

# **Administrative Measures of Settlement Reserve Funds by China Securities Depository and Clearing Corporation Limited**

**Article 1:** In order to prevent and remove the securities transactions' clearing and settlement risks, guarantee normal operation of the settlement system and maintain the lawful rights and interests of all the parties involved in the settlement business, China Securities Depository and Clearing Corporation Limited (hereinafter referred to as CSDC) formulates the Measures in accordance with the related laws, regulations and rules, and relevant business regulations of CSDC.

**Article 2:** The Measures shall apply to all parties involved in the netting settlement businesses of the securities, securities investment funds and other securities-related financial products listed on stock exchanges (except for the transaction settlement business of B Shares), unless other special provisions are set forth by China Securities Regulatory Commission (hereinafter referred to as CSRC).

**Article 3:** The settlement reserve funds refer to the funds that clearing participants, in compliance with the provisions of the Measures, deposit in their money settlement accounts for the purpose of securities' trading and non-trading settlements.

**Article 4:** Clearing participants shall open money settlement accounts with CSDC for keeping their settlement reserve funds. The money settlement accounts are the settlement reserve fund accounts.

According to the relevant regulations of CSRC, clearing participants engaging in securities transaction settlement for both clients and themselves shall open separate money settlement accounts for clients and themselves respectively..

**Article 5:** Clearing participants shall provide the following materials when applying for opening the money settlement accounts:

(1) qualification certificate of the participant;

- (2) power of attorney authorized by the legal representative;
- (3) application form for opening the money settlement account;
- (4) signature card of the money settlement account;
- (5) letter of authorization for the designated receiving account;
- (6) copy of identity documents of the person in charge;
- (7) other materials as required by CSDC.

**Article 6:** Clearing participants shall reserve with CSDC the designated receiving accounts in order to receive the funds transferred from their money settlement accounts. The designated receiving accounts shall be the special deposit accounts of customers' settlement funds and the participants' own funds, which are filed with the CSRC. The accounts shall have the same identity names as the clearing participants unless it is not specified or otherwise specified by CSRC.

**Article 7:** CSDC shall open the special deposit accounts of settlement reserve funds at the settlement banks and disclose them on its website to the participants. The accounts shall be the special deposit accounts filed with CSRC.

**Article 8:** As the clearing participants deposit funds in their money settlement accounts, they shall transfer funds into the special deposit accounts of settlement reserve funds disclosed by CSDC, and describe the account numbers and properties of the funds (proprietary or customer funds). Having confirmed the receipt of the money, CSDC will enter the corresponding sums into the participants' money settlement accounts respectively.

**Article 9:** According to the risk level of each clearing participant, CSDC determines on a monthly basis the minimal ratio of settlement reserve funds for each clearing participant. In addition, CSDC shall, according to the daily average securities purchase and the minimal ratio of settlement reserve funds of the clearing participant for the previous month, determine the minimal quota of settlement reserve funds for each participant. The calculation formula is as follows:

Minimal quota of settlement reserve funds = money sums of the purchased securities for the previous month / trading days in the previous month ×

minimal ratio of settlement reserve funds. The minimal ratio of settlement reserve funds is specified at 20% on a provisional basis.

The money sums of purchased securities for the previous month as referred to in the preceding paragraph include the money sums of purchased A shares, funds, ETF, LOF, warranties, bonds and the new types of securities that adopt netting settlement listed and traded at stock exchanges' secondary market, and the initial financing sums and final repurchasing sums in bond repos, whereas the final repurchasing sums of buyout repos are excluded.

The minimum settlement reserve funds stipulated in the above paragraph shall be collected in the following proportions: 10% for bonds (including bond transaction and repurchase transaction), and 20% for other types of securities.

CSDC has the right to adjust the calculation range of the securities purchase amount for the previous month and the minimum settlement reserve fund collection ratio of the corresponding types of securities according to market conditions, and to publicize to the market through notice.

**Article 10:** Within the first three business days of each month, CSDC shall recalculate and readjust the minimal quota of settlement reserve funds for each participant.

**Article 11:** The provisions under the Measures on the minimal quota of settlement reserve funds shall apply to the new participants from the next month since their entry.

**Article 12:** Once a clearing participants is deemed as high-risk participants, CSDC has the right to raise its minimal quotas of settlement reserve funds at any time. While a participants is deemed by CSDC as low-risk participants, CSDC may lower its minimal quotas of settlement reserve funds.

The regulations of raising or lowering the minimal quota of settlement reserve funds shall be formulated by CSDC independently.

**Article 13:** Considering the market risks or the actual demands, CSDC has the right to re-define the calculation method and adjustment time for the minimal quota of settlement reserve funds.

**Article 14:** In case of some funds in the money settlement accounts being frozen for relevant reasons, the clearing participants shall guarantee that other funds in the accounts are adequate to settle normally and meet the

requirements for the minimal quotas of settlement reserve funds.

**Article 15:** The day-end balances of the clearing participants' money settlement accounts for each day (including holidays), excluding the frozen funds, shall be no less than the minimal quotas of settlement reserve funds. The minimal settlement reserve funds can be used for emergency settlement. However, in case the day-end balances with the frozen funds excluded are less than the minimal quotas, the participants shall complement necessary funds the following business day.

Once the day-end balances of money settlement accounts with the frozen funds excluded are less than the minimal quotas of settlement reserve funds, CSDC shall file them as unfavorable records of the clearing participants and consider them as one of the risk actors when determining the participants' risk levels.

**Article 16:** Having guaranteed the intraday money settlements, the clearing participants may, if the balances of money settlement accounts with the frozen funds excluded exceed the minimal quotas of settlement reserve funds, apply for transferring the excess funds into their designated receiving accounts.

**Article 17:** Once the balances of money settlement accounts are inadequate to settle on the settlement day, the clearing participants shall complement necessary funds into their money settlement accounts. Otherwise, the clearing participants fail to settle. The regulations on failure-to-settle will be formulated independently.

**Article 18:** The settlement reserve funds of clearing participants (except for the frozen funds) shall be used in the following order for the money settlements of the following items.

- (1) the mutual guarantee fund;
- (2) the netted money settlement for the trades at the secondary market;
- (3) the repurchase settlement under the standard bond system;
- (4) the money settlement for the trades at the primary market.

**Article 19:** CSDC shall calculate and pay the interests on settlement reserve funds according to the rates agreed with the settlement bank.

The interests on settlement reserve funds shall be paid on the 20<sup>th</sup> day of the third month for each quarter, and the interests shall be entered into the money settlement accounts of each clearing participant and accumulated into the principals.

In case the settlement bank adjusts deposit interest rates, CSDC shall calculate all the interests according to the interest rate on the interest settlement day, and shall not do separate calculations.

**Article 20:** CSDC provides the participants with the balance enquiry service of money settlement accounts, and the participants are advised to check the balances of the money settlement accounts.

**Article 21:** The participants shall submit the related materials to CSDC in a timely manner and go through the modification procedures once any change occurs to the account-opening materials for the money settlement accounts, the designated receiving accounts, or the consigning institutions for custodian banks.

**Article 22:** As the participants terminate their participants' qualifications, they shall go through the cancellation procedures of the money settlement accounts with CSDC.

For the money settlement accounts that haven't received or paid money for more than one year, if the participants have no debtor-creditor relationships with CSDC, CSDC shall notify the participants to embark on the cancellation procedures within 30 days. No application or overdue application shall be deemed as the participants' voluntary cancellations of the accounts. The residual funds shall be transferred to a special account of CSDC for administration.

**Article 23:** The Measures are arranged for implementation by CSDC.

**Article 24:** The Measures are subject to amendment by CSDC.

**Article 25:** The Measures are subject to interpretation by CSDC.

**Article 26:** The Measures come into force as of the date of promulgation. Any inconsistent regulations at Shanghai and Shenzhen stock markets shall be nullified.