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China Securities Depository and Clearing Corporation Limited Administrative Measures for Settlement Reserves

Disclaimer: For the avoidance of doubt, the Chinese version of the rules issued by China Securities Depository and Clearing Corporation Limited shall prevail, while the English translation is for reference only.

Article 1 The objectives of this Measures are to forestall and defuse risks in securities settlement, to ensure the safe operation of settlement system and to protect the legitimate rights and interests of investors and stakeholders to settlement. The Measures is thus formulated in accordance with the *Securities Law of the People's Republic of China*, the *Measures for the Administration of Securities Registration and Settlement*, among other applicable laws, regulations and ordinances, and the *Settlement Rules*, the *Rules on the Administration of Clearing and Settlement Participants* and other applicable rules of China Securities Depository and Clearing Corporation Limited (the "CSDC").

Article 2 This Measures shall apply to all settlement participants engaged in the settlement of transactions, purchase or redemptions of shares, bonds, securities investment funds, depository receipts, asset-backed securities and other securities-related financial products listed on the stock exchanges, except for settlements regarding the trading of RMB-denominated special shares (B shares), stock options, south-bound Stock Connect, H-shares Full Circulation, and asset management operations under CSDC's Transfer Agent System. Where there are any special provisions set forth by the China Securities Regulatory Commission ("CSRC") or CSDC, such special provisions shall apply.

Article 3 Settlement reserves refer to the funds deposited by settlement participants in their funds settlement accounts for securities trading and non-transaction settlement in accordance with the provisions of this Measures. Settlement reserves consist of minimum settlement reserves requirement and funds in excess of that amount.

Article 4 A settlement participant shall open a funds settlement account with CSDC to place their settlement reserves. The funds settlement account is the settlement reserve account.

In accordance with the relevant provisions of CSRC, where a settlement participant handles the settlement of both proprietary and customers' securities transactions, the settlement participant shall open separate funds settlement accounts for the settlement of proprietary business, brokerage business, custody business and margin trading based on the needs of each business.

Article 5 Where a settlement participant applies for opening a funds settlement

account, the application documents to be submitted shall be separately stipulated by CSDC.

Article 6 Unless otherwise provided by CSRC, SIPF and CFMMC, the settlement participant shall file CSDC with a designated receiving bank account, with its holder name being the same as the settlement participant, to receive the funds transferred from its funds settlement account. Further, the designated receiving bank account for brokerage business shall be the special deposit account for clients' transaction settlement funds, filed with the China Securities Investor Protection Fund Corporation Limited ("SIPF") for record or the auarantee fund account holding clients' cash market funds, filed with China Futures Market Monitoring Center Co., Ltd. ("CFMMC") for record; in the case of margin trading, the designated receiving bank accounts shall be the clients' account of collateral funds for margin trading and the dedicated funds account for securities lending, filed with SIPF for record.

Article 7 CSDC shall open a dedicated deposit account for settlement reserves with the settlement bank, which shall be made public to the settlement participants on CSDC's website. CSDC's dedicated deposit account for settlement reserves is the dedicated deposit account filed with SIPF.

Article 8 Where a settlement participant intends to deposit funds into its funds settlement account, it shall transfer the funds into the CSDC's dedicated deposit account for settlement reserves and specify its funds settlement account number. CSDC shall credit the corresponding amount to its funds settlement account upon confirmation of receiving such funds.

Article 9 CSDC shall use he calculation rules for minimum settlement reserve ratio (see Appendix) to determine the minimum settlement reserve ratio for each settlement participant on a monthly basis, and shall determine the minimum settlement reserves for each settlement participant based on its average daily securities buying amount in the previous month and the minimum settlement reserve ratio. The calculation formula is:

Minimum settlement reserves = securities buying amount in the previous month/number of trading calendar days in the previous month * minimum settlement reserve ratio.

The securities buying amount in the previous month, as stated in the preceding paragraph of this article, includes secondary market purchases of securities such as A shares, funds, depositary receipts, warrants, preference shares and bonds that are listed on stock exchanges and settled by multilateral netting, purchase and redemption of ETFs, as well as initial sale and securities repurchase at maturity under a repo.

Where a custodian is entrusted by a qualified foreign institutional investor ("QFII"), or an RMB qualified foreign institutional investor ("RQFII") to conduct funds settlement on its behalf, the custodian shall be a settlement participant with CSDC and subject to the minimum settlement reserve requirements that are stipulated separately by CSDC.

Article 10 CSDC take different approaches to determine the minimum settlement reserve ratio depending on the type of business conducted by settlement participants and the type of securities traded. Specifically,

(1) A fixed minimum settlement reserve ratio is adopted for bonds (including spot

bond transactions and repos);

(2) Differentiated minimum settlement reserve ratios are adopted for non-bond securities settled by multilateral netting in the brokerage, proprietary business and margin trading of securities companies and the brokerage business of futures companies;

(3) Settlement participants are allowed to choose either differentiated or fixed minimum settlement reserve ratios for non-bond securities settled by multilateral netting in the custody business of securities companies and commercial banks (excluding the QFII and RQFII custody business conducted by the commercial bank in its capacity as the settlement participant, the same below); and

(4) For relevant businesses carried out by other settlement participants, CSDC negotiates with such settlement participants to determine the minimum settlement reserve ratio.

Article 11 Settlement participants engaged in custody business shall file with CSDC its choice of either differentiated or fixed minimum settlement reserve ratio; otherwise, CSDC shall apply fixed minimum settlement reserve ratio to their funds settlement accounts. Settlement participants that have adopted fixed minimum settlement reserve ratio, may make a request to CSDC to switch to differentiated minimum settlement reserve ratio as they see fit. The specific request procedure will be separately stipulated.

Article 12 CSDC may evaluate the market conditions and thereby adjust the calculation scope of the monthly securities buying amount and minimum settlement reserve ratios for different security types. Such adjustments shall be made public in the form of notification.

Article 13 On the first trading day of each month, CSDC will calculate the minimum settlement reserves for each settlement participant and inform them of relevant numbers, including the minimum settlement reserves, the minimum settlement reserve ratio and the securities buying amount. Where conditions permit, CSDC may, at the request of the settlement participant and its clients, send to designated clients a copy of the aforesaid data of minimum settlement reserve ratio and securities buying amount.

On the sixth trading day of each month, CSDC will adjust the minimum settlement reserves for funds settlement accounts of settlement participants.

Article 14 Settlement participants may determine the minimum settlement reserve ratio charged to their customers in accordance with the provisions of the *Measures* and agreements with customers, while taking into account business actualities and risk management needs.

Article 15 Settlement participants that newly apply to access CSDC's settlement system shall abide by the *Measures'* provisions on minimum settlement reserves, starting from the second month following their access to the system.

Article 16 CSDC may adjust the minimum settlement reserve ratio of settlement participants based on the type, risk level and compliance status of settlement participants. Specific measures will be separately stipulated.

Article 17 CSDC has the right to revamp the calculation method of minimum

settlement reserves and to set a time window for such adjustments, in order to adapt to changing market risks or when it deems necessary.

Article 18 The settlement participant whose funds settlement account are partly frozen by the competent authority, shall ensure that the non-frozen funds in the account suffice for complete settlement and the requirement for minimum settlement reserves.

Article 19 The available balance in the settlement participant's funds settlement account after deducting funds frozen by the competent authority from the end-of-day balance of the account in each day (including non-settlement day), shall not be lower than the minimum settlement reserve requirement. The minimum settlement reserves can be used for fund settlement. Where the available balance is lower than the minimum settlement reserve requirement, the settlement participant shall make up the shortfall in a timely manner on the same day or, on the next settlement day if the shortfall arises on a non-settlement day.

CSDC will keep a record of non-compliance by the settlement participant if the end-of-day available balance in its funds settlement account falls below the minimum settlement reserve requirement, and factor it into the risk level evaluation of the settlement participant.

Article 20 On the premise of ensuring fund settlement, the settlement participant may transfer to its designated receiving bank account, any remaining balance of the funds settlement account after deducting the frozen funds and the minimum settlement reserves.

Article 21 When the available balance (including the minimum settlement reserves) in the funds settlement account is insufficient for settlement on the settlement date, the settlement participant must post the shortfall amount to its funds settlement account prior to the last batch of settlement on the settlement date; otherwise, a cash settlement default occurs and shall be dealt with in accordance with the rules of CSDC governing the cash settlement default by settlement participants.

Article 22 Settlement participants' settlement reserves (other than the frozen part), shall be used for end-of-day funds settlement in the following order of priority:

- (1) Settlement of securities settlement guarantee fund and multilateral netting; and
- (2) Settlement of products by non-multilateral netting and other fund settlements.

Article 23 CSDC calculates and pays interest on settlement reserves to the settlement participants at a rate agreed upon with the settlement bank.

Interest on settlement reserves is settled quarterly on the 20th day of the third month of each quarter.

Where the settlement bank adjusts the deposit rate, the Company will calculate interest as per applicable rates on a multi-stage basis.

Article 24 CSDC provides settlement participants with balance inquiry service regarding funds settlement accounts. Settlement participants shall check the account balance with due care.

Article 25 In the event of any change in the account-opening documents for the funds settlement account or the designated receiving bank account, any change in the

clients for whom the settlement participant carries out custody business or any merger of settlement participants, the settlement participant shall submit relevant documents to CSDC in a timely manner and go through the change formalities.

Article 26 When a settlement participant terminates its qualification as a settlement participant, the settlement participant shall go through the funds settlement account closure procedures with CSDC in a timely manner.

For a funds settlement account that remains inactive for a full year, CSDC may notify the corresponding settlement participant to go through the account closure procedure as appropriate, provided that the settlement participant is in no creditor-debtor relationship with CSDC. Where the settlement participant fails to complete the account closure within the notified time limit, the funds settlement account will be deemed as closed on a voluntary basis.

Article 27 Where a settlement participant violates the *Measures*, CSDC may take self-regulatory actions against the settlement participant in accordance with the *Rules on the Management of Clearing and Settlement Participants* and other relevant rules.

Article 28 The power to revise and interpret the *Measures* shall rest with CSDC.

Article 29 The *Measures* shall take effect on June 20, 2022. From the date of implementation of the *Measures*, in case of any discrepancies between any settlement reserve policy of CSDC and the *Measures*, the latter shall prevail.

Appendix

Calculation Rules for Minimum Settlement Reserve Ratio

I. The minimum settlement reserve ratio for cash bond transactions and bond repos is 10%.

II. The minimum settlement reserve ratio for non-bond securities settled by multilateral netting is calculated as follows:

i. CSDC applies differentiated minimum settlement reserve ratios to the brokerage, proprietary business and margin trading of securities companies and the brokerage business of futures companies. The calculation formula is as follows:

Minimum settlement reserve ratio applicable to the settlement participant = 70% * differentiated minimum settlement reserve ratio based on time of payment + 30% * differentiated minimum settlement reserve ratio based on time of withdrawal.

Table: Applicable Parameters to Minimum Settlement Reserve Ratios for Non-bond Securities Settled by Multilateral Netting in Brokerage, Proprietary Business and Margin Trading

Time of payment	Differentiated minimum settlement reserve ratio based on time of payment	Time of withdrawal	Differentiated minimum settlement reserve ratio based on time of withdrawal
Payment before 9:00	14%	Withdrawal before 9:00	18%
Payment before 11: 00	16%	Withdrawal after 9:00	14%
Payment after 11:00	18%		

The applicable parameters for differentiated minimum settlement reserve ratios based

on time of payment and withdrawal are shown in the above table, and explained as follows:

1. CSDC determines the minimum settlement reserve ratio on a monthly basis based on the time of withdrawal and payment of each settlement participant in the previous calendar month (the “Calculation Period”).
2. The time of payment refers to the time of the last payment made by the settlement reserve account to perform the net payable settlement obligations. The time of withdrawal refers to the time of the first withdrawal of net receivables from the settlement reserve account withdraws the net amount receivable. In determination of withdrawals, priority will be given to funds other than the net receivable fund withdrawn by the settlement participant.
3. CSDC records the time of payments by settlement reserve accounts with net payable obligations and the time of withdrawals by settlement reserve accounts with net receivables on a daily basis. If the settlement reserve accounts have zero net obligations after clearing on T, CSDC will record such accounts with completing the payment before 9:00 on the corresponding settlement dates.
4. During the Calculation Period, for all the net payable days of a settlement reserve account, if the number of days with payments made before 9:00 on T+1 accounts for 90% or more of the total net payable days, the settlement reserve account shall be treated as “payment before 9:00”. If the number of days with payments made before 9:00 on T+1 accounts for less than 90% of the total net payable days, but the number of days with payments made before 11:00 on T+1 accounts for 90% or more of the total net payables days, the settlement reserve account shall be treated with “payment before 11:00”. If the number of days with payments made before 11:00 on T+1 accounts for less than 90% of the total net payable days, the settlement reserve account shall be treated with “payment after 11:00”. In case of a cash settlement default where the settlement reserve account with net payable obligations makes the payment after 16:00 on T+1, the payment is still recorded as payment after 11:00 on T+1 among other net payable days.
5. During the Calculation Period, for all the net receivable days of a settlement reserve account, if the number of days with withdrawals made after 9:00 on T+1 accounts for 90% or more of the total net receivable days, the settlement reserve account shall be treated as “withdrawal after 9:00”. If the number of days with withdrawals made after 9:00 on T+1 accounts for less than 90% of the total net receivable days, the settlement reserve account shall be treated as “withdrawal before 9:00”. During the Calculation Period, if the net-receivable settlement reserve account makes no withdrawal on T+1,

the account will still be recorded with withdrawal after 9:00 on T+1 among other net receivable days.

6. For settlement reserve accounts without net payables or net receivables incurred during the Calculation Period, the differentiated minimum settlement reserve ratio at the time of payment or withdrawal shall be 14%..

ii. Where a settlement participant engaged in custody business chooses the differentiated minimum settlement reserve ratio, the aforesaid calculation rules for differentiated minimum settlement reserve ratio shall apply to its minimum settlement reserve ratios for non-bond securities settled by multilateral netting.

For settlement participants that engage in custody business and choose the fixed minimum settlement reserve ratio, the minimum settlement reserve ratio for non-bond securities settled by multilateral netting shall be 16%.

