) as Primary Data Source

Other than EFBNs and GBs of which the MA is acting as the paying agent and paying representative respectively, the CMU is not the primary source for the provision of CA information for CMU Instruments. Rather, it is the issuer (or its agent) which is the prime source of information for CAs transmitted to the CMU.

Except for coupon/redemption notifications which are generated by the CMU system automatically, the issuer (or its agent) is primarily responsible for inputting the CA information directly via CMT to create a CA announcement.

Upon receipt of any CA details from the issuer (or its agent), CMU will prepare the CA notifications accordingly and transmit to CMU Participants as soon as possible, generally within 24 hours after announcement is made by the issuer (or its agent). The MA accepts no liability for any inaccuracy or incompleteness of such information.

5.5.7.2 Means of Sending CA Notification

In order to announce a CA in the CA platform, the Issuer (or its agent) can create, replace, cancel CA notification and can also send reminder through any of the following means:

(a) via the “Create CA Notification by Paying Agent” function of CMT; or
(b) subject to Part I – clause *5.2* of this Manual, by authenticated facsimile using the following facsimile numbers:

(852) 2878 1676
(852) 2878 1677

(852) 2878 1678
(852) 2878 1679

There is no standard notification template provided in this Manual for CA notification sent by facsimile as different types of CA will have different CA information to be announced. For CA notification sent by authenticated facsimile, the issuer (or its agent) has to make sure that the announcement data, dates, event type, and all other relevant CA information (provided in free format) are sufficiently enough for the MA to input on its behalf as if the issuer (or its agent) is inputting via CMT.

5.5.7.3 Input cut-off time

Notifications	Announcement to be made on	CMT	Facsimile
CAs to be announced by paying agent	the following business day	8:30 a.m. to 6:00 p.m.	8:30 a.m. to 4:00 p.m.

The MA reserves the right not to deal with any CAs received after the above cut-off times.

5.5.7.4 Creating CA Notification and Managing Changes to Announcements

Besides creating new CA notification (notification type “NEWM”), an issuer (or its agent) can also cancel (notification type “CANC”) or replace (notification type “REPL”) CA notification or even send reminder (notification type “RMDR”) to remind securities holders of any uninstructed CA.

In general, issuer (or its agent) can create CA Notification via the “Create CA Notification by Paying Agent” function of CMT. Please refer to the CMT User Manual – User Guide (Part II) for detailed description on how to input a CA notification.

Currently, upload of CA documentation is not supported in CMT. In creating a CA notification, the issuer (or its agent) is reminded to provide e-mail address or website link to the relevant document(s) in the “additional information” tab of the “Create CA Notification” function of CMT should it wishes to provide such document(s) to CMU Participants.

5.5.7.5 Validation of CA Notification

After authentication of input, CA notifications must be validated before being submitted for further processing. The issuer (or its agent) may receive notification that its CA notification is in the process of validation by the CMU. If the validation is successful, the MA will accept the CA notification for

further processing. CA notification may require additional manual validation and this can result in CA notification passing the computer validation but being rejected after manual validation. The MA will inform the issuer (or its agent) of the status. If validation is unsuccessful, the CA notification will not be accepted for further processing and will be rejected by the MA. The MA will inform the issuer (or its agent) which is required to create the relevant CA notification again.

5.5.8 Recipients of CA Notifications

CA information can be viewed by the entitled balance holders and/or those participants having pending securities instructions (deliveries and receipts) of the underlying securities. In addition, if a participant has sub-accounts that possess the underlying securities, CA notifications will be generated for each of the sub-account. At the discretion of the issuer (or its agent), by choosing to allow the CA to go "public", the CA notification can also be viewed by all other CMU Participants in CMT.

The entitled balance of a participant is based on its holding position in the underlying security at the close of business on the record date, i.e. the record date position.

In general, when a CA notification has undergone basic validation in the CMU system, it can be viewed by participants on the following day, at the latest, through any of the following means:

(a) on-line enquiry via the "View CA Notification" function of the CMT; or
(b) CA reports via
    (i) CMT or FTS on ICLNet (CMUD6202-CA Notification Report for Holder);
    (ii) FTS on ICLNet or FileAct on SWIFTNet (CMUD6501 - CA Notification Report for Holder in ISO20022 format).

Reports CMUD6202 and CMUD6501 are available to:

- the participant which holds such securities in its CMU Securities Account; or
- the participant which has an unexecuted securities instruction concerning such securities.

Information reported in the CA notifications may have different status:

(a) active ("ACT"): latest information available which may also be subject to change;

(b) expired ("EXP"): replaced by another CA updates to previously reported information; or reminders sent to those that have received a previous CA notification before;

(c) cancelled ("CAN"): cancelled notification.

5.5.8.1 **Frequency in receiving CA Notification**

The frequency of receiving CA notifications depends on whether they are triggered by:

(a) a participant's securities balance; or
(b) a participant's new pending CA instruction; or
(c) a participant's new pending securities instruction.

At the start of a reporting period, participants that have securities balance, pending CA instructions or securities instructions will receive the CA notification. And after the start of the reporting period, if a participant has new pending securities instruction, CA notification will be generated to the participant concerned at the cut-off time of the value day.

5.5.8.2 **Reporting Period for CA**

The reporting period start date is generally on which the CA was created on the CMU system.
The normal reporting period end date for CA is either the record date or the close of business on the response deadline. If both dates are provided then the record date is the reference for the reporting period end date.

CA notification and CA events can be retrieved via CMT and will be kept for a year after the reporting period end date.

5.5.9 Corporate Action Instructions

In general, if a CA instruction does not include an execution date, the CA instruction will be considered as if received for processing on the next business day.

Based on the CA instructions and the CA type and terms when a valid instruction is received from the participant, holdings may be blocked, unblocked or debited for delivery, if appropriate. In general, the MA will only process the CA instructions after the start of the exercise period.

5.5.9.1 **Processing of Custody Operations**

Most CAs affecting securities lead to the processing of a custody operation. Some custody operations require CA instructions from CMU Participants while others are processed without any action being taken by CMU Participants. CMU Participants can refer to the CA notifications in respect of the CAs for details.

5.5.9.2 **Determination of Entitlements**

At the close of business on the record date, the CMU derives both the entitled holding in the underlying securities and the entitlement holding of the holders to which the proceeds are due. This information is made available to the entitled holders and is indicative only. No entitlement balance is sent to the issuer (or its agent).

5.5.9.3 **CA for Elective Events**

For CA where a choice is offered to securities holders, the following shall apply:

(a) if a participant wishes to make an election, it is required to send an instruction to that effect before the response deadline;

(b) if a participant does not send an instruction before the response deadline, the issuer (or its agent) or the MA, as appropriate, will deem the participant to have chosen the default action as specified in the relevant CA notification, if any;

(c) the participant authorizes the issuer (or its agent) or the MA, as appropriate, to take any and all actions required to execute the instruction or the default action (if participant did not send an instruction), in accordance with this Manual and the relevant CA notification without the need of any further authorization from the participant;

(d) the issuer (or its agent) or the MA, as appropriate, reserves the right to block or debit securities of the issue concerned by the default action following the applicable response deadline, until EFCS/CMUS cut-off for the day (currently set at 6:30 p.m.) or until such time as the MA considers necessary for execution of the default action.

5.5.9.4 **CA for Non-elective Events**

For CA where a participant is not required to send an instruction, the participant authorizes the issuer (or its agent) or the MA, as appropriate, to take any and all actions required to execute such CA on its behalf in accordance with this Manual and the terms and conditions of the relevant CA notification without the need of any further authorization from the

participant. The MA, where applicable, is not obliged to take any action unless specified in this Manual or the relevant CA notification (or similar notice).

5.5.9.5 **Means of sending CA Instructions**

Participant which is the account holder is required to create CA instruction through any of the following means:

(a) via the "Create CA Instruction" function of CMT; or
(b) subject to Part I – clause *5.2* of this Manual, by authenticated facsimile* using the following facsimile numbers:

(852) 2878 1676
(852) 2878 1677
(852) 2878 1678
(852) 2878 1679

* Depending on the requirement of individual issuer (or its agent), different types of CA may require different CA instruction format for processing. Therefore, there will be no standard CA instruction template to be provided in this Manual for CA instruction sent by authenticated facsimile. If a participant is unable to instruct CA via CMT, it has to contact the issuer (or its agent) to obtain an instruction form for completion. At the request of the issuer (or its agent), the instruction form may be returned to the issuer (or its agent) directly or to the MA, as appropriate.

5.5.9.6 **Input cut-off time**

All custody operation instructions must be received by the MA before the response deadlines as specified in the relevant CA notifications.

Type	CMT	Authenticated Facsimile*
CA Instructions	6:30 p.m. on the response deadline date as specified in the relevant CA notice.	2:00 p.m. on the day of which the deadline is specified in the relevant CA notice.

The MA reserves the right not to deal with any CA instructions received by facsimile after the above cut-off time.

5.5.9.7 **Create CA Instructions**

For any CA that requires securities holders to send CA instruction to the issuer (or its agent), the securities holders are required to send the CA

instruction as specified in the relevant CA notification with the format and contents described in such CA notification.

By sending an instruction to the MA, a participant confirms that it complies with the terms and conditions of the CA and complies with applicable laws or requirements.

5.5.9.8 **Validation of CA Instructions**

After authentication of input, CA instructions are validated before being submitted for further processing. All CA instructions received by the CMU will undergo a validation process. Validation rules are described in the CMT User Manual – User Guide (Part II). If the validation is successful, the CA instructions are accepted for further processing by the issuer (or its agent). Participants are required to monitor their CA instructions until they reached their end-of-life i.e. showing "completion" status.

All invalid CA instructions will be rejected and CMU will not further process the CA instructions. The processes are as follows:

(a) After receiving the CA instructions, the CMU system will perform a validation process.

(b) The validation of a CA instruction may, but not necessarily, include the verification of the completeness of any required documents. The MA does not verify the contents of any required document and accepts no liability for acting upon any required document the completeness of which it has verified and which it believes to have received from a CMU Participant.

(c) The validation of a CA instruction may necessitate required documents to be verified as complete. Verification of the contents of any required document is not part of the validation rules.

(d) If system validation is successful, the CA instructions may require additional manual validation by the issuer (or its agent). This can result in CA instructions passing the computer validation but being rejected after manual validation.

(e) If validation by issuer (or its agent) is unsuccessful, the CA instruction is not accepted for further processing and will be rejected. Participants are, therefore, required to monitor the status of the instructions during their whole life cycle via CMT or reports.

5.5.9.9 **Late CA Instructions**

CA instructions received after 6:30 p.m. on the response deadline date will be rejected by the CMU system. The MA will apply the default action stated in the CA notification (default option). The MA would not be held liable for the non-execution of late, incorrect or incomplete CA instructions.

5.5.9.10 **Default Action on Uninstructed Balances**

For any CAs which requires instructions from securities holders, the MA must receive the CA instructions before the response deadline as stated in the CA notification for further processing.

For elective events with options, if the MA does not receive any instructions from entitlement holders before the response deadline, the MA will deem the participants have chosen the default action as specified in the relevant CA notification (default indicator). The CA platform will then identify the uninstructed balances and generate default action instructions for the remaining unelected underlying securities on behalf of the participants.

The default action instruction is visible via CMT by both the account holder as well as the issuer (and its agent) of the underlying securities. Such system-generated default action instruction will be flagged with system ("SYS") as the transaction source to differentiate from those participant-initiated instruction having submitted ("SUB") as the transaction source.

Participant should note that these default action instructions are binding instructions as if they were created by the participants themselves. Participants are deemed to have authorized the MA to take any and all actions required to execute the default action.

5.5.9.11 **Cancellation of previous CA Instructions**

To replace an instruction already sent, participant must send a cancellation message before the new instruction. CA instructions may be withdrawn pursuant to the CA notification and upon issuer's (or its agent's) final agreement. If instructions have already been processed by the issuer (or its agent), the MA will forward the cancellation request accordingly, but cannot guarantee execution of the cancellation request.

The MA will not be held responsible for any loss or damage caused by a participant's failure to comply with the cancellation and replacement procedure.

5.5.9.12 **Status Update and Processing of CA Instructions**

Depending on the nature of the event types, certain CA instructions may not be executed and will be rejected if the securities provision is not sufficient.

After the CA instructions have passed through CMU system validation, they can be viewed and enquired by issuer (or its agent) of the underlying securities. The issuer (or its agent) will receive daily report CMUD6301 (Corporate Action Instruction Details Report for Paying Agent) on outstanding CA instructions and is required to update the status of each CA instruction directly in CMT. Failing to do so by the issuer (or its agent) will result in the CA instructions pending in the CMU system unattended.

5.5.10 Securities and Cash Movement arising from CA Instructions

CA instructions may result in a credit/debit of securities/cash to a participant's account in the CMU system. The CMU is an intermediary between the holder and the issuer (or its agent) in providing CA service.

5.5.10.1 Debit or Blocking of underlying Securities

Depending on the CA type and upon receiving instructions from the issuer (or its agent), where appropriate, the MA will either:

- debits the underlying securities from the participant's Securities Account; or
- blocks the underlying securities within the participant's Securities Account.

In most cases, the CA platform removes the underlying securities in a non-elective event (e.g. redemption) on a DvP basis. The DvP transaction results in the credit of proceeds to the participant's settlement account, against the debit of the underlying securities from its Securities Account, on the payment date.

The process, however, depends on the CA type and its terms and conditions. Sometimes, the removal of the underlying securities takes place upon receipt of the valid CA instruction, provided that the participant has sufficient available balance within their Securities Account.

5.5.10.2 Securities Positioning

If the execution of a CA instruction requires a debit for the delivery or blocking of securities, a participant should have sufficient available securities of the issue in its Securities Account.

If a participant does not have sufficient available securities in its Securities Account, such CA instruction will be unsuccessfully positioned.

(a) <u>For successful positioning:</u>

(i) If the execution of a CA instruction requires a debit for delivery or blocking of securities, upon receipt of instruction from the issuer (or its agent) where necessary, the MA will execute such debit or blocking of securities at the earliest, on the execution date of the CA instruction, or at the latest, on the response deadline.

For some non-elective events where no instruction is required, the MA, upon receipt of instruction from the issuer (or its agent) where necessary, will debit or block the securities at the date he deems necessary for processing.

(ii) If the execution of a CA instruction requires a payment from a participant then cash is debited from the participant's settlement account on the date as advised by the issuer (or its agent). The CMU system, for the time being, is unable to debit the settlement accounts of holders automatically for a CA. As such, the issuer (or its agent) has to perform the payment process outside the CMU system.

(iii) If securities positioning is successful, the securities may be debited, blocked on the record date. If cash positioning is successful, a debit is made to the settlement account.

(iv) If the execution of a CA instruction requires the delivery of securities (e.g. partial redemption), the participant's Securities Account will be debited for the relevant portion of the underlying securities.

(b) <u>For unsuccessful positioning:</u>

(i) If cash or securities positioning is unsuccessful then CA instruction will not be executed.

(ii) All CA instructions that are unsuccessfully positioned continue to be entered for processing until executed or cancelled as follows:
- CA instructions relating to a holder's option will be cancelled by the system at the response deadline or record date (if applicable), as determined by the relevant CA.
- CA instructions relating to offers and put options will be cancelled by the system if the response deadline for receipt of the instruction has been reached
- any securities debited or blocked in anticipation of a delivery or exercise of a participant's option/right will be re-credited or unblocked after cancellation of the CA instruction.

5.5.11 Entitlement to the Proceeds of Custody Distribution

A participant is entitled to the proceeds of custody distributions (securities or cash) resulting from a CA if it holds the relevant securities in its Securities Account on the record date or at any other date or period specified by the issuer (or its agent).

The record date for particular securities may vary due to special circumstances. The record date for custody distributions is the date specified by the issuer (or its agent).

Securities balances used to determine entitlements for custody distributions are those balances at the value date cut-off time of the record date or any other date/period specified by the issuer (or its agent).

5.5.11.1 Entitlement to the Proceeds on Blocked Position

Whether a blocked position will be entitled to any income proceeds as a result of custody operations depends very much on the CA type, the issuer and the terms and conditions stated in the CA notification of the relevant event. In the CMU system, income proceeds will not be handled and will not be paid to those securities holders having blocked positions in their Securities Accounts for the underlying securities on the payment date. Such securities holders have to contact the issuer (or its agent) directly if they are confirmed to be entitled for the income proceeds.

5.5.12 Confirmation of Securities and Cash Proceeds

Upon receipt of instructions from issuer (or its agent), the MA credits securities and/or cash proceeds resulting from a CA on the settlement or value dates as mentioned in the CA notification of the relevant CA. CMU Participants can monitor securities proceeds movement via report CMU D3101 (Transaction Audit Trail Report). And for cash proceeds movement, participants can monitor their settlement bank account statements.

5.5.13 Reporting

5.5.13.1 CA Reports for Securities holders

The following CA-related reports are available to participants which are holders of securities with upcoming CAs. Participants can monitor the CA notification as well status of CA instructions through the following reports on a daily basis.

- Corporate Action Instruction Audit Trail Report (CMUD6102)
- Corporate Action Notification Report (CMUD6202)
- Corporate Action Instruction Details Report (CMUD6302)
- Corporate Action Instruction Summary Report (CMUD6402)
- Corporate Action Notification Report (CMUD6501)
  This report is available in XML format and can be delivered via FTS or FileAct channels.

5.5.13.2 CA Reports for Issuer (or its agent)

The following CA-related reports are available to issuer (or its agent) for daily monitoring:

- Corporate Action Notification and Instruction Audit Trail Report for Paying Agent (CMUD6101)
- Corporate Action Notification Report for Paying Agent (CMUD6201)
- Corporate Action Instruction Details Report for Paying Agent (CMUD6301)
- Corporate Action Instruction Summary Report for Paying Agent (CMUD6401)

Detailed information and specification of the above reports are available in CMT User Manual - Report Guide.

5.5.14 Fees

CMU Participants using CA service mentioned in this section 5.5 will be charged with a fee in accordance with the prevailing fee schedule per notification of new/replaced/cancelled event or per instruction per CMU Instrument as specified by the MA from time to time.

5.6 Specific Custody Operations

5.6.1 Exchange of Temporary Global for Permanent Global Securities

When certain new issues are lodged with the CMU, the securities are represented by a temporary global certificate. On the exchange date, the temporary global certificate is exchanged either into a permanent global certificate (which normally remains in global form until final maturity), or into definitive certificates. Global certificates are deposited in the CMU's Sub-custodian(s). Exchanging temporary global certificate for definitive certificates occurs only if the holders have agreed with the issuer (or its agent).

If the issue is represented by a global certificate, all securities transfers in the securities are executed on a book-entry basis. On the date agreed for the exchange, the issuer (or its agent) arranges for the cancellation of the temporary global certificate for the permanent one with the CMU and the exchange is then completed.

5.6.1.1 **Replacement of Temporary Global Securities**

It's the responsibility of the issuer (or its agent) to exchange temporary global certificate to the permanent one. The procedures are as follows:

(a) The lodging agent shall notify the MA by authenticated facsimile or by letter with authorized signatures a least 3 business days in advance for any replacement of the temporary global certificate with a permanent one (Appendix F.8).

(b) The lodging agent shall take physical delivery of the temporary global certificate from the MA's nominated Sub-custodian as advised by the MA. The procedures for exchanging global securities with definitives will be the same.

(c) The lodging agent must inform the MA beforehand the name and the identity card number or company staff card number of the person taking physical delivery for identification on the spot.

(d) The MA shall provide the Sub-custodian with these details to facilitate the physical exchange of the temporary global certificate from the custody of the Sub-custodian.

(e) The MA shall, upon receiving notice from a lodging agent pursuant to Part II – clause *5.6.1.1* (a) above, notify the lodging CMU Participant and paying agent and issuer if the issuer is a CMU Participant, of the receipt of such notice before 12:00 noon on the next business day.

5.6.2 Restricted Period

Certain securities are subject to sales restrictions (related to TEFRA D Regulations) and cannot be offered or sold to certain types of investors. Such restrictions are usually temporary, and are defined in the terms and conditions of the securities. Such securities are not usually registered under the United States Securities Act of 1933 and are therefore restricted for US investors.

When restrictions are temporary, they apply for a specified period, called the "Restricted Period". The Restricted Period ends upon the exchange of the temporary global instrument.

In order to obtain payment on a coupon or to obtain definitive certificates upon exchange of the temporary global instrument, investors must certify their qualified investor status by submitting to the issuer (or its agent) the appropriate certification form on the "Certification Date". In general, the Certification Date is fixed to 40 days after the closing date of the securities.

For investors which do not provide the appropriate qualified investor certification by the Certification Date or exclude a portion of holding (securities certified as held by non-qualified persons) from such certification, the uncertified or excluded portion of their holding in the relevant securities will be blocked and excluded from any entitlement.

5.6.3 Certification Processing

The governing documentation of certain CMU securities sometimes imposes holding or selling restrictions. CMU Participants are responsible for the observance of any conditions on securities they hold in the CMU system.

As part of the custody services provided to CMU Participants, the CMU facilitates the beneficial ownership certification by CMU Participants where necessary:

- for exchange of temporary global securities into definitive securities or into permanent global securities; or
- for payment of coupon or principal.

Depending on the issue of securities, the certification required for such coupon payment may be the only certification required. Some issues may require further certifications such as, but not limited to, coupon payments

during the life of the issue and/or if temporary global securities are exchanged for permanent or definitive securities. In the latter case, there may be multiple certification dates for the same issuance.

Legal title holders are notified of a certification event as soon as the issuer (or its agent) announces it via CMT. The event type will be "CERT"

5.6.3.1 Notification of Certification Event

(a) A CMU Participant is notified through CA announcement initiated by the issuer (or its agent) approaching certification dates for exchange of temporary global securities or the payment of income or principal if it has securities balances or pending settlement instructions preceding the certification event date, which is:

- the last day of the restricted period, when certification is required for exchange of temporary global securities; or
- the payment date, when certification is required for the payment of income or redemption proceeds.

(b) To comply with legal requirements, the issuer (or its agent) must receive the type of certification shown in the certification notification announcement from the CMU Participant before the response deadline. A custody operation for which a certification or other relevant documents is required cannot be executed until a CMU Participant has delivered the required certification instruction.

5.6.3.2 Certification Instruction

CMU Participants holding securities requiring qualified investor certification are required to input the appropriate certification instruction as soon as possible, at the latest on the response deadline, via CMT function "CA Instruction Maintenance" with event type "CERT".

The certification instruction must comply with the procedures outline in the CA notifications. The certification instruction provides confirmation from CMU Participant(s) of such securities meet the beneficial ownership requirements under US law as set out in the terms and conditions of the securities. The certification instruction may be based on certifications CMU Participant received.

The form of US beneficial ownership certification can be found on the CA notification created by issuer (or its agent). For the purpose of such certification instruction, the name or Securities Account number will be deemed to be the equivalent of a manual signature.

CMU Participants are responsible for the completeness and accuracy of all information contained in a certification instruction once it is delivered to the MA. Statements made in the CA notification are incorporated by reference into the participant's certification instruction.

The MA does not monitor or enforce transfer restrictions for securities a CMU Participant holds in the CMU system where the governing documentation or applicable US law requires the delivery of certifications.

5.6.3.3 Securities Certified as held by Qualified Investor

A securities position held by qualified investors will not be blocked and will receive entitlements. This holding will be exchanged from a temporary global instrument to a permanent global instrument or to definitive certificates. Holders of such securities position will be entitled to principal and coupon payments.

5.6.3.4 Securities Certified as held by Non-qualified Investor

A securities position certified as being held by non-qualified investors will be blocked upon receipt of the instruction and entitlement withheld. Blocked holdings cannot be exchanged from a temporary global instrument to a permanent global instrument or to definitive certificates. Securities certified as being held by non-qualified investor will therefore not be entitled to any principal and/or coupon payments until a fully compliant certification has been made.

5.6.3.5 Non-receipt of Certification Instruction

If a holder does not provide the appropriate form of certification or the certification instruction indicates that the securities position (or a portion) remains uncertified, then the MA will, based on the issuer's (or its agent's) instruction, block such securities and flag it as uncertified. This blocking will only be lifted upon receipt of the required certification, or upon receipt of instruction from the issuer (or its agent).

In general, blocked positions are temporary securities and are not eligible to receive any entitlement resulting from the permanent securities. Such entitlement will be credited to holders after the required certification instruction is received.

Uncertified holdings are blocked to denote that, after the relevant exchange date, such holdings reflect rights in a temporary form security rather than rights in a permanent form securities or definitive securities.

In case an investor wishes to transfer the uninstructed balance (i.e. blocked position) out of its Securities Account, it has to contact the issuer (or its agent) and the CMU to release the blocking.

Pursuant to the governing documentation and/or applicable US law, an exercise of rights including, without limitation:

(a) exchange and delivery of definitive securities
(b) receipt of payment of coupon or principal
(c) conversion of securities

may not be effected until the participant has delivered the certification instruction required with respect to such certification event.

5.6.3.6 **Certification Record**

CMU Participant irrevocably authorised the production of any certification or record the MA retains based on a certification instruction, and any other document delivered to the MA in accordance with this section 5.6.3 to any interested party in any administrative or legal proceeding or official inquiry with respect to matters covered by this section or any such instruction.

5.6.4 Call, Put and Partial Redemption

5.6.4.1 **Call and Put Option**

Legal title holders are notified of a call or put option (result in the early redemption of the underlying securities) as soon as the issuer (or its agent) announces it via CMT. The event type will either be “MCAL” (early redemption) or “BPUT” (put redemption). In the case of early and full redemption, information on the forthcoming redemptions and the payment arrangement will be the same as those described in Part II clause 5.3 (CMU Member as paying agent) on and 5.4 (income distribution service) of this Manual.

5.6.4.2 **Partial Redemption**

Depending on the terms and conditions of the governing documentation, issues may be redeemed in part before the final redemption date, either:

- by drawing;
- by repaying for each note the appropriate percentage of principal and reducing the face value of the securities (redemption on nominal value); or
- by repaying for each note the appropriate percentage of principal without reducing the face value of the securities (Pool Factor).

Legal title holders are notified of partial redemption as soon as the issuer (or its agent) announces it via CMT. The event type may be "DRAW" (drawing-reduction in part before the schedule final maturity date by drawing), "PCAL" (partial redemption with reduction of nominal value) or "PRED" (partial redemption without reduction of nominal value)

Currently, the CMU system cannot handle partial redemption in an automatic manner. The MA still requires the issuer (or its agent) to arrange the underlying securities to be transferred to its Securities Account before partial redemption can take place.

5.6.5 Meeting Event and Proxy Voting Service

Depending on the event type, the MA may support basic Proxy Voting Service for participants (or to any third party appointed by the issuer (or its agent) in accordance with a power of attorney) for debt securities held in custody in CMU. In providing the proxy voting service, the MA has no discretion to exercise any voting rights in respect of securities held in the CMU system. In the absence of any instruction from CMU Participants, the MA will not process voting instructions for a specific voting action. All requests the MA completes upon instruction from participant for this voting service are at participant's full and sole risk. The MA reserves the right not to take any action in connection with the voting of securities.

The participant appoints and authorizes the MA as its true and lawful agent and attorney-in-fact, for the purpose of completing, executing and delivering any required documents for proxy voting service on its behalf.

5.6.5.1 **Voting Instruction**

Entitled holders are required to input voting instructions as soon as possible, at the latest on the response deadline, via CMT function "CA Instruction Maintenance" with event type "OTHR".

The voting instruction must comply with the procedures outline in the CA notifications. The voting instruction may be based on the announcements the CMU Participant received.

In submitting a voting instruction, a CMU Participant must ensure that:
(a) its voting instructions reflect those given to it by any beneficial owner;
(b) it is properly authorized by such beneficial owner;
(c) all documents required from such beneficial owner have been authorized and executed.

While creating a CA, the issuer (or its agent) should provide detailed information in the CA announcement on how to distribute the original documentation, event notices and publication materials, if any, to holders.

Moreover, voting instruction submitted by participant for a voting action authorizes the MA to disclose the name, residency and the amount of securities of the relevant issue which it holds if request to either:
(a) the issuer or its agent; or
(b) any court or other governmental agency; or
(c) a body of competent jurisdiction.

5.6.5.2 **General Features of Proxy Voting Service**

Key features include:
(a) For each meeting event CMU Participants will receive the respective meeting notification issued by the issuer (or its agent) through the CMU system;
(b) Provision of meeting agenda when available;
(c) Handling of proxy voting instructions;
(d) Blocking of securities, if applicable;
(e) Reporting of voting results, when available;

5.6.5.3 Processing of Voting Instructions

Participants can send instructions via CMT up to the deadline as communicated within the meeting notification. Instructions received after 6:30 p.m. on the deadline date will be rejected by the CMU system

Once the MA receives a participant's instruction to vote and any required proxy voting form, duly completed and executed before the appropriate input deadline, the MA will take all necessary actions to effect the vote in accordance with the instruction. This may include:

(a) sending a postal vote; or
(b) appointing a proxy to vote

Depending on the event specifics such as issuer's requirement, if blocking of the underlying securities is required, and upon instructions from the issuer (or its agent), the MA will block the relevant holding position of holders. Blocking of holdings will continue until authorization has been received to unblock from the applicable party. The blocking period varies depending on factors such as, but not limited to, the agent and /or the event.

5.6.6 Fees

CMU Participants using CA service mentioned in this section *5.6* will be charged with a fee in accordance with the prevailing fee schedule per notification of new/replaced/cancelled/reminder event or per instruction per CMU Instrument as specified by the MA from time to time.

Specifically, the issuer or the lodging agent (where appropriate) shall pay the MA a fee for exchanging the temporary certificate into permanent one according to a fee scale as specified by the MA from time to time.

All fees are invoiced in Hong Kong dollar irrespective of the currency of the denomination of the securities and billed on a monthly basis.

Part III
Collateral Management

1 HONG KONG DOLLAR REPO FACILITY PROVIDED BY THE MA

1.1 HKD Intraday Repo

1.1.1 Eligibility to Enter Hong Kong dollar Intraday Repo with the MA

An RD for EFBN or Specified Instruments who is also a direct participant in the Hong Kong dollar RTGS system (in this Part III - clause *1.1.1* referred to as "borrower") must have entered into with the MA the following agreements before the borrower can enter into Automatic Intraday Repo Transactions with the MA and can request Discretionary Intraday Repo Transactions with the MA:

(a) a Master Sale and Repurchase Agreement for the purpose of providing intraday liquidity in Hong Kong dollar (Master Intraday Repo Agreement); and

(b) a Master Sale and Repurchase Agreement for use in connection with the operation of the Discount Window (Master DW Repo Agreement).

1.1.2 Eligible Securities

Exchange Fund Papers are Eligible Securities for Intraday Repo Transactions. In addition, the MA may from time to time determine other debt securities that can be accepted as Eligible Securities for Intraday Repo Transactions.

An Eligible Security cannot be used for Intraday Repo Transactions if its:

(a) maturity date falls on the day of the Intraday Repo Transaction; or

(b) maturity date falls on the business day following the day of the Intraday Repo Transaction.

1.1.3 Intraday Repo Period

The intraday repo period is the period from 8:30 a.m. to 6:30 p.m. on any business day.

The MA reserves the right to vary the intraday repo period as the MA deems appropriate.

1.1.4 Minimum Size

The minimum size of each Intraday Repo Transaction is HK$5 million for both Automatic and Discretionary Intraday Repo Transactions.

The MA reserves the right to vary the minimum size as he deems appropriate.

1.1.5 Triggering of Automatic Intraday Repo Transaction

An Automatic Intraday Repo Transaction will be triggered if there are insufficient funds in the settlement account of a borrower to effect settlement of the next queued Hong Kong dollar RTGS obligation.

The borrower does not need to initiate any request via the CMT.

The EFCS will determine the amount of the Eligible Securities to be acquired for the purchase price taking into account the margin required (refer to Appendix L.1) and will select such Eligible Securities required from the Intraday Repo Account of the borrower.

A haircut of 2% per year of remaining maturity will be applied to Exchange Fund Paper in an Intraday Repo Transaction. The MA reserves the right to vary the haircut percentage as he deems appropriate.

1.1.6 Generation of Multiple Intraday Repo Transactions

It should be noted that one single Repo Transaction request may generate not more than 99 Intraday Repo Transactions. The arrangements are as follows:

(a) Depending on the maximum size for an individual Intraday Repo Transaction set by the borrower in the form at Appendix L.9, one or more but not more than 99 Intraday Repo Transactions will be generated and the number of issues selected per Transaction will not exceed 19.

(b) The maximum size applies to Intraday, LAW and DW Repo / FPS DW Repo Transactions (but not SPDC Repo Transactions) for the same borrower.

(c) Each of the Intraday Repo Transactions will be treated as separate Intraday Repo Transactions and will be repurchased and processed independently.

(d) It should be noted that among these multiple Intraday Repo Transactions, the minimum size rule is not applicable to the last generated Intraday Repo Transaction.

(e) An example illustrating the mechanism of generating multiple Repo Transactions is provided at Appendix L.7.

1.1.7 Settlement of Automatic Intraday Repo Transaction

(a) Upon completion of the transaction processing, the relevant Securities Account of the borrower will be debited while the settlement amount will be credited to the borrower's settlement account via the Hong Kong dollar RTGS system.

(b) RTGS system will format the settlement advice in MT910 format and distribute it to the borrower via SWIFT.

(c) Confirmation can be enquired by the borrower via the "Find Transaction" function of the CMT.

1.1.8 Discretionary Intraday Repo Transaction

In addition to Automatic Intraday Repo Transactions, a borrower can request Discretionary Intraday Repo Transactions during the intraday repo period.

1.1.8.1 Input via CMT

Any borrower who is a CMT user may request a Discretionary Intraday Repo Transaction via the CMT during the intraday repo period.

When a borrower inputs a Discretionary Intraday Repo Transaction,

(a) it shall specify the amount of borrowed funds required.

(b) After the CMU system has received the request, the CMU system will automatically select the Eligible Securities required from the borrower's Intraday Repo Account (999).

(c) If there is insufficient Eligible Securities in the borrower's Intraday Repo

Account, the request will be rejected.

1.1.8.2 Input by CMU on behalf of borrowers

Subject to Part I – clause *5.2* of this Manual, any borrower whose CMT fails to function is required:

(a) to contact the MA to make any request for Discretionary Intraday Repo Transaction by telephone before 6:00 p.m. on the transaction day; and

(b) to send a confirmation (in the form at Appendix L.5) to the MA by authenticated facsimile before 6:15 p.m. on the same day.

Upon receipt of the borrower's confirmation, the MA shall input the Intraday Repo Transaction request into the CMU system on behalf of the borrower. The borrowed funds will be credited to the borrower's settlement account before the intraday repo period ends that day.

1.1.8.3 Processing of Discretionary Intraday Repo Transactions

After the CMU system has received the request, the system will automatically select the Eligible Securities required according to the lending amount as indicated by the borrower from the borrower's Intraday Repo account (999);

The selection sequence will be based on the following criteria: -

(i) remaining maturity (in ascending order); and
(ii) issue number (in ascending order).

1.1.9 Repurchase of Intraday Repo Transaction

1.1.9.1 Input via CMT

A borrower may request the repurchase of securities under any outstanding Intraday Repo Transaction in exchange for payment of the repurchase price at any time up to the Conversion Time (currently at 6:30 p.m.) on the transaction day.

The borrower who is a CMT user may initiate the repurchase of securities under an Intraday Repo Transaction manually via CMT.

The repurchase will be rejected if there are not enough funds in the borrower's settlement account.

1.1.9.2 Price Differential

The price differential is a fee which may be charged by the MA for each Intraday Repo Transaction. It is calculated by applying a pricing rate to the purchase price paid for an Intraday Repo Transaction for such time period as the MA may specify.

The accrued price differential forms part of the repurchase price for an Intraday Repo Transaction and accordingly shall be paid on the repurchase of the securities under that Intraday Repo Transaction, or, in the case of an Intraday Repo Transaction that is converted into a DW Repo Transaction, shall form part of the purchase price for the converted DW Repo Transaction.

The present intraday pricing rate is nil for each Intraday Repo Transaction involving Exchange Fund Paper and accordingly at present the price differential for each such Intraday Repo Transaction is nil.

The MA shall notify all borrowers who have signed Master Intraday Repo Agreement of any change in the pricing rate for Intraday Repo Transactions involving Exchange Fund Paper or the manner in which it will be applied.

If and when the MA determines any other securities to be Eligible Securities for Intraday Repo Transactions, the MA shall notify all borrowers of the pricing rate for Intraday Repo Transactions involving such securities and the manner in which it will be applied.

1.1.9.3 Automatic Repurchase of Intraday Repo Transaction

If any Intraday Repo Transaction remains outstanding at the Conversion Time (currently 6:30 p.m.) on the transaction day, the CMU system will automatically seek to effect the repurchase of the securities sold under such Transaction in a last-in-first-out order.

The processes are as follows:

(a) The CMU system will begin with those Transactions involving Eligible Securities that are neither Exchange Fund Paper nor securities that have been designated under the Master Intraday Repo Agreement as “Specified Instruments” starting with the last in time of such Transactions entered into prior to the end of the intraday repo period.

(b) The CMU system will then move on to those Transactions involving

Eligible Securities that are Exchange Fund Paper or Specified Instruments starting with the last in time of such Transactions entered into prior to the end of the intraday repo period.

(c) If a borrower's settlement account does not have sufficient funds to pay the repurchase price in respect of all outstanding Intraday Repo Transactions but has sufficient funds to pay the repurchase price for a preceding Intraday Repo Transaction, the CMU system will proceed to effect the repurchase of securities under such preceding Intraday Repo Transaction.

(d) No Intraday Repo Transaction will in any event be partially repurchased. If the borrower does not have sufficient funds to repurchase the securities under all of its Intraday Repo Transactions, any outstanding Intraday Repo Transaction will be automatically be converted into a DW Repo Transaction after the Conversion Time on the same day.

(e) The repurchase day of any such converted DW Repo Transaction will be the following business day. Interest will not be adjusted for any early repayment of such converted DW Repo Transaction before the repurchase day.

1.1.9.4 **Settlement of Intraday Repo Repurchase Transaction**

Upon completion of any requested repurchase,

(a) the repurchased securities will be credited to the borrower's Intraday Repo Account;

(b) the repurchase price (including any price differential) will be debited from the borrower's settlement account; and

(c) RTGS system will format the settlement advice in MT900 format and distribute it to the borrower via SWIFT.

1.1.10 Suspension

Any request or further request for Intraday Repo Transaction will not be accepted if a borrower's settlement account or Securities Account is suspended.

1.1.11 Event of Default

If an Event of Default occurs under the Master Intraday Repo Agreement:

(a) all delivery and payment obligations of both parties under all outstanding Intraday and any other Repo Transactions shall be accelerated.

(b) The MA will calculate the market value of all securities to be repurchased by taking the average of the price or rate bids by at least three reputable institutions involved in trading such securities (insofar as practicable by MMs).

(c) The borrower's obligation to pay the repurchase price for all such securities will then be set off against the MA's obligation to deliver such securities.

(d) The excess value (if any) of the market value of the securities to be repurchased over the repurchase price will be paid to the borrower under these circumstances.

(e) Alternatively, if the repurchase price is in excess of the market value of the securities to be repurchased, the borrower will pay a sum equivalent to the excess to the MA.

1.2 SPDC Intraday Repo Transaction

With the launch of CMU optimiser in July 2017, the need for SPDC intraday repo service to provide extra liquidity for purchase transactions of EFBN has diminished. Since then, SPDC intraday repo service has been deactivated until further notice. This section outlines the operating regime of SPDC intraday repo for participants' reference. SPDC Intraday Repo Transaction is a type of Discretionary Intraday Repo Transaction between the MA and an RD for EFBN or Specified Instruments. A SPDC Intraday Repo Transaction will automatically be triggered when a sale and purchase of Exchange Fund Paper is settled in the real-time DvP mode if: -

(a) the DvP transaction and the SPDC Intraday Repo Transaction are transacted through the Main Accounts (000) of an RD for EFBN/Specified Instrument; and

(b) the minimum amount of each SPDC Intraday Repo Transaction is HK$5 million.

1.2.1 SPDC Intraday Repo Period

The SPDC intraday repo period is the period from 8:30 a.m. to 6:30 p.m. on

any business day.

1.2.2 Triggering of SPDC Intraday Repo Transaction

The arrangements are as follows:

(a) Whenever there is a purchase of Exchange Fund Paper between two RDs for EFBN/Specified Instrument in the real-time DvP mode, the EFCS will automatically generate a SPDC Intraday Repo Transaction between the MA and the RD for EFBN/Specified Instrument who is the buyer to fund its purchase of the Exchange Fund Paper.

(b) The MA will treat each system-generated instruction as a request made by the RD for EFBN/Specified Instrument (i.e. buyer) to the MA for entering into a Discretionary Intraday Repo Transaction.

(c) The purchase price of a SPDC Intraday Repo Transaction is calculated according to the "discounted market value" (refer to Appendix L.1) of the trading issue or the trade settlement amount of the DvP transaction, whichever is lower.

Once the RD for EFBN/Specified Instrument (i.e. buyer) has sufficient funds in its settlement account or sufficient securities in its Intraday Repo Account to meet the difference between the DvP settlement amount and the purchase price of the SPDC Intraday Repo Transaction, the two transactions will be settled simultaneously.

1.2.3 Settlement of SPDC Intraday Repo Transaction

(a) The following accounts will be updated simultaneously upon completion of any DvP transaction and SPDC Intraday Repo Transaction: -

(i) <u>for DvP transactions</u>

Securities will be debited from the RD for EFBN/Specified Instrument (i.e. seller)'s Securities Account and credited to the RD for EFBN/Specified Instrument (i.e. buyer)'s Main Account (000); and funds will be debited from the buyer's interbank settlement account and credited to the seller's interbank settlement account; and

(ii) <u>for SPDC Intraday Repo Transactions</u>

Securities will be debited from the RD for EFBN/Specified

Instrument (i.e. buyer)'s Main Account (000) and credited to the MA's Repo Securities Account (980); and funds will be debited from the MA's settlement account and credited to the buyer's interbank settlement account.

(b) Upon completion of the transaction processing, RTGS system will format the settlement advice in MT900/910/202 format and distribute it to both the seller and buyer of such transaction via SWIFT.

Unlike the Intraday Repo Transactions described in Part III - clauses *1.1.1* to *1.1.11*, the maximum size for an individual Repo Transaction set by an RD for EFBN/Specified Instrument does not apply to the RD's SPDC Intraday Repo Transactions. Only one single SPDC Intraday Repo Transaction will be generated for each real-time DvP transaction.

1.2.4 Repurchase of SPDC Intraday Repo Transactions

1.2.4.1 Automatic Repurchase of SPDC Intraday Repo Transaction

Whenever there is a matched DvP transaction of Exchange Fund Paper pending settlement, the CMU system will check whether the seller has sufficient securities for delivery, taking into account both:

- the available balance of the securities in the seller's Securities Account; and
- the amount of the securities that can be released from the repurchase of any outstanding SPDC Intraday Repo Transactions of the seller.

The processes are as follows:

(a) The CMU system will select any outstanding SPDC Intraday Repo Transactions in a last-in-first-out order until the settlement amount received from the buyer is insufficient to repurchase the remaining SPDC Intraday Repo Transactions.

(b) If the seller has sufficient securities for delivery, the CMU system will hold the selected SPDC Intraday Repo Transactions until the settlement of the DvP transaction as described in Part III - clause *1.2.3* is completed. Otherwise, the CMU system will retry at 15-minute intervals until the seller has sufficient securities for delivery or until the EFCS cut-off time.

1.2.4.2 Repurchase of SPDC Intraday Repo Transaction during the CMU Optimiser Runs

Repurchase will also take place automatically during the CMU optimiser run. The processes are as follows:

(a) During the CMU optimiser run, the CMU system will first check the availability of securities from an RD for EFBN/Specified Instrument's Securities Account.

(b) If the RD for EFBN/Specified Instrument does not have sufficient securities for delivery to complete the delivery during the CMU optimiser run, the CMU system will repurchase any outstanding SPDC Intraday Repo Transactions involving that issue in a last-in-first-out order until the RD for EFBN/Specified Instrument has sufficient securities for delivery in the CMU optimiser run.

(c) No SPDC Intraday Repo Transaction will in any event be partially repurchased. However, if the RD for EFBN/Specified Instrument still incurs a short position in an issue even after all outstanding SPDC Intraday Repo Transactions are repurchased, some of the matched but not settled transactions will be skipped/rejected in accordance with the procedures as described in Part II - clause *4.1.9*

RTGS system will format the settlement advice in MT900 format and distribute it to such RD for EFBN/Specified Instrument via SWIFT.

1.2.4.3 **Manual Repurchase**

A borrower may request the repurchase of securities under any outstanding SPDC Intraday Repo Transaction in the manner described in Part III - clause *1.1.9*.

The process for automatic repurchase of SPDC Intraday Repo Transactions at the Conversion Time follows that for Intraday Repo Transactions as described in Part III - clause *1.1.9.3*.

Like other Intraday Repo Transactions, a SPDC Intraday Repo Transaction will be converted to a DW Repo Transaction if the borrower does not have sufficient funds to repurchase the relevant SPDC Repo Transaction at the Conversion Time on the same day.

1.2.5 Settlement of SPDC Intraday Repo Repurchase Transaction

The following accounts will be updated simultaneously upon completion of any DvP transaction and repurchase of SPDC Intraday Repo Transaction: -

(a) for DvP transactions

Securities will be debited from the RD for EFBN/Specified Instrument (i.e. seller)'s Main Account (000) and credited to the RD for EFBN/Specified Instrument (i.e. buyer)'s Main Account (000); and funds will be debited from the buyer's interbank settlement account and credited to the seller's interbank settlement account; and

(b) for SPDC Intraday Repo Transaction Repurchases

The repurchased equivalent securities will be debited from the MA's Repo securities account (980) and credited to the RD for EFBN/Specified Instrument (i.e. seller)'s Main Account (000); and funds will be debited from the seller's interbank settlement account and credited to the MA's settlement account.

Upon completion of the transaction processing, RTGS system will format the settlement advice in MT900/910/202 format and distribute it to both the buyer and seller of such transaction via SWIFT.

1.3 Hong Kong Dollar Liquidity Adjustment Window

1.3.1 Purpose and Agreement

The MA has determined that he will, in the circumstances set out below, enter into a special form of Hong Kong dollar Intraday Repo Transaction, Liquidity Adjustment Window Intraday Repo Transaction (LAW-Intraday Repo Transaction), the purpose of which is to provide liquidity to enable direct participants in the Hong Kong dollar RTGS system to settle their bulk clearing commitments (as such term is defined in the Clearing House Rules). The provision of such liquidity is referred to in this Part III - clause *1.3* as the Liquidity Adjustment Window (LAW).

The LAW-Intraday Repo Transactions will be entered into pursuant to the Master Sale and Repurchase Agreement for the purpose of providing intraday liquidity in Hong Kong dollar (Master Intraday Repo Agreement) and the terms of each LAW-Intraday Repo Transaction shall be as set out in such Master Intraday Repo Agreement but subject to the provisions set out below.

1.3.2 Eligibility to Enter LAW with MA

A CMU Participant which is also a direct participant in the Hong Kong dollar RTGS system (in this Part III - clause *1.3* referred to as "borrower") must have entered into with the MA the following agreements before the borrower can enter into LAW-Intraday Repo Transactions with the MA:

(a) a Master Intraday Repo Agreement; and

(b) a Master DW Repo Agreement

1.3.3 Eligible Securities

The MA has determined that all CMU Instruments eligible for Discount Window (except those issued by the borrower itself, its subsidiaries, its holding company, or any subsidiary of that holding company) will be Eligible Securities for LAW-Intraday Repo Transactions.

If a borrower wishes to enter into any LAW-Intraday Repo Transactions with the MA, the borrower shall credit such CMU Instruments to its Intraday Repo Account. By crediting such CMU Instruments to its Intraday Repo Account, the borrower will be deem to, by its conduct, have accepted the terms of LAW-Intraday Repo Transactions set out below.

The borrower undertakes not to credit CMU Instruments that are issued by it, its subsidiaries, its holding company, or any subsidiaries of that holding company into its Intraday Repo Account since such CMU Instruments are not eligible for LAW- Intraday Repo Transactions.

An Eligible Security cannot be used for LAW-Intraday Repo Transaction if its maturity date falls on the transaction day or the business day following the LAW-Intraday Repo Transaction.

1.3.4 Minimum Size

Under the LAW, the minimum size for each LAW-Intraday Repo Transaction is zero. The MA reserves the right to vary the minimum size as he deems appropriate.

1.3.5 Operating Time for LAW

The operating times for the LAW are the bulk clearing settlement run windows of each bulk clearing settlement run on any business day. The following are examples of bulk clearing settlement runs:

SACRM	8:45 a.m.	to	9:15 a.m.
CCASS	9:30 a.m.	to	10:00 a.m.
EPS	10:00 a.m.	to	10:30 a.m.
JETCO items MPF items	11:30 a.m.	to	12:00 noon
CLG	2:15 p.m.	to	2:45 p.m.
Credit card items for each credit card company separately (visa, mastercard and CUP)	2:45 p.m.	to	3:15 p.m.
SACRA items	3:15 p.m.	to	3:45 p.m.
SACR / SEPS / SJETCO	5:00 p.m.	to	5:30 p.m.
Same day CCASS items (if nil return)	5:50 p.m.	to	6:00 p.m.
Same day CCASS items (if there are returns)	6:00 p.m.	to	6:15 p.m.

where:-

SACRM	Same day Autocredit bulk settlement run in the morning
CCASS	Central Clearing and Settlement System for share transactions
EPS	EPSCO transactions
CLG	Cheques and Autodebit transactions, and Investor Account holder transactions, and Special CCASS items, and Same day Autocredit returned items
MPF	MPF money settlement service
SACRA	Same day Autocredit bulk settlement run in the afternoon
SACR / SEPS / SJETCO	Same day Autocredit bulk settlement run in the evening, and same day EPS and JETCO transactions

1.3.6 Triggering of LAW-Intraday Repo Transaction

A LAW-Intraday Repo Transaction will be automatically triggered if there are insufficient funds in the settlement account of a borrower to effect settlement of any of its bulk clearing commitments.

The processes are as follows:

(a) The CMU system will determine the amount of Eligible Securities to be acquired for the purchase price taking into account the margin required (refer to Appendix L.1) and will select the Eligible Securities from the Intraday Repo Account of the borrower.

(b) The borrower does not need to initiate any request via its CMT.

1.3.7 Generation of Multiple Repo Transaction

It should be noted that one single Repo Transaction request may generate not more than 99 LAW-Intraday Repo Transactions. The arrangements are as follows:

(a) Depending on the maximum size for an individual Intraday Repo Transaction set by the borrower in the form at Appendix L.9, one or more but not more than 99 LAW-Intraday Repo Transactions will be generated and the number of issues selected per Transaction will not exceed 19.

(b) The maximum size applies to Intraday, LAW and DW Repo / FPS DW Repo Transactions (but not SPDC Repo Transactions) for the same borrower.

(c) Each of the LAW-Intraday Repo Transactions will be treated as separate LAW- Intraday Repo Transactions and will be repurchased and processed independently.

(d) It should be noted that among these multiple LAW-Intraday Repo Transactions, the minimum size rule is not applicable to the last generated Intraday Repo Transaction.

(e) An example to illustrate the generation of multiple Repo Transactions is provided at Appendix L.7.

1.3.8 Settlement of LAW-Intraday Repo Transaction

Upon completion of the transaction processing,

(a) the relevant Securities Account of the borrower will be debited while the settlement amount will be credited to the borrower's settlement account via the Hong Kong dollar RTGS system.

(b) RTGS system will format the settlement advice in MT910 format and distribute it to the borrower via SWIFT.

1.3.9 Price Differential

The price differential is a fee which is charged by the MA for each LAW-Intraday Repo Transaction. It is calculated by applying the DW Base Rate to the amount of the purchase price paid for a LAW-Intraday Repo Transaction for one day (refer to Appendix L.4). The price differential shall accrue as soon as the purchase price is paid to the borrower by the MA in respect of a LAW-Intraday Repo Transaction.

For any LAW-Intraday Repo Transactions in respect of which securities are repurchased on the same business day that the transaction was entered into, the price differential will be debited to the borrower's settlement account upon completion of the repurchase. If however this is not practicable for reasons other than insufficient available funds in the borrower's settlement account, the remainder of the repurchase price shall be debited from the borrower's settlement account upon completion of the repurchase and the price differential element of the repurchase price shall be debited as soon as practicable thereafter.

If the price differential remains outstanding after the repurchased securities have been credited to the borrower's Intraday Repo Account, the price differential shall, until such time as it is debited from the borrower's settlement account:-

(a) remain outstanding as a debt due and owing to the MA notwithstanding the credit of the repurchased securities to the borrower's Securities Account; and

(b) be included (as an outstanding portion of the repurchase price) in any set-off calculation made following an Event of Default under the Master Intraday Repo Agreement.

For the avoidance of doubt, if it is not practicable for the price differential portion of the repurchase price to be paid upon the transfer of the repurchased securities under any LAW-Intraday Repo Transaction for reasons other than insufficient funds in the borrower's settlement account, such transaction will not be converted to a DW Repo Transaction as set out in Part III - clause *1.3.10.2* below but the price differential will remain outstanding as a debt due and owing to the MA.

1.3.10 Repurchase of LAW-Intraday Repo Transaction

1.3.10.1 **Input via CMT**

A borrower may request the repurchase of securities under any outstanding LAW-Intraday Repo Transaction at any time up to the Conversion Time (i.e. 6:30 p.m.) on the same transaction day.

The borrower which is a CMT user may initiate the repurchase of securities under a LAW-Intraday Repo Transaction manually via the CMT.

The repurchase will be rejected if there are not enough funds in the borrower's settlement account.

1.3.10.2 **Automatic Repurchase of LAW-Intraday Repo Transaction**

If any LAW-Intraday Repo Transaction remains outstanding after the Conversion Time on the transaction day, the CMU system will automatically seek to effect the repurchase of the securities sold under such Transactions together with the securities sold under all other Intraday Repo Transactions with the same borrower in a last-in-first-out order.

The processes are as follows:

(a) The CMU system will begin with those transactions involving Eligible Securities which are neither Exchange Fund Paper nor Specified Instruments starting with the last in time of such Transactions entered into prior to the Conversion Time that day.

(b) The CMU system will then move on to those Transactions involving Eligible Securities which are Exchange Fund Paper or Specified Instruments starting with the last in time such Transactions entered into prior to the Conversion Time that day.

(c) If the borrower's settlement account does not have sufficient funds to effect the repurchase price in respect of all outstanding Intraday Repo Transactions but has sufficient funds to pay the repurchase price for a preceding Intraday Repo Transaction, the MA will proceed to effect the repurchase of securities under such preceding Intraday Repo Transaction.

(d) No Intraday Repo Transaction will in any event be partially repurchased (subject as set out above in respect of the price differential payable for LAW Intraday Repo Transactions in certain circumstances).

(e) If the borrower does not have sufficient funds to repurchase the securities under all of its Intraday Repo Transactions, any outstanding Intraday Repo Transactions (including outstanding LAW-Intraday Repo Transactions) will be automatically be converted into DW Repo Transactions after the Conversion Time on the same day.

(f) In the case of (e) above, the purchase price for each of the converted DW Repo Transaction will be equal to the repurchase price (purchase price plus the relevant price differential) of the relevant Intraday Repo Transaction. The repurchase day of such converted DW Repo Transactions will be the following business day. Interest will not be adjusted for any early repayment of such DW Repo Transactions before the following business day.

1.3.10.3 **Settlement of Repurchase of LAW-Intraday Repo Transaction**

Upon completion of the repurchase,

(a) the repurchased securities will be credited to the borrower's Intraday Repo Account;

(b) the repurchase price, (including the price differential as specified in Part III - clause *1.3.9*), will be debited from the borrower's settlement account; and

(c) the RTGS system will format the settlement advice in MT900 format and distribute to the borrower via SWIFT.

1.3.11 Suspension

Any requests or further request for LAW-Intraday Repo Transactions will not be accepted if the borrower's settlement account or Securities Account is suspended.

1.3.12 Event of Default

If an Event of Default occurs under the Master Intraday Repo Agreement,

(a) all delivery and payment obligations of both parties under all Intraday Repo and DW Repo / FPS DW Repo Transactions (including any outstanding LAW-Intraday Repo Transactions) shall be accelerated.

(b) The MA will calculate the market value of the securities to be repurchased by taking the average of the prices or rate bids by at least

three reputable institutions involved in trading such securities (insofar as practicable by MMs).

(c) The borrower's obligation to pay the repurchase price for all such securities will then be setoff against the MA's obligation to deliver such securities.

(d) The excess value (if any) of the market value of the securities to be repurchased over the repurchase price will be paid to the borrower under these circumstances.

(e) Alternatively, if the repurchase price is in excess of the market value of the securities to be repurchased, the borrower will pay a sum equivalent to the excess to the MA.

1.4 Discount Window /Faster Payment System (FPS) Discount Window

1.4.1 Eligibility to Enter DW/FPS DW with the MA

A CMU Participant, who is also a direct participant in the Hong Kong dollar RTGS system (referred to as "borrower" in this Part III - clause *1.4*), must have entered into a Master Sale and Repurchase Agreement (Master DW Repo Agreement) for use in connection with the operation of the DW before it can request a DW sale and repurchase transaction (DW Repo Transaction) with the MA.

Besides DW Repo Transactions, in order to facilitate banks to arrange sufficient liquidity for settling FPS transactions during the period when the HKD CHATS closes, a bank can borrow HKD funds from the MA, by entering sale and repurchase transactions for the provision of HKD funds for use in the FPS, namely FPS DW Repo Transactions. Such transactions are also governed by the Master DW Repo Agreement.

Both DW and FPS DW Repo Transactions are to be conducted within the DW Availability Period defined at clause *1.4.2* below.

1.4.2 DW Availability Period

The DW Available Period is the period from 5:30 p.m. to 6:30 p.m. on any business day.

1.4.3 Minimum Size

The minimum size of each request for DW/FPS DW Repo Transactions is HK$20 million.

The MA reserves the right to vary the DW availability period and the minimum transaction size as he deems appropriate.

1.4.4 Eligible Securities

Eligible Securities for DW/FPS DW Repo Transactions are divided into two groups:

(a) Exchange Fund Paper; and
(b) other eligible debt securities.

An Eligible Security cannot be used for a DW/FPS DW Repo Transaction if its maturity date falls on the day of request for the DW/FPS DW Repo Transaction or on the business day following the day of request.

A schedule of discount rates applicable for different percentage thresholds of holdings of Exchange Fund Paper and other eligible debt securities by direct participants in the Hong Kong dollar RTGS system is set out in Part III - clauses *1.4.4.2* and *1.4.4.3* below.

1.4.4.1 **Required Margin**

Required margin is a premium added to the market value of Exchange Fund Paper for the purpose of determining the required amount of Exchange Fund Paper in a DW/FPS DW Repo Transaction. It is calculated from the haircut determined by the MA from time to time in accordance with the method as set out in Appendix L.1.

A haircut of 2% per year of remaining maturity will be applied to Exchange Fund Paper in a DW/FPS DW Repo Transaction. The MA reserves the right to vary the haircut percentage as he deems appropriate.

1.4.4.2 **Discount Rate for Exchange Fund Paper**

Percentage of Exchange Fund Paper Held	Applicable Discount Rate
First 50 percent	Base Rate

Percentage of Exchange Fund Paper Held	Applicable Discount Rate
Next 50 percent	Base Rate plus 5% or overnight HIBOR for the day, whichever is higher

1.4.4.3 **Discount Rate for Eligible Debt Securities other than Exchange Fund Paper**

Percentage of Eligible Securities other than Exchange Fund Paper Held	Type of Securities	Applicable Discount Rate
First 50 percent	Specified Instruments (including MTRC Notes, HKMC Notes and AA Notes) **issued before 5 September 1998** and triple-A rated eligible debt securities	Base Rate
	Other eligible debt securities	Base Rate + 0.25%
Next 50 percent	Specified Instruments (including MTRC Notes, HKMC Notes and AA Notes) **issued before 5 September 1998** and triple-A rated eligible debt securities	Base Rate plus 5% or overnight HIBOR for the day, whichever is higher
	Other eligible debt securities	Base Rate + 0.25% plus 5% or overnight HIBOR for the day + 0.25%, whichever is higher

1.4.5 Determination of Threshold Holdings for DW Repo

The arrangements are as follows:

For the purpose of calculating the thresholds of holdings, the market value of the eligible debt securities held at the end of the DW Availability Period on the day of the relevant DW Repo Transaction after applying the relevant "haircut" (Discounted Market Value) will be used.

The holdings will include all eligible debt securities under the borrower's Main Account (000), Intraday Repo account (999), tradable holdings under Bank Repo Sale account (777) and Bank Repo Purchase account (778).

However, holdings in the borrower's client accounts will be excluded. As real-time securities transfer is supported up to 6:30 p.m., this holding reference will be fixed at the end of the DW Availability Period on the day of the relevant DW Repo Transaction (i.e. 6:30 pm)

An example illustrating the calculation method is provided at Appendix L.2.

1.4.6 DW/FPS DW Repo Transaction

1.4.6.1 **Input via CMT**

Any borrower who is a CMT user may request a DW/FPS DW Repo Transaction via the CMT during the DW Availability Period.

The DW/FPS DW Repo Transaction will be automatically confirmed by the CMU system, and the borrowed funds requested by the relevant borrower will be credited to its settlement account immediately. All settlement process related to DW/FPS DW Repo Transactions will be completed before the DW Availability Period ends that day.

Borrower should note the following:

(a) When a borrower inputs a DW Repo Transaction request through CMT, it shall specify the requested funds separately in the fields "Sale Amount for EF Paper" and "Sale Amount for non-EF Paper".

(b) It is the responsibility of the borrower to determine the mix of securities for the borrower's relevant DW Repo Transaction (including any converted from Intraday Repo Transaction).

(c) The MA has no obligation to determine the most favourable mix of securities to enable the borrower to achieve the lowest borrowing cost.

(d) If there is insufficient Eligible Securities in the borrower's Main and Intraday Repo Account, the request will be rejected.

(e) When a borrower inputs a FPS DW Repo Transaction request through CMT, it shall choose "Y" in the field "FPS DW Repo" and specify the requested borrowing amount in the field "Sale Amount for EF Paper".

1.4.6.2 **Input by CMU on behalf of Borrowers**

Subject to Part I – clause *5.2* of this Manual, any borrower whose CMT fails to function is required:

(a) to contact the MA to make any request for DW/FPS DW Repo Transaction by telephone before 6:00 p.m. on the transaction day; and

(b) to send a confirmation (in the form at Appendix L.6) to the MA by authenticated facsimile before 6:15 p.m. on the same day.

Upon receipt of borrower's confirmation, the MA will input the DW/FPS DW Repo Transaction request into the CMU system on behalf of the borrower. The borrowed funds will be credited to the settlement account of borrower before the DW Availability Period ends that day.

1.4.6.3 **Processing of DW/FPS DW Repo Transaction**

After the CMU system has received the request, the CMU system will automatically select the Eligible Securities required according to the lending amount as indicated by the borrower from both the borrower's Main Account (000) and Intraday Repo account (999).

The selection sequence will be based on the following criteria:

(a) type of securities (in following order):
- Exchange Fund Paper;
- Specified Instruments;
- other eligible debt securities with AAA ratings; and
- other eligible debt securities;

(b) for each type of securities, including both Exchange Fund Paper and non-Exchange Fund paper, remaining maturity (in ascending order);
(c) For securities with the same remaining maturity in (ii), issue number (in ascending order); and
(d) Main Account (000) before Intraday Repo account (999).

The MA reserves the right to vary the selection order as he deems appropriate.

If there is sufficient Eligible Securities in the CMU Participant's Main Account and/or Intraday Repo Account, the funds borrowed will be credited to its settlement account. Otherwise, the request will be rejected.

The funds obtained from FPS DW will be put on hold in borrower's CHAT's Leger Account and later sent to its FPS Ledger Account during the CHATS end-of-day account balance sweeping.

1.4.6.4 Generation of Multiple DW/FPS DW Repo Transactions

It should be noted that one single Repo Transaction request may generate not more than 99 DW/FPS DW Repo Transactions of the following types with different deal codes:-

(a) DW/FPS DW Repo transaction(s) with Exchange Fund paper as collateral;
(b) DW/FPS DW Repo transaction(s) with Specified Instruments as collateral; and
(c) DW/FPS DW Repo transaction(s) with other Eligible Securities as collateral.

The arrangements are as follows:

(i) Depending on the maximum size for an individual DW Repo Transaction set by a borrower in the form at Appendix L.9, one or more DW/FPS DW Repo Transactions will be generated for each of the above type of DW/FPS DW Repo Transactions and the number of issues selected per Transaction will not exceed 19.

(ii) The maximum size applies to Intraday, LAW, DW Repo and FPS DW Repo Transactions for the same borrower.

(iii) Each of the above Transactions will be treated as separate DW/FPS DW Repo Transactions and will be repurchased and processed independently.

(iv) It should be noted that among these multiple DW/FPS DW Repo Transactions arising from a single DW/FPS DW Repo Transaction request, the minimum size rule as set out in Part III - clause *1.4.3* above is not applicable to the last generated DW/FPS DW Repo Transaction.

(v) An example illustrating the mechanism of generating multiple Repo Transactions is provided at Appendix L.7.

1.4.6.5 Settlement of DW/FPS DW Repo Transaction

The settlement processes are as follows:

(a) Upon completion of the transaction processing, the relevant Securities Account of the borrower will be debited while the settlement account will be credited to the borrower's settlement account via the HKD CHATS.

(b) The RTGS systems will format the settlement advice in MT910 format and distribute it to the relevant borrower via SWIFT.

1.4.7 Repurchase of DW/FPS DW Repo Transaction

1.4.7.1 Input via CMT

The borrower shall repurchase the securities sold under each DW/FPS DW Repo Transaction from the MA at or before 2:30 p.m. (repurchase time) on the following business day.

The borrower who is a CMT user may initiate the repurchase of securities under a DW/FPS DW Repo Transaction manually via CMT.

The repurchase will be rejected if there is not enough funds in the borrower's settlement account.

1.4.7.2 Special Repurchase Run of FPS DW Repo Transactions

There is an opening balance sweeping between CHATS and FPS when the HKD CHATS opens at 8:30 a.m. on a HKD CHATS operating day. The HKD CHATS will immediately trigger a special repurchase run at 8:30 a.m. for FPS DW Repo Transactions and hold the necessary funds from individual banks' settlement accounts for the repurchase before the completion of the special repurchase run.

If all or part of FPS DW Repo Transactions cannot be repurchased due to insufficient funds during this special repurchase run, the outstanding FPS DW Repo Transactions can be repurchased manually via CMT before the scheduled repurchase time or automatically repurchased by the CMU System at the specific cut-off time (currently 4:00 p.m.) as mentioned in clause *1.4.10(e)* below.

1.4.7.3 Settlement of DW/FPS DW Repurchase Transaction

Upon completion, the repurchased securities will be credited to:

(a) the borrower's Main Account if the securities are selected from its Main Account; or

(b) the borrower's Intraday Repo Account if the securities are selected from its Intraday Repo Account.

The repurchase price (refer to Appendix L.3) will be debited from the settlement account of the borrower.

Upon completion of the repurchase, the RTGS systems will format the settlement advice in MT900 format and distribute it to the borrower via SWIFT.

1.4.8 Price Differential for DW Repo Transaction

The price differential or the interest payable for DW Repo Transaction is calculated automatically by applying:

- the Base Rate for Exchange Fund Paper and Specified Instruments and Triple A-rated debt securities; or
- the Base Rate plus 0.25% for other private and public sector Eligible Securities (Normal Rates).

The processes are as follows:

(a) The system will capture automatically the relevant interest rate(s) to be applied, according to the different percentage thresholds of the securities holdings by the borrowers at the close of the DW Availability Period.

(b) The interest payable as well as the relevant principal will be debited from the borrower's settlement account upon reversal of each of the DW Repo Transactions at the repurchase time on the following business day.

(c) Detailed breakdowns of the interest payments can be enquired from the transaction enquiry function of CMT.

If an interest payment date in respect of any security falls on a date whilst such security is the subject of a DW Repo Transaction, any interest accrued and paid to the MA will be credited to the borrower.

1.4.9 Price Differential for FPS DW Repo Transaction

The price differential is a fee which is charged by the MA for each FPS DW Repo Transaction. It is calculated on a daily basis by applying the applicable interest rate as determined by the MA. The current applicable interest rate is 0% p.a. The MA reserves the right to vary the applicable interest rate as he deems appropriate.

1.4.10 Outstanding DW/FPS DW Repo Transaction

If any DW/FPS DW Repo Transaction remains outstanding at the repurchase time on the following business day, the CMU system will automatically seek to effect the repurchase of the securities sold under such Transactions in a last-in-first-out order.

The processes are as follows:

(a) The CMU system will begin with those transactions involving Eligible Securities which are not Exchange Fund Paper or Specified Instruments starting with the last in time of such transactions entered into prior to the end of the DW availability period.

(b) It will then move on to those transactions involving Eligible Securities that are Exchange Fund Paper or Specified Instruments starting with the last in time of such transactions entered into prior to the end of the DW Availability Period.

(c) No DW/FPS DW Repo Transaction will in any event be partially repurchased. The repurchase process will stop at the DW/FPS DW Repo Transactions that the borrower does not have sufficient funds to repurchase and all the then remaining outstanding DW/FPS DW Repo Transactions will be placed in the SAP payment queue.

(d) If those outstanding Transactions are at the top of the SAP payment queue and the borrower has sufficient securities in its Intraday Repo Account, automatic Intraday Repo Transactions will be triggered to settle those outstanding Transactions.

(e) In case there are insufficient securities to trigger automatic Intraday Repo Transactions or the outstanding Transactions are not at the top of the SAP payment queue, these Transactions will remain in the SAP payment queue pending payment until a specific cut-off time (currently 4:00 p.m.) that day.

(f) If after the specific cut-off time, there are outstanding DW/FPS DW Repo Transactions that could not be repurchased, the MA will value the relevant securities which have not been repurchased and effect a set-off between the respective obligations of the borrower and the MA

under the outstanding DW/FPS DW Repo Transactions (to the extent that any balance is to be paid by the party having its claim valued at the lower amount).

(g) If such balance is payable by the borrower and the borrower fails to pay it, the MA may call an Event of Default under the Master DW Repo Agreement.

1.4.11 Suspension

Any requests or further request for DW/FPS DW Repo Transactions will not be accepted if a borrower's settlement account or Securities Account is suspended.

1.4.12 Event of Default

If an Event of Default occurs under the Master DW Repo Agreement,

(a) all delivery and payment obligations of both parties under all outstanding DW/FPS DW Repo Transactions shall be accelerated.

(b) The MA will calculate the market value of all securities to be repurchased taking the average of the prices or rate bids by at least three reputable institutions involved in trading such securities (insofar as practicable by MMs).

(c) The borrower's obligation to pay the repurchase price for all such securities will then be set off against the MA's obligation to deliver such securities.

(d) The excess value (if any) of the market value of the securities to be repurchased over their repurchase price will be paid to the borrower under these circumstances.

(e) Alternatively, if the repurchase price is in excess of the market value of the securities to be repurchased, the borrower will pay a sum equivalent to the excess to the MA.

1.5 Hong Kong Dollar Discount Facility for Hong Kong Government Bonds

1.5.1 Introduction

The MA provides a HKD discount facility for Government Bonds (GBs) issued by the HKSARG. Under the discount facility, the MA provides liquidity assistance to banks by offering overnight HKD funds up to a certain amount, available on a first-come-first-served basis, against a sale and repurchase of GBs by banks.

1.5.2 Eligibility to enter into HKD Overnight Repo with the MA by using GBs

To be eligible for entering into HKD overnight repo transactions with the MA by using GBs as collaterals, an RD (in this Part III - clause *1.5* referred to as "borrower") must be:

(i) a licensed bank in Hong Kong; and
(ii) a Recognized Dealer for GBs.

A borrower must have signed with the MA the Master Sale and Repurchase Agreement for the provision of liquidity assistance including lender-of-last-resort support and RMB liquidity facility (referred to as Agreement in this chapter) before it can enter into a HKD overnight repo transaction by using GBs with the MA.

1.5.3 HKD Overnight Repo Period

A borrower may initiate a HKD overnight repo transaction via CMT during the Overnight Repo Period from 5:30 p.m. to 6:30 p.m. on any business day. The MA reserves the right to vary the Overnight Repo Period as he deems appropriate.

It should be noted that before initiating the transaction, the borrower is required to contact the dealing room of the HKMA during 3:00 p.m. to 4:30 p.m. to request for conducting such HKD overnight repo with the MA.

1.5.4 Eligible Securities

Eligible securities include both the institutional and retail tranche of the HKD denominated GBs issued by the HKSARG which are lodged with the CMU.

GBs cannot be used for a HKD overnight repo transaction if the redemption date falls on or before the business day following the date upon which a HKD overnight repo transaction is entered into or effected, whichever applicable.

1.5.5 Minimum Repo Transaction Size

The minimum size of each HKD overnight repo transaction is HKD20 million. The MA reserves the right to vary the minimum repo transaction size as he deems appropriate.

1.5.6 Price Differential

The Price Differential is a fee which is charged by the MA for each HKD overnight repo transaction. It is calculated based on one day by applying the applicable interest rates as set out in Part III - clause *1.5.7.3* to the purchase price paid for a HKD overnight repo transaction.

1.5.7 Value and Required Margin

1.5.7.1 **Value**

Value is the market value of GB determined by the MA from time to time on the basis of bid prices quoted by Primary Dealers of GB. The Value is calculated in accordance with the method as set out in Appendix L.1.

1.5.7.2 **Required Margin**

Required Margin is a premium added to the market value of GB for the purpose of determining the amount of GB in a HKD overnight repo transaction. It is calculated from the haircut determined by the MA from time to time in accordance with the method as set out in Appendix L.1.

A haircut of 2% per year of remaining maturity will be applied to GB in a HKD overnight repo transaction. The MA reserves the right to vary the haircut percentage as he deems appropriate.

1.5.7.3 **Discount Rate**

The following two-tier schedule of discount rates is applicable to different percentage thresholds of holdings of GBs by borrowers.

Percentage of Government Bond Held	Applicable Discount Rate
First 50 percent	Base Rate*

Percentage of Government Bond Held	Applicable Discount Rate
Next 50 percent	Base Rate plus 5% or overnight HIBOR for the day as announced by the MA, whichever is higher

* The Base Rate will be the same as that for the Discount Window.

1.5.8 Determination of Threshold

For the purpose of calculating the thresholds of holdings, the market value of the GB held at the end of the Overnight Repo Period on the day of the relevant HKD overnight repo transaction after applying the relevant "haircut" (Discounted Market Value) will be used.

The holdings will include all eligible debt securities in both the borrower's Main Account (000), Intraday Repo Account (999), tradable holdings under Bank Repo Sale account (777) and Bank repo Purchase account (778).

However, holdings in the borrower's client accounts will be excluded.

An example illustrating the calculation method is provided at Appendix L.2.

1.5.9 Initiating HKD Overnight Repo Transactions

A borrower who wishes to borrow HKD overnight funds from the HKMA by using GBs as collaterals is required to contact the dealing room of the HKMA at 2878 8104 or Reuters dealing code EFHK between 3:00 p.m. to 4:30 p.m. After confirming the borrowing amount, the borrower is required to input a HKD overnight repo transaction in accordance with the procedures set out in the following sections.

1.5.9.1 **Input via CMT**

After confirming the borrowing amount with the dealing room of the HKMA, a borrower is required to initiate a HKD overnight repo transaction via CMT using the repo function during the Overnight Repo Period.

Borrower should note that GBs are classified as non-Exchange Fund Paper. When it inputs the overnight repo transaction, it is required to specify the total borrowing amount required in the field "for eligible debt securities other than Exchange Fund Paper" in the relevant CMT repo input screen. Failure

to input the amount in the correct field will result in drawing the Exchange Fund Paper as collateral instead of GB.

1.5.9.2 **Input by CMU on behalf of Borrower**

Subject to Part I – clause *5.2* of this Manual, if the borrower's CMT fails to function after confirming the borrowing amount with the HKMA, the borrower may request the CMU to input the repo transaction on its behalf by sending a confirmation form (Appendix L.6) to the CMU by authenticated facsimile before 6:15 p.m.

Upon receipt of the borrower's confirmation, the CMU will input the HKD overnight repo transaction into the CMU system on behalf of the borrower.

1.5.9.3 **Processing of HKD Overnight Repo Transaction**

When the CMU system receives a request for HKD overnight repo transaction, the CMU system and HKD CHATS will process as follows:

(a) The HKD CHATS performs a limit check. The request will be rejected if the requested borrowing amount exceeds the confirmed amount agreed with the HKMA;

(b) The CMU system automatically selects GBs required from both the borrower's Main Account (000) and Intraday Repo Account (999). The request will be rejected if the borrower has insufficient eligible securities in its CMU accounts;

(c) The selection sequence of GBs will be based on the following criteria:-
   (i) remaining maturity (in ascending order);
   (ii) for securities with the same remaining maturity in (i), issue number (in ascending order); and
   (iii) Main Account (000) before Intraday Repo Account (999)

The MA reserves the right to vary the selection order as he deems appropriate.

1.5.9.4 **Settlement of HKD Overnight Repo Transactions**

Upon completion of the transaction processing,

(a) the relevant securities account of the borrower will be debited while the settlement amount will be credited to the borrower's settlement account via the HKD CHATS; and

(b) the HKD CHATS will format the settlement advice in MT910 format and distribute it to the borrower via SWIFT.

1.5.10 Repurchase of HKD Overnight Repo Transaction

1.5.10.1 **Input via CMT**

A borrower shall repurchase the securities sold under each HKD overnight repo transaction from the MA at or before the repurchase time (currently at 2:30 p.m.) on the repurchase date.

Any borrower who is a CMT user may initiate repurchase of securities under a HKD overnight repo transaction manually via the CMT.

The repurchase will be rejected if there are not enough funds in the borrower's HKD settlement account.

1.5.10.2 **Automatic Repurchase**

If any HKD overnight repo transactions remain outstanding at the repurchase time (currently at 2:30 p.m.) on the repurchase day, the system will automatically seek to effect the repurchase of the securities sold under such transactions in a last-in-first-out order.

The processes are as follows:

(a) The system will begin with those transactions starting with the last in time of such transactions entered into prior to the end of the Overnight Repo Period.

(b) No HKD overnight repo transaction will in any event be partially repurchased. The repurchase process will stop at the HKD overnight repo transaction that the borrower does not have sufficient funds to repurchase and all the remaining outstanding HKD overnight repo transactions will be placed in the SAP payment queue.

(c) If those outstanding transactions are at the top of the SAP payment queue and the borrower has sufficient securities in its Intraday Repo Account (i.e. the "999" Account), automatic HKD intraday repo transactions (entered into with the MA using Exchange Fund Paper as collaterals) will be triggered to settle those outstanding transactions.

(d) In case there are insufficient securities to trigger any HKD intraday repo transactions or the outstanding transactions are not at the top of the SAP payment queue, these transactions will remain in the SAP

payment queue pending payment until a specific cut-off time (currently at 4:00 p.m.) that day.

(e) Any outstanding HKD overnight repo transaction that cannot be repurchased after the above-mentioned specific cut-off time will be converted into permanent trade.

(f) If an outstanding HKD overnight repo transaction is converted into a permanent trade, the MA will valuate the relevant securities that have not been repurchased and effect a set-off between the respective obligations of the borrower and the MA under the outstanding HKD overnight repo transactions (to the extent that any balance is to be paid by the party having its claim value at the lower amount).

(g) If such balance is payable by the borrower and the borrower fails to make such payment, the MA may call an Event of Default under the Agreement.

1.5.10.3 **Settlement of HKD Overnight Repo Repurchase Transaction**

Upon completion, the repurchased securities will be credited to:

(a) the borrower's Main Account if the securities are selected from its Main Account; or

(b) the borrower's Intraday Repo Account if the securities are selected from its Intraday Repo Account.

The repurchase price (refer to Appendix L.3) of the HKD overnight repo transaction will be debited from the settlement account of the borrower.

The HKD CHATS will format the settlement advice in MT900 format and distribute to the borrower via SWIFT.

1.5.11 Interest Payable

The interest payable for HKD overnight repo transactions is calculated automatically by applying the relevant interest rate.

The processes are as follows:

(a) The system will capture automatically the relevant interest rate(s) to be applied, according to the different percentage thresholds of GB holdings by the borrowers.

(b) The interest payable as well as the relevant principal will be debited from the borrower's settlement account upon reversal of each of the HKD overnight repo transactions at the repurchase time on the following business day.

(c) Detailed breakdowns of the interest payments can be enquired from the transaction enquiry function of CMT.

Currently, the system calculates automatically the interest payable for a HKD overnight repo transactions based on the threshold of holdings of eligible debt securities at the beginning of the Overnight Repo Period. If there is a change in the borrower's holdings of eligible debt securities during the Overnight Repo Period which affects the threshold of holdings, the applicable interest rate(s) mentioned in this Part III - clause *1.5.11* (a) above will need to be adjusted. The MA will make the relevant adjustment of the difference in interest by debiting/crediting the borrower's settlement account on the following business day.

1.5.12 Interest Payment related to Eligible Securities

If an interest payment date in respect of any security falls on a date whilst such securities are the subject of a HKD overnight repo transaction, any interest accrued and paid to the MA will still be credited to the borrower.

1.5.13 Suspension

Any request or further request for HKD overnight repo transaction will not be accepted if a borrower's HKD settlement account or its CMU securities account is suspended.

1.5.14 Event of Default

If an Event of Default occurs under the Agreement:

(a) all delivery and payment obligations of the MA and the borrower under all outstanding HKD overnight repo transactions entered into between the two parties shall be accelerated.

(b) The MA will calculate the market value of all securities to be repurchased taking the average of the prices or rate bids by at least three reputable institutions involved in trading such securities (insofar as practicable by Primary Dealers).

(c) The borrower's obligation to pay the repurchase price for all such securities will then be set off against the MA's obligation to deliver such securities.

(d) The excess value (if any) of the market value of the securities to be repurchased over their repurchase price will be paid to the borrower under these circumstances. Alternatively, if the repurchase price is in excess of the market value of the securities to be repurchased, the borrower will pay a sum equivalent to the excess to the MA.

2 FOREIGN CURRENCY REPO FACILITY WITH THE SI/CB

2.1 Foreign Currency Intraday Repo with the SI/CB

2.1.1 US dollar/euro/renminbi Intraday Repo Transaction

A CMU Participant who is a direct participant in the US dollar RTGS system (in this Part III - clause *2.1* referred to as "borrower") can enter into US dollar intraday sale and repurchase transaction (US dollar Intraday Repo Transactions) with the SI of the US dollar RTGS system. A borrower can request for Discretionary US dollar Intraday Repo Transactions in addition to Automatic US dollar Intraday Repo Transactions.

A CMU Participant who is a direct participant in the euro RTGS system (in this Part III - clause *2.1* referred to as "borrower") can enter into euro intraday sale and repurchase transaction (euro Intraday Repo Transactions) with the SI of the euro RTGS system. A borrower can request for Discretionary euro Intraday Repo Transactions in addition to the Automatic euro Intraday Repo Transactions.

A CMU Participant who is a participating bank in the renminbi RTGS system (in this Part III - clause *2.1* referred to as "borrower") can enter into renminbi intraday sale and repurchase transaction (renminbi Intraday Repo Transactions) with the CB of the renminbi RTGS system. A borrower can request for Discretionary renminbi Intraday Repo Transactions in addition to the Automatic renminbi Intraday Repo Transactions.

2.1.2 Eligibility to Enter Repo with the SI/CB

To be eligible to enter US dollar Intraday Repo Transaction with the USD SI, the borrower must have signed a Master Sale and Repurchase Agreement with the SI for the purpose of obtaining intraday and overnight liquidity in US dollar (US dollar Master Repo Agreement) before the borrower can enter into either a US dollar Intraday or US dollar Overnight Repo Transaction with the SI.

To be eligible to enter euro Intraday Repo Transaction with the euro SI, the borrower must have signed a Master Sale and Repurchase Agreement with the SI for the purpose of obtaining intraday and overnight liquidity in euro

(euro Master Repo Agreement) before the borrower can enter into either a euro Intraday or euro Overnight Repo Transaction with the SI.

To be eligible to enter renminbi Intraday Repo Transaction with the renminbi CB, the borrower must have signed a Master Sale and Repurchase Agreement with the CB for the purpose of obtaining intraday and overnight liquidity in renminbi (renminbi Master Repo Agreement) before the borrower can enter into either a renminbi Intraday or renminbi Overnight Repo Transaction with the CB.

2.1.3 Eligible Securities

The SI/CB may from time to time determine, after consulting the MA, debt securities that can be accepted as Eligible Securities for US dollar/euro/renminbi Intraday Repo Transactions. Information on Eligible Securities is available on the respective websites of the SI/CB.

Eligible Securities for USD Repo:
http://www.hsbcnet.com/gbm/attachments/products-services/transaction-banking/payments-cash-management/eligibl_sec.pdf

Eligible Securities for EUR Repo:
https://www.sc.com/en/banking/banking-for-companies/transaction-banking/clearing-services/euro-chats-clearing/

Eligible Securities for CNY Repo:
http://www.bochk.com/en/rmb/clearing/marketinfo.html

2.1.3.1 Cross Currency

For US dollar/euro/renminbi Intraday Repo Transactions using Eligible Securities denominated in Hong Kong dollar (if applicable), the system will calculate the discounted market value of the Eligible Securities (market value after applying the relevant “haircut”) in Hong Kong dollar and will then convert it into US dollar/euro/renminbi by applying the exchange rate provided by the SI/CB.

2.1.3.2 Limitation

Eligible Securities indicated below cannot be used for an US dollar/euro/renminbi Intraday Repo Transaction the date indicated below:

(a) for Eligible Securities lodged with the CMU, if its maturity/redemption date falls on or before the business day following the date upon which a US dollar/euro/renminbi Intraday Repo Transaction; and/or

(b) for other Eligible Securities lodged with ICSDs/CSDs, if its record date or maturity/redemption date falls on or before the second business day following the date upon which a US dollar/euro/renminbi Intraday Repo Transaction

is entered into or effected, whichever applicable.

2.1.4 US dollar/euro/renminbi Intraday Repo Period

The US dollar/euro intraday repo period is from 8:30 a.m. to 6:30 p.m. while that for renminbi is from 8:30 a.m. to 5:00 a.m. of the next calendar day on any day on which US dollar/euro/renminbi RTGS system opens.

The SI/CB reserves the right to vary the intraday repo period as it deems appropriate.

2.1.5 Minimum Size

The minimum size of each Intraday Repo Transaction is as follows:

Type of Intraday Repo Transaction	Minimum Size
US dollar	US dollar 1 million
euro	euro 1 million
renminbi	renminbi 5 million

The SI/CB reserves the right to vary the minimum size as it deems appropriate.

2.1.6 Triggering of Automatic US Dollar / euro / renminbi Intraday Repo Transaction

An Automatic US dollar/euro/renminbi Intraday Repo Transactions will be triggered if there are insufficient funds in the US dollar/euro/renminbi settlement account of the borrower to effect settlement of the next queued interbank payment obligation.

The processes are as follows:

(a) The CMU system will determine the amount of Eligible Securities to be acquired for the purchase price taking into account the margin required (refer to Appendix L.1) and will select the Eligible Securities required from the Intraday Repo account (999 account) of the borrower.

(b) The borrower does not need to initiate any request via its CMT.

(c) Upon completion of the transaction processing, the relevant Securities Account of the borrower will be debited while the settlement amount will be credited to the borrower's settlement account via the US dollar/euro/renminbi RTGS system.

(d) RTGS system will format the settlement advice in MT910 format and distribute it to the borrower via SWIFT.

2.1.7 Discretionary US dollar / euro / renminbi Intraday Repo Transaction

2.1.7.1 Input via CMT

In addition to Automatic US dollar/euro/renminbi Intraday Repo Transactions, a borrower who is a CMT user may request a Discretionary US dollar/euro/renminbi Intraday Repo Transaction via its CMT during the US dollar/euro/renminbi intraday repo period on any day on which US dollar/euro/renminbi RTGS system opens.

When a borrower inputs a Discretionary US dollar/euro/renminbi Intraday Repo Transaction,

(a) it shall specify the total borrowing amount required, and also the counterparty if the borrowing currency is CNY;

(b) upon receiving the request, the CMU system will automatically select the Eligible Securities required from the borrower's Intraday Repo account; and

(c) if there is insufficient Eligible Securities in the borrower's Intraday Repo account, the request will be rejected.

2.1.7.2 Input by CMU on behalf of Borrower

Subject to Part I – clause *5.2* of this Manual, any borrower whose CMT fails to function is required:

(a) to contact the CMU to make any request for Discretionary US dollar/euro/renminbi Intraday Repo Transaction before 6:00 p.m. on the transaction day.

(b) to send a confirmation (Appendix L.5) to the CMU by authenticated facsimile before 6:15 p.m. and send a copy of the confirmation to the SI.

Upon receipt of the borrower's confirmation, the CMU will input the US dollar/euro/renminbi Intraday Repo Transaction into the CMU system on behalf of the borrower. The borrowed funds will be credited to the settlement account of the borrower before the US dollar/euro/renminbi Intraday Repo Period ends that day.

2.1.8 Processing of Discretionary US dollar / euro / renminbi Intraday Repo Transaction

2.1.8.1 Processes

After receiving the request for US dollar/euro/renminbi Intraday Repo from the borrower, the CMU system will automatically select the Eligible Securities required from the borrower's Intraday Repo account (999).

For US dollar Intraday Repo Transaction, the selection sequence will be based on the following criteria:

(a) type of securities (in following order):
- Exchange Fund Paper; and
- other eligible debt securities (the selection sequence within this group is determined by the SI);

(b) remaining maturity (in ascending order); and
(c) issue number (ascending order).

For euro Intraday Repo Transaction, the selection sequence will be based on the following criteria:

(a) type of securities (in following order):
- Exchange Fund Paper; and
- Standard Chartered Bank paper and other eligible debt securities (the selection sequence within this group is determined by the SI);

(b) remaining maturity (in ascending order); and
(c) issue number (ascending order).

For renminbi Intraday Repo Transaction, the selection sequence will be based on the following criteria: -

(a) type of securities (in following order):

- Exchange Fund Paper; and
- other eligible debt securities (the selection sequence within this group is determined by the CB);

(b) remaining maturity (in ascending order); and
(c) issue number (ascending order).

2.1.8.2 **Generation of Multiple US dollar/euro/renminbi Intraday Repo Transactions**

Depending on the maximum size for an individual US dollar / euro / renminbi Intraday Repo Transaction set by the borrower, one or more but not more than 99 US dollar/euro/renminbi Intraday Repo Transactions will be generated and the number of issues selected per Transaction will not exceed 19.

The maximum size applies to both US dollar/euro/renminbi Intraday and Overnight Repo Transactions for the same borrower.

Each of the Intraday Repo Transactions so generated will be treated as separate Intraday Repo Transactions and will be repurchased and processed independently.

It should be noted that among these multiple Intraday Repo Transactions, the minimum size rule as set out in Part III - clause *2.1.5* is not applicable to the last generated Intraday Repo Transaction.

An example illustrating the mechanism of generating multiple Repo Transactions is provided at Appendix L.7.

2.1.8.3 **Settlement of US dollar/euro/renminbi Intraday Repo Transactions**

Upon completion of the transaction processing,

(a) the relevant Securities Account of the borrower will be debited while the settlement amount will be credited to the borrower's settlement account via the US dollar/euro/renminbi RTGS system; and

(b) RTGS system will format the settlement advice in MT910 format and distribute it to the borrower via SWIFT.

2.1.9 Repurchase of US dollar/euro/renminbi Intraday Repo Transaction

2.1.9.1 **Input via CMT**

The borrower may request the repurchase of securities under any outstanding US dollar/euro/renminbi Intraday Repo Transactions in

exchange for payment of the repurchase price at any time up to the Conversion Time (which coincides with the US dollar/euro RTGS system cut-off at 6:30 p.m. on the transaction day and renminbi RTGS system cut-off at 5:00 a.m. of the next calendar day).

Manual repurchase of a US dollar/euro/renminbi Intraday Repo Transaction can be effected through the CMT during the US dollar/euro/renminbi RTGS system operating time.

If the borrower does not have sufficient funds to pay the repurchase price in respect of any US dollar/euro/renminbi Intraday Repo Transaction, its request will be rejected.

2.1.9.2 **Automatic Repurchase of Intraday Repo Transaction**

If any US dollar/euro/renminbi Intraday Repo Transactions remain outstanding after the Conversion Time on the transaction day, the CMU system will automatically seek to effect the repurchase of the securities sold under such Transactions in a last-in-first-out order.

The processes are as follows:

(a) The CMU system will begin with those transactions involving Eligible Securities that are not Exchange Fund Paper starting with the last in time of such Transactions entered into prior to the end of the US dollar/euro/renminbi Intraday Repo Period.

(b) The CMU system will then move on to those transactions involving Eligible Securities that are Exchange Paper (if applicable) starting with the last in time of such transactions entered into prior to the end of the US dollar/euro/renminbi Intraday Repo Period.

(c) If a borrower's settlement account does not have sufficient funds to pay the repurchase price in respect of all outstanding US dollar/euro/renminbi Intraday Repo Transaction but has sufficient funds to pay the repurchase price for a preceding US dollar/euro/renminbi Intraday Repo Transaction, the CMU system will proceed to effect the repurchase of securities under such preceding US dollar/euro/renminbi Intraday Repo Transaction.

(d) No US dollar/euro/renminbi Intraday Repo Transaction will in any event be partially repurchased. If the borrower does not have sufficient funds to repurchase the securities under all of its US dollar/euro/renminbi Intraday Repo Transactions, such outstanding US dollar/euro/renminbi Intraday Repo Transactions will automatically be converted into US

dollar/euro/renminbi Overnight Repo Transactions after the Conversion Time on the same day.

The SI/CB reserves the right to change the priority of repurchase as set out in paragraphs (a) and/or (b) above from time to time in its sole and absolute discretion.

2.1.9.3 **Settlement of Repurchase Transaction**

Upon completion of any repurchase, the repurchased securities will be credited to the borrower's Intraday Repo Account. The repurchase price will be debited from the borrower's US dollar/euro/renminbi settlement account.

RTGS system will format the settlement advice in MT900 format and distribute it to the borrower via SWIFT.

2.1.10 Suspension

Any request or further request for US dollar/euro/renminbi Intraday Repo Transaction will not be accepted if a borrower's US dollar/euro/renminbi settlement account or Securities Account is suspended.

2.1.11 Event of Default

If an Event of Default occurs under the US dollar/euro/renminbi Master Repo Agreement,

(a) all delivery and payment obligations of both parties under all outstanding US dollar/euro/renminbi Intraday and Overnight Repo Transactions shall be accelerated.

(b) The SI/CB will calculate the market value of all securities to be repurchased by taking the average of the price or rate bids by at least three reputable institutions involved in trading such securities (insofar as practicable by MMs).

(c) The borrower's obligation to pay the repurchase price for all such securities will then be set off against the SI/CB's obligation to deliver such securities.

(d) The excess value (if any) of the market value of the securities to be repurchased over the repurchase price will be paid to the borrower under these circumstances.

(e) Alternatively, if the repurchase price is in excess of the market value of the securities to be repurchased, the borrower will pay a sum equivalent to the excess to the SI/CB.

2.2 Foreign Currency Overnight[2] Repo with the SI/CB

2.2.1 US dollar/euro/renminbi Overnight Repo Transaction

Any US dollar/euro/renminbi Intraday Repo Transaction transacted between the SI/CB of, and a direct participant in, the US dollar/euro/renminbi RTGS system, which is also a CMU Participant (in this Part III - clause *2.2* referred to as "borrower") and lasts beyond the first round of repurchase of securities at 6:30 p.m. on the same transaction day for US dollar/euro and 5:00 a.m. of the next calendar day for renminbi will technically be treated as a US dollar/euro/renminbi Overnight Repo Transaction.

Any outstanding US dollar/euro Overnight Repo Transaction that cannot be covered by the funding in New York/Europe before the New York CHIPS/Target cut-off and remains outstanding after the opening of the CMU, (normally at 8:30 a.m.) on the following repurchase day on which US dollar/euro RTGS system opens, will be subject to a price differential which is a fee charged by the SI.

Any outstanding renminbi Intraday Repo Transaction that cannot be repurchased after the Conversion Time, currently at 5:00 a.m. of the next calendar day due to insufficient funds, will be automatically converted into renminbi Overnight Repo Transaction on the same day and will be subject to a price differential which is a fee charged by the CB.

The CB of renminbi CHATS does not support manual input of Overnight Repo Transactions from PBs. It only supports Overnight Repo Transactions that are converted from automatic Intraday Repo Transactions which have not been repurchased after the Conversion Time on the same day due to insufficient funds.

2.2.2 Eligibility to enter into Overnight Repo with the SI/CB

[2] The Term "Overnight" in this Manual is a technical term used by the CMU system.

To be eligible for entering into US dollar or euro Overnight Repo Transaction with the USD or euro SI, the borrower must sign a Master Sale and Repurchase Agreement with the respective SI for the purpose of obtaining intraday and overnight liquidity in US dollar or euro (US dollar Master Repo Agreement and euro Master Repo Agreement respectively) before the borrower can enter into either a US dollar/euro Intraday or US dollar/euro Overnight Repo Transaction with the SI.

To be eligible for entering into renminbi Overnight Repo Transaction with the renminbi CB, the borrower must sign a Master Sale and Repurchase Agreement with the CB for the purpose of obtaining intraday and overnight liquidity in renminbi (renminbi Master Repo Agreement) before the borrower can enter into either a renminbi Intraday or renminbi Overnight Repo Transaction with the CB.

2.2.3 US dollar/euro Overnight Repo Period

The US dollar/euro overnight repo period is from 5:30 p.m. to 6:30 p.m. on any day on which US dollar/euro RTGS system opens.

The SI reserves the right to vary the overnight repo period as it deems appropriate.

2.2.4 Eligible Securities

The SI/CB may from time to time determine, after consulting with the MA, debt securities that can be accepted as Eligible Securities for US dollar/euro/renminbi Overnight Repo Transactions. Information on Eligible Securities is available on the respective websites of the SI/CB.

Eligible Securities for USD Repo:
http://www.hsbcnet.com/gbm/attachments/products-services/transaction-banking/payments-cash-management/eligibl_sec.pdf

Eligible Securities for EUR Repo:
https://www.sc.com/en/banking/banking-for-companies/transaction-banking/clearing-services/euro-chats-clearing/

Eligible Securities for CNY Repo:
http://www.bochk.com/web/common/multi_section.xml?section=rmb&level_2=rmb_clearing&fldr_id=31807

For Eligible Securities that are not lodged with the CMU, i.e. cleared through the Euroclear and/or Clearstream systems, a borrower is required to make use of the CMU-Euroclear and/or CMU-Clearstream linkage services to bring in the Eligible Securities to its Euroclear or Clearstream sub-account. Please refer to Part IV – clause *1.2.7* and clause *2.2.7* to transfer the Eligible Securities to the Intraday Repo account if a borrower wishes to use such securities for repo with the SI/CB.

2.2.4.1 **Cross Currency**

For US dollar/euro/renminbi Overnight Repo Transactions using Eligible Securities denominated in Hong Kong dollar (if applicable), the system will calculate the discounted market value of the Eligible Securities (market value after applying the relevant "haircut") in Hong Kong dollar and will then convert it into US dollar/euro/renminbi by applying the exchange rate provided by the SI/CB.

2.2.4.2 **Limitation**

Eligible Securities indicated below cannot be used for US dollar/euro/renminbi Overnight Repo Transaction:-

(a) for Eligible Securities lodged with the CMU, if its maturity/redemption date falls on or before the business day following the date upon which a US dollar/euro/renminbi Overnight Repo Transactions; and/or

(b) for other Eligible Securities lodged with CSDs/ICSDs, if its record date or maturity/redemption date falls on or before the second business day following the date upon which a US dollar/euro/renminbi Overnight Repo Transactions

is entered into or effected, whichever applicable.

2.2.5 Minimum Size

The minimum size of each request for both Automatic and Discretionary Overnight Repo Transactions are as follows:

Type of Overnight Repo Transaction	Minimum Size
US dollar	US dollar 1 million
Euro	euro 1 million
Renminbi	renminbi 5 million

The SI/CB reserves the right to vary the minimum transaction size as it deems appropriate.

2.2.6 Create US dollar/euro Overnight Repo Transaction

Borrowers should contact the US dollar/euro SI or renminbi CB directly to check whether the SI/CB would provide discretionary overnight repo service to DP/PBs. The CMU system can support manual input of overnight repo transactions.

2.2.6.1 Input via CMT

Any borrower who is a CMT user can request a US dollar/euro Overnight Repo Transaction via CMT during US dollar/euro overnight repo period.

Similar to the Hong Kong dollar DW's operation (Part III - clause *1.4*), the US dollar/euro Overnight Repo Transaction will be automatically confirmed by the CMU system and the borrowed funds requested by the relevant borrower will be credited to its settlement account with the SI immediately. All settlement process related to US dollar/euro Overnight Repo Transactions will be completed before the US dollar/euro overnight repo period ends that day.

When a borrower inputs a US dollar/euro Overnight Repo Transaction request through CMT,

(a) it shall specify the amount of funds to be borrowed in the relevant fields.

(b) Upon receiving the request for US dollar and euro Overnight Repo Transaction, the CMU system will automatically select the Eligible Securities required from the borrower's Main Account (000) and Intraday Repo Account (999).

(c) If there is insufficient Eligible Securities in the borrower's Main Account or Intraday Repo Account, the request will be rejected.

2.2.6.2 Input by CMU on behalf of Borrower

Subject to Part I – clause *5.2* of this Manual, any borrower whose CMT fails to function is required:

(a) to contact the CMU to request for US dollar/euro Overnight Repo Transaction by telephone before 6:00 p.m. on the transaction day; and

(b) to send a confirmation (in the form at Appendix L.6) to the CMU by authenticated facsimile before 6:15 p.m. on the same day and send a copy of the confirmation to the SI.

Upon receipt of the borrower's confirmation, the CMU will input the US dollar/euro Overnight Repo Transaction request into the CMU system on behalf of the borrower. The borrowed funds will be credited to the settlement account of the borrower before the US dollar/euro overnight repo period ends that day.

2.2.6.3 **Processing of US dollar/euro Overnight Repo Transaction**

The processes of the US dollar/euro Overnight Repo request are as follows:

(a) After receiving a US dollar/euro Overnight Repo request, the CMU system will automatically select the Eligible Securities required according to the lending amount as indicated by the borrower from both the borrower's Main Account (000) and/or Intraday Repo account (999).

(b) The selection sequence for US dollar Overnight Repo will be based on the following criteria:

(i) type of securities (in following order):
- Exchange Fund Paper; and
- other eligible debt securities (the selection sequence within this group is determined by the SI);

(ii) for each type of securities, including both Exchange Fund Paper and non-Exchange Fund paper, remaining maturity (in ascending order)

(iii) for securities with the same remaining maturity in (ii), issue number (ascending order); and

(iv) Main Account (000) before Intraday Repo account (999)

(c) The selection sequence for euro Overnight Repo will be based on the following criteria:

(i) type of securities (in following order):
- Exchange Fund Paper; and
- Standard Chartered Bank paper and other eligible debt securities (the selection sequence within this group is determined by the SI);

(ii) for each type of securities, including both Exchange Fund Paper and non-Exchange Fund paper, remaining maturity (in ascending order)

(iii) for securities with the same remaining maturity in (ii), issue number (ascending order); and

(iv) Main Account (000) before Intraday Repo account (999)

The MA reserves the right to vary the selection order as he deems appropriate.

2.2.6.4 **Generation of Multiple US dollar/euro Overnight Repo Transaction**

It should be noted that one single US dollar/euro Overnight Repo Transaction request may generate not more than 99 US dollar/euro Overnight Repo Transactions of all the following types with different deal codes: -

- US dollar/euro Overnight Repo Transaction(s) with Exchange Fund Paper as collateral (if applicable); and
- US dollar/euro Overnight Repo Transaction(s) with other Eligible Securities as collateral.

The arrangements are as follows:

(a) Depending on the maximum size for an individual US dollar/euro Repo Transaction set by a borrower, one or more US dollar/euro Overnight Repo Transactions will be generated for each of the above types of US dollar/euro Overnight Repo Transactions and the number of issues selected per Transaction will not exceed 19.

(b) The maximum size applies to both US dollar/euro Intraday and US dollar/euro Overnight Repo Transactions for the same borrower.

(c) Each of the above transactions will be treated as separate US dollar/euro Overnight Repo Transactions and will be repurchased and processed independently.

(d) It should be noted that among these multiple US dollar/euro Overnight Repo Transactions arising from a single US dollar/euro Overnight Repo request, the minimum size rule as set out in Part III - clause *2.2.5* is not applicable to the last generated US dollar/euro Overnight Repo Transaction.

(e) An example to illustrate the mechanism of generating multiple Repo Transactions is provided at Appendix L.7.

2.2.6.5 **Settlement of US dollar/euro Overnight Repo Transaction**

Upon completion of the transaction processing, the relevant Securities Account of the borrower will be debited while the settlement account will be credited via the US dollar/euro RTGS system.

RTGS system will format the settlement advice in MT910 format and distribute to the borrower via SWIFT.

2.2.7 Repurchase of US dollar/euro/renminbi Overnight Repo Transaction

2.2.7.1 Repurchase by a Special Run at 8:30 a.m.

When the CMU system re-opens on the following repurchase day, the CMU system will automatically conduct a special repurchase run for outstanding US dollar/euro Overnight Repo Transactions by using the opening account balance of the borrower's US dollar/euro settlement account. This section is applicable for those Overnight Repo Transactions only if this special run is provided by the SI. Currently, the CB does not provide this special run for renminbi.

The processes are as follows:

(a) The CMU system will begin with those Transactions involving non-EFCS debt securities in a last-in-first-out order.

(b) The CMU system will continue to repurchase the outstanding US dollar/euro Overnight Repo Transactions until all Transactions are repurchased.

(c) If an outstanding US dollar/euro Overnight Repo Transaction cannot be repurchased due to the borrower not having insufficient funds, the CMU system will not trigger any US dollar/euro Intraday Repo Transactions and keep such Transaction outstanding.

(d) Any outstanding US dollar/euro Overnight Repo Transaction cannot be repurchased at this special run will be subject to a price differential which is a fee charged by SI.

The SI reserves the right to change the priority of repurchase as set out in paragraphs (a) and/or (b) above from time to time in its sole and absolute discretion.

2.2.7.2 Input via CMT

A borrower shall repurchase the securities sold under each US dollar/euro/renminbi Overnight Repo Transaction from the SI/CB at or before 2:30 p.m. (repurchase time) on the repurchase date.

(a) Any borrower who is a CMT user may initiate repurchase of securities under a US dollar/euro/renminbi Overnight Repo Transaction manually via the CMT.

(b) The repurchase will be rejected if there are not enough funds in the borrower's US dollar/euro/renminbi settlement account.

2.2.7.3 **Automatic Repurchase**

If any US dollar/euro/renminbi Overnight Repo Transaction remains outstanding at the repurchase time on the repurchase day, the CMU system will automatically seek to effect the repurchase of the securities sold under such transactions in a last-in-first-out order.

The processes are as follows:

(a) The CMU system will begin with those transactions involving Eligible Securities that are not Exchange Fund Paper starting with the last in time of such transactions entered into prior to the end of the US dollar/euro/renminbi overnight repo period.

(b) The CMU system will then move on to those transactions involving Eligible Securities that are Exchange Fund Paper starting with the last in time of such transactions entered into prior the end of the US dollar/euro/renminbi overnight repo period.

(c) No US dollar/euro/renminbi Overnight Repo Transaction will in any event be partially repurchased. The repurchase process will stop at the US dollar/euro/renminbi Overnight Repo Transaction that the borrower does not have sufficient funds to repurchase and all the remaining outstanding US dollar/euro/renminbi Overnight Repo Transactions will be placed in the SAP payment queue.

(d) If those outstanding Transactions are at the top of the SAP payment queue and the borrower has sufficient securities in its Securities Account, automatic US dollar/euro/renminbi Intraday Repo Transactions will be triggered to settle those outstanding Transactions.

(e) In case there are insufficient securities to trigger any US dollar/euro/renminbi Intraday Repo Transactions or the outstanding Transactions are not at the top of the SAP payment queue, these Transactions will remain in the SAP payment queue pending payment until a specific cut-off time (currently 4:00 p.m.) that day.

(f) Any outstanding US dollar/euro/renminbi Overnight Repo Transaction that cannot be repurchased after the abovementioned specific cut-off

time will be converted into permanent trade. However, at the discretion of the SI/CB, the borrower may be allowed to roll over any outstanding US dollar/euro/renminbi Overnight Repo Transactions to the following day on which US dollar/euro/renminbi RTGS system opens. As in the case of renminbi overnight repo transaction, if the repurchase date is not a Business Day, the borrower will be allowed to roll over any outstanding renminbi overnight repo transactions to the following Operating Day if the borrower has insufficient funds to repurchase the outstanding renminbi overnight repo transaction.

(g) In the event that an outstanding US dollar/euro/renminbi Overnight Repo Transaction is permitted to be rolled over to the following day on which US dollar/euro/renminbi RTGS system opens, the CMU system will first repurchase the original US dollar/euro/renminbi Overnight Repo Transaction with settlement status "Rollover" and then create another US dollar/euro/renminbi Overnight Repo Transaction for the same principal amount carried forward with a new deal code.

(h) In order to provide a transparent rollover history of a US dollar/euro/renminbi Overnight Repo Transaction, all details of the original Repo Transaction will be retained as reference.

(i) Calculation of the price differential on a rolled over US dollar/euro/renminbi Overnight Repo Transaction is made over the period from the sale date of the original Repo Transaction to the actual repurchase date of the transaction. The settlement of price differential will be made on a daily basis between the borrower and the SI/CB.

(j) If an outstanding US dollar/euro/renminbi Overnight Repo Transaction is converted into a permanent trade, the SI/CB will evaluate the relevant securities that have not been repurchased and effect a set-off between the respective obligations of the borrower and the SI/CB under the outstanding US dollar/euro/renminbi Overnight Repo Transactions (to the extent that any balance is to be paid by the party having its claim value at the lower amount). If such balance is payable by the borrower and the borrower fails to make such payment, the SI/CB may call an Event of Default under the US dollar/euro/renminbi Master Repo Agreement.

The SI/CB reserves the right to change the priority of repurchase as set out in paragraphs (a) and/or (b) above from time to time in its sole and absolute discretion.

2.2.7.4 Settlement of US dollar/euro/renminbi Overnight Repo Repurchase Transaction

Upon completion of the repurchase process, the repurchased securities will be credited to:

(a) the borrower's Main Account (000) if the securities are selected from the Main Account (000);
(b) the borrower's Intraday Repo Account (999) if the securities are selected from Intraday Repo Account (999).

The principal of the Repo Transaction and the price differential will be debited from the settlement account of the borrower.

RTGS system will format the settlement advice in MT900 format and distribute to the borrower via SWIFT.

2.2.8 Interest Payment

If an interest payment date in respect of any security falls on a date whilst such securities are the subject of a US dollar/euro/renminbi Overnight Repo Transaction, any interest accrued and paid to the SI/CB will still be credited to the borrower.

2.2.9 Suspension

Any request or further request for US dollar/euro/renminbi Overnight Repo Transactions will not be accepted if a borrower's US dollar/euro/renminbi settlement account or Securities Account is suspended.

2.2.10 Event of Default

If an Event of Default occurs under the US dollar/euro/renminbi Master Repo Agreement,

(a) all delivery and payment obligations of both parties under all outstanding US dollar/euro/renminbi Intraday and US dollar/euro/renminbi Overnight Repo Transactions shall be accelerated.

(b) The SI/CB will calculate the market value of all securities to be repurchased taking the average of the prices or rate bids by at least three reputable institutions involved in trading such securities (insofar as practicable by MMs).

(c) The borrower's obligation to pay the repurchase price for all such securities will then be set off against the SI/CB's obligation to deliver such securities.

(d) The excess value (if any) of the market value of the securities to be repurchased over their repurchase price will be paid to the borrower under these circumstances.

(e) Alternatively, if the repurchase price is in excess of the market value of the securities to be repurchased, the borrower will pay a sum equivalent to the excess to the SI/CB.

3 RENMINBI (RMB) INTRADAY AND OVERNIGHT REPO PROVIDED BY THE MA

3.1 Background

Under the RMB Liquidity Facility, the MA provides intraday and overnight liquidity to AIs participating in RMB business (Participating AIs). The MA has also designated a number of Participating AIs as Primary Liquidity Providers (PLPs) for offshore RMB market in Hong Kong. They are granted a dedicated repo facility under which PLPs may borrow intraday and overnight funds.

This Part III - clause *3* provides the operating procedures of RMB intraday and overnight repo transactions entered into with the MA. For operational procedures of RMB repo transactions entered into with the CB, please refer to Part III - clause *2* above.

Capitalized terms used in this Part III - clause *3* shall have the meanings assigned to them in the Agreement between the MA and the Participating AI.

3.2 Eligibility to enter into RMB Intraday and Overnight Repo with the MA

To be eligible for entering into RMB intraday and overnight repo transactions with the MA, a CMU Participant (in this chapter referred to as "borrower") must be:

(i) an AI in Hong Kong;
(ii) a DP of RMB CHATS; and
(iii) a Recognized Dealer for Exchange Fund Bills, Exchange Fund Notes and Government Bonds; or a CMU Member.

A borrower must also sign the latest "Master Sale and Repurchase Agreement for the purpose of providing intraday and overnight renminbi liquidity" (Agreement) with the MA before the borrower can enter into a RMB intraday or overnight repo transaction with the MA.

3.3 Operational Window

3.3.1 Intraday Repurchase Period

Intraday Repurchase Period is the period during which a borrower may enter into any discretionary RMB intraday repo transactions with the MA.

The Intraday Repurchase Period is from 8:30 a.m. on any Operating Day to 5:00 a.m. of the next calendar day. The MA reserves the right to vary the Intraday Repurchase Period as he deems appropriate.

3.3.2 Overnight Repurchase Period

Overnight Repurchase Period is the period during which a borrower may enter into any RMB overnight repo transactions with the MA.

The Overnight Repurchase Period is from 8:30 a.m. to 6:30 p.m. on any Business Day. The MA reserves the right to vary the Overnight Repurchase Period as he deems appropriate.

It should be noted that a borrower should contact the dealing room of the HKMA and make a request for borrowing RMB overnight funds before 6:00 p.m. Upon agreeing a repo deal with the HKMA, the borrower is required to initiate the RMB overnight repo transaction through its CMT before the close of the Overnight Repurchase Period (i.e. 6:30 p.m.).

3.4 Eligible Securities

The MA may from time to time determine securities that can be accepted as Eligible Securities for RMB repo transactions. The Eligible Securities include the following securities which are lodged with the CMU:

(i) Exchange Fund Bills and Notes;
(ii) Government Bonds issued by the HKSAR Government;
(iii) RMB denominated bonds issued by the Ministry of Finance of the People's Republic of China in Hong Kong or in any other jurisdictions as announced by the MA from time to time; and
(iv) RMB denominated bonds issued by the policy banks of the People's Republic of China (i.e. Export and Import Bank of China, China Development Bank and Agricultural Development Bank) in Hong Kong.

Eligible Securities cannot be used for a RMB repo transaction if their redemption date falls on or before the business day following the date upon which a RMB repo transaction is entered into or effected, whichever applicable.

If the Eligible Securities are issued by the borrower itself, its subsidiaries, its holding company, or any subsidiary of that holding company, such instruments are not eligible for RMB repo transactions for that borrower.

For Eligible Securities that are not lodged with the CMU, i.e. cleared through the Euroclear and/or Clearstream systems, a borrower is required to make use of the CMU-Euroclear and/or CMU-Clearstream linkage services to bring in the Eligible Securities to its Euroclear or Clearstream sub-account. Please refer to Part IV – clause *1.2.7* and clause *2.2.7* to transfer the Eligible Securities to the Intraday Repo account if a borrower wishes to use such securities for RMB repo facility with the MA.

3.5 Minimum Repo Transaction Size

The minimum size of each RMB intraday and overnight repo transaction is RMB5 million.

The MA reserves the right to vary the minimum repo transaction size as he deems appropriate.

3.6 Price Differential

The Price Differential is a fee charged by the MA. The amount of the fee (interest charged) is obtained by the application of the interest rates as determined by the MA from time to time under the RMB Liquidity Facility to the Purchase Value in accordance with the methods set out below.

3.6.1 RMB Intraday Repo Transaction

The applicable interest rate is the average of the most recent 3 TMA Overnight CNH HIBOR Fixings as of 11:00 a.m., inclusive of the fixing on the same day (or the average of the nearest 3 preceding fixings if there is no fixing on the same day), subject to a minimum of 0%.

The Price Differential in respect of a RMB intraday repo transaction is calculated based on the actual time used on a per minute basis (less than a minute will be rounded up to the nearest minute) by applying the 3-day moving averages of TMA Overnight CNH HIBOR Fixing to the Purchase Value paid for a RMB intraday repo transaction; i.e.

$$Price\ Differential\ (interest\ charged)$$
$$= Borrowing\ amount \times Interest\ rate \times \frac{Usage\ time\ in\ minutes}{1440} \times \frac{1}{360}$$

If a RMB intraday repo transaction is converted into a RMB overnight repo transaction due to insufficient funds at the Conversion Time, the borrower will only be charged for a Price Differential for a RMB overnight repo transaction, and the Price Differential payable for the RMB intraday repo transaction will be waived.

3.6.2 RMB Overnight Repo Transaction

The Price Differential in respect of a RMB overnight repo transaction is calculated by applying an interest rate equal to the average of the most recent 3 TMA Overnight CNH HIBOR Fixings, inclusive of the fixing on the same day (or the average of the nearest 3 preceding fixings if there is no fixing on the same day), plus 50 basis points, subject to a minimum at 0.50% to the Purchase Value paid for a RMB overnight repo transaction.

3.7 Value and Required Margin

3.7.1 Value

Value is the market value of Eligible Securities determined by the MA from time to time on the basis of bid prices quoted by reputable institutions involved in trading such Eligible Securities. The Value is calculated in accordance with the method as set out in Appendix L.1.

3.7.2 Required Margin

Required Margin is a premium added to the market value of Eligible Securities for the purpose of determining the amount of Eligible Securities in a RMB repo transaction. It is calculated from the haircut determined by the MA from time to time in accordance with the method as set out in Appendix L.1.

Currently, the haircuts for different types of Eligible Securities are as follows:

Type of Eligible Securities	Applicable haircut	
	Per year of remaining maturity	Minimum haircut

Type of Eligible Securities	Applicable haircut	
Exchange Fund Bills and Notes	2%	0%
Government Bonds issued by the HKSAR Government		
RMB denominated bonds issued by the Ministry of Finance of the People's Republic of China in Hong Kong or in any other jurisdictions as announced by the MA from time to time	2%	2%
RMB denominated bonds issued by the policy banks of the People's Republic of China in Hong Kong		

3.7.3 Cross-currency Haircut

If the Eligible Securities are denominated in HKD, the CMU system will convert the market value of Eligible Securities into RMB and apply an additional cross-currency haircut (currently set at 2%) for the purpose of determining the amount of Eligible Securities in a RMB repo transaction in accordance with the method as set out in Appendix L.1.

Currently, the exchange rates of the TMA Spot USD/CNY(HK) Fixing and TMA Spot USD/HKD Fixing as of 11:00 a.m. are used for converting the market value of HKD denominated Eligible Securities into RMB. The MA reserves the right to vary the methodology in determining the exchange rate of HKD/CNY(HK) as he deems appropriate.

3.8 RMB Discretionary Intraday Repo

3.8.1 Initiating RMB Discretionary Intraday Repo Transactions

3.8.1.1 **Input via CMT**

A borrower may request a RMB discretionary intraday repo transaction through its CMT during the Intraday Repurchase Period on any Operating Day to enter into an intraday repo transaction with the MA.

When a borrower inputs a RMB discretionary intraday repo transaction, it shall specify i) repo buyer to be the HKMA (member code: AAAA);and ii) total borrowing amount required via the CMT repo input function.

3.8.1.2 **Input by CMU on Behalf of Borrower**

Subject to Part I – clause *5.2* of this Manual, any borrower whose CMT fails to function is required:

(a) to contact the CMU to make any request for discretionary RMB intraday repo transaction before 6:00 p.m. on the transaction day; and

(b) to send a confirmation form (Appendix L.5) to the CMU by authenticated facsimile before 6:15 p.m.

Upon receipt of the borrower's confirmation, the CMU will input the RMB discretionary intraday repo transaction into the CMU system on behalf of the borrower.

3.8.1.3 **Processing of RMB Discretionary Intraday Repo Transaction**

When the CMU system receives a request for RMB discretionary intraday repo transaction, the CMU system and RMB CHATS will process as follows:

(a) The CMU system performs a limit check as set out in Part III - clause *3.10* below. The request will be rejected if the requested borrowing amount exceeds the available intraday funds of the RMB Liquidity Facility and the PLP RMB Facility (where applicable);

(b) The CMU system automatically selects Eligible Securities required from the borrower's intraday repo account (i.e. the "999" account).

(c) The CMU will hold the minimum integral multiple of the selected issues' minimum denomination to cover the purchase price. The request will be rejected if the borrower has insufficient Eligible Securities in its intraday repo account;

(d) The selection sequence of Eligible Securities will be based on the following criteria:-
   (i) type of securities (in following order):
      - Exchange Fund Bills and Notes;
      - Government Bonds issued by the HKSARG;
      - Bonds issued by the Ministry of Finance of the People's Republic of China (CMOF); and
      - RMB denominated bonds issued by policy banks of the People's Republic of China.

(ii) for each type of securities in (i), remaining maturity (in ascending order); and
(iii) for securities with the same remaining maturity in (ii), issue number (in ascending order).

The MA reserves the right to vary the selection order as he deems appropriate.

(e) If sufficient Eligible Securities can be held up, a maximum of 99 RMB repo transactions may be generated as described in Part III - clause *3.8.1.4* below.

3.8.1.4 Generation of Multiple RMB Intraday Repo Transactions

It should be noted that a single RMB intraday repo transaction request may generate not more than 99 RMB repo transactions with different deal codes. And for each RMB intraday repo transaction so generated, a mixture of EFBNs, GBs and CMU Instruments as collaterals may be involved in a single deal.

The processes are as follows:

(a) Depending on the maximum size for an individual RMB repo transaction set by the borrower, one or more but not more than 99 RMB intraday repo transactions will be generated and the number of issues of different types of Eligible Securities selected per transaction will not exceed 19;

(b) The maximum size applies to both RMB intraday and overnight repo transactions for the same borrower;

(c) Each of the RMB intraday repo transactions so generated will be treated as separate RMB intraday repo transactions and will be repurchased and processed independently;

(d) It should be noted that among these multiple RMB intraday repo transactions, the minimum size rule as set out in Part III - clause *3.5* above is not applicable to the last generated RMB intraday repo transaction.

(e) An example illustrating the mechanism of generating multiple repo transactions is provided at Appendix L.7.

3.8.1.5 Settlement of RMB Intraday Repo Transaction

Upon completion of the transaction processing,

(a) the relevant securities account of the borrower will be debited while the settlement amount will be credited to the borrower's settlement account via the RMB CHATS; and

(b) RMB CHATS will format the settlement advice in MT910 format and distribute it to the borrower via SWIFT.

3.8.1.6 Updating the relevant Repo Limit

Both the Available Intraday Repo Pool Limit of the borrower and the Available Aggregate Intraday Repo Pool Limit of the borrower are deducted for the amount of that transaction. If the borrower is a PLP, the PLP Limit is deducted and utilised first. Any remaining balance of the transaction amount will be deducted from both the Available Intraday Repo Pool Limit of the borrower and the Available Aggregate Intraday Repo Pool Limit.

3.8.2 Repurchase of RMB Intraday Repo Transaction

3.8.2.1 Input via CMT

The borrower may request the repurchase of securities under any outstanding RMB intraday repo transactions in exchange for payment of the Repurchase Price at any time up to the Conversion Time (currently at 5:00 a.m. of the next calendar day);

Manual repurchase of a RMB intraday repo transaction can be effected through the CMT during the Intraday Repurchase Period; and

If the borrower does not have sufficient funds to pay the repurchase price in respect of any RMB intraday repo transaction, its request will be rejected.

3.8.2.2 Automatic Repurchase of RMB Intraday Repo Transaction

If any RMB intraday repo transaction, whether with the MA (RMB discretionary intraday repo transactions) or the CB remains outstanding after the Conversion Time on the transaction day, the CMU system will automatically seek to effect the repurchase of the securities sold under such transactions in a last-in-first-out order.

The processes are as follows:

(a) If a borrower has sufficient funds in its settlement account, the outstanding RMB intraday repo transactions will be repurchased in accordance with their deal codes in descending order sequence (i.e. last-in-first-out).

(b) If a borrower's settlement account does not have sufficient funds to pay the repurchase price in respect of all outstanding RMB intraday repo transactions but has sufficient funds to pay the repurchase price for a preceding RMB intraday repo transaction, the CMU system will proceed to effect the repurchase of securities under such preceding RMB intraday repo transaction.

(c) No RMB intraday repo transaction will in any event be partially repurchased. If the borrower does not have sufficient funds to repurchase the securities under all of its RMB intraday repo transactions, such outstanding RMB intraday repo transactions will automatically be converted into RMB overnight repo transactions after the Conversion Time on the same day.

The MA reserves the right to change the priority of repurchase as set out above from time to time in his sole and absolute discretion.

3.8.2.3 **Settlement of RMB Intraday Repo Repurchase Transaction**

Upon completion of any repurchase, the repurchased securities will be credited to the borrower's intraday repo account (i.e. the "999" account). The Repurchase Price of each RMB repo transaction will be debited from the borrower's RMB settlement account. As for the Price Differential, it will be aggregated together with the Price Differentials, if any, of all other RMB intraday and overnight repo transactions and be debited from the settlement accounts of the borrowers at the Conversion Time on the repurchase day. Please refer to Part III - clause *3.12* below for details.

RMB CHATS will format the settlement advice in MT900 format and distribute it to the borrower via SWIFT.

3.8.2.4 **Updating the relevant Repo Limit**

(a) Both the Available Intraday Repo Pool Limit of the borrower and the Available Aggregate Intraday Repo Pool Limit are added back for the amount of that transaction.

(b) In the case of PLP, if the Available Intraday Repo Pool Limit has reached to its maximum after step (a) above, the remaining balance of the transaction amount (if any) will be added back to the Available PLP Limit of the borrower.

3.9 RMB Discretionary Overnight Repo

A borrower who wishes to borrow RMB overnight funds from the MA under the RMB Liquidity Facility should contact the dealing room of the MA at the telephone number (852) 2878 8104 or Reuters dealing code [EFHK]. After confirming the borrowing amount, the borrower is required to input a RMB overnight repo transaction in accordance with the procedures set out in the following section.

In addition, any outstanding discretionary RMB intraday repo transaction that cannot be repurchased after the Conversion Time, currently at 5:00 a.m. of the next calendar day, due to insufficient funds will be automatically converted into RMB overnight repo transaction on the same day. These RMB overnight repo transactions entered into with the MA will be subject to the Price Differential in respect of RMB overnight repo transactions (see Part III - clause *3.6* above), in addition to the Price Differential, if any, in respect of RMB intraday repo transactions.

3.9.1 Initiating RMB Discretionary Overnight Repo Transaction

3.9.1.1 Input via CMT

After confirming the borrowing amount with the MA, a borrower is required to initiate a RMB overnight repo transaction through its CMT during the Overnight Repurchase Period on any Business Day to enter into a RMB overnight repo transaction with the MA.

When a borrower inputs a RMB overnight repo transaction request through its CMT, it shall specify the total borrowing amount. If there is insufficient Eligible Securities in the borrower's Intraday Repo Account, the request will be rejected.

3.9.1.2 Input by CMU on Behalf of Borrower

Subject to Part I – clause *5.2* of this Manual, any borrower whose CMT fails to function is required:

(a) to contact the CMU to make any request for RMB overnight repo transaction before 6:00 p.m. on the transaction day; and

(b) to send a confirmation form (Appendix L.6) to the CMU by authenticated facsimile before 6:15 p.m.

Upon receipt of the borrower's confirmation, the CMU will input the RMB overnight repo transaction into the CMU system on behalf of the borrower.

3.9.1.3 Processing of RMB Overnight Repo Transaction

When the CMU system receives a request for RMB overnight repo transaction, the CMU system will process as follows:

(a) The CMU system performs a limit check. The request will be rejected if the requested borrowing amount is not the same as the confirmed amount agreed with the MA;

(b) The CMU system automatically selects Eligible Securities required from the borrower's intraday repo account (i.e. the "999" account);

(c) The CMU will hold the minimum integral multiple of the selected issues' minimum denomination to cover the purchase price. The request will be rejected if the borrower has insufficient Eligible Securities in its intraday repo account;

(d) The selection sequence of Eligible Securities will be based on the following criteria:-
   (i) types of securities (in following order):
      - Exchange Fund Bills and Notes;
      - Government Bonds issued by the HKSARG;
      - Bonds issued by the Ministry of Finance of the People's Republic of China (CMOF); and
      - RMB denominated bonds issued by policy banks of the People's Republic of China.
   (ii) for each type of securities in (i) above, remaining maturity (in ascending order); and
   (iii) for securities with the same remaining maturity in (ii), issue number (in ascending order).

   The MA reserves the right to vary the selection order as he deems appropriate.

(e) If sufficient Eligible Securities can be held up, a maximum of 99 RMB repo transactions may be generated as described in Part III - clause *3.9.1.4* below.

3.9.1.4 Generation of Multiple RMB Overnight Repo Transactions

It should be noted that a single RMB overnight repo transaction request may generate not more than 99 RMB repo transactions with different deal codes. And for each RMB overnight repo transaction so generated, a mixture of EFBNs, GBs and CMU Instruments as collaterals may be involved in a single deal.

The processes are as follows:

(a) Depending on the maximum size for an individual RMB repo transaction set by the borrower, one or more but not more than 99 RMB overnight repo transactions will be generated and the number of issues of different types of Eligible Securities selected per transaction will not exceed 19;

(b) The maximum size applies to both RMB intraday and overnight repo transactions for the same borrower;

(c) Each of the RMB overnight repo transactions so generated will be treated as separate RMB overnight repo transactions and will be repurchased and processed independently;

(d) It should be noted that among these multiple RMB overnight repo transactions, the minimum size rule as set out in Part III - clause *3.5* above is not applicable to the last generated RMB overnight repo transaction.

(e) An example illustrating the mechanism of generating multiple repo transactions is provided at Appendix L.7.

3.9.1.5 **Settlement of RMB Overnight Repo Transaction**

Upon completion of the transaction processing,

(a) the relevant securities account of the borrower will be debited while the settlement amount will be credited to the borrower's settlement account via the RMB CHATS; and

(b) RMB CHATS will format the settlement advice in MT910 format and distribute it to the borrower via SWIFT.

3.9.1.6 **Updating the relevant Repo Limit**

Both the Available Overnight Repo Pool Limit of the borrower and the Available Aggregate Overnight Repo Pool Limit are deducted for the amount of that transaction. If the borrower is a PLP, the PLP Limit is deducted and utilised first. Any remaining balance of the transaction amount will be deducted from both the Available Overnight Repo Pool Limit of the borrower and the Available Aggregate Overnight Repo Pool Limit.

3.9.2 Repurchase of RMB Overnight Repo Transaction

3.9.2.1 **Input via CMT**

A borrower shall repurchase the securities sold under each RMB overnight repo transaction from the MA at or before the repurchase time (currently at 2:30 p.m.) on the repurchase day.

Any borrower who is a CMT user may initiate repurchase of securities under a RMB overnight repo transaction manually via the CMT.

The repurchase will be rejected if there are not enough funds in the borrower's RMB settlement account.

3.9.2.2 **Automatic Repurchase**

If any RMB overnight repo transactions (including both transactions entered into with the MA and the CB) remain outstanding at the repurchase time (currently at 2:30 p.m.) on the repurchase day, the CMU system will automatically seek to effect the repurchase of the securities sold under such transactions in a last-in-first-out order.

The processes are as follows:

(a) If a borrower has sufficient funds in its settlement account, the outstanding RMB overnight repo transactions will be repurchased in accordance with their deal codes in descending order sequence (i.e. last-in-first-out).

(b) No RMB overnight repo transaction will in any event be partially repurchased. The repurchase process will stop at the RMB overnight repo transaction that the borrower does not have sufficient funds to repurchase and all the remaining outstanding RMB overnight repo transactions will be placed in the SAP payment queue.

(c) If those outstanding transactions are at the top of the SAP payment queue and the borrower has sufficient securities in its Intraday Repo Account (i.e. the "999" Account), automatic RMB intraday repo transactions (entered into with the CB) will be triggered (subject to having sufficient repo limit with the CB) to settle those outstanding transactions.

(d) In case there are insufficient securities to trigger any RMB intraday repo transactions or the outstanding transactions are not at the top of the SAP payment queue, these transactions will remain in the SAP payment queue pending payment until a specific cut-off time (currently at 4:00 p.m.) that day.

(e) Any outstanding RMB overnight repo transaction that cannot be repurchased after the abovementioned specific cut-off time will be

converted into permanent trade. However, at the discretion of the MA or if the repurchase date is not a Business Day, the borrower will be allowed to roll over any outstanding RMB overnight repo transactions to the following Operating Day if the borrower has insufficient funds to repurchase the outstanding RMB overnight repo transaction.

(f) In the event that an outstanding RMB overnight repo transaction is permitted to be rolled over to the following Operating Day, the CMU system will first repurchase the original RMB overnight repo transaction with settlement status "Rollover" and then create another RMB overnight repo Transaction for the same principal amount carried forward with a new deal code.

(g) In order to provide a transparent rollover history of a RMB overnight repo transaction, all details of the original repo transaction will be retained as reference.

(h) Calculation of the Price Differential on a rolled over RMB overnight repo transaction is made daily over the period from the sale date of the original repo transaction to the actual repurchase date of the transaction. The settlement of Price Differential will be made on a daily basis between the borrower and the MA. Please refer to Part III - clause *3.12* below for details.

(i) If an outstanding RMB overnight repo transaction is converted into a permanent trade, the MA will evaluate the relevant securities that have not been repurchased and effect a set-off between the respective obligations of the borrower and the MA under the outstanding RMB overnight repo transactions (to the extent that any balance is to be paid by the party having its claim value at the lower amount). If such balance is payable by the borrower and the borrower fails to make such payment, the MA may call an Event of Default under the Agreement.

The MA reserves the right to change the priority of repurchase as set out above from time to time in his sole and absolute discretion.

3.9.2.3 Settlement of RMB Overnight Repo Repurchase Transaction

Upon completion of the repurchase process, the repurchased securities will be credited to the borrower's intraday repo account (i.e. the "999" account).

The principal of each of the RMB overnight repo transaction will be debited from the settlement account of the borrower.

As for the Price Differential, it will be aggregated together with the Price Differentials, if any, of all other RMB intraday and overnight repo

transactions and be debited from the settlement accounts of the borrowers at the cut-off time for RMB Intraday Repo Close (current at 5:00 am of the next calendar date). Please refer to Part III - clause *3.12* below for details.

The RMB CHATS will format the settlement advice in MT900 format and distribute to the borrower via SWIFT.

3.9.2.4 **Updating the relevant Repo Limit**

(a) Both the Available Overnight Repo Pool Limit of the borrower and the Available Aggregate Overnight Repo Pool Limit are added back for the amount of that transaction.

(b) In the case of PLP, if the Available Overnight Repo Pool Limit is reached to its maximum after step (a) above, the remaining balance of the transaction amount (if any) will be added back to the Available PLP Limit of the borrower.

3.10 Limit Checking for Discretionary RMB Repo Transactions

The MA provides intraday and overnight RMB funds under the RMB Liquidity Facility to all Participating AIs and offers a dedicated RMB Facility to each of the PLPs. PLPs must first exhaust its dedicated RMB facility before it may access the RMB Liquidity Facility available to all AIs. In the event that a PLP has tapped both facilities, any repurchase will first release funds to the RMB Liquidity Facility available to all Participating AIs, and then its dedicated facility.

To ensure that the total outstanding amounts of repo transactions under each facility will not exceed the total amount of funds available under the corresponding facilities, the CMU has implemented a limit checking mechanism to control the aggregate amount of RMB repo transactions entered into with the MA.

3.10.1 Limit Checking Applicable to all Participating AIs (except PLPs)

An aggregate pool limit for intraday repo (Aggregate Intraday Repo Pool Limit) and an aggregate pool limit for overnight repo (Aggregate Overnight Repo Pool Limit) have been set up in the CMU system for monitoring the RMB Liquidity Facility. The Aggregate Intraday Repo Pool Limit is used to control the total outstanding amount of RMB intraday repo transactions of all borrowers while the Aggregate Overnight Repo Pool Limit is used to control the total outstanding amount of RMB overnight repo transactions of all borrowers under the RMB Liquidity Facility.

The "Available Aggregate Intraday Repo Pool Limit" refers to the maximum amount of RMB intraday funds that are available to all borrowers at a certain point of time while the "Available Aggregate Overnight Repo Pool Limit" refers to the maximum amount of RMB overnight funds that are available to all borrowers at a certain point of time. The MA has an absolute discretion to change the level of the relevant Aggregate Pool Limit(s).

In addition, the MA has discretion in introducing a cap on the amount of intraday or overnight repos that may be entered into by individual borrowers with the MA, if he deems appropriate. Nonetheless, the MA has not put in place such a cap at present. Such a cap, if introduced, will be implemented via a "Pool Limit" (Intraday or Overnight) which controls the total amount of repo transactions that may be entered into by a borrower with the MA. The "Available Intraday Repo Pool Limit" refers the maximum amount of intraday funds that a borrower may borrow from the MA while the "Available Overnight Repo Pool Limit" refers the maximum amount of overnight funds that a borrower may borrow from the MA.

When a borrower requests a RMB discretionary intraday (or overnight) repo transaction through its CMT, the requested amount must be equal to or less than both the Available Aggregate Intraday Repo Pool Limit (or the Available Aggregate Overnight Repo Pool Limit) and the Available Intraday Repo Pool Limit (or the Available Overnight Repo Pool Limit) of that borrower. Otherwise, the request will be rejected. If the repo transaction is successfully created, the amount of that transaction will be deducted from both the Available Aggregate Intraday Repo (or the Available Aggregate Overnight Repo) Pool Limit and the Available Intraday Repo (or the Available Overnight Repo) Pool Limit of that borrower.

When an outstanding RMB discretionary intraday repo transaction or an outstanding RMB overnight repo transaction which is converted from a RMB discretionary intraday repo transaction is successfully repurchased, the amount of that transaction will be added to both the Available Aggregate Intraday Repo Pool Limit and the Available Intraday Repo Pool Limit of that borrower.

For the avoidance of doubt, when a RMB discretionary intraday repo transaction is converted to an overnight repo transaction due to insuffient funds at the Conversion Time, the amount of that RMB overnight repo transaction will still be utilizing the Available Intraday Repo Pool Limit instead of the Available Overnight Repo Pool Limit of that borrower.

3.10.2 Limit Checking Applicable to borrowers who are PLPs

In addition to the Aggregate Limit and Pool Limit, a dedicated limit for each PLP (PLP Limit) has been set up in the CMU to control the total outstanding amount of RMB repo transactions of individual PLPs under the PLP RMB Facility in respect of the intraday or overnight RMB funds. The maximum amount of RMB intraday and overnight funds that is available to a PLP for borrowing at any time under the PLP RMB Facility is referred to as "Available PLP Limit".

When a borrower who is a PLP requests a RMB discretionary intraday (or overnight) repo transaction through its CMT, the requested amount must be equal to or less than the sum of the Available PLP Limit and the minimum of the Available Aggregate Intraday Repo (or Overnight Repo) Pool Limit and the Available Intraday Repo (or Overnight Repo) Pool Limit of that borrower. Otherwise, the request will be rejected. If the repo transaction is successfully created, the Available PLP Limit of that borrower will first be deducted. If the Available PLP Limit of that borrower is not sufficient to cover the whole borrowing amount of that repo transaction, the system will deduct the remaining amount from both the Available Aggregate Intraday Repo (or Overnight Repo) Pool Limit and the Available Intraday Repo (or Overnight Repo) Pool Limit of that borrower.

When an outstanding RMB intraday repo transaction or an outstanding RMB overnight repo transaction which is converted from a RMB discretionary intraday repo transaction is successfully repurchased by a borrower who is a PLP, the amount of that transaction will first be added to both the Available Aggregate Intraday Repo (or Overnight Repo) Pool Limit and the Available Intraday Repo (or Overnight Repo) Pool Limit of that borrower until the Available Intraday Repo (or Overnight Repo) Pool Limit reaches the level of the Pool Limit of that borrower. The remaining amount of that transaction, if any, will then be added to the Available PLP Limit of that borrower.

3.11 Interest Payment related to Eligible Securities

If an interest payment date in respect of any security falls on a date whilst such securities are the subject of a RMB overnight repo transaction, any interest accrued and paid to the MA will still be credited to the borrower.

3.12 Collection of Price Differentials

The aggregate amount of the Price Differentials for intraday and overnight repo transactions entered into with the MA will be collected on a daily basis and the arrangements are as follows:

(a) At cut-off time of the repo window close, which is currently set at 5:00 a.m. the next day, the aggregate amount of the Price Differentials will be debited from the borrowers' settlement accounts. Borrowers should ensure that there are sufficient funds at their settlement accounts of the RMB CHATS;

(b) Upon completion of step (a) above, the RMB CHATS will format the settlement advices in MT900 format and distribute to the borrowers via SWIFT;

(c) The aggregate amount of the Price Differentials payable to the MA on each operating day and its breakdowns at individual transaction level will be available to the borrowers via the "MA Repo Interest Report" (CMUD2901) after the end of an operating day on which the RMB repo transaction is repurchased;

(d) If there is an insufficient fund to be debited for the Price Differentials, the MA will follow up with the borrower directly outside the CMU system.

3.13 Suspension

Any request or further request for RMB discretionary intraday or overnight repo transaction will not be accepted if a borrower's RMB settlement account or its CMU securities account is suspended.

3.14 Event of Default

If an Event of Default occurs under the Agreement:

(a) all delivery and payment obligations of the MA and the borrower under all outstanding RMB intraday and overnight repo transactions entered into between the two parties shall be accelerated.

(b) The MA will calculate the market value of all securities to be repurchased taking the average of the prices or rate bids by at least three reputable institutions involved in trading such securities (insofar as practicable by MMs).

(c) The borrower's obligation to pay the repurchase price for all such securities will then be set off against the MA's obligation to deliver such securities.

(d) The excess value (if any) of the market value of the securities to be repurchased over their repurchase price will be paid to the borrower

under these circumstances. Alternatively, if the repurchase price is in excess of the market value of the securities to be repurchased, the borrower will pay a sum equivalent to the excess to the MA.

4 LENDING AND BORROWING PROGRAMME

4.1 General

This Lending and Borrowing Programme (Programme) provides a mechanism for CMU Participants to lend or borrow CMU Instruments and Government Bonds issued under the Government Bond Issuance Programme (Eligible Instruments) through the CMU. All CMU Participants may participate in the Programme as "Lender". However, only Market Makers for Eligible Instruments under this Programme can borrow Eligible Instruments. Any RD for Government Bonds who is also a CMU Member may participate in the Programme as "Lender" and/or "Borrower".

Any CMU Participants who wish to take part in the Programme are required to sign the form "Acceptance of Terms and Conditions", which govern the lending or borrowing of CMU Instruments, Government Bonds and other instruments as specified by the MA from time to time. CMU Participants can contact the CMU for a copy of the Terms and Conditions. The Terms and Conditions may be varied at any time by the MA upon notice in writing.

All capitalised terms not defined in this Part III - clause *4* shall have the meanings given to them in the CMU Membership Agreement, the letter of appointment of RDs for Government Bonds and the "Applicable Terms and Conditions for Lending and Borrowing Programme relating to CMU Instruments".

4.2 Borrower

CMU Participants who wish to borrow instruments under the Programme will need to apply to the MA to become Market Makers (Application Form in Appendix M.1) for the Eligible Instruments, and may thereafter borrow Eligible Instruments in the lendable pool for which they act as Market Makers.

For Eligible Instruments other than Government Bonds, Market Makers are required to quote two-way prices at reasonable spread for at least 5 issues or 50% of the issues in the lendable pool, whichever is the lower.

For Eligible Instruments other than Government Bonds, all Market Makers must provide the daily market prices to the CMU via facsimile before 10:00

a.m. in order to facilitate the daily marking to market of the Eligible Instruments and the related Collateral.

4.3 Loan Amount

The maximum aggregate amount of each Loan of Eligible Instruments is 20% of the total issue size of those Eligible Instruments.

4.4 Types of Accounts

4.4.1 Lending Account

Upon completion of the form "Acceptance of Terms and Conditions" by the Lender, the CMU will open a Lending Account (XXXX998) in the name of the Lender. This account is to be used for the delivery of Eligible Instruments and Equivalent Instruments.

The Lender shall obtain the explicit consent of its clients before transferring the Eligible Instruments from its clients' accounts into its Lending Account. The Lender shall be able to produce documentary evidence of such consent when required.

4.4.2 Suspense Account

A Suspense Account (CMUS555), in the name of the "Monetary Authority", is established to ensure the anonymity of the identities of both Lenders and Borrowers. This account is used by the CMU for recording loans of Borrowed Instruments and delivery of Equivalent Instruments.

4.4.3 Collateral Account

A Collateral Account (CMUS888) is an account in the name of the "Monetary Authority" into which a Borrower transfers the required Collateral.

4.5 Eligible Instruments and Collateral

4.5.1 Eligible Instruments

In this Programme, Eligible Instruments are those CMU Instruments and Government Bonds issued under the institutional and retail tranches of the Government Bond Issuance Programme arranged by the MA.

The issue size of each of those eligible CMU Instruments must be of or over HK$500 million equivalent and have at least one CMU Participant who has agreed to act as the Market-Maker of the issue.

The list of the Eligible Instruments eligible for loan through this Programme may be amended by the MA at his sole and absolute discretion from time to time, and the Lenders and Borrowers will be informed of the changes as soon as practicable.

4.5.2 Eligible Collateral

Borrowers shall be required to provide Collateral. Only Exchange Fund Bills and Notes, and those CMU Instruments eligible for repo under Discount Window (DW) are eligible Collateral. If the Eligible Instruments are issued by the borrower itself, its subsidiaries, its holding company, or any subsidiary of that holding company, such Eligible Instruments are not allowed to be used by the Borrower as Collateral.

The MA reserves the right to refuse or reject Collateral which it deems unacceptable and demands a Borrower to provide a substitute Collateral if necessary (see Part III – clause *4.8* below*)*.

Borrowers are required to provide substitute Collateral one business day prior to the maturity date of any Collateral. The CMU will send a "Substitute of Collateral" notification (Report SL4111A) to the Borrower by facsimile. Eligible Instruments cannot be used as a substitute Collateral if their maturity date falls on or before the next business day.

4.6 Daily Mark-to-Market and Haircut

All Borrowed Instruments and Collateral will be marked to market on a daily basis. CMU Instruments will be evaluated once a day at 10:00 a.m. and Collateral will be evaluated two to three times a day depending on the market prices updated by the price providers based on the following:

(a) the average mid-rate of the market prices provided by Market Makers of CMU Instruments; and

(b) the MA may take into account any other price information considered appropriate at that time

For market values of EFBN and GBs, they are determined by the MA by using the price providers as below:

Eligible Securities	Market Price Provider	Market Prices Update Time (Approximate)		
EFBN	Market Makers of EFBN	9:30 a.m.	11:30 a.m.	4:30 p.m.
GBs – Institutional tranche of the GB programme	Primary Dealers of GB		11:30 a.m.	4:30 p.m.

In time of high market volatility, the MA may conduct marking to market at more frequent intervals.

A Borrower is required to top up any shortfall to ensure continuous compliance with the haircut requirements. The levels of haircut of the eligible Collateral are as follows:-

(i) For Exchange Fund Bills and Notes and Specified Instruments, GBs and those DW eligible CMU Instruments with AAA rating - a haircut of 2% per annum of the remaining period to maturity or a minimum of 10%, whichever is higher; and

(ii) For non-AAA DW eligible CMU Instruments - a haircut of 2% per annum of the remaining period to maturity or a minimum of 20%, whichever is higher.

4.7 Operational Procedures

4.7.1 Lending Arrangement

A Lender who wishes to lend Eligible Instruments must transfer such instruments to its Lending Account by means of house transfer. Please refer to Part II – clause *4.1* for the house transfer arrangements.

The transfer of Eligible Instruments by a Lender to its Lending Account indicates the Lender's agreement and consent to the Loan of such Eligible Instruments and the CMU will not send any confirmation or report to the Lender in this respect.

4.7.2 Borrowing Arrangement

The following procedures apply to borrowing under the Programme:

(a) a Borrower who wishes to borrow Eligible Instruments is required to send a "Borrowing Request" (Appendix M.2) to the CMU;

(b) this Borrowing Request must be received by the CMU before 12:00 noon for same day processing. Borrowing Requests received by the CMU after 12:00 noon will be processed on the next day which is a business day;

(c) Borrowing Requests must be sent to the CMU by authenticated facsimile using the following facsimile numbers:

(852)2878 1676 - 1679

(d) Borrowing Requests received by the CMU will be processed on a first come first served basis;

(e) the CMU will match a Borrowing Request with the pool of Eligible Instruments;

(f) if a match is unable to be made, a "Borrowing Transaction Rejection Advice" (Report SL1112) will be sent to the Borrower; and

(g) if a match can be made and provided that the Borrower's Collateral is accepted, the CMU will effect the Loan by transferring the Borrower's Collateral from its CMU Main Account to the MA's Collateral Account. A "Borrowing Transaction Completion Advice" (Report SL1111) will be sent to the Borrower after the completion of the above procedures.

4.7.3 Termination of Loan

The procedures of the termination of a Loan initiated by a Borrower are as follows:

(a) the Borrower can terminate the Loan by sending a "Delivery of Equivalent Instruments Form" (Appendix M.5) to the CMU;

(b) the CMU will transfer the Equivalent Instruments from the Borrower's Main Account to the MA's Suspense Account;

(c) the CMU will then transfer the Equivalent Instruments to the Lender and a "Delivery of Equivalent Instruments to Lender Completion Advice" (Report SL2121) will be sent to the Lender; and

(d) Equivalent Collateral will be delivered to the Borrower according to the instructions stated in the "Delivery of Equivalent Instruments Form" (Appendix M.5) sent by the Borrower.

4.8 Substitution of Collateral

The Borrower may substitute the existing Collateral placed with the CMU with other eligible Collateral. Substitution by the Borrower is not an automatic entitlement and the following processes must be followed if the Borrower wishes to request for a substitution of Collateral:

(a) the Borrower is required to complete and send a "Request for Substitution of Collateral Form" (Appendix M.3) to the CMU before 12:00 noon for same day processing;

(b) a substitution request received by the CMU after 12:00 noon will be processed on the next business day;

(c) the CMU will evaluate the value of the proposed substitute collateral;

(d) if the value of such collateral is sufficient to cover the existing Loan(s) (taking into the account the haircut and market price), a "Substitution / Top Up of Collateral Completion Advice" (Report SL4111) will be sent to the Borrower; and

(e) if the value of such collateral is insufficient, a "Substitution / Top Up of Collateral Rejection Advice" (Report SL4112) will be sent to the Borrower by facsimile.

A request for substitution may be accepted or rejected by the MA at his sole and absolute discretion.

4.9 Top Up of Collateral

In the event of insufficient Collateral due to, for example, the fluctuation of market value, the Borrower is required to top up its existing Collateral in accordance with the processes below:

(a) the CMU will notify the Borrower by sending it a "Top Up of Collateral Notice" (Report SL5111) by facsimile;

(b) the Borrower shall advise the CMU of the details of additional Collateral by sending the Form of "Request for Top Up of Collateral" (Appendix M.4) to the CMU;

(c) the additional Collateral must be delivered to MA's Collateral Account before 4:00 p.m. on the same day by sending the completed Securities Transfer Form (Appendix I.1) to the CMU;

(d) upon receipt of the additional Collateral, a "Substitution / Top Up of Collateral Completion Advice" (Report SL4111) will be sent to the Borrower by facsimile for confirmation;

(e) if the additional Collateral is not accepted by the CMU, a "Substitution / Top Up of Collateral Rejection Advice" (Report 4112) will be sent to the Borrower by facsimile; and

(f) if the Borrower fails to top up the Collateral, the CMU will send a "Mandatory Recall Notice" (Report SL3111A and 3111B) to the Borrower by facsimile to proceed with the return of borrowed instruments. (See Part III - clause *4.11.1* below).

4.10 Allocation of the Pool of Eligible Instruments among Borrowers

If the pool of Eligible Instruments is more than sufficient to satisfy all of the Borrowing Requests, the allocation of Loans may be processed on a pro-rata basis by reference to the Lender's share in the pool of Eligible Instruments.

The minimum allocation to each Lender will be HK$1 million or the amount of the relevant Borrowing Request, whichever is the lower.

A "Lending Transaction Completion Advice" (Report SL1121) will be sent to the Lender(s) by facsimile after allocation.

4.11 Duration and Termination of Loan

All Loans are granted for an undetermined period of time. A Loan is terminated upon:

(a) voluntary delivery of Equivalent Instruments by the Borrower;

(b) recall of the Loan by the Lender; and/or

(c) in the circumstances as specified in the Terms and Conditions.

If the Lender does not recall the Loan by the time of maturity of the issue, the Loan is terminated automatically on the maturity date. The Lender is entitled to any interest and redemption of principal paid by an issuer on the Borrowed Instruments.

4.11.1 Delivery of Equivalent Instruments to the Lenders

The Borrower can voluntary terminate the Loan by delivering Equivalent Instruments to the Lender(s) via the CMU. Partial repayment of a Loan may be processed by the CMU on a case-by-case basis at the MA's discretion.

The processes of the arrangements are described below:

(a) the Borrower must complete and send a "Delivery of Equivalent Instruments Form" (Appendix M.5) to the CMU before 12:00 noon for same day value transactions;

(b) the CMU will transfer the Equivalent Instruments from the Borrower's Main Account via the MA's Suspense Account to the Lender's Lending Account;

(c) after the completion of a transfer, a "Delivery of Equivalent Instruments from Borrower Completion Advice" (Report SL2111) and a "Delivery of Equivalent Instruments to Lender Completion Advice" (Report SL2121) will be sent to the Borrower and Lender respectively; and

(d) if the Borrower's Main Account has insufficient Equivalent Instruments, the CMU will not execute the transfer of Equivalent Instruments, and a "Delivery of Equivalent Instruments from Borrower Rejection Advice" (Report SL2112) will be sent to the Borrower.

Apart from voluntary termination, the Borrower is required to deliver Equivalent Instruments in the circumstances as specified in the Terms and Conditions which include but is not limited to a termination of the Loan by the Lender. Upon delivery of the Equivalent Instruments (but not otherwise), the Equivalent Collateral will be delivered to the Borrower's Main Account.

4.11.2 Recall of Loan

If the Lender wishes to recall the Loan, the following arrangements will be applicable:

(a) the Lender shall send a Recall of Loan request (Appendix M.6) to recall a Loan. The recall of Loan request will be processed on the same day if it is received by the CMU before 10:00 a.m.;

(b) Equivalent Instruments will be delivered to the Lender immediately if a replacement Lender can be found and a "Recall of Loan Completion Advice" (Report SL3121) will be sent to the Lender for confirmation;

(c) if a replacement Lender cannot be found, a "Recall of Loan Status Report" (Report SL3122) will be sent to the Lender advising it that a mandatory recall notice will be served on the Borrower;

(d) a "Mandatory Recall Notice" (Report SL3111A and SL3111B) will be dispatched immediately on the following business day (Recall Day + 1) to the Borrower to require it to deliver the Equivalent Instruments by the deadline specified (i.e. Recall Day + 4) in the "Mandatory Recall Notice";

(e) a "Mandatory Recall Reminder" (Report SL3112) will be sent to the Borrower on Recall Day + 3 if the Equivalent Instruments have still not yet been delivered by the Borrower;

(f) in the event that a replacement Lender can be found before the Borrower delivers the Equivalent Instruments, a "Mandatory Recall Cancellation Advice" (Report SL3113) will be sent to the Borrower;

(g) once the Equivalent Instruments are delivered to the Lender, a "Recall of Loan Completion Advice" (Report SL3121) will be sent to the Lender; and

(h) the CMU will notify the Lender (Report SL3111C) if the Borrower fails to deliver the Equivalent Instruments by the deadline specified in the "Mandatory Recall Notice".

4.12 Sale of Collateral

The CMU will sell the Collateral provided by the Borrower if the Borrower is unable to deliver the Equivalent Instruments to the Lender and/or in the circumstances as specified in the Terms and Conditions. A reputable agent with professional expertise and market knowledge will be appointed to execute the sale. The Lender will (subject to the conditions below) have the following options once the Collateral is sold:

(a) request the CMU to use the proceeds of the sale to purchase the Equivalent Instruments in the open market;

(b) accept the sale proceeds in cash; or

(c) if the Lender is a Recognized Dealer of Exchange Fund Bills and Notes, to use the sale proceeds to purchase Exchange Fund Bills and Notes (issues to be chosen by the Lender).

If the Lender opts for (b) above, the value of the Equivalent Instruments which the Borrower has failed to deliver will be calculated as at 10:00 a.m. on the Recall Day + 5.

If the Lender opts for (a) or (c) above, an agent will be appointed by the CMU to purchase the Equivalent Instruments or the Exchange Fund Bills and Notes in the market, and such purchase will be credited to the Lender's Lending Account.

Proceeds of the sale will be applied in the manner as specified in the Terms and Conditions.

Any surplus available after payment of all of the costs and expenses specified in the Terms and Conditions will be transferred to or held at the disposal of the Borrower. Any shortfall will constitute an indebtedness solely of the Borrower to the Lender, and, if any sums are still due and owing to the MA, to the MA.

4.13 Coupon Payment and Exercise of Rights

Interest and/or the redemption proceeds paid by the issuer on the Borrowed Instruments will be reimbursed by the Borrower to the Lender. The processes are as follows:

(a) a "Collection of Redemption Proceeds/Interest Income Advice" (Report SL8111) will be sent to the Borrower advising it of the amount to be paid;

(b) if the Borrower is a direct participant of the HK dollar RTGS system, the CMU will directly debit its settlement account with MA with the amount of interest/redemption proceeds paid on the payment date. Otherwise, the Borrower is required to instruct its settlement bank to pay the MA's settlement account (account number 888) the amount of interest/redemption proceeds through the HK dollar RTGS system on the relevant payment date;

(c) upon receipt of the interest/redemption proceeds, the CMU will effect payment to the Lender's settlement account;

(d) any interest payment/redemption proceeds paid by the issuer in respect of the Collateral will be transferred to the Borrower's settlement account on the payment date. In both cases, a "Return of Redemption Proceeds/ Interest Income Advice" (Report SL8112) will be sent to the Lender/Borrower; and

(e) in case of the exercising of right(s), unless otherwise agreed in writing, the Borrower is required to return the Borrowed Instruments to the Lender before the exercise date. This will allow the Lender to exercise such right(s). A "Mandatory Recall Notice" will be sent to the Borrower. If the Borrower fails to return the Borrowed Instruments in time, the Borrower is liable to the Lender for any loss borne by the Lender(s).

4.14 Settlement Arrangement

For the Lender who is a direct participant, all payments such as coupon and redemption proceeds will be directly credited to its settlement account with the MA. Otherwise, all payments will be directly credited to the Lenders settlement bank's account with the MA. The Lender is required to confirm with its settlement bank for confirmation receipt of payment.

If the Borrower is a direct participant, the CMU will directly debit the Borrower's settlement account with the MA with the relevant amount of payment at the appropriate scheduled time. Otherwise, the Borrower is required to instruct its settlement bank to arrange for such payment. The settlement bank of the Borrower will then send a payment instruction (IFT01-customer payment) via Hong Kong dollar RTGS system to pay the MA's settlement account (account number 888) at the time specified by the CMU.

4.15 Compensation in case of default on Coupon Payment and Principal Redemption

The Borrower is required to reimburse the exact amount of the coupon payment and/or principal redemption in relation to the Borrowed Instruments to the Lender on the coupon/redemption date.

If the Borrower fails to do so by 11:00 a.m. on the coupon/redemption date, the Borrower will be in breach of the Terms and Conditions and a "Mandatory Recall Notice-Type 2" (Report SL3111B) will be issued to terminate the Loan. In addition, the CMU may charge interest at the DW

base rate plus 200 basis point per annum calculated daily from the date such coupon payment and/or principal redemption was due to be reimbursed and the Lender of the Borrowed Instruments will be compensated accordingly.

4.16 Daily Operational Timetable

Time	*Description*	*Action*
10:00 a.m.	Deadline for sending in a Recall of Loan request by the Lender	The CMU will find a replacement of loan from other lender(s). If there is no replacement, a "Mandatory Recall Notice (Type 1)" (Report SL3111A) will be sent to the Borrower on the following day which is a business day
	Deadline for Market Makers providing market prices of the Eligible Instruments to CMU	The CMU will conduct the mark-to market process using the latest market prices
11:00 a.m.	Top Up Notice is sent to the Borrower, if the value of the Collateral is insufficient	The Borrower is required to increase the amount of Collateral
12:00 noon	Deadline for sending in Borrowing Request by Borrowers	The CMU will match the pool of Eligible Instruments on a first come first served basis
	Voluntary delivery of Equivalent Instruments	The CMU will deliver Equivalent Instruments to the Lender and the Loan will be terminated
	Deadline for sending substitution of Collateral request by the Borrower	The CMU will evaluate the proposed substitute Collateral and carry out the substitution if the substitute Collateral is acceptable
4:00 p.m.	Deadline for the Borrower to top up Collateral	The Borrower is required to increase the amount of Collateral. If it fails to do so, the CMU will

Time	*Description*	*Action*
		send a "Mandatory Recall Notice" (Type 2 – Report SL3111B) to the Borrower.
4:00 p.m. (Recall Day + 4)	Deadline for the Borrower to deliver Equivalent Instruments pursuant the "Mandatory Recall Notice" (Type 1 – Report SL3111A)	Upon the delivery of Equivalent Instruments to the Lender(s) and the Loan is thereby terminated

4.17 Fees

4.17.1 Fees Calculation

Borrowing fees are calculated:

(a) in proportion to the market value of the Borrowed Instruments; and

(b) daily and aggregated at the end of each month;

and are charged from the day the Loan becomes effective until the business day before the Borrower delivers the Equivalent Instruments.

4.17.2 Billing Arrangements

The following reports will be sent to each Borrower and Lender on the 20th of the following month or the next business day after the 20th if the 20th is not a business day to notify them of the fees payable and receivable respectively:

(a) "Billing Report" (Report SL6111); and
(b) "Account Position Summary Report" (Report SL6112).

The borrowing fees are payable by the Borrower on the 25th of the following month or the next business day of the 25th if the 25th is not a business day.

If the Borrower is a direct participant of the HK dollar RTGS system, the CMU will debit the borrowing fees due directly from its settlement account

with the MA. Otherwise the Borrower is required to instruct its settlement bank to pay the MA's settlement account (account number 888) the borrowing fees due through the HK dollar RTGS system. Upon receipt of such borrowing fees, the Lender's settlement account will be credited with the relevant fee income according to the percentage as defined in the CMU's prevailing fee schedule issued by the MA from time to time.

4.18 Withdrawal from the Programme

The Borrowers or Lenders may withdraw from the Programme by issuing a written notice to the CMU. The withdrawal becomes effective 30 calendar days after the receipt of the notice by the CMU.

4.18.1 Withdrawal by Lender

With regard to a Lender's withdrawal, all Loans will be terminated in accordance with Part III - clause *4.11.2* and Equivalent Instruments will be delivered to its Lending Account.

The Lender is required to transfer all Equivalent Instruments in its Lending Account back to its own account or its client's account, whichever is appropriate. This Lending Account will then be closed 10 business days after delivery of all Equivalent Instruments.

At this time and provided all other financial and legal obligations of the Lender under the Applicable Terms and Conditions for Lending and Borrowing Programme relating to CMU Instruments have been discharged, the withdrawal by the Lender is complete as and when the Lender receives a confirmation from the CMU.

4.18.2 Withdrawal by Borrower

With regard to a Borrower's withdrawal, a "Recall of Loan Status Report" (Report SL3122) will be sent to the Borrower in respect of the outstanding Loans. After the delivery of Equivalent Instruments and the discharge of all other financial and legal obligations under the Applicable Terms and Conditions for Lending and Borrowing Programme relating to CMU Instruments, the Borrower's withdrawal is complete as and when the Borrower receives a confirmation from the CMU.

5 BANK REPO

5.1 General

The bank repo (Bank Repo) is a CMU Service which provides institutions in Hong Kong a platform to carry out sale and repurchase transactions of Eligible Securities through the CMU. A Bank Repo transaction is a transaction entered into between two CMU Participants.

The MA acts as system administrator to provide a platform to facilitate the conducting of Bank Repo but does not constitute a party to the transaction. Buyer and seller of the Bank Repo transaction should arrange execution of appropriate bilateral master repo agreement before using the service.

Only sale and repurchase transactions that are treated by each of the parties to the relevant sale and repurchase transaction as a secured loan for US federal income tax purposes shall use the Bank Repo service. CMU Participants shall be responsible for reviewing and confirming such US federal income tax treatment prior to causing a sale and repurchase transaction to become a Bank Repo. CMU Participants acknowledge and agree that a Bank Repo may be subject to application of the FATCA rules, including but not limited to FATCA withholding by CMU or other parties.

5.2 Registration

5.2.1 Documentation

All CMU Participants who wish to use this service as “buyer” (Buyer) and/or “seller” (Seller) are required to register by signing and returning the following documents, as appropriate, to the MA:

(a) Bank Repo Registration Form (Appendix N.1); and

(b) Bank Repo Service Agreement for Buyer (BRSA (Buyer)); and/or

(c) Bank Repo Service Agreement for Seller (BRSA (Seller)).

5.2.2 Arrangements

The registration arrangements are as follows:

(a) A CMU Participant who is the buyer of Bank Repo transaction is required to enter into the BRSA (Buyer) with the MA.

(b) A CMU Participant who is the seller of Bank Repo transaction is required to enter into the BRSA (Seller) with the MA.

(c) The buyer and seller shall complete Annex A of the appropriate BRSA to indicate: i) accepted counterparty; ii) Eligible Securities list; iii) mark-to-market threshold range, and return the original duly signed by the counterparty in triplicate to the CMU.

(d) A CMU Participant is required to specify in the registration form (Appendix N.1) the maximum Bank Repo limit in Hong Kong dollar, US dollar, euro and/or renminbi to control the maximum total outstanding Bank Repo amount in the respective currencies.

(e) Upon receipt of the completed and signed registration form and the BRSA, the CMU will:

- open a Bank Repo Sale Account (777 Account) and/or a Bank Repo Purchase Account (778 Account), in the name of the CMU Participant for depositing the Eligible Securities or other securities (other securities) referred to securities other than Eligible Securities) for Bank Repo transactions.

- update the corresponding information into the CMU system based on the information as stipulated by the CMU Participant in Annex A of the BRSA.

A CMU Participant can execute any number of Annex A of the BRSA with any number of counterparties. The executed Annex A will form an integral part of the BRSA.

5.2.3 Amendments to Counterparty and Eligible Securities Acceptance List

A CMU Participant is required to execute Annex B of the appropriate BRSA in order to authorize the MA to effect any amendments to the counterparty, mark-to-market threshold range and the list of Eligible Securities.

When a CMU Participant no longer wishes to perform Bank Repo transactions with an existing counterparty, by executing Annex B, no new Bank Repo transactions will be allowed on and after the effective date. However, the outstanding Bank Repo transactions which were initiated in automatic selection mode that have not yet been repurchased in the CMU system will still be subject to the daily mark-to-market operation as

described in Part III - clause *5.12* below.

5.3 Submission Channels

Both the Buyer and the Seller of a Bank Repo transaction are required to send a Bank Repo purchase request to the CMU through any one of the following channels:

(a) CMT; or

(b) subject to Part I – clause *5.2* of this Manual, by completing the "Bank Repo Purchase Request Form" (Appendix N.6) and sending the same by authenticated facsimile using the following numbers:

(852) 2878 1676 – 1679; or

(c) subject to Part I –clause *5.2* of this Manual, by hand or by post to 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

5.4 Input Cut-off Times

The Buyer and the Seller can send in Bank Repo purchase requests 30 calendar days before the intended settlement date. However, collateral management transactions can only be initiated for value on the current value date. The following summarises the various input cut-off times:

		CMT	**Facsimile**
(a)	Bank Repo purchase request	8:30 a.m. to 6:00 p.m.	8:30 a.m. to 4:00 p.m.
(b)	Collateral management transaction	8:30 a.m. to 6:30 p.m.	8:30 a.m. to 4:00 p.m.
(c)	Cancellation of unsettled request	8:30 a.m. to 6:00 p.m.	8:30 a.m. to 4:00 p.m.
(d)	Forward value instruction	8:30 a.m. to 6:30 p.m.	8:30 a.m. to 4:00 p.m.

The MA reserves the right not to deal with any request received after the deadline. Those Bank Repo purchase requests which are received after the

deadline will have to be submitted again on the next day before the cut-off time.

5.5 Conditions for Bank Repo Transaction

In order to carry out Bank Repo transactions, CMU Participant should note the followings:

(a) Seller needs to transfer sufficient Eligible Securities or other securities to its "777 Account" and the Buyer needs to deposit sufficient funds into its settlement account(s) or its settlement bank's settlement account(s).

(b) If a CMU Participant wishes to enter into a Bank Repo transaction on behalf of its clients and uses its clients' securities as Eligible Securities or other securities, that CMU Participant shall obtain an explicit consent from its clients before transferring such Eligible Securities or other securities from its clients' accounts into its "777 Account". The CMU Participant concerned shall be able to produce documentary evidence of such consent as and when required by the MA.

5.6 Types of Bank Repo Transaction

There are two types of Bank Repo transactions classified by the mode of securities selection:

(a) ***Auto Mode*** – this refers to Bank Repo transactions whereby the type and quantity of Purchased Securities are selected automatically by the CMU system according to the list of Eligible Securities as specified in Annex A of the appropriate BRSA; and

(b) ***Manual Mode*** – this refers to Bank Repo transactions whereby the Buyer and the Seller are required to input the quantity and issue number of Eligible Securities and/or other securities into the CMU system.

5.7 Eligible Securities and Other Securities

5.7.1 Eligible Securities

The Eligible Securities for Bank Repo transactions are agreed bilaterally by the Buyer and Seller as set out in Annex A of the BRSA.

5.7.2 Maturity Date

Eligible Securities or other securities cannot be used for a new Bank Repo transaction if their maturity dates or early redemption dates or repo cut-off dates (for linkage securities) fall within 3 Business Days following the Bank Repo purchase date.

5.7.3 Transaction initiated in Auto Mode

The applicable haircut for Eligible Securities is pre-defined by the CMU system as set out in Appendix N.2 of this Manual. The haircut may be varied from time to time by the MA upon notice in writing to the CMU Participants.

The CMU will automatically select the appropriate Eligible Securities as Purchased Securities for use in a Bank Repo transaction.

5.7.4 Transaction initiated in Manual Mode

With respect to Bank Repo Transaction initiated in Manual Mode, the Buyer and the Seller shall agree between themselves any issues of the Eligible Securities or other securities for use as Purchased Securities in their Bank Repo transaction.

A maximum 23 issues of such Eligible Securities or other securities can be specified for each Bank Repo purchase request. It is the responsibility of the Buyer and the Seller to check whether the specified quantity of such Eligible Securities or other securities can cover the purchase price because the CMU will not perform any adequacy check on the securities being used.

A list of Eligible Securities and their Bank Repo Category Type are available at the MA's following website:

http://www.info.gov.hk/hkma/eng/infra/cen_money/exel/cmup8026.pdf
http://www.info.gov.hk/hkma/eng/infra/cen_money/exel/cmup8025.pdf

5.8 Market Value and Haircut

5.8.1 Market Value

The Market Value of Eligible Securities is determined by the MA by using the price information contributed by the following price providers:

Eligible Securities	Market Price Provider
EFBN	Market Makers of EFBN
Government papers – Institutional tranche of the GB programme	Primary Dealers of Government Bond
USD denominated papers issued by US Government (excluding STRIPS and TIPS)	USD Clearing Settlement Institution or CMU's approved pricing vendor
Off-shore RMB denominated papers issued by: • the Central Government of the PRC; and • policy banks of the PRC	RMB Clearing Bank or CMU's approved pricing vendor

If, on a given date, no new price for a security is obtained from the market price providers, the CMU will use the latest available price for calculation.

The market prices are updated daily in accordance with the following schedules:

Types of issues	Market prices Updated Time (Around only)		
EFBN	9:30 a.m.	11:30 a.m.	4:30 p.m.
GB		11:30 a.m.	4:30 p.m.
US Treasuries	9:30 a.m.	2:30 p.m.	
Off-shore RMB denominated papers issued by: • the Central Government of the PRC; and • policy banks of the PRC		12:00 noon	

5.8.2 Haircut Percentage for Different Maturity Bands of Eligible Securities

With respect to Bank Repo transactions initiated in Auto Mode, the CMU will determine the type and quantity of securities to be acquired for the purchase price taking into account the applicable maturity band's haircuts of Eligible Securities as set out in Appendix N.2 and will select the Eligible Securities from the Seller's 777 account.

With respect to Bank Repo transactions initiated in Manual Mode, the CMU will not perform any adequacy check against the purchase price.

5.8.3 Cross-currency Haircut

If the nominal currency of any Purchased Securities is different from the settlement currency of the Bank Repo transaction, a cross-currency haircut will be applied to calculate the discounted market value (DMV) of Purchased Securities (Appendix N.3). When selecting Eligible Securities for Bank Repo transaction, priority is given to Eligible Securities with the same nominal currency as the settlement currency of the Bank Repo transaction.

The MA uses daily exchange rates obtained from recognized data service provider to evaluate Eligible Securities and exposure across currencies.

5.9 Mark-to-Market Threshold Range

The mark-to-market threshold range is the tolerance level defined by a pair of Buyer and Seller as set out in Annex A of the appropriate Bank Repo Service Agreement which the CMU will take into account in processing the mark-to-market operation for transactions initiated in Auto Mode. As long as the DMV (described the calculation of DMV in Part III - clause *5.10.5.2* below) of the Purchased Securities in respect of a Bank Repo transaction falls within this threshold range, no top-up or return of securities is required.

5.10 Transaction Processing

5.10.1 Initiating Bank Repo Purchase Request

5.10.1.1 **Securities Selection Mode**

Auto Mode - For Bank Repo transaction initiated in Auto Mode, the MA will attempt to select Eligible Securities automatically from the Seller's 777 Account in accordance with the eligibility profile set out in Annex A of the appropriate Bank Repo Service Agreement.

Manual Mode – With respect to Bank Repo transaction initiated in Manual Mode, the MA will not perform any checking on the securities selected.

Buyer and Seller are required to input the issue number and nominal amount of the Eligible Securities or other securities in addition to the items in Part III - clause *5.10.1.2* (i) to (vi) below. The CMU will then check the availability of the specified securities from the Seller's 777 account accordingly.

Once a Bank Repo transaction is initiated in Auto Mode, it cannot be converted to Manual Mode and vice versa during the entire tenure of the transaction.

5.10.1.2 **Initiation of Instruction**

Before initiating a Bank Repo purchase request, the Buyer and the Seller shall at least agree between themselves on the following:

(i) the purchase price;
(ii) the purchase date;
(iii) the repurchase price;
(iv) the repurchase date;
(v) securities selection mode; and
(vi) the repo rate.

5.10.2 Real-time Matching and Processing

Upon agreement of the Bank Repo details, the Seller is required to deposit sufficient Eligible Securities or other securities to its 777 account.

Both Buyer and Seller are required to submit Bank Repo purchase request for matching. For input via CMT, please refer to the CMT User Manual – User Guide for detailed description on how to input an instruction.

All initiations of new Bank Repo transactions are validated in real-time, upon receipt of instructions from CMU Participants.

5.10.3 Matching Fields

Any Bank Repo purchase requests sent to the CMU will undergo a real-time matching process. The CMU will try to match a new record with all available unmatched records in the system. The following fields must be matched during the matching process:

- Seller
- Buyer
- currency
- purchase price
- purchase date
- repurchase date
- repo rate
- securities selection mode
- issue number (for transaction initiated in Manual Mode)
- nominal amount (for transaction initiated in Manual Mode)

If no matching occurs, the record will be added to the list of unmatched Bank Repo purchase requests. The above process will be processed sequentially for each new and unmatched Bank Repo purchase request (which can be a new request or unmatched request as a result of cancellation).

5.10.4 Cancellation

Both Buyer and Seller are allowed to cancel their own Bank Repo purchase request if the transaction has not yet been settled (i.e. the 777 account of the Seller has not been debited and the cash settlement account of the Buyer or the cash settlement account of its settlement bank has not been debited).

The cancellation of a matched Bank Repo purchase request will result in the unwinding of that matched transaction. As a result, the counterparty's Bank Repo purchase request will become unmatched and the real-time matching processing will be triggered to search for other possible instructions for matching.

A Bank Repo purchase request cannot be amended and CMU Participants will have to cancel the original request and re-input another new purchase request and send it to the CMU for further processing.

5.10.5 Settlement

5.10.5.1 **Transaction Mode**

The following sections generally apply to both Auto and Manual Mode unless otherwise specified.

Manual Mode : For Bank Repo transaction initiated in Manual Mode, the CMU will try to hold the specified securities for the specified nominal amount from the Seller's 777 account.

Auto Mode : For Bank Repo transaction initiated in Auto Mode, the CMU will try to hold Eligible Securities from the Seller's 777 account. Default selection sequence is as follows:

(i) denomination currency (securities in the currency of the transaction are selected first);
(ii) the type of securities (in following order):
- EFBN
- HKSAR government papers (Government Bond Programme - Institutional Tranche)
- USD denominated Sovereign papers issued by the US Government (excluding STRIPS and TIPS)
- Off-shore RMB denominated papers issued by the Central Government of the People's Republic of China
- Off-shore RMB denominated papers issued by policy banks of the People's Republic of China

(iii) the least remaining maturity
(iv) in ascending order of issue number

5.10.5.2 **Calculation of Discounted Market Value**

For each of the issues of the Eligible Securities selected in Auto Mode, the market value of its tradable nominal value will be calculated first. The DMV is then calculated by applying the applicable haircut percentage to the market value of each of the selected issues and the exchange rate if applicable.

An illustration of the calculation of DMV against the repurchase price is set out in Appendix N.3. An illustrated example is shown in Appendix N.4

5.10.5.3 **Settlement Procedures**

The settlement procedures are as follows:

(a) The CMU will hold the minimum integral multiple of the selected issues' minimum denomination to cover the Bank Repo repurchase price.

(b) A maximum of 23 different issues of the Eligible Securities will be selected for each Bank Repo transaction initiated in Auto Mode.

(c) If there are insufficient Eligible Securities in the Seller's "777" account, the CMU will retry the securities holding process in 15 minutes' interval.

(d) After sufficient Eligible Securities or other securities are held, and the Buyer or its settlement bank has set the CMU related payment at RTGS system to "auto-generation" mode, the payment leg of the Bank Repo transaction will be generated automatically and:

- for the auto-generation mode with "Normal Queue" setting, the payment leg will be appended at the end of the normal queue at RTGS system.

- for the auto-generation mode with "Pending Queue" setting, the payment leg will be appended at the end of the pending queue at RTGS system.

(e) However, if the Buyer or its settlement bank has set the CMU related payment parameter at RTGS system to "No auto-generation" mode, the payment leg of the DvP transaction will not be generated. The Buyer or its settlement bank has to manually construct the IFT38 payment via SWIFT by making use of the payment notification SWIFT MT298 message. The MT298 will carry all payment details required for the preparation of the IFT38. Please refer to Appendix A.13 for the preferred settings of the operational parameters related to CMU.

(f) Once the funds and Eligible Securities or other securities are successfully held, real-time settlement takes place immediately. The securities accounts and settlement accounts of the Buyer and the Seller concerned are debited and credited accordingly.

(g) All unmatched or unsettled Bank Repo transactions for value the current date due to insufficient funds or insufficient securities will be cancelled at 6:00 p.m. on the same day. Both parties are required to input a new Bank Repo purchase request on the next business day.

5.10.5.4 **Purchased Securities cannot be Reused**

Purchased Securities allocated to a Buyer in a Bank Repo transaction cannot be further reused. Buyer is not allowed to transfer such Purchased Securities from its 778 account to other house accounts or its Main Account or to other CMU Participant's account.

5.11 Repurchase

5.11.1 Manual input for Early Repurchase of Bank Repo Transaction

5.11.1.1 The Buyer and the Seller shall repurchase the securities sold under each Bank Repo transaction on or before 2:30 p.m. (repurchase time) on the repurchase date. Both the Buyer and the Seller may input the repurchase request of a Bank Repo transaction manually via the CMT.

5.11.1.2 The Buyer and the Seller can even early repurchase their outstanding Bank Repo transaction before the intended repurchase date. In such case, the Buyer and the Seller shall re-agree the price differential and the repurchase date and input the actual agreed price differential and repurchase date.

5.11.1.3 If both the Buyer and the Seller agree to repurchase any Bank Repo transaction manually on or before the repurchase time on the repurchase date, both parties are required to input such repurchase request for further matching in the CMU system. The repurchase process is as follows:

(a) If such new repurchase requests are matched, the CMU will hold the equivalent Purchased Securities from the Buyer's 778 account.

(b) If the equivalent Purchased Securities are successfully held by the CMU, and the original Seller or its settlement bank has set the CMU related payment at RTGS system to "auto-generation" mode, the payment leg of the Bank Repo transaction will be generated automatically and

- for the auto-generation mode with "Normal Queue" setting, the payment leg will be appended at the end of the normal queue at RTGS system.

- for the auto-generation mode with "Pending Queue" setting, the payment leg will be appended at the end of the pending queue at RTGS system.

(c) However, if the original Seller or its settlement bank has set the CMU related payment parameter at RTGS system to "No auto-generation" mode, the payment leg of the Bank Repo transaction will not be generated. The original Seller or its settlement bank has to manually construct the IFT39 payment via SWIFT by making use of the payment notification SWIFT MT298 message. The MT298 will carry all payment details required for the preparation of the IFT payment 39. Please refer to Appendix A.13 for the preferred settings of the operational parameters related to CMU.

(d) If the Seller does not have sufficient funds for settlement of a manual repurchase of Bank Repo transaction on the current value date, the

payment will be queued until 2:30 p.m., upon which such payment will be cancelled and the CMU system will effect the repurchase of the securities when the automatic repurchase run starts.

(e) On the other hand, if the Seller does not have sufficient funds for settlement for an early repurchase of Bank Repo transaction, the early repurchase request will be cancelled at 2:30 p.m.

(f) Once the securities leg and the payment leg are successfully held, the repurchased securities will be debited from the Buyer's 778 account and transferred back to the Seller's 777 account. The repurchase price will be debited from the settlement account of the Seller and credited to the Buyer's settlement account or the settlement account of the Buyer's settlement bank. The repurchase price may be reduced by any applicable FATCA withholding tax.

5.11.2 Automatic Repurchase of Bank Repo

If any Bank Repo transaction in either Auto or Manual Mode remains outstanding at the repurchase time i.e. 2:30 p.m. on the repurchase date, the CMU will automatically seek to effect the repurchase of the securities sold under such transaction in a last-in-first-out order within the ascending sale date sequence. The processes are as follows:

(a) If the equivalent Purchased Securities are successfully held, the payment and settlement processes will follow the processes as mentioned in Part III - clause *5.11.1.3* .

(b) If the Seller does not have sufficient funds to repurchase the securities under all of its outstanding Bank Repo transactions, the repurchase process will stop at the transaction which the Seller does not have sufficient funds to repurchase and all outstanding Bank Repo transactions will be queued up in the IFT payment queue.

(c) If those queued transactions are at the top of the IFT payment queue, automatic Intraday Repo will be triggered to repurchase those outstanding Bank Repo transactions if there are insufficient funds but sufficient "eligible securities" for Intraday Repo.

(d) If there are insufficient "eligible securities" to trigger Intraday Repo, these outstanding repurchase transactions will be queued up pending for payment in the IFT payment queue until 4:00 p.m., upon which the payment will be cancelled and the outstanding Bank Repo transactions will be completed as permanent trades.

(e) For the avoidance of doubt, "eligible securities" for automatic Intraday Repo referred to above means the securities set out in Part III – clause *1.1.2* and Part III - clause *2.1.3* of this Manual.

(f) The repurchase price is calculated as follows:

$$\text{Repurchase Price} = \text{Purchase Price} \times (1 + \text{R} \times \frac{\text{D}}{\text{Year Basis}})$$

Where:	Purchase Price	=	Amount that the Buyer paid to the Seller against delivery of Eligible Securities on the Bank Repo purchase date;
	R	=	Agreed Repo Rate in % per annum;
	D	=	Number of days between a Bank Repo purchase request and a Bank Repo agreed repurchase date or actual repurchase date whichever is later; and
	Year Basis	=	Assumed number of days per annum defined at settlement currency level. For Hong Kong dollar, the number of days in a year is 365, disregarding any leap year. As for US dollar, euro and renminbi, the number of days in a year is 360

5.11.3 Bank Repo Completed as Permanent Trade

An unsuccessful automatic Bank Repo repurchase forces a Bank Repo transaction to be completed as a permanent trade. The Buyer and the Seller can re-agree the actual price for the "permanent trade" themselves. The Purchased Securities will remain in the Buyer's 778 account. All adjustments are to be handled manually outside of the CMU system, including any adjustment to the repurchase price.

A Bank Repo transaction will be converted to a permanent trade under the following conditions:

(a) if it cannot be repurchased due to insufficient fund at the repurchase time on the repurchase date; or

(b) if it cannot be repurchased due to a member being suspended; or

(c) if the Purchased Securities will be matured or early redeemed on the following Business Day; or

(d) if the repo cut-off date (for linkage securities) of the purchased securities will be hit on the following Business Day

5.12 Daily Mark-to-Market Operation

Mark-to-Market Operation consists of the following processes**:**

(a) automatic revaluation of purchased securities to determine the latest market values of outstanding repo transactions;

(b) automatic top-up or return of purchased securities in light of the daily mark-to-market outcomes and the mark-to-market threshold range;

(c) If the mark-to-market outcomes fall within the mark-to-market threshold range, then no top-up or return of securities is required;

(d) automatic substitution of non-eligible securities; and

(e) generation of collateral movement report (CMUD15A1)

5.12.1 Handling of Surplus/Shortfall of Purchased Securities during Mark-to-Market Operation

For Bank Repo transactions initiated in Auto Mode, CMU will perform mark-to-market of Purchased Securities to ensure that such transactions are sufficiently collateralised. Mark-to-Market Operation run is scheduled to start at 10:00 a.m. on any Business Day. The MA reserves the right to change the time or add more Mark-to-Market Operation runs on any Business Day.

During the Mark-to-Market Operation run, purchased securities are revaluated using the latest available market prices in the CMU system. With respect to Bank Repo transactions initiated in Auto Mode, top-up or return of securities will be triggered automatically by the CMU system to correct any surplus or shortfall as described in Part III - clause *5.12.1.1* below. An example to illustrate the shortfall of purchased securities after Mark-to-Market Operation is set shown in Appendix N.5

For Bank Repo transactions initiated in manual mode, no automatic top-up or return of securities will be performed by the CMU. Buyer and Sellers have to rectify the surplus/shortfall themselves manually.

5.12.1.1 **Automatic Mode**

During the Mark-to-Market Operation run on each Business Day, after calculation of the DMV of the Purchased Securities in respect of any Bank Repo transaction(s) initiated in Auto Mode,

(a) If the DMV of the purchased securities in respect of the Bank Repo transaction(s) is within the mark-to-market threshold range, no top-up or return of securities will be performed by the CMU system.

(b) the MA will attempt to select available Eligible Securities held in the Buyer's or Seller's account to eliminate any surplus or shortfall of securities.

(c) A free of payment transaction will be generated automatically to deliver such Eligible Securities from the Buyer's 778 account to the Seller's 777 account, or to deliver such Eligible Securities from the Seller's 777 account to the Buyer's 778 account (as the case may be).

(d) If available Eligible Securities in the Seller's 777 account are not sufficient to cover a shortfall, the portion of the shortfall which is not covered is deemed to constitute a fail. The Buyer shall agree with the Seller to take remedial action to eliminate such shortfall manually.

(e) the MA shall notify the Buyer and the Seller through "alert notification" message and Collateral Movement Report (CMUD15A1) after the completion of the Mark-to-Market Operation run.

5.12.1.2 **Manual Mode**

For Bank Repo Transaction initiated in Manual Mode,

(a) the MA will provide the Buyer and the Seller with the latest available market value of the Purchase Securities (only regarding Eligible Securities) through Collateral Movement Report (CMUD15A1) after completion of the Mark-to-Market Operation run.

(b) No automatic top-up or return of securities will be performed by the CMU system. It will be the responsibility of the Buyer or the Seller to perform collateral management action to correct the surplus or shortfall if any.

5.12.2 Failure to Correct Shortfall

If the auto top-up process is failed during the Mark-to-Market Operation run, CMU will make available to Buyer and Seller the Collateral Movement Reports CMUD15A1, showing for each Bank Repo transaction initiated in Auto Mode any shortfall after completion of the Mark-to-Market Operation run.

In addition, CMU will also notify the Buyer and/or Seller through "alert notification" message via CMT, as soon as practicable, of the shortfall. The Seller has to transfer additional Eligible Securities to its 777 account on the same day to rectify the shortfall.

After sufficient Eligible Securities have been transferred to its 777 account, the Seller has to perform collateral management transaction such as top-up or substitution of securities via CMT function to eliminate the shortfall manually. The shortfall has to be rectified before 6:30 p.m. on the current day, otherwise, that portion of shortfall will constitute a fail.

5.12.3 Substitution

5.12.3.1 **Initiated by the Seller**

At any time during the day, Seller can initiate a substitution request via CMT or subject to Part I – clause *5.2* of this Manual, by sending authenticated facsimile or by hand using Appendix N.7 or N.8 if it wishes to get back the securities for other purposes. The arrangements are as follows:

(a) For Bank Repo transaction initiated in Auto Mode, the Seller is required to input the issue number and quantity of purchased securities to be transferred out, and the CMU system will select Eligible Securities automatically from its 777 account as Substituted Securities. No matching instruction is required to be input by the Buyer.

(b) For Bank Repo transaction initiated in Manual Mode, both Buyer and Seller are required to input substitution instructions for further matching in the CMU system. Both the Purchased Securities to be transferred out; and the securities to be transferred in are required to be input by members.

For Purchased Securities with corporate events due to be taken place in the coming 3 Business Days or, if there is a record date for such corporate event, on or before such record date, Seller should substitute the securities concerned with other Eligible Securities manually according to the procedures as stipulated in (a) and (b) above.

5.12.3.2 **During the Mark-to-Market Operation**

For transactions initiated in Auto Mode,

(a) If the Purchased Securities are no longer Eligible Securities for any reason (e.g. Purchased Securities having a maturity date or early redemption date falling in the coming 3 Business Days (MD-3 where MD denotes the maturity date)), they will be substituted with other Eligible Securities by the CMU system automatically.

(b) CMU system will check that the Substituted Securities to be exchanged shall have a DMV equals to or greater than the DMV of the purchased securities to be withdrawn.

(c) Substitution process will fail if the sum of (i) the DMV of the Purchased Securities or Equivalent Purchased Securities that have not been substituted; and (ii) the DMV of the Substituted Securities, falls below the repurchased price

(d) If no available Eligible Securities can be selected, CMU will notify the Buyer and Seller through alert notification messages via CMT after completion of the Mark-to-Market Operation run for them to take remedial action. The substitution process will continue on MD-2 until sufficient Substituted Securities can be allocated. If there is still no Substituted Securities can be allocated to substitute the to-be-matured securities until MD-1, the Bank Repo transaction will be converted to a permanent trade.

For transactions initiated in Manual Mode

(a) If the purchase securities are no longer eligible, CMU will notify the Buyer and Seller through alert notification message via CMT. The Buyer, with the agreement of the Seller, has to take remedial action manually.

(b) If the Seller intends to substitute Purchased Securities with other securities, the Seller has to agree with the Buyer on the specific securities and quantities to be used for substitution and input the instructions into the CMU system. Both Buyer and Seller are required to input the substitute instruction for matching.

5.13 Collateral Management

Seller and/or Buyer, as the case may be, can also initiate via CMT or subject to Part I – clause *5.2* of this Manual, by sending authenticated

facsimile or by hand using "Bank Repo Collateral Management Form" (Appendix N.7 – N.8) according to the input deadline as set out in Part III - clause *5.4* above:

(a) Top-up;
(b) Return;
(c) Substitution

5.14 Income, Redemption and other Corporate Events

5.14.1 Entitlement

In a Bank Repo Transaction, the Seller remains the economic beneficiary of the Purchased Securities allocated as collateral to secure the transaction. It is the Seller, therefore, who is entitled to all income proceeds accruing on the Purchased Securities. It is also the Seller's responsibilities to instruct on corporate action events and provide the MA with relevant tax documentation if applicable.

5.14.2 EFBNs or GBs or certain CMU Instruments

If an income payment day in respect of EFBNs, GB or CMU Instruments having subscribed to the CMU income distribution service (collectively known as securities with income payment settled via the MA) falls on a day whilst such securities with income payment settled via the MA are the subject of a Bank Repo transaction, the CMU will arrange for such income payment to be made to the Seller. By such doing, the MA is deemed to have received authorization to debit the income from the Buyer's account and to credit the equivalent of the income to the Seller's account.

For procedural arrangements of income payment with respect to EFBNs, GB, and CMU Instruments having subscribed to the Income Distribution service, please refer to Part II - clause *5.4* of this Manual.

5.14.3 Securities with Income Payment not settled via the MA

With respect to Eligible Securities and other securities with income payment not settled via the MA, the income payments are handled by their respective paying agents. The CMU will provide the relevant "Issue Position Report" CMUD5403 to the paying agents showing the "adjusted position under repo" in the report.

It shall be the responsibility of the relevant paying agent for an Eligible Security or other security to obtain relevant FATCA documentation from CMU Participants to the extent contemplated under FATCA with respect to income payments not settled via the MA on such Eligible Security or other security.

5.15 Reporting

The CMU system provides the following reports to support Bank Repo service. Reports are available after completion of the Mark-to-Market Operation run as well as Value Day cut-off of the CMU system:

(a) CMUD15A1 Collateral Movement Report of Mark-to-Market Run
(b) CMUD15B1 Collateral Movement Report of Second Mark-to-Market Run (if applicable)
(c) CMUD15C1 Day-end Collateral Movement Reports
(d) CMUD1701 Outstanding Transaction Report
(e) CMUD1801 Completed Transaction Report
(f) CMUD3101 Transaction Audit Trail Report
(g) CMUV2508 Collateral Movement Summary Report (available in real-Time

5.16 Daily Operational Timetable

Time (Mon – Fri)	**Events**
8:30 a.m.	Start of CMU daily operation
10:00 a.m.	Mark-to-Market Operation run • Automatic top-up/return of purchased securities for surplus/shortfall; • Automatic substitution; • CMUD15A1 available for review
2:30 p.m.	• Cut-off time for manual repurchase of a Bank Repo transaction • Automatic repurchase of a Bank Repo transaction by the CMU
4:00 p.m.	• Convert a Bank Repo transaction that cannot be repurchased due to insufficient fund to a permanent trade. • Cut-off time for sending Bank Repo purchase

Time (Mon – Fri)	**Events**
	request/cancellation and collateral management transaction by facsimile.
6:00 p.m.	• Cut-off time for sending Bank Repo purchase request/cancellation via CMT. • Cancellation of unmatched or unsettled Bank Repo transactions by the CMU.
6:30 p.m.	• Cut-off time for sending collateral management transaction via CMT.

5.17 Fees

Both the Buyer and the Seller will be charged for a successfully created Bank Repo transaction on the Bank Repo purchase date according to a fee scale as specified by the MA from time to time.

Unless agreed otherwise, custodian fee is to be charged to the seller. However, the repurchase of a Bank Repo transaction will not be charged.

5.18 Withdrawal from the Service

A CMU Participant who has registered to use the Bank Repo Service can withdraw from the service by giving a 30-day notice in writing to the CMU. The CMU Participant shall make sure that there are no outstanding Bank Repo transactions as of the withdrawal date. If there are outstanding Bank Repo transactions beyond the intended withdrawal date, the CMU Participant will need to agree with its counterparty to early repurchase the transaction or to withdraw from the Bank Repo service until all outstanding transactions are repurchased.

The Bank Repo Sale Account (777) and Bank Repo Purchase Account (778) of the CMU Participant will be closed on the withdrawal date.

5.19 Cross-Border Collateral Management Service with Global Tripartite Repo Systems (GTRS)

5.19.1 Euroclear's Collateral Management Service

To enhance financial stability by facilitating cross-border collateralised borrowing and lending, the CMU has linked up with various GTRS in the world. CMU links up with Euroclear's collateral management system to provide tripartite repo service to CMU Participants. The MA acts on behalf of the CMU Participants to access Euroclear's tri-partite repo system in processing repo transactions entered between CMU Participants and foreign financial institutions (participants of Euroclear Bank).

CMU Participants who wish to use this service are required to execute the following documents:

(a) "Agreement on Cross-Border Collateral Management Service - Euroclear Bank"; and
(b) "Master Repurchase Agreement" such as GMRA

Please refer to the "Cross-Border Collateral Management Service - Euroclear Bank Operating Procedures" which is an integral part of the "Agreement on Cross-Border Collateral Management Service - Euroclear Bank" for detailed arrangements.

5.19.2 J.P. Morgan's Collateral Management Service

In addition to the above linkage, CMU has also linked up with J.P. Morgan's collateral management system so that CMU Participants are able to perform repo transactions with more market participants especially with offshore entities. Same as the linkage with Euroclear, the MA acts on behalf of CMU Participants to access J.P. Morgan's collateral management system in processing repo transactions entered between CMU Participants and other financial institutions (participants of J.P. Morgan's collateral management system).

CMU Participants who wish to use this service are required to execute the following documents:

(a) "Agreement on Cross-Border Collateral Management Service - J.P. Morgan Chase Bank"; and
(b) "Master Repurchase Agreement" such as GMRA

Please refer to the "Cross-Border Collateral Management Service - J.P. Morgan Operating Procedures" which is an integral part of the "Agreement on Cross-Border Collateral Management Service - J.P. Morgan" for detailed arrangements.

5.19.3 Clearstream's Collateral Management Service

In addition to the above linkages, CMU has also linked up with Clearstream's collateral management system so that CMU Participants are able to perform repo transactions with more market participants especially with offshore entities. Same as the linkages with Euroclear and J.P Morgan, the MA acts on behalf of CMU Participants to access Clearstream's collateral management system in processing repo transactions entered between CMU Participants and other financial institutions (participants of Clearstream's collateral management system).

CMU Participants who wish to use this service are required to execute the following documents:

(a) "Agreement on Cross-Border Collateral Management Service – Clearstream Banking"; and
(b) "Master Repurchase Agreement" such as Global Master Repurchase Agreement (GMRA)

Please refer to the "Cross-Border Collateral Management Service – Clearstream Banking Operating Procedures" which is an integral part of the "Agreement on Cross-Border Collateral Management Service – Clearstream Banking" for detailed arrangements.

5.19.4 FATCA Considerations to Tripartite Repo Service

CMU Participants acknowledge and agree that a repo transaction that uses a tripartite repo service described in this Part III - clause *5.19* may be subject to application of the FATCA rules, including but not limited to FATCA withholding by CMU or other parties. In particular, CMU Participants acknowledge and agree that the repurchase price on a repo transaction that use a tripartite repo service may be reduced by any applicable FATCA withholding tax.

Part IV
Linkage Services with ICSDS/CSDS

1 EUROCLEAR

1.1 Euroclear Linkage Service – General

As a part of the CMU's continuing efforts to establish a network of bilateral securities linkages, the MA has become a participant in the Euroclear System (Euroclear), one of the largest global securities depositories offering cross-border securities clearing, settlement and custody services.

1.1.1 The Service

As part of the CMU Service, the MA offers all CMU Members access to Euroclear by virtue of the MA's participation in Euroclear. The CMU will effect and receive transfers of securities held in Euroclear, and make and receive payments in respect thereof, on behalf of CMU Members.

The MA reserves the right to terminate, vary the operational timetable of, or suspend partially or wholly the CMU Service (including the linkage to Euroclear) upon giving a reasonable period of notice to the CMU Member.

Terms used in this Manual will, unless the context requires otherwise, be given the same interpretation as in the CMU Membership Agreement. Copies of the Terms and Conditions Governing the Use of Euroclear and Operating Procedures of the Euroclear System may be obtained from the CMU upon request.

1.1.2 Representation and Acknowledgement

In consideration of the MA providing this linkage to Euroclear within the CMU Service, any CMU Member who uses the linkage agrees, represents and acknowledges (such agreement, representation and acknowledgement to be evidenced by the CMU Member's use of the linkage) that:-

(j) the linkage to Euroclear and all operations, transactions and other activities conducted through it shall be subject to the CMU Rules as applicable (including without limitation Clause 8 of the CMU Membership Agreement, i.e. undertaking of the CMU Member) as the linkage is an integral part of the CMU Service offered by the MA;

(k) in carrying out the CMU Members' instructions with regard to any transactions which are to be cleared and settled through the linkage to Euroclear or to any securities which are held in Euroclear, the MA must, and is authorised by the CMU Member to, comply with all applicable rules and regulations of Euroclear (including without limitation the "Terms and Conditions Governing the Use of Euroclear" and the "Operating Procedures of the Euroclear System") and shall incur no liability to the CMU Member for so doing;

(l) the MA, on behalf of the CMU Member, is entitled to do all such acts and things and execute all such documents as the MA may, in his discretion, consider necessary or desirable to enable the MA to fully observe and perform his duties and obligations under the rules and regulations of Euroclear; and to enter into any arrangement which the MA considers proper for the purpose of facilitating clearance of transactions effected on behalf of the CMU Member through Euroclear;

(m) all securities held in Euroclear are subject to the rules and regulations of Euroclear, each CMU Member is responsible for informing itself of the characteristics of the securities it acquires and holds through the linkage to Euroclear and neither the MA nor the operator of Euroclear shall have any liability for any securities that are fraudulent, forged, invalid, or not freely transferable nor in respect of the creditworthiness of any issuer of any securities nor for any event of force majeure or failure of any other participants in Euroclear to comply with the rules and regulations of Euroclear;

(n) the maintenance and operation of any of the Euroclear designated sub-account and all cash or funds deposited into, held in or withdrawn from, or any amount credited into or debited from, any such account are subject to the rules and regulations governing the Euroclear System; each CMU Member deposits, withdraws, credits, or debits at its own risk any cash, fund, or amount into or out of any of the Euroclear designated sub-account or any of the associated accounts (as defined hereinbelow); neither the MA nor the operator of the Euroclear System shall have any liability for any risk (including credit risk, insolvency risk, counterparty risk or any other risk in connection with Euroclear Bank or any of its cash correspondent banks or any cash correspondent bank of any CMU Member or any other person) arising from any cash or fund deposited into, held in or withdrawn from, or any amount credited into or debited from, any of the Euroclear designated sub-account or any of the associated accounts (as defined hereinbelow); and each CMU Member acknowledges that any deposit, withdrawal or transfer of cash, fund

or amount into or out of any of the Euroclear designated sub-account may involve routing of funds through the following accounts (collectively the "associated accounts"):

- any account of the CMU Member maintained with any of its own cash correspondent banks; and/or

- any account of Euroclear Bank maintained with any of its cash correspondent banks;

(o) the MA shall not provide any overdraft or funding facility in any currency for any CMU Member in relation to any of the Euroclear designated sub-account for funding any settlement of any transaction made or executed via the Euroclear Linkage Service;

(p) each CMU Member is fully responsible for meeting its own funding needs and providing complete and sufficient funds for settlement of any transactions made or executed via the Euroclear Linkage Service;

(q) any cash, fund or amount standing to the credit of any of the Euroclear designated sub-account and/or any of the associated accounts are subject to the credit risk and any other risk of Euroclear Bank and of the relevant CMU Member's or Euroclear Bank's cash correspondent banks;

(r) neither Euroclear Bank nor any of its cash correspondent banks holds the cash, fund or amount in, or to the credit of, any of the Euroclear designated sub-account as trustee, nominee or agent for the MA or any other person (including any CMU Member or any of its Clients). Any cash, fund and amount in, or to the credit of, any of the Euroclear designated sub-account or any of the associated accounts so far as they relate to Euroclear Bank's cash correspondent banks are the assets of Euroclear Bank or its cash-correspondent banks, as the case may be. Euroclear Bank is entitled to deal with any cash, fund or amount deposited into, held in or credited into any of the Euroclear designated sub-account at its discretion as if Euroclear Bank were the legal, equitable and beneficial owner of such cash, fund and amount and any claim against Euroclear Bank in respect of any cash, fund or amount in any of the Euroclear designated sub-account only lies as a contractual claim by the MA;

(s) the MA and his servants and agents shall not be liable for any liability, claim, suit, loss, damage, cost or expense of any kind or nature caused directly or indirectly by the operation of any of the Euroclear designated sub-account or any of the associated accounts or any

inadequacy thereof or any deficiency or defect therein or any delay in the deposit, withdrawal or transfer of any cash, fund or amount into or out of such account, whether such inadequacy, deficiency or defect is caused by the MA, Euroclear Bank or any of Euroclear Bank's or any CMU Member's cash correspondent banks;

(t) where a CMU Member suffers any loss or damage or incurs any expense of any kind or nature as a result of the negligence, wilful default, fraud, insolvency or winding-up of Euroclear Bank or of any of its cash correspondent banks, provided that the MA shall have received compensation or damages recovered from Euroclear Bank for such loss, damage or expense, the MA shall, after deducting therefrom in payment of sums sufficient to meet his own loss, damage or expense arising from the negligence, wilful default, fraud, insolvency or winding-up of Euroclear Bank or of any of its cash correspondent banks, pay the balance of the compensation or damages so received from Euroclear Bank to the CMU Member;

(u) each CMU Member agrees that it shall indemnify the MA and his servants and agents for and against any losses, damages, costs, expenses, claims, suits and/or liabilities whatsoever arising directly or indirectly from or as a result of:

(i) the actions and/or omissions, in connection with any of the Euroclear designated sub-account or any of the associated accounts, of the CMU Member, the CMU Member's servants or agents (whether or not authorized by the CMU Member) or any of the CMU Member's cash correspondent banks; and/or

(ii) the actions and/or omissions, in connection with any of the Euroclear designated sub-account or any of the associated accounts, of Euroclear Bank, Euroclear's servants or agents (whether or not authorized by Euroclear Bank) or any of Euroclear Bank's cash correspondent banks; and/or

(iii) any failure of the CMU Member or Euroclear Bank or any of their respective cash correspondent banks to comply with any of the laws, rules or regulations applicable to any of the Euroclear designated sub-account or any of the associated accounts; and/or

(iv) the MA's maintaining, keeping, operating or otherwise dealing with any of the Euroclear designated sub-account; and/or

(v) any transfer of cash, fund or amount into or out of any of the Euroclear designated sub-account or any of the associated accounts;

and the CMU Member agrees that this indemnity shall survive any termination of the Euroclear Linkage Service;

(v) the MA gives no representation as to the creditworthiness or financial position of Euroclear Bank or any of its cash correspondent banks and in particular shall not incur any liability to the CMU Member or any other person as a result of any failure by Euroclear Bank or any of its cash correspondent banks to pay, transfer, deposit, credit or debit any cash, fund or amount into or out of any of the Euroclear designated sub-account or any of the associated accounts or as a result of any use by any such person, with or without any authorization, of any cash, fund or amount in any of such account or accounts;

(w) the CMU Member will provide such information to the MA, and the MA is authorised to make disclosure of any such information (including without limitation regarding the nationality, domicile, residence, location of business operations or other similar status of the CMU Member and the control or beneficial ownership of the securities held for, or traded for, the CMU Member in Euroclear) to Euroclear or any concerned tax authority as the MA may in his discretion consider necessary or desirable in connection with his operation of the Euroclear linkage as part of the CMU Service, whether for the purpose of obtaining relief from withholding tax or otherwise;

(x) if any taxes, duties, interest or other levies or penalties are imposed on the MA in connection with the holding or trading of securities or the holding or transfer of money in Euroclear on behalf of the CMU Member, the CMU Member will indemnify and hold the MA harmless in respect of such taxes, duties, interest, levy or penalty as the case may be save to the extent the same arise as a result of the wilful default or gross negligence of the MA;

(y) the CMU Member shall comply with all laws, decrees, regulations or orders of governmental bodies applicable to its use of the linkage to Euroclear and its holding or trading of securities through Euroclear and with any contract or agreement binding upon it and shall be responsible for ensuring compliance with all applicable legal, tax or regulatory requirements for disclosure or reporting as to the holding, control or beneficial ownership of or in respect of any securities it holds or trades through the linkage to Euroclear; and

(z) (for the avoidance of doubt) the MA shall, with the limited exceptions stated in the CMU Membership Agreement, be exempt from any liabilities caused directly or indirectly by the operation of the CMU Service including, without limitation, the linkage to Euroclear.

1.1.3 Definitions

In Part IV - clause *1.1* to *1.4*, unless the context otherwise requires, the following expression shall have the following meanings:

"business day"	means a day when the Euroclear system is open for business.
"Value Day"	means the date used in calculating interest or fees in respect of debit or credit balances in a designated sub-account. The Value Date may be, but is not necessarily, the same as the date of the credit or debit entry.

1.1.4 Account Structure

To facilitate the Euroclear linkage service, the MA has opened an account with Euroclear Bank. For each CMU Member who uses the Euroclear linkage service, the MA opens a designated sub-account in the Euroclear system in the name of the Hong Kong Monetary Authority for the CMU Member. All securities and money settlement arising from Euroclear transactions of the CMU Member are settled through the designated sub-account.

This account structure allows the MA to carry out the operations efficiently. Each CMU Member will be given a specific Euroclear account number to settle its transactions through the designated sub-account.

1.1.5 Account Opening Procedure

A CMU Member who wishes to use the Euroclear linkage service can submit an Opening of Euroclear/Clearstream Sub-accounts Form as specified in Appendix P.1 to the MA.

Upon receiving the request, the MA will arrange to open a designated sub-account in the Euroclear system for the CMU Member.

The CMU Member will be informed of the Euroclear Account Number of its designated sub-account when the account is ready for settlement.

1.1.6 Processing Windows

To support processing of Euroclear transactions in the CMU system, the following processing windows have been included in the CMU system:

(a) Euroclear Start-of-day Processing Run
(b) Euroclear Processing Window
(c) Euroclear End-of-day Processing Run

The following sections will describe the details of the above processing windows.

1.1.6.1 Euroclear Start-of-day Processing Run

The Euroclear Start-of-day Processing Run starts at around 9:00 a.m..

The CMU system starts the Euroclear start-of-day processing run after the Euroclear system completes its overnight securities settlement processing. During the Euroclear Start-of-day Processing Run, the CMU system performs the following tasks:

(a) requests reports from the Euroclear system and automatically update transaction status into the CMU system.

(b) performs reconciliation between records in the CMU system and the Euroclear system.

(c) generates daily reports to CMU Members via CMT after reconciliation.

The CMU system performs the Euroclear start-of-day processing run on every business day that Euroclear Bank opens for business, regardless the days are Hong Kong holidays or typhoon days.

1.1.6.2 Euroclear Processing Windows

(A) Operating Hours

The Euroclear Processing Window opens at around 9:30 a.m. Hong Kong time after completion of the Euroclear Start-of-day Processing Run.

The Euroclear Processing Window closes at 6:00 p.m. or at any other time specified by the MA.

The Euroclear Window does not open on any days on which both the Euroclear system and the CMU system do not open.

(B) Instructions Processing

When the CMU system opens at 8:30 a.m. Hong Kong time, but before the Euroclear Processing Window opens, CMU Members can input their securities transfer and money instructions via their CMTs. These instructions will be sent to the Euroclear but no transaction status update will be performed until the Euroclear Processing Window opens.

After the Euroclear Processing Window opens, the CMU system accepts and processes securities transfer instructions and money instructions from CMU Members.

Instructions that are not yet settled in Euroclear can also be cancelled via CMT or SWIFT.

If the securities transfer and money instructions, including cancellation of unsettled instructions are received by the CMU system via CMT or SWIFT after the Euroclear Processing Window closes, the CMU system may process the instructions immediately except for the period that the CMU system undergoes housekeeping or maintenance processes. However, the status of the instructions, which received after the Euroclear Processing Window closes, will only be updated into the CMU system during the Euroclear Start-of-day Processing Run or during the period when the Euroclear Processing Window opens.

1.1.7 Euroclear End-of-day Processing Run

After the Euroclear Processing Window closes, the CMU system starts the Euroclear End-of-day Processing Run. During the Euroclear End-of-day Processing Run, the CMU system performs the following tasks:

(a) requests reports from the Euroclear system and automatically update transaction status into the CMU system; and

(b) generates daily reports to CMU Members.

1.1.8 Reporting

The CMU system provides a wide range of reports to support the Euroclear linkage service. Please refer to Appendix C of the CMT User Manual – Report Guide for the details.

1.2 Euroclear Linkage Service – Securities Clearance And Transfer

1.2.1 Settlement of Euroclear Eligible Securities

The settlement of Euroclear Eligible Securities can take place in four different ways according to types of counterparties and places of settlement:

(a) CMU settlement
(b) Internal settlement
(c) Bridge settlement
(d) External settlement

1.2.1.1 **CMU Settlement**

CMU settlement refers to settlement of Euroclear Eligible Securities transactions between two CMU Members who safekeep the securities in the CMU system. These transactions are settled in the CMU system in real-time delivery against payment or real-time free of payment basis.

1.2.1.2 **Internal Settlement**

Internal settlement refers to settlement of securities transactions between a CMU Member and an Euroclear participant. These transactions are settled in the Euroclear system in delivery against payment or free of payment basis. They can be settled through the Euroclear overnight securities settlement processing or the Euroclear real-time processing.

1.2.1.3 **Bridge Settlement**

Bridge settlement refers to settlement of securities transactions between a CMU Member and a Clearstream participant. These transactions are settled in the Euroclear system in delivery against payment or free of payment basis. They can be settled through the Euroclear overnight securities settlement processing or the Euroclear real-time processing.

1.2.1.4 **External Settlement**

External settlement refers to settlement of securities transactions between a CMU Member and a participant of a local clearing system which has established a link with the Euroclear system. These transactions are settled in the local clearing system in delivery against payment or free of payment basis. They can be settled through the Euroclear overnight securities settlement processing or the Euroclear real-time processing.

1.2.2 Forward Value Transactions

The CMU system supports input of forward value instructions for transactions described in Part IV - clause *1.2.1* above. CMU Members can input securities transfer and money instructions with forward date up to 30 calendar days from the input date.

1.2.3 Eligible Securities

All international debt securities denominated in eligible settlement currencies as mentioned in Part IV - clause *1.3.3* and US domestic debt securities acceptable to the Euroclear system are eligible for settlement in the CMU system.

The MA reserves the right to revise the Eligible Securities in the CMU system without advance notice to CMU Members.

1.2.4 Acceptance of Euroclear Eligible Securities in CMU System

Before an issue of Euroclear Eligible Securities can be settled through the CMU system, a CMU Issue Number must be assigned to the Euroclear eligible securities. CMU Members can make an enquiry via their CMTs to enquire the CMU Issue Number and the securities details of the issue. If the issue has not yet been accepted by the CMU system, CMU Members can request the CMU to assign a CMU Issue Number for the issue by sending the Acceptance of Eligible Securities in CMU System Form (Appendix P.2) to the CMU.

1.2.5 Transactions between Two CMU Members

1.2.5.1 **Criteria**

Transactions of Euroclear Eligible Securities between two CMU Members can only be performed under the following conditions:

(a) Executed when both CMU Members have been the users of the Euroclear Linkage Service; and

(b) Settled across the book of the MA in CMU real-time window between Euroclear Processing Window Open (9:30 a.m. Hong Kong time) and cut-off time for Euroclear Processing Window Close (6:00 p.m. Hong Kong time).

1.2.5.2 **Settlement Means**

The transactions are settled in real-time delivery against payment or real-time free of payment basis. For delivery against payment transactions, money settlement is effected through the RTGS systems in Hong Kong. For CMU Members who are not direct participants of the respective RTGS systems, they can appoint a settlement bank to handle the money settlement arising from CMU transactions.

1.2.5.3 **Settlement Process**

The arrangements are as follows:

(a) Settlement instructions of Euroclear Eligible Securities transactions between two CMU Members are sent to the CMU system before the specified input cut-off time as stipulated in Part II - clause *4.1.3*.

(b) All transfer instructions will undergo a real-time matching process.

(c) CMUP will try to match a new record with all available unmatched records in the system.

(d) Please refer to Part II - clause *4.1.6* of this Manual for details of matching data field during the prematching process.

(e) If no match is found, the record will be added to the list of unmatched instructions.

(f) Matched DvP transaction will be effected upon payment from the buyer through the settlement bank.

(g) If the seller of the transaction has insufficient securities for settlement, the transaction will be rejected immediately and will not be settled at the CMU optimiser run of the CMU system at 4:00 p.m.

(h) If the buyer or its settlement bank has insufficient funds for settlement, the payment will be queued in the respective RTGS systems until cut-off time for CMU transactions (6:00 p.m.).

(i) Unsettled and unmatched transaction will be cancelled at cut-off time for CMU transactions.

1.2.6 House Transfer between Two Accounts of a CMU Member

House transfer of Euroclear Eligible Securities between two accounts of a CMU Member can only be executed:

(a) in CMU real-time window between Euroclear Processing Window Open (9:30 a.m. Hong Kong time) and Euroclear Processing Window Close (6:00 p.m. Hong Kong time); and

(b) when both accounts have been registered as the users of the Euroclear Linkage Service and those Euroclear Eligible Securities are safekept in the CMU system.

If there is insufficient securities at time of approval, system will reject the transaction immediately.

1.2.7 House Transfer between Main Account and Intraday Repo/Bank Repo Account

House transfer of Euroclear Eligible Securities between the Main Account and the Intraday Repo/Bank Repo Account of a CMU Member can only be executed in CMU real-time window between Euroclear Processing Window Open (9:30 a.m. Hong Kong time) and Euroclear Processing Window Close (6:00 p.m. Hong Kong time).

If there is insufficient securities at time of approval, system will reject the transaction immediately.

To ensure that the income or redemption proceeds can be credited to the CMU Members' designated sub-accounts in the Euroclear system without delay, CMU Members are advised to transfer their Euroclear Eligible Securities, if any, from the Intraday Repo Accounts to the Main Accounts before the Repo cut-off date, which is two business days before the record date of the next income payment of the Euroclear Eligible Securities.

If there are any Euroclear Eligible Securities in the Intraday Repo Accounts of CMU Members after the event of Automatic Repurchase of DW/Overnight Repo at 2:30 p.m. on the Repo cut-off date, the CMU system will automatically transfer the securities from the Intraday Repo Accounts to the Main Accounts on behalf of CMU Members.

1.2.8 Transactions with a non-CMU Member

1.2.8.1 Settlement Arrangements

Transactions of Euroclear Eligible Securities with a non-CMU Member are settled either in the Euroclear System or the local clearing systems which have established a link with the Euroclear system.

These transactions can be settled either through the Euroclear overnight securities settlement processing or the Euroclear real-time processing in delivery against payment or free of payment basis. The processing windows are as follows:

	Brussels time	***Hong Kong time***
(a) Euroclear overnight securities settlement processing - One day before settlement day:	around 10:00 – 11:00 p.m.	around 4:00 – 5:00 a.m. the next day
(b) Euroclear real-time processing	opens at around 1:30 a.m. and closes at around 7:00 p.m.	opens at around 7:30 a.m. and closes at around 1:00 a.m. the next day

Both securities and money settlement are effected through the designated Euroclear sub-accounts which have been assigned to CMU Members.

(a) For purchase transactions, CMU Members are required to deposit sufficient funds to their designated Euroclear sub-accounts before settlement takes place.

(b) Similarly, for sales transactions, settlement of the transactions shall only take place if there are sufficient securities in their designated Euroclear sub-accounts for delivery.

1.2.9 Input Deadlines

All securities transfer instructions must be received by CMU before the input deadlines. The MA reserves the right, if and whenever the MA in his absolute discretion considers it appropriate to do so, to vary the input deadlines either in an individual type of transfer instruction or on an ongoing basis.

The deadlines which apply to transfer instructions sent via CMT or SWIFT are detailed in Part IV - clauses *1.2.9.1* and *1.2.9.2* below. Subject to Part I - clause *5.2* of this Manual, a CMU Member can submit transfer instructions by authenticated facsimile or by hand only if both of its CMT and SWIFT terminal are inoperable. The deadlines for transfer instructions sent via authenticated facsimile or by hand are one hour before the deadlines specified in this clause. In case the deadlines are 9:00 or 10:00 a.m. for the current date, the deadlines for receiving facsimile instruction will be 6:00 p.m. on Day S-1.

Except for CMU settlement instructions, any transfer instructions, which are received by CMU after the input deadlines, will still be forwarded to Euroclear Bank for processing on a best effort basis. If these transfer instructions cannot be processed on the intended settlement date, Euroclear shall process these transfer instructions in the next settlement day or reject the transfer instructions, as the case may be. CMU Members are responsible for monitoring the settlement status of their transfer instructions.

1.2.9.1 **Instructions for Euroclear International Securities**

The following table shows the input deadlines for securities transfer instructions for Euroclear international securities:

	Real-time Processing	Overnight Securities Settlement Processing
CMU Settlement	6:00 p.m., Day S	N.A.
Internal Settlement	6:00 p.m., Day S	6:00 p.m., Day S-1
Bridge Settlement	6:00 p.m., Day S	6:00 p.m., Day S-1

Notes: Day S denotes the settlement day.
Day S-1 denotes one business day before the settlement day.

1.2.9.2 Instructions for CMU Supported Domestic Markets

The following table shows the input deadline for CMU supported domestic markets for securities transfer instructions:

Domestic Markets	**Eligible Securities**	**Input Deadline (Hong Kong time)**	**Local Clearing System (SWIFT BIC)**
Australia	(a) Commonwealth government debt securities • Treasury Bills • Govt Bonds (b) Semi-government bonds (c) Corporate bonds (d) Australian dollar global bond	10:00 a.m. Day S	Austraclear (ACLRAU2S)
France	(a) Government debt securities • Short & medium term BTAN, BRF • Bonds, OAT (b) Corporate debt securities • Short & medium term BT, BMTN, CD • Bonds • International debt securities like ECP, ECD, EMTN, Bonds, Eurobonds	6:00 p.m. Day S	Euroclear France S.A. (SICVFRPP)

Domestic Markets	Eligible Securities	Input Deadline (Hong Kong time)	Local Clearing System (SWIFT BIC)
Germany	(a) Government debt securities • Short & medium term notes • Federal government bonds (including stripped issues) (b) Corporate debt securities • Commercial paper • Corporate bonds • Mortgage bonds (c) DEM/EUR global bonds	2:00 p.m. Day S	Clearstream Banking AG Frankfurt (DAKVDEFF)
Malaysia	(a) Government and central bank bonds (b) Cagamas debt securities (c) Central bank bills and Cagamas notes (d) Corporate bonds	6:00 p.m. Day S - 1	BNM MyClear (SSTS) (BNMAMYKL)
Netherlands	(a) Government debt securities • Treasury bills • Medium term notes • Bonds (including stripped issues) (b) Corporate debt securities • Short & medium term CD & CP • Bonds	6:00p.m. Day S	Euroclear Netherlands (NECINL2A)
New Zealand	(a) Government debt securities • Treasury bills • Government bonds (b) Corporate bonds	6:00p.m. Day S-1	Austraclear New Zealand System (NZCSNZ21)

Domestic Markets	**Eligible Securities**	**Input Deadline (Hong Kong time)**	**Local Clearing System (SWIFT BIC)**
Singapore	(a) Debt securities mobilised in the CDP	6:00p.m. Day S-1	Central Depository (Pte) Ltd (CDP) (CDPLSGSG)
Switzerland	(a) Government debt securities	2:00p.m. Day S	SegaIntersettle AG (SIS) (INSECHZZ)
Thailand	(a) Government bonds (b) State enterprise bonds (c) Corporate debt • Corporate bonds • Short & medium term Bill of Exchange & CD	6:00p.m. Day S-1	The Thailand Securities Depository Co.,Ltd (TSD) (TSDCTHBK)
United Kingdom	(a) Government debt securities • Treasury bills • Local authority bills • Bonds ('Gilts') • Stripped Gilts (b) Corporate debt securities • Bills of exchange • CD • Commercial paper (c) Money market securities • London certificates of deposit • euro CD and commercial paper (d) Foreign debt securities • Bulldog bonds issued by supranational organisations	6:00p.m. Day S	CREST (CRSTGB22) Central Moneymarkets Office (CMO)
United States	(a) Government debt securities	6:00p.m. Day S	Federal Reserve Bank of New York

Domestic Markets	Eligible Securities	Input Deadline (Hong Kong time)	Local Clearing System (SWIFT BIC)
	• Treasury bills • Treasury notes • Treasury bonds (b) Global bonds (c) Yankee bonds (d) Global depository receipts		(Fedwire) (FRNYUS33) Depository Trust & Clearing Corp (DTCC) (DTCYUS33)

Notes : Day S denotes the settlement day.
Day S-1 denotes one business day before the settlement day.
Day S-2 denotes two business days before the settlement day.

CMU Members should be aware that different domestic markets may have different market practices and rules. CMU Member is required to bear, and the MA will not be liable to, any cost in case the CMU Member suffers any loss during the course of settling securities in the domestic markets.

1.2.10 Validation

After receiving the transfer instructions, the CMU system will perform a validation process. If the validation is successful, the transfer instructions will be forwarded to the Euroclear system by SWIFT for further processing.

The transfer instructions will then be validated by the Euroclear system. If validation is unsuccessful, either in the CMU system or the Euroclear system, the transfer instruction will be rejected. CMU Members can refer to Appendix D of the CMT User Manual – User Guide for the description of the status code.

1.2.11 Matching

After validation of a transfer instruction is successful, the transfer instruction will undergo a matching process. A transfer instruction must match with a transfer instruction from its counterparty. The matching

process which will be performed outside the CMU system consists of comparing the matching fields included in a transfer instruction from a CMU Member with the matching fields in an instruction from another Euroclear participant.

1.2.11.1 **Matching Fields**

The matching fields which must be matched in the matching process include:

(a) Euroclear account number
(b) Security code
(c) Nominal amount of securities
(d) Settlement currency and amount (for delivery against payment instructions only)
(e) Settlement date
(f) Trade date (if present in both instructions)
(g) Trade price (if present in both instructions)

1.2.11.2 **Matching Process**

The transfer instructions require matching in the Euroclear system or local market. The matching process follows the matching rules determined by Euroclear Bank and the local clearing systems. They are summarized as follows:

(a) The nominal amount in the two instructions must be identical. Partial amounts will not be aggregated for the purpose of matching.

(b) Settlement amount must be identical, except that if the discrepancy of the settlement amount is not greater than US$25 or the equivalent in other settlement currencies, as determined by Euroclear Bank in its sole discretion, the instructions will be deemed to match. The settlement amount indicated by the seller will be used for execution.

(c) For external settlement instructions, if the actual settlement amount is different from the settlement amount indicated in the external instruction, Euroclear reserves the right to adjust the designated sub-account resulting from the discrepancy and the MA accepts no liability for the adjustment.

(d) Any discrepancy on optional fields other than trade date and trade price will not cause the instructions to be unmatched. However, the optional fields will be compared and reported if the values are different.

(e) Trade date and trade price must match if present in both instructions.

(f) Trade price must match up to and including the fifth digit of decimals.

1.2.12 Processing of Matched Transactions

A matched transaction would be submitted to an appropriate processing window for settlement on the settlement date. If the settlement date in the transfer instruction is not a business day, the transfer instruction would be submitted to the appropriate processing window in the next business day.

1.2.13 Cancellation

Cancellation of securities transfer instructions are allowed if the instructions have not been executed by Euroclear. Cancellation instructions must be received by the MA before the cancellation deadlines, which are two hours before the input deadlines as mentioned in Part IV - clause *1.2.9* above.

The arrangements are as follows:

(a) CMU Members who wish to cancel their securities transfer instructions are required to send cancellation requests to CMU via CMT, SWIFT or subject to Part I - clause *5.2* of this Manual, authenticated facsimile or by hand (Appendix P.11) before the cancellation deadlines.

(b) Cancelling a matched instruction will result in the unwinding of a matched transaction.

(c) The status of the linkage transaction will be changed from “Matched” to “Unmatched”.

(d) If the linkage instruction is cancelled by the CMU Member, CMU will create a counterparty instruction record for CMT user to create the linkage securities instruction when “your instruction missing” status is received from Euroclear.

(e) If the linkage instruction is cancelled by counterparty, CMU system will send “your instruction missing” record to CMT with status “Cancelled by counterparty”.

(f) Results of the cancellation process would be notified to CMU Members.

Securities transfer instructions are not allowed to modify. CMU Members who wish to do so must cancel the original instruction and re-send a new securities transfer instruction to the MA.

1.3 Euroclear Linkage Service – Money Transfer

1.3.1 Money Transfer Services

The CMU system supports the following money transactions:

(a) Deposit of funds to Euroclear designated sub-account:

- Via corresponding bank - preadvice of funds
- Book transfer from another Euroclear participant
- Via RTGS systems in Hong Kong for Hong Kong dollar, US dollar and euro (the service is temporarily deactivated until the MA announces otherwise}

(b) Transfer out of funds from Euroclear designated sub-account:

- Wire transfer to a beneficiary from Euroclear designated sub-account
- Book transfer to another Euroclear participant
- Withdrawal of Funds to Hong Kong dollar RTGS system in Hong Kong (the service is temporarily deactivated until the MA announces otherwise}

Unless otherwise specified, all money transfer services support CMU eligible settlement currencies as mentioned in Part IV - clause *1.3.3* below. The CMU system does not support foreign exchange conversions.

The MA reserves the right to suspend all or part of the money transfer services without advance notice to CMU Members.

1.3.2 Forward Value Transaction

The CMU system supports input of forward value transactions for all kinds of money instructions. CMU Members can input transactions with forward date up to 30 calendar days from the input date.

1.3.3 CMU Eligible Settlement Currencies

The CMU supports the following settlement currencies:

AUD	Australian dollar
CAD	Canadian dollar
CHF	Swiss Franc
CNY	Chinese Yuan
DKK	Danish Krone
EUR	euro
GBP	British Pound
HKD	Hong Kong dollar
IDR	Indonesian Rupiah
JPY	Japanese Yen
MYR	Malaysian Ringgit
NZD	New Zealand dollar
PHP	Philippine Peso
SGD	Singapore dollar
THB	Thai Baht
USD	US dollar

The MA reserves the right to add or delete the supported settlement currencies without advance notice to CMU Members.

1.3.4 Euroclear Cash Correspondents

Money transfers into and out of Euroclear designated sub-account are effected through the Euroclear Cash Correspondent(s) which is(are) designated for each settlement currency. Details of Euroclear Cash Correspondents, including BIC code and Euroclear account numbers with its Cash Correspondents, are shown in Appendix P.13.

1.3.5 Deposit of Funds via Correspondent Bank

A CMU Member can remit funds into its designated sub-account in the Euroclear system via its corresponding bank. CMU Member must ensure that remittances of funds in favour of its designated sub-account are made directly to the Cash Correspondent designated by Euroclear Bank for the settlement currency.

1.3.5.1 **Payment Details**

Deposits of funds are credited to the CMU Member's designated sub-account only if Euroclear Bank can identify the relevant account to be

credited. In order for the Euroclear Cash Correspondent to recognize that the money is for credit to a CMU Member's designated sub-account, the CMU Member must ensure that the credit advice sent by its corresponding bank to the Euroclear Cash Correspondent includes the following information:

"For account of Euroclear Bank, Brussels – Euroclear Operations Centre,
BIC: MGTCBEBEECL account number ##
"in favour of HKMAHKHC – CMU Member's designated sub-account number"

(## Account numbers or descriptions are indicated in Appendix P.13)

Credit advices in the above format will be deemed to be for the account of Euroclear Bank, as operator of the Euroclear system, in favour of the MA. Failure to identify properly such remittances may result in a delay on the credit to the CMU Member's designated sub-account.

1.3.5.2 **Value Day**

The timing of the credit to the designated sub-account depends on the time of receipt by Euroclear Bank of credit confirmation from its Cash Correspondent. A credit confirmation received by Euroclear Bank after the end of Euroclear real-time window will result in a credit in the Euroclear real-time window in the business day immediately succeeding the day of receipt of the credit confirmation. All funds in respect of credit confirmations received by Euroclear Bank will initially be credited with the Value Date provided by the Euroclear Cash Correspondent. However, the Value Day may be adjusted depending on whether the funds have been preadvised or not, as mentioned in Part IV - clause *1.3.6* below.

1.3.6 Preadvice of Funds

A CMU Member who intends to deposit funds to its designated account in the Euroclear system is required to send a preadvice of funds to the MA.

The arrangements are as follows:

(a) CMU Member sends a preadvice of funds to the MA. If there is more than one Euroclear Cash Correspondents for the relevant settlement currency (e.g. euro), the CMU Member must indicate in the preadvice of funds to the MA the Euroclear Cash Correspondent to which funds will be remitted.

(b) Upon receiving the CMU Member's preadvice, the MA will send a preadvice to Euroclear Bank to inform that funds will be deposited at the appropriate Euroclear Cash Correspondent, for credit to the CMU Member's designated sub-account.

(c) The acceptance of a preadvice of funds by Euroclear Bank does not mean that Euroclear Bank has received the funds from the CMU Member. It only indicates that the preadvice has been processed and accepted by Euroclear Bank.

(d) When the funds are received by Euroclear Bank and credited to the CMU Member's designated sub-account, a separate credit confirmation will be sent to the CMU Member.

(e) To the extent that funds credited to the CMU Member's designated sub-account have not been preadvised or are in excess of an amount preadvised or have been preadvised after the relevant deadline, a Value Day adjustment will be made, giving the following values:

- For AUD, CAD, CHF, DKK, EUR ,GBP, HKD, JPY, MYR, SGD, USD, next succeeding business day value
- For IDR, NZD, PHP, THB second succeeding business day value

If a CMU Member fails to preadvise funds or preadvise correctly as mentioned in (e) above, the MA reserves the right to charge the CMU Member's designated sub-account an amount calculated by Euroclear Bank:

(i) by applying, for the period between the credit of the funds and the adjusted Value Date, the debit interest rate for the settlement currency in question, or

(ii) compensate for losses associated with such failure to preadvise correctly, whichever of the calculated amounts is higher. The CMU Member is liable to pay the amount charged by the MA.

1.3.7 Deposit of Funds via Book Transfer from another Euroclear Participant

A CMU Member can receive funds from another Euroclear participant via book transfer. The book transfer is effected in Euroclear real-time window. The CMU Member is not required to send instruction to the MA

for receiving funds via book transfer. When the funds are credited to the CMU Member's designated sub-account upon completion of a book transfer, a credit confirmation will be sent to the CMU Member.

1.3.8 Deposit of Funds via RTGS systems in Hong Kong for Hong Kong dollar, US dollar and euro

A CMU Member can remit funds into its designated sub-account in the Euroclear system via RTGS systems in Hong Kong if the settlement currency is Hong Kong dollar, US dollar or euro.

The arrangements are as follows:

(a) A CMU Member who intends to deposit funds to its designated sub-account in the Euroclear system via RTGS system in Hong Kong is required to send an instruction to the MA before the input deadlines as specified in Part IV - clause *1.3.12* below.

(b) Upon receiving the CMU Member's instruction, the MA will send a preadvice of funds to Euroclear Bank.

(c) The CMU Member or its settlement bank is required to make a payment with payment code IFT31 on the value day.

(d) If the CMU Member or its settlement bank has set the CMU related payment at RTGS system to "auto-generation" mode, the IFT31 payment will be generated automatically and appended at the end of the normal payment queue at RTGS system.

(e) If the CMU Member or its settlement bank has set the CMU related payment parameter at RTGS system to "No auto-generation" mode, the IFT31 payment will not be generated. The CMU Member or its settlement bank has to manually construct the IFT31 payment via SWIFT by making use of the payment notification SWIFT MT298. The MT298 will carry all payment details required for the preparation of the IFT31 payment.

(f) Please refer to Appendix A.13 for the preferred settings of the operational parameters related to CMU.

(g) For Hong Kong dollar deposit, the payment is made to the Hong Kong dollar Cash Correspondent of Euroclear Bank for account of Euroclear Bank and in favour of the MA.

(h) For US dollar and euro deposit, the payment is made to the MA (Bank code 888).

(i) Upon receiving good funds from the CMU Member, the MA will send a book transfer instruction to Euroclear to transfer the funds into the CMU Member's designated sub-account. The book transfer is effected in real-time basis.

(j) When the funds are credited to CMU Member's designated sub-account, the funds will be available to the CMU Member for settling Euroclear transactions.

(k) In case the deposit of funds via RTGS is made on a US or euro holiday, though the US dollar or euro RTGS in Hong Kong is open for business, the funds will only be credited to member's designated Euroclear sub-account on the successive US or euro business day.

(l) The funds received by the MA via RTGS systems in Hong Kong will be remitted to the MA's main account in the Euroclear system. This remittance has been preadvised as mentioned in (a) and (b) above.

(m) If a CMU Member sends a "Deposit of Funds via RTGS Systems in Hong Kong" instruction to the MA but cannot complete its payment, for whatever reasons, with payment code IFT31 on the value date, the MA will not effect the book transfer to CMU Member's designated sub-account and the funds will not be remitted to the MA's main account. In this case, the preadvice of funds already sent to Euroclear cannot be matched with a credit of funds on the value day. The CMU Member is liable to pay the amount charged by Euroclear Bank for funds incorrectly preadvised as mentioned in Part IV - clause *1.3.6* above.

The MA reserves the right to suspend the service on Deposit of Funds via RTGS systems and set a daily limit for CMU Members to deposit funds into its designated sub-account via RTGS systems in Hong Kong without the prior notice to CMU Members.

Currently, Deposit of Funds via RTGS Systems in Hong Kong is temporarily deactivated until the MA announces otherwise.

1.3.9 Wire Transfer

A CMU Member can send a wire transfer instruction to the MA to make a payment out of the Euroclear system by debit of the CMU Member's designated sub-account with the amount in the settlement currency

specified in the instruction. The payment can be made to a specified bank for credit to a specified beneficiary and account number.

The arrangements are as follows:

(a) When the MA receives a wire transfer instruction from a CMU Member, the MA will forward the wire transfer instruction to Euroclear Bank for further processing. Euroclear executes wire transfer instructions on the date of execution as indicated below:

- For AUD, CAD, CHF, DKK, EUR, GBP, HKD, JPY, MYR, SGD, USD on the value day of the wire transfer instruction

- For IDR, NZD, PHP, THB on the business day preceding the Value Day of the wire transfer instruction

(b) If the value day indicated by the CMU Member is not a business day, Euroclear will regard the immediately succeeding business day as the Value Day of the instruction.

(c) Money is debited from the CMU Member's designated sub-account in the Euroclear real-time window on the date of execution. If the CMU Member's designated sub-account has insufficient funds at the time Euroclear executes the wire transfer instruction, the instruction will not be executed.

1.3.10 Book Transfer to another Euroclear Participant

A CMU Member can send a book transfer instruction to the MA to make a transfer of funds to another Euroclear participant. The arrangements are as follows:

(a) The book transfer is effected by the debit of the CMU Member's designated sub-account with the amount in the settlement currency specified in the instruction and the simultaneous credit of such amount to an account of another Euroclear participant.

(b) When the MA receives a book transfer instruction from a CMU Member, the MA will forward the book transfer instruction to Euroclear Bank for further processing.

(c) Euroclear executes book transfer instructions in the Euroclear real-time window on the value date indicated by the CMU Member.

(d) If the value date indicated by the CMU Member is not a business day, the instruction will be executed on the immediately succeeding business day.

1.3.11 Withdrawal of Funds to Hong Kong dollar RTGS System in Hong Kong

A CMU Member who wishes to transfer HK dollar funds from its designated sub-account in the Euroclear system to its Hong Kong dollar clearing account with the MA (CMU Member is a bank) or its Hong Kong dollar account with its settlement bank (CMU Member is a non-bank) via the Hong Kong dollar RTGS system can send a Withdrawal of Funds to Hong Kong dollar RTGS System instruction to the MA. The instruction must be received by the MA before the deadline specified in Part IV - clause *1.3.12* below.

The arrangements are as follows:

(a) Upon receiving the Withdrawal of Funds to Hong Kong dollar RTGS System instruction from the CMU Member, the MA will send a wire transfer instruction to Euroclear with a value date indicated by the CMU Member to remit the funds to the MA from the MA's main account in the Euroclear system via the Euroclear Cash Correspondent in Hong Kong.

(b) Meanwhile, the MA will send a book transfer instruction to Euroclear with a value date indicated by the CMU Member to transfer the funds from the CMU Member's designated sub-account to the MA's main account in the Euroclear system.

(c) The MA will transfer the funds to the CMU Member's Hong Kong dollar clearing account with the MA (CMU Member is a bank) or the CMU Member's Hong Kong dollar account with its settlement bank (CMU Member is a non-bank) via the Hong Kong dollar RTGS system on the value date if:

- The book transfer transaction from the CMU Member's designated sub-account to the MA's main account in the Euroclear system as specified in (b) above is settled before 2:00 p.m. Hong Kong time; and

- The MA receives the funds from the Euroclear Cash Correspondent in Hong Kong via the Hong Kong dollar RTGS system with respect to the wire transfer transaction specified (a) above before the customer cut-off of the Hong Kong dollar RTGS system (6:00 p.m.).

(d) If the book transfer transaction as specified in clauses (a) and (b) above cannot be settled on the Value Day, the CMU Member is liable to pay the finance fees charged by Euroclear Bank.

(e) If the transactions specified in (c) above cannot be settled before the specified time on the Value Day, the MA will transfer the funds to the specified bank in Hong Kong for credit to the specified beneficiary and account number as indicated by the CMU Member via the Hong Kong dollar RTGS system on the immediately succeeding business day.

Currently, the Withdrawal of Funds to HKD RTGS system is temporarily deactivated until the MA announces otherwise.

1.3.12 Input Deadlines of Money Instructions

All money instructions must be received by the CMU before the input deadlines. Please refer to Appendix P.14 for the input deadlines of the respective currency and note the following:

(a) Money transfer instructions in US dollar to be processed via US dollar RTGS system in Hong Kong will only be executed on days that are local business days in both Hong Kong and the United States, i.e. days that both markets are open (Deposit of Funds via RTGS Systems in Hong Kong is temporarily deactivated until the MA announces otherwise).

(b) Wire Transfer instruction with a value date that is a local holiday in Hong Kong or the United States will be executed on the following local business day in both Hong Kong and the United States.

(c) Preadvice of funds instructions with a value date that is a local holiday in Hong Kong or Untied States will not be accepted by Euroclear Bank.

The MA reserves the right, if and whenever the MA in his absolute discretion considers it appropriate to do so, to vary the input deadlines either in a particular case or on an ongoing basis.

Subject to Part I – clause *5.2* of this Manual, CMU Members can submit money instructions by authenticated facsimile or by hand only if both of their CMTs and SWIFT terminals are inoperable. Any money instructions which received by CMU after the input deadlines may still be forwarded to the Euroclear system for processing on a best effort basis. If these

money instructions cannot be processed on the intended value date, Euroclear shall process these transfer instructions on the next value date or reject the money instructions, as the case may be. CMU Members are responsible for monitoring the settlement status of their money instructions.

1.3.13 Validation

All money instructions received by the CMU will undergo a validation process. All invalid money instructions will be rejected and CMU will not further process the money instructions.

The processes are as follows:

(a) After receiving the money instructions, the CMU system will perform a validation process. If the validation is successful, the money instructions will be forwarded to the Euroclear system for further processing.

(b) The money instructions will then be validated by the Euroclear system. Money instructions sent to Euroclear are subject to additional manual validation. Such instructions may pass the computer validation and then be rejected after manual validation.

(c) If validation is unsuccessful in the Euroclear system because the instruction's format is incorrect or its contents are incomplete or incorrect, the money instruction may be repaired by Euroclear Bank as set out in (d) below.

(d) The MA is authorized to agree Euroclear Bank to repair an instruction:

- without any additional input from the CMU Member through the MA, when the instruction submitted by the MA cannot be validated merely because it does not conform to the prescribed formats and the incorrectly formatted item of information is available to Euroclear Bank; or

- based on such additional information provided by the CMU Member through the MA or directly by the MA, when the instructions contents are incomplete.

(e) For the purpose of (d) above, the instruction will be deemed to have been received by the MA at the time Euroclear repairs the instruction.

(f) The MA accepts no liability in respect of any instruction repaired by Euroclear Bank as set out in (d) above without further instruction of the CMU Member.

(g) If validation is unsuccessful, either in the CMU system or the Euroclear system, the money instruction will be rejected. CMU Members can refer to Appendix D of the CMT User Manual - User Guide for the description of the status code.

1.3.14 Impact of Holidays on Money Transfer Instructions

The following should be noted:

(a) Money instructions with a requested Value Date on Saturday, Sunday or any other day which is not a business day will be rejected by the CMU system.

(b) Money instructions with a requested Value Date which is a holiday in the city of the relevant Euroclear Cash Correspondent are processed for Value Day the next day which is a business day in the city of the relevant Euroclear Cash Correspondent, except that book transfer instructions are accepted and processed for any business day.

(c) Money instructions for which input deadline is one business day before Value Day must be received at the MA no later than the business day (in the country of the currency) preceding the requested Value Date; money instructions for which input deadline is two business days before Value Day must be received at the MA no later than the second business day (in the country of the currency) prior the requested Value Date.

1.3.15 Cancellation

Cancellation of money instructions are allowed if the money instructions have not been executed by Euroclear. Cancellation instructions must be received by the MA before the cancellation deadlines, which are two hours before the input deadlines as mentioned in Part IV - clause *1.3.12* above unless otherwise specified. Input deadlines for cancellation of money instructions for the respective currencies are detailed in Appendix P.14.

CMU Members who wish to cancel their money instructions are required to send their cancellation request via CMT, SWIFT or subject to Part I – clause *5.2* of this Manual, a Money Instruction Cancellation Form

(Appendix P.12) via authenticated facsimile or by hand to the MA before the cancellation deadlines.

Any instruction that remains unexecuted after five business days will be cancelled by Euroclear Bank.

Money instructions are not allowed to modify. CMU Members who wish to do so must cancel the original instruction and re-send a new money instruction to the MA.

1.4 Euroclear Linkage Service – Custody

1.4.1 Provision of Information in respect of Corporate Events

The MA receives information from Euroclear Bank in respect of corporate events and may, but is not obligated to, report such information to CMU Members.

The MA is not responsible for the accuracy or completeness of the information of which it receives notice and which it reports and accepts no liability for the inaccuracy or incompleteness of the information. The MA accepts no liability if the information it reports was not received by it in a timely manner.

1.4.2 Deadlines and Corporate Events Notices

Deadlines and corporate events (DACE) notices (CMUL4101) are corporate event reports concerning a given issue of securities and are sent to each CMU Member if:

- the CMU Member holds such securities in its CMU securities account; or
- the CMU Member has an unexecuted securities settlement instruction concerning such securities.

Information reported in DACE notices may have different status:

(a) provisional: information is known to be incomplete or subject to change at the time it is reported;

(b) definitive: latest information available to the MA which may also be subject to change;

(c) notification of change: updates to previously reported information;

(d) reminders: reminders which CMU Members received a previous DACE notice before. The MA is not obliged to send any such reminders and CMU Members must not expect that any such reminders will necessarily be sent.

1.4.3 Notification of Interest Payment and Redemption

Based on information provided by Euroclear Bank, the MA provides notifications of forthcoming interest payment and redemption to CMU Members who hold the relevant securities through the "Linkage Securities Coupon/Dividend/Redemption Notification Report" (CMUL4301). The MA provides the report to CMU Members before it has confirmation of the receipt of anticipated funds and therefore accepts no liability if payment is not received.

The MA accepts no liability for any inaccuracy, incorrectness or incompleteness of the information provided in the report or any income payment reports.

1.4.4 Cash Distributions Processing by Euroclear

In general, Euroclear credits coupon, dividend and redemption proceeds to Cash Account during the batch process that precedes the expected value date of the payment (advanced payment). This provisional cash credit becomes final upon receipt and reconciliation of the funds. Cash credit can be reversed if timely payment is not received from the issuer. Under certain circumstances, Euroclear defers the payments until receipt and reconciliation of funds. For fixed income securities, Euroclear generally defers the cash proceeds when the Record Date and the expected value date of the payment fall on the same day (credit postponed to the next Business Day). Payment is net of withholding tax, unless relief at source is possible and members have complied with all requirements

1.4.5 Processing of Custody Operations

Most corporate events affecting a security lead to the processing of a custody operation in the Euroclear system. Some custody operations require custody operation instructions from CMU Members while others are processed without any action being taken by the CMU Members.

CMU Members can refer to the DACE notices in respect of the corporate events for details.

1.4.5.1 Instructions Required for Execution

For custody operations that require instructions for execution, the arrangements are as follows:

(a) CMU Members can send their custody operation instructions to the MA via authenticated facsimile or by hand before the input deadlines in the format specified in Appendix P.10.

(b) Upon receiving the custody operation instructions from CMU Members, the MA will forward the instructions to Euroclear for further processing.

(c) If a CMU Member does not send its custody operation instruction to the MA before the input deadline, the MA is authorized to take any actions which it considers appropriate.

(d) If Euroclear Bank does not receive the custody operation instruction, Euroclear Bank will take the default action that may be specified in the relevant DACE notice or in the Operating Procedures published by Euroclear Bank.

(e) Euroclear Bank reserves the right to block securities of the issue concerned by the default action following the applicable deadline, until such time Euroclear Bank considers necessary for execution of the default action.

1.4.5.2 Instructions Not Required for Execution

For those custody operations which do not require CMU Members to send a custody operation instruction, Euroclear Bank will take any and all such actions as may be necessary or useful to execute such custody operations.

1.4.6 Input Deadlines

All custody operation instructions must be received by CMU before the input deadlines which are two hours before the deadlines specified in the relevant DACE notices.

The MA reserves the right, if and whenever the MA in his absolute discretion considers it appropriate to do so, to vary the input deadlines either in a particular case or on an ongoing basis.

1.4.7 Validation

All custody operation instructions received by the CMU will undergo a validation process. All invalid custody operation instructions will be rejected and CMU will not further process the custody operation instructions. The processes are as follows:

(f) After receiving the custody operation instructions, the CMU system will perform a validation process.

(g) If the validation is successful, the custody operation instructions will be forwarded to the Euroclear system for further processing. The custody operation instructions will then be validated by the Euroclear system. Custody operation instructions sent to Euroclear are subject to additional manual validation. Such instructions may pass the computer validation and then be rejected after manual validation.

(h) The validation of a custody operation instruction may, but not necessarily, include the verification of the completeness of any required documents. The MA does not verify the contents of any required document and accepts no liability for acting upon any required document the completeness of which it has verified and which it believes to have received from a CMU Member.

(i) If validation is unsuccessful, either in the CMU system or the Euroclear system, the custody operation instruction will be rejected and will not be submitted for further processing. CMU Members will be informed of the status of the custody operation instruction.

1.4.8 Certification

The terms of Euroclear eligible issues accepted in the CMU system or local law requirements sometimes impose holding or selling restrictions. CMU Members are responsible for the observance of any conditions on Euroclear Eligible Securities they hold in the CMU system.

As part of the custody services provided to CMU Members, the MA assists CMU Members when beneficial ownership certification is required:

- for exchange of temporary global securities into definitive securities or into permanent global securities; or
- for payment of interest or principal.

The arrangements are as follows:

(c) A CMU Member is notified through DACE notices of approaching certification dates for exchange of temporary global securities or the payment of income or principal if it has securities balances or pending settlement instructions during the 15 calendar days preceding the certification event date, which is:

- the last day of the restricted period, when certification is required for exchange of temporary global securities; or
- the payment date, when certification is required for the payment of income or redemption proceeds.

(d) To comply with legal requirements, the MA must receive the type of certification shown in the DACE notice from the CMU Member before the deadline as mentioned in Part IV - clause *1.4.6* above. A custody operation for which a certification or other relevant documents is required cannot be executed until a CMU Member has fulfilled requirements.

1.4.9 Credit of Money and Security as a Result of Corporate Events

If a CMU Member is entitled to the product of cash and security distribution as a result of corporate events, the cash and security are credited to the CMU Member's designated sub-account when Euroclear Bank receives such cash and security.

Income proceeds, after deduction of applicable withholding tax, and redemption proceeds are usually credited on the due date of payment, subject to reversal if payment is not actually made by the issuer. Other cash products are credited as soon as Euroclear Bank receives confirmation from its Cash Correspondent that funds have been or will be received.

Security products are credited in the following overnight process after the security is received by Euroclear Bank. CMU Members are not required to send an instruction to receive the security.

1.4.10 Reporting

A CMU Member can monitor the execution of custody operations processed for its designated sub-account in the Euroclear system through the following reports:

- Unexecuted and Executed Corporate Action Instruction Report (CMUL4A01)
- End-of-Life Linkage Securities Transaction Report (CMUL46A1/CMUL46B1)
- Cash Movement Report (CMUL40A1)

2 CLEARSTREAM

2.1 Clearstream Linkage Service – General

As a part of the CMU's continuing efforts to establish a network of bilateral securities linkages, the MA has become a participant in the Clearstream System (Clearstream), one of the largest global securities depositories offering cross-border securities clearing, settlement and custody services.

2.1.1 The Service

As part of the CMU Service, the MA offers all CMU Members access to Clearstream by virtue of the MA's participation in Clearstream. The CMU will effect and receive transfers of securities held in Clearstream, and make and receive payments in respect thereof, on behalf of CMU Members.

The MA reserves the right to terminate, vary the operational timetable of, or suspend partially or wholly the CMU Service (including the linkage to Clearstream) upon giving a reasonable period of notice to the CMU Member.

Terms used in this Manual will, unless the context requires otherwise, be given the same interpretation as in the CMU Membership Agreement. Copies of the General Terms and Conditions and the Customer Handbook for Customers of Clearstream Banking Luxembourg may be obtained from the CMU upon request.

2.1.2 Representation and Acknowledgement

In consideration of the MA providing this linkage to Clearstream within the CMU Service, any CMU Member who uses the linkage agrees, represents and acknowledges (such agreement, representation and acknowledgement to be evidenced by the CMU Member's use of the linkage) that:-

(a) the linkage to Clearstream and all operations, transactions and other activities conducted through it shall be subject to the CMU Rules as applicable (including without limitation Clause 8 of the CMU Membership Agreement) as the linkage is an integral part of the CMU Service offered by the MA;

(b) in carrying out the CMU Members' instructions with regard to any transactions which are to be cleared and settled through the linkage to Clearstream or to any securities which are held in Clearstream, the MA must, and is authorised by the CMU Member to, comply with all applicable rules and regulations of Clearstream (including without limitation the "General Terms and Conditions" and the "Customer Handbook for Customers of Clearstream Banking Luxembourg") and shall incur no liability to the CMU Member for so doing;

(c) the MA, on behalf of the CMU Member, is entitled to do all such acts and things and execute all such documents as the MA may, in his discretion, consider necessary or desirable to enable the MA to fully observe and perform his duties and obligations under the rules and regulations of Clearstream; and to enter into any arrangement which the MA considers proper for the purpose of facilitating clearance of transactions effected on behalf of the CMU Member through Clearstream;

(d) all securities held in Clearstream are subject to the rules and regulations of Clearstream, each CMU Member is responsible for informing itself of the characteristics of the securities it acquires and holds through the linkage to Clearstream and neither the MA nor the operator of Clearstream shall have any liability for any securities that are fraudulent, forged, invalid, or not freely transferable nor in respect of the creditworthiness of any issuer of any securities nor for any event of force majeure or failure of any other participants in Clearstream to comply with the rules and regulations of Clearstream;

(e) the maintenance and operation of any of the Clearstream designated sub-account and all cash or funds deposited into, held in or withdrawn from, or any amount credited into or debited from, any such account are subject to the rules and regulations governing the Clearstream System; each CMU Member deposits, withdraws, credits, or debits at its own risk any cash, fund, or amount into or out of any of the Clearstream designated sub-account or any of the associated accounts (as defined hereinbelow); neither the MA nor the operator of the Clearstream System shall have any liability for any risk (including credit risk, insolvency risk, counterparty risk or any other risk in connection with Clearstream Banking or any of its cash correspondent banks or any cash correspondent bank of any CMU Member or any other person) arising from any cash or fund deposited into, held in or withdrawn from, or any amount credited into or debited from, any of the Clearstream designated sub-account or any of the associated accounts (as defined hereinbelow); and each CMU Member acknowledges that any deposit, withdrawal or

transfer of cash, fund or amount into or out of any of the Clearstream designated sub-account may involve routing of funds through the following accounts (collectively the "associated accounts"):

- any account of the CMU Member maintained with any of its own cash correspondent banks; and/or

- any account of Clearstream Banking maintained with any of its cash correspondent banks;

(f) the MA shall not provide any overdraft or funding facility in any currency for any CMU Member in relation to any of the Clearstream designated sub-account for funding any settlement of any transaction made or executed via the Clearstream Linkage Service;

(g) each CMU Member is fully responsible for meeting its own funding needs and providing complete and sufficient funds for settlement of any transactions made or executed via the Clearstream Linkage Service;

(h) any cash, fund or amount standing to the credit of any of the Clearstream designated sub-account and/or any of the associated accounts are subject to the credit risk and any other risk of Clearstream Banking and of the relevant CMU Member's or Clearstream Banking's cash correspondent banks;

(i) neither Clearstream Banking nor any of its cash correspondent banks holds the cash, fund or amount in, or to the credit of, any of the Clearstream designated sub-account as trustee, nominee or agent for the MA or any other person (including any CMU Member or any of its Clients). Any cash, fund and amount in, or to the credit of, any of the Clearstream designated sub-account or any of the associated accounts so far as they relate to Clearstream Banking's cash correspondent banks are the assets of Clearstream Banking or its cash-correspondent banks, as the case may be. Clearstream Banking is entitled to deal with any cash, fund or amount deposited into, held in or credited into any of the Clearstream designated sub-account at its discretion as if Clearstream Banking were the legal, equitable and beneficial owner of such cash, fund and amount and any claim against Clearstream Banking in respect of any cash, fund or amount in any of the Clearstream designated sub-account only lies as a contractual claim by the MA;

(j) the MA and his servants and agents shall not be liable for any liability, claim, suit, loss, damage, cost or expense of any kind or nature caused directly or indirectly by the operation of any of the Clearstream designated sub-account or any of the associated

accounts or any inadequacy thereof or any deficiency or defect therein or any delay in the deposit, withdrawal or transfer of any cash, fund or amount into or out of such account, whether such inadequacy, deficiency or defect is caused by the MA, Clearstream Banking or any of Clearstream Banking's or any CMU Member's cash correspondent banks;

(k) where a CMU Member suffers any loss or damage or incurs any expense of any kind or nature as a result of the negligence, wilful default, fraud, insolvency or winding-up of Clearstream Banking or of any of its cash correspondent banks, provided that the MA shall have received compensation or damages recovered from Clearstream Banking for such loss, damage or expense, the MA shall, after deducting therefrom in payment of sums sufficient to meet his own loss, damage or expense arising from the negligence, wilful default, fraud, insolvency or winding-up of Clearstream Banking or of any of its cash correspondent banks, pay the balance of the compensation or damages so received from Clearstream Banking to the CMU Member;

(l) each CMU Member agrees that it shall indemnify the MA and his servants and agents for and against any losses, damages, costs, expenses, claims, suits and/or liabilities whatsoever arising directly or indirectly from or as a result of

(i) the actions and/or omissions, in connection with any of the Clearstream designated sub-account or any of the associated accounts, of the CMU Member, the CMU Member's servants or agents (whether or not authorized by the CMU Member) or any of the CMU Member's cash correspondent banks; and/or
(ii) the actions and/or omissions, in connection with any of the Clearstream designated sub-account or any of the associated accounts, of Clearstream Banking, Clearstream's servants or agents (whether or not authorized by Clearstream Banking) or any of Clearstream Banking's cash correspondent banks; and/or
(iii) any failure of the CMU Member or Clearstream Banking or any of their respective cash correspondent banks to comply with any of the laws, rules or regulations applicable to any of the Clearstream designated sub-account or any of the associated accounts; and/or
(iv) the MA's maintaining, keeping, operating or otherwise dealing with any of the Clearstream designated sub-account; and/or
(v) any transfer of cash, fund or amount into or out of any of the Clearstream designated sub-account or any of the associated accounts;

and the CMU Member agrees that this indemnity shall survive any termination of the Clearstream Linkage Service;

(m) the MA gives no representation as to the creditworthiness or financial position of Clearstream Banking or any of its cash correspondent banks and in particular shall not incur any liability to the CMU Member or any other person as a result of any failure by Clearstream Banking or any of its cash correspondent banks to pay, transfer, deposit, credit or debit any cash, fund or amount into or out of any of the Clearstream designated sub-account or any of the associated accounts or as a result of any use by any such person, with or without any authorization, of any cash, fund or amount in any of such account or accounts;

(n) the CMU Member will provide such information to the MA, and the MA is authorised to make disclosure of any such information (including without limitation regarding the nationality, domicile, residence, location of business operations or other similar status of the CMU Member and the control or beneficial ownership of the securities held for, or traded for, the CMU Member in Clearstream) to Clearstream or any concerned tax authority as the MA may in his discretion consider necessary or desirable in connection with his operation of the Clearstream linkage as part of the CMU Service, whether for the purpose of obtaining relief from withholding tax or otherwise;

(o) if any taxes, duties, interest or other levies or penalties are imposed on the MA in connection with the holding or trading of securities or the holding or transfer of money in Clearstream on behalf of the CMU Member, the CMU Member will indemnify and hold the MA harmless in respect of such taxes, duties, interest, levy or penalty as the case may be save to the extent the same arise as a result of the wilful default or gross negligence of the MA;

(p) the CMU Member shall comply with all laws, decrees, regulations or orders of governmental bodies applicable to its use of the linkage to Clearstream and its holding or trading of securities through Clearstream and with any contract or agreement binding upon it and shall be responsible for ensuring compliance with all applicable legal, tax or regulatory requirements for disclosure or reporting as to the holding, control or beneficial ownership of or in respect of any securities it holds or trades through the linkage to Clearstream; and

(q) (for the avoidance of doubt) the MA shall, with the limited exceptions stated in the CMU Membership Agreement, be exempt from any

liabilities caused directly or indirectly by the operation of the CMU Service including, without limitation, the linkage to Clearstream.

2.1.3 Definitions

In Part IV - clause *2* of this Manual, unless the context otherwise requires, the following expression shall have the following meanings:

"business day"	means a day when the Clearstream system is open for business.
"Unconfirmed Funds"	means funds that are anticipated for credit to the MA account as a result of a CMU Member's settlement activities for a current or past value date where confirmation of their payment is outstanding.
"Value Day"	means the date used in calculating interest or fees in respect of debit or credit balances in a designated sub-account. The Value Date may be, but is not necessarily, the same as the date of the credit or debit entry.

2.1.4 Account Structure

To facilitate the Clearstream linkage service, the MA has opened an account with Clearstream Banking. For each CMU Member who uses the Clearstream linkage service, the MA opens a designated sub-account in the Clearstream system in the name of the Hong Kong Monetary Authority for the CMU Member. All securities and money settlement arising from Clearstream transactions of the CMU Member are settled through the designated sub-account.

This account structure allows the MA to carry out the operations efficiently. Each CMU Member will be given a specific Clearstream account number to settle its transactions through the designated sub-account.

2.1.5 Account Opening Procedure

A CMU Member who wishes to use the Clearstream linkage service has to submit an Opening of Euroclear/Clearstream Sub-accounts Form as specified in Appendix P.1 to the MA.

Upon receiving the request, the MA will arrange to open a designated sub-account in the Clearstream system for the CMU Member.

The CMU Member will be informed of the Clearstream Account Number of its designated sub-account when the account is ready for settlement.

2.1.6 Processing Windows

To support processing of Clearstream transactions in the CMU system, the following processing windows have been included in the CMU system:

(a) Clearstream Start-of-day Processing Run
(b) Clearstream Processing Window
(c) Clearstream End-of-day Processing Run

The following sections will describe the details of the above processing windows.

2.1.6.1 Clearstream Start-of-day Processing Run

The Clearstream Start-of-day Processing Run starts at around 9:00 a.m.

The CMU system starts the Clearstream start-of-day processing run at around 9:00 a.m. daily. During the Clearstream Start-of-day Processing Run, the CMU system performs the following tasks:

(a) requests reports from the Clearstream system and automatically update transaction status into the CMU system.

(b) performs reconciliation between records in the CMU system and the Clearstream system.

(c) generates daily reports to CMU Members via CMT after reconciliation.

The CMU system performs the Clearstream Start-of-day Processing Run on every business day that Clearstream Banking opens for business, regardless of whether it is a holiday or typhoon day in Hong Kong.

2.1.6.2 Clearstream Processing Window

(A) Operating Hours

The Clearstream Processing Window opens at around 9:30 a.m. Hong Kong time after completion of the Clearstream Start-of-day Processing Run.

The Clearstream Processing Window closes at 11:00 p.m. or any other time specified by the MA.

The Clearstream Processing Window does not open on any days on which both the Clearstream system and the CMU system do not open.

(B) Instructions Processing

When the CMU system opens at 8:30 a.m. Hong Kong time, but before the Clearstream Processing Window opens, CMU Members can input their securities transfer and money instructions via their CMTs. These instructions will be sent to the Clearstream system but no transaction status update will be performed until the Clearstream Processing Window opens.

After the Clearstream Processing Window opens, the CMU system accepts and processes securities transfer instructions and money instructions from CMU Members.

Instructions that are not yet settled in Clearstream can also be cancelled via CMT or SWIFT.

If the securities transfer and money instructions, including cancellation of unsettled instructions are received by the CMU system via CMT or SWIFT after the Clearstream Processing Window closes, the CMU system may process the instructions immediately except for the period that the CMU system undergoes housekeeping or maintenance processes. However, the status of the instructions, which received after the Clearstream Processing Window closes, will only be updated into the CMU system during the Clearstream Start-of-day Processing Run or during the period when the Clearstream Processing Window opens.

2.1.6.3 **Clearstream End-of-day Processing Run**

After the Clearstream Processing Window closes, the CMU system starts the Clearstream End-of-day Processing Run. During the Clearstream End-of-day Processing Run, the CMU system performs the following tasks:

(a) requests reports from the Clearstream system and automatically update transaction status into the CMU system, and

(b) generates daily reports to CMU Members.

2.1.7 Reporting

The CMU system provides a wide range of reports to support the Clearstream linkage service. Please refer to the Appendix C of the CMT User Manual – Report Guide for the details.

2.2 Clearstream Linkage Service – Securities Clearance And Transfer

2.2.1 Settlement of Clearstream Eligible Securities

The settlement of Clearstream Eligible Securities can be taken place in four different ways according to types of counterparties and places of settlement:

(a) CMU settlement
(b) Internal settlement
(c) Bridge settlement
(d) External settlement

2.2.1.1 **CMU Settlement**

CMU settlement refers to settlement of Clearstream Eligible Securities transactions between two CMU Members who safekeep the securities in the CMU system. These transactions are settled in the CMU system in real-time DvP or FoP basis.

2.2.1.2 **Internal Settlement**

Internal settlement refers to settlement of securities transactions between a CMU Member and a Clearstream participant. These transactions are settled in the Clearstream system in DvP or FoP basis. They are settled in Clearstream's real-time processing window which begins from the evening of the business day preceding the settlement date, and runs continuously until 7:00 p.m. (Luxembourg time) on settlement date.

2.2.1.3 **Bridge Settlement**

Bridge settlement refers to settlement of securities transactions between a CMU Member and a Euroclear participant. These transactions are settled in the Clearstream system in DvP or FoP basis. They are settled in the Clearstream real-time processing window.

2.2.1.4 External Settlement

External settlement refers to settlement of securities transactions between a CMU Member and a participant of a local clearing system which has established a link with the Clearstream system. These transactions are settled in the local clearing system in DvP or FoP basis. The settlement processing of external transactions may start in different processing cycles during Clearstream's real-time processing window.

2.2.2 Forward Value Transactions

The CMU system supports input of forward value instructions for transactions described in Part IV - clause *2.2.1* above. CMU Members can input securities and money instructions with forward date up to 30 calendar days from the input date.

2.2.3 Eligible Securities

All international debt securities denominated in eligible settlement currencies as mentioned in Part IV - clause *2.3.4* below and US domestic debt securities acceptable to the Clearstream system are eligible for settlement in the CMU system.

The MA reserves the right to revise the Eligible Securities in the CMU system without advance notice to CMU Members.

2.2.4 Acceptance of Clearstream Eligible Securities in CMU System

Before an issue of Clearstream Eligible Securities can be settled through the CMU system, a CMU Issue Number must be assigned to the Clearstream Eligible Securities. CMU Members can make an enquiry via their CMTs to enquire the CMU Issue Number and the securities details of the issue. If the issue has not yet accepted by the CMU system, CMU Members can request CMU to assign a CMU Issue Number for the issue by sending the Acceptance of Eligible Securities in CMU System Form (Appendix P.2) to CMU.

2.2.5 Transactions between Two CMU Members

2.2.5.1 Criteria

Transactions of Clearstream Eligible Securities between two CMU Members can only be performed under the following conditions:

(a) Executed when both CMU Members have been the users of the Clearstream Linkage Service; and

(b) Settled across the book of the MA in CMU real-time window between Clearstream Processing Window Open (9:30 a.m. Hong Kong time) and CMUS cut-off (currently at 6:30 p.m. Hong Kong time).

2.2.5.2 **Settlement Means**

The transactions are settled in real-time delivery against payment or real-time free of payment basis. For delivery against payment transactions, money settlement is effected through the RTGS systems in Hong Kong. For CMU Members who are not direct participants of the respective RTGS systems, they can appoint a settlement bank to handle the money settlement arising from CMU transactions.

2.2.5.3 **Settlement Process**

The arrangements are as follows:

(a) Settlement instructions of Clearstream Eligible Securities transactions between two CMU Members are sent to the CMU system before the specified input cut-off time as stipulated in Part II - clause *4.1.3*.

(b) All transfer instructions will undergo a real-time matching process.

(c) CMUP will try to match a new record with all available unmatched records in the system.

(d) Please refer to Part II - clause *4.1.6* of this Manual for details of matching data field during the pre-matching process.

(e) If no match is found, the record will be added to the list of unmatched instructions.

(f) Matched DvP transaction will be effected upon payment from the buyer through the settlement bank.

(g) If the seller of the transaction has insufficient securities for settlement, the transaction will be rejected immediately and will not be settled at the CMU optimiser run of the CMU system at 4:00 p.m.

(h) If the buyer or its settlement bank has insufficient funds for settlement, the payment will be queued in the respective RTGS systems until cut-off time for CMU transactions (currently set at 6:30 p.m.).

(i) Unsettled and unmatched transactions will be cancelled at cut-off time for CMU transactions.

2.2.6 House Transfer between Two Accounts of a CMU Member

House transfer of Clearstream Eligible Securities between two accounts of a CMU Member can only be executed:

(a) in CMU real-time window between Clearstream Processing Window Open (9:30 a.m. Hong Kong time) and Clearstream Processing Window Close (11:00 p.m. Hong Kong time); and

(b) when both accounts have been registered as the users of the Clearstream Linkage Service and those Clearstream Eligible Securities are safe kept in the CMU system.

If there are insufficient securities at the time of approval, system will reject the transaction immediately.

2.2.7 House Transfer between Main Account and Intraday Repo/Bank Repo Account

House transfer of Clearstream Eligible Securities between the Main Account and the Intraday Repo/Bank Repo Account of a CMU Member can only be executed in CMU real-time window between Clearstream Processing Window Open (9:30 a.m. Hong Kong time) and Clearstream Processing Window Close (11:00 p.m. Hong Kong time).

If there is insufficient securities at time of approval, system will reject the transaction immediately.

To ensure that the coupon or redemption proceeds can be credited to the CMU Members' designated sub-accounts in the Clearstream system without delay, CMU Members are advised to transfer their Clearstream Eligible Securities, if any, from the Intraday Repo Accounts to the Main Accounts before the Repo cut-off date, which is two business days before the record date of the next income payment of the Clearstream Eligible Securities.

If there are any Clearstream Eligible Securities in the Intraday Repo Accounts of CMU Members after the event of Automatic Repurchase of DW/Overnight Repo at 2:30 p.m. on the Repo cut-off date, the CMU system will automatically transfer the securities from the Intraday Repo Accounts to the Main Accounts on behalf of CMU Members.

2.2.8 Transactions with a non-CMU Member

2.2.8.1 Settlement Arrangements

Transactions of Clearstream Eligible Securities with a non-CMU Member are settled either in the Clearstream System or the local clearing systems which have established a link with the Clearstream system.

These transactions are settled in Clearstream's real-time processing window in delivery against payment or free of payment basis. The processing windows are as follows:

	Luxembourg time	**Hong Kong time**
Clearstream real-time processing begins one day before settlement day	at around 9:00 p.m.	at around 3:00 a.m. the next day
until on settlement day:	at around 7:00 p.m.	at around midnight

Both securities and money settlement are effected through the designated Clearstream sub-accounts which have been assigned to CMU Members.

(i) For purchase transactions, CMU Members are required to deposit sufficient funds to their designated Clearstream sub-accounts before settlement takes place.

(ii) Similarly, for sales transactions, settlement of the transactions shall only take place if there are sufficient securities in their designated Clearstream sub-accounts for delivery.

2.2.9 Input Deadlines

All securities transfer instructions must be received by CMU before the input deadlines. The MA reserves the right, if and whenever the MA in his absolute discretion considers it appropriate to do so, to vary the input

deadlines either in an individual type of transfer instruction or on an ongoing basis.

The deadlines which apply to transfer instructions sent via CMT or SWIFT are detailed in Part IV - clauses *2.2.9.1* and *2.2.9.2* below. Subject to Part I - clause *5.2* of this Manual, a CMU Member can submit transfer instructions by authenticated facsimile or by hand only if both its CMT and SWIFT terminal are inoperable. The deadlines for transfer instructions sent via authenticated facsimile or by hand are one hour before the deadlines specified in this clause. In case the deadlines are 9:00 a.m., or 10:00 a.m. for the current date, the deadlines for receiving facsimile instruction will be 6:00 p.m. on one day before the settlement day.

Except for CMU settlement instructions, any transfer instructions which are received by CMU after the input deadlines, will still be forwarded to Clearstream Banking for processing on a best effort basis. If these transfer instructions cannot be processed on the intended settlement date, Clearstream shall process these transfer instructions in the next settlement day or reject the transfer instructions, as the case may be. CMU Members are responsible for monitoring the settlement status of their transfer instructions.

2.2.9.1 Instructions for Clearstream International Securities

The following table shows the input deadlines for securities transfer instructions for Clearstream international securities:

	Real-time Processing Window
CMU Settlement	6:30 p.m., Day S
Internal Settlement	11:00 p.m., Day S
Bridge Settlement	11:00 p.m., Day S

Notes: Day S denotes the settlement day.

2.2.9.2 Instructions for CMU Supported Domestic Markets

The following table shows the input deadline for CMU supported domestic markets for securities transfer instructions:

Domestic markets	***Eligible Securities***	***Input Deadline (Hong Kong time)***	***Local Clearing System (SWIFT BIC)***
Australia	• Commonwealth government securities • Semi-government securities • Global bonds denominated in Australian dollar ('Matildas') • Corporate bonds	6:00p.m. Day S-1	Austraclear (ACLRAU2S)
France	• Government bonds (OAT) • BTAN, BTF • Corporate bonds • PFCC • TCN consisting of BT, BMTN, CD, BIFS • Semi-government bonds	6:00p.m. Day S	Euroclear France S.A. (SICVFRPP)
Germany	• Government debt securities consisting of government notes and bonds • Agency bonds • Foreign bonds • Communal bonds • Corporate debt securities • DEM/EUR global bonds	2:00p.m. Day S	Clearstream Banking AG Frankfurt (DAKVDEFF)
Netherlands	• Short-term notes including T-bills, CP, CD • Medium-term notes • Domestic bonds including government bond • Foreign bonds • Stripped government bonds	6:00p.m. Day S	Euroclear Netherlands (NECINL2A)
New Zealand	• Government securities • Other domestic securities	6:00p.m. Day S-1	Austraclear New Zealand

Domestic markets	***Eligible Securities***	***Input Deadline (Hong Kong time)***	***Local Clearing System (SWIFT BIC)***
			System (RBNZNZ22)
Singapore	• Securities eligible for settlement in the CDP • Non CDP-Eligible Securities like domestic bearer corporate bonds	6:00p.m. Day S-1	Central Depository (Pte) Ltd (CDP) (CDPLSGSG)
Switzerland	• Government debt securities • Corporate bonds • Foreign bonds denominated in Swiss Francs	2:00p.m. Day S	SegaIntersettl e Ag (SIS) (INSECHZZ)
Thailand	• Government bonds • State enterprise bonds • Corporate debt securities including corporate bonds, short & medium term Bill of Exchange & CD	6:00p.m. Day S-2	The Thailand Securities Depository Co.,Ltd (TSD) (TSDCTHB1)
United Kingdom	• Bulldogs: bonds issued by foreign borrower in GBP • Government bonds • CREST-Eligible Securities held in dematerialised form like corporate bonds	2:00p.m. Day S	CREST (CRSTGB22)
United States	• Domestic Treasury securities including bills, notes, bonds • Domestic Fedwire-eligible Federal Agency, Federally Sponsored Agency securities and MBS	6:00p.m. Day S	Federal Reserve Bank of New York (Fedwire) (FRNYUS33) Depository Trust &

Domestic markets	***Eligible Securities***	***Input Deadline (Hong Kong time)***	***Local Clearing System (SWIFT BIC)***
	• Other domestic and foreign DTC eligible debt securities • Global bonds • Foreign-targeted bonds • Certain money market instruments including CP, CD		Clearing Corp (DTCC) (DTCYUS33)

Notes : Day S denotes the settlement day.
Day S-1 denotes one business day before the settlement day.
Day S-2 denotes two business days before the settlement day.

CMU Members should be aware that different domestic markets have different market practices and rules. CMU Member is required to bear, and the MA will not be liable to, any cost in case the CMU Member suffers any loss during the course of settling securities in the domestic markets.

2.2.10 Validation

After receiving the transfer instructions, the CMU system will perform a validation process. If the validation is successful, the transfer instructions will be forwarded to the Clearstream system for further processing.

The transfer instructions will then be validated by the Clearstream system. If validation is unsuccessful, either in the CMU system or the Clearstream system, the transfer instruction will be rejected. CMU Members can refer to Appendix D of the CMT User Manual – User Guide for the description of the status code.

2.2.11 Matching

After validation of a transfer instruction is successful, the transfer instruction will undergo a matching process. A transfer instruction must match with a transfer instruction from its counterparty. The matching

process which will be performed outside the CMU system consists of comparing the matching fields included in a transfer instruction from a CMU Member with the matching fields in an instruction from another Clearstream participant.

2.2.11.1 **Matching Fields**

The matching fields which must be matched in the matching process include:

(a) Clearstream account number
(b) Security code
(c) Nominal amount of securities
(d) Settlement currency and amount (for delivery against payment instructions only)
(e) Settlement date
(f) Trade date (if present in both instructions)
(g) Trade price (if present in both instructions)

2.2.11.2 **Matching Process**

The transfer instructions require matching in the Clearstream system or local market. The matching process follows the matching rules determined by Clearstream Banking and the local clearing systems. They are summarized as follows:

(a) The nominal amount in the two instructions must be identical. Partial amounts will not be aggregated for the purpose of matching.

(b) Settlement amount must be identical, except that if the discrepancy of the settlement amount is not greater than US$25 or the equivalent in other settlement currencies, as determined by Clearstream Banking in its sole discretion, the instructions will be deemed to match. The settlement amount indicated by the seller will be used for execution.

(c) For external settlement instructions, if the actual settlement amount is different from the settlement amount indicated in the external instruction, Clearstream reserves the right to adjust the designated sub-account resulting from the discrepancy and the MA accepts no liability for the adjustment.

(d) Any discrepancy on optional fields other than trade date and trade price will not cause the instructions to be unmatched. However, the optional fields will be compared and reported if the values are different.

(e) Trade date and trade price must match if present in both instructions.

(f) Trade price must match up to and including the fifth digit of decimals.

2.2.12 Processing of Matched Transactions

A matched transaction would be submitted to an appropriate processing window for settlement on the settlement date. If the settlement date in the transfer instruction is not a business day, the transfer instruction would be submitted to the appropriate processing window in the next business day.

2.2.13 Cancellation

Cancellation of securities transfer instructions are allowed if the instructions have not been executed by Clearstream. Cancellation instructions must be received by the MA before the cancellation deadlines, which are two hours before the input deadlines as mentioned in Part IV - clause *2.2.9* above.

The arrangements are as follows:

(a) CMU Members who wish to cancel their securities transfer instructions are required to send cancellation requests to CMU via CMT, SWIFT or subject to Part I – clause *5.2* of this Manual, authenticated facsimile or by hand (Appendix P.11) to CMU before the cancellation deadlines.

(b) Cancelling a matched but unsettled instruction will result in the unwinding of a matched transaction.

(c) The status of the linkage transaction will be changed from “Matched” to “Unmatched”.

(d) If the linkage instruction is cancelled by the CMU Member, CMU will create a counterparty instruction record for CMT user to create the linkage securities instruction when “your instruction missing” status is received from Clearstream.

(e) If the linkage instruction is cancelled by counterparty, CMU system will send “your instruction missing” record to CMT with status “Cancelled by counterparty”.

(f) Results of the cancellation process would be notified to CMU Members.

Securities transfer instructions are not allowed to modify. CMU Members who wish to do so must cancel the original instruction and re-send a new securities transfer instruction to the MA.

2.3 Clearstream Linkage Service – Money Transfer

2.3.1 Money Transfer Services

The CMU system supports the following money transactions:

(a) Deposit of funds to Clearstream system:

- Via corresponding bank - preadvice of funds
- Book transfer from another Clearstream participant
- Via RTGS systems in Hong Kong for Hong Kong dollar, US dollar and euro (the service is temporarily deactivated until the MA announces otherwise)

(b) Transfer out of funds from Clearstream system:

- Wire transfer to a beneficiary from Clearstream system
- Book transfer to another Clearstream participant
- Withdrawal of Funds to Hong Kong dollar RTGS system in Hong Kong (the service is temporarily deactivated until the MA announces otherwise)

Unless otherwise specified, all money transfer services support CMU eligible settlement currencies as mentioned in Part IV – clause *2.3.4* below. The CMU system does not support foreign exchange conversions.

The MA reserves the right to suspend all or part of the money transfer services without advance notice to CMU Members.

2.3.2 Forward Value Transaction

The CMU system supports input of forward value transactions for all kinds of money instructions. CMU Members can input transactions with forward date up to 30 calendar days from the input date.

2.3.3 Clearstream Cash Correspondents

Money transfers into and out of the Clearstream system are effected through the Clearstream Cash Correspondent(s) which is(are) designated for each settlement currency. Details of Clearstream Cash Correspondents, including BIC code and Clearstream account numbers with its Cash Correspondents, are shown in Appendix P.15.

2.3.4 CMU Eligible Settlement Currencies

The CMU supports the following settlement currencies:

AUD	Australian dollar
CAD	Canadian dollar
CHF	Swiss Franc
CNY	Chinese Yuan
DKK	Danish Krone
EUR	euro
GBP	British Pound
HKD	Hong Kong dollar
IDR	Indonesian Rupiah
JPY	Japanese Yen
MYR	Malaysian Ringgit
NZD	New Zealand dollar
PHP	Philippine Peso
SGD	Singapore dollar
THB	Thai Baht
USD	US dollar

The MA reserves the right to add or delete the supported settlement currencies without advance notice to CMU Members.

2.3.5 Deposit of Funds via Corresponding Bank

A CMU Member can remit funds into its designated sub-account in the Clearstream system via its corresponding bank. CMU Member must ensure that remittances of funds in favour of its designated sub-account are made directly to the Cash Correspondent designated by Clearstream Banking for the settlement currency.

2.3.5.1 **Payment Details**

Deposits of funds are credited to the CMU Member's designated sub-account only if Clearstream Banking can identify the relevant account to

be credited. In order for the Clearstream Cash Correspondent to recognize that the money is for credit to a CMU Member's designated sub- account, the CMU Member must ensure that the credit advice sent by its corresponding bank to the Clearstream Cash Correspondent includes the following information:

> "For account of Clearstream Banking,
> BIC: CEDELULLXXX account number ##
> in favour of HKMAHKHC – CMU Member's designated sub-account number"
>
> (## *Account numbers or descriptions are indicated in Appendix P.15*)

Credit advices in the above format will be deemed to be for the account of Clearstream Banking in favour of the MA. Failure to identify properly such remittances may result in a delay on the credit to the CMU Member's designated sub-account.

2.3.5.2 **Value Day**

The timing of the credit to the CMU Member's designated sub-account depends on the time of receipt by Clearstream Banking of credit confirmation from its Cash Correspondent. All funds in respect of credit confirmations received by Clearstream Banking will initially be credited with the Value Date provided by the Clearstream Cash Correspondent. However, the Value Day may be adjusted depending on whether the funds have been preadvised or not, as mentioned in Part IV - clause *2.3.6* below.

2.3.6 Preadvice of Funds

A CMU Member who intends to deposit funds to its designated sub-account in the Clearstream system is required to send a preadvice of funds to the MA.

The arrangements are as follows:

(a) CMU Member sends a preadvice of funds to the MA. If there is more than one Clearstream Cash Correspondents for the relevant settlement currency (e.g. euro), the CMU Member must indicate in the preadvice of funds to the MA the Clearstream Cash Correspondent to which funds will be remitted.

(b) Upon receiving the CMU Member's preadvice, the MA will send a preadvice to Clearstream Banking to inform that funds will be deposited at the appropriate Clearstream Cash Correspondent, for credit to the CMU Member's designated sub-account.

(c) The acceptance of a preadvice of funds by Clearstream Banking does not mean that Clearstream Banking has received the funds from the CMU Member. It only indicates that the preadvice has been processed and accepted by Clearstream Banking.

(d) When the funds are received by Clearstream Banking and credited to the CMU Member's designated sub-account, a separate credit confirmation will be sent to the CMU Member.

(e) To the extent that funds credited to the CMU Member's designated sub-account have not been preadvised or are in excess of an amount preadvised or have been preadvised after the relevant deadline, a Value Day adjustment will be made, giving the following values:

- For AUD, CAD, CHF, DKK, EUR ,GBP, HKD, JPY, SGD, USD, next succeeding business day value
- For IDR, MYR, NZD, PHP, THB, second succeeding business day value

If a CMU Member fails to preadvise funds or to preadvise correctly as mentioned in (e) above, the MA reserves the right to charge the CMU Member's designated sub-account an amount calculated by Clearstream Banking:

(i) by applying, for the period between the credit of the funds and the adjusted Value Day, the debit interest rate for the settlement currency in question, or

(ii) compensate for losses associated with such failure to preadvise correctly, whichever of the calculated amounts is higher. The CMU Member is liable to pay the amount charged by the MA.

2.3.7 Deposit of Funds via Book Transfer from another Clearstream Participant

A CMU Member can receive funds from another Clearstream participant via book transfer. The book transfer is effected in Clearstream's real-time processing window. The CMU Member is not required to send instruction to the MA for receiving funds via book transfer. When the

funds are credited to the CMU Member's designated sub-account upon completion of a book transfer, a credit confirmation will be sent to the CMU Member.

2.3.8 Deposit of Funds via RTGS systems in Hong Kong for Hong Kong dollar, US dollar and euro

A CMU Member can remit funds into its designated sub-account in the Clearstream system via RTGS systems in Hong Kong if the settlement currency is Hong Kong dollar, US dollar and euro.

The arrangements are as follows:

(a) A CMU Member who intends to deposit funds to its designated sub-account in the Clearstream system via RTGS system in Hong Kong is required to send an instruction to the MA before the input deadlines as specified in Part IV - clause *2.3.12* below.

(b) Upon receiving the CMU Member's instruction, the MA will send a preadvice of funds to Clearstream Banking.

(c) The CMU Member or its settlement bank is required to make a payment with payment code IFT31 on the value day.

(d) If the CMU Member or its settlement bank has set the CMU related payment at RTGS system to "auto-generation" mode, the IFT31 payment will be generated automatically and appended at the end of the normal payment queue at RTGS system.

(e) If the CMU Member or its settlement bank has set the CMU related payment parameter at RTGS system to "No auto-generation" mode, the IFT31 payment will not be generated. The CMU Member or its settlement bank has to manually construct the IFT31 payment via SWIFT by making use of the payment notification SWIFT MT298. The MT298 will carry all payment details required for the preparation of the IFT31 payment.

(f) Please refer to Appendix A.13 for the preferred settings of the operational parameters related to CMU.

(g) For Hong Kong dollar deposit, payment is made to the Hong Kong dollar Cash Correspondent of Clearstream Banking for account of Clearstream Banking and in favour of the MA.

(h) For US dollar and euro deposit, the payment is made to the MA (bank code 888).

(i) Upon receiving good funds from the CMU Member, the MA will send a book transfer instruction to Clearstream to transfer the funds into the CMU Member's designated sub-account. The book transfer is effected in real-time basis.

(j) When funds are credited to CMU Member's designated sub-account, the funds will be available to the CMU Member for settling Clearstream transactions.

(k) In case the deposit of funds via RTGS is made on a US or euro holiday, though the US dollar or euro RTGS in Hong Kong is open for business, the funds will only be credited to the CMU Member's designated sub-account in the Clearstream system on the successive US or euro business day.

(l) The funds received by the MA via RTGS systems in Hong Kong will be remitted to the MA's main account in the Clearstream system. This remittance has been preadvised as mentioned in (a) and (b) above.

(m) If a CMU Member sends a "Deposit of Funds via RTGS Systems in Hong Kong" instruction to the MA but cannot complete its payment, for whatever reasons, with payment code IFT31 on the value day, the MA will not effect the book transfer to the CMU Member's designated sub-account and the funds will not be remitted to the MA's main account. In this case, the preadvice of funds already sent to Clearstream cannot be matched with a credit of funds on the value day. The CMU Member is liable to pay the amount charged by Clearstream Banking for funds incorrectly preadvised as mentioned in Part IV - clause *2.3.6* above.

The MA reserves the right to suspend the service on Deposit of Funds via RTGS systems and set a daily limit for CMU Members to deposit funds into its designated sub-account via RTGS systems in Hong Kong without the prior notice to CMU Members.

Currently, Deposit of Funds via RTGS Systems in Hong Kong is temporarily deactivated until the MA announces otherwise.

2.3.9 Wire Transfer

A CMU Member can send a wire transfer instruction to the MA to make a payment out of the Clearstream system by debit of the CMU Member's designated sub-account with the amount in the settlement currency specified in the instruction. The payment can be made to a specified bank for credit to a specified beneficiary and account number.

The arrangements are as follows:

(a) When the MA receives a wire transfer instruction from a CMU Member, the MA will forward the wire transfer instruction to Clearstream Banking for further processing. Clearstream Banking executes wire transfer instructions on the date of execution as indicated below:

- AUD, CAD, CHF, DKK, EUR, GBP, HKD, JPY, SGD, USD on the value day of the wire transfer instruction.

- IDR, MYR, NZD, PHP, THB on the business day before the value day.

(b) If the value day indicated by the CMU Member is not a business day, Clearstream will regard the immediately succeeding business day as the Value Day of the instruction.

(c) Money is debited from the CMU Member's designated sub-account in Clearstream's real-time processing window on the date of execution. If the CMU Member's designated sub-account has insufficient funds at the time Clearstream executes the wire transfer instruction, the instruction will not be effected.

2.3.10 Book Transfer to another Clearstream Participant

A CMU Member can send a book transfer instruction to the MA to make a transfer of funds to another Clearstream participant. The arrangements are as follows:

(a) The book transfer is effected by the debit of the CMU Member's designated sub-account with the amount in the settlement currency specified in the instruction and the simultaneous credit of such amount to an account of another Clearstream participant.

(b) When the MA receives a book transfer instruction from a CMU Member, the MA will forward the book transfer instruction to Clearstream Banking for further processing.

(c) Clearstream executes book transfer instructions in its real-time processing window on the value date indicated by the CMU Member.

(d) If the value date indicated by the CMU Member is not a business day, the instruction will be executed on the immediately succeeding business day.

2.3.11 Withdrawal of Funds to Hong Kong dollar RTGS System in Hong Kong

A CMU Member who wishes to utilise Unconfirmed Funds for transferring Hong Kong dollar funds from the Clearstream system to its Hong Kong dollar clearing account with the MA (CMU Member is a bank) or its Hong Kong dollar account with its settlement bank (CMU Member is a non-bank) via the Hong Kong dollar RTGS system can send a Withdrawal of Funds to Hong Kong dollar RTGS System instruction to the MA. The instruction must be received by the MA before the deadline specified in Part IV - clause *2.3.12* below.

The arrangements are as follows:

(a) Upon receiving the Withdrawal of Funds to Hong Kong dollar RTGS System instruction from the CMU Member, the MA will send a wire transfer instruction to Clearstream with a value day indicated by the CMU Member to remit the funds to the MA from the MA's main account in the Clearstream system via the Clearstream Cash Correspondent in Hong Kong.

(b) Meanwhile, the MA will send a book transfer instruction to Clearstream with a value date indicated by the CMU Member to transfer the funds from the CMU Member's designated sub-account to the MA's main account in the Clearstream system.

(c) The MA will transfer the funds to the CMU Member's Hong Kong dollar clearing account with the MA (CMU Member is a bank) or the CMU Member's Hong Kong dollar account with its settlement bank (CMU Member is a non-bank) via the Hong Kong dollar RTGS system on the value date if:

- The book transfer transaction from the CMU Member's designated sub-account to the MA's main account in the Clearstream system as specified in (a) above is settled before 2:00 p.m. Hong Kong time; and

- The MA receives the funds from the Clearstream Cash Correspondent in Hong Kong via the Hong Kong dollar RTGS

system with respect to the wire transfer transaction specified in (a) above before the customer cut-off of the Hong Kong dollar RTGS system (6:00 p.m.).

(d) If the book transfer transaction as specified in clauses (a) and (b) above cannot be settled on the Value Day, the CMU Member is liable to pay the finance fees charged by Clearstream Banking.

(e) If the transactions specified in clause (c) above cannot be settled before the specified time on the Value Day, the MA will transfer the funds to the specified bank in Hong Kong for credit to the specified beneficiary and account number as indicated by the CMU Member via the Hong Kong dollar RTGS system on the immediately succeeding business day.

Currently, the Withdrawal of Funds to HKD RTGS system is temporarily deactivated until the MA announces otherwise.

2.3.12 Input Deadlines of Money Instructions

All money instructions must be received by CMU before the input deadlines. Please refer to Appendix P.16 for the input deadlines of the respective currencies and note the following:

(a) Money transfer instructions in US dollar to be processed via US dollar RTGS system in Hong Kong will only be executed on days that are local business days in both Hong Kong and the United States, i.e. days that both markets are open. (Deposit of Fund via RTGS Systerms in Hong Kong is temporarily deactivated until the MA announces otherwise)

(b) Wire Transfer instruction with a value date that is a local holiday in Hong Kong or the United States will be executed on the following local business day in both Hong Kong and the United States.

(c) Preadvice of funds instructions with a value date that is a local holiday in Hong Kong or Untied States will not be accepted by Clearstream Banking.

The MA reserves the right, if and whenever the MA in his absolute discretion considers it appropriate to do so, to vary the input deadlines either in a particular case or on an on-going basis.

Subject to Part I - clause *5.2* of this Manual, CMU Members can submit money instructions by authenticated facsimile or by hand only if both of

their CMTs and SWIFT terminals are inoperable. Any money instructions which received by CMU after the input deadlines may still be forwarded to the Clearstream system for processing on a best effort basis. If these money instructions cannot be processed on the intended value date, Clearstream shall process these transfer instructions in the next value date or reject the money instructions, as the case may be. CMU Members are responsible for monitoring the settlement status of their money instructions.

2.3.13 Validation

All money instructions received by CMU will undergo a validation process. All invalid money instructions will be rejected and CMU will not further process the money instructions.

The processes are as follows:

(a) After receiving the money instructions, the CMU system will perform a validation process. If the validation is successful, the money instructions will be forwarded to the Clearstream system for further processing.

(b) The money instructions will then be validated by the Clearstream system. Money instructions sent to Clearstream are subject to additional manual validation. Such instructions may pass the computer validation and then be rejected after manual validation.

(c) If validation is unsuccessful in the Clearstream system because the instruction's format is incorrect or its contents are incomplete or incorrect, the money instruction may be repaired by Clearstream Banking as set out in (d) below.

(d) The MA is authorized to agree Clearstream Banking to repair an instruction:

- without any additional input from the CMU Member through the MA, when the instruction submitted by the MA cannot be validated merely because it does not conform to the prescribed formats and the incorrectly formatted item of information is available to Clearstream Banking; or

- based on such additional information provided by the CMU Member through the MA or directly by the MA, when the instructions contents are incomplete.

(e) For the purpose of (d) above, the instruction will be deemed to have been received by the MA at the time Clearstream repairs the instruction.

(f) The MA accepts no liability in respect of any instruction repaired by Clearstream Banking as set out in (d) above without further instruction of the CMU Member

(g) If validation is unsuccessful, either in the CMU system or the Clearstream system, the money instruction will be rejected. CMU Members can refer to Appendix D of the CMT User Manual for the description of the status code.

2.3.14 Impact of Holidays on Money Transfer Instructions

The following should be noted:

(a) Money instructions with a requested Value Day on Saturday, Sunday or any other day which is not a business day will be rejected by the CMU system.

(b) Money instructions with a requested Value Day which is a holiday in the city of the relevant Clearstream Cash Correspondent are processed for Value Day the next day which is a business day in the city of the relevant Clearstream Cash Correspondent, except that book transfer instructions are accepted and processed for any business day.

(c) Money instructions for which input deadline is one business day before Value Day must be received at the MA no later than the business day (in the country of the currency) preceding the requested Value Day; money instructions for which input deadline is two business days before Value Day must be received at the MA no later than the business day (in the country of the currency) prior the requested Value Day.

2.3.15 Cancellation

Cancellation of money instructions are allowed if the money instructions have not been executed by Clearstream. Cancellation instructions must be received by the MA before the cancellation deadlines, which are two hours before the input deadlines as mentioned in Part IV - clause *2.3.12* above unless otherwise specified. Input deadlines for cancellation of

money instructions for the respective currencies can be found at AppendixP.16.

CMU Members who wish to cancel their money instructions are required to send their cancellation request via CMT, SWIFT or subject to Part I - clause *5.2* of this Manual, a Money Instruction Cancellation Form (Appendix P.12) via authenticated facsimile or by hand to the MA before the cancellation deadlines.

Any instruction that remains unexecuted after a certain period at the discretion of the Clearstream Banking will be cancelled by Clearstream Banking.

Money instructions are not allowed to modify. CMU Members who wish to do so must cancel the original instruction and re-send a new money instruction to the MA.

2.4 Clearstream Linkage Service – Custody

2.4.1 Provision of Information in respect of Corporate Events

The MA receives information from Clearstream Banking in respect of corporate events and may, but is not obligated to, report such information to CMU Members.

The MA is not responsible for the accuracy or completeness of the information of which it receives notice and which it reports and accepts no liability for the inaccuracy or incompleteness of the information. The MA accepts no liability if the information it reports was not received by it in a timely manner.

2.4.2 Deadlines and Corporate Events Notices

Corporate Events Notification Report (CMUL4102) are corporate event reports concerning a given issue of securities and are sent to each CMU Member if:

- the CMU Member holds such securities in its CMU securities account; or
- the CMU Member has an unexecuted securities settlement instruction concerning such securities.

Information reported in DACE notices may have different status:

(a) provisional: information is known to be incomplete or subject to change at the time it is reported;

(b) definitive: latest information available to the MA which may also be subject to change;

(c) notification of change: updates to previously reported information;

(d) reminders: reminders which CMU Members received a previous DACE notice before. The MA is not obliged to send any such reminders and CMU Members must not expect that any such reminders will necessarily be sent.

2.4.3 Notification of Interest Payment and Redemption

Based on information provided by Clearstream Banking, the MA provides notifications of forthcoming interest payment and redemption to CMU Members who hold the relevant securities through the "Linkage Securities Coupon/Dividend /Redemption Notification Report" (CMUL4302). The MA provides the reports to CMU Members before it has confirmation of the receipt of anticipated funds and therefore accepts no liability if payment is not received.

The MA accepts no liability for any inaccuracy, incorrectness or incompleteness of the information provided in the report or any income payment reports.

2.4.4 Processing of Custody Operations

Most corporate events affecting a security lead to the processing of a custody operation in the Clearstream system. Some custody operations require custody operation instructions from CMU Members while others are processed without any action being taken by the CMU Members. CMU Members can refer to the DACE notices in respect of the corporate events for details.

2.4.4.1 Instructions Required for Execution

For custody operations that require instructions for execution, the arrangements are as follows:

(a) CMU Members can send their custody operation instructions to the MA via authenticated facsimile or by hand before the input deadlines in the format specified in Appendix P.10.

(b) Upon receiving the custody operation instructions from CMU Members, the MA will forward the instructions to Clearstream for further processing.

(c) If a CMU Member does not send its custody operation instruction to the MA before the input deadline, the MA is authorized to take any actions which it considers appropriate.

(d) If Clearstream Banking does not receive the custody operation instruction, Clearstream Banking will take the default action that may be specified in the relevant DACE notice or in the Customer Handbook for Customers of Clearstream Banking Luxembourg.

(e) Clearstream Banking reserves the right to block securities of the issue concerned by the default action following the applicable deadline, until such time Clearstream Banking considers necessary for execution of the default action.

2.4.4.2 Instruction Not Required for Execution

For those custody operations which do not require CMU Members to send a custody operation instruction, Clearstream Banking will take any and all such actions as may be necessary or useful to execute such custody operations.

2.4.5 Input Deadlines

All custody operation instructions must be received by CMU before the input deadlines which are two hours before the deadlines specified in the relevant DACE notices.

The MA reserves the right, if and whenever the MA in his absolute discretion considers it appropriate to do so, to vary the input deadlines either in a particular case or on an ongoing basis.

2.4.6 Validation

All custody operation instructions received by the CMU will undergo a validation process. All invalid custody operation instructions will be

rejected and CMU will not further process the custody operation instructions. The processes are as follows:

(a) After receiving the custody operation instructions, the CMU will perform a validation process.

(b) If the validation is successful, the custody operation instructions will be forwarded to the Clearstream system for further processing. The custody operation instructions will then be validated by the Clearstream system. Custody operation instructions sent to Clearstream are subject to additional manual validation. Such instructions may pass the computer validation and then be rejected after manual validation.

(c) The validation of a custody operation instruction may, but not necessarily, include the verification of the completeness of any required documents. The MA does not verify the contents of any required document and accepts no liability for acting upon any required document the completeness of which it has verified and which it believes to have received from a CMU Member.

(d) If validation is unsuccessful, either in the CMU system or the Clearstream system, the custody operation instruction will be rejected and will not be submitted for further processing. CMU Members will be informed of the status of the custody operation instruction.

2.4.7 Certifications

The terms of Clearstream eligible issues accepted in the CMU system or local law requirements sometimes impose holding or selling restrictions. CMU Members are responsible for the observance of any conditions on Clearstream Eligible Securities they hold in the CMU system.

As part of the custody services provided to CMU Members, the MA assists CMU Members when beneficial ownership certification is required:

- for exchange of temporary global securities into definitive securities or into permanent global securities; or
- for payment of interest or principal.

The arrangements are as follows:

(a) A CMU Member is notified through DACE notices of approaching certification dates for exchange of temporary global securities or the payment of income or principal if it has securities balances or pending settlement instructions during the 15 calendar days preceding the certification event date, which is:

- the last day of the restricted period, when certification is required for exchange of temporary global securities; or
- the payment date, when certification is required for the payment of income or redemption proceeds.

(b) To comply with legal requirements, the MA must receive the type of certification shown in the DACE notice from the CMU Member before the deadline as mentioned in Part IV - clause *2.4.5* above. A custody operation for which a certification or other relevant documents is required cannot be executed until a CMU Member has fulfilled requirements.

2.4.8 Credit of Money and Security as a Result of Corporate Events

If a CMU Member is entitled to the product of cash and security distribution as a result of corporate events, the cash and security are credited to the CMU Member's designated sub-account when Clearstream Banking receives such cash and security.

Income proceeds, after deduction of applicable withholding tax, and redemption proceeds are usually credited on the due date of payment, subject to reversal if payment is not actually made by the issuer. Other cash products are credited as soon as Clearstream Banking receives confirmation from its Cash Correspondent that funds have been or will be received.

Security products are credited in the following overnight process after the security is received by Clearstream Banking. CMU Members are not required to send any instructions to receive the security.

2.4.9 Reporting

A CMU Member can monitor the execution of custody operations through the following reports:

(a) Unexecuted and Executed Corporate Action Instruction Report (Clearstream) (CMUL4A02)

(b) End-of-Life Linkage Securities Transaction Report (CMUL46A2/CMUL46B2)
(c) Cash Movement Report (CMUL40A2)

3 BILATERAL LINKAGE SERVICE - AUSTRALIA

3.1 General

The purpose of linking CMU with the Central Securities Depositories (CSDs) in the Asian Pacific region through establishing a network of bilateral linkages is to facilitate cross border trades in securities in Asian time. These linkages will facilitate trading and holding of Asian bonds by Hong Kong and overseas investors, hence enlarging the investor base of CMU Instruments. They will also help to reduce the settlement risk by facilitating delivery versus payment settlement for the cross border trades in debt securities.

3.2 Linkage with Australia

With effect from March 2002, the Reserve Bank of Australia (RBA) ceases to provide an electronic Government Securities Settlement service in RITS. All government and other debt securities are cleared and settled in a single central settlement system, the Austraclear system, in Australia.

The MA is a full member of the Austraclear Ltd (Austraclear) operated by the SFE Corporation Limited. This bilateral linkage enables CMU Members to settle and hold the Australian securities in the Securities account in Austraclear.

3.3 Representation and Acknowledgement

In consideration of the MA providing this linkage to Austraclear within the CMU Service, any CMU Member who uses the linkage agrees, represents and acknowledges (such agreement, representation and acknowledgement to be evidenced by the CMU Member's use of the linkage) that:-

(a) the linkage to Austraclear and all operations, transactions and other activities conducted through it shall be subject to the CMU Rules as applicable (including without limitation Clause 8 of the CMU Membership Agreement) as the linkage is an integral part of the CMU Service offered by the MA;

(b) in carrying out the CMU Members' instructions with regard to any transactions which are to be cleared and settled through the linkage to Austraclear or to any securities which are held in Austraclear, the MA must, and is authorised by the CMU Member to, comply with all applicable rules and regulations of Austraclear (including without limitation the "Austraclear System Participant User Guide") and shall incur no liability to the CMU Member for so doing;

(c) the MA, on behalf of the CMU Member, is entitled to do all such acts and things and execute all such documents as the MA may, in his discretion, consider necessary or desirable to enable the MA to fully observe and perform his duties and obligations under the rules and regulations of Austraclear; and to enter into any arrangement which the MA considers proper for the purpose of facilitating clearance of transactions effected on behalf of the CMU Member through Austraclear;

(d) all securities held in Austraclear are subject to the rules and regulations of Austraclear, each CMU Member is responsible for informing itself of the characteristics of the securities it acquires and holds through the linkage to Austraclear and neither the MA nor the operator of Austraclear shall have any liability for any securities that are fraudulent, forged, invalid, or not freely transferable nor in respect of the creditworthiness of any issuer of any securities nor for any event of force majeure or failure of any other participants in Austraclear to comply with the rules and regulations of Austraclear;

(e) the CMU Member will provide such information to the MA, and the MA is authorised to make disclosure of any such information (including without limitation regarding the nationality, domicile, residence, location of business operations or other similar status of the CMU Member and the control or beneficial ownership of the securities held for, or traded for, the CMU Member in Austraclear) to Austraclear or any concerned tax authority as the MA may in his discretion consider necessary or desirable in connection with his operation of the Austraclear linkage as part of the CMU Service, whether for the purpose of obtaining relief from withholding tax or otherwise;

(f) if any taxes, duties, interest or other levies or penalties are imposed on the MA in connection with the holding or trading of securities or the holding or transfer of money in Austraclear on behalf of the CMU Member, the CMU Member will indemnify and hold the MA harmless in respect of such taxes, duties, interest, levy or penalty as the case may be save to the extent the same arise as a result of the wilful default or gross negligence of the MA;

(g) the CMU Member shall comply with all laws, decrees, regulations or orders of governmental bodies applicable to its use of the linkage to Austraclear and its holding or trading of securities through Austraclear and with any contract or agreement binding upon it and shall be responsible for ensuring compliance with all applicable legal, tax or regulatory requirements for disclosure or reporting as to the holding, control or beneficial ownership of or in respect of any securities it holds or trades through the linkage to Austraclear; and

(h) (for the avoidance of doubt) the MA shall, with the limited exceptions stated in the CMU Membership Agreement, be exempt from any liabilities caused directly or indirectly by the operation of the CMU Service including, without limitation, the linkage to Austraclear.

3.4 Accounts with Austraclear and RBA

As mentioned above, CMU Members can settle and hold the Australian securities via the securities account in Austraclear. In addition to this account, CMU has also opened a cash account with the RBA which acts as the CMU's participating bank (Participating Bank) to facilitate settlement for interbank money transactions in Australia.

3.4.1 Securities Account with Austraclear

The securities account with Austraclear is in the name of MA and the details are as follows:

Account name : The Hong Kong Monetary Authority
Account number : HKMA20

Under the arrangement of this linkage, the CMU will perform the custodian functions for and on behalf of its Members. All government securities as well as private sector debt securities will be kept in the securities account **(a/c nr. HKMA20)** with Austraclear on behalf of the CMU Members.

3.4.2 Cash Account with RBA

Any credit or debit balances due to or from the CMU arising from the settlement of transaction in the Securities account with Austraclear will be passed into CMU's cash account with its Participating Bank. Hence,

a nil balance will always be maintained in the account in Austraclear system by end of the day.

3.5 System Access

The CMU has installed an Austraclear terminal, which gives the CMU a direct real-time access to the clearing system. This enables:

(a) CMU to provide its Members with up-to-date settlement details and securities information.

(b) The CMU Members can effect real-time delivery versus payment and the real-time free of payment on a deal by deal basis.

3.6 Operational Details

3.6.1 Daily Processing Cycle

The daily processing cycle will follow the Operational Timetable set out in Part IV - clause *3.9* below.

3.6.1.1 **Processing**

After confirming a deal with its counterparty, the CMU Member shall inform the CMU of the transaction and settlement details no later than the cut-off time specified in the Operational Timetable of Part IV – clause *3.9**Error! Reference source not found.*** (deadline for any instructions).

The MA reserves the right not to deal with any settlement and transfer instructions after the deadline. These instructions will have to be submitted again on the next business day within the specified time.

3.6.1.2 **Reference Number**

For settlement purpose, each transfer and settlement instruction sent by the CMU Members shall include a reference number which can be recognized and identified by its counterparties and correspondent banks. This reference number must be specified in all securities and money transfer instructions sent by the buyer, seller and the correspondent banks involved in the transaction settlement. Based on such reference number, CMU can identify and match the instruction with the counterparty of CMU Member for settlement.

3.6.1.3 System Cut-off

The system cut-off time is stipulated in Part IV - clause *3.9**Error! Reference source not found.*** below. After the system cut-off in Austraclear, all unsettled settlement instructions will be cancelled in both systems. The CMU Member will be informed of all unsettled transactions and required to re-send all instructions to CMU on the next business day.

The CMU will confirm settled transactions with the relevant CMU Members. Daily reports on the transactions movement and the securities position will also be sent to the relevant CMU Member for reconciliation.

3.6.1.4 Corporate Action

CMU will provide its Members with the up-to-date information of necessary corporate actions in respect of securities held by that CMU Member in Austraclear and handle payments of redemption and interest income. The CMU Members who are entitled to the payment of redemption and/or interest income will be notified by the CMU with the Linkage Securities Coupon / Dividend Notification Report (CMUL5801) and Linkage Securities Redemption Notification Report (CMUL5901).

All related payments for corporate actions will be paid to the relevant CMU Members on the interest payment date and/or maturity date in accordance with the instructions received from the CMU Members. Meanwhile, the relevant CMU Members are also required to instruct their correspondent bank to match CMU's payment instructions of redemption or interest for settlement in Austraclear systems.

3.7 Settlement Arrangements

3.7.1 General

The settlement processes are as follows:

(a) The CMU will input the transaction details provided by its Members in the Austraclear system for matching.

(b) After matching, the Austraclear system will store the matched instructions in the system and look for the securities in the seller's account.

(c) The system will put the securities on hold and release them for settlement when the buyer has sufficient funds in its account with Austraclear.

(d) The system will facilitate a DvP settlement by transferring the securities to the buyer's account and crediting the settlement proceeds to the seller's account simultaneously once the buyer has confirmed the matched instruction in the system.

(e) If the buyer has insufficient settlement proceeds or the seller has no available or insufficient securities in its account with Austraclear, the matched instruction will be pending in the system until the settlement proceeds and securities are available in their accounts for settlement.

(f) If the transactions cannot be settled before the system cut-off time, the instructions will be cancelled in the system. These instructions will need to be input again into the system on the following business day for settlement.

(g) As the CMU will not provide the daylight overdraft facility in Australian dollar for its Members in settling the Australian debt transactions, the CMU Members are required to arrange Australian dollar funding for settlement with their correspondent banks either to pay to or receive from their counterparties.

(h) The relevant CMU Member shall instruct its correspondent bank in Australia to pay the settlement proceeds to CMU's account with Austraclear for settling the trade with the Member's counterparty before the settlement date.

(i) All money transfers instructed by the correspondent bank of the CMU Member shall include the Member's designated reference number to facilitate matching with CMU's money transfer instruction in the system.

3.7.2 CMU Member's Purchases

In respect of a buy DvP transaction, please note the following arrangements:

(a) The buying CMU Member is required to instruct its correspondent bank in Australia to transfer the settlement proceeds to the Securities account with Austraclear accordingly.

(b) This money transfer instruction shall include a reference number for identification.

(c) Meanwhile, the CMU Member shall advise the CMU of the payment and the transaction details which will enable the CMU to input money settlement instruction for matching similar instruction from the correspondent bank of the buying CMU Member in the Austraclear system.

(d) After receiving the settlement proceeds from the correspondent bank of the buying CMU Member, CMU will confirm the matched instruction in the system.

(e) The Austraclear system will facilitate the DvP settlement by crediting the securities to the seller's account and debiting the settlement proceeds from the Securities accounts with Austraclear at the same time (Part IV - clause *3.6.1* above).

(f) All settled Australian debt securities will be kept in the CMU's account with Austraclear.

3.7.3 CMU Member's Sales

In respect of a sell DvP transaction, please note the following arrangements:

(a) After confirming the availability of the relevant securities in the CMU Member's account, the CMU will initiate a sell instruction into the Austraclear system for DvP settlement.

(b) After matching, the Austraclear system will store the matched instructions in the system and look for the securities in the seller's account.

(c) The system will put the securities on hold and release them for settlement when the buyer has sufficient funds in its account with Austraclear.

(d) The system will facilitate a DvP settlement by transferring the securities to the buyer's account and crediting the settlement proceeds to the seller's account simultaneously (Part IV - clause *3.6.1* above).

(e) Upon completion of settlement, the CMU will transfer its Member's settlement proceeds to the Member's correspondent bank's account with Austraclear as instructed by the CMU Member.

(f) CMU Member is required to instruct its correspondent bank in Australia to receive the settlement proceeds from the CMU's account with Austraclear.

(g) The correspondent bank shall input the money transfer instruction with designated reference number into the system.

(h) As mentioned above, this reference number will facilitate the correspondent bank and the CMU to match the money transfer instructions in Austraclear system.

(i) If the payment instruction is not notified by the CMU Member, the CMU will effect payment of the settlement proceeds in accordance with the Standing Payment Instruction provided by the Member beforehand.

(j) The CMU Member shall also instruct its designated correspondent bank specified in the Standing Payment Instruction to receive settlement proceeds from the CMU in the system.

(k) Both the sending and receiving messages will be matched in Austraclear before fund transfer is effected.

3.7.4 Payment Method

As most of the Australian banks are members of Austraclear, all payment instructions can be made to the counterparty via Austraclear system.

However, if a correspondent bank prefers a S.W.I.F.T. payment to a direct money transfer to the Securities accounts in Austraclear, the bank is required to pay to the CMU's cash account with its Participating Bank - RBA. The correspondent bank shall also include in its S.W.I.F.T. message "Credit HKMA20 Austraclear Cash Account" and the reference number. In the event that the correspondent bank's S.W.I.F.T. payment is made without such reference, the CMU shall not be liable to any late or unsettled payment as the payee cannot be identified by the RBA.

In order to have a robust settlement, the CMU suggests its Members should advise their correspondent banks to effect payments via the Austraclear system instead of S.W.I.F.T. payments.

CMU Members shall execute payments according to the schedules as mentioned in the Operational Timetable (Part IV - clause *3.9**Error! Reference source not found.*** below) on or before the settlement date.

3.8 Reporting

The CMU system provides a wide range of reports to support the linkage with Australia. Please refer to the Appendix C of the CMT User Manual – Report Guide for the details.

3.9 Business Day

The bilateral linkages service will not be provided for the CMU Members in the following days: -

- 1st of January and all Saturdays and Sundays in Hong Kong
- All public holidays, bank holidays, Saturdays and Sundays in Victoria and New South Wales in Australia

With a reasonable period of notice given to CMU Members, the MA reserves the right to suspend or terminate the bilateral linkage services, wholly or partially, or to vary the operating time for daily settlement, by reason of any circumstances whatsoever beyond the MA's reasonable control, including without limitation partial or total failure, malfunction or overload of the CMU Service or other emergency.

3.9.1 Winter Timetable (End October - End March)

Hong Kong Time	Australia Time	Event
8:30 am.	11:30 a.m.	Daily operation commences in the CMU
11:00 am.	2:00 p.m.	Cut-off time for sending DvP/FoP instructions to the CMU.
12:00 noon	3:00 p.m.	Cut-off time for S.W.I.F.T. payments made to the CMU's cash account with RBA by the CMU Member's correspondent bank.
1:00 p.m.	4:00 p.m.	Cut-off time for sending money transfer instructions to credit the Securities accounts via the Austraclear systems
1:30 p.m.	4:30 p.m.	System cut-off for Austraclear. All unsettled transactions will be cancelled. The CMU Members are required to re-send the instructions to the CMU on the next business day.

3.9.2 Summer Timetable (End March - End October)

Hong Kong Time	Australia Time	Event
8:30 am.	10:30 a.m.	Daily operation commences in the CMU
12:00 noon.	2:00 p.m.	Cut-off time for sending DvP/FoP instructions to the CMU.
1:00 p.m.	3:00 p.m.	Cut-off time for S.W.I.F.T. payments made to the CMU's cash account with RBA by the CMU Member's correspondent bank.
2:00 p.m.	4:00 p.m.	Cut-off time for sending money transfer instructions to credit the Securities accounts via the Austraclear systems
2:30 p.m.	4:30 p.m.	System cut-off for Austraclear. All unsettled transactions will be cancelled. The CMU Members are required to re-send the instructions to the CMU on the next business day.

4 BILATERAL LINKAGE SERVICE – SOUTH KOREA

4.1 General

In pursuit of an extensive network of securities links with the Central Securities Depositories (CSDs) in Asia Pacific region, the MA has established a bilateral linkage with a CSD, the Korea Securities Depository (KSD) in South Korea in September 1999. A securities link has been set up between the Central Moneymarkets Unit (CMU) and the KSD, which is a statutory body providing a clearing and settlement service for the public and private debt securities for its members. The KSD has been appointed as a Recognised Dealer of Exchange Fund Bills/Notes and Specified Instruments as well as a CMU Member. Reciprocally, the CMU has joined KSD as its member in September 1999.

Both CMU and KSD Members are able to settle and hold the Korean Won and Hong Kong Dollar debt securities in the Securities accounts with KSD and in the KSD accounts with CMU by virtue of the bilateral membership. This reciprocal arrangement enables the members of these two CSDs to facilitate the cross border delivery versus payment settlement. As a consequence, it will help reduce the settlement risk and enhance the settlement efficiency of cross border trades in South Korea and Hong Kong.

4.2 Prerequisite of Investing in Korean Debt Market

4.2.1 Standing Proxy Appointment / Investment Registration

As a prerequisite of investing in Korean debt market, all end investors must obtain an Investment Registration Card (IRC) from the Financial Supervisory Service (FSS) of South Korea in their own names. The application for IRC is handled by a Standing Proxy appointed by an investor.

Under the arrangement of bilateral linkage, the KSD will undertake the performance of a Standing Proxy. Moreover, the KSD will also provide

services on administering the account opening at Members' correspondent banks as well as securities brokerage firms.

For CMU Members who newly invest in Korean market, the arrangements are appended below:

(a) CMU Members must appoint the KSD as their Standing Proxy to proceed the application of IRC.

(b) Members are required to complete the Form for Investment Registration and Standing Proxy Agreement and Application (Appendices R.3 and R.8) and return to CMU with documents specified in the forms.

(c) The CMU will forward all submitted documents to KSD for further processing.

(d) The process of investment registration will usually take 3 to 7 business days after the FSS have received the application and all respective documents.

If a CMU Member has already been registered in FSS through its Proxy as an investor in South Korea, the above-mentioned arrangement of proxy and application of investment registration card to the KSD will not be needed.

It should be noted that an end investor is required to indicate the registration ID number in each of its trade placed with its broker.

4.2.2 Account Opening at Correspondent Bank in South Korea

CMU Members are required to open following accounts at their correspondent banks in South Korea:

(a) “Foreign Currency Accounts for Securities Investment for Non-Resident”; and
(b) “Korean Won Accounts for Securities Investment for Non-Resident”.

Account opening can be made by the KSD on behalf of CMU Members for their initial investment in Korean securities. CMU Members who wish to open cash accounts through the KSD must complete the Application

Form for Cash Account Opening (Appendix R.4) and send to the CMU with the respective documents specified in the application form. The CMU will forward these documents to the KSD for further processing.

CMU Members are free to select their own correspondent banks. They can either directly approach the correspondent banks or request the KSD to open the cash accounts at their selected correspondent banks on their behalf. A list of major correspondent banks in South Korea is attached in Appendix R.6 for reference.

4.2.3 Account Opening at Securities Brokerage Firm in South Korea

In addition to opening accounts with correspondent banks, CMU Members are also required to open securities accounts at their securities brokerage firms in South Korea. The administration of account opening can be arranged by the KSD with a selected brokerage firm on behalf of CMU Members for their initial investment in Korean securities. CMU Members who wish to open securities accounts through the KSD must contact the CMU for details.

It should be noted that the selection of brokerage firm is made at CMU Members' full discretion. They can either directly approach the brokerage firms or request the KSD to open the securities accounts at their selected brokerage firms on their behalf. A list of major brokerage firms in South Korea is attached in Appendix R.7 for reference.

4.3 Securities Accounts with KSD

The MA has become a full member of the KSD. By virtue of membership, the CMU are allowed to open a Participant Account and a Cash Account with the KSD. This enables the CMU to facilitate settlement of Korean debt securities and payments arising from the cross border transactions on behalf of its members.

4.3.1 Regulation

According to the regulation of KSD, all members including CMU shall obtain the explicit consent of their clients before depositing their debt securities to their accounts with KSD. To comply with such regulation, it should be noted that the participation of CMU Members will indicate

members' consent and approval to hold their Korean Securities in Securities accounts with KSD.

4.3.2 Account Details

All Securities accounts with the KSD are in the name of the MA and the details are as follows:

CMU Security Account with the KSD

Account name	:	The Hong Kong Monetary Authority
Account number	:	6109-00

CMU Cash Account with the KSD:

Account name	:	The Hong Kong Monetary Authority
Account number	:	6109-00

All CMU Members' remittances and fund receipts settling the cross border transactions shall be made through their correspondent banks in South Korea to and from CMU cash account with KSD**.** Hence, a nil balance will always be maintained in the Securities accounts in KSD by end of the day.

4.4 KSD Accounts with CMU and its Settlement Bank

The KSD has opened a Securities Account in the name of the Korean Securities Depository. All KSD Members can settle and hold Hong Kong dollar debt securities. To handle Hong Kong Dollar money payments arising from Hong Kong dollar debt securities transactions, the KSD has appointed Citibank N.A. Hong Kong as its settlement bank to facilitate money settlement.

All KSD accounts separately opened with the CMU and Citibank Hong Kong are in the name of the Korea Securities Depositories and the details are as follows:-

KSD Account with the CMU

Account name	:	Korean Securities Depository
Account code	:	KSDK
Account number	:	KSDK000

KSD Account with Citibank Hong Kong

Account name : Korean Securities Depository
Savings Account number: 08510938

4.5 The Responsibility of CMU and KSD

Under the arrangement of these securities linkages, the CMU and KSD will each be responsible for the administration and custodian function of their own members' securities portfolios in the CMU and KSD respectively.

As a CMU Member, the KSD shall comply with the conditions and regulations for the CMU membership as specified in the CMU Membership Agreement and the Appointment Letter of Recognized Dealer for Exchange Fund Bill, Notes and Specified Instruments. The settlement arrangement of Hong Kong Dollar debt securities for KSD Account in the CMU will follow the usual procedures as specified in this Manual. As for the Korean Won debt securities settlement, the procedures for Korean Won debt securities settlement are detailed in Part IV - clauses *4.7* to *4.13 below*.

4.6 Representation and Acknowledgement

In consideration of the MA providing this linkage to KSD within the CMU Service, any CMU Member who uses the linkage agrees, represents and acknowledges (such agreement, representation and acknowledgement to be evidenced by the CMU Member's use of the linkage) that:-

(a) the linkage to KSD and all operations, transactions and other activities conducted through it shall be subject to the CMU Rules as applicable (including without limitation Clause 8 of the CMU Membership Agreement) as the linkage is an integral part of the CMU Service offered by the MA;

(b) in carrying out the CMU Members' instructions with regard to any transactions which are to be cleared and settled through the linkage to KSD or to any securities which are held in KSD, the MA must, and is authorised by the CMU Member to, comply with all applicable rules and regulations of KSD and shall incur no liability to the CMU Member for so doing;

(c) the MA, on behalf of the CMU Member, is entitled to do all such acts and things and execute all such documents as the MA may, in his

discretion, consider necessary or desirable to enable the MA to fully observe and perform his duties and obligations under the rules and regulations of KSD; and to enter into any arrangement which the MA considers proper for the purpose of facilitating clearance of transactions effected on behalf of the CMU Member through KSD;

(d) all securities held in KSD are subject to the rules and regulations of KSD, each CMU Member is responsible for informing itself of the characteristics of the securities it acquires and holds through the linkage to KSD and neither the MA nor the operator of KSD shall have any liability for any securities that are fraudulent, forged, invalid, or not freely transferable nor in respect of the creditworthiness of any issuer of any securities nor for any event of force majeure or failure of any other participants in KSD to comply with the rules and regulations of KSD;

(e) the CMU Member will provide such information to the MA, and the MA is authorised to make disclosure of any such information (including without limitation regarding the nationality, domicile, residence, location of business operations or other similar status of the CMU Member and the control or beneficial ownership of the securities held for, or traded for, the CMU Member in KSD) to KSD or any concerned tax authority as the MA may in his discretion consider necessary or desirable in connection with his operation of the KSD linkage as part of the CMU Service, whether for the purpose of obtaining relief from withholding tax or otherwise;

(f) if any taxes, duties, interest or other levies or penalties are imposed on the MA in connection with the holding or trading of securities or the holding or transfer of money in KSD on behalf of the CMU Member, the CMU Member will indemnify and hold the MA harmless in respect of such taxes, duties, interest, levy or penalty as the case may be save to the extent the same arise as a result of the wilful default or gross negligence of the MA;

(g) the CMU Member shall comply with all laws, decrees, regulations or orders of governmental bodies applicable to its use of the linkage to KSD and its holding or trading of securities through KSD and with any contract or agreement binding upon it and shall be responsible for ensuring compliance with all applicable legal, tax or regulatory requirements for disclosure or reporting as to the holding, control or beneficial ownership of or in respect of any securities it holds or trades through the linkage to KSD; and

(h) (for the avoidance of doubt) the MA shall, with the limited exceptions stated in the CMU Membership Agreement, be exempt from any

liabilities caused directly or indirectly by the operation of the CMU Service including, without limitation, the linkage to KSD.

4.7 Communication Link

Since the user interface of the front-end terminal of the KSD system is displayed in Korean, the KSD terminal would not be installed in the CMU. Instead, the authenticated facsimile, SWIFT and other possible means agreed by both parties can be used as the communication link between the CMU and the KSD.

After the KSD receives any instructions from the CMU via authenticated facsimile, SWIFT and other possible means agreed by both parties, the Global Operation Department of the KSD will immediately input the instructions into the KSD system on behalf of the CMU. Hence CMU Members can effect real-time Delivery versus Payment (DvP) and real-time Free of Payment (FoP) transactions for Korean Won debt securities on a deal by deal basis.

4.8 Operational Procedures for Korean Won Debt Securities Transactions

4.8.1 Daily Processing Cycle

The daily processing cycle will follow the Operational Timetable as set out in Part IV - clause *4.17* below.

4.8.2 Processing

All funds settlement related to Korean securities are settled through the Korean interbank payment system called “BOK-WIRE”. However, the payment facility is not available on every 7th and 22nd day of each month because the reserve requirements of Korean banks have to be met on these days. Hence, it should be noted that any settlement date falling onto these two particular dates shall be avoided.

After confirming a trade with its counterparty, the CMU Member shall inform the CMU of the transaction and settlement details no later than the cut-off time specified in the Operational Timetable. The MA reserves the right not to deal with any settlement and transfer instructions after the

deadline. These instructions will have to be submitted again on the next business day within the specified time.

4.8.3 Reference Number

For settlement purpose, each transfer and settlement instruction sent by the CMU Members shall include a Reference Number which can be recognized and identified by their brokers and correspondent banks. This Reference Number must be specified in all securities and money transfer instructions sent by the CMU Members, the broker and the correspondent banks involved in the transaction settlement. Based on such Reference Number, the KSD can identify and match the instructions with that of the broker and correspondent bank of the CMU Member for settlement.

4.8.4 System Cut-off

The system cut-off is stipulated in Part IV - clause *4.17* below. After the system cut-off in the KSD, all unsettled transactions with the KSD for settlement value on that day will be cancelled. The relevant CMU Members will be informed of all unsettled transactions and required to re-send all cancelled instructions to the CMU on the next business day for settlement on that day.

The CMU will confirm settled transactions with the relevant CMU Members. Daily Reports on the transaction movement and the securities position will also be sent to the relevant CMU Members for reconciliation.

4.9 Corporate Actions

4.9.1 Information of Corporate Actions

The CMU will provide its Members with an up-to-date information of corporate actions for Korean Won securities held by CMU Members in the KSD and handle the payments of redemption and interest income. All payments arising from corporate actions will be paid to the relevant CMU Members on the interest payment date and/or maturity date in accordance with their Standing Instruction of Payment (Appendix R.1).

CMU Members are required to submit their standing instructions to CMU before the use of the bilateral linkage service.

The CMU will send Interest Notification Pre-advice and Redemption Notification Reports to CMU Members 10 business days before the payment date.

Final Interest Notification Report and Final Redemption Notification Report will be sent to CMU Members one business day before the payment date.

4.9.2 Withholding Tax

The government of South Korea imposes the withholding tax on all types of Korean Won Securities. Investors who are non-resident of South Korea will be taxed on interest income. Notwithstanding, the Korean government has granted a tax treaty for those countries listed on Appendix R.9. These countries can enjoy a special treaty rate under this treaty. Any CMU Members and their clients who are entitled to the tax treaty shall submit the declaration forms (Appendix R.10) to CMU 5 business days before the payment date for tax claim. The declaration form must enclose with certified copies of Certificate of Incorporation (for new investors in Korean Market only) and Certificate of Investment Registration, in which the nationality of the investor can be identified.

If a CMU Member is subject to the withholding tax, a net interest payment and/or redemption proceeds deducting the taxable amount will be credited to CMU Member's account with its correspondent bank in South Korea on the payment date. The respective Member is also required to instruct its correspondent bank to receive the payment of redemption or interest for settlement in the KSD.

In order to exempt from the withholding tax, a CMU Member shall identify its nationality (place of incorporation) which is included by the tax treaty. For example, a bank which is incorporated in the United States of America, has its subsidiary opened and incorporated in Hong Kong, the nationality/place of incorporation will be regarded as Hong Kong. Therefore, its Hong Kong subsidiary will be subject to the withholding tax.

4.9.3 Equity Linked Bonds

It should be noted that the equity linked bonds are also eligible for cross border transactions. Holders of these bonds may have an option to convert the bonds into equities. Since the KSD provides custodian, clearing and settlement securities for Korean Won debt securities only, in the event of conversion, the CMU Members shall arrange safe custody for the resultant equities and transfer those equities to its correspondent bank.

4.10 Korean Won Debt Securities Settlement Arrangements

The settlement arrangements are as follows:

(a) The CMU will send the transaction details provided by its Members to the KSD.

(b) After the KSD receives the transfer instructions, it will input the instructions immediately into the KSD system for matching.

(c) Upon completion of the matching process, the KSD system will look for the securities in the seller's account.

(d) The KSD will put the securities on hold and release them for settlement when the buyer transfers the settlement proceeds to the seller or its correspondent bank account with the Bank of Korea via BOK-WIRE.

(e) The KSD system will facilitate a DvP settlement by transferring the securities to the buyer's account and crediting the settlement proceeds to the seller's account simultaneously.

(f) If the buyer does not transfer sufficient settlement proceeds to the seller or its correspondent bank account or the seller has no available or insufficient securities in its account with the KSD, the matched instruction will be pending in the KSD system until the system cut-off of the KSD system.

(g) If the transactions with same day value cannot be settled before the system cut-off time, the instructions will be cancelled in the KSD system. These instructions will need to be input again into the KSD system on the following business day for settlement. Hence, CMU

Members are required to re-send their transfer instructions to the CMU on the following business day.

4.11 Payment Obligations

4.11.1 Fund Transfers

According to the existing regulations of South Korea, all Korean Won fund transfers related to Korean securities transactions of a foreign investor will be settled through the "Foreign Currency Account for Securities Investment for Non-Residents" and a "Korean Won Account for Securities Investment for Non-Residents" at its correspondent in South Korea.

According to the Foreign Exchange Management Act, the KSD is not allowed to remit the Korean Won funds from the MA's cash account with KSD directly to CMU Members' overseas accounts, and vice versa.

4.11.2 Funding Arrangements

As the CMU will not provide the daylight overdraft facility in Korean Won for its Members in settling the Korean Won debt securities transactions, the CMU Members are required to arrange Korean Won funding for settlement with their correspondent banks. The relevant CMU Member can either:

(a) instruct its banker in Hong Kong to remit Hong Kong dollar funds to its correspondent bank in South Korea and exchange the Hong Kong dollar for Korean won with its correspondent bank; or

(b) exchange Hong Kong dollar for US dollar in Hong Kong and instruct its banker in Hong Kong to remit US dollar funds to its correspondent bank in South Korea for settlement. The US dollar funds will be exchanged for Korean Won with its correspondent bank in South Korea for settlement. However, the CMU Member shall ensure that the remittance of US dollar funds must be completed before the deadline specified in the operational timetable.

4.11.3 Trades Settlement

The relevant CMU Members shall instruct their correspondent banks which maintain a clearing account with the Bank of Korea to pay the

settlement proceeds to the MA cash account with the KSD through BOK-WIRE for settling trades with the Member's counterparties before the deadline specified in the operational timetable.

All money transfers instructed by the correspondent banks of the CMU Members shall include the relevant Members' designated Reference Numbers to facilitate matching with the CMU's money transfer instructions in the KSD system.

4.12 CMU Member's Purchase

A CMU Member who wishes to purchase Korean securities shall note the following arrangements:

(a) The CMU Member shall place a buy order to its broker in South Korea where it has opened a securities account.

(b) When a CMU Member places a buy order, it must include its designated a "Reference Number" for each trade so that the KSD and the broker can identify the settlement of the order.

(c) The CMU Member shall indicate to its broker that the KSD (Global Operations) is the securities settlement for securities appointed by the MA in each settlement instruction.

(d) For funds settlement, the CMU Member shall clearly indicate its correspondent bank when placing an order.

(e) After a trade is executed through a broker, the buying CMU Member is required to send a settlement instruction to the CMU before the deadline specified in the operational timetable. The settlement instruction must clearly indicate the CMU Member's corresponding bank, the account number of the correspondent bank at BOK as well as the Reference Number related to the settlement concerned.

(f) After the CMU has verified the settlement instruction, it will relay the instruction to the KSD via authenticated facsimile, SWIFT or other possible communication means agreed by both parties for settlement.

(g) The KSD (Global Operations) will input the settlement instruction into the KSD system on behalf of the CMU.

(h) On the other hand, the broker, who acts as the settlement counterparty of the CMU Member, will input trade details (including the Reference Number) into the KSD system for matching.

(i) The CMU Member shall ensure that sufficient Korean Won fund is available in the cash account with its correspondent bank for settlement. The CMU Member shall instruct its banker in Hong Kong to remit sufficient funds to its correspondent bank in South Korea and exchange for Korean Won with it.

(j) In respect of a buy DvP transaction, the CMU Member is required to instruct its correspondent bank in South Korea to transfer the settlement proceeds to the CMU cash account with the KSD via BOK-WIRE. This money transfer instruction shall include the Reference Number for identification.

(k) After receiving the settlement proceeds from the correspondent bank of the CMU Member, the KSD will effect the payment to the broker (seller) or its correspondent bank on behalf of the CMU.

(l) The KSD will facilitate the DvP settlement by crediting the securities to the buyer's account and debiting the settlement proceeds from the CMU Cash Account with KSD simultaneously. All settled Korean Won debt securities will be kept in the CMU Security Account with KSD.

4.13 CMU Member's Sales

A CMU Member who wishes to sell Korean securities shall note the following arrangements:

(a) The CMU Member shall place a sell order to its broker in Korea where it has opened a securities account.

(b) When a CMU Member places a sell order, it shall include a Reference Number so that the KSD and the broker can identify the settlement of the order.

(c) The CMU Member shall indicate to its broker that the KSD (Global Operations) is the securities settlement agent appointed by the MA in each settlement instruction.

(d) For funds settlement, the CMU Member shall clearly indicate its correspondent bank when placing an order.

(e) After a trade is executed through a broker, a CMU Member shall send a settlement instruction to the CMU before the deadline specified in the operational timetable.

(f) The settlement instruction must clearly indicate the CMU Member's corresponding bank, the account number of the correspondent bank at BOK as well as the Reference Number related to the settlement concern.

(g) After confirming the availability of the relevant securities in the selling CMU Member's account, the CMU will relay the instruction to the KSD via authenticated facsimile, SWIFT, or other possible communication means agreed by both parties.

(h) The KSD (Global Operations) will input the settlement instruction into the KSD system on behalf of the CMU.

(i) On the other hand, the broker, who acts as the settlement counterparty of the CMU Member, will input trade details (including the Reference Number) into the KSD system for matching.

(j) After matching, the KSD system will put the relevant securities under the CMU's account on hold and release them for settlement when the KSD receives the settlement proceeds from the broker (buyer) or its correspondent bank via BOK-wire.

(k) The KSD will facilitate a DvP settlement by transferring the securities to the buyer's account and crediting the settlement proceeds to the seller's account simultaneously.

(l) Upon completion of settlement, the CMU will instruct the KSD to transfer the settlement proceeds to the CMU Member's correspondent bank in Korea through the account with the Bank of Korea. The CMU Member is required to instruct its correspondent bank to receive the settlement proceeds from the CMU.

4.14 Trading among CMU Members

When a trade of Korean Won securities is directly made by two CMU Members, they are still required to report the trade details to their own brokers.

4.14.1 Securities Settlement

For securities settlement, the CMU will debit the seller's security account and credit the buyer's security account with the relevant securities.

The holdings of MA's security account with the KSD will not be changed.

4.14.2 Money Settlement

For money settlement, there are two options available for CMU Members:

(a) CMU Member buyer instructs its correspondent bank to remit Korean Won funds to the CMU Member seller's corresponding bank directly. As the money settlement does not link up with the securities settlement, the trade will be settled on Free-of-Payment basis.

(b) Alternatively, the money settlement can be passed through the MA's cash account with the KSD. The KSD will regard the trade as a series of transactions (see Part IV - clause *4.14.4* below) and settle the trade on DvP basis.

4.14.3 Direct Fund Transfer among CMU Members' Correspondent Banks

As aforesaid, when a trade is made among two CMU Members, they are required to report the trade details to their own brokers. The two brokers will exchange the trade details for each other. If the trade details are matched, the brokers will send a report on trade execution to the CMU Members.

(a) Security Instruction

The arrangements are as follows:

(i) Both CMU Members are required to send FoP settlement instructions to CMU before the deadline specified in the operational timetable.

(ii) The CMU will match members' transfer instruction. Once the trade details are matched, the CMU will settle the transactions within the CMU system.

(iii) Although there will not be any changes of total position in the MA's security account with the KSD, the CMU is still required to notify the KSD of the trade details. This will help KSD to collect information for tax reporting on interest incomes.

(b) Money Settlement

The arrangements are as follows:

(i) On the money settlement side, the CMU Member buyer is required to instruct its correspondent bank in South Korea to transfer the settlement proceeds directly to the CMU Member seller's correspondent bank via BOK-WIRE.

(ii) Meanwhile, the CMU Member buyer is required to instruct its correspondent bank to receive the settlement proceeds.

(iii) Upon completion of the transaction, both CMU Members will receive confirmations from their correspondent banks.

4.14.4 Fund Transfer via KSD's BOK-WIRE Account

Alternatively, the settlement proceeds can be transferred via the KSD's BOK-WIRE account. This method will facilitate the settlement on DvP basis. Unlike the above-mentioned FoP settlement procedure involving no settlement in the KSD system, the DvP settlement process will be executed in the manner of settling a series of transactions in the KSD system.

Transaction 1: CMU Member seller sells Korean Won securities to its broker.

Transaction 2: Broker of CMU Member seller sells the securities to broker of CMU Member buyer. If both CMU Members

engage the same broker, this transaction can be skipped and the Transaction 3 will be executed.

Transaction 3: Broker of CMU Member buyer sells the securities to CMU Member buyer.

The arrangements are as follows:

(a) The settlement of the above transactions is made within the KSD's Bonds Settlement System Over the Counter, with each step being identified as independent settlement with different Settlement Number.

(b) The above three transactions are settled on DvP basis as a Chain Trade which will be settled simultaneously. If the settlement of any transaction fails, the other two transactions will also not be settled.

(c) The terms of broker as above mentioned is referred as to a securities company acting as a counterparty to its customer. It does not act in the capacity of an intermediary between two traders. So each step of the whole chain is regarded as a separate transaction.

(d) When a trade is made among two CMU Members, they are required to report the trade details, including information on the counterparty and its broker, to their own brokers. The two brokers will exchange the trade details for each other. If the trade details are matched, the brokers will send a report on trade execution to the CMU Members.

(e) Both CMU Members are required to send DvP settlement instructions to the CMU before the deadline specified in the operational timetable. After the CMU verifies the settlement instructions and confirms the availability of the relevant securities in the CMU Member seller's account, the CMU will relay the instructions to the KSD via the authenticated facsimile, SWIFT or other possible communication means agreed by both parties.

(f) The KSD (Global Operations) will input the settlement instructions into the KSD system on behalf of the CMU. On the other hand, the brokers, who act as the settlement counterparties of the CMU Members, will input trade details (including the Reference Numbers) into the KSD system for matching.

(g) On money settlement side, the CMU Member buyer is required to instruct its correspondent bank in South Korea to transfer the settlement proceeds to the CMU cash account with the KSD via BOK-WIRE. This money transfer instruction shall include the Reference Number for identification.

(h) Upon receipt of the settlement proceeds from the correspondent bank of the CMU Member buyer, KSD transfers the Korean Won funds, which are credited and debited simultaneously at accounts of seller's broker and buyer's broker respectively, to CMU Member seller's Correspondent Bank via BOK-WIRE. At that time, all the three transactions mentioned above are settled at the same time. KSD will send settlement reports to the CMU confirming the settlement of the transactions.

(i) Upon receipt of KSD's confirmation, CMU will debit the relevant securities from the CMU Member seller and credit the same securities to the CMU Member seller. Settlement reports will also be sent to both members.

4.15 Reporting

The CMU system provides a wide range of reports to support the linkage with South Korea. Please refer to the Appendix C of the CMT User Manual – Report Guide for the details.

4.16 Business Day

The bilateral linkage service will not be available on the following days: -

- 1st January and all Saturdays and Sundays in Hong Kong
- All public holidays, bank holidays, Saturdays and Sundays in South Korea.

With a reasonable period of notice given to the CMU Members, the MA reserves the right to suspend or terminate the bilateral linkage service, wholly or partially, or to vary the operating time for daily settlement, by reason of any circumstances whatsoever beyond the MA's reasonable control, including without limitation, partial or total failure, malfunction or overload of the CMU Service or other emergency.

4.17 Operational Timetable

4.17.1 Daily Operational Timetable for Debt Securities Trade Settlement

South Korea is one hour ahead of Hong Kong. Daily operational timetable for Korean Won debt securities trade settlement is set out in the following timetable.

Hong Kong Time	Korea Time	Event
8:30 a.m.	9:30 a.m.	Daily operation commences in the CMU.
2:00 p.m.	3:00 p.m.	Cut-off time for sending DvP/ FoP instructions (Appendix R.2) for same day value to the CMU.
2:30 p.m.	3:30 p.m.	Cut-off time for transferring settlement proceeds to the KSD for the account of the MA via BOK-wire.
3:30 p.m.	4:30 p.m.	System cut-off for the KSD system. All unsettled transactions with same day value will be cancelled. The CMU Members are required to re-send the instructions to the CMU on the next business day.

4.17.2 Timetable for redemption and interest payments of Korean Won securities:

Hong Kong Time	Korea Time	Event
10 business days before Payment Date		
5:00 p.m.	6:00 p.m.	CMU sends Coupon and Redemption Notification Reports (CMUD5801 and CMUD5901) to CMU Members.
5 business days before Payment Date		
5:00 p.m.	6:00 p.m.	CMU Member or its clients, who are entitled to enjoy treaty rate of interest withholding tax, submit declaration forms (Appendix R.10) to the CMU. The declaration form must enclose with a certified copy of certificate of investment registration
One business day before Payment Date		
1:00 p.m.	2:00 p.m.	CMU sends Final Redemption and Interest Notification Reports (Report ID CMUD5901 and CMUD 5801) to CMU Members.
4:00 p.m.	5:00 p.m.	CMU Member instructs its correspondent bank in Korea to receive the redemption/interest payment proceeds from KSD on payment date.
On Payment Date		
3:30 p.m.	4:30 p.m.	After deducting the withholding tax, KSD credits the net proceeds of redemption and interest payments into the CMU Members' accounts

Hong Kong Time	Korea Time	Event
		with their correspondent banks.
5:00 p.m.	6:00 p.m.	CMU sends Confirmation of Redemption and Interest Payment to CMU Members.

5 CENTRAL CLEARING AND SETTLEMENT SYSTEM LINKAGE SERVICE

5.1 General

To enable CMU Members to hold equity securities in their respective CMU accounts, the MA has been admitted as a custodian participant in the Central Clearing and Settlement System (CCASS) operated by Hong Kong Securities Clearing Company Limited (HKSCC).

As part of the CMU Service, the MA offers all CMU Members access to CCASS by virtue of the MA's participation in CCASS. The CMU effects and receives transfers of Eligible Securities held in CCASS, and sends and receives payments in respect thereof, on behalf of CMU Members.

5.2 Service Scope

Being a custodian participant in CCASS, the MA is able to settle Eligible Securities in CCASS. However, exchange trades (i.e. continuous net settlement and isolated trades) are not supported by the CMU. Only non-exchange trades (such as Settlement Instruction Transactions) will be settled by the MA on behalf of CMU Members.

The CMU has installed a CCASS terminal to facilitate direct real-time access to CCASS. This enables the CMU to provide its Members with up-to-date settlement details and securities information. Through this system access, CMU Members can effect the following transactions with their respective counterparties:

(a) delivery versus payment,
(b) free of payment, and
(c) real-time delivery versus payment (RDP).

5.3 Responsibilities and Service Governing Documents

In consideration of the MA providing the CCASS linkage service within the CMU Service, any CMU Member who uses the linkage agrees, represents and acknowledges (such agreement, representation and acknowledgement to be evidenced by the CMU Member's use of the linkage) that:-

(a) the linkage to CCASS and all operations, transactions and other activities conducted through it shall be subject to the CMU Rules as applicable (including without limitation Clause 8 of the CMU Membership Agreement) as the linkage is an integral part of the CMU Service offered by the MA;

(b) in carrying out the CMU Member's instructions with regard to any transactions which are to be cleared and settled through the linkage to CCASS or to any Eligible Securities which are held in CCASS, the MA must, and is authorised by the CMU Member to, comply with all applicable rules and regulations of CCASS (including without limitation the "General Rules of CCASS" and the "CCASS Operational Procedures") and shall incur no liability to the CMU Member for so doing;

(c) the MA, on behalf of the CMU Member, is entitled to do all such acts and things and execute all such documents as the MA may, in his discretion, consider necessary or desirable to enable the MA to fully observe and perform his duties and obligations under the rules and regulations of CCASS; and to enter into any arrangement which the MA considers proper for the purpose of facilitating clearance of transactions effected on behalf of the CMU Member through CCASS;

(d) all securities held in CCASS are subject to the rules and regulations of CCASS, each CMU Member is responsible for informing itself of the characteristics of the securities it acquires and holds through the linkage to CCASS and neither the MA nor the operator of CCASS shall have any liability for any securities that are fraudulent, forged, invalid, or not freely transferable nor in respect of the creditworthiness of any issuer/listed company of any securities nor for any event of force majeure or failure of any other participants in CCASS to comply with the rules and regulations of CCASS;

(e) the CMU Member will provide such information to the MA, and the MA is authorised to make disclosure of any such information (including without limitation regarding the nationality, domicile, residence, location of business operations or other similar status of the CMU Member and the control or beneficial ownership of the securities held for, or traded for, the CMU Member in CCASS) to CCASS or any concerned tax authority as the MA may in his discretion consider necessary or desirable in connection with his operation of the CCASS linkage as part of the CMU Service, whether for the purpose of obtaining relief from withholding tax or otherwise;

(f) if any taxes, duties, interest or other levies or penalties are imposed on the MA in connection with the holding or trading of securities or the holding or transfer of cash in CCASS on behalf of the CMU Member, the CMU Member shall indemnify and hold the MA harmless in respect of such taxes, duties, interest, levy or penalty as the case may be save to the extent the same arise as a result of the wilful default or gross negligence of the MA;

(g) the CMU Member shall comply with all laws, decrees, regulations or orders of governmental bodies applicable to its use of the linkage to CCASS and its holding or trading of securities through CCASS and with any contract or agreement binding upon it and shall be responsible for ensuring compliance with all applicable legal, tax or regulatory requirements for disclosure or reporting as to the holding, control or beneficial ownership of or in respect of any securities it holds or trades through the linkage to CCASS; and

(h) for the avoidance of doubt the MA shall, with the limited exceptions stated in the CMU Membership Agreement, be exempt from any liabilities caused directly or indirectly by the operation of the CMU Service including, without limitation, the linkage to CCASS.

5.4 Operational Terms

With a reasonable period of notice given to the CMU Members, the MA reserves the right to suspend or terminate the CCASS linkage service, wholly or partially, or to vary the operational timetable, by reason of any circumstances whatsoever beyond the MA's reasonable control, including without limitation, partial or total failure, malfunction or overload of the CMU Service or other emergency.

Terms used in this Reference Manual will, unless the context requires otherwise, be given the same interpretation as in the CMU Membership Agreement.

5.5 Definitions

In this chapter, unless the context otherwise requires, the following expressions shall have the following meanings:

business day	-	means a day on which the CMU, CCASS and CCASS Depository are open for business to participants (except Saturdays, Sundays and public holidays);
CCASS Depository	-	means, one or more securities depositories of CCASS, providing safe-keeping facilities for Eligible Securities held in CCASS as well as to cater for withdrawals and deposits of Eligible Securities by CCASS participants;
CCASS Operational Procedures	-	means the operational procedures issued by HKSCC containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force. It is available for downloading at http://www.hkex.com.hk
General Rules of CCASS	-	means the rules of CCASS as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures. It is available for downloading at http://hkex.com.hk; and
Settlement Day	-	means a business day on which the settlement services of CCASS are open for use by its participants.

5.6 Account Structure

5.6.1 Stock Clearing Account

To facilitate the CCASS linkage service, the MA maintains a stock clearing account with CCASS. All CCASS Eligible Securities deposited in the CMU are safe-kept in such account and all transactions between a CMU Member and a non-CMU Member are settled through this stock clearing account.

Details of the MA's stock clearing account with CCASS are as follows:

Account Name	:	Hong Kong Monetary Authority
Custodian Participant ID	:	C00089

5.6.2 Cash Account

The MA also maintains the following Hong Kong dollar current account with Hongkong and Shanghai Banking Corporation Limited (HSBC) for effecting CCASS related money settlement:

Account Name	:	Hong Kong Monetary Authority
Account Number	:	511-012353-002

5.7 Eligible Securities

5.7.1 Types of Eligible Securities

The following CCASS Eligible Securities denominated in Hong Kong dollar are accepted for clearing and settlement through the CCASS linkage service:

(a) Ordinary Shares
(b) Preference Shares
(c) Registered Warrants
(d) Units (e.g. Tracker Fund, Asian Bond Fund, Exchange Traded Fund)

The MA reserves the right to revise the above list of Eligible Securities without advance notice to CMU Members.

5.7.2 Acceptance of CCASS Eligible Securities

Before an issue of CCASS Eligible Securities is processed and settled through the CCASS linkage, the CMU will assign a CMU Instrument Number to the CCASS Eligible Securities. CMU Members may enquire for CMU Instrument Number and the details of the securities issues via CMTs. For securities issues that are not yet maintained by the CMU system, CMU Members may request the CMU to assign CMU Instrument Numbers to such securities issues by calling the CMU hotline and providing relevant stock information.

5.8 Types of CCASS Transactions Supported by the CMU

5.8.1 Settlement Instruction Transaction

Settlement Instruction Transactions (SI Transactions) are transactions between CCASS Participants to settle non-exchange trades in CCASS, including broker-custodian transactions. SI Transactions are subject to matching and only matched SI Transactions will be settled.

5.8.2 SI Transactions between a CMU Member and a non-CMU Member

The process is described below:

(a) After confirming a trade with its counterparty, the CMU Member shall inform the CMU of the transaction and settlement details no later than the cut-off time as stipulated in the Operational Timetable in Part IV - clause *5.14*. The MA reserves the right not to deal with any settlement and transfer instructions received after the deadline.

(b) For settlement purpose, each SI Transaction sent by the CMU Member to the CMU, subject to Part I – clause *5.2* of this Manual, by authenticated facsimile or by hand (Appendix S.1) or via CMT must include a reference number which can be recognized and identified by its counterparties. Based on such reference, the CMU may identify and match the instruction with that inputted by the CMU Member's counterparty into the CCASS for settlement.

(c) A CMU Member's SI Transactions with a non-CMU Member are settled in CCASS. DvP and FoP transactions are settled through multiple batch-settlement-runs or in real-time for RDP transactions. CCASS conducts 4 settlement runs daily. The last settlement run normally takes place at 3:45 pm. SI Transactions that cannot be settled for the current day will **NOT** be carried forward to the next business day. Unexecuted SI Transactions will be cancelled by the CMU system. The delivering participant is required to submit new instructions to the CMU before the CMU cut-off time as set out in Part IV - clause *5.14* on the following business day.

(d) Securities settlements are effected through the MA's account with CCASS while cash settlements are effected through the MA's cash account with the HSBC. For purchase transactions, CMU Members are required to deposit sufficient funds to its mirror cash account before the CMU forwards the securities instructions to CCASS for processing. Similarly, for sales transactions, the CMU will only forward the securities instructions to CCASS if there are sufficient securities in the CMU Member's account.

(e) In case the CMU Member fails to deposit sufficient funds to its mirror cash account (for purchase transactions) or has insufficient securities in its CMU account (for sales transactions) before the input deadlines

of the securities instructions as set out in Part IV - clause *5.14* the securities instructions will be rejected.

5.8.2.1 SI Transactions between CMU Members

The arrangements are as follows:

(a) SI Transactions of CCASS Eligible Securities between CMU Members are settled across the book of the MA in the CMU system in:

  (a) real-time; or
  (b) on DvP or FoP basis.

(b) For DvP transactions, cash settlement is effected through the Hong Kong dollar Real Time Gross Settlement (RTGS) systems. For CMU Members who are not direct participants of the Hong Kong dollar RTGS system, they can appoint a settlement bank to handle the cash settlement arising from these transactions.

(c) Transfer instruction for SI Transactions of CCASS Eligible Securities between CMU Members can be sent to the CMU via CMT or subject to Part I – clause *5.2* of this Manual, by authenticated facsimile or by hand (Appendix I.1) before the respective deadline as specified in Part II – clause *4.1.3*. CMU Members must follow the procedures as stipulated in Part II - clause *4.1* (Transfers between Securities Accounts) and Part II - clause *4.2* (Delivery against Payment (DvP) Facility) to initiate the SI Transactions respectively.

(d) The CMU system supports input of forward value instructions. CMU Members may input securities as well as money instructions with forward dates up to 30 calendar days from the input day.

5.9 Transaction Processing

5.9.1 Validation

After receiving a SI Transaction from a CMU Member, the CMU system will perform preliminary validation. Invalid SI Transactions will be rejected by the CMU system. If the CMU validation is successful, the SI Transactions will be forwarded to CCASS for validation. If validation is unsuccessful, the SI Transactions will be rejected. CMU Members may refer to Appendix D of the CMT User Manual – User Guide for descriptions of the status code. For a rejected SI Transaction, the CMU

Member is required to re-submit a new instruction to the CMU before the CMU cut-off time for the transaction to be settled on the input day.

5.9.2 Matching

After successful validation by CCASS, the SI Transaction will undergo a matching process at CCASS to ensure that the corresponding SI Transaction from the CMU Member's counterparty has been received and validated.

The matching fields, as determined by CCASS, include the following:

(a) Instruction type (D-delivery / R-receive);
(b) Counterparty code;
(c) Settlement date;
(d) CMU Instrument Number / Stock code / ISIN;
(e) Quantity of Eligible Securities;
(f) Payment instruction (DvP/FoP/RDP); and
(g) Money value (in case of DvP/RDP).

5.9.3 Matching Rules

The matching process which follows the matching rules determined by CCASS and set out as follows:

(a) Possible Matching SI

SI Transactions with 3 or less unmatched fields will be classified under the category "Possible Matching SI" and a maximum of 3 unmatched reason codes will be shown for each possible matching SI Transaction.

(b) No Possible Matching SI

SI Transactions with more than 3 unmatched SI fields will be classified under the category "No Possible Matching SI found".

(c) Tolerance Limit of Money Values

Two related SI Transactions with different money values but within the tolerance limit (± $10.00) set by HKSCC will be considered as matched by CCASS.

Matched transactions will be submitted to an appropriate processing window for settlement on the settlement date. After successful matching,

a unique CCASS SI input number, and a settlement position number, are assigned to the relevant SI Transaction for ease of identification.

5.9.4 Settlement of SI

Settlement of SI Transactions in CCASS involves book-entry movements of Eligible Securities stock accounts of participants concerned and will be effected either on a trade-for-trade basis, or by batch-settlement-runs.

(a) Trade-for-trade basis

Settlement of SI Transactions in CCASS is effected directly between participants concerned on a trade-for-trade, i.e. RDP basis.

(b) Batch-settlement-runs

Unless specifically excluded from batch-settlement-runs by the delivering participant, SI Transactions will be included in the multiple batch-settlement-runs processed on each settlement day.

(i) In the case of settlement on a DvP basis, the Eligible Securities in the relevant stock account of the delivering participant will be debited and the relevant stock account of the receiving participant will be credited automatically.

(ii) In the case of settlement on a RDP basis, the Eligible Securities in the relevant securities account of the delivering participant will be put on-hold and, subject to receipt of confirmation of payment of such transactions from the Hong Kong dollar RTGS system, automatically debited from the delivering participant's stock account and credited to the stock account of the relevant receiving participant.

Partial delivery in respect of a SI Transaction will not be allowed in CCASS.

For transactions between two CMU Members, these transactions are settled across the book of the MA in real-time or during the CMU optimiser run. The transactions can be settled on DvP or FoP basis.

For transactions between a CMU Member and a non-CMU Member, these transactions are settled in CCASS on DvP or FoP basis. They can be settled in real-time or in the multiple batch-settlement-runs processes on each settlement day.

5.10 Revocation and Cancellation of SI Transactions

At any time before a matched SI Transaction is settled, either the delivering or the receiving participant may revoke the SI Transaction with matched or matched on-hold status.

In the case of a SI Transaction which is to be settled on a RDP basis, where

(a) Eligible Securities have been put on hold in the delivering participant's stock account (i.e. the SI Transaction status is on-hold), only the receiving participant is allowed to revoke the SI Transaction; and

(b) if the SI Transaction status has been updated as "payment validated", neither the delivering nor the receiving participant is allowed to revoke the SI Transaction.

5.11 Money Settlement Services

The CMU system supports the following money transactions:

(a) Deposit of funds via HK dollar RTGS system to settle CCASS linkage related transactions; and

(b) Transfer out of funds as a result of money settlement arising out of CCASS linkage related transactions or corporate action.

The MA reserves the right to suspend all or part of the money transfer services without advance notice to CMU Members.

5.11.1 Deposit of Funds via Hong Kong dollar RTGS System

The arrangements are as follows:

(a) A CMU Member who intends to deposit funds to settle a SI Transaction in CCASS must make use of the "Deposit of Funds via Hong Kong dollar RTGS system" function of the CMT or subject to Part I – clause *5.2* of this Manual, authenticated fax or by hand (Appendix S.2) to send instructions to the CMU. Such instruction must reach the CMU before the prescribed input deadlines set out in Part IV - clause *5.14* below.

(b) The CMU Member or its settlement bank is required to make a payment to the MA's account (A/C number 888) with payment code IFT31 through Hong Kong dollar RTGS system before the specified cut-off time set out in Part IV - clause *5.14* below on the value day. Upon receiving good funds from the CMU Member:

(i) credit confirmation will be sent to the CMU Member; and
(ii) the MA will then remit the funds to its account with HSBC for the purpose of settling the SI Transaction.

(c) If a CMU Member sends a "Deposit of Funds via RTGS Systems in Hong Kong" instruction to the MA with payment code IFT31 through Hong Kong dollar RTGS system before the deadline on the value day but cannot complete payment for whatever reasons, the MA will not remit the funds to its account with HSBC and the settlement of the SI Transaction will fail as a consequence.

5.11.2 Transfer out of Funds

The arrangements are as follows:

(a) If a CMU Member receives income or sales proceeds arising from an income distribution event or a sale of the Eligible Securities and wishes to transfer the money out, it can send a transfer instruction to the MA via CMT or subject to Part I – clause *5.2* of this Manual, by authenticated fax or by hand (Appendix S.3). The payment can be made to a specified bank for credit to a specified beneficiary and account number.

(b) When the MA receives such transfer instruction from a CMU Member, the MA will check the availability of funds in the mirror cash account of the CMU Member on the value day. If the CMU Member has sufficient funds for the money transfer, the MA will forward the transfer instruction to HSBC for further processing.

(c) If the CMU Member does not have sufficient funds for the transfer before the input deadlines set out in Part IV - clause *5.14* below, the transfer instruction will not be forwarded to HSBC and the money instruction will be cancelled.

5.11.3 Input Deadlines

All money instructions must reach the CMU before the input deadlines as set out in Part IV - clause *5.14* below. All money instructions received by the CMU will undergo a validation process. All invalid money instructions will be rejected.

5.11.4 Cancellation

Cancellation of money instructions is allowed only if they have not been executed by the HSBC. Cancellation instructions must be received by the CMU before the cancellation deadlines, which are two hours before the input deadlines as stipulated in Part IV - clause *5.14* below.

A CMU Member who wishes to cancel a money instruction is required to send cancellation request via CMT or subject to Part I – clause *5.2* of this Manual, by authenticated fax or by hand (Appendices S.2 and S.3) to the MA before the cancellation deadline. Results of the cancellation process will be notified to CMU Members the "Unexecuted linkage money transaction report" (CMUD49C1).

Modifications of money instructions are not allowed. A CMU Member who wishes to modify money instructions must cancel the original instruction and re-send a new money instruction to the CMU.

5.12 Corporate Actions

5.12.1 Provision of Information

The CMU will provide CMU Members with up-to-date information of corporate actions received from CCASS. These include:

(a) Corporate announcements
(b) Benefit distribution
(c) Warrants/Rights subscription
(d) Open offers/Take-over offers
(e) Voting
(f) Nomination of corporate representative/proxy
(g) Bond conversion/redemption
(h) Periodic interest payment
(i) Dividend Entitlements with Options Election

All corporate actions related payments will be paid to the CMU Member's mirror cash account upon receipt of payments from HKSCC on the payment day**.**

In respect of corporate events where nominees services are not offered by CCASS, the MA may, but is not obliged to, report information of corporate actions he received from CCASS to CMU Members.

The MA does not verify the accuracy and completeness of the corporate action information it receives from CCASS and accepts no liability for the

accuracy, completeness and timeliness of such information which he reports to CMU Members.

5.12.2 Notification

Notification of corporate events pertaining to a particular securities issue will be sent to the CMU Member if:

(a) the CMU Member holds such securities in its CMU securities account; or

(b) the CMU Member has an unexecuted securities settlement instruction concerning such securities.

5.12.3 Processing

Most corporate events concerning a security issue will lead to the processing of a corporate action in CCASS. Some corporate actions require instructions from a CMU Member while others are processed without the need for actions by the CMU Member.

(a) Instruction Required for Execution

For a corporate event that require an instruction for execution, the CMU Member can send a corporate action instruction to the MA via authenticated fax before the input deadlines in the format as specified in Appendices S.4 to S.14. Upon receiving the custody operation instructions from the CMU Member, the CMU will forward the instructions that have passed the validation to CCASS for further processing.

(b) Instruction Not Required for Execution

If a CMU Member does not send its corporate action instruction to the CMU before the input deadline, the MA is authorized to take the default action specified in the relevant notice issued by the relevant agent or institutions and distributed through CCASS or as specified in the General Rules of CCASS and CCASS Operational Procedures. CCASS reserves the right to block securities of the issue concerned by the default action following the applicable deadline until such time as CCASS considers necessary for execution of the default action.

For those corporate actions which do not require a CMU Member to send a custody operation instruction, CCASS will take any and all

such actions as may be necessary or useful to execute such custody operations.

5.12.4 Input Deadlines of Corporate Action Instructions

All corporate action instructions (including the re-submission instructions) must be received by the CMU two hours before the deadlines specified in the relevant notices, or before the cut-off time as stipulated in Part IV - clause *5.14* below, whichever is earlier.

5.12.5 Validation

The arrangements are as follows:

(a) After receiving the corporate action instructions, the CMU will perform a validation process. If the validation is successful, the corporate action instructions will be forwarded to CCASS for further processing. The instructions will then be validated by CCASS.

(b) The validation of a corporate action instruction may, but not necessarily, include the verification of the completeness of any required documents. The MA does not verify the contents of any required document and accepts no liability for acting upon any required document the completeness of which it has verified and which it believes to have received from a CMU Member.

(c) If validation is unsuccessful, either in the CMU system or in CCASS, the corporate action instruction will be rejected and will not be processed. The CMU Member will be informed of the status of the corporate action instruction.

(d) The CMU Member must send revised corporate action instructions to the MA before the input deadline as stipulated in Part IV - clause *5.14* below.

5.12.6 Credit of Cash and/or Security arising from Corporate Actions

If a CMU Member is entitled to the product of cash and/or security distribution as a result of corporate actions, the cash and security are credited to the MA's stock account in CCASS and cash account in the HSBC when CCASS receives such cash and/or security. Upon receiving credit confirmations from CCASS, the security will be credited to the CMU Member's securities account and cash will be made available the CMU Member's mirror account.

5.13 Notification of Dividend Payment

Based on the information provided by CCASS, the CMU provides notifications of forthcoming dividend payment to CMU Members who hold the relevant securities through the "Coupon/Dividend Notification Report" (CMUD5801). Such reports will be provided to CMU Members before the MA receives confirmation of the receipt of anticipated funds and therefore the MA accepts no liability if payment is not received. The MA accepts no liability for any inaccuracy, incorrectness or incompleteness of the information provided in the report or any income payment reports.

5.14 Operational Timetable

Hong Kong Time	CMU Events	Matching times at CCASS	Settlement times at CCASS
8:30 a.m.	Daily operation commences in the CMU.		
10:00 a.m.		First SI matching	
10:30 a.m.			First Batch-settlement-run
11:30 a.m.		Second SI matching	
12:00	Cut-off time for sending new/cancel DvP / FoP / RDP instructions for same day value to the CMU. Cut-off time for sending money transfer instructions to the CMU. Cut-off time for effecting IFT31 payment to the CMU. Cut-off time for sending corporate action instruction to the CMU or two hours before the deadlines as specified in the relevant notices, whichever is earlier.		Second Batch-settlement-run

Hong Kong Time	CMU Events	Matching times at CCASS	Settlement times at CCASS
1:30 p.m.		Third SI matching	
2:00 p.m.			Third Batch-settlement-run
2:30 p.m.		Fourth SI matching	
3:15 p.m.		Fifth SI matching	
3:45 p.m.		Sixth SI matching	Final Batch-settlement-run
4:15 p.m.		Deadline for inputting voting and proxy instructions	
5:00 p.m.		Seventh SI matching	
6:00 p.m.		Final SI matching	
6:30 p.m.	Cut-off time. All unsettled transactions with same day value will be cancelled. CMU Members are required to re-send the instructions to the CMU on the next business day.		

The MA reserves the right, if and whenever the MA in his absolute discretion considers it appropriate to do so, to vary the input deadlines either in a particular case or on an ongoing basis.

5.15 Reporting

The CMU system provides a wide range of reports to support the CCASS linkage service. Reports are available after completion of the Value Day cut-off of the CMU system at 5:15 a.m. of the next calendar day:

(a) CMUD3901 Linkage Securities Transfer Transaction Audit Trail Report
(b) CMUD3902 Linkage Money Transfer Transaction Audit Trail Report
(c) CMUD40C1 Cash Movement Report
(d) CMUD46C1 End-of-Life Linkage Securities Transaction Report
(e) CMUD47C1 Unsettled Linkage Securities Transaction Report
(f) CMUD48C1 Executed Linkage Money Transaction Report
(g) CMUD49C1 Unexecuted Linkage Money Transaction Report
(h) CMUM4C01 Executed Custody Instruction Report
(i) CMUM4D01 Unexecuted Custody Instruction Report
(j) CMUD5801 Linkage Securities Coupon/Dividend Notification Report

The above reports are available on all business days.

5.16 Typhoon and Rainstorm Arrangement

Subject to the typhoon and rainstorm arrangement as announced by HKSCC, the CMU will support CCASS transactions according to CCASS revised timetable.

6 BOND CONNECT LINKAGE SERVICE - CHINA CENTRAL DEPOSITORY & CLEARING CO., LTD

6.1 General

In order to promote the development of the bond markets in Hong Kong and Mainland China, the People's Bank of China (PBoC) has approved China Foreign Exchange Trade System & National Interbank Funding Centre (CFETS), China Central Depository & Clearing Co., Ltd (CCDC), and Shanghai Clearing House (SHCH) (collectively the "Mainland Financial Infrastructure Institutions"), to collaborate with Hong Kong Exchanges and Clearing Limited (HKEx) and CMU of the HKMA (collectively the "Hong Kong Financial Infrastructure Institutions"), in establishing mutual bond market access between Mainland China and Hong Kong under a scheme known as "Bond Connect".

Bond Connect is implemented in phases. The initial phase of Bond Connect, which offers Northbound Trading, commenced on 3 July 2017, i.e. overseas investors from Hong Kong and other countries and areas ("Overseas Investors") are able to trade, settle and hold debt securities (CIBM Bonds) tradable in the China Interbank Bond Market (CIBM) through mutual access between the Mainland Financial Infrastructure Institutions and Hong Kong Financial Infrastructure Institutions. Southbound Trading (i.e. Mainland investors to invest in the Hong Kong bond market through the Bond Connect) will be explored in due course.

6.2 Overview of Northbound Trading

Bond Connect consists of a Trading Link and a Settlement Link. As the name implies, Trading Link refers to the link between Mainland and Hong Kong infrastructure providing the trading platform for Bond Connect transaction to be conducted. On the other hand, the Settlement Link refers to the CSD-to-CSD links between CMU and the Mainland CSDs which cater for the settlement and custody of CIBM securities under Bond Connect.

Bond Connect abides by the relevant laws and regulations of both Mainland China and Hong Kong. Northbound trading follows Mainland China's current policy framework governing overseas participation in the CIBM and at the same time respects international norms and practices. Under Bond

Connect, overseas investors are not required to open onshore accounts in the Mainland to hold their CIBM bonds. Instead, overseas investors hold their CIBM bonds, through their global custodians and CMU Members (being investors' local custodians), via CMU's nominee holder accounts maintained with each of the two Mainland CSDs. There is no investment quota for Northbound Trading.

6.2.1 Trading link

HKEx and CFETS cooperate with international bond trading platform(s) to provide electronic trading service which enables direct trading between overseas investors and Mainland dealers in order to enhance trading efficiency.

6.2.2 Settlement Link

The Settlement Link is responsible for the settlement and custody of CIBM bonds transacted via Bond Connect (Bond Connect transactions). The Settlement Link involves CMU of the HKMA to open nominee accounts with the Mainland CSDs, namely CCDC and SHCH, so that CMU can settle Bond Connect transactions and hold CIBM bonds on behalf of CMU Members, whom in turn are providing services directly or indirectly to overseas investors making use of Bond Connect. The operational and settlement flow described in this chapter is focused on the CMU-CCDC link.

The settlement process of Bond Connect transactions will be similar to that of existing CIBM transactions except that the money legs are settled in the Cross-Border Interbank Payment System (CIPS). After a Bond Connect transaction is conducted, the trade details will be sent from CFETS system to the CCDC system, and the CCDC will provide its participants with such details to facilitate settlement. Meanwhile, after an overseas investor has conducted a Bond Connect trade, the relevant trade details will be inputted into CMU's system through a CMU Member. When CMU receives such information from CCDC, CMU will affirm the trade details from CCDC using the trade information inputted into CMU's system by CMU Members.

6.2.3 Role of the CMU

CMU provides clearing and settlement services to the bond market in Hong Kong. It is a designated system under the Payment Systems and Stored Value Facilities Ordinance (PSSVFO), which provides the legal basis for settlement finality regarding transactions settled in the CMU system. In

addition, CMU is a financial market infrastructure (FMI) with the role of a CSD and a securities settlement system (SSS) which complies with the Principles for Financial Market Infrastructures to Designated Clearing and Settlement Systems (PFMI) standards of the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO). CMU, being a FMI, is not a custodian appointed by any of its members, in particular, it does not take on such a role in respect of any debt securities, including CIBM bonds under Bond Connect.

6.2.4 Eligible Investors

The scope of Eligible Investors for Northbound Trading will be consistent with the scope specified in the relevant notices promulgated by the PBoC and the same as that for direct entry into CIBM currently. The Eligible Investors include overseas central banks and monetary authorities, sovereign wealth funds, international financial institutions, as well as various types of financial institutions legally established overseas and their investment products, pension funds, charity funds, endowment funds, etc. which are recognized by the PBoC as medium-to-long-term institutional investors.

For information on admission and registration criteria, please refer to Bond Connect Company Limited (BCCL)'s website at http://www.chinabondconnect.com .

6.3 Representation and Acknowledgement

In consideration of the HKMA providing the custody and settlement services for Bond Connect (the "Linkage Service") within the CMU Service, any CMU Member who uses the Linkage Service agrees, represents and acknowledges (such agreement, representation and acknowledgement to be evidenced by the CMU Member's use of the Linkage Service) that:-

(a) all operations, transactions and other activities conducted through the Linkage Service shall be subject to the CMU Rules as applicable (including without limitation Clause 8 of the CMU Membership Agreement) as the Linkage Service is an integral part of the CMU Service offered by the HKMA;

(b) in carrying out the CMU Member's instructions with regard to any transactions which are to be cleared and settled through the Linkage Service or to any Eligible Securities which are held in CCDC, the

HKMA must, and is authorised by the CMU Member to, comply with all applicable rules and regulations of CCDC and shall incur no liability to the CMU Member for so doing;

(c) the HKMA, on behalf of the CMU Member, is entitled to do all such acts and things and execute all such documents as the HKMA may, in his discretion, consider necessary or desirable to enable the HKMA to fully observe and perform his duties and obligations under the rules and regulations of CCDC; and to enter into any arrangement which the HKMA considers proper for the purpose of facilitating clearance of transactions effected on behalf of the CMU Member through CCDC;

(d) all securities held in CCDC are subject to the rules and regulations of CCDC, each CMU Member is responsible for informing itself of the characteristics of the securities it acquires and holds through the linkages to CCDC and neither the HKMA nor the operators of CCDC shall have any liability for any securities that are fraudulent, forged, invalid, or not freely transferable nor in respect of the creditworthiness of any issuer/listed company of any securities nor for any event of force majeure or failure of any other participants in CCDC to comply with the rules and regulations of CCDC;

(e) the CMU Member will provide such information to the HKMA, and the HKMA is authorised to make disclosure of any such information (including without limitation regarding the nationality, domicile, residence, location of business operations or other similar status of the CMU Member and the control or beneficial ownership of the securities held for, or traded for, the CMU Member in CCDC) to CCDC or any concerned tax authority as the HKMA may in his discretion consider necessary or desirable in connection with his operation of the CCDC linkage as part of the CMU Service, whether for the purpose of obtaining relief from withholding tax or otherwise;

(f) if any taxes, duties, interest or other levies or penalties are imposed on the HKMA in connection with the holding or trading of securities or the holding or transfer of cash in CCDC on behalf of the CMU Member, the CMU Member shall indemnify and hold the HKMA harmless in respect of such taxes, duties, interest, levy or penalty as the case may be save to the extent the same arise as a result of the wilful default or gross negligence of the HKMA;

(g) the CMU Member shall consent that the HKMA is authorised by it to make disclosure of any account information (including but not limited to holding positions, transaction details, or other similar data of the CMU Member and/or beneficial owner of the securities held for, or traded for, the CMU Member in CCDC) to CCDC, CFETS or to any concerned

relevant authorities as the HKMA may in his discretion consider necessary or desirable in connection with his operation of the Linkage Service as part of the CMU Service;

(h) the CMU Member shall consent, and secure their clients to consent, that the CMU Member and their clients should (for the purpose of meeting the regulatory requirements promulgated by the PBoC regarding the information see-through arrangements) record properly and timely the information on custody and settlement of overseas investors and shall, at the request of the relevant authorities in Mainland China, provide such information to the HKMA. The CMU Member shall consent, and secure their clients to consent, that the HKMA is authorised to make disclosure of such information to the relevant authorities in Mainland China;

(i) the CMU Member shall comply with all laws, decrees, regulations or orders of governmental bodies applicable to its use of the Linkage Service and its holding or trading of securities through CCDC and with any contract or agreement binding upon it and shall be responsible for ensuring compliance with all applicable legal, tax or regulatory requirements for disclosure or reporting as to the holding, control or beneficial ownership of or in respect of any securities it holds or trades through the Linkage Service; and

(j) for the avoidance of doubt the HKMA shall, with the limited exceptions stated in the CMU Membership Agreement, be exempt from any liabilities caused directly or indirectly by the operation of the CMU Service including, without limitation, the Linkage Service.

6.4 Operational Details

6.4.1 Account Structure

To provide the Linkage Service, the CMU opens an omnibus securities account (the "Linkage Securities Account") with CCDC in the name of the HKMA. All securities settlement arising from Bond Connect transactions of CMU Members are settled through the Linkage Securities Account. The account number of CMU's omnibus securities account opened at CCDC is:

Account no.: 00000025334

The CMU uses a clearing account in the RMB CHATS for receiving/sending RMB funds from/to CMU Members in respect of settlement proceeds arising from Bond Connect transactions. The clearing code and BIC of CMU's clearing account in the RMB CHATS are:

Clearing Code:	809
BIC:	HKMAHKHC

CMU Members are required to open segregated sub-accounts in the CMU system to hold its own and clients' Eligible Securities at individual Eligible Investor level. When a segregated sub-account is opened, the CMU also sets up a corresponding CCDC mirror cash account in the CMU system to record the balance of all fund movements relating to that segregated sub-account. CMU Members are able to enquire the balance of the CCDC mirror cash account via their CMTs.

6.4.2 Account Opening Procedure

A CMU Member who wishes to subscribe the Linkage Service is required to complete and return an enrolment form per Appendix T.1 to the CMU. It is also required to provide a standing settlement instruction in Appendix T.1 to:

(i) authorize the CMU to transfer the credit cash balance, if any, to a designated cash account opened with a bank in Hong Kong (the "Hong Kong Designated Cash Account"); and

(ii) notify the CMU that funds would be remitted to its mirror cash account in the CMU system through this Hong Kong Designated Cash Account.

An overseas investor who wishes to invest in Eligible Securities is required to apply for becoming an Eligible Investor from the relevant Mainland Authorities by completing an application form. Detailed information on application can be found in the website of BCCL available at:

http://www.chinabondconnect.com/en/information-for-investors.htm

Among others, the applicant is required to provide its settlement account information in the CMU and CCDC system. The overseas investor should contact the CMU Member concerned, through its global custodian if applicable, to obtain the CMU and CCDC account information.

A CMU Member may request the CMU to open segregated sub-accounts in the CMU system for individual Eligible Investors by completing and returning Appendix A.5 to the CMU. Upon completion of the account opening process, which normally requires one business day, the CMU will advise the CMU Member of the CMU account information (such as the CMU sub-account no.), so that the CMU Member can relate the CMU account information to its clients who are interested to become Eligible Investors.

6.4.3 System Access

The CMU has installed CCDC terminal, which gives the CMU a direct real-time access to CCDC's clearing system. This enables CMU to:

(a) provide its members with up-to-date settlement details and securities information; and

(b) effect real-time settlement on a deal by deal basis on behalf of CMU Members.

6.4.4 Eligible Securities

The scope of Eligible Securities is specified in the relevant notices promulgated by PBoC. It currently covers all bonds tradable in the CIBM.

Before an issue of Eligible Securities can be accepted and settled through the Linkage Service, the CMU needs to assign a CMU Instrument Number to the issue. CMU Members may enquire issue details of the Eligible Securities already accepted by the CMU system via their CMTs. For securities issues that are not yet accepted by the CMU system, CMU Members may request the CMU to assign CMU Instrument Numbers to such securities issues by calling the CMU hotline and providing relevant issue information.

The CMU Instrument Number of an accepted Eligible Securities issue composes of a prefix of "CD" and the corresponding domestic securities issue number.

If the Eligible Securities issues have been assigned with ISIN codes, the CMU system also supports the use of the ISIN code in securities settlement instructions.

6.4.5 Instruction Involving Unknown Issue Number

For CCDC transactions sent via SWIFT MT540-543 with unknown issue number, the CMU system will not reject such SWIFT messages but will keep them for future processing. Detailed arrangements are as follows:

(a) CMU system will return an MT548 message to the relevant CMU Member notifying the member of the unknown issue status. The status is shown as "Pending CSD validation (PCV) with reason code "111 - issue not found".

(b) The MA will endeavour to investigate the eligibility of the securities. However, if the SWIFT message fails to pass the validation on any other fields, the message will be rejected by the CMU system; and it will not be available for enquiry via CMT.

(c) If a CMU Member wishes to cancel such transaction, it is required to send a cancellation request via SWIFT.

(d) A CCDC transaction with unknown issue number will be validated again whenever the earlier of the following happens:

   (i) the issue number is created in the CMU system; or
   (ii) the current day (i.e. the settlement date) is hit.

(e) On the settlement date of a CCDC transaction, if the relevant issue number remains unknown, such transaction will be rejected by the CMU system when it re-opens at 8:30 a.m. An MT548 messages will be returned to the relevant CMU Members with "Rejected (REJ)" status. The CMU Member will need to verify the correctness of the relevant issue number and/or contact the CMU if it is considered necessary.

CMU accepts no liability for any losses incurred in relation to assumptions that a securities transfer instruction with an unknown issue number will be accepted by the CMU system. CMU Members should exercise due control to ensure correctness of the issue number when inputting securities transfer instructions into the CMU system.

Unlike securities transfer instruction sent via SWIFT, instructions submitted via CMT or authenticated facsimile with unknown issue number cannot be input into the CMU system.

6.4.6 CFETS Trade Reference Number

Except for settlement of new securities issues in primary market as described in clause *6.5.3* below, for settlement purpose, each securities settlement instruction sent by CMU Members shall include a CFETS Trade Reference Number which can be recognized and identified by its counterparty. Based on such reference number, CMU can identify and match the instruction with the trade details in the CCDC system.

6.4.7 Validation

After receiving an instruction from a CMU Member, the CMU system will perform preliminary validation. Invalid instruction will be rejected by the CMU system. If CMU validation is successful, the instruction will then be relayed to the CCDC system for validation where applicable. The instruction will be rejected if the CCDC validation is unsuccessful. CMU Members may enquire the transaction status of the instruction through their CMTs and refer to Appendix D of the "CMT User Manual – User Guide" for detailed description of the status code. For a rejected instruction, the CMU Member is required to re-submit a new instruction with amended information to the CMU.

6.4.8 Matching / Affirmation

After the CMU receives a settlement instruction from a CMU Member, it will match the settlement instruction with the settlement details in the CCDC system. The CMU will affirm the transaction in the CCDC system if the following fields are matched:

(a) Instruction type (DVP gross settlement)
(b) CFETS Trade Reference Number
(c) Counterparty name and account number
(d) Settlement date
(e) Security code
(f) Quantity of securities
(g) Settlement amount

6.4.9 Real-time Gross Settlement

Settlement of transactions in the CCDC system is effected in real time and on gross basis. The settlement sequence of transactions depends on a number of factors, including the affirmation time of both buyers and sellers, securities availability in the seller account and completion of payments by buyers. The CCDC system does not have any facility to enable the buyer or seller to control the settlement sequence of the

transactions. In view of the above, CMU Members should ensure that they will remit sufficient funds to the CMU for settling their purchase transactions on gross basis.

Partial settlement in respect of a transaction is not allowed in CCDC system.

6.4.10 Transfer of Securities between two CMU Accounts

Transfer of securities between two CMU Members and between two CMU sub-accounts of the same CMU Member are generally not allowed except under certain circumstances as described in clause *6.4.12* below.

6.4.11 Amendment and Cancellation of Instructions

A CMU Member may cancel its instructions through its CMT or SWIFT message if the CMU has not yet relayed the instructions to the CCDC system. Specifically, a CMU Member can only cancel its securities settlement instruction if the CMU has not affirmed the corresponding transaction in the CCDC system and cancel its wire transfer instructions if the CMU has not forwarded the corresponding wire transfer instruction to the CCDC system.

The CMU system does not support amendment of instructions. A CMU Member who wishes to amend an instruction has to cancel its previous instruction and submit a new instruction to the CMU.

6.4.12 Change of Custodian by Eligible Investor/Change of Settlement Bank by CMU Member

Transfer of securities between two CMU Members in FOP is allowed under certain circumstances such as when an Eligible Investor wishes to change its local and/or global custodian and the Eligible Investor has no CNY position outstanding with the Hong Kong Settlement Bank. Moreover, historical transaction records are also required to be transferred from the former custodian to the “new” custodian. Both the former and new custodians are required to keep proper and complete records of the data transfer between them.

The procedure for an Eligible Investor to change local custodian in the CMU system is as follows:

(a) The investor approaches the new custodian who is a CMU Member in order to contact the CMU to obtain a new CMU sub-account no. for the investor's application to CFETS to update its record (same CFETS ID, but a change in custodian associated with this CFETS ID).

(b) Both the former and the new local custodian are required to inform the CMU in writing and provide evidence for the approval of change from the relevant Mainland authority (if any) to the CMU.

(c) The new custodian will request CMU to open a new segregated sub-account for the Eligible Investor by submitting Appendix A.5 while the former custodian will write to the CMU to close the sub-account for that investor.

(d) After obtaining approval from CFETS or the relevant Mainland authority, the former and the new custodian will need to agree on an effective date to migrate the entire portfolio to the new custodian.

(e) Having informed CMU the settlement date, the former and the new local custodian will effect the transfer of securities in FOP mode.

(f) On the settlement date, when the transfer of securities over the Securities Accounts of the former and the new custodians is completed, CMU will close the relevant CMU sub-account of the former custodian.

Similarly, a CMU Member may also change its settlement bank as long as it has no CNY position outstanding with the former settlement bank. Both the former and new settlement banks are required to keep proper and complete records of the data transfer between them. After both settlement banks have agreed the switching arrangement, the CMU Member has to notify the CMU by updating Appendix T.1 before the effective date.

6.4.13 Business Days

Settlement calendar (including working Saturdays/Sundays) and holiday arrangements will generally follow the CIBM schedule. The Linkage Service is available on a day when the CCDC system, CIPS and the RMB CHATS are all open for business, regardless of whether it is a holiday in Hong Kong. Public holiday arrangement in Mainland China is announced by the People's Republic of China from time to time which is available at its website (http://www.gov.cn/zhengce).

Given the public holidays are announced at the start of each year, relevant Mainland authorities and/or CSDs may also announce special working days, including Saturdays and/or Sundays, as ad hoc working days for CIBM and/or Bond Connect settlement days. CMU will inform members of these ad hoc working days as and when appropriate.

CMU Members are reminded to manage their liquidity prudently as RMB intraday repo transactions with CB will not be available during special working Saturdays and Sundays.

6.4.14 Typhoon and Black Rainstorm Days in Hong Kong

Settlement arrangements under severe weather conditions will follow CMU and CIBM markets arrangements. Bond Connect settlement continues to be available on typhoon and black rainstorm days in Hong Kong.

6.5 Settlement Arrangements and Money Transfer

6.5.1 Settlement Model for Trades Executed in Trading Platform(s)

Following the launch of CIPS 2.0 in Mainland China, and in accordance with the guidelines of PBOC dated 20 August 2018 (issue no, 150 – 2018), both the Eligible Investors and Mainland dealers are required to choose an appropriate settlement model (i.e. model 1[3] or model 2[4]) when a trade is to be concluded in CFETS.

Model 2 is set as the default model to support settlement of Bond Connect transactions on behalf of Eligible Investors in CCDC and CIPS. No consultation and prior agreement with the CMU is required if an Eligible Investor chooses model 2 as the settlement model when it is going to conclude trades in the trading platform.

Use of model 1, without prior consultation and agreement with CMU may result in the CMU failing to settle the relevant Bond Connect transactions in CCDC on the settlement date.

3 Payment request for Bond Connect transaction is initiated by the buyer via CIPS
4 Payment request for Bond Connect transaction is initiated by CSD via CIPS

6.5.2 Settlement of Trades

The securities settlement processes are as follows:

(a) After Bond Connect trades are executed between Eligible Investors and Mainland dealers through designated trading platform(s), the settlement details of confirmed trades will be forwarded to the CCDC system for settlement.

(b) CMU Members send settlement instructions to the CMU via CMT or SWIFT message (MT541/MT543) or subject to Part I – clause *5.2* of this Manual, submit Bond Connect Securities Transfer Form (Appendix T.7) by authenticated fax or by hand before the cut-off time as specified in clause *6.5.9* below on the settlement date, based on the settlement details provided by the Eligible Investors through their global custodians where applicable.

The MT541/543 messages sent to the CMU include, among others, the following fields to specify the CFETS Trade Reference Number and the place of settlement:

:70E::SPRO//CBTnnnnnnnnnnnnn (Sequence B)
:95P::PSET//NDCCCNB1 (Subsequence E1)

where CBTnnnnnnnnnnnnn is the CFETS Trade Reference Number;

(c) The CMU will affirm the transactions in the CCDC system if the following conditions are satisfied:

(i) the settlement instructions provided by CMU Members are matched with the settlement details in the CCDC system;

(ii) the corresponding CMU sub-accounts have sufficient securities (for sell transactions); and

(iii) the corresponding mirror cash accounts in the CMU system have sufficient RMB funds. CMU Members' mirror cash accounts will be credited if they have remitted sufficient funds to the CMU's 809 account in RMB CHATS in favour of the corresponding CMU sub-accounts (for purchase transactions).

If there are multiple sell transactions involving a CMU sub-account of a specific securities issue, and the securities balance of that CMU sub-account can only settle part of the sell transactions, the CMU will select and affirm part of the transactions on its sole discretion.

If there are multiple purchase transactions involving a CMU sub-account, and the funds remitted to the CMU in favour of that CMU sub-account can only settle part of the purchase transactions, the CMU will select and affirm part of the transactions on its sole discretion.

(d) On the settlement day, after affirmation by the CMU and the counterparty, the CCDC system will assign a Settlement Contract Number (SCN) to the settlement instruction.

(e) After affirmation, the CCDC system will put the securities on hold and send payment request to CIPS to debit the settlement account of the buyer's settlement bank.

(f) Once the funds and securities held are sufficient, real-time gross settlement take place immediately. The securities accounts of the buyer and the seller concerned in CCDC and the settlement accounts of the buyer's and the seller's settlement banks in CIPS are debited and credited accordingly. According to the rules of CCDC, the settlement is final and irrevocable.

(g) If the buyer has insufficient funds or the seller account has insufficient securities for settlement, the transaction will be pending in the system until the seller and buyer have sufficient securities and funds respectively for settlement.

(h) If the transactions cannot be settled before the CCDC system cut-off time (currently at 17:00), the instructions will be cancelled in both the CCDC and CMU systems. These instructions will need to be re-sent to the CMU if the relevant parties wish to settle the trades on the following business day.

6.5.3 Settlement for New Securities Issues in Primary Market

An Eligible Investor who wishes to participate in the primary market issuance of a debt securities issue is required to sign an agreement with a member of Mainland underwriter syndicate appointed by the issuer. The tendering/placement and settlement processes are as follows:

(a) On the announcement date, CCDC assigns a security code to the new debt securities issue based on the issue information provided by the issuer. The underwriter syndicate then provides the issue information to interested investors.

(b) On the tender/placement date, the issuer conducts the tender/placement process. Upon completion of the tender/ placement process, the issuer announces the results through the website of CCDC.

(c) CCDC subsequently updates the tender/placement results into its system. Members of the underwriter syndicate input the settlement instructions into the CCDC system through the CCDC terminal.

(d) Eligible Investors who have subscribed the new debt securities issues through a member of the underwriter syndicate will be advised of the settlement details by the underwriter syndicate.

(e) CMU Members send settlement instructions to the CMU via CMT or SWIFT message (MT541), or subject to Part I – clause *5.2* of this Manual, submit Bond Connect Securities Transfer Form (Appendix T.7) by authenticated fax or by hand before the cut-off time as specified in clause *6.5.9* below on the settlement date, based on the settlement details provided by the Eligible Investors through their global custodians where applicable. The format of the settlement instructions are same as those for trades executed in trading platforms except it does not bear a CFETS Reference Number.

The MT541 messages sent to the CMU includes, among others, the following field to specify the place of settlement:

:95P::PSET//NDCCCNB1 (Subsequence E1)

(f) The CMU will affirm the transactions in the CCDC system if the following conditions are satisfied:

(i) the settlement instructions provided by CMU Members are matched with the settlement details in the CCDC system; and

(ii) the CMU Members' mirror cash accounts in the CMU system have sufficient RMB funds. CMU Members' mirror cash accounts will be credited if they have remitted funds to the CMU in favour of the corresponding CMU sub-accounts.

If there are multiple purchase and new issue transactions involving a CMU sub-account, and the funds remitted to the CMU in favour of that CMU sub-account can only settle part of the purchase and allotment transactions, the CMU will select and affirm part of the transactions on its sole discretion.

(g) After affirmation by the CMU, the CCDC system will assign the SIN for the new issue instruction. The subsequent settlement flow is same as those mentioned in clause *6.5.2*.

6.5.4 Funding Arrangements

Please note the following funding arrangements:

(a) Each CMU Member is required to engage a settlement bank in Hong Kong and designate a cash account opened with that settlement bank (the "Hong Kong Designated Cash Account") for receiving RMB payments from the CMU arising from Bond Connect transactions.

(b) For purchase transactions in the CCDC system, a CMU Member is required to deposit sufficient funds to its mirror cash accounts in the CMU system in accordance with the procedure as described in clause *6.5.5* below before 2:00 p.m..

(c) For sell transactions, the settlement proceeds is credited to the CMU's clearing account with the RMB CHATS through the CIPS.

(d) For redemption and interest payments, CCDC will transfer the settlement proceeds to the CMU clearing account with the RMB CHATS through the CIPS.

(e) A CMU Member may send wire transfer instructions to the CMU via CMT or SWIFT message (MT202) before 4:00 p.m. on the settlement date transferring the settlement proceeds to its Hong Kong Designated Cash Account. Details are described in clause *6.5.6* below.

(f) At the CCDC system cut-off time (currently 5:00 p.m.) of each operating day, if a CMU Member has any cash credit balances, the amount of the credit balances will be automatically transferred to the Hong Kong Designated Cash Accounts via the RMB CHATS based on the standing instructions given by CMU Members. If there are net credit amount in multiple cash mirror accounts of a CMU Member, the CMU will sum up the net credit amount of all relevant mirror cash accounts and transfer the sum in a single payment to the CMU Member via the RMB CHATS.

6.5.5 Funding Arrangement in CCDC - Deposit of Funds via RMB RTGS System in Hong Kong

For settling purchase transactions in CCDC, a CMU Member is required to have sufficient funds in its mirror cash account in the CMU system.

The procedures to remit funds to the mirror cash account are as follows:

(a) A CMU Member who intends to deposit funds to its mirror cash account in the CMU system via RMB RTGS system in Hong Kong is required to send an instruction via the "Deposit of funds via HK RTGS" function in CMT or SWIFT MT210 message (sample as per Appendix T.2) or subject to Part I – clause *5.2* of this Manual, submit Deposit of Fund via RMB RTGS System Form (Appendix T.8) by authenticated fax or by hand to the MA before the input deadlines as specified in clause *6.5.9* below.

(b) The CMU Member or its settlement bank is required to make a payment with payment code IFT31 on the value day.

(c) If the CMU Member or its settlement bank has set the CMU related payment at RTGS system to "auto-generation" mode, the IFT31 payment will be generated automatically and appended at the end of the normal payment/pending queue at RMB RTGS system.

(d) If the CMU Member or its settlement bank has set the CMU related payment parameter at RTGS system to "No auto-generation" mode, the IFT31 payment will not be automatically generated. The CMU Member or its settlement bank has to manually construct the IFT31 payment via SWIFT MT202 by making use of the payment notification SWIFT MT298. The MT298 will carry all payment details required for the preparation of the IFT31 payment. The payment is made to the MA (clearing code 809).

(e) If the purchase transactions of a CMU Member in the CCDC system involve multiple CMU sub-accounts, the CMU Member has to input the "Deposit of funds via HK RTGS" for each of the CMU sub-accounts. Its settlement bank will then have to send multiple payments to the CMU and each IFT31 payment will correspond to a single CMU sub-account.

(f) Upon receipt of funds from CMU Member through the RMB CHATS, CMU will credit CMU Member's mirror cash account in the CMU system. The funds will be available to the CMU Member for settling CCDC transactions.

(g) Deposit of funds via RMB RTGS in Hong Kong is not available in special working Saturdays and Sundays and on 25 December. In case there are purchase transactions required to be settled in CCDC on these special Saturdays and Sundays and on 25 December, the CMU Member has to instruct its settlement bank to remit the gross amount of settlement proceeds to the CMU (clearing code 809) in favour of the relevant CMU sub-account through the RMB CHATS.

The MT202 messages (IFT02) sent to the RMB CHATS will include, among others, the following field to specify the mainland CSD and CMU sub-account that the funds to be used for settlement:

:52D:/XXXXnnnCDC

where XXXXnnn is the CMU sub-account code.

6.5.6 Wire Transfer of Funds

The arrangements are as follows:

(a) If a CMU Member receives income or sales proceeds arising from an income distribution event or a sale of the Eligible Securities and wishes to transfer the money out in real time from its mirror cash account, it can send a wire transfer instruction to the CMU specifying the CSD and the amount to wire out, via SWIFT, CMT or subject to Part I – clause *5.2* of this Manual, submit Wire Transfer of Funds Form (Appendix T.9) by authenticated fax or by hand before the cut-off time as specified in clause *6.5.9* below.

(b) The payment is to be made to the CMU Member's Hong Kong Designated Cash Account as indicated by the CMU Member on Appendix T.1. The wire transfer instruction will be rejected if the beneficiary's BIC or name does not tally with the CMU record.

(c) When CMU receives a wire transfer instruction from a CMU Member for its sub-account, CMU will check the availability of funds in its mirror cash account as well as whether there are any outstanding purchase transactions of this CMU sub-account in the CSD on the value day. If there are sufficient funds and there are no pending-to-settle purchase transactions, CMU will transfer the funds to the CMU Member's Designated Cash account via the RMB RTGS. Otherwise, the wire transfer instruction is subject to retry until the cut-off time.

(d) If the wire transfer instruction cannot be executed on the value day due to whatever reasons, it will be cancelled by the CMU system.

Any remaining credit balance in the member's mirror cash account will automatically be transferred to its Hong Kong Designated Cash Account via RMB CHATS during return of funds at day-end (around 5:00 p.m.)

6.5.7 Foreign Currency Conversion Arising from Bond Connect Transactions

According to PBoC, Eligible Investors are allowed to use their own sources of RMB in the offshore market (the "CNH Channel") or to convert foreign currencies into RMB at the onshore conversion rate of RMB (the "CNY Channel") to invest in the CIBM. The following rules will apply if a CMU Member wishes to provide the CNY Channel service to its clients:

(a) A CMU Member is required to engage the RMB Clearing Bank in Hong Kong or one of the offshore participating banks in Hong Kong approved by CFETS (collectively the "Hong Kong Settlement Banks") for providing foreign exchange conversion services in the onshore market. CMU Members can refer to the list of Hong Kong Settlement Banks at CFETS's website at http://www.chinamoney.com.cn/english/bccn/

(b) A CMU Member is required to engage the same Hong Kong Settlement Bank as its settlement bank as mentioned in clause *6.5.4* above to conduct all payments arising from Bond Connect transactions. The CMU Member is also required to designate a cash account opened with the same Hong Kong Settlement Bank as the Hong Kong Designated Cash Account.

(c) A CMU Member can only engage one Hong Kong Settlement Bank to perform FX and it is required to engage the same bank to perform its cross-border remittance for Bond Connect settlement under the existing PBoC rules for Bond Connect.

(d) For purchase transactions, CMU Member will transfer the settlement proceeds to the CMU through its engaged Hong Kong Settlement Bank. Similarly, for sell transactions, redemption and interest payments, the CMU Member can only receive the settlement proceeds through the same Hong Kong Settlement Bank.

(e) For purchase transactions, the CMU Member can choose to use the CNH Channel, the CNY Channel or a combination of the two channels to settle the purchase transactions. If the CMU Member opts to use the CNY Channel, it will conduct the foreign exchange

conversion with its engaged Hong Kong Settlement Bank in the onshore market. If the CMU Member opts to use the CNH Channel, it can use its own sources of funds and arrange to transfer the RMB funds to its account with its engaged Hong Kong Settlement Bank. For both channels, the Hong Kong Settlement Bank is responsible for transferring the RMB funds to the CMU.

(f) For sell transactions and redemption of securities, if the securities concerned were purchased using the CNY Channel, the CMU Member should in principle convert the settlement proceeds to foreign currencies with its engaged Hong Kong Settlement Bank in the onshore market, or use the settlement proceeds to reinvest in CIBM securities under Bond Connect. If the securities concerned were purchased using the CNH Channel, the CMU Member can use the RMB funds in the offshore market.

(g) According to the CFETS, the Hong Kong Settlement Banks are responsible for, among others, keeping records of the foreign exchange conversion and payment activities in respect of Bond Connect transactions for each CMU Member. The Hong Kong Settlement Banks are required to report the foreign exchange conversion amount and other relevant data to the CFETS on a regular basis.

(h) CMU Members have the responsibility to ensure that their client investors' currency conversion and hedging transactions are genuine and reasonable in light of the settlement and holding information of a particular client investor. If Hong Kong Settlement Banks consider that there is cause for suspicion, and that it is necessary, they may request reasonable ex post clarification or information from CMU Members.

If a CMU Member, including its clients, does not use the foreign exchange conversion services in the onshore market, it can freely engage a non-Hong Kong Settlement Bank as its settlement bank as mentioned in clause *6.5.4* above.

6.5.8 Reporting on Failed Trades

According to the operating rules of CCDC, any trades that cannot be settled on the intended settlement date must be reported to it. Both the Eligible Investor and the Mainland dealer are required to file with CCDC a failed report which is available at:
http://www.chinabond.com.cn/cb/cn/zqsc/fwzc/zlzx/cyywbgxz/jsl/list.shtml

Eligible Investor and the Mainland dealer are to report the failed trade directly to CCDC if the trade has not yet been affirmed by the CMU.

If the trade has been affirmed by the CMU, CCDC requires the CMU to report the failed trade to it directly. To facilitate CMU reporting the affirmed failed trades to CCDC, the CMU Member is required to i) complete and return Appendix T.6 to the CMU; and ii) submit the designated failed report of CCDC, signed by the Mainland dealer, to the CMU no later than 2:00 p.m. on the day following the settlement date.

6.5.9 Operational Timetable

The following timetable summarizes the cut-off times for various events in relation to the Linkage Service with CCDC:

Time	Event
08:30	CMU system commences operation
09:00	CCDC system commences operation.
14:00	Cut-off time for sending the following instructions to CMU: • securities settlement instructions • deposit of funds via RTGS in Hong Kong instructions 2 hours before the cut-off time for instructions sent by authenticated fax or by hand.
16:00	Cut-off time for wire transfer of funds
17:00	CCDC system closes operation All unsettled transactions will be cancelled. CMU Members are required to re-send the instructions to the CMU, if applicable, on the next business day.
Start from 17:00	CMU transfers the credit balances arising from Bond Connect transactions to the Hong Kong Designated Cash Accounts via the RMB CHATS.

6.6 Corporate Actions

6.6.1 Provision of Information

The CMU receives information in respect of corporate events from CCDC or other parties and will report such information to CMU Members via fax.

Please note that the CMU is not responsible for the accuracy or completeness of the information and accepts no liability for the inaccuracy or incompleteness of the information. The CMU accepts no liability if the information it reports are not received by it in a timely manner.

6.6.2 Notification of Corporate Events

Notification of corporate events pertaining to a particular securities issue will be sent to the CMU Member if:

(a) the CMU Member holds such securities in its CMU Securities Account; or

(b) the CMU Member has an unexecuted securities settlement instruction concerning such securities.

6.6.3 Notification of Coupon Payment and Redemption

Based on the information received from CCDC, the CMU provides notifications of forthcoming coupon payment and redemption to CMU Members who hold the relevant securities. CMU Members may obtain the "Linkage Securities Coupon/Dividend Notification Report" (CMUL5801) and "Linkage Securities Redemption Notification Report" (CMUL5901) through their CMT. The CMU accepts no liability for any inaccuracy, incorrectness or incompleteness of the information provided in the reports.

If the reported information has any discrepancy with that actually obtained by the CMU from CCDC, CMU will send revised CMUL5801 and/or CMUL5901 reports to supersede the previous ones as soon as possible.

6.6.4 Processing of Custody Operations

Corporate events concerning a security issue may lead to the processing of a custody operation by CCDC or an agent appointed by the security issuer. Some corporate actions require instructions from a CMU Member while others are processed without the need for actions by the CMU Member.

(a) Instruction Required for Execution

For a corporate event that require an instruction for execution, the CMU Member can send a corporate action instruction to the CMU via authenticated fax before the input deadline as specified in the relevant notice. Upon receiving the custody operation instructions from the CMU Member, the CMU will forward the instructions to CCDC or the appointed agent for further processing.

If a CMU Member does not send its corporate action instruction to the CMU before the input deadline, the CMU is authorized to take the default action specified in the relevant notice issued by the relevant agent.

(b) Instruction Not Required for Execution

For those corporate actions which do not require a CMU Member to send a custody operation instruction, the CMU will take any and all such actions as may be necessary or useful to execute such custody operations.

(c) Execution of custody operation by security holders directly

Some corporate actions may require security holders to directly participate in a custody operation (e.g. meeting). The CMU will issue a certificate to the CMU Member certifying the quantity of the security held by the CMU Member to facilitate the direct participation of the custody operation by the CMU Member or its clients.

6.6.5 Credit of Cash and/or Security arising from Corporate Actions

If a CMU Member is entitled to the product of security and/or cash distribution as a result of corporate actions, the security and cash will be credited to the relevant CMU sub-accounts and the corresponding mirror cash accounts respectively.

6.7 Certification of Beneficial Ownership

CMU has no proprietary interest in the bonds as a nominee holder in CCDC system. If required, the MA will provide CMU Members with the certification of securities holding as per Appendix A.17 held in their CMU sub-accounts maintained in the name of the entity whose name is provided in Appendix A.5 with the MA.

<u>Based on the certification of bond holding issued by the CMU, plus similar bond holding documentation provided by the relevant CMU Member, which serves as a local custodian, as well as the relevant global custodian (if applicable), the Eligible Investor will have documentary evidence of his/her bond beneficial ownership under Bond Connect.</u>

6.8 Enforcement of Legal Rights

In the case of securities in default, the MA will not take any action, legal or otherwise, to enforce a participant's rights against any issuer or any guarantor in respect of a securities in default. The MA authorizes the participants and/or the underlying beneficial owners of such securities to maintain proceedings against issuers, guarantors and any other parties. This is to the extent that the MA, acting as the operator of the CMU, acts as registered owner of any securities held in the CMU system, or in any other relevant situation.

6.9 Reports

The CMU system provides a wide range of reports to support the Linkage Service. CMU Members may obtain the following reports through CMT or FTS:

CMUD5101 - Account Position Report
CMUL3901 - Linkage Securities Transfer Transaction Audit Trail Report
CMUL3902 - Linkage Money Transfer Transaction Audit Trail Report
CMUL40C1 - Cash Movement Report
CMUL46C1 - End-of-Life Linkage Securities Transaction Report
CMUL47C1 - Unsettled Linkage Securities Transaction Report
CMUL48C1 - Executed Linkage Money Transaction Report
CMUL49C1 - Unexecuted Linkage Money Transaction Report
CMUL5801 - Linkage Securities Coupon/Dividend Notification Report
CMUL5901 - Linkage Securities Redemption Notification Report
CMUL5802 - Linkage Securities Coupon/Dividend Executed Report
CMUL5902 - Linkage Securities Redemption Executed Report
CMUF4A01 - Unexecuted and Executed Corporate Action Instruction Report (Other CSD) (delivered via fax)

Please refer to Appendix C of the "CMT User Manual – Report Guide" for details.

7 BOND CONNECT LINKAGE SERVICE - SHANGHAI CLEARING HOUSE

7.1 General

In order to promote the development of the bond markets in Hong Kong and Mainland China, PBoC has approved CFETS, CCDC, and SHCH (collectively the "Mainland Financial Infrastructure Institutions"), to collaborate with Hong Kong Exchanges and Clearing Limited and CMU of the HKMA (collectively the "Hong Kong Financial Infrastructure Institutions"), in establishing mutual bond market access between Mainland China and Hong Kong under a scheme known as "Bond Connect".

Bond Connect is implemented in phases. The initial phase of Bond Connect, which offers Northbound Trading, commenced on 3 July 2017, i.e. overseas investors from Hong Kong and other countries and areas ("Overseas Investors") are able to trade, settle and hold debt securities (CIBM Bonds) tradable in the CIBM through mutual access between the Mainland Financial Infrastructure Institutions and Hong Kong Financial Infrastructure Institutions. Southbound Trading (i.e. Mainland investors to invest in the Hong Kong bond market through the Bond Connect) will be explored in due course.

7.2 Overview of Northbound Trading

Bond Connect consists of a Trading Link and a Settlement Link. As the name implies, Trading Link refers to the link between Mainland and Hong Kong infrastructure providing the trading platform for Bond Connect transaction to be conducted. On the other hand, the Settlement Link refers to the CSD-to-CSD links between CMU and the Mainland CSDs which cater for the settlement and custody of CIBM securities under Bond Connect.

Bond Connect abides by the relevant laws and regulations of both Mainland China and Hong Kong. Northbound trading follows Mainland China's current policy framework governing overseas participation in the CIBM and at the same time respects international norms and practices. Under Bond Connect, overseas investors are not required to open onshore accounts in the Mainland to hold their CIBM bonds. Instead, overseas investors hold their CIBM bonds, through their global custodians and CMU Members

(being investors' local custodians), via CMU's nominee holder accounts maintained with each of the two Mainland CSDs. There is no investment quota for Northbound Trading.

7.2.1 Trading link

HKEx and CFETS cooperate with international bond trading platform(s) to provide electronic trading service which enables direct trading between overseas investors and Mainland dealers in order to enhance trading efficiency.

7.2.2 Settlement Link

The Settlement Link is responsible for the settlement and custody of CIBM bonds transacted via Bond Connect (Bond Connect transactions). The Settlement Link involves CMU of the HKMA to open nominee accounts with Mainland CSDs, namely SHCH and CCDC, so that CMU can settle Bond Connect transactions and hold CIBM bonds on behalf of CMU Members, whom in turn are providing services directly or indirectly to overseas investors making use of Bond Connect. The operational and settlement flow described in this chapter is focused on the CMU-SHCH link.

The settlement process of Bond Connect transactions will be similar to that of existing CIBM transactions except that the money legs are settled in CIPS. After a Bond Connect transaction is conducted, the trade details will be sent from CFETS system to the SHCH system, and the SHCH will provide its participants with such details to facilitate settlement. Meanwhile, after an overseas investor has conducted a Bond Connect trade, the relevant trade details will need to be inputted into CMU's system through a CMU Member. When CMU receives such information from SHCH, CMU will arrange to affirm the trade details from SHCH using the trade information inputted into CMU's system by CMU Members.

7.2.3 Role of the CMU

CMU provides clearing and settlement services to the bond market in Hong Kong. It is a designated system under the PSSVFO, which provides the legal basis for settlement finality regarding transactions settled in the CMU system. In addition, CMU is a FMI with the role of a CSD and a SSS which complies with the PFMI standards of the CPMI and the IOSCO. CMU, being a FMI, is not a custodian appointed by any of its members, in particular, it

does not take on such a role in respect of any debt securities, including CIBM bonds under Bond Connect.

7.2.4 Eligible Investors

The scope of Eligible Investors for Northbound Trading will be consistent with the scope specified in the relevant notices promulgated by the PBoC and the same as that for direct entry into CIBM currently. The Eligible Investors include overseas central banks and monetary authorities, sovereign wealth funds, international financial institutions, as well as various types of financial institutions legally established overseas and their investment products, pension funds, charity funds, endowment funds, etc. which are recognized by the PBoC as medium-to-long-term institutional investors.

For information on admission and registration criteria, please refer to BCCL's website at http://www.chinabondconnect.com .

7.3 Representation and Acknowledgement

In consideration of the HKMA providing the custody and settlement services for Bond Connect (the "Linkage Service") within the CMU Service, any CMU Member who uses the Linkage Service agrees, represents and acknowledges (such agreement, representation and acknowledgement to be evidenced by the CMU Member's use of the Linkage Service) that:-

(a) all operations, transactions and other activities conducted through the Linkage Service shall be subject to the CMU Rules as applicable (including without limitation Clause 8 of the CMU Membership Agreement) as the Linkage Service is an integral part of the CMU Service offered by the HKMA;

(b) in carrying out the CMU Member's instructions with regard to any transactions which are to be cleared and settled through the Linkage Service or to any Eligible Securities which are held in SHCH, the HKMA must, and is authorised by the CMU Member to, comply with all applicable rules and regulations of SHCH and shall incur no liability to the CMU Member for so doing;

(c) the HKMA, on behalf of the CMU Member, is entitled to do all such acts and things and execute all such documents as the HKMA may, in his discretion, consider necessary or desirable to enable the HKMA to

fully observe and perform his duties and obligations under the rules and regulations of SHCH; and to enter into any arrangement which the HKMA considers proper for the purpose of facilitating clearance of transactions effected on behalf of the CMU Member through SHCH;

(d) all securities held in SHCH are subject to the rules and regulations of SHCH, each CMU Member is responsible for informing itself of the characteristics of the securities it acquires and holds through the linkages to SHCH and neither the HKMA nor the operators of SHCH shall have any liability for any securities that are fraudulent, forged, invalid, or not freely transferable nor in respect of the creditworthiness of any issuer/listed company of any securities nor for any event of force majeure or failure of any other participants in SHCH to comply with the rules and regulations of SHCH;

(e) the CMU Member will provide such information to the HKMA, and the HKMA is authorised to make disclosure of any such information (including without limitation regarding the nationality, domicile, residence, location of business operations or other similar status of the CMU Member and the control or beneficial ownership of the securities held for, or traded for, the CMU Member in SHCH) to SHCH or any concerned tax authority as the HKMA may in his discretion consider necessary or desirable in connection with his operation of the SHCH linkage as part of the CMU Service, whether for the purpose of obtaining relief from withholding tax or otherwise;

(f) if any taxes, duties, interest or other levies or penalties are imposed on the HKMA in connection with the holding or trading of securities or the holding or transfer of cash in SHCH on behalf of the CMU Member, the CMU Member shall indemnify and hold the HKMA harmless in respect of such taxes, duties, interest, levy or penalty as the case may be save to the extent the same arise as a result of the wilful default or gross negligence of the HKMA;

(g) the CMU Member shall consent that the HKMA is authorised by it to make disclosure of any account information (including but not limited to holding positions, transaction details, or other similar data of the CMU Member and/or beneficial owner of the securities held for, or traded for, the CMU Member in SHCH) to SHCH, CFETS or to any concerned relevant authorities as the HKMA may in his discretion consider necessary or desirable in connection with his operation of the Linkage Service as part of the CMU Service;

(h) the CMU Member shall consent, and secure their clients to consent, that the CMU Member and their clients should (for the purpose of meeting the regulatory requirements promulgated by the PBoC

regarding the information see-through arrangements) record properly and timely the information on custody and settlement of overseas investors and shall, at the request of the relevant authorities in Mainland China, provide such information to the HKMA. The CMU Member shall consent, and secure their clients to consent, that the HKMA is authorised to make disclosure of such information to the relevant authorities in Mainland China;

(i) the CMU Member shall comply with all laws, decrees, regulations or orders of governmental bodies applicable to its use of the Linkage Service and its holding or trading of securities through SHCH and with any contract or agreement binding upon it and shall be responsible for ensuring compliance with all applicable legal, tax or regulatory requirements for disclosure or reporting as to the holding, control or beneficial ownership of or in respect of any securities it holds or trades through the Linkage Service; and

(j) for the avoidance of doubt the HKMA shall, with the limited exceptions stated in the CMU Membership Agreement, be exempt from any liabilities caused directly or indirectly by the operation of the CMU Service including, without limitation, the Linkage Service.

7.4 Operational Details

7.4.1 Account Structure

To provide the Linkage Service, the CMU opens an omnibus securities account (the "Linkage Securities Account") with SHCH in the name of the HKMA. All securities settlement arising from Bond Connect transactions of CMU Members are settled through the Linkage Securities Account. The account number of CMU's omnibus securities account opened at SHCH is:

Account no.: B7000002

The CMU uses a clearing account in the RMB CHATS for receiving/sending RMB funds from/to CMU Members in respect of settlement proceeds arising from Bond Connect transactions. The clearing code and BIC of CMU's clearing account in the RMB CHATS are:

Clearing Code: 809
BIC: HKMAHKHC

CMU Members are required to open segregated sub-accounts in the CMU system to hold its own and clients' Eligible Securities at individual Eligible Investor level. When a segregated sub-account is opened, the CMU will also set up a corresponding SHCH mirror cash account in the CMU system to record the balance of all fund movements relating to that segregated sub-account. CMU Members are able to enquire the balance of the SHCH mirror cash account via their CMTs.

7.4.2 Account Opening Procedure

A CMU Member who wishes to subscribe the Linkage Service is required to complete and return an enrolment form per Appendix T.1 to the CMU. It is also required to provide a standing settlement instruction in Appendix T.1 to:

(i) authorize the CMU to transfer the credit cash balance, if any, to a designated cash account opened with a bank in Hong Kong (the "Hong Kong Designated Cash Account"); and

(ii) notify the CMU that funds would be remitted to its mirror cash account in the CMU system through this Hong Kong Designated Cash Account.

An overseas investor who wishes to invest in Eligible Securities is required to apply for becoming an Eligible Investor from the relevant Mainland Authorities by completing an application form. Detailed information on application can be found in the website of BCCL available at:
http://www.chinabondconnect.com/en/information-for-investors.htm

Among others, the applicant is required to provide its settlement account information in the CMU and SHCH systems. The overseas investor should contact the CMU Member concerned, through its global custodian if applicable, to obtain the CMU and SHCH account information.

A CMU Member may request the CMU to open segregated sub-accounts in the CMU system for individual Eligible Investors by completing and returning Appendix A.5 to the CMU. Upon completion of the account opening process, which normally requires one business day, the CMU will advise the CMU Member of the CMU account information (such as the CMU sub-account no.), so that the CMU Member can relate the CMU account information to its clients who are interested to become Eligible Investors.

7.4.3 System Access

The CMU has installed SHCH terminal, which gives the CMU a direct real-time access to SHCH's clearing system. This enables CMU to:

(a) provide its members with up-to-date settlement details and securities information; and

(b) effect real-time settlement on a deal by deal basis on behalf of CMU Members.

7.4.4 Eligible Securities

The scope of Eligible Securities is specified in the relevant notices promulgated by PBoC. It currently covers all bonds tradable in the CIBM.

Before an issue of Eligible Securities can be accepted and settled through the Linkage Service, the CMU needs to assign a CMU Instrument Number to the issue. CMU Members may enquire issue details of the Eligible Securities already accepted by the CMU system via their CMTs. For securities issues that are not yet accepted by the CMU system, CMU Members may request the CMU to assign CMU Instrument Numbers to such securities issues by calling the CMU hotline and providing relevant issue information.

The CMU Instrument Number of an accepted Eligible Securities issue composes of a prefix of "SH" and the corresponding domestic securities issue number.

If the Eligible Securities issues have been assigned with ISIN codes, the CMU system also supports the use of the ISIN code in securities settlement instructions.

7.4.5 Instruction Involving Unknown Issue Number

For SHCH transactions sent via SWIFT MT540-543 with unknown issue number, the CMU system will not reject such SWIFT messages but will keep them for future processing. Detailed arrangements are as follows:

(f) CMU system will return an MT548 message to the relevant CMU Member notifying the member of the unknown issue status. The status is shown as "Pending CSD validation (PCV) with reason code "111 - issue not found".

(g) The MA will endeavour to investigate the eligibility of the securities. However, if the SWIFT message fails to pass the validation on any other fields, the message will be rejected by the CMU system; and it will not be available for enquiry via CMT.

(h) If a CMU Member wishes to cancel such transaction, it is required to send a cancellation request via SWIFT.

(i) A SHCH transaction with unknown issue number will be validated again whenever the earlier of the following happens:

(iii) the issue number is created in the CMU system; or
(iv) the current day (i.e. the settlement date) is hit.

(j) On the settlement date of a SHCH transaction, if the relevant issue number remains unknown, such transaction will be rejected by the CMU system when it re-opens at 8:30 a.m. An MT548 messages will be returned to the relevant CMU Members with "Rejected (REJ)" status. The CMU Member will need to verify the correctness of the relevant issue number and/or contact the CMU if it is considered necessary.

CMU accepts no liability for any losses incurred in relation to assumptions that a securities transfer instruction with an unknown issue number will be accepted by the CMU system. CMU Members should exercise due control to ensure correctness of the issue number when inputting securities transfer instructions into the CMU system.

Unlike securities transfer instruction sent via SWIFT, instructions submitted via CMT or authenticated facsimile with unknown issue number cannot be input into the CMU system.

7.4.6 CFETS Trade Reference Number

Except for settlement of new securities issues in primary market as described in clause *7.5.3* below, for settlement purpose, each securities settlement instruction sent by CMU Members shall include a CFETS Trade Reference Number which can be recognized and identified by its counterparty. Based on such reference number, CMU can identify and match the instruction with the trade details in the SHCH system.

7.4.7 Validation

After receiving an instruction from a CMU Member, the CMU system will perform preliminary validation. Invalid instruction will be rejected by the CMU system. If CMU validation is successful, the instruction will then be relayed to the SHCH system for validation where applicable. The instruction will be rejected if the SHCH validation is unsuccessful. CMU Members may enquire the transaction status of the instruction through their CMTs and refer to Appendix D of the "CMT User Manual – User Guide" for detailed description of the status code. For a rejected instruction, the CMU Member is required to re-submit a new instruction with amended information to the CMU.

7.4.8 Matching / Affirmation

After the CMU receives a settlement instruction from a CMU Member, it will match the settlement instruction with the settlement details in the SHCH system. The CMU will affirm the transaction in the SHCH system if the following fields are matched:

(a) Instruction type (DVP gross settlement)
(b) CFETS Trade Reference Number
(c) Counterparty name and account number
(d) Settlement date
(e) Security code
(f) Quantity of securities
(g) Settlement amount

7.4.9 Real-time Gross Settlement

Settlement of transactions in the SHCH system is effected in real time and on gross basis. The settlement sequence of transactions depends on a number of factors, including the affirmation time of both buyers and sellers, securities availability in the seller account and completion of payments by buyers. The SHCH system does not have any facility to enable the buyer or seller to control the settlement sequence of the transactions. In view of the above, CMU Members should ensure that they will remit sufficient funds to the CMU for settling their purchase transactions on gross basis.

Partial settlement in respect of a transaction is not allowed in SHCH system.

7.4.10 Transfer of Securities between two CMU Accounts

Transfer of securities between two CMU Members and between two CMU sub-accounts of the same CMU Member are generally not allowed except under certain circumstances as described in clause *7.4.12* below.

7.4.11 Amendment and Cancellation of Instructions

A CMU Member may cancel its instructions through its CMT or SWIFT message if the CMU has not yet relayed the instructions to the SHCH system. Specifically, a CMU Member can only cancel its securities settlement instruction if the CMU has not affirmed the corresponding transaction in the SHCH system and cancel its wire transfer instructions if the CMU has not forwarded the corresponding wire transfer instruction to the SHCH system.

The CMU system does not support amendment of instructions. A CMU Member who wishes to amend an instruction has to cancel its previous instruction and submit a new instruction to the CMU.

7.4.12 Change of Custodian by Eligible Investor/Change of Settlement Bank by CMU Member

Transfer of securities between two CMU Members in FOP is allowed under certain circumstances such as when an Eligible Investor wishes to change its local and/or global custodian and the Eligible Investor has no CNY position outstanding with the Hong Kong Settlement Bank. Moreover, historical transaction records are also required to be transferred from the former custodian to the "new" custodian. Both the former and new custodians are required to keep proper and complete records of the data transfer between them.

The procedure for an Eligible Investor to change local custodian in the CMU system is as follows:

(a) The investor approaches the new custodian who is a CMU Member in order to contact the CMU to obtain a new CMU sub-account no. for the investor's application to CFETS to update its record (same CFETS ID, but a change in custodian associated with this CFETS ID).

(b) Both the former and the new local custodian are required to inform the CMU in writing and provide evidence for the approval of change from the relevant Mainland authority (if any) to the CMU.

(c) The new custodian will request CMU to open a new segregated sub-account for the Eligible Investor by submitting Appendix A.5 while the former custodian will write to the CMU to close the sub-account for that investor.

(d) After obtaining approval from CFETS or the relevant Mainland authority, the former and the new custodian will need to agree on an effective date to migrate the entire portfolio to the new custodian.

(e) Having informed CMU the settlement date, the former and the new local custodian will effect the transfer of securities in FOP mode.

(f) On the settlement date, when the transfer of securities over the Securities Accounts of the former and the new custodians is completed, CMU will close the relevant CMU sub-account of the former custodian.

Similarly, a CMU Member may also change its settlement bank as long as it has no CNY position outstanding with the former settlement bank. Both the former and new settlement banks are required to keep proper and complete records of the data transfer between them. After both settlement banks have agreed the switching arrangement, the CMU Member has to notify the CMU by updating Appendix T.1 before the effective date.

7.4.13 Business Days

Settlement calendar (including working Saturdays/Sundays) and holiday arrangements will generally follow the CIBM schedule. The Linkage Service is available on a day when the SHCH system, CIPS and the RMB CHATS are all open for business, regardless of whether it is a holiday in Hong Kong. Public holiday arrangement in Mainland China is announced by the People's Republic of China from time to time which is available at its website (http://www.gov.cn/zhengce).

Given the public holidays are announced at the start of each year, relevant Mainland authorities and/or CSDs may also announce special working days, including Saturdays and/or Sundays, as ad hoc working days for CIBM and/or Bond Connect settlement days. CMU will inform members of these ad hoc working days as and when appropriate.

CMU Members are reminded to manage their liquidity prudently as RMB intraday repo transactions with CB will not be available during special working Saturdays and Sundays.

7.4.14 Typhoon and Black Rainstorm Days in Hong Kong

Settlement arrangements under severe weather conditions will follow CMU and CIBM markets arrangements. Bond Connect settlement continues to be available on typhoon and black rainstorm days in Hong Kong.

7.5 Settlement Arrangements and Money Transfer

7.5.1 Settlement Model for Trades Executed in Trading Platform(s)

Following the launch of CIPS 2.0 in Mainland China, and in accordance with the guidelines of PBOC dated 20 August 2018 (issue no, 150 – 2018), both the Eligible Investors and Mainland dealers are required to choose an appropriate settlement model (i.e. model 1[5] or model 2[6]) when a trade is to be concluded in CFETS.

Model 2 is set as the default model to support settlement of Bond Connect transactions on behalf of Eligible Investors in SHCH and CIPS. No consultation and prior agreement with the CMU is required if an Eligible Investor chooses model 2 as the settlement model when it is going to conclude trades in the trading platform.

Use of model 1 without prior consultation and agreement with CMU may result in the CMU failing to settle the relevant Bond Connect transactions in SHCH on the settlement date.

7.5.2 Settlement of Trades

The securities settlement processes are as follows:

(a) After Bond Connect trades are executed between Eligible Investors and Mainland dealers through designated trading platform(s), the settlement details of confirmed trades will be forwarded to the SHCH system for settlement.

(b) CMU Members send settlement instructions to the CMU via CMT or SWIFT message (MT541/MT543), or subject to Part I – clause *5.2* of

5 Payment request for Bond Connect transaction is initiated by the buyer via CIPS
6 Payment request for Bond Connect transaction is initiated by CSD via CIPS

this Manual, submit Bond Connect Securities Transfer Form (Appendix T.7) by authenticated fax or by hand before the cut-off time as specified in clause *7.5.9* below before 12:00 noon on the settlement date, based on the settlement details provided by the Eligible Investors through their global custodians where applicable.

The MT541/543 messages sent to the CMU include, among others, the following fields to specify the CFETS Trade Reference Number and the place of settlement:

:70E::SPRO//CBTnnnnnnnnnnnnn (Sequence B)
:95P::PSET//CHFMCNSH (Subsequence E1)

where CBTnnnnnnnnnnnnn is the CFETS Trade Reference Number;

(c) The CMU will affirm the transactions in the SHCH system if the following conditions are satisfied:

(i) the settlement instructions provided by CMU Members are matched with the settlement details in the SHCH system;

(ii) the corresponding CMU sub-accounts have sufficient securities (for sell transactions); and

(iii) the corresponding mirror cash accounts in the CMU system have sufficient RMB funds. CMU Members' mirror cash accounts will be credited if they have remitted sufficient funds to the CMU's 809 account in RMB CHATS in favour of the corresponding CMU sub-accounts (for purchase transactions).

If there are multiple sell transactions involving a CMU sub-account of a specific securities issue, and the securities balance of that CMU sub-account can only settle part of the sell transactions, the CMU will select and affirm part of the transactions on its sole discretion.

If there are multiple purchase transactions involving a CMU sub-account, and the funds remitted to the CMU in favour of that CMU sub-account can only settle part of the purchase transactions, the CMU will select and affirm part of the transactions on its sole discretion.

(d) On the settlement day, after affirmation by the CMU and the counterparty, the SHCH system will assign a Settlement Instruction Number (SIN) to the settlement instruction.

(e) After affirmation, the SHCH system will put the securities on hold and send payment request to CIPS to debit the settlement account of the buyer's settlement bank.

(f) Once the funds and securities held are sufficient, real-time gross settlement take place immediately. The securities accounts of the buyer and the seller concerned in SHCH and the settlement accounts of the buyer's and the seller's settlement banks in CIPS are debited and credited accordingly. According to the rules of SHCH, the settlement is final and irrevocable.

(g) If the buyer has insufficient funds or the seller account has insufficient securities for settlement, the transaction will be pending in the system until the seller and buyer have sufficient securities and funds respectively for settlement.

(h) If the transactions cannot be settled before the SHCH system cut-off time (currently at 17:00), the instructions will be cancelled in both the SHCH and CMU systems. These instructions will need to be re-sent to the CMU if the relevant parties wish to settle the trades on the following business day.

7.5.3 Settlement for New Securities Issues in Primary Market

An Eligible Investor who wishes to participate in the primary market issuance of a debt securities issue is required to sign an agreement with a member of Mainland underwriter syndicate appointed by the issuer. The tendering/placement and settlement processes are as follows:

(a) On the announcement date, SHCH assigns a security code to the new debt securities issue based on the issue information provided by the issuer. The underwriter syndicate then provides the issue information to interested investors.

(b) On the tender/placement date, the issuer conducts the tender/placement process. Upon completion of the tender/ placement process, the issuer announces the results through the website of the SHCH.

(c) SHCH subsequently updates the tender/placement results into its system. Members of the underwriter syndicate input the settlement instructions into SHCH system through SHCH terminal.

(d) Eligible Investors who have subscribed the new debt securities issues through a member of the underwriter syndicate will be advised of the settlement details by the underwriter syndicate.

(e) CMU Members send settlement instructions to the CMU via CMT or SWIFT message (MT541), or subject to Part I – clause *5.2* of this Manual, submit Bond Connect Securities Transfer Form (Appendix T.7) by authenticated fax or by hand before the cut-off time as specified in clause *7.5.9* below before on the settlement date, based on the settlement details provided by the Eligible Investors through their global custodians where applicable. The format of the settlement instructions are same as those for trades executed in trading platforms except it does not bear a CFETS Reference Number.

The MT541 messages sent to the CMU includes, among others, the following field to specify the place of settlement:

:95P::PSET// CHFMCNSH (Subsequence E1)

(f) The CMU will affirm the transactions in the SHCH system if the following conditions are satisfied:

(iii) the settlement instructions provided by CMU Members are matched with the settlement details in the SHCH system; and

(iv) the CMU Members' mirror cash accounts in the CMU system have sufficient RMB funds. CMU Members' mirror cash accounts will be credited if they have remitted funds to the CMU in favour of the corresponding CMU sub-accounts.

If there are multiple purchase and new issue transactions involving a CMU sub-account, and the funds remitted to the CMU in favour of that CMU sub-account can only settle part of the purchase and allotment transactions, the CMU will select and affirm part of the transactions on its sole discretion.

(g) After affirmation by the CMU, the SHCH system will assign the SIN for the new issue instruction. The subsequent settlement flow is same as those mentioned in clause *7.5.2*.

7.5.4 Funding Arrangements

Please note the following funding arrangements:

(a) Each CMU Member is required to engage a settlement bank in Hong Kong and designate a cash account opened with that settlement bank (the "Hong Kong Designated Cash Account") for receiving RMB payments from the CMU arising from Bond Connect transactions.

(b) For purchase transactions in the SHCH system, a CMU Member is required to deposit sufficient funds to its mirror cash accounts in the CMU system in accordance with the procedure as described in clause *7.5.5* below before 2:00 p.m..

(c) For sell transactions, the settlement proceeds is credited to the CMU's clearing account with the RMB CHATS through the CIPS.

(d) For redemption and interest payments, SHCH will transfer the settlement proceeds to the CMU clearing account with the RMB CHATS through the CIPS.

(e) A CMU Member may send wire transfer instructions to the CMU via CMT or SWIFT message (MT202) before 4:00 p.m. on the settlement date transferring the settlement proceeds to its Hong Kong Designated Cash Account. Details are described in clause *7.5.6* below.

(f) At the SHCH system cut-off time (currently 5:00 p.m.) of each operating day, if a CMU Member has any cash credit balances, the amount of the credit balances will be automatically transferred to the Hong Kong Designated Cash Accounts via the RMB CHATS based on the standing instructions given by CMU Members. If there are net credit amount in multiple cash mirror accounts of a CMU Member, the CMU will sum up the net credit amount of all relevant cash mirror accounts and transfer the sum in a single payment to the CMU Member via the RMB CHATS.

7.5.5 Funding Arrangement in SHCH - Deposit of Funds via RMB RTGS System in Hong Kong

For settling purchase transactions in SHCH, a CMU Member is required to have sufficient funds in its mirror cash account in the CMU system.

The procedures to remit funds to the mirror cash account are as follows:

(a) A CMU Member who intends to deposit funds to its mirror cash account in the CMU system via RMB RTGS system in Hong Kong

is required to send an instruction via the "Deposit of funds via HK RTGS" function in CMT or SWIFT MT210 message (sample as per Appendix T.2), or subject to Part I – clause *5.2* of this Manual, submit Deposit of Fund via RMB RTGS System Form (Appendix T.8) by authenticated fax or by hand to the MA before the input deadlines as specified in clause *7.5.9* below.

(b) The CMU Member or its settlement bank is required to make a payment with payment code IFT31 on the value day.

(c) If the CMU Member or its settlement bank has set the CMU related payment at RTGS system to "auto-generation" mode, the IFT31 payment will be generated automatically and appended at the end of the normal payment/pending queue at RMB RTGS system.

(d) If the CMU Member or its settlement bank has set the CMU related payment parameter at RTGS system to "No auto-generation" mode, the IFT31 payment will not be automatically generated. The CMU Member or its settlement bank has to manually construct the IFT31 payment via SWIFT MT202 by making use of the payment notification SWIFT MT298. The MT298 will carry all payment details required for the preparation of the IFT31 payment. The payment is made to the MA (clearing code 809).

(e) If the purchase transactions of a CMU Member in the SHCH system involve multiple CMU sub-accounts, the CMU Member has to input the "Deposit of funds via HK RTGS" for each of the CMU sub-accounts. Its settlement bank will then have to send multiple payments to the CMU and each IFT31 payment will correspond to a single CMU sub-account.

(f) Upon receipt of funds from CMU Member through the RMB CHATS, CMU will credit CMU Member's mirror cash account in the CMU system. The funds will be available to the CMU Member for settling SHCH transactions.

(g) Deposit of funds via RMB RTGS in Hong Kong is not available in special working Saturdays and Sundays and on 25 December. In case there are purchase transactions required to be settled in SHCH on these special Saturdays and Sundays and on 25 December, the CMU Member has to instruct its settlement bank to remit the gross amount of settlement proceeds to the CMU (clearing code 809) in favour of the relevant CMU sub-account through the RMB CHATS.

The MT202 messages (IFT02) sent to the RMB CHATS will include, among others, the following field to specify the mainland CSD and CMU sub-account that the funds to be used for settlement:

:52D:/XXXXnnnSHC

where XXXXnnn is the CMU sub-account code.

7.5.6 Wire Transfer of Funds

The arrangements are as follows:

(a) If a CMU Member receives income or sales proceeds arising from an income distribution event or a sale of the Eligible Securities and wishes to transfer the money out in real time from its mirror cash account, it can send a wire transfer instruction to the CMU specifying the CSD and the amount to wire out, via SWIFT, CMT or subject to Part I – clause *5.2* of this Manual, submit Wire Transfer of Funds Form (Appendix T.9) by authenticated fax or by hand before the cut-off time as specified in clause *6.5.9* below.

(b) The payment is to be made to the CMU Member's Hong Kong Designated Cash Account as indicated by the CMU Member on Appendix T.1. The wire transfer instruction will be rejected if the beneficiary's BIC or name does not tally with the CMU record.

(c) When CMU receives a wire transfer instruction from a CMU Member for its sub-account, CMU will check the availability of funds in its mirror cash account as well as whether there are any outstanding purchase transactions of this CMU sub-account in the CSD on the value day. If there are sufficient funds and there are no pending-to-settle purchase transactions, CMU will transfer the funds to the CMU Member's Designated Cash account via the RMB RTGS. Otherwise, the wire transfer instruction is subject to retry until the cut-off time.

(d) If the wire transfer instruction cannot be executed on the value day due to whatever reasons, it will be cancelled by the CMU system. Any remaining credit balance in the member's mirror cash account will automatically be transferred to its Hong Kong Designated Cash Account via RMB CHATS during return of funds at day-end (around 5:00 p.m.)

7.5.7 Foreign Currency Conversion Arising from Bond Connect Transactions

According to PBoC, Eligible Investors are allowed to use their own sources of RMB in the offshore market (the "CNH Channel") or to convert foreign currencies into RMB at the onshore conversion rate of RMB (the "CNY Channel") to invest in the CIBM. The following rules will apply if a CMU Member wishes to provide the CNY Channel service to its clients:

(a) A CMU Member is required to engage the RMB Clearing Bank in Hong Kong or one of the offshore participating banks in Hong Kong approved by CFETS (collectively the "Hong Kong Settlement Banks") for providing foreign exchange conversion services in the onshore market. CMU Members can refer to the list of Hong Kong Settlement Banks at CFETS's website at http://www.chinamoney.com.cn/english/bccn/

(b) A CMU Member is required to engage the same Hong Kong Settlement Bank as its settlement bank as mentioned in clause *7.5.4* above to conduct all payments arising from Bond Connect transactions. The CMU Member is also required to designate a cash account opened with the same Hong Kong Settlement Bank as the Hong Kong Designated Cash Account.

(c) A CMU Member can only engage one Hong Kong Settlement Bank to perform FX and it is required to engage the same bank to perform its cross-border remittance for Bond Connect settlement under the existing PBoC rules for Bond Connect.

(d) For purchase transactions, CMU Member will transfer the settlement proceeds to the CMU through its engaged Hong Kong Settlement Bank. Similarly, for sell transactions, redemption and interest payments, the CMU Member can only receive the settlement proceeds through the same Hong Kong Settlement Bank.

(e) For purchase transactions, the CMU Member can choose to use the CNH Channel, the CNY Channel or a combination of the two channels to settle the purchase transactions. If the CMU Member opts to use the CNY Channel, it will conduct the foreign exchange conversion with its engaged Hong Kong Settlement Bank in the onshore market. If the CMU Member opts to use the CNH Channel, it can use its own sources of funds and arrange to transfer the RMB funds to its account with its engaged Hong Kong Settlement Bank. For both channels, the Hong Kong Settlement Bank is responsible for transferring the RMB funds to the CMU.

(f) For sell transactions and redemption of securities, if the securities concerned were purchased using the CNY Channel, the CMU Member should in principle convert the settlement proceeds to foreign currencies with its engaged Hong Kong Settlement Bank in the onshore market, or use the settlement proceeds to reinvest in CIBM securities under Bond Connect. If the securities concerned were purchased using the CNH Channel, the CMU Member can use the RMB funds in the offshore market.

(g) According to the CFETS, the Hong Kong Settlement Banks are responsible for, among others, keeping records of the foreign exchange conversion and payment activities in respect of Bond Connect transactions for each CMU Member. The Hong Kong Settlement Banks are required to report the foreign exchange conversion amount and other relevant data to the CFETS on a regular basis.

(h) CMU Members have the responsibility to ensure that their client investors' currency conversion and hedging transactions are genuine and reasonable in light of the settlement and holding information of a particular client investor. If Hong Kong Settlement Banks consider that there is cause for suspicion, and that it is necessary, they may request reasonable ex post clarification or information from CMU Members.

If a CMU Member, including its clients, does not use the foreign exchange conversion services in the onshore market, it can freely engage a non-Hong Kong Settlement Bank as its settlement bank as mentioned in clause *7.5.4* above.

7.5.8 Reporting on Failed Trades

According to the operating rules of SHCH, any trades that cannot be settled on the intended settlement date must be reported to it. Both the Eligible Investor and the Mainland dealer are required to file with SHCH a failed report which it is available at:
https://www.shclearing.com/cpyyw/djtgjsyw/ywcz/yjyhcl/

Eligible Investor and the Mainland dealer are to report the failed trade directly to SHCH if the trade has not yet been affirmed by the CMU.

If the trade has been affirmed by the CMU, SHCH requires either the Eligible Investor or the CMU to report the affirmed failed trade to it. To streamline the reporting processing, CMU will report all affirmed failed

trades itself to SHCH directly. To facilitate CMU reporting the affirmed failed trades to SHCH, the CMU Member is required to i) complete and return Appendix T.6 to the CMU; and ii) submit the designated failed report of SHCH, signed by the Mainland dealer, to the CMU no later than 2:00 p.m. on the day following the settlement date.

7.5.9 Operational Timetable

The following timetable summarizes the cut-off times for various events in relation to the Linkage Service with SHCH:

Time	Event
08:30	CMU system commences operation
09:00	SHCH system commences operation.
14:00	Cut-off time for sending the following instructions to CMU: • securities settlement instructions • deposit of funds via RTGS in Hong Kong instructions 2 hours before the cut-off time for instructions sent by authenticated fax or by hand.
Around 16:00	SHCH automatically remits the credit balances, if any, to the CMU
17:00	SHCH system closes operation All unsettled transactions will be cancelled. CMU Members are required to re-send the instructions to the CMU, if applicable, on the next business day.
Start from 17:00	CMU transfers the credit balances arising from Bond Connect transactions to the Hong Kong Designated Cash Accounts via the RMB CHATS.

7.6 Corporate Actions

7.6.1 Provision of Information

The CMU receives information in respect of corporate events from SHCH or other parties and will report such information to CMU Members via fax.

Please note that the CMU is not responsible for the accuracy or completeness of the information and accepts no liability for the inaccuracy or incompleteness of the information. The CMU accepts no liability if the information it reports are not received by it in a timely manner.

7.6.2 Notification of Corporate Events

Notification of corporate events pertaining to a particular securities issue will be sent to the CMU Member if:

(a) the CMU Member holds such securities in its CMU Securities Account; or

(b) the CMU Member has an unexecuted securities settlement instruction concerning such securities.

7.6.3 Notification of Coupon Payment and Redemption

Based on the information received from SHCH, the CMU provides notifications of forthcoming coupon payment and redemption to CMU Members who hold the relevant securities. CMU Members may obtain the "Linkage Securities Coupon/Dividend Notification Report" (CMUL5801) and "Linkage Securities Redemption Notification Report" (CMUL5901) through their CMT. The CMU accepts no liability for any inaccuracy, incorrectness or incompleteness of the information provided in the reports.

If the reported information has any discrepancy with that actually obtained by the CMU from SHCH, CMU will send revised CMUL5801 and/or CMUL5901 reports to supersede the previous ones as soon as possible.

7.6.4 Processing of Custody Operations

Corporate events concerning a security issue may lead to the processing of a custody operation by SHCH or an agent appointed by the security issuer. Some corporate actions require instructions from a CMU Member while others are processed without the need for actions by the CMU Member.

(a) Instruction Required for Execution

For a corporate event that require an instruction for execution, the CMU Member can send a corporate action instruction to the CMU via authenticated fax before the input deadline as specified in the relevant notice. Upon receiving the custody operation instructions from the CMU Member, the CMU will forward the instructions to SHCH or the appointed agent for further processing.

If a CMU Member does not send its corporate action instruction to the CMU before the input deadline, the CMU is authorized to take the default action specified in the relevant notice issued by the relevant agent.

(b) Instruction Not Required for Execution

For those corporate actions which do not require a CMU Member to send a custody operation instruction, the CMU will take any and all such actions as may be necessary or useful to execute such custody operations.

(c) Execution of custody operation by security holders directly

Some corporate actions may require security holders to directly participate in a custody operation (e.g. meeting). The CMU will issue a certificate to the CMU Member certifying the quantity of the security held by the CMU Member to facilitate the direct participation of the custody operation by the CMU Member or its clients.

7.6.5 Credit of Cash and/or Security arising from Corporate Actions

If a CMU Member is entitled to the product of security and/or cash distribution as a result of corporate actions, the security and cash will be credited to the relevant CMU sub-accounts and the corresponding mirror cash accounts respectively.

7.7 Certification of Beneficial Ownership

CMU has no proprietary interest in the bonds as a nominee holder in SHCH system. If required, the MA will provide CMU Members with the certification of securities holding as per Appendix A.17 held in their CMU sub-accounts maintained in the name of the entity whose name is provided in Appendix A.5 with the MA.

Based on the certification of bond holding issued by the CMU, plus similar bond holding documentation provided by the relevant CMU Member, which serves as a local custodian, as well as the relevant global custodian (if applicable), the Eligible Investor will have documentary evidence of his/her bond beneficial ownership under Bond Connect.

7.8 Enforcement of Legal Rights

In the case of securities in default, the MA will not take any action, legal or otherwise, to enforce a participant's rights against any issuer or any guarantor in respect of a securities in default. The MA authorizes the participants and/or the underlying beneficial owners of such securities to maintain proceedings against issuers, guarantors and any other parties. This is to the extent that the MA, acting as the operator of the CMU, acts as registered owner of any securities held in the CMU system, or in any other relevant situation.

7.9 Reports

The CMU system provides a wide range of reports to support the Linkage Service. CMU Members may obtain the following reports through CMT or FTS:

CMUD5101 - Account Position Report
CMUL3901 - Linkage Securities Transfer Transaction Audit Trail Report
CMUL3902 - Linkage Money Transfer Transaction Audit Trail Report
CMUL40C1 - Cash Movement Report
CMUL46C1 - End-of-Life Linkage Securities Transaction Report
CMUL47C1 - Unsettled Linkage Securities Transaction Report
CMUL48C1 - Executed Linkage Money Transaction Report
CMUL49C1 - Unexecuted Linkage Money Transaction Report
CMUL5801 - Linkage Securities Coupon/Dividend Notification Report
CMUL5901 - Linkage Securities Redemption Notification Report
CMUL5802 - Linkage Securities Coupon/Dividend Executed Report

CMUL5902 - Linkage Securities Redemption Executed Report

CMUF4A01 - Unexecuted and Executed Corporate Action Instruction Report (Other CSD) (delivered via fax)

Please refer to Appendix C of the "CMT User Manual – Report Guide" for details.

Part V
MPF Money Settlement Service and CMU Fund Order Routing and Settlement Service

1 MPF MONEY SETTLEMENT SERVICE

1.1 Background

With the introduction of Employee Choice Arrangement (ECA) by the Mandatory Provident Fund Schemes Authority (MPFA), employees are allowed to transfer, once a year, accrued benefits derived from their own mandatory contributions made during current employment from an account under their employer's chosen scheme to an MPF scheme of the employee's own choice. Transfer of relevant employees' details from new trustees to original trustees will be transmitted over ePASS system developed by MPFA.

With a view to shorten the payment cycle arising from ECA, the CMU has developed a bulk settlement service for MPF Schemes trustees to settle payments arising from MPF Schemes switching under the ECA. It is expected this settlement service would help shorten processing time for MPF Schemes switching.

1.2 The Service

1.2.1 Service Subscription

To subscribe to this Service, a CMU Member which is a trustee is required to register by signing and returning the following documents to the CMU:

(a) CMU MPF Money Settlement Service – Applicable Terms and Conditions for CMU Members;

(b) CMU MPF Money Settlement Service Transmission Channel Registration Form (Appendix A of the CMU MPF Money Settlement Service - Interface Guide);

(c) Settlement Arrangement for MPF Money Settlement Service with the MA (Appendix A.11 and A.12 of this Manual).

1.2.2 Settlement Bank

Trustees are not direct clearing members of the Hong Kong dollar RTGS system. Therefore, they are required to engage designated bank(s) as

their HKD cash correspondent(s) to carry out the money settlement on their behalf in the MPF bulk settlement run. As to the debit limit extended by the settlement banks to the trustees during the daily MPF bulk settlement run, it is required to be liaised and arranged between trustees and their settlement banks bilaterally, and is to be set outside the CMU system.

However, for the purpose of monthly billing in the CMU system, a trustee is required to appoint a designated settlement bank and arrange with it to set a direct debit limit in the CMU system. Direct Debit Limit form (Appendix A.9) is required to be completed and returned to the CMU by the trustee' settlement bank

1.2.3 Settlement Bank Account Maintenance

If a trustee wishes to add, change or amend existing settlement bank account information, it has to amend it by using Appendices A.11 & 12. Lead time for the CMU to process the change depends very much on the readiness of the settlement bank appointed by the trustee. Kindly refer to the following table for the lead time required under various scenarios of change of settlement bank:

Scenarios	Business days required
(a) Change of account no. of the same settlement bank	2
(b) Delete a settlement account number	2
(c) Change / add settlement bank[7] and account number	5
(d) Change / add settlement bank[8] and account number	30 approximately

Please also note that the lead time will be counted from the date the CMU receives the written request from the trustee.

List of banks that have already subscribed to the use of MPF money settlement service with HKICL is available on request.

[7] The settlement bank has already subscribed to the use of the MPF money settlement service with HKICL

[8] The settlement bank has not yet subscribed to the use of the MPF money settlement service with HKICL and the actual number of business days required for cut over also depends on the readiness of the bank.

1.3 Communication Channels

1.3.1 File Transmission Channels

Trustees can select any of the following communication channels to exchange MPF payment related files and reports with the CMU:

(a) eCMT/iCMT
(b) FTS on ICLNet (FTS)
(c) FileAct on SWIFTNet (FileAct)

For detailed setup procedures and technical requirements for accessing any of the above channels, please refer to section 3 of the MPF Money Settlement Service – Interface Guide (Interface Guide).

1.3.2 File Submission at MPF Scheme Level

If a trustee has appointed two different scheme administrators to process its MPF payment instructions, it has to set up two separate administration groups in CMT referred to as Administration Group A (Admin Group A) and Administration Group B (Admin Group B) to submit payment files to the CMU. Payment files submitted by users of Admin Group A and that of Admin Group B will be differentiated by the different file names.

Users can only view uploaded file details, response file and settlement result files belonging to their own Admin Group. Users of one Admin Group do not have access right to view files belonging to the other Admin Group.

For the setup of admin group and file submission arrangements, please refer to section 9 of the Interface Guide for further details.

1.4 Settlement Arrangement

1.4.1 Submission of MPF Payment Files by Trustees

On Day D (clearing day):

(a) Original trustees prepare their MPF payment files (outward clearing files) in XML format, which cover payments to different new trustees on gross basis. Please refer to Appendices B.5.1 and C.1 of the Interface Guide for the file specification and illustrated example respectively.

(b) Original trustees access through their prescribed channels to submit MPF payment files to the CMU between 9:00 a.m. to 8:00 p.m. on a business day. Files sent outside these service hours will be rejected by the CMU system and a response file showing the rejected reason code will be sent to the original trustee for follow-up. If a file is uploaded via CMT and being rejected, an error message will be displayed on the CMT screen immediately.

(c) If there is no payment instruction to be made by a trustee on a business day, it is not required to submit a blank file to the CMU.

(d) Original trustees can submit more than one payment files (bearing different file names) to the CMU during a business day.

(e) Upon receipt of payment files, validation will be performed by both the CMU and Electronic Clearing (ECG) systems. Detailed description of the validation rules are outlined in Appendix D of the Interface Guide.

(f) Original trustee is required to check the status of uploaded/delivered payment file via CMT including those sent through FTS and FileAct. Please refer to chapter 9.2 of the CMT User Manual – User Guide for detailed description of processing steps.

It is the responsibility of trustees to ensure payment files are uploaded successfully via any of the communication channels. The CMU will not be responsible for any settlement failure due to unsuccessful upload of payment instructions by trustees.

1.4.2 Receipt of MPF Data Capture Response File by Trustees

On Day D (clearing day):

If a MPF payment file has passed through validation of the CMU and ECG systems successfully, a MPF Data Capture Response File (CMUD951A/ CMUD951B) in XML format containing both the accepted and rejected transactions will be sent back to the original trustees within 30 minutes.

Please refer to Appendices B.5.2 and C.2 of the Interface Guide for the layout of the MPF Data Capture Response File and illustrated example of this file respectively. Trustee can view these files under the “View Report List” function of CMT and also download such files for further

processing. For detailed procedure on how to view and download files, please refer to chapter 4 of the CMT User Manual – Report Guide.

1.4.3 Clearing Process

8:00 p.m. on Day D (clearing day):

The clearing process is conducted in the ECG system after cut-off at around 8:00 p.m. on a business day. The processes are as follows:

(a) While original trustees submit payment instructions to the CMU on a gross basis, payment instructions between trustees with the same debit and credit bank accounts will be merged into one single transaction in the ECG system. Please refer to *Figure 1* below for an example of bulk payment mechanism.

(b) For each accepted transaction destined to the settlement bank of a new trustee, a corresponding transaction destined to the settlement bank of the original trustee will be generated in the ECG system.

(c) A unique reference number (HKICL MPF reference) is assigned to each pair of transactions destined to the settlement banks. The debit and credit transactions carry the same reference number.

(d) After completion of the clearing process at around 11:00 p.m., the settlement banks of both original and new trustees will receive inward clearing files and report files from HKICL for their further processing.

(e) Settlement banks of trustees arrange to debit/credit the accounts of trustees in accordance with the payment instructions received for value Day D. In normal practice, funds credited to trustees' accounts are only available for use after the completion of inter-bank settlement on Day D+1.

Figure 1

1.4.4 Return Process

On Day D +1 (settlement day):

If there is any payment items to be returned (for example, insufficient balance in original trustee's bank account), the settlement bank of original trustee will submit a file containing the returned items to HKICL for return processing by 10:00 a.m.

1.4.5 Settlement Process

On Day D +1 (settlement day):

After the completion of return process by HKICL, inter-bank settlement (after netting the returned items) will be performed in the Hong Kong dollar RTGS system from 11:30 a.m. to 12:00 noon.

1.4.6 Receipt of MPF Settlement File by Trustees

On Day D +1 (settlement day):

A MPF Settlement Result File (CMUD952A/CMUD952B) in XML format containing both debit and credit transactions will be produced and sent to trustees at around 1:00 p.m. after the completion of settlement.

Please refer to Appendices B.5.3 and C.3 of the Interface Guide for the layout of MPF Settlement Result File and illustrated example of these files respectively.

Payments returned by trustee's settlement bank will be marked as "Returned by Bank" in this result file. Please refer to Appendix D.3 of the Interface Guide for the list of returned reason codes.

Trustee can view the MPF Settlement Result File under the "View Report List" function of CMT and can also download this file for further reconciliation with their bank statement.

1.4.7 Reconciliation

While performing reconciliation of MPF transactions with the bank statements provided by settlement banks, trustees should exercise due care and specifically take into account of the merging of payments mechanism mentioned in section 5.3 above.

1.5 Reports/Files

CMU provides the following reports/files to trustees periodically. The purpose of reports, report format, file specification and layout are detailed in Appendix B.5 and C of the Interface Guide.

File type & report ID	File/Report name	Description and time available	Report format
MPF Data Capture Response File (CMUD951A) and/or (CMUD951B)	MPF Data Capture Response File (Administration Group A) (CMUD951A); and/or MPF Data Capture Response File (Administration Group B) (CMUD951B)	Within 30 minutes after submission of MPF payment file Shows all MPF transactions stored in the outward clearing file with total counts	XML
MPF	MPF Settlement Result	On day D+1, upon	XML

File type & report ID	File/Report name	Description and time available	Report format
Settlement Result File (CMUD952A) and/or (CMUD952B)	File (Administration Group A) (CMUD952A); and/or MPF Settlement Result File (Administration Group B) (CMUD952B)	completion of bulk settlement at around 1:00 p.m. Contains accepted MPF transactions (both debit and credit) including returned items of the trustee	
CMUD9201	Daily User Activity Statistics Report	Daily after CMU value day cut-off at around mid-night	PDF
CMUM9201	Monthly User Activity Statistics Report	After CMU value day cut-off at the last working day of each month	PDF
CMUM3801	CMU Billing Report	After CMU value day cut-off of the 20th of each month	PDF

1.6 Daily Operating Timetable

Time (Mon – Fri)	**Events**
Day D:	**Clearing day**
9:00 a.m. – 8:00 p.m.	Submission of payment files by trustees.
11:00 p.m.	• Completion of the clearing process at ECG system; • Generation of payment instruction files by ECG system to settlement banks.
Day D + 1:	**Settlement day**
10:00 a.m.	Submission of return files by settlement banks to HKICL.
11:00 a.m.	• Completion of the return process; • Generation of outward and/or inward return reports to settlement banks.

11:30 a.m. to 12:00 noon	Performance of interbank settlement.
1:00 p.m.	Settlement result files available to trustees.

1.7 Fees

Trustees using this Service will be charged a fee in accordance with the prevailing fee schedule as specified by the MA from time to time. All fees are invoiced in Hong Kong dollar and billed on a monthly basis.

1.8 Termination

A trustee which wishes to withdraw from the use of the Service has to give CMU a written notice at least 30 calendar days prior to the effective date.

1.9 Suspension of Trustee and Settlement Bank

1.9.1 Suspension of Trustee

A trustee which is a CMU Member, is not allowed to use the CMU Service including the MPF Money Settlement Service upon and after becoming aware of the occurrence of any of the events referred to in Clause 8.10 of the CMU Membership Agreement unless and until the Monetary Authority (MA) has expressly consented to the CMU Member so doing; or when MPFA considers suspension or revocation of approved trustee, or any other event for which trustee will be blocked for the using of MPF Money Settlement Service.

In case such event occurs, the trustee concerned will immediately be prohibited from initiating / receiving MPF payments. The handling arrangements are detailed in following sections.

1.9.1.1 **Before Start of Clearing Process**

If “suspension” of a trustee is declared before the start of clearing process, the payment instructions related to the suspended trustee will be rejected during the data capture process. For trustee(s) which has/have already submitted the outward clearing files to the CMU and have already received the Data Capture Response Files involving the suspended trustee, HKICL will re-capture their outward clearing files to

reject the instructions concerned. Data Capture Response Files will be re-generated and re-sent to the corresponding original trustees.

1.9.1.2 After Start of Clearing Process

If "suspension" of a trustee is declared after the start of clearing process, the processed MPF transactions will have to undergo a special process to extract those payments related to the suspended trustee on the following business day before the MPF bulk settlement run. The extracted payments, with description of "Suspended Transaction due to suspension of Trustee", will be shown in the MPF Settlement Result File for trustees' follow-up.

1.9.2 Refusal/Suspension of Settlement Bank

1.9.2.1 Before Start of Inward Clearing Process

If the "refusal/suspension" of a settlement bank is declared before the start of inward clearing process, the payment instructions related to the suspended settlement bank will be rejected during the data capture process. For trustee(s) which has/have already submitted the outward clearing files to the CMU and have already received the Data Capture Response Files involving the suspended settlement bank, HKICL will re-capture their outward clearing files to reject those instructions being impacted. Data Capture Response Files will be re-generated and re-sent to the corresponding original trustees.

1.9.2.2 After Start of Inward Clearing Process

If the "refusal/suspension" of a settlement bank is declared after the start of inward clearing process, the processed MPF transactions will have to undergo a special process to extract those payments related to the suspended settlement bank on the following business day before start of the MPF bulk settlement run. The extracted payments, with description of "Suspended Transaction due to Bank Default", will be shown in the MPF Settlement Result File for trustees' follow-up.

1.10 Inward/Outward via Contingency Media

In the unlikely event that both the CMU and ECG systems fail to operate, the clearing and settlement processes will be performed by PC back-up systems. When this contingency measure is triggered, trustees are required to exchange payment files directly with HKICL by means of USB flash drive (PC Media). For the detailed procedures, please refer to the

MPF Money Settlement Service – Contingency Arrangement for File Exchange between HKICL and Trustee via PC Media issued by HKICL.

1.10.1 File Encryption

All files exchanged with HKICL via PC Media are required to be encrypted and compressed by PC File Encryption System (PFES). Please refer to the PC File Encryption System User Manual issued by HKICL for details.

The payment file submitted via PC Media without encryption and compression by the PFES will NOT be processed.

1.10.2 File Layouts

Under this contingency arrangement, the file layouts of outward clearing file, MPF Data Capture Response File and Settlement Result File will remain the same as those exchanged in normal days. It is only the media for delivery of files which is different from that in normal days.

2 CMU FUND ORDER ROUTING AND SETTLEMENT SERVICE

2.1 CMU Fund Order Routing And Settlement Service- Transfer Agent

2.1.1 General

The CMU Fund Order Routing and Settlement Service (Service) is a CMU Service which facilitates CMU Members to process Investment Fund transactions. Riding on international investment fund service platforms including those provided by Euroclear Bank (Euroclear) and Clearstream Banking (Clearstream), the Service is essentially a standardised platform for the processing of Investment Funds Orders routing between local and overseas investment houses, distributors, custodians, and Transfer Agents (TAs) and the settlement of Investment Fund Shares.

Besides, with the launch of Mainland-Hong Kong Mutual Recognition of Funds (MRF), which allows Mainland and Hong Kong recognized funds to be distributed in each other's market, the CMU has also linked up with TAs and Fund Houses in the Mainland including the China Securities Depository and Clearing Corporation Ltd (ChinaClear) to facilitate cross-border investment fund order routing services.

The Service is part of the CMU Services rendered by the MA as operator of the CMU. The rules and procedures applicable to the Service must be read in conjunction with this Manual. CMU Members may choose to use the Service through one or more of the following ways:

(a) the MA's direct link with transfer agents (TAs);
(b) the MA's linkage with Clearstream's Vestima^{+}; and
(c) the MA's linkage with Euroclear's FundSettle
(d) the MA's linkage with an entity in Mainland China for a fund which is recognized under the MRF

This chapter sets out the service scope and the operational arrangements relating to the use of the Service through the MA's direct link with the TAs. The operating procedures in relation to the linkages with Vestima^{+}, FundSettle and the Mainland are detailed in Part V – clauses *2.2, 2.3* and *2.4* respectively.

2.1.1.1 **Capitalised Terms**

All the capitalised terms not defined in this chapter shall have the meanings given to them in the other sections of this Manual, the CMU Membership Agreement and the Applicable Terms and Conditions for CMU Members relating to the CMU Fund Order Routing and Settlement Service (Applicable Terms and Conditions) unless otherwise specified.

2.1.2 The Service

2.1.2.1 Agreements with TAs

For the purpose of providing the Service to CMU Members who are distributors of Investment Fund Shares, the MA may, in his sole discretion, enter into agreements with fund houses, TAs, or other entities acting for such Investment Fund in whatever capacity, or with any other third parties. Unless expressly stated otherwise, the MA is only responsible for transmitting the Order instruction and does not become party to the buying and selling of the Investment Fund Shares detailed in the Service Instruction; the CMU Member and the TAs are solely responsible for the content of the information exchanged between them.

The MA is responsible for the selection of TAs, and the service levels of such TAs are reviewed and monitored by the MA. The MA will select the most appropriate method to send the Order instruction to the TAs, depending on the operational requirements of each individual TA. The service that the CMU can provide depends on the rules and practices of the Investment Fund and on the TA and, therefore, may vary across the Investment Funds eligible for CMU Fund Order Routing and Settlement Service.

2.1.2.2 Investment Funds Eligible for the Service

The CMU Members shall check with the CMU the eligibility of any Investment Funds for the Service. The MA reserves the right at the MA's sole discretion (i) not to accept any Investment Fund for the Service; (ii) to revise the list of Investment Funds eligible for the Service; and (iii) to determine the level of service in respect of a particular Investment Fund.

2.1.2.3 Acceptance of Investment Fund for the Service

Before the CMU Members can place Orders for Investment Fund Shares through the Service, the Investment Fund must be accepted and set up in the Service. The arrangements are as follows:

(a) If the Investment Fund to be accepted is administered by a TA with

whom the MA has no previous dealings, the MA may establish a contractual relationship and agree the operational procedures with the TA for that Investment Fund to be accepted for the Service. The CMU Member is required to complete the form in Appendix W.2 to facilitate the setup.

(b) If the CMU Member has not established a relationship with the TA for the Service, then the investment fund will not be accepted in the CMU. The CMU Member is required to complete the form "Account Opening and Specification Form (Transfer Agent)" in Appendix W.2 to facilitate the setup. In addition, the CMU Member is also required to conduct an end-to-end testing with the TA.

(c) For the setup of new Investment Fund with a TA, the CMU Member shall submit a form, "Application for Acceptance of Investment Fund", in Appendix W.3 to the CMU to cater for acceptance of such Investment fund in the Service.

(d) The acceptance timing depends on the type of Investment Fund. The acceptance procedure may be accelerated if the CMU Member provides the CMU with all the relevant documentation of the Investment Fund such as the fund prospectus, the name of the TA and/or the ISIN or local code of the fund, and dealer code if available.

2.1.2.4 **Service Scope**

The scope of the Service through the MA's direct link with the TA includes:

(a) routing of Orders from CMU Members who are Investment Fund distributors and/or custodians to TAs;
(b) processing of money settlement instructions in respect of Investment Fund Share;
(c) provision of information in respect of Corporate Events;
(d) processing of Custody Operation; and
(e) provision of regular reports.

CMU Members may choose to use the Service for order routing only, or subscribe to the full service i.e. order routing plus settlement.

The service level such as turnaround time for order instructions may differ depending on factors such as:

(i) whether the settlement and related Custody Operation are used or not; and
(ii) the nature of the Investment Fund Shares contemplated.

2.1.3 Account Structure with TA

2.1.3.1 Types of Accounts with TAs

To facilitate the processing of Orders for Investment Funds, the MA may open an account with the TA of the Investment Fund, if required. Depending on the type of accounting and registration applied in the shareholder register of an individual Investment Fund, Investment Fund Shares' positions will be recorded through CMU in either:

(a) Securities Account - if the TA uses nominee registration (nominee registration using either omnibus or designated accounting), or held in bearer form by the TA acting as Depository for the MA for the designated CMU Member; or

(b) Non-deposit Account - if the TA does not use the nominee registration and designated accounting is used. The Investment Fund Shares are registered in the shareholder register of the Investment Fund in the name of the CMU Member or its designee.

The Non-deposit Account is therefore not a genuine security account. No holdings of Investment Fund Shares are recorded in the CMU system. Although entries on Non-deposit Account do not represent holdings of fund shares in the CMU system, for the purpose of facilitating operations and handling instructions, the execution of Service Instructions in respect of Non-deposit Account will be subject to the same settlement condition for processing and execution as any other CMU transactions. This includes cancellation of instructions if CMU Members or TAs do not have sufficient funds for settlement.

The CMU accepts no liability if, for any reason, a TA refuses to make or receive a payment in relation to Investment Fund Shares in respect of such shares.

2.1.3.2 Types of Accounting

Depending on the type of account structure available from the TA, the CMU Member can opt for nominee registration (omnibus accounting) or designated accounting when opening an account with the TA. If the TA uses nominee registration, the CMU Member has the option to use either:

(a) designated accounting – the total Investment Fund position is booked under the CMU, but a breakdown will be made according to

the underlying CMU Member or its designee i.e. it will contain details of the CMU Member's account with the TA (e.g. the CMU/name of the CMU Member / custodian / investor); or

(b) omnibus accounting – the TA holds total position under the CMU's name without reference to the underlying CMU Member or its designee.

2.1.4 Service Subscription and Account Opening Procedure

2.1.4.1 Service Subscription Documents

A CMU Member who would like to subscribe to the Service must register by signing and returning the following documents to the CMU:

(a) Applicable Terms and Conditions for CMU Members;
(b) Appendix W.1 - Service Subscription Form;
(c) Appendix W.2 - Account Opening and Specification Form with Transfer Agents (if applicable);
(d) Appendix W.4 - Authorization Form - CMU Member has granted full power and authority to the agent to transmit all Service Instructions to/from its CMU account (if applicable);
(e) Appendix W.5 - Authorization Letter from CMU Member to TA; and
(f) Appendix W.11 - Settlement Arrangement (if use both fund order routing and settlement service)

2.1.4.2 Account Name

If a CMU Member chooses to open/maintain its own name or its designee's name in the TA register, the account opening procedure contained in this Part V - clause *2.1.4* on this part is not applicable. However, if a CMU Member chooses to open an account via the CMU, it is required to note the following procedure. The name of the account that can be opened in the books of the TA depends on:

(a) the type of registration used by the TA;
(b) the type of accounting used by the TA; and
(c) whether the Investment Fund is in registered or bearer form.

2.1.4.3 Client Information

CMU Members may use sub-accounts to create and maintain information about their own accounts and their clients' accounts. A maximum of three levels of sub-accounts can be created and maintained by CMU Members:

(a) their own accounts;
(b) underlying client's account; and
(c) the account of the client of the underlying client.

This facility allows CMU Members to improve their reconciliation process by instructing and receiving reports at the level of the sub-accounts and to have shares booked at that level.

A CMU Member who wishes to use the sub-account facility is required to fill in the client information in Appendix W.2 in order to:

(i) define client information in each sub-account; and
(ii) create a client information record for a client of its client (i.e. to create a third level of sub-accounts).

2.1.4.4 **Account Opening procedure**

Upon receiving the Service subscription from a CMU Member, the CMU will then contact the TA of the relevant Investment Fund to start the account opening process on behalf of the CMU Member, if applicable.

Depending on the requirements of TAs, an Authorisation Letter(Appendix L.4a) from the CMU Member to the relevant TA in favour of the MA may be required before the Service commencement. The Authorisation Letter will specifically list out the extent of service that the MA is authorized to carry out on behalf of the CMU Member in relation to certain TAs.

2.1.5 Types of Orders

The following types of Orders for Investment Fund Shares can be processed through the Service:

(a) subscription orders;
(b) subscription orders in "cleared funds";
(c) redemption orders;
(d) switch orders; and
(e) transfer orders.

2.1.5.1 **Cleared Fund**

A cleared fund means an Investment Fund for which the subscription money must be paid up-front, i.e. at or before the Order placement.

2.1.5.2 **Switch Order**

A switch order is a combined subscription and redemption transaction whereby a CMU Member will redeem one Investment Fund and reinvest the proceeds in one or more other Investment Funds within the same umbrella fund. No money settlement is involved in a switch order. A switch order can only be performed where all of the Investment Funds involved in the switch are handled by the same TA.

2.1.5.3 **Transfer Order**

A transfer order is the movement of an existing Fund Share position between different account holders. A fund position can be transferred:

(a) into the CMU, from an account outside the CMU to a CMU Member's account with the CMU;

(b) out of the CMU, from a CMU Member's account with the CMU to an account outside the CMU; or

(c) within the CMU, between two CMU Members accounts with the CMU.

2.1.6 Input Deadline of Service Instructions

The following should be noted:

(a) Service Instructions must be sent to the CMU before the Input Deadline in order to be processed by the CMU. Input Deadline means the time defined by the CMU for each Investment Fund by which Service Instructions must be received by the CMU to ensure forwarding of such instructions to the relevant TA in time for the Investment Fund's next cut-off time.

(b) In general, Input Deadlines for Service Instructions sent by facsimile to the CMU are two hours prior to the cut-off time specified by a TA. The exact Input Deadline for any specific Investment Fund will be agreed upon in writing between the CMU Member and the CMU when such Investment Fund is accepted for the Service. The cut-off times specified by the respective TAs for the accepted Investment Funds are shown in Appendix W.10. The CMU's cutoff times stated in Appendix W.10 are applicable to those Service Instructions received by the CMU via File Transfer Service (FTS), SWIFT, FileAct or CMT.

(c) For instructions received after the Input Deadline, the CMU will relay these instructions to the TA on a best effort basis, but the MA does not incur any liability for any delay or the consequences thereof. Any costs incurred for any cancellation requests received after Input

Deadlines shall be borne by the sending CMU Member. The CMU will process instructions received after 6:00 p.m. on the next business day.

(d) In cases where the TAs are not connected to the MA in electronic means such as SWIFT, FTS, FileAct, CMT and any other means (Non-Connected TA(s)), the CMU Members should be aware that the same level of service cannot be assured for a Non-Connected TA.

(e) Custody instructions in respect of Corporate Events (other than subscriptions, redemptions, switches and transfers), must be received before the Input Deadlines specified in the relevant corporate action notification reports.

(f) The MA reserves the right, if and whenever the MA at his absolute discretion considers it appropriate to do so, to vary the Input Deadlines.

(g) The Service does not support instructions for future execution dates.

2.1.7 Communication Means

The CMU Members can access the Service via the following means or any other means of communications as agreed in writing between parties involved in the trade:

(a) SWIFT XML messages (ISO 20022);
(b) FileAct on SWIFTNet (FileAct);
(c) File Transfer Service (FTS) via ICLNet;
(d) file upload via eCMT/iCMT;or
(e) authenticated facsimile.

For detailed setup and technical requirement for files transmitted through any of the above channels, please refer to the CMU Fund Order Routing and Settlement Service – Interface Guide.

2.1.7.1 SWIFT XML Messages

The CMU Members may send their Service Instructions to the CMU by SWIFT ISO 20022 message or any other format as approved by the MA. The SWIFT format specification and standard template of Service Instructions can be found in the CMU Fund Order Routing and Settlement Service – Interface Guide.

The CMU will validate the messages before onward submission to the relevant TA for further processing.

2.1.7.2 **FileAct**

FileAct service is available for CMU Members who need to submit large numbers of Service Instructions via the SWIFT network to the CMU for processing. In order to use FileAct, the CMU Member is required to install eCMT as well.

2.1.7.3 **FTS via ICLNet**

FTS is another communication channel for CMU Members who need to submit large numbers of Service Instructions to the CMU for processing.

The standard file format for FTS is available in the CMU Fund Order Routing and Settlement Service – Interface Guide.

Before submitting the Orders to the CMU via FTS, the CMU Member is required to arrange format and connectivity tests with the CMU for the transaction file to ensure the live transaction file will be smoothly processed.

2.1.7.4 **eCMT/iCMT**

eCMT/iCMT also supports uploading of Investment Fund Order related files by CMU Members. For detailed description on how to upload files via CMT, please refer to chapter 7 (Upload file) of the CMT User Guide.

2.1.7.5 **Authenticated Facsimile**

Service Instructions communicated by authenticated facsimile must comply with the following conditions:

(a) must be on the standard templates as set forth in:
- Appendix W.6 (Subscription/Redemption Instructions Form);
- Appendix W.7 (Switch Instructions Form); and
- Appendices W.8, 9 (Transfer Order Instruction Form);

(b) have all the required fields completed;

(c) must be signed by authorised person(s), whose name and signature appears on the list of authorised signatories sent to the CMU prior to the commencement of the Service;

(d) names of the authorised signatories must be clearly indicated; and

(e) must be authenticated by test key and marked on the prescribed

form.

Communications sent by facsimile to the CMU shall be deemed to have been received when the facsimile is received at the address and facsimile numbers set forth in Part II - clause *4.1.2* of this Manual and the corresponding transmission report is received by the CMU Member.

CMU Members are reminded to contact the CMU by telephone to ensure facsimile copies sent by the CMU Members in contingency situations have been properly received by the CMU.

2.1.7.6 **Authorization for Communications**

CMU Members may designate its client to send Service Instructions directly to the CMU for a specific Investment Fund by completing the "Authorization" form in Appendix W.4.

By giving the "Authorization", the CMU member is deemed to have granted full power and authority to its client to transmit Service Instructions including cancellation requests to the CMU as if the instructions are transmitted by the CMU Member itself.

The CMU Member also represents and warrants that it has been granted authority by the beneficial owner of Investment Fund Shares to send Service Instructions, to make and receive payments in respect of Investment Fund Shares and that in sending each instruction and making or receiving each payment the CMU Member is acting within the scope of the authority granted by such beneficial owner.

2.1.8 Order Processing

2.1.8.1 **Instruction Process**

Upon receipt of an Order instruction, the CMU will perform the following process:

(a) to validate the Order instruction and to return a rejection and/or acknowledgement file(s) to the CMU Member. CMU Member shall contact the CMU for the status if it does not receive such file(s) within 15 minutes after sending out the Order instruction to the CMU;

(b) only those instructions which conform to the format and contain the required data prescribed in the CMU Fund Order Routing and Settlement Service – Interface Guide, or which the CMU deems suitable for processing are considered valid and accepted for

processing;

(c) for redemption and switch Order instructions, to reserve Investment Fund Share in the CMU Member's account before routing the instructions to the TA, if applicable;

(d) to route the Order instructions to the relevant TA;

(e) to send the Order acknowledgement and confirmations received from the TA to the CMU Member;

(f) upon receipt of confirmation from the TA, to generate instructions and the required reports in the CMU system; and

(g) to generate settlement instructions automatically and transmit them to the appropriate system for settlement (for Order instruction involving money settlement such as subscription order, redemption order and only appropriate when Order settlement is processed through the Service).

All valid confirmed Service Instructions will be available for enquiry by the CMU Members after receipt of confirmation details from the TA on the confirmation date. For settlement of Investment Fund Shares through the CMU, the CMU Members are not required to submit any settlement instructions to us. All confirmed Order instructions that are eligible for settlement in the CMU system will be generated automatically for settlement on the intended settlement date.

2.1.8.2 **Order Rejection**

If an Order is rejected by the CMU or the TA, a CMU order rejection report will be sent to notify the instructing CMU Member with the reason of rejection. It is the responsibility of the CMU Member to monitor the statuses during the whole life cycle of any Order instruction.

A rejected Order cannot be modified and a new Order instruction has to be created as a replacement.

2.1.8.3 **Order Confirmation**

Order confirmation will be sent out only on the following business day upon receipt of the same from the relevant TA. CMU Members will, within the same day upon receipt of any such confirmation notify the CMU if the confirmation is incorrect or incomplete. The CMU will follow up the matter with the relevant TA promptly to ensure that settlement will not be delayed.

2.1.9 Settlement Arrangement

2.1.9.1 Money Settlement Arrangement

On the money settlement day, depending on the pre-agreed settlement arrangement between the TAs and the CMU Members, CMU Members may opt for settling the cash payment:

(a) directly with the TAs (applicable to all settlement currencies); or

(b) through the CMU which has a seamless interface with the RTGS systems in Hong Kong (only applicable to settlement currencies in US dollar, Hong Kong dollar, euro or renminbi).

For CMU Members who wish to settle the Investment Fund Shares through the CMU, they are required to agree with the designated TAs by completing and returning Appendix W.11 to the CMU to register for the settlement service. By registering for the use of money settlement service, both the CMU Members and the TAs agree and authorize the MA to debit or credit their settlement accounts for any proceeds arising from the money settlement of Service Instructions.

2.1.9.2 Settlement of Investment Fund Shares

For the Investment Fund Shares that have been registered in the name of the CMU, the CMU credits/debits Investment Fund Shares to/from the CMU Member's account after receipt of confirmation from the relevant Investment Fund or its agent(s).

Such credits/debits remain provisional until the related cash payments to the Investment Fund or its agent(s) are final.

For the Investment Fund Shares that have been registered in the name of the CMU Member or its designees, and the cash payments are made

i) directly between the CMU Member and the TA; or
ii) through the CMU,

the Investment Fund Share will <u>not</u> be shown on the CMU Member's Non-deposit Account with the CMU. Investment Fund Shares holdings and entitlements are recorded directly in the CMU Members', its designees' or beneficial owners' names in the TA's register. Therefore, holding position of Investment Fund Shares will not be checked when effecting money settlement.

For Order routing only instructions, i.e. the CMU Member carries out the money settlement with the TA directly, the Order instruction status in the CMU system will be changed from "confirmed" to "completed" at 6:30 p.m. on the settlement date.
For Order routing and settlement instructions, i.e. the CMU Member carries out the money settlement via the CMU system, the process is as follows:

(a) Money settlement is conducted during the CMU optimiser run, which is scheduled at around 4:00 p.m. daily. Upon completion of the run, for subscription Order, the settlement account of the CMU Member will be debited, while that for TA will be credited. As for redemption Order, the settlement account of the TA will be debited, while that for the CMU Member will be credited.

(b) For CMU Members that are not direct participants of the HK dollar, US dollar, euro RTGS systems or participating banks of the renminbi RTGS system, their settlement accounts with their correspondent banks will be debited for the settlement proceeds. Please refer to chapter 21 of this Manual for detailed description of the settlement arrangement.

(c) If the execution of Order instruction requires a debit of securities in the book of the TA, it is the responsibility of the CMU Member to have sufficient available Investment Fund Shares in its account in the register of the TA to make the required delivery. The MA accepts no liability for any losses that result from any failure to receive Investment Fund Shares or for any charges applied by a TA after the money settlement of Order instruction has been executed in the CMU system.

(d) Settlement instructions generated by the CMU and subsequently settled cannot be reversed.

For Order instruction with settlement date equal to the Order initiation date or a past settlement date (e.g. cleared fund) in the Order confirmation, the CMU system will treat this Order as "order routing only" instruction. No money settlement for this type of Order will be conducted in the CMU system on the "settlement date".

2.1.9.3 **Insufficient Cash for Settlement during the CMU Optimiser Run at 4:00 p.m.**

For any Order instruction having insufficient funds for settlement during the CMU optimiser run at 4:00 p.m., the MA will cancel the instruction. No partial settlement of Order instruction is allowed in the CMU system.

2.1.10 Corporate Actions

2.1.10.1 Service Scope

The CMU provides corporate action services only to those CMU Members who hold Investment Fund Shares that have been registered in the name of the CMU in the books of the TAs. The services cover the followings:

(a) collection and provision of information on dividend payments, voluntary and mandatory corporate actions;

(b) collection and processing of instructions for voluntary corporate actions;

(c) processing of dividend, voluntary and mandatory corporate action proceeds;

(d) reporting on corporate action instructions and proceeds; and

(e) any other actions which the MA considers to be a corporate action.

2.1.10.2 Provision of Information

TAs will notify the CMU of any forthcoming corporate actions. Upon receipt of such information from the TA, the CMU will forward the corporate actions information to the CMU Members by facsimile or any other means as agreed between the CMU and CMU Members. The relevant details of the corporate action, such as record date, event date, ratio, deadline, proceeds and actions to be taken will be shown in the corporate action notification for the CMU Members' attention.

The CMU is not responsible for the accuracy or completeness of the information of which it receives from the TA and accepts no liability for the inaccuracy or incompleteness of the information. The MA also accepts no liability if the information it receives is not received in a timely manner.

2.1.10.3 Processing of Corporate Action Instruction

Upon receipt of any corporate action instructions from CMU Members, the CMU will arrange with the TA to:

(a) reserve or position the Investment Fund Shares, if applicable, in CMU Member's account maintained with the CMU; and

(b) advise the relevant TA by facsimile or any means agreed between the MA and the TA of the instruction, either immediately or prior to the TA's deadline for receipt of instructions if the instructions are received by the CMU two hours prior to the deadline as specified in the corporate action notification or 6:00 p.m. whichever is the earlier.

Exceptions to the above arrangements are choice dividends or dividends with a reinvestment option so the CMU Member already makes its dividend choice at the moment of account opening, and states in each instruction in which account (cash or shares account) the relevant position will be booked, then the TA will know how much of the dividend will be paid out in cash or shares on the payment date.

The record date for Investment Fund Shares is the trade date confirmed by the Investment Fund or its TA(s), unless otherwise specified by the Investment Fund or its TA(s).

2.1.11 Reporting

Without limiting the generality of Part I - clause *4.4* of this Manual on CMU Reports, the following reports are available at the time as stipulated in Appendix W.10 and at around 5:30 a.m. on the next business day as the case may be. Depending on the format of the reports available (pdf or csv), the CMU Member can choose to receive the below reports by FTS, eCMT/iCMT or FileAct.

Report Name	Report ID
(a) Investment Funds Order Confirmation Report	CMUD9607
(b) Investment Fund Order (Response)	CMUD9601
(c) Investment Funds Order Acknowledgement Report	CMUD9605
(d) Investment Funds Order Rejection Report	CMUD9606
(e) Outstanding Investment Fund Transaction Details Report	CMUD2601
(f) Completed Investment Fund Transaction Details Report	CMUD2701
(g) Settlement Details Report for Investment Fund Transactions	CMUD2801

2.1.12 Fees

CMU Members will be charged a fee in accordance with the prevailing fee schedule as specified by the MA from time to time. All fees are invoiced in Hong Kong dollar irrespective of the Order currency and billed on a monthly basis.

2.1.13 Termination

CMU Members who wish to terminate its subscription to the Service must send Order instructions as follows:

(a) for Investment Fund Shares held in a securities account and registered in the name of the CMU, a "transfer out" order instruction shall be arranged to transfer the Investment Fund Share out of the CMU;

(b) for Investment Fund Shares registered directly in the name the investor, a notification shall be sent to the CMU informing the CMU that instructions in respect of such registered holder will no longer be routed through the Service, in the form of a "transfer out" instruction. The CMU shall inform the relevant Investment Fund and/or agent(s) that instructions and payments will no longer be routed through the Service; and

(c) the CMU Member will then be advised to contact the relevant Investment Fund or its agent(s) to provide the new Beneficial Owner's address, cash account number and other details as required by the Investment Fund or its agent(s).

2.1.14 Contingency Procedures

CMU Members must ensure that they have put in place an appropriate back-up solution in order for them to be able to keep transmitting their Service Instructions to CMU in case of contingency situations. In particular:

(a) for CMU Members which are sending their Order instructions to the CMU via SWIFT XML, FileAct or FTS via ICLNet, the eCMT/iCMT should be used as a back-up solution in contingency situation; and

(b) for CMU Members using the eCMT/iCMT as a normal means of communication with the CMU, the CMU Members recognize that there will be no automated back-up solution in contingency situation and those CMU Members will have to send facsimile instructions to the TAs directly.

2.2 Clearstream Linkage – CMU Fund Order Routing And Settlement Service

The CMU Fund Order Routing and Settlement Services is a CMU Service which rides on Clearstream Banking's Vestima$^+$ Service (Vestima) (Service). The Service is essentially a standardised platform for the processing of Investment Fund Orders routing between local and overseas investment houses, distributors, custodians, and Transfer Agents (TAs) and the settlement of Investment Fund Shares.

This chapter sets out the service scope and operational arrangements of the Service through the MA's linkage with Clearstream Banking.

2.2.1 General

2.2.1.1 Service Scope

The scope of the Service riding on Vestima$^+$ includes:

(a) routing of Orders from CMU Members who are Investment Fund distributors and/or custodians to TAs;
(b) processing of settlement instructions in respect of Investment Fund Shares;
(c) provision of information in respect of Corporate Events;
(d) processing of Custody Operation; and
(e) provision of regular reports.

CMU Members may choose to use the Service for Order routing only, or subscribe to the full service including settlement and custody.

The Service may differ depending on factors such as:

(a) whether the Investment Fund and/or its TAs have entered into agreements with Clearstream Banking;
(b) whether the TA is connected to CBL via SWIFT or the Vestima$^+$ Browser;
(c) whether securities are registered in the name of Clearstream Nominees Ltd; and
(c) the nature of the Investment Fund contemplated.

2.2.1.2 Rules and Procedures

The rules and procedures applicable to the Service must be read in conjunction with the relevant provision as set out in Part IV clause *2* relating to the CMU Clearstream Linkage Service of this Manual.

2.2.1.3 **Terms**

All capitalised terms not defined in this section shall have the meanings given to them in this Manual, the CMU Membership Agreement and the Applicable Terms and Conditions for CMU Members relating to the CMU Fund Order Routing and Settlement Service (Applicable Terms and Conditions) unless otherwise specified.

2.2.2 Funds Eligible for the Service

Generally, Investment Funds accepted by Vestima$^+$ are eligible for the Service. Vestima$^+$ currently covers a pan-European order routing services domiciled in Luxembourg, Ireland, France, Germany, Australia, Switzerland, Denmark, UK and other offshore centres.

Investment Funds incorporated in jurisdictions not listed above may also be eligible for the Service, subject to the MA's acceptance of such Investment Funds. CMU Members are advised to check with the MA whether an Investment Fund is eligible for the Service before placing an Order.

The MA reserves the right at the MA's sole discretion (i) not to accept any Investment Fund for the Service; (ii) to revise the list of Investment Funds eligible for the Service; and (iii) to determine the level of service in respect of a particular Investment Fund.

2.2.3 Account Structure

2.2.3.1 **Designated sub-account**

To facilitate the operation of the Service, the MA will open a designated sub-account in the Clearstream system for each CMU Member who has been accepted by the MA to use the Service.

Investment Fund Orders, shares and money settlement arising from investment funds transactions using the Service will be settled through this designated sub-account. A CMU Member is required to have sufficient money in its cash account for fund instructions that require debit of money.

2.2.3.2 **Types of Accounts with TAs**

To facilitate the processing of Orders for Investment Funds, the MA may open an account with the TA of the Investment Fund. Depending on the type of accounting and registration applied in the shareholder register of

individual Investment Fund, Investment Fund Share positions will be recorded through Vestima+ in either:

(a) Securities Account - if the TA uses nominee registration and Investment Fund Shares are registered in the shareholder register of the Investment Fund in the name of Clearstream Nominees Ltd (nominee registration using either omnibus or designated accounting), or held in bearer form by the TA acting as Depository for Clearstream Banking and the MA for the designated CMU Member; or

(b) Memorandum Account - if the TA does not use the Clearstream nominee name and designated accounting is used, the Investment Fund Shares are registered in the Shareholder Register of the Investment Fund in the name of the CMU Member or its designee. This memorandum account is therefore used for recording information and providing services in respect of securities that are not held in the Clearstream system.

2.2.4 Service Subscription and Account Opening Procedures

2.2.4.1 Service Subscription Documents

CMU Members who would like to subscribe to the Service must register by signing and returning the following documents to the MA:

(a) Applicable Terms and Conditions for CMU Members;
(b) Appendix W.1 Service Subscription Form; and
(c) Appendix W.2 Account Opening and Specification Form with Transfer Agents.

2.2.4.2 Account Name

The CMU Member may be required to determine in Appendix W.1 the name of such account to be opened with the TA. As mentioned in Part V - clause *2.2.3* above, the account structure will differ depending on the TA's type of accounting and registration:

(a) for omnibus accounting, the account will be in name of Clearstream Nominees Ltd; and

(b) for designated accounting, the account will contain the details of the CMU Member's account with the TA, such as:

    (i) Clearstream/ CMU/ name of CMU Member / custodian/ Beneficial Owner; or

(ii) Clearstream Nominees/Beneficial Owner.

2.2.4.3 Client Information

CMU Members may use sub-accounts to create and maintain information about their own accounts and their clients' accounts. A maximum of three levels of sub-accounts can be created and maintained by CMU Members:

(a) their own accounts;
(b) underlying client's account; and
(c) the account of the client of the underlying client.

This facility allows CMU Members to improve their reconciliation process by instructing and receiving reports at the level of the sub-accounts and to have shares booked at that level.

A CMU Member who wishes to use the sub-account facility is required to fill in the client information in Appendix W.2 in order to:

(i) define client information in each sub-account; and
(ii) create a client information record for a client of its client (i.e. to create a third level of sub-accounts).

2.2.4.4 Account Opening Procedure

Upon receiving the Service subscription request from a CMU Member, the MA will open a designated sub-account with CBL's Vestima^{+} system in its name for the CMU Member. The MA will advise the CMU Member of the account number upon successful opening of the sub-account.

The duration of the account opening process varies depending on the type of accounting and registration applied by the TA in the share register of the Investment Fund. When the TA has completed the account opening procedure, the CMU Member can then start placing its first Orders for such Investment Fund.

2.2.5 Acceptance of Investment Fund for the Service

Before the CMU Members can place Orders for Investment Fund Shares through the Service, the Investment Fund must be accepted and set up in the Service. The arrangements are as follows:

(a) If the Investment Fund to be accepted is administered by a TA with whom the MA has no previous dealings, the MA may establish a

contractual relationship and agree the operational procedures with the TA for that Investment Fund to be accepted for the Service.

(b) If, from an operational point of view, the establishment of a relationship with the TA is not possible, then the Investment Fund will not be accepted in the Service even if it may have complied with the other eligibility criteria as stipulated in Part V - *2.2.2 above*. The CMU Member is required to complete the form in Appendix W. 2 to facilitate the setup.

(c) For the setup of new Investment Fund with a TA, the CMU Member shall submit a form "Application for Acceptance of Investment Fund" in Appendix W.3 to the CMU to cater for acceptance of such Investment Fund in the Service.

(d) The acceptance timing depends on the type of Investment Fund. The acceptance procedure may be accelerated up if the CMU Member provides the MA with all the relevant documentation of the Investment Fund such as the fund prospectus, the name of the TA and/or the ISIN or local code of the fund, and dealer code if available. However, this does not guarantee the request will be accepted as the standard Clearstream Banking eligibility criteria for accepting Investment Funds will also have to be taken into account by the MA.

2.2.6 Types of Orders

The following types of Orders for Investment Fund Shares can be processed through the Service:

(a) subscription orders;
(b) subscription orders in "cleared funds";
(c) redemption orders;
(d) switch orders; and
(e) transfer orders.

2.2.6.1 Cleared Fund

A cleared fund means an Investment Fund for which the subscription money must be paid up-front, i.e. at or before the Order placement.

2.2.6.2 Switch Order

A switch order is a combined subscription and redemption transaction whereby a CMU Member will redeem one Investment Fund and reinvest the proceeds in one or more other Investment Funds within the same

umbrella fund. A switch order can only be performed where all of the Investment Funds involved in the switch are handled by the same TA.

2.2.6.3 **Transfer Order**

A transfer order is the movement of an existing Fund Share position between different account holders. A fund position can be transferred:

(a) into Vestima$^+$, from an account outside Vestima$^+$ to a CMU Member's account with Vestima$^+$;

(b) out of Vestima$^+$, from a CMU Member's account with Vestima$^+$ to an account outside Vestima$^+$; or

(c) within Vestima$^+$, between a CMU Member's account with Vestima$^+$ and another Vestima$^+$ participant's account.

There are four types of transfer orders:

(i) <u>transfer in order</u> - where the CMU Member (transferee) receives a certain amount of shares from a counterparty (transferor), in or outside Vestima$^+$;

(ii) <u>transfer out order</u> - where the CMU Member (transferor) delivers a certain amount of shares to counterparty (transferee), in or outside Vestima$^+$;

(iii) <u>transfer within in order</u> – where the CMU Member transfers position to another Vestima$^+$ participant (for the transferee); and

(iv) <u>transfer within out order</u>- where the CMU Member transfers a position from another Vestima$^+$ participant (for the transferor).

Investment Fund Shares registered in the name of a Clearstream nominee and booked to a securities account may be transferred to another Vestima$^+$ participant's securities account by way of transfer within Vestima$^+$. Such transfer, however, may be subject to the prior agreement and authorization from the relevant Investment Fund or its agent(s).

2.2.7 Input Deadlines of Service Instructions

The following should be noted:

(a) Service instructions must be sent to the CMU before the Input Deadline in order to be processed by the CMU. Input Deadline

means the time defined by the MA for each Investment Fund by which Service Instructions must be received by the MA to ensure forwarding of such instructions to Vestima$^+$ and the relevant TA in time before the Investment Fund's next cut-off time.

(b) In general, Input Deadlines are two hours prior to the cut-off time specified by a TA. The exact Input Deadline for any specific Investment Fund will be agreed upon in writing between the CMU Member and the CMU when such Investment Fund is accepted for the Service. The Input Deadlines are also applicable to the cancellation requests from CMU Members. The cut-off times specified by the respective TAs for the accepted Investment Funds are shown in Appendix W.9.

(c) For instructions received after the Input Deadline, the MA will relay these instructions to the Vestima$^+$/TA on a best effort basis, but the MA does not incur any liability for any delay or the consequences thereof. Any costs incurred in any cancellation requests received after Input Deadlines shall be borne by the CMU Member. The MA will process instructions received after 6:00 p.m. (Hong Kong time) on the next business day.

(d) For subscription order instructions in cleared funds, the Input Deadline takes into account the money instruction deadlines as defined in Part IV – clause *2.3.12* of this Manual, to allow payment of subscription monies at or before order placement.

(e) In cases where the TAs are not connected to Vestima$^+$ in electronic means such as SWIFT or File Transfer (Non-Connected TA(s)), CMU Members should be aware that the same level of service cannot be assured for a Non-Connected TA.

(f) Custody instructions in respect of Corporate Events (other than subscriptions, redemptions, switches and transfers), must be received before the Input Deadlines specified in the relevant corporate action notification reports (Part V - clause *2.2.12*).

(g) The MA reserves the right, if and whenever the MA at his absolute discretion considers it appropriate to do so, to vary the Input Deadlines.

(h) The Service does not support instructions for future execution dates.

2.2.8 Communication Means

CMU Members can access the Service via the following means or any other means of communications as agreed in writing between parties involved in the transaction:

(a) SWIFT;
(b) File Transfer (format to be agreed with the CMU); or
(c) authenticated facsimile.

2.2.8.1 **SWIFT**

The CMU Members may send their Service Instructions to the CMU by SWIFT using the ISO 20022 message format or any other format as approved by the MA. The SWIFT format specification and standard template of Service Instructions can be obtained from the CMU at request.

The MA will validate the messages before onward submission to Vestima^{+} for further processing.

2.2.8.2 **File Transfer**

File transfer facility is available for CMU Members who need to submit a large number of Service Instructions to the MA for processing.

The standard format for File Transfer is available from the CMU at request.

Before submitting the Orders to the CMU via File Transfer, the CMU Member is advised to arrange a format test with the CMU for the transaction file to ensure the live transaction file is smoothly processed.

2.2.8.3 **Authenticated Facsimile**

Service Instructions communicated by authenticated facsimile must comply with the following conditions:

(a) must be on the standard templates as set forth in:

- Appendix W.6 (Subscription/Redemption Instructions Form);
- Appendix W.7 (Switch Instructions Form);
- Appendix W.8 (Transfer Order Instruction Form); and
- Appendix W.9 (Transfer Order Within Instruction Form).

(b) have all the required fields completed;

(c) must be signed by authorised person(s), whose name and signature

appears on the list of authorised signatories sent to the CMU prior to the commencement of the Service;

(d) names of the authorised signatories must be clearly indicated; and

(e) must be authenticated by test key and marked on the prescribed form.

Communications sent by facsimile to the CMU shall be deemed to have been received when the facsimile is received at the address and facsimile numbers set forth in Part II - clause *4.1.2* of this Manual and the corresponding transmission report is received by the CMU Member.

CMU Members are reminded to contact the CMU by telephone to ensure facsimile copies sent by the CMU Members in contingency situations have been properly received by the CMU.

2.2.8.4 **Authorization for Communications**

CMU Members may designate its client to send Service Instructions directly to the CMU for a specific Investment Fund by completing the "Authorization" form in Appendix W.4.

By giving the "Authorization", the CMU Member is deemed to have granted full power and authority to its client to transmit Service Instructions including cancellation requests to the CMU as if the instructions are submitted by the CMU Member itself.

2.2.9 Order Processing

2.2.9.1 **Instruction Process**

Upon receipt of an Order instruction, the MA will perform the following process:

(a) to validate the Order instruction and to return a rejection and/or acknowledgement file(s) to the CMU Member. CMU Member shall contact the CMU for the status if it does not receive such file within 20 minutes after sending out the Order instruction to the CMU;

(b) for redemption and switch Order instructions, to reserve Fund Shares in the CMU Member's account before routing the Order instructions to the TA**,** if applicable;

(c) to route the Order instruction to the relevant TA;

(d) to send the Order confirmations received from the TA to the CMU Member;

(e) to book Investment Fund Shares in the CMU Member's account on the relevant trade date only applicable when Order settlement is processed through the Service; and

(f) for Order instructions which involve cash settlement such as subscription and redemption Orders, to automatically generate and transmit settlement instructions to the relevant settlement systems for settlement (only applicable when Order settlement is processed through the Service).

When manual intervention is required, there may be a processing delay that will depend on the type of intervention required such as the missing type of information or other requirements. Upon receipt of notification from Vestima^{+}, the CMU shall inform the CMU Members of the expected delay for execution.

2.2.9.2 **Order Rejection**

If an Order is rejected by the CMU or the TA, the CMU will notify the sending CMU Member and provide it with the reason of rejection.

A rejected Order cannot be modified and a new Order instruction has to be created as a replacement.

2.2.9.3 **Order Cancellation**

CMU Members can only cancel Service Instructions if such instructions are:

(a) not yet processed by the CMU;
(b) positioning failed (refer to Part V - clause *2.2.10.2* below for details); and
(c) rejected by the TAs.

CMU Members who wish to cancel their order instructions are required to send cancellation requests to the CMU via SWIFT or authenticated facsimile.

If the cancellation request has been forwarded to and accepted by the TA, the Order status will be changed to "Cancelled".

2.2.9.4 **Order Confirmation**

Order confirmation will be sent out only on the following business day(s) upon receipt from the relevant TA. CMU Members will, within the same day upon receipt of any such confirmation notify the CMU if the confirmation is incorrect or incomplete. The CMU will follow up the matter with the relevant TA promptly to ensure that settlement will not be delayed.

2.2.10 Settlement Arrangements

2.2.10.1 Settlement Instructions

To use the settlement and custody option, the CMU Members can specify that a settlement instruction is to be generated automatically by the Service once an order has been confirmed by the relevant TA.

For this to happen, the CMU must already be in possession of the appropriate details of custodians and settlement accounts. Instructions can be settled either in CBL or other settlement service providers. Both free of and against payment instructions are supported.

The CMU Member shall provide the MA with its Standing Instructions and trade related information if applicable for settlement. The CMU Member shall notify the MA in writing with any amendments to Standing Instructions and trade related information at least three weeks prior to the effective date of such amendments.

The CMU Member shall:

(a) use the designated sub-account opened by the MA on its behalf; or

(b) use the account of a Settlement Agent subject to the execution by the Settlement Agent of the Tri-Partite Agreement for the Processing of Settlement Instructions attached as Appendix to the Applicable Terms and Conditions.

Riding on the securities clearing service of the CMU Clearstream Linkage Service, the Service provides secured straight-through processing from placements to final settlements of Investment Fund Share Orders.

CMU Members are not required to input any settlement instructions. Once an Order is confirmed by the relevant TA, a settlement instruction will be automatically generated. Investment Fund Shares will be booked in the CMU Member's designated sub-account on trade date, while

money settlement will take place in the CMU Member's designated sub-account in the Clearstream system on the money settlement date.

2.2.10.2 **Settlement of Investment Fund Shares**

Settlement of Investment Fund Shares generally involves crediting and debiting of Investment Fund Shares arising from subscription, redemption, transfers and switching orders. Detailed settlement arrangements for Investment Fund Shares are set out as follows:

(a) Subscription orders:

(i) For Investment Fund Shares registered in the name of the Clearstream Nominees Ltd, the CMU will credit Investment Fund Shares to the CMU Member's designated sub-account after receipt of confirmation from the relevant Investment Fund or its TA(s).

Such credits remain provisional until the related cash payments to the Investment Fund or its TA(s) are completed. Investment Fund Shares are only available for trading as of the settlement date.

(ii) For Investment Fund Shares in bearer form, the MA will credit Investment Fund Shares to the CMU Member's designated sub-account after receipt of the trade confirmation and details from the relevant Investment Fund or its TA(s) and debit related cash account (see Part V - clause *2.2.10.3* below for money settlement arrangements).

Such credits and debits remain provisional until the settlement of Investment Fund Shares and related cash payments to the Investment Fund or its agent(s) are final. The CMU may block such Investment Fund Shares as specified in the reports. Investment Fund Shares are only available for trading as of the settlement date.

(iii) Subscription order in cleared funds is an exception. The designated sub-account is debited with the cash amount upon order placement, or on the money settlement date specified in the order instruction by the CMU Member.

(b) Redemption, switch and "transfer out" orders

(i) To minimise the risk of settlement failure, redemption, switch and "transfer out" orders input by the CMU Member will

automatically generate a reservation of Investment Fund Shares in the CMU before they are sent to the TA.

(ii) The Investment Fund Shares remain under reservation in the designated sub-account until receipt of the order confirmation at which time the shares are debited.

2.2.10.3 **Money Settlement**

On the money settlement day, for order instructions that require a debit of cash, CMU Members must have sufficient money in its designated sub-account for settlement (CMU Members shall refer to Part IV – clause *2.3* of this Manual for detailed procedures on how to transfer money into or out of their designated sub-account).

The full cash amount of the subscription order (as indicated in the confirmation) is positioned against the CMU Members available funds in its cash account. If cash positioning is successful, payments are effected based on the amount specified by the TA in the order confirmation. If there is insufficient cash balance, follow up action will be performed in accordance with rules stated in the Investment Fund prospectus.

Funds payments to/from the Investment Fund's cash account can be made in one of the following ways:

(a) through the Investment Fund's Clearstream Banking account - If the Investment Fund maintains an account with Clearstream Banking, a book transfer will be executed automatically by transferring the proceeds from/to the CMU Member's designated sub-account to/from the Investment Fund's cash account;

(b) through a third-party CBL account - typically that of the custodian of the Investment Fund, function as the Investment Fund's cash account. This is also done automatically by book transfer; or

(c) through the Investment Fund's cash account at its cash correspondent i.e. outside CBL. In such cases:

(i) for subscriptions, money transfer instructions are sent through Vestima^{+} via wire transfer, to the Investment Fund's cash account; and

(ii) for redemptions, the proceeds are received from the TA, who makes any payments to the Clearstream Banking's cash correspondent listed in Appendix P.15.

Upon receipt of the proceeds from the TA and upon matching with the outstanding amounts, the proceeds are credited to the CMU Member's designated sub-account.

2.2.11 Corporate Actions

2.2.11.1 Service Scope

Corporate action services provided by the Service cover:

(a) collection and provision of information on dividend payments, voluntary and mandatory corporate actions;

(b) collection and processing of instructions for voluntary corporate actions;

(c) processing of dividend, voluntary and mandatory corporate action proceeds;

(d) reporting on corporate action instructions and proceeds; and

(e) any other actions which the MA considers to be a corporate action.

2.2.11.2 Provision of Information

TAs will notify Vestima$^+$ of any forthcoming corporate actions. Upon receipt of such information from Vestima$^+$, the CMU will forward the corporate actions information to the CMU Member by facsimile or other means as agreed between the CMU and CMU Member. Relevant details of the corporate action, such as record date, event date, ratio, deadline, proceeds and actions to be taken will be shown in the corporate action notification for the CMU Member's attention.

The CMU will not verify the accuracy or completeness of the information of which it receives from Vestima$^+$ and accepts no liability for the inaccuracy or incompleteness of the information. The MA also accepts no liability if the information it receives is not received in a timely manner.

2.2.11.3 Processing

(a) Corporate Action Instruction

Upon receipt of corporate action instructions from a CMU Member, the CMU will arrange with Vestima$^+$ to:

(i) reserve or position the Investment Fund Shares, if applicable, in CMU Member's designated sub-account; and

(ii) advise the relevant TA of the instruction by facsimile, either immediately or prior to the TA's deadline for receipt of instructions if the instructions are received by CMU two hours prior to the deadline as specified in the corporate action notification or 6:00 p.m. (Hong Kong time) whichever is the earlier.

Exceptions to the above arrangements are choice dividends or dividends with a reinvestment option so the CMU Member already makes its dividend choice at the moment of account opening, and states in each instruction in which account (cash or shares account) the relevant position will be booked, then the TA will know how much of the dividend will be paid out in cash or in shares on the payment date.

(b) Custody Distribution

(i) The record date for Investment Fund Shares is the trade date confirmed by the Investment Fund or its TA(s), unless otherwise specified by the Investment Fund or its TA(s).

(ii) For recording a memorandum account, a CMU Member is entitled to custody cash or non-cash distribution resulting from a corporate event if on the record date the Investment Fund Shares are registered in the name of the CMU Member or in the name of its designee. Custody distributions received by the CMU through Vestima^{+} in respect of Investment Fund Shares for which information is recorded on memorandum Account are credited to the holder of such memorandum Account, unless the CMU receives instructions to the contrary from the Investment Fund or its TA(s).

(iii) Custody distributions with respect to a record on a memorandum Account will generally be received by the MA through Clearstream upon registration, the CMU Member or its designee provided the relevant documentation and details in respect of the Service. The MA takes no liability if for any reason such custody distributions are not made by the Investment Fund or its TA(s).

2.2.12 Reporting

Without limiting the generality of Part I – clause *4.4* of this Manual on CMU Reports, the following reports are available twice a day at around 9:30 a.m. and 6:30 p.m., which will be sent to the CMU by facsimile, or File Transfer as agreed between the CMU Member and the CMU:

Report Name	**Report ID**	**Appendix of the CMT Report Guide**
(a) Contract Note	n.a.	n.a.
(b) Investment Funds Confirmation Report	FUNDR1100	E.8
(c) Investment Funds Order Acknowledgement Report	FUNDR1101a	E.9
(d) Investment Funds Order Rejection Report	FUNDR1101b	E.10
(e) Portfolio Report	FUNDR1002	E.11
(f) Investment Fund Movement Reports	FUNDR1003	E.12
(g) Trailer Fees Report	FUNDR1004	E.13
(h) Cash Movement Report	CMUD40A1	E.14
(i) Executed Linkage Money Transfer Report	CMUD48A1 & B1	E.15
(j) Unexecuted Linkage Money Transaction Report	CMUD49A1 & B1	E.16
(k) Corporate Event Notices Report	CMUD4101	E.17

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Reports in respect of an amount of Investment Fund Shares credited to a memorandum account are provided for information purposes only and do not represent a balance of securities held in the CMU.

2.2.13 Fees

The Service will be provided at a service fee charged in accordance with the prevailing fee schedule as specified by the MA from time to time. All fees are invoiced in Hong Kong dollar irrespective of the Order currency and billed on a monthly basis.

2.2.14 Termination

CMU Members who wish to terminate its subscription to the Service must send Order instructions as follows:

(a) for Investment Fund Shares held in a securities account and registered in the name of Clearstream Nominees Ltd, a “transfer out” order instruction shall be arranged to transfer the Investment Fund

Share out of the CMU;

(b) for Investment Fund Shares registered directly in the name the investor, for which information is recorded in a memorandum account, a notification shall be sent to the CMU informing the CMU that instructions in respect of such registered holder will no longer be routed through the Clearstream system, in the form of a "transfer out" instruction. The CMU shall inform the relevant Investment Fund and/or agent(s) via Clearstream that instructions and payments will no longer be routed through the Clearstream system; and

(c) the CMU Member will then be advised to contact the relevant Investment Fund or its agent(s) to provide the new Beneficial Owner's address, cash account number and other details as required by the Investment Fund or its agent(s).

2.3 Euroclear Linkage – Cmu Fund Order Routing And Settlement Service

The CMU Fund Order Routing and Settlement Service is a CMU Service which rides on the FundSettle Services (FundSettle) provided by Euroclear Bank (Service). The Service is essentially a standardised platform for the processing of Investment Fund Orders routing between local and overseas investment houses, distributors, custodians, and Transfer Agents (TAs) and the settlement of Investment Fund Shares.

This chapter sets out the service scope and operational arrangements of the Service through the MA's linkage with Euroclear Bank.

2.3.1 General

2.3.1.1 **Service Scope**

The scope of the Service riding on FundSettle includes:

(a) routing of Orders from CMU Members who are Investment Fund distributors and/or custodians to TAs;
(b) processing of settlement instructions;
(c) provision of information in respect of Corporate Events;
(d) processing of Custody Operation; and
(e) provision of regular reports.

The Service may differ depending on factors such as:

(a) whether the Investment Fund and/or its TAs have entered into agreements with Euroclear Bank;

(b) whether the TA is connected to FundSettle via SWIFT or the FundSettle browser;
(c) whether securities are registered in the name of FundSettle EOC Nominees Ltd (nominee registration using either omnibus or designated accounting); and
(d) the nature of the Investment Fund contemplated.

2.3.1.2 **Rules and Procedures**

The rules and procedures applicable to the Service must be read in conjunction with the relevant provisions as set out in Part IV - clause *1* relating to Euroclear Linkage Service of this Manual.

2.3.1.3 **Terms**

All capitalised terms not defined in this chapter shall have the meanings given to them in this Manual, the CMU Membership Agreement and the Applicable Terms and Conditions for CMU Members relating to the CMU Fund Order Routing and Settlement Service unless otherwise specified.

2.3.2 Funds Eligible for the Service

Generally, Investment Funds accepted by FundSettle are eligible for the Service.

Investment Funds incorporated in the following jurisdictions are eligible:

(a) European: Austria, Belgium, France, Germany, Italy, Sweden, Switzerland, UK; and

(b) others: Bahamas, Bermuda, British Virgin Islands, Cayman Island, Ireland, Luxembourg, Labuan (Malaysia), Mauritius, Netherlands Antilles.

Investment Funds incorporated in jurisdictions not listed above may also be eligible for the Service subject to the MA's acceptance of such Investment Funds. CMU Members are advised to check with the CMU whether an Investment Fund is eligible for the Service.

The MA reserves the right at the MA's sole discretion (i) not to accept any Investment Fund for the Service; (ii) to revise the list of Investment Funds eligible for the Service; and (iii) to determine the level of service in respect of a particular Investment Fund.

2.3.3 Account Structure

2.3.3.1 Designated Sub-account

To facilitate the operation of the Service, the MA will open a designated sub-account in the Euroclear system for each CMU Member who has been accepted by the MA to use the Service.

For CMU Members who are users of the existing CMU-Euroclear Linkage Service, their existing designated sub-accounts held by the MA in the name of the CMU Member for the linkage service will be used for the purpose of the Service.

Investment Fund Orders, shares and funds settlement arising from Investment Fund transactions using the Service will be settled through a designated sub-account. A CMU Member is required to have sufficient cash in its cash account for fund instructions that require debit of cash.

2.3.3.2 Types of Accounts with TAs

To facilitate the processing of Orders for Investment Funds, the MA may open an account with the TA of the Investment Fund. Depending on the type of accounting and registration applied in the shareholder register of individual Investment Fund, Investment Fund Shares' positions will be recorded through FundSettle in either:

(a) Securities Account - if the TA uses nominee registration and Investment Fund Shares are registered in the shareholder register of the Investment Fund in the name of FundSettle EOC Nominees Ltd, or held in bearer form by the TA acting as Depository for Euroclear Bank and the MA for the designated CMU Member; or

(b) Memorandum Account - if the TA does not use the FundSettle nominee name and designated accounting is used, the Investment Fund Shares are registered in the shareholder register of the Investment Fund in the name of the CMU Member or its designee. This memorandum account is therefore used for recording information and providing services in respect of securities that are not held in the Euroclear System.

2.3.4 Service Subscription and Account Opening Procedures

2.3.4.1 Service Subscription Documents

CMU Members who would like to subscribe to the Service are required to register by signing and returning the following documents to the CMU:

(a) Applicable Terms and Conditions for CMU Member;

(b) Appendix W.1 Service Subscription Form; and
(c) Appendix W.2 Account Opening and Specification Form with TAs.

2.3.4.2 **Account Name**

The CMU Member may be required to determine in Appendix W.1 the name of such account to be opened with the TA. As mentioned in Part V - clause *2.3.3* above, the account structure will differ depending on the TA's type of accounting and registration:

(a) for omnibus accounting, the account will be in name of FundSettle EOC Nominees Ltd; and

(b) for designated accounting, the account will contain the details of the CMU Member's account with the TA, such as:

(i) FundSettle/CMU/name of CMU Member /custodian/Beneficial Owner; or
(ii) FundSettle EOC Nominees/Beneficial Owner.

2.3.4.3 **Client Information**

CMU Members may use sub-accounts to create and maintain information about their own accounts and their clients' accounts. A maximum of three levels of sub-accounts can be created and maintained by CMU Members:

(a) their own accounts;
(b) underlying client's account; and
(c) the account of the client of the underlying client.

This facility allows CMU Members to improve their reconciliation process by instructing and receiving reports at the level of the sub-accounts and to have shares booked at that level.

A CMU Member who wishes to use the sub-account facility is required to fill in the client information in Appendix W.2 in order to:

(i) define client information in each sub-account; and
(ii) create a client information record for a client of its client (i.e. to create a third level of sub-accounts).

2.3.4.4 **Account Opening Procedure**

Upon receiving the Service subscription request from a CMU Member, the MA will open a designated sub-account with Euroclear Bank in its

name for the CMU Member. The CMU will advise the CMU Member of the account number upon successful opening of the sub-account.

As stipulated in Part V - clause *2.3.3.1* above, for CMU Members who are CMU-Euroclear Linkage Service users, their existing designated accounts for the CMU-Euroclear Linkage Service will be used for the Service.

The duration of the account opening process varies depending on the type of accounting and registration applied by the TA in the share register of the Investment Fund. When the TA has completed the account opening procedure, the CMU Member can then start placing its first Orders for such Investment Fund.

2.3.5 Acceptance of Investment Fund for the Service

Before the CMU Members can place Orders for Investment Fund Shares through the Service, the Investment Fund must be accepted and set up in the Service. The arrangements are as follows:

(a) If the Investment Fund to be accepted is administered by a TA with whom the MA has no previous dealings, the MA may establish a contractual relationship and agree on the operational procedures with the TA for that Investment Fund to be accepted for the Service.

(b) If, from an operational point of view, the establishment of a relationship with the TA is not possible, then the Investment Fund will not be accepted in the Service even if it may have complied with the other eligibility criteria as stipulated in Part V - clause *2.3.2* above. The CMU Member is required to complete the form in Appendix W.2 to facilitate the setup.

(c) For the setup of new Investment Fund with a TA, the CMU Member shall submit a form, “Application for Acceptance of Investment Fund”, in Appendix W.3 to the CMU to cater for the acceptance of such Investment Fund in the Service.

(d) The acceptance timing depends on the type of Investment Fund. The acceptance procedure may be accelerated if the CMU Member provides the MA with all the relevant documentation of the Investment Fund such as the fund prospectus, the name of the TA and/or the ISIN or local code of the fund, and dealer code if available. However, this does not guarantee the request will be accepted as the standard Euroclear Bank eligibility criteria for accepting Investment Funds will also have to be taken into account by the MA.

2.3.6 Types of Orders

The following types of Orders can be processed through the Service:

(a) subscription orders;
(b) subscription orders in "cleared funds";
(c) redemption orders;
(d) switch orders; and
(e) transfer orders.

2.3.6.1 Cleared Fund

A cleared fund means an Investment Fund for which the subscription money must be paid up-front, i.e. at or before the Order placement.

2.3.6.2 Switch Order

A switch order is a combined subscription and redemption transaction whereby a CMU Member will redeem one Investment Fund and reinvest the proceeds in one or more other Investment Funds within the same umbrella fund. A switch order can only be performed where all of the Investment Funds involved in the switch are handled by the same TA.

2.3.6.3 Transfer Order

A transfer order is the movement of an existing Investment Fund Share position between different account holders. A fund position can be transferred:

(a) into FundSettle, from an account outside FundSettle to a CMU Member's account with FundSettle;

(b) out of FundSettle, from a CMU Member's account with FundSettle to an account outside FundSettle; or

(c) within FundSettle, between a CMU Member's account with FundSettle and another FundSettle participant's account.

There are four types of transfer orders:

(i) <u>transfer in order</u> - where the CMU Member (transferee) receives a certain amount of shares from a counterparty (transferor), in or outside FundSettle;

(ii) <u>transfer out order</u> - where the CMU Member (transferor) delivers a certain amount of shares to counterparty (transferee), in or outside

FundSettle;

(iii) transfer within in order – where the CMU Member transfers a position to another FundSettle participant (for the transferee); and

(iv) transfer within out order – where the CMU Member transfers a position from another FundSettle participant (for the transferor).

Investment Fund Shares registered in the name of a FundSettle nominee and booked in a securities account may be transferred to another FundSettle participant's securities account by way of transfer within FundSettle. Such transfer, however, may be subject to the prior agreement and authorization from the relevant Investment Fund or its agent(s).

2.3.7 Input Deadlines of Service Instructions

The following should be noted:

(a) Service instructions must be sent to the CMU before the Input Deadline in order to be processed by the CMU. Input Deadline means the time defined by the MA for each Investment Fund by which Service Instructions must be received by the CMU to ensure forwarding of such instructions to FundSettle and the relevant TA in time for the Investment Fund's next cut-off time.

(b) In general, Input Deadlines are two hours prior to the cut-off time specified by a TA. The exact Input Deadline for any specific Investment Fund will be agreed upon in writing between the CMU Member and the CMU when such Investment Fund is accepted for the Service. The Input Deadlines are also applicable to the cancellation requests from CMU Members. The cut-off times specified by the respective TAs for the accepted Investment Funds are shown in Appendix W.9.

(c) For instructions received after the Input Deadline, the CMU will relay these instructions to the FundSettle/TA on a best effort basis, but the MA does not incur any liability for any delay or the consequences thereof. Any costs incurred for any cancellation requests received after Input Deadlines shall be borne by the CMU Member concerned. The CMU will process instructions received after 6:00 p.m. (Hong Kong time) on the next business day.

(d) For subscription orders in cleared funds, the Input Deadline takes into account the money instruction deadlines as defined in Part IV – clause *1.3.12* of this Manual, to allow payment of subscription

monies at or before order placement.

(e) In cases where the TAs are not connected to FundSettle in electronic means such as SWIFT or File Transfer (Non-Connected TA(s)), CMU Members should be aware that the same level of service cannot be assured for a Non-Connected TA.

(f) Custody instructions in respect of Corporate Events (other than subscriptions, redemptions, switches and transfers), must be received before the Input Deadlines specified in the relevant corporate action notification reports (Part V - clause *2.3.12* below).

(g) The MA reserves the right, if and whenever the MA at his absolute discretion considers it appropriate to do so, to vary the Input Deadlines.

(h) The Service does not support instructions for future execution dates.

2.3.8 Communication Means

CMU Members can access the Service via the following means or any other means of communications as agreed in writing between parties involved in the transaction:

(a) SWIFT;
(b) File Transfer (format to be agreed with the CMU); or
(c) authenticated facsimile.

2.3.8.1 **SWIFT**

CMU Members may send their Service Instructions to the CMU by SWIFT using the ISO 20022 message format or any other format as approved by the MA. The SWIFT format specification and standard template of Service Instructions can be obtained from the CMU at request.

The CMU will validate the messages before onward submission to FundSettle for further processing.

2.3.8.2 **File Transfer**

File transfer facility is available for CMU Members who need to submit a large number of Service Instructions to the CMU for processing.

The standard format for File Transfer is available from the CMU at request.

Before submitting the Orders to the CMU via File Transfer, the CMU Member is advised to arrange a format test with the CMU for the transaction file to ensure the live transaction file is smoothly processed.

2.3.8.3 Authenticated Facsimile

Service Instructions communicated by authenticated facsimile must comply with the following conditions:

(a) must be on the standard templates as set forth in:
- Appendix W.6 (Subscription/Redemption Instructions Form);
- Appendix W.7 (Switch Instructions Form);
- Appendix W.8 (Transfer Order Instruction Form); and
- Appendix W.9 (Transfer Order Within Instruction Form);

(b) have all the required fields completed;

(c) must be signed by authorised person(s), whose name and signature appears on the list of authorised signatories sent to the CMU prior to the commencement of the Service;

(d) names of the authorised signatories must be clearly indicated; and

(e) must be authenticated by test key and marked on the prescribed form.

Communications sent by facsimile to the CMU shall be deemed to have been received when the facsimile is received at the address and facsimile numbers set forth in Part II - clause *4.1.2* of this Manual and the corresponding transmission report is received by the CMU Member.

CMU Members are reminded to contact CMU by telephone to ensure facsimiles sent by the CMU Members in contingency situations have been properly received by the CMU.

2.3.8.4 Authorization for Communications

CMU Members may designate its client to send Service Instructions directly to the CMU for a specific Investment Fund by completing the Authorization form in Appendix W.4.

By giving the “Authorization”, the CMU Member is deemed to have granted full power and authority to its client to transmit Service Instructions including cancellation requests to the CMU as if the instructions are submitted by the CMU Member itself.

2.3.9 Order Processing

2.3.9.1 Instruction Process

Upon receipt of an Order instruction, the CMU will perform the following process:

(a) validate the Order instruction and to return a rejection and/or acknowledgement file(s) to the CMU Member. CMU Member shall contact the CMU for the status if it does not receive such file within 20 minutes after sending out the Order instruction to the CMU;

(b) for redemption and switch Order instructions, reserve Fund Shares in the CMU Member's account before routing the Order instructions to the TA;

(c) route the Order instruction to the relevant TA;

(d) send the Order confirmations received from the TA to the CMU Member;

(e) book Fund Shares in the CMU Member's account on the relevant trade date; and

(f) for Order instructions which involve cash settlement such as subscription and redemption orders, to automatically generate and transmit settlement instructions to relevant settlement systems for settlement.

When manual intervention is required, there may be a processing delay that will depend on the type of intervention required such as the missing type of information or other requirements. Upon receipt of notification from FundSettle, the CMU shall inform CMU Members of the expected delay for execution.

2.3.9.2 Order Rejection

If an Order is rejected by the CMU or the TA, the CMU will notify the sending CMU Member and provide it with the reason of rejection.

A rejected Order cannot be modified and a new Order instruction has to be created as a replacement.

2.3.9.3 Order Cancellation

CMU Members can only cancel Order instructions if such instructions are:

(a) not yet processed by the CMU;
(b) positioning failed (refer to Part V - clause *2.3.10.1* below for details); and
(c) rejected by the TAs.

CMU Members who wish to cancel their Order instructions are required to send cancellation requests to CMU via SWIFT or authenticated facsimile.

If the cancellation request has been forwarded to and accepted by the TA, the Order status will be changed to "Cancelled".

2.3.9.4 **Order Confirmation**

Order confirmation will be sent out only on the following business day(s) upon receipt from the relevant TA. CMU Members will, within the same day upon receipt of any such confirmation notify the CMU if the confirmation is incorrect or incomplete. The CMU will follow up the matter with the relevant TA promptly to ensure that settlement will not be delayed.

2.3.10 Settlement Arrangements

Riding on the securities clearing service of the existing CMU-Euroclear Linkage Service, the Service provides secured straight-through processing from placements to final settlements of Investment Fund Shares Orders.

CMU Members are not required to input any settlement instructions. Once an Order is confirmed by the relevant TA, a settlement instruction will be automatically generated. Investment Fund Shares will be booked to the CMU Member's designated sub-account on trade date, while money settlement will take place in the CMU Member's designated sub-account in the Euroclear system on the money settlement date.

2.3.10.1 **Settlement of Investment Fund Shares**

Settlement of Investment Fund Shares generally involves crediting and debiting of Investment Fund Shares arising from subscription, redemption, transfers and switching orders. Detailed settlement arrangements for Investment Fund Shares are set out as follows:

(a) <u>Subscription orders</u>

(i) For Investment Fund Shares registered in the name of the

FundSettle EOC Nominees Ltd, the CMU will credit Investment Fund Shares to the CMU Member's designated sub-account after receipt of confirmation from the relevant Investment Fund or its TA(s).

Such credits remain provisional until the related cash payments to the Investment Fund or its TA(s) are completed. Investment Fund Shares are only available for trading as of the settlement date.

(ii) For Investment Fund Shares in bearer form, the CMU will credit Investment Fund Shares to the CMU Member's designated sub-account after receipt of the trade confirmation and details from the relevant Investment Fund or its TA(s) and debit related cash account (see Part V - clause *2.3.10.2* below for cash settlement arrangements).

Such credits and debits remain provisional until the settlement of Investment Fund Shares and related cash payments to the Investment Fund or its agent(s) are final. The CMU may block such Investment Fund Shares as specified in the reports. Investment Fund Shares are only available for trading as of the settlement date.

(iii) Subscription order in cleared funds is an exception. The designated sub-account is debited with the cash amount upon order placement, or on the cash settlement date specified in the order instruction by the CMU Member.

(b) <u>Redemption, switch and 'transfer out' Orders</u>

(i) To minimise the risk of settlement failure, redemption, switch and 'transfer out' Orders input by the CMU Member will automatically generate a reservation of Investment Fund Shares in the CMU before they are sent to the TA.

(ii) The Investment Fund Shares remain under reservation in the designated sub-account until receipt of the Order confirmation at which time the shares are debited.

2.3.10.2 **Cash Settlement**

On the cash settlement day, for Order instructions that require a debit of cash, CMU Members must have sufficient cash in its designated sub-account for settlement (CMU Members shall refer to Part IV – clause *1.3*

of this Manual for detailed procedures on how to transfer money into or out of their designated sub-account).

The full cash amount of the subscription Order (as indicated in the confirmation) is positioned against the CMU Member's available cash in its cash account. If positioning is successful, payments are effected based on the amount specified by the TA in the order confirmation. If there is insufficient cash balance, follow up action will be performed in accordance with rules stated in the Investment Fund prospectus.

Cash payments to/from the Investment Fund's cash account can be made in one of the following ways:

(a) through the Investment Fund's Euroclear Bank account - If the Investment Fund maintains an account with Euroclear Bank, a book transfer will be executed automatically by transferring the proceeds from/to the CMU Member's designated sub-account to/from the Investment Fund's cash account;

(b) through a third-party Euroclear Bank account - typically that of the custodian of the Investment Fund, function as the Investment Fund's cash account. This is also done automatically by book transfer; or

(c) through the Investment Fund's cash account at its cash correspondent i.e. outside Euroclear Bank. In such cases:

    (i) for subscriptions, money transfer instructions are sent through FundSettle via wire transfer, to the Investment Fund's cash account; and

    (ii) for redemptions, the proceeds are received from the TA, who makes any payments to the FundSettle cash correspondent listed in Appendix P.13.

    (iii) Upon receipt of the proceeds from the TA and upon matching with the outstanding amounts, the proceeds are credited to the CMU Member's designated sub-account.

2.3.11 Corporate Action

2.3.11.1 **Service Scope**

Corporate actions covered by the Service include:

(a) collection and provision of information on dividend payments, voluntary and mandatory corporate actions;

(b) collection and processing of instructions for voluntary corporate actions;

(c) processing of dividend, voluntary and mandatory corporate actions proceeds;

(d) reporting on corporate action instructions and proceeds; and

(e) any other actions which the MA considers be a corporate action

2.3.11.2 **Provision of Information**

TAs will notify FundSettle of any forthcoming corporate actions. Upon receipt of such information from FundSettle, the CMU will forward the corporate action information to the CMU Member by facsimile or other means as agreed between the CMU and CMU Member. Relevant details of the corporate actions, such as record date, event date, ratio, deadline, proceeds and actions to be taken will be shown in the corporate action notification for the CMU Member's attention.

The CMU will not verify the accuracy or completeness of the information of which it receives from FundSettle and accepts no liability for the inaccuracy or incompleteness of the information. The MA also accepts no liability if the information it receives is not received in a timely manner.

2.3.11.3 **Processing**

(a) Corporate Action Instruction

Upon receipt of corporate action instructions from CMU Members, the CMU will arrange with FundSettle to:

(i) reserve or position the Investment Fund Shares, if applicable, in CMU Member's designated sub-account; and

(ii) advise the relevant TA of the instruction by facsimile, either immediately or prior to the TA's deadline for receipt of instructions if the instructions are received by the CMU two hours prior to the deadline as specified in the corporate action notification or 6:00 p.m. (Hong Kong time) whichever is the earlier.

Exceptions to the above arrangements are choice dividends or dividends with a reinvestment option, which the CMU Member has

already made its dividend choice at the time of account opening. The choice has been stated in each instruction and in which preferred account (cash or shares account) for the relevant positions to be booked. TA will possess the necessary information to pay out cash or shares on each payment date.

(b) Custody Distributions

(i) The record date for Investment Fund Shares is the trade date confirmed by the Investment Fund or its TA(s), unless otherwise specified by the Investment Fund or its TA(s).

(ii) For recording a memorandum account, a CMU Member is entitled to custody cash or non-cash distribution resulting from a Corporate Event if on the record date the Investment Fund Shares are registered in the name of the CMU Member or in the name of its designee. Custody distributions received by the CMU through Euroclear in respect of Investment Fund Shares for which information is recorded on memorandum account are credited to the holder of such memorandum account, unless the CMU receives instructions to the contrary from the Investment Fund or its TA(s).

(iii) Custody distributions with respect to a record on a memorandum account will generally be received by the CMU through Euroclear upon registration, the CMU Member or its designee provided the relevant documentation and details in respect of the Service. The MA takes no liability if for any reason such custody distributions are not made by the Investment Fund or its TA(s).

2.3.12 Reporting

Without limiting the generality of Part I – clause *4.4* of this Manual on CMU Reports, the following reports are available twice a day at around 9:30 a.m. and 6:30 p.m. (Hong Kong time), which will be sent by the CMU Member by facsimile, or File Transfer as agreed between the CMU Member and the CMU:

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Report Name	**Report ID**	**Appendix**
(a) Contract Note		
(b) Investment funds Confirmation Report	FUNDR1100	E.8

Report Name	Report ID	Appendix
(c) Investment funds Order Acknowledgement Report	FUNDR1101a	E.9
(d) Investment funds Order Rejection Report	FUNDR1101b	E.10
(e) Portfolio Report	FUNDR1002	E.11
(f) Investment Fund Movement Reports	FUNDR1003	E.12
(g) Trailer Fees Report	FUNDR1004	E.13
(h) Cash Movement Report	CMUD40A1	E.14
(i) Executed Linkage Money Transfer Report	CMUD48A1 & B1	E.15
(j) Unexecuted Linkage Money Transaction Report	CMUD49A1 & B1	E.16
(k) Corporate Event Notices Report	CMUD4101	E.17

Reports in respect of an amount of Investment Fund Shares credited to a memorandum account are provided for information purposes only and do not represent a balance of securities held in the CMU.

2.3.13 Fees

The Service will be provided at a service fee charged in accordance with the prevailing fee schedule as specified by the MA from time to time. All fees are invoiced in Hong Kong dollar irrespective of the Order currency and billed on a monthly basis.

2.3.14 Termination

CMU Members who wish to terminate its subscription to the Service must send Order instructions as follows:

(a) for Investment Fund Shares held in a securities account and registered in the name of FundSettle EOC Nominees Ltd, a “transfer out” order instruction shall be arranged to transfer the Investment Fund Share out of the CMU;

(b) for Investment Fund Shares registered directly in the name the investor, for which information is recorded in a memorandum account, a notification shall be sent to the CMU informing the MA that instructions in respect of such registered holder will no longer be routed through the Euroclear system, in the form of a “transfer out” instruction. The CMU shall inform the relevant Investment Fund and/or agent(s) via Euroclear that instructions and payments will no

longer be routed through the Euroclear system; and

(c) the CMU Member will then be advised to contact the relevant Investment Fund or its agent(s) to provide the new Beneficial Owner's address, cash account number and other details as required by the Investment Fund or its agent(s).

2.4 Mainland-Hong Kong Mutual Recognition Of Funds (MRF)

2.4.1 Introduction

To deepen Mainland-Hong Kong financial cooperation and promote the joint development of the Mainland and Hong Kong capital markets, the China Securities Regulatory Commission (CSRC) and the Securities Futures Commission (SFC) signed a memorandum of regulatory cooperation in respect of the MRF. Through the MRF scheme which was implemented on 1 July 2015, Mainland and Hong Kong investment funds that meet the eligibility requirements can follow streamlined procedures to obtain authorization or approval for offering to retail investors in each other's market.

Leveraging on the existing financial infrastructure in Hong Kong and on the Mainland, the MA, the China Securities Depository and Clearing Corporation Ltd (ChinaClear) and the Shenzhen Stock Exchange jointly developed infrastructure and network linkages to facilitate processing of cross-border investment fund transactions under the MRF arrangement. Riding on such system linkages, the CMU fund order routing service will enable investment fund distributors, transfer agents and fund houses in Hong Kong to process MRF-related investment fund orders in an automated and efficient manner. Similarly, Mainland investment fund distributors, transfer agents and fund houses are able to, through the linkages between the Mainland fund processing platform and the CMU, process MRF investment funds orders and transactions with their HK counterparts automatically, effectively and efficiently.

More details on the eligibility requirements of the MRF can be found in the websites of the CSRC (http://www.csrc.gov.cn/pub/newsite/) and the SFC (http://www.sfc.hk)

2.4.1.1 **Capitalised Terms**

All capitalised terms not defined in this section shall have the meanings given to them in the CMU Reference Manual, the CMU Membership Agreement and the Applicable Terms and Conditions for CMU Members

relating to the CMU Fund Order Routing and Settlement Service (Applicable Terms and Conditions) unless otherwise specified.

2.4.2 Service Scope for Mainland Funds sold to HK Investors (Southbound Trade)

2.4.2.1 Agreements with TAs/FHs

For the purpose of providing CMU Fund Order Routing and Settlement Service for MRF (the Service) to CMU Members who are distributors of investment fund, the MA may, in his sole discretion, enter into agreements with the Mainland and Hong Kong FHs, TAs, or their agents, or any other entities acting for such investment fund in whatever capacity, or with any other third parties (collectively known as TA-side Parties). Unless expressly stated otherwise, the MA is only responsible for transmitting the order instruction and does not become a party to the buying and/or selling of the investment fund detailed in the order instruction. The relevant CMU Members and the TAs/FHs are solely responsible for the content of the information exchanged between them.

The MA is responsible for the selection of TAs/FHs or TA-side Parties, and the service levels of such TAs/FHs or TA-side Parties are reviewed and monitored by the MA. The MA will select the most appropriate method to send the order instructions to the TAs/FHs or TA-side Parties, depending on the operational requirements of each individual TA/FH or TA-side Parties. The Service that the CMU can provide depends on the rules and practices of the investment fund and on the TA/FH or TA-side Parties and, therefore, may vary across the various investment funds eligible for MRF.

2.4.2.2 Investment Funds Eligible for MRF

Investment funds are eligible for the Service if i) the investment funds are under the MRF scheme; and ii) the TA/FH or TA-side Parties and the distributor (a CMU Member) of such investment fund have connected to the CMU.

The MA reserves the right at the MA's sole discretion (i) not to accept any investment fund for the Service; (ii) to revise the list of investment funds; and (iii) to determine the level of Service in respect of a particular investment fund under the MRF scheme.

2.4.2.3 Acceptance of Investment Fund

The arrangements are as follows:

(a) If the investment fund to be accepted is administered by a TA with whom the MA has no previous dealings, the MA will establish a contractual relationship and agree the operational procedures with the TA or TA-side Parties for that investment fund to be accepted for the service.

(b) If the CMU Member has not established a relationship with the TA/FH for the Service, then the investment fund will not be accepted in the CMU. The CMU Member is required to complete the form "Account Opening and Specification Form (Transfer Agent)" in Appendix W.2 to facilitate the setup. In addition, the CMU Member is also required to conduct an end-to-end testing with the TA/FH or TA-side Parties.

(c) For the setup of new investment fund with an existing TA, the CMU Member shall submit a form "Application for Acceptance of Investment Fund" in Appendix W.3 to the CMU to cater for acceptance of such investment fund in the CMU.

(d) The acceptance timing depends on the type of investment fund. The acceptance procedure may be accelerated if the CMU Member provides the MA with all the relevant documentation of the investment fund such as the fund prospectus, the name of the TA and/or the ISIN or local code of the fund, and dealer code if available.

2.4.2.4 **Service Scope**

The scope of the Service includes:

(a) routing of order instructions from CMU Members who are distributors of recognized Mainland investment funds eligible for MRF to TAs/FHs including ChinaClear in the Mainland;
(b) processing of money settlement instructions in respect of investment fund share, if applicable;
(c) distribution of Mainland investment fund information such as Net Asset Value (NAV), corporate events, fund status etc;
(d) provision of custody operation information; and
(e) provision of regular reports.

The service level such as turnaround time for order instructions may differ depending on factors such as:

(a) whether the FH has appointed ChinaClear as its TA (which has linked up with the CMU via a dedicated communication platform provided by the Shenzhen Securities Communication Co., Ltd (SSCC)); or

(b) whether the TA/FH has linked up with the CMU directly; or
(c) whether investment fund shares are registered in the nominee's name of the master agent in Hong Kong appointed by the Mainland FH (Master Agent) or the nominee's name of the CMU Member or its designee; and
(d) the nature of the investment fund involved.

2.4.3 Account Structure with TA

2.4.3.1 Types of Accounts with TAs

Depending on the type of account structure available from the TA, the CMU Member can opt for nominee registration (omnibus accounting) or designated accounting when opening an account with the TA. If the TA uses nominee registration, the CMU Member has the option to use either:

(a) *designated account* – the total investment fund position is booked under the CMU Member or its designee, or other nominees and a breakdown will be made according to the underlying CMU Member or its designee, or other nominees i.e. it will contain details of the CMU Member's account with the TA (such as the CMU Member / custodian / investor); or

(b) *omnibus account* – the TA holds total position either under i) the CMU Member's or its designee's name; or ii) other nominees' name without reference to the underlying Hong Kong investors.

2.4.3.2 TA Register

For the accounts mentioned in Part V - clause *2.4.3.1* above, the CMU Participant or its designee or other nominees holds the investment fund shares in custody on behalf of Hong Kong investors in the shareholder register of the Mainland TA/FH.

No holdings of investment fund shares are recorded in the CMU system. Although entries on the above designated or omnibus accounts do not represent holdings of fund shares in the CMU system, for the purpose of facilitating operations and handling instructions, the execution of order instructions in respect of accounts in Part V - clause *2.4.3.1* (a) and (b) above will be subject to the same money settlement condition for processing and execution as any other CMU transactions. This includes cancellation of instructions if CMU Members or TAs do not have sufficient funds for settlement.

The CMU accepts no liability if, for any reason, a TA or TA-side Parties refuse to make or receive a payment in relation to investment fund shares.

2.4.4 Service Subscription and Account Opening Procedures

2.4.4.1 Service Subscription Documents

CMU Members who would like to subscribe to the Service must register by signing and returning the following documents to the CMU:

(a) Applicable Terms and Conditions for CMU Members;
(b) Appendix W.1 Service Subscription Form;
(c) Appendix W.4 - Authorization Form - CMU Member has granted full power and authority to the agent to transmit all order instructions to/from its CMU account (if applicable);
(d) Appendix W.5 – Authorization Letter from CMU Member to TA/FH; and
(e) Appendix W.11 - Settlement Arrangement (if applicable)

2.4.4.2 Account Name

When a CMU Member opens an account directly with the TA, the CMU Member's or its designee's name will appear in the TA register.

Depending on the requirements of TAs, an authorisation letter from the CMU Member to the relevant TA in favour of the MA may be required before commencement of the Service. The authorisation letter, Appendix L.4a, will specifically list out the extent of service that the MA is authorized to carry out on behalf of the CMU Member in relation to certain TAs.

When the TA has completed the account opening procedure, and the CMU Member has completed an end-to-end test with the CMU, it can then start placing its first orders for such investment fund.

2.4.5 Order

2.4.5.1 Types of Order

Orders include, but are not limited to, subscription, redemption, switches and cancellation requests. Orders are issued by CMU Members and transmitted by the CMU to the relevant TA/FH or TA-side Parties via a cross-border link.

A switch order is a combined subscription and redemption transaction whereby a CMU Member will redeem holdings in one investment fund and reinvest the proceeds in one or more other investment funds within the same umbrella fund. A switch order can only be performed where all of the investment funds involved in the switch are handled by the same TA.

2.4.5.2 **Cut-off time and Input Deadlines**

The following should be noted:

(a) Order instructions must be sent to the CMU before the Input Deadline in order to be processed by the CMU. Input Deadline means the time defined by the MA for each investment fund by which order instructions must be received by the MA to ensure forwarding of such instructions to the relevant Mainland TA or TA-side Parties in time before the investment fund's next cut-off time. The Input Deadline is currently set at 7:00 p.m.

(b) In general, Input Deadlines are one hour prior to the cut-off time specified by a TA or TA-side Parties. The Input Deadlines are also applicable to the cancellation requests from CMU Members.

(c) For instructions received after the Input Deadline, the MA will relay these instructions to the TAs or TA-side Parties on a best effort basis, but the MA does not accept any liability for any delay or the consequences thereof. Any costs incurred in any cancellation requests received after the Input Deadlines shall be borne by the CMU Member.

(d) In cases where the TAs are not connected to ChinaClear's TA system by electronic means (Non-Connected TAs), CMU Members should be aware that the same level of service cannot be assured for a Non-Connected TA.

(e) Custody instructions in respect of corporate events (other than subscriptions, redemptions and switches), must be received before the Input Deadlines specified in the relevant corporate action notification reports (Part V - clause *2.4.10* below).

(f) The MA reserves the right, if and whenever the MA at his absolute discretion considers it appropriate to do so, to vary the Input Deadlines.

(g) The CMU does not support instructions for future execution dates.

A summary of cut-off times specified by the TAs or TA-side Parties for the accepted investment funds in respect of the MRF is also available in Appendices W.10 and 12.

2.4.6 Communication Means

The CMU Members can access the Service via the following means or any other means of communications as agreed in writing between parties involved in the trade:

(a) SWIFT XML messages (ISO 20022);
(b) FileAct on SWIFTNet (FileAct);
(c) File Transfer Service (FTS) via ICLNet; or
(d) Excel file upload via eCMT/iCMT.

For detailed setup and technical requirement for files transmitted through any of the above channels, please refer to the CMU Fund Order Routing and Settlement Service – Interface Guide.

2.4.6.1 **SWIFT XML Messages**

The CMU Members may send their order instructions to the CMU by SWIFT ISO 20022 message or any other format as approved by the MA. The SWIFT format specification and standard template of Service Instructions can be found in the CMU Fund Order Routing and Settlement Service – Interface Guide.

The CMU will validate the messages before onward submission to the relevant TA for further processing.

2.4.6.2 **FileAct**

FileAct service is available to CMU Members who need to submit a large number of order instructions via the SWIFT network to the CMU for processing. In order to use FileAct, the CMU Member is required to install eCMT as well.

2.4.6.3 **FTS via ICLNet**

FTS is another communication channel for CMU Members who need to submit a large number of order instructions to the CMU for processing.

The standard file format for FTS is available in the CMU Fund Order Routing and Settlement Service – Interface Guide.

Before submitting the orders to the CMU via FTS, the CMU Member is required to arrange format and connectivity tests with the CMU for the transaction file to ensure that the live transaction file will be smoothly processed.

2.4.6.4 **eCMT/iCMT**

eCMT/iCMT also supports uploading of investment fund order related files by CMU Members. For detailed description on how to upload files via CMT, please refer to chapter 7 (Upload file) of the CMT User Guide.

2.4.6.5 **Authorization for Communications**

CMU Members may designate its client(s) to send order instructions directly to the CMU for a specific investment fund by completing the "Authorization" form in Appendix W.4.

By giving the "Authorization", the CMU Member is deemed to have granted full power and authority to its client(s) to transmit order instructions including cancellation requests to the CMU as if the instructions are submitted by the CMU Member itself.

The CMU Member also represents and warrants that it has been granted authority by the beneficial owner of investment fund shares to send order instructions, to make and receive payments in respect of investment fund shares and that in sending each instruction and making or receiving each payment the CMU Member is acting within the scope of the authority granted by such beneficial owner.

2.4.7 Order Handling

2.4.7.1 **Processing of an Order Instruction**

Upon receipt of an order instruction, the following will be processed by the CMU:

(a) to validate the order instruction and to return a rejection and/or acknowledgement file(s) to the CMU Member. CMU Member shall contact the CMU for the status if it does not receive such file(s) within 15 minutes after sending out the order instruction to the CMU;

(b) only those instructions which conform to the format and contain the required data prescribed in the CMU Fund Order Routing and Settlement Service – Interface Guide, or which the CMU deems suitable for processing, are considered valid and accepted for

processing;

(c) to route the order instructions to the relevant TA or TA-side Parties, or in the case of investment funds using ChinaClear as TA, to route order instructions to the SSCC platform. The order instructions will then be transformed into that of ChinaClear's required format by SSCC. At the designated time preset by SSCC, currently set at around 7:00 p.m., SSCC will bulk all the order instructions and transmit them to ChinaClear. The required file format specification of ChinaClear is illustrated in Appendix K of the CMU Fund Order Routing and Settlement Service – Interface Guide;

(d) to return acknowledgement or rejection advice to the CMU Member upon receipt of such advice from TA/FH or TA-side Parties,

(e) upon receipt of confirmation from the TA or TA-side Parties the next day(s), to generate instructions and the required reports in the CMU system;

(f) to generate settlement instructions automatically and transmit them to the appropriate RTGS system(s) in Hong Kong for settlement (only for order instructions involving money settlement such as subscription, redemption and only applicable to those members that have subscribed money settlement service through the CMU).

(g) all valid confirmed order instructions will be available for enquiry by the CMU Members after receipt of confirmation details from the TA or TA-side Parties on the confirmation date. If settlement of investment fund shares is conducted through the CMU, the CMU Members are <u>not</u> required to submit any settlement instructions to us. All confirmed order instructions that are eligible for money settlement in the CMU system will be generated automatically on the intended settlement date.

2.4.7.2 **Order Rejection**

If an order is rejected by the CMU or the TA/FH or TA-side Parties, a CMU order rejection report will be sent to notify the instructing CMU Member with the reason of rejection. It is the responsibility of the CMU Member to monitor the statuses during the whole life cycle of any order instruction.

A rejected order cannot be modified and a new order instruction has to be created as a replacement.

2.4.7.3 **Order Confirmation**

Upon receipt of the confirmation, CMU will forward the same to the CMU Members within 30 minutes. CMU Members must, within the same day upon receipt of any such confirmation, notify the CMU if the confirmation is incorrect or incomplete. The CMU will follow up the matter with the relevant TA or TA-side Parties promptly to ensure that settlement will not be delayed. There will be no partial confirmation of any order instruction from TAs/FHs or TA-side Parties.

2.4.7.4 **Order Cancellation**

CMU Members can only cancel order instructions if such instructions are:

(a) not yet processed by the CMU; and
(b) positioning failed, if applicable (refer to Part V - clause *2.4.8.2* below for details).

CMU Members who wish to cancel their order instructions are required to send cancellation requests before the Input Deadline to the CMU. If the cancellation requests are received after the Input Deadline, and the original order instructions have been forwarded to and processed by the TAs/FHs or TA-side Parties, the order instructions cannot be cancelled.

2.4.8 Settlement Arrangements

2.4.8.1 **Registration for Money Settlement through the CMU**

On the settlement day, depending on the pre-agreed settlement arrangement between the TAs and the CMU Members, CMU Members may opt for settling the cash payment:

(a) directly with the TAs (applicable to all settlement currencies); or

(b) through the CMU which has a seamless interface with the RTGS systems in Hong Kong (only applicable to settlement currencies in US dollar, Hong Kong dollar, euro or renminbi).

For CMU Members who wish to perform money settlement through the CMU, they are required to agree with the designated TAs or TA-side Parties by completing and returning Appendix W.11 to the CMU to register for the money settlement service. By registering for the use of money settlement service, both the CMU Participants and the TAs or TA-side Parties agree and authorize the MA to debit or credit their settlement accounts (or their correspondent banks' settlement accounts) for any proceeds arising from the money settlement of order instructions in the RTGS system(s) in HK.

CMU Members should note that the CMU does not support cross-border payment. It is the responsibility of the CMU Members or its designees, the Master Agents and/or the TAs to transfer the settlement proceeds to and from the Mainland.

2.4.8.2 Money Settlement of Investment Fund Shares

(c) Booking of Investment Fund Unit

For the investment fund shares that have been registered in the name of the CMU Member or its designees or other nominees, and the cash payments are made i) directly between the CMU Member and the TA; or ii) through the CMU, the investment fund share will not be shown on the CMU Member's account with the CMU. Investment fund shares holdings and entitlements are recorded directly in the CMU Members', its designees', or other nominees' or beneficial owners' names in the TA's register. Therefore, holding position of investment fund shares will not be checked when effecting money settlement.

CMU Members should note that the booking of investment fund shares is performed outside the CMU and does not constitute part of the Service, CMU Members should arrange with TA the appropriate means for settlement of investment fund units accordingly.

(d) Order Instruction Status

For order routing only instructions, i.e. the CMU Member carries out the money settlement with the TA/FH directly, the order instruction status in the CMU system will be changed from "confirmed" to "completed" at 6:30 p.m. on the settlement date.

For order routing and settlement instructions, i.e. the CMU Member carries out the money settlement via the CMU system, the process is as follows:

(a) Money settlement is conducted during the CMU optimiser run at 4:00 p.m., which is scheduled at around 4:00 p.m. daily. Upon completion of the run, for subscription order, the settlement account of the CMU Member will be debited, while that for TA will be credited. As for redemption order, the settlement account of the TA will be debited, while that for the CMU Member will be credited.

(b) For CMU Members that are not direct participants of the HK dollar, US dollar, euro RTGS systems or participating banks of the renminbi

RTGS system, their settlement accounts with their correspondent banks will be debited for the settlement proceeds. Please refer to Part II – clause *4.3* of this Manual for a detailed description of the settlement arrangement.

If the execution of order instruction requires a debit of investment fund shares in the book of the TA, it is the responsibility of the CMU Member to have sufficient available investment fund shares in its account in the register of the TA to make the required delivery. The MA accepts no liability for any losses that result from any failure to receive investment fund shares or for any charges applied by a TA after the money settlement of order instruction has been executed in the CMU system.

Settlement instructions generated by the CMU and subsequently settled cannot be reversed.

For order instructions with settlement date equal to the order initiation date or a past settlement date (e.g. cleared fund) in the order confirmation, the CMU system will treat this order as "order routing only" instructions. No money settlement for this type of order will be conducted in the CMU system on the "settlement date"

2.4.8.3 **Insufficient Cash for Settlement during the CMU Optimiser Run at 4:00 p.m.**

For any order instruction having insufficient funds for settlement during the CMU optimiser run at 4:00 p.m., the MA will cancel the instruction. No partial settlement of order instruction is allowed in the CMU system.

2.4.9 Distribution of Daily NAV

Mainland TAs/FHs or TA-side Parties are responsible for the daily distribution of investment fund information including NAV and investment fund status. NAV of an investment fund is usually available in the early morning. Upon receipt of such fund information from TAs/FHs or TA-side Parties, CMU will send it to the CMU Members via FTS, FileAct or eCMT/iCMT or any other means as agreed by the MA.

The CMU is not responsible to verify the accuracy or completeness of the information of which it receives from the TA or TA-side Parties and accepts no liability for the inaccuracy or incompleteness of the information. The MA also accepts no liability regarding timeliness of the information he receives.

The file format specification of investment fund information is illustrated in Appendix K of the CMU Fund Order Routing and Settlement Service – Interface Guide.

2.4.10 Corporate Actions

2.4.10.1 Service Scope

A corporate action is any event regarding one or more investment fund shares that is officially announced to the investors by the TA/FH. Such event is published in accordance with the investment fund's documentation. Dividend payment is also classified as a type of corporate actions. Corporate action services provided by the CMU cover the following:

(a) collection and provision of information on dividend payments, voluntary and mandatory corporate actions;
(b) collection of instructions for voluntary corporate actions;
(c) reporting on corporate action instructions and proceeds; and
(d) any other actions which the MA considers appropriate for corporate action service.

2.4.10.2 Provision of Information

TAs/FHs or TA-side Parties are responsible to notify the CMU of any forthcoming corporate actions. Upon receipt of such information from the TAs/FHs or TA-side Parties, the CMU will forward the corporate actions information to the CMU Participants by FTS, FileAct or eCMT/iCMT or any other means as agreed by the MA. The relevant details of the corporate action, such as record date, event date, ratio, deadline, proceeds and actions to be taken will be shown in the corporate action notification for CMU Participants' attention.

The CMU is not responsible to verify the accuracy or completeness of the information of which it receives from the TA or TA-side Parties and accepts no liability for the inaccuracy or incompleteness of the information. The MA also accepts no liability regarding timeliness of the information he receives.

2.4.10.3 Dividend

There will be no option for choice of dividends on the payment date. This is because such choice (dividends or dividends with a reinvestment option) has already been made by the CMU Member or its designee

when it opens either a cash or shares account for the booking of dividend.

The record date for investment fund shares is the trade date confirmed by the FH(s) or its TA(s), unless otherwise specified by the FH(s)/TA(s).

The file format specification for notification of dividend is illustrated in Appendix H of the CMU Fund Order Routing and Settlement Service – Interface Guide.

2.4.11 Reporting

2.4.11.1 CMU Reports

Without limiting the generality of Part I – clause *4.4* of this Manual on CMU Reports, the following reports are available at the time as stipulated in Appendix W.10 and at around 6:00 a.m. of the next calendar day as the case may be. Depending on the format of the reports available (pdf or csv), the CMU Member can choose to receive the below reports by FTS, FileAct or eCMT/iCMT.

Report Name	Report ID
(a) Investment Funds Order Confirmation Report	CMUD9607
(b) Investment Fund Order (Response)	CMUD9601
(c) Investment Funds Order Acknowledgement Report	CMUD9605
(d) Investment Funds Order Rejection Report	CMUD9606
(e) Outstanding Investment Fund Transaction Details Report	CMUD2601
(f) Completed Investment Fund Transaction Details Report	CMUD2701
(g) Settlement Details Report for Investment Fund Transactions	CMUD2801
(h) Investment Fund Document (Response) to Distributor	CMUD9611
(i) Investment Fund Document (Response) to Transfer Agent	CMUD9612
(j) Investment Fund Document to Distributor	CMUD9613
(k) Investment Fund Document to Transfer Agent	CMUD9614

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2.4.11.2 Daily Reconciliation Statement

In addition to the above-mentioned reports, daily statements showing unit holdings from Mainland TAs are also available for reconciliation by CMU Members. Upon receipt of the statement from the TA or TA-side Parties,

the MA will promptly send it to CMU Members by FTS, FileAct or eCMT/iCMT, or any means as agreed by the MA.

The file format specification of daily reconciliation statement is illustrated in Appendix K of the CMU Fund Order Routing and Settlement Service – Interface Guide.

2.4.12 Fees

The Service will be provided at a service fee charged in accordance with the prevailing fee schedule as specified by the MA from time to time. All fees are invoiced in Hong Kong dollar irrespective of the order currency and billed on a monthly basis.

2.4.13 Operating Schedule

The Service will be provided by the CMU at the below operating schedule <u>except</u> 1st January, and all Saturdays and Sundays in Hong Kong.

Service available	From	To
Mondays to Fridays	8:30 a.m.	05:00 a.m. of the next calendar day

During the above operating days and time, the CMU will, upon receipt of any instructions or information from/to the CMU Member or TAs or TA-side Parties, forward the same to the relevant parties accordingly. CMU Members should note that the trading date and/or the settlement date are to be agreed between the CMU Member or its designees and the TA or TA-side Parties.

With a reasonable period of advance notice given to CMU Members, the MA reserves the right to suspend or terminate the Service, in whole or in part, or to vary the operating time for daily operation, by reason of any circumstances whatsoever beyond the MA's reasonable control, including without limitation partial or total failure.

2.4.14 Termination

CMU Members who wish to terminate its subscription to the Service must send order instructions as follows:

(a) If the investment fund shares are registered directly in the name the

CMU Member or its designees, or the investor, a notification shall be sent to the CMU informing the CMU that instructions in respect of such registered holder will no longer be routed through the CMU. The CMU shall accordingly inform the relevant TA/FH and/or agent(s) that instructions will no longer be routed through the Service; and

(b) The CMU Member will then be advised to contact the relevant TA/FH or its agent(s) to provide the new beneficial owner's address, cash account number and other details as required by the investment fund or its agent(s).

2.4.15 Contingency Procedures

CMU Members must ensure that they have put in place an appropriate back-up solution in order for them to be able to keep transmitting their order instructions to CMU in case of contingency situations. In particular:

(a) for CMU Members who are sending their order instructions to the CMU via SWIFT XML, FileAct or FTS via ICLNet, the eCMT/iCMT should be used as a back-up solution under contingency situations; and

(b) for CMU Members using the eCMT/iCMT as a normal means of communication with the CMU, the CMU Members recognize that there will be no automated back-up solution in contingency situation and those CMU Members will have to send facsimile instructions to the FHs/TAs directly.

In case any or all of the below electronic links are not functioning due to technical reasons beyond control of the relevant parties, the CMU Members or their designees will be required to send order instructions to the relevant TAs/FH or TA-side Parties directly. If order instructions are sent manually by the CMU Members, the subsequent confirmation will not be routed through the CMU to the CMU Member or its designees on the following day. In addition, the subsequent money settlement will not be performed in the CMU system on the intended settlement date.

(i) electronic link between the CMU Member and the CMU; or
(ii) electronic link between the CMU and SSCC; or
(iii) electronic link between the SSCC and ChinaClear.