

The Rules on the Administration of Clearing and Settlement Participants of China Securities Depository and Clearing Corporation Limited

Chapter 1 General Provisions

Article 1 “The Rules on the Administration of Clearing and settlement Participants” (hereinafter referred to as “the Rules”) are formulated hereby in accordance with relevant laws and regulations such as the “Securities Law of the People’s Republic of China” (hereinafter referred to as the “Securities Law”) and the “Measures for the Administration of Securities Registration and Clearing” in order to guarantee the normal and secure operation of the stock markets, prevent clearing and settlement risks, standardize the clearing behaviors of clearing and settlement participants (hereinafter referred to as participants), and enhance the administration of participants.

Article 2 The participants mentioned in the Rules refer to the securities companies and other agencies authorized by China Securities Depository and Clearing Corporation Limited (hereinafter referred to as the “SD&C”) to participate directly in the securities and money clearing and settlement organized by the SD&C and assume the final responsibility of settlement in the electronic securities depository and clearing system (hereinafter referred to as “the clearing system”).

Article 3 Participants are categorized into Type-A participants and Type-B participants based on the types of clearing and settlement services they are engaged in.

Type-A participants can offer securities and money clearing services concerning the operation of their proprietary securities, securities brokerage and customer assets management, and conduct the same services as an agent of other clearing participants or non-clearing participants.

Type-B participants can only conduct securities and money clearing services with respect to the operation of their proprietary securities, securities brokerage and customer assets management.

Non-clearing participants refer to the agencies that participate in market trading but fail to be authorized by the SD&C. Non-clearing participants can require Type-A participants to conduct securities and capital clearing and settlement services on a commission basis.

Article 4 All types of participants shall participate in the clearing and settlement services organized by the SD&C based on the principles of “equal rights and obligations” and “equal rights and responsibilities”.

Article 5 The SD&C exercises self-discipline management over the participants in accordance with relevant laws, regulations and service rules prescribed by the SD&C.

Chapter 2 Qualification of Participants

Article 6 Type-A participants of the SD&C are supposed to meet the following requirements:

- (1) have passed the evaluation and examination organized by the Securities Association of China in relation to innovation-oriented pilot securities companies;
- (2) have established relevant clearing and settlement technical system and risk control system required by the China Securities Regulatory Commission (hereinafter referred to as the “CSRC”) and the SD&C; equipped with an independent department specialized in carrying out securities clearing and settlement services and staffed with certified fulltime clearing professionals;
- (3) be able to assume the final responsibility of securities and money settlement within their own business scope;
- (4) meet other requirements of the SD&C.

Article 7 Type-B participants of the SD&C are supposed to meet the following requirements:

- (1) hold the “Securities Business License” issued by the CSRC;

(2) have established the relevant clearing and settlement technical system and risk control system required by the CSRC and the SD&C; equipped with an independent department specialized in conducting securities clearing and settlement services and staffed with certified fulltime clearing professionals;

(3) be able to assume the final responsibility of securities and money settlement within their own business scope;

(4) have net capital-oriented financial indicators and risk control indicators which are in compliance with related regulations of the CSRC and the SD&C;

(5) meet other requirements of the SD&C.

Article 8 Clearing participation applicants shall provide the following materials (with applicants' stamps):

(1) application report and application form regarding participant qualifications;

(2) photocopy of the original "Business License for an Enterprise as a Legal Person" that has passed the latest annual corporation checkup;

(3) photocopy of the "Securities Business License";

(4) financial audit reports of the last two years provided by the accounting firm with practicing qualifications regarding securities and futures, or the capital verification report upon establishment of the company;

(5) description of organizational structure of the company;

(6) description of the internal clearing risk control system;

(7) power of attorney of the manager authorized by the legal representative;

(8) valid identification certificate and its photocopy of the authorized manager;

(9) other materials required by the SD&C.

Article 9 The SD&C will examine the application documentation and make decisions of approval or disapproval within 20 working days upon receiving the documentation in full. Approved companies shall report to the CSRC with the written approval document presented and announce the approval; disapproved companies will be informed in a written form.

Approved companies that obtain the participant qualifications will be allowed to conduct clearing services with the SD&C after entering into the clearing and settlement service agreement with the SD&C, establishing the relevant settlement account, paying the mutual guarantee fund and completing other requirements of the SD&C.

Article 10 A participant must designate one clearing and settlement representative and two assistants to the clearing and settlement representative.

The participant representative is designated for contact between the participant and the SD&C, and shall be responsible for:

- (1) processing matters regarding the participant qualifications;
- (2) providing relevant documentation required by the SD&C;
- (3) attending the participants meetings convened by the SD&C;
- (4) coordinating and handling abnormal and emergent cases regarding clearing and settlement services;
- (5) other issues specified by the SD&C.

Article 11 The participant representative shall be assumed by the person in charge of the securities clearing and settlement services of the applicant; the assistants to the participant representative shall be assumed by the person in charge of the securities clearing and settlement department of the applicant.

The assistants to the participant representative shall act on behalf of the participant representative when the latter cannot perform his/her duties.

Article 12 In case a participant no longer satisfies the conditions prescribed in Articles 6 and 7 of the Rules, the SD&C will relegate it to a lower category or revoke its qualifications as a participant.

If a Type-B participant meets the requirements for Type-A participants as prescribed in Article 6 of the Rules, the SD&C can authorize its promotion to the higher category upon acceptance of its application.

Article 13 If the SD&C adjusts the category of a participant in accordance with the Rules, it shall replace the approval document regarding the qualifications of the participant, report it to the CSRC and make due announcement.

Meanwhile, the participant concerned shall re-enter into the clearing and settlement agreement with the SD&C.

Article 14 Where relevant items in the application form for participant qualifications or the business scope of the applicant changes, the participant shall report it to the SD&C for filing within 15 working days.

In case any replacement is made to the participant representative, the assistants to the representative or the contact information (phone number, fax number or e-mail address) of the participant, the participant shall report it to the SD&C for filing immediately.

Article 15 Where the name of the participant is changed, the participant shall apply to the SD&C for a renewed approval document regarding its qualifications upon presentation of the following materials:

- (1) application report (with the participant's official stamp);
- (2) approval document on the change of name;
- (3) renewed "Corporate Business License" and "Securities Business License" (with the participant's official stamp);
- (4) approval document on the participant's qualifications;
- (5) other materials required by the SD&C.

In case of approval document renewal due to change of its name, the participant shall re-enter into the clearing and settlement agreement with the SD&C, which shall report it to the CSRC and make related announcement.

Article 16 Under any of the following circumstances, the SD&C will revoke the qualifications of the participant:

- (1) The participant applies for the revocation of its participant qualifications;
- (2) The participant is no longer qualified as a participant in accordance with the Rules;
- (3) The participant commits serious violations against the business or clearing regulations of the SD&C;
- (4) The participant is revoked, closed, dismissed, or declared bankrupt

pursuant to applicable laws;

(5) The CSRC decides that the participant should be revoked of its qualifications as a participant;

(6) Other circumstances the SD&C regards applicable to the revocation of participant qualifications.

Article 17 participants applying for revocation of their qualifications as participants shall provide the following materials (with the applicant's official stamp):

(1) application report;

(2) power of attorney of the manager authorized by the legal representative;

(3) valid identification certificate and its photocopy of the authorized manager;

(4) other materials required by the SD&C.

Article 18 The SD&C shall report to the CSRC on the revocation of any participant's qualifications and issue related notice to the participant concerned. The SD&C shall terminate the participant's clearing and settlement services as of the date specified in the notice and make due announcements.

The participant shall settle its claims and debts with the SD&C within 20 working days following the date of qualification revocation; otherwise, the SD&C may offset its debts with its collateral or mutual guarantee fund ; if its debts fail to be offset in full by the aforesaid means, the SD&C shall continue the claim of the rest debts of the participant in accordance with applicable laws. The SD&C shall also settle the participant's claims in compliance with relevant regulations.

Chapter 3 The Rights and Obligations of Participants

Article 19 A participant shall have the following rights:

(1) to participate in the clearing and settlement activities within its service scope and obtain the clearing and settlement services provided by the SD&C;

(2) to obtain materials regarding the regulations and information of the SD&C's clearing and settlement services;

- (3) to obtain the technical support and guidance regarding the clearing services and the participants management system provided by the SD&C;
- (4) to know and propose on the changes of the SD&C's clearing services;
- (5) to supervise the operation of SD&C's clearing and settlement services, and the collection and use of various funds;
- (6) to participate in participant conferences and the clearing and settlement service training programs organized by the SD&C;
- (7) to give up its qualifications as a participant;
- (8) to have Other rights granted by the SD&C.

Article 20 A participant shall implement the following obligations:

- (1) comply with the relevant laws and regulations and the service regulations of the SD&C;
- (2) enter into agreements on securities transaction, depository and clearing and settlement with customers for the purchase and sales of securities on a commission basis;
- (3) exercise good faith and diligence in handling issues concerning clearing and settlement services and participant management of the SD&C;
- (4) be responsible for securities and money clearing and settlement with the SD&C and with customers based on the principle of classified clearing, as well as the central securities and money clearing and settlement with the SD&C and the securities and money clearing and settlement with customers within the settlement period specified by the SD&C;
- (5) take effective measures to protect customer assets from being appropriated or pirated, so as to ensure the legitimate rights and interests of customers;
- (6) establish an effective internal clearing risk control system, and guarantee the security and efficiency of the internal computer system, networks and the communication system;
- (7) cooperate with the SD&C with regard to the management of participant qualifications and clearing and settlement risks, accept the annual

self-regulatory examination by the SD&C, and provide the SD&C with authentic, accurate and complete documentation and materials on a timely basis;

(8) maintain the safe and stable operation of the clearing and settlement system jointly with the SD&C, submit settlement reserved fund, mutual guarantee fund and other settlement collaterals in accordance with the SD&C's service regulations;

(9) pay relevant service charges and funds in accordance with related regulations;

(10) perform other obligations specified by the SD&C.

Article 21 The SD&C will take into consideration the risks faced by participants and the clearing participants' compliance with the SD&C's service regulations in adjusting the participants' mutual guarantee fund and the payment proportion of relevant settlement collaterals, as well as in granting clearing and settlement service qualifications in relation to innovative products in the market.

Chapter 4 Commissioned Clearing and Settlement

Article 22 Type-A participants entrusted by other participants or non-clearing participants to conduct clearing and settlement services shall enter into a commissioned clearing and settlement agreement with the entrusting party, which shall come into effect upon the examination and approval of the SD&C.

Article 23 During the commissioned clearing and settlement period, the entrusted party shall complete central clearing and settlement of securities and money with the SD&C within the service scope and settlement period specified in the commissioned clearing agreement, and shall be responsible for final settlement to the SD&C.

The entrusted party shall complete clearing and settlement of securities and money with the entrusting party within the service scope and settlement period specified in the commissioned clearing agreement upon completion of central securities and money clearing and settlement.

Article 24 The entrusting party and the entrusted party shall enjoy their rights and perform their obligations in strict compliance with the commissioned

clearing and settlement agreement, and refer relevant disputes to the SD&C for coordination and settlement without affecting the entrusted party's responsibility of final settlement for the SD&C.

Article 25 The commissioned clearing and settlement agreement shall be terminated as of the expiry date specified in the agreement or upon approval of both parties. The entrusted party shall inform the SD&C five working days prior to the termination of the commissioned clearing and settlement agreement.

Upon termination of the commissioned clearing and settlement agreement, the entrusted party shall continue to assume the ongoing rights and obligations with the SD&C arising from the agreement.

Chapter 5 Self-discipline and Supervisory Examinations

Article 26 The SD&C shall hold participant conferences attended by all participants on a regular basis.

The SD&C can organize extraordinary meeting of participants when necessary.

Article 27 A participant conference performs the following functions:

- (1) to announce the participants' status in business operation, compliance and risk control;
- (2) to announce awards and disciplinary penalties for participants;
- (3) to announce the category adjustment to participants;
- (4) to announce the payment and utilization status of mutual guarantee funds and clearing and settlement risk funds;
- (5) to propose and comment on the industrial standards and business development;
- (6) to handle other issues concerning the management of participants.

The SD&C will give timely replies on the proposals and comments made by the participants with regard to the industrial standards and business development.

Article 28 Disputes between participants in relation to clearing and settlement

services can be referred to the SD&C for coordination and settlement.

Article 29 Participants shall provide the SD&C with relevant statistics, net capital computation and the supervisory reporting forms on risk control indicators of the previous month within the first 10 working days of each month in accordance with relevant regulations of the CSRC such as *The Statistical Report System for Securities Companies* and *The Administrative Measures on Risk Control Indicators of Securities Company*.

The SD&C may, based on the actual circumstances, require participants to provide information in addition to that required by “The Statistical Report System for Securities Companies” on a regular basis.

Article 30 Participants shall provide the SD&C with the following annual report materials (with the participants’ official stamps) within 4 months as of the end of each fiscal year:

- (1) Annual Work Report on Clearing and settlement Services;
- (2) Photocopy of the annually examined or renewed “Securities Business License”;
- (3) The annual report prepared in accordance with the “Contents and Format for Annual Reports of Securities Companies Guidelines” and the internal control report provided by accounting firms certified for conducting securities and futures businesses;
- (4) Other materials required by the SD&C.

Article 31 The participant shall inform the SD&C of any of the following matters and events (if any) immediately and provide proof materials in writing within 5 working days:

- (1) The participant is put under business rectification (with its business discontinued), custody, or is taken over, canceled or closed.
- (2) The participant is acquired, restructured, dissolved or goes bankrupt;
- (3) The participant is put under investigation or penalized by the CSRC, other administrative authorities or stock exchanges for breach of laws or regulations;
- (4) The participant is unable to conduct clearing and settlement services normally due to deterioration of business, insolvency, legal enforcement, or

other reasons;

(5) The participant encounters technical failures in its computer system and communication system, which disables the participant to communicate or transmit data with the SD&C;

(6) Other matters and events that should be reported to the SD&C in accordance with relevant laws and regulations as well as the business regulations of the SD&C.

Article 32 The SD&C may, under the arrangements by the CSRC, conduct annual inspections on the participants' self-discipline performance with regard to their clearing and settlement services within 6 months following the end of each fiscal year. The inspections involve both on-site and off-site inspections.

On-site inspections refer to those conducted at a participant's business venue by means of listening to reports and checking relevant materials.

Off-site inspections refer to the analysis and check of relevant materials such as business reports and financial statements provided by a clearing participant with a view to discovering possible problems with the participant on a timely basis by establishing risk early warning indicators.

Article 33 Inspectors can require the participant under inspection to provide the following documents:

(1) financial statement, relevant books of account, proof materials and other materials concerning the financial statement;

(2) information on the opened accounts, trading records, clearing data, securities trading, custody contract, clearing and settlement contract (or copies of agreement), and documentation regarding the risk control system;

(3) materials involved in on-site inspections and other documents required to be checked.

Inspectors can also check the operation status of relevant technical systems for clearing services.

Article 34 Inspectors can record, tape, video, photograph and duplicate relevant materials when conducting on-site inspections.

Article 35 Inspectors shall present their work permits and the inspection

advice issued by the SD&C before conducting on-site inspections on participants.

Article 36 Inspectors are responsible for the confidentiality of business secrets acquired during the inspection. Those in breach of relevant regulations during the inspection shall be punished in accordance with relevant laws and regulations.

Article 37 The SD&C can issue appointment notice to the participants' senior management who upon receipt of the appointment notice shall offer detailed, complete and truthful explanation to the questions raised by the SD&C and provide relevant proof materials.

Chapter 6 Risk Control

Article 38 Participants who conform to any of the following conditions shall be given the most attention by the SD&C:

(1) The participant is listed as agencies under high risks or is put under compulsory supervision by the CSRC, stock exchanges or other regulatory agencies.

(2) The participant fails to perform its obligation to report monthly data, annual and provisional materials to the SD&C, or fails to cooperate during the on-site inspections carried out by the SD&C;

(3) The participant is involved in serious lawsuits, economic dispute cases or violations of laws and regulations, which may have a serious impact upon the participant's solvency;

(4) The risk control indicators (such as net capital and so on) of securities companies have reached the early warning criteria set by the SD&C;

(5) The participant commits breach of agreements on securities or money settlement;

(6) The participant frequently encounters technical system failures that hinder the normal operation of clearing and settlement services;

(7) The participant often violates the Rules, other regulations or provisions of the SD&C;

(8) Other circumstances specified by the SD&C;

The SD&C will remind participants who conform to descriptions in Items 4-8 mentioned above and require timely rectifications.

Article 39 The SD&C may take the following risk prevention measures on the participant based on the level of risk faced by the participant:

(1) require the participant to report its financial status and relevant statements more frequently;

(2) increase the minimum clearing deposit ratio for the participant, or require the participant to provide other collaterals required by the SD&C;

(3) close the electronic appropriation channel of the participant's clearing deposit account;

(4) temporarily refuse to deliver the participant's proprietary securities or the securities within the participant's relevant securities account, and require the participant to provide collaterals that equal to the risk value;

(5) dispose of the participant's proprietary securities, relevant securities or collaterals;

(6) confine the participant's securities purchase account from being converted to designated account or custodial account during the period when the participant has an overdraft of money delivery, or confine the securities account of the participant's related parties from being converted to designated account or custodial account;

(7) suspend or terminate the participant's participation in part or in full in the clearing and settlement services of the SD&C;

(8) suggest stock exchanges confine the participant's securities trading;

(9) suggest the CSRC impose relevant regulatory measures upon the participant;

(10) take other measures regarded as necessary by the SD&C.

The SD&C shall inform the CSRC, stock exchanges and the participant concerned if it decides to carry out the aforementioned measures specified in Items 7 and 8.

Article 40 The participant shall be responsible for economic losses suffered by the SD&C due to the participant's breach of agreement. The losses that fail to be compensated by the participant shall be reimbursed in accordance with the "Securities Law", "Measures for the Administration of Securities Registration and Clearing", "Administrative Measure on Securities Clearance Risk Funds" and the relevant regulations of the SD&C. The SD&C has the right to continue claiming losses to the participant after proceedings are completed in accordance with the aforementioned regulations.

Chapter 7 Disciplinary Proceedings

Article 41 In the event that a participant violates the Rules, the SD&C shall order it to carry out rectifications within a specified period of time, and shall impose one or several of the following disciplinary measures upon the participant based on the level of gravity:

- (1) announce the violation case to all participants;
- (2) denounce the participant concerned via designated media;
- (3) adjust the qualification type of the participant;
- (4) suspend or terminate the participant's participation in part or in full in the clearing and settlement services of the SD&C;
- (5) annul its qualifications as a participant.

In case the participant commits serious breaches against the agreement on securities and capital settlement or other behaviors that have a serious impact upon the security of the clearing system, the SD&C may suggest the CSRC suspend or revoke its relevant business license based on applicable regulations and impose penalties on the personnel directly responsible for the issues by means of any or all of the following: warning, fines, and revocation of work qualifications or practitioner qualifications for securities services.

Article 42 In the event that the clearing representative and/or the assistants to the representative of a participant commit violations against the Rules, the SD&C may announce the violation case within a certain range as a penalty based on the level of gravity, or require the participant to replace the clearing representative and/or the representative assistants concerned.

Article 43 The SD&C shall inform the participant of the disciplinary proceedings to be imposed and the corresponding reasons before imposing the penalties in accordance with Article 41 of the Rules. The participant concerned may submit its defense statement to the SD&C within 10 working days upon receiving the “Advance Notice on the Disciplinary Proceedings to Be Imposed on the Participant” issued by the SD&C and may report it to the CSRC at the same time.

Article 44 The SD&C shall review the disciplinary proceedings to be imposed on the participant and the reasons thereof to verify the compliance and appropriateness of the decision upon receiving the defense statement in writing made by the participant. If the participant’s defense statement is proved to be reasonable and authentic, the SD&C shall cancel or modify the disciplinary proceedings to be imposed on the participant.

Article 45 If the SD&C does not receive the participant’s defense statement in writing within the period of time specified in Article 43 of the Rules, or determines that the disciplinary proceedings shall be enforced as planned, the SD&C shall issue the “Notice on the Disciplinary Proceedings to Be Imposed on the Participant” to the participant concerned, enforce the disciplinary proceedings, and report it to the CSRC.

Chapter 8 Supplementary Articles

Article 46 Settlement Reserved fund, mutual guarantee fund, other settlement collaterals, the payment standard for service charges, and the specifications of relevant technical systems, which are mentioned in the Rules, shall be clarified in other business regulations.

Article 47 The participants specified in the Rules can participate in the clearing and settlement of RMB common shares (A-share), bonds, and closed-end securities investment funds.

Participants that participate in the clearing and settlement of RMB special shares (B-share), exchange traded funds (ETF), warrants and other innovative securities shall meet relevant requirements of the SD&C.

Article 48 For commercial banks which have acquired the custodian qualifications for securities investment fund, corporate annuity, and the domestic assets of qualified foreign institutional investors (QFIIs), the SD&C shall conduct management in accordance with relevant articles in the Rules.

Article 49 For securities companies that are put under custody or have been cancelled or closed, transitional arrangements for relevant clearing and settlement services shall be conducted in accordance with the additional regulations (if any) provided by the CSRC.

Article 50 Type-B participants entrusted by securities companies under high risks to conduct clearing and settlement services shall be subject to the articles specified in Chapter 4 (“Commissioned Clearing”) of the Rules in accordance with the requirements of the CSRC.

Article 51 The right of interpretation of the Rules vests in the SD&C.

Article 52 The Rules shall take effect as of May 7, 2007.