



**China Securities Depository and Clearing Corporation
Limited**

**Disclosure Report
Under the Principles for Financial Market
Infrastructures**

June 2023

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I. Executive Summary

China Securities Depository and Clearing Corporation Limited (“CSDC” or the “Company”) is the central securities registration and settlement organization for Chinese stock exchanges. It was founded on March 30, 2001 with the approval of the State Council and the China Securities Regulatory Commission (CSRC) in accordance with the *Securities Law* and the *Company Law*. Under the *Securities Law*, the supervisory authority for CSDC is CSRC. Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE) are shareholders of CSDC, each holding 50% equities.

CSDC is the central securities registrar, central securities depository (CSD), securities settlement system (SSS) and central counterparty (CCP) of the Chinese exchange market. It is mainly responsible for providing registration, depository, clearing, settlement and other relevant services for all securities and derivatives traded or listed on SSE, SZSE, Beijing Stock Exchange (BSE) and National Equities Exchange and Quotations (NEEQ).

The legal basis for the operation of CSDC includes laws, judicial interpretations and documents, administrative regulations, ministerial rules and CSDC’s business rules and agreements. The *Securities Law* is the paramount law for the securities registration and settlement business in China. Other laws governing the securities registration and settlement business include the *Futures and Derivatives Law*, the *Civil Code*, and the *Company Law*. judicial interpretations and documents are special institutional arrangements made by the Supreme People’s Court for the inquiry, freeze and deduction of securities and securities transaction settlement funds within the designated jurisdiction of CSDC. Administrative regulations and ministerial rules applicable to the activities of CSDC mainly include the *Regulations on the Supervision and Administration of Securities Companies* and the *Measures for the Administration of Securities Registration and Settlement*. In addition, CSDC has in place a cohesive, clear and effective system of business rules for securities account management, securities registration, securities custody and depository services, securities settlement, and management of settlement participants. The above laws and regulations have all been well implemented and observed, providing a high degree of legal certainty for business activities of CSDC.

CSDC has in place a sound risk management framework led by the Board of Directors, with specific duties assigned to each management level so as to effectively identify, monitor and manage risks faced in various activities, including legal risk, credit risk, liquidity risk, operational risk, general business risk and custody and investment risks.

This Report represents a disclosure conducted by CSDC based on the *Principles for Financial Market Infrastructures* issued by the Committee on Payments and Settlement Systems (CPSS) of the Bank for International Settlements and the International Organization of Securities Commissions (IOSCO) in 2012. This Report employs methods set forth in the *Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology*. The reference date of the

Report is December 31, 2022.

II. Summary of Changes Since Last Disclosure

Under the disclosure framework of *Principles for Financial Market Infrastructures*, the main changes since the last update of disclosure are:

- Modification of settlement procedures and risk management in line with Delivery versus Payment (DVP) settlement model reform; and
- Updates on the securities trading venues and products that CSDC's registration and clearing services cover, given the establishment of Beijing Stock Exchange (BSE) and the introduction of new products such as Shenzhen Stock Exchange stock options, depository receipts (DRs) and real estate investment trusts (REITs); and
- Modification of the contents adapted to the newly revised *Securities Law*, *the Futures and Derivatives Law* and the newly revised *Measures for the Administration of Securities Registration and Settlement*. The newly revised *Securities Law* was approved and went into effect on March 1, 2020. The *Futures and Derivatives Law* went into effect on August 1, 2022. The *Measures for the Administration of Securities Registration and Settlement* was revised and went into effect on June 20, 2022. CSDC released a number of new rules to fit in with the needs of business development. The key principles and basic regulations on securities registration and settlement in China are further strengthened; and
- Updates on settlement risk management and monitoring, pledged bonds management for pledge-style repo, disposal procedures for settlement participant defaults, business continuity and contingency plans management in line with the latest practice; and
- Updates on CSDC's organizational structure and business statistics.

III. General Background of CSDC

i. An overview of CSDC and its services

CSDC is established to create a central securities registration and settlement system that meets regulatory, market-based and international requirements. Characterized by openness and scalability, CSDC aims to prevent market risks and boost efficiency so as to better serve the future development of China's securities market.

CSDC is a central securities registrar, CSD, SSS and CCP of the Chinese exchange market. It is mainly responsible for providing registration, depository, clearing, settlement and other relevant services for all securities and derivatives traded or listed on SSE, SZSE, BSE and NEEQ. Its services cover the following products: A-shares, B-shares, DRs, treasury bonds, corporate bonds, enterprise bonds, exchange traded funds (ETFs), listed open-ended funds (LOFs), REITs, asset-backed securities, stock options, etc. Relevant business data are listed below:

Table 1: Securities Depository, Clearing and Settlement Business Data of CSDC in 2022

	2021	2022
Total number of investors, end of year (Unit:10,000)	19,740.85	21,213.62
Number of new investors (Unit:10,000)	1,963.36	1,472.77
Number of securities in deposit	30,395	32,725
Par value of securities in deposit (RMB100Mil.)	265,952.35	280,392.73
Market value of securities in deposit (RMB100Mil.)	1,113,963.55	993,060.19
Market value of non-restricted negotiable shares (RMB100Mil.)	979,680.03	892,063.19
Number of transfers (Unit:10,000)	3,874,769.61	4,618,076.53
Transfer value (RMB100Mil.)	18,385,059.28	19,716,977.87
Gross settlement value (RMB100Mil.)	19,856,596.15	21,511,089.66
Net settlement value (RMB100Mil.)	574,128.07	583,389.29

Notes: (1) Total number of investors, end of year means the number of UAP (Unified Account Platform) accounts for A-shares, B-shares accounts, neither closed nor dormant, held by investors. (2) Number of new investors = total number of investors by the end of this year - total number of investors by the end of last year. (3) The number, par value and market value of securities in deposit include securities already registered with CSDC for issuance but not yet traded on the exchange and securities already delisted from the exchange but not yet registered as delisted. The par value and market value of securities in deposit exclude non-negotiable shares of listed companies with B-shares only. (4) Market value of non-restricted negotiable shares is calculated at the closing price as the end of the reporting period. (5) Number of transfers and transfer value consist of centralized transactional transfer and decentralized transactional transfer of all registered securities in both directions; the transfer value of bonds is on a dirty price basis. (6) Market value of securities in deposit, transfer

value, gross settlement value, and net settlement value of B shares are converted into RMB at the central parity rate on the last Friday of December published by the State Administration Foreign Exchange (SAFE). (7) Data in this table are aggregate figures for SSE and SZSE. (8) Securities include A-shares, B-shares, treasury bonds, corporate bonds, enterprise bonds, ETFs, LOFs, REITs, asset-backed securities, convertible bonds, detachable convertible bonds, privately placed bonds of small and medium-sized enterprises, closed-end funds, money market funds of real time subscription and redemption and warrants, excluding open-ended funds and repos.

ii. Organizational structure

According to the *Articles of Association* of CSDC, the General Meeting of Shareholders is the supreme authority of CSDC. Under the General Meeting of Shareholders are the Board of Directors and the Board of Supervisors. Risk Committee, Strategy Committee and IT Committee operate under the Board of Directors. The management headed by General Manager is directly responsible for the day-to-day operation of CSDC, including a Risk Management Committee responsible for deliberating on the Company's risk management policies and procedures and other major issues.

Headquartered in Beijing, CSDC has 17 functional departments. It has three branches in Shanghai, Shenzhen and Beijing to provide registration, depository, clearing and settlement services for all securities and derivatives traded or listed on SSE, SZSE, BSE and NEEQ, respectively. In addition, CSDC Hong Kong Subsidiary is the wholly-owned subsidiary of CSDC.

iii. Legal and regulatory framework

The legal framework under which CSDC operates includes laws, judicial interpretations and documents, administrative regulations, ministerial rules and CSDC's business acts and agreements. Specifically, laws, regulations and ministerial rules include the *Securities Law*, the *Futures and Derivatives Law*, the *Civil Code*, the *Company Law*, the *Securities Investment Funds Law*, the *Enterprise Bankruptcy Law*, the *Regulations on the Supervision and Administration of Securities Companies*, the *Regulations on Risk Disposal of Securities Companies*, and the *Measures for the Administration of Securities Registration and Settlement*. Business rules include the *Securities Registration Rules*, the *Securities Account Management Rules*, the *Settlement Rules*, the *Rules for Management of Settlement Participants*, the *Implementation Rules for Securities Pledge Registration*, the *Measures for Management of Settlement Reserves* and the *Measures for Management of Securities Settlement Guarantee Fund*. Agreements include the *Securities Registration and Service Agreement*, the *Agency Securities Account Business Agreement*, the *Securities Fund Settlement Agreement for Class A Settlement Participants* and the *Securities Funds Settlement Agreement for Class B Settlement Participants*. CSDC strictly follows the above-mentioned legal framework in carrying out all business activities and makes the relevant regulatory information fully understandable by market participants by issuing explanatory notes regarding formulation or revision of

rules and by organizing training, thereby continuously strengthening the enforceability of rules.

Article 169 of the *Securities Law* prescribes that the business activities of CSDC are subject to the regulation and supervision by CSRC. In accordance with the *Securities Law*, CSRC has formulated the *Measures for the Administration of Securities Registration and Settlement*, which further details the rules for securities registration and settlement.

iv. System design and business operation

CSDC performs the following functions in accordance with relevant provisions of the *Securities Law* and the *Measures for the Administration of Securities Registration and Settlement*: (a) set-up and management of securities accounts and settlement accounts; (b) deposit and transfer of securities; (c) registration of securities holders and their rights and interests; (d) clearing and settlement of securities and funds and related management; (e) distribution of rights and interests in securities as entrusted by the issuer; (f) provision of inquiry, information, consultation and training services related to securities registration and settlement in accordance with the law; and (g) acting as depository of DR in accordance with the law; (h) other businesses approved by CSRC.

CSDC carries out the above-mentioned businesses in accordance with the law and has in place a dematerialized book-entry system for securities registration and settlement. All securities registration and settlement services of CSDC are provided in a dematerialized environment. A complete securities trading cycle consists of four phases: account opening, trading, registration and depository, and settlement.

1. Account opening

Under China's stock exchange market dominated by the direct holding system, CSDC has set up a unified securities account management system where CSDC opens securities accounts for each investor in his/her real name in accordance with the law and provides such services as account information change, account information inquiry and closure of securities accounts. In regard to specific service channels, for ordinary investors (individuals and general institutions), CSDC authorizes an account-opening agency to provide services on its behalf. For securities companies, insurance companies, commercial banks, securities investment funds and other special institutions as well as product investors, CSDC provides services directly.

2. Securities trading

After an account is opened, the investor can proceed to the next step, i.e., securities trading. The trading channels and policies for ordinary investors are different from those for special institutional and product investors.

Ordinary investors can submit their trading orders through securities companies to stock exchanges (including SSE, SZSE, BSE and NEEQ). Ordinary investors need to designate a third-party custody bank and deposit the trade margin in the customer's trade margin account opened by the securities company with the bank. The third-party

custody bank and the securities company respectively record the details of investors' funds. The third-party custody bank plays a supervisory role. When an ordinary investor submits securities buying orders, the securities company will check the balance of the investor's trade margin and freeze the money the investor uses to buy securities. Ordinary investors who submit securities selling orders must hold sufficient securities in their securities accounts. The securities company and the stock trading venues separately check in the trading system to see if there are sufficient securities in investors' securities accounts.

Special institutional and product investors related to proprietary investment of securities companies, asset management of securities companies, asset management of insurance companies and securities investment funds can submit their trading orders to the securities trading venue through their proprietary trading units or trading units leased from a securities company. For these investors, CSDC imposes a limit on their total amount of net buys in a day, which is subject to front-end control by the exchange. In this way, CSDC effectively prevents trade abnormality and settlement risk caused by technical failures or operational errors of the above investors. For the trading orders within the above-mentioned investors' limits and for special institutional investors (such as HKSCC Nominees Limited) that are not included in the scope of control, the front-end fund monitoring of trade declarations mainly depends on investors' internal control policies.

3. Registration and depository

Under the *Securities Registration Rules*, CSDC is entrusted by the securities issuer to provide securities registration and related services. CSDC has set up an electronic securities registration record and book-entry system to register securities holders according to the records of investors' securities accounts.

Before listing on the stock exchange or any other venues for trading, CSDC handles the initial registration of securities holders upon the application of the securities issuer. The registration of changes in securities includes registration of securities transfer, judicial freezing of securities and pledge of securities. Transfer registration is divided between transfer registration for centralized transactions on the securities trading venue and transfer registration for decentralized transactions. If securities are traded centrally on the securities trading venue, CSDC conducts transfer registration for centralized transactions according to the settlement results of securities transactions. In regard to transfer registration for non-centralized transactions, judicial freezing of securities and pledge of securities, CSDC registers changes in accordance with relevant business rules. For delisted securities, CSDC provides withdrawal registration for delisted issuers. In addition, CSDC also provides issuers and/or investors with securities holder register, rights and interests distribution, inquiry, online voting and other services related to securities registration.

4. Settlement of securities

CSDC has in place a tiered settlement system for securities and funds. Based on various types of securities and business, CSDC can act as a CCP to provide

multilateral net settlement services and guarantee settlement for the non-defaulting party in the settlement process. It can also not act as a CCP and does not provide guaranteed settlement. According to different types of business, CSDC sets up different types of settlement accounts for settlement participants.

When providing multilateral net settlement services as a CCP, CSDC is responsible for the centralized settlement of securities and funds with settlement participants. In cases where it does not provide settlement services as a CCP, CSDC is entrusted by settlement participants with the settlement of securities and funds between them. The settlement participants are responsible for settlement of securities and funds with their clients, among which the securities settlement part shall be entrusted to CSDC.

(1) Guaranteed multilateral net settlement

As a CCP, CSDC guarantees multilateral net settlement for securities transactions that the investors have reached and locked-in on the securities trading venue. The settlement process can be further divided into clearing and settlement.

1.1 Clearing

CSDC receives trade data from the securities trading venues at the end of the trading day (T day), and calculates the numbers of securities receivable and payable and the net cash amount receivable or payable by each settlement participant on T day using the multilateral net settlement method.

In order to prevent the credit risks associated with settlement participants, CSDC has set up a series of institutional arrangements, including the minimum settlement reserve, settlement guarantee fund, pledged bonds for pledge-style repo, pre-issued treasury bond margins, stock option margin and guarantee fund, settlement risk fund and general risk fund. The minimum settlement reserve, for example, refers to the minimum amount of money a settlement participant shall, as required by CSDC in accordance with *the Measures for Management of Settlement Reserves*, deposit in advance with CSDC at a certain percentage of the average daily amount of purchase in the previous month, with the aim of reducing the settlement default risk of settlement participants. CSDC transfers funds via its book entry system. CSDC establishes eligibility standards to accept qualified commercial banks as settlement banks. CSDC opens accounts of settlement reserve at settlement banks to deposit the settlement reserve submitted by the participants. Settlement banks transfer funds according to CSDC's instructions.

1.2 Settlement stage

In terms of the brokerage business and securities margin trading, principal risk is well-managed with the same effect as Delivery versus Payment (DVP) thanks to a series of external risk control arrangements with Chinese characteristics, including third-party custody system of settlement funds, full margin requirement and monitoring of customer transaction settlement funds by China Securities Investor Protection Fund Corporation Limited. Under extremely exceptional circumstances, if a securities company fails to make payment to CSDC at 16:00 on T+1 due to failures

of the commercial bank's payment system, CSDC will take actions to prevent principal risks, e.g. by deducting the proprietary settlement reserve and proprietary securities holdings of the settlement participant.

For the proprietary trading and custody services where the third-party custody system and full margin requirement are not introduced, CSDC establishes a link between the securities leg and the cash leg by way of tagging shares with "sellable settlement block", specifies default management arrangement and applies multi-batch DVP settlement model. When the balance is verified to be insufficient by the end of T Day, CSDC transfers the receivable shares while tagging these shares with "sellable settlement block". Whenever the fund balance is verified to be sufficient on T+1, the tag will be removed and the settlement is completed. If the balance is still verified to be insufficient at 16:00 on T+1 day, there follows the default disposal. The settlement arrangements as narrated above are the results of DVP settlement model reform that CSDC successfully implemented in 2022. Approved by CSRC, the reform entered the simulation period on June 20th, 2022, and was officially implemented on December 26th, 2022, marking the beginning of the transition period.

(2) Non-guaranteed settlement

2.1 Gross obligation-by-obligation settlement

For products such as private placement bonds, asset-backed securities, and corporate bonds which are not eligible for net settlement, CSDC can provide real time gross obligation-by-obligation settlement or daily gross obligation-by-obligation settlement based on the agreed trade instructions. CSDC shall check the sufficiency of the securities and funds for the settlement. The settlement is successful if both are sufficient; if one of them is insufficient, the settlement fails.

2.2 Bilateral net settlement

At present, bilateral net settlement is only applied in pledge-style quotation repo transactions, where a securities company pledges eligible securities (mainly bonds) to its customers in the form of quotations and return to its customers principal and interest at an appointed date. CSDC clears the transactions on a net basis and provides net funds (securities) payable and net funds (securities) receivable for the two parties. In this case, CSDC does not act as a CCP and thus does not provide guaranteed settlement.

IV. Descriptive Disclosure under Each Principle

Principle 1: Legal basis

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

Summary

Currently CSDC carries out most of its businesses within the territory of the People's Republic of China. The legal framework for the operation of CSDC includes laws, judicial interpretations and documents, administrative regulations, ministerial rules and business acts, providing a comprehensive, clear, transparent and complete legal basis for all activities of CSDC.

Relevant business rules, procedures and contracts formulated by CSDC are clear, understandable, consistent with laws and regulations and well implemented and observed. CSDC's business rules, are binding upon and enforceable against all parties participating in the registration and settlement business.

Key consideration 1

The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions.

CSDC carries out major businesses mainly within the jurisdiction of the People's Republic of China. CSDC is the central securities registrar, CSD, SSS and CCP for stock exchanges in mainland China, mainly responsible for providing registration, depository, clearing, settlement and other relevant services for all securities and derivatives traded or listed on SSE, SZSE, BSE and NEEQ. With the launch of B-to-H Conversion, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, H-Share Full Circulation and other cross-border linkage programs, CSDC has been extending its activities to more jurisdictions.

China's legal framework for securities registration and settlement has provided a comprehensive, clear, transparent and complete legal basis that includes laws, judicial interpretations and documents, administrative regulations, ministerial rules and business rules. Among them, the *Securities Law* is the paramount law in the securities registration and settlement field in China. The law prescribes a nationwide centralized approach to securities registration and settlement and provides a high degree of legal certainty for several business activities of CSDC. In accordance with the *Securities Law*, CSRC has formulated the *Measures for the Administration of Securities Registration and Settlement*, which further details the rules related to securities registration and settlement prescribed in the *Securities Law*. For example:

- Centralized securities registration and settlement (Article 148 of the *Securities Law* and Articles 4 of the *Measures for*

	<p><i>the Administration of Securities Registration and Settlement</i>);</p> <ul style="list-style-type: none"> ● CCP and Net settlement (Article 158 of the <i>Securities Law</i> and Articles 48 of the <i>Measures for the Administration of Securities Registration and Settlement</i>); ● Protection of customer assets (Articles 128, 131 and 159 of the <i>Securities Law</i> and Chapter V of the <i>Regulations on the Supervision and Administration of Securities Companies</i>); ● DVP mechanism (Article 158 of the <i>Securities Law</i> and Articles 48, 52, 55 of the <i>Measures for the Administration of Securities Registration and Settlement</i>); ● Settlement finality (Articles 117, 158 and 159 of the <i>Securities Law</i> and Articles 52 and 81 of the <i>Measures for the Administration of Securities Registration and Settlement</i>); ● Prioritization of settlement assets in performing the settlement obligation (Articles 158 and 159 of the <i>Securities Law</i> and Articles 53 and 63 of the <i>Measures for the Administration of Securities Registration and Settlement</i>); ● Dematerialization (Articles 39 and 151 of the <i>Securities Law</i> and Articles 2, 18, 28 of the <i>Measures for the Administration of Securities Registration and Settlement</i>).
<p>Key consideration 2 An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.</p>	<p>In China’s legal framework for securities registration and settlement, laws and ministerial rules only provide general principles in the practice. By contrast, CSDC’s business rules are standard rules for each specific securities trading instrument, representing an important basis for explaining each specific securities trading instrument and the legal relationship between the parties involved. To date, CSDC has issued more than 300 business rules. Under the <i>Securities Law</i> and the <i>Measures for the Administration of Securities Registration and Settlement</i>, CSDC reports its business rules to CSRC for approval or record purposes to ensure its business rules, procedures and agreements are consistent with relevant laws and regulations. In addition, to establish and improve its legal basis and ensure its business operation conform to law and regulations, CSDC has also formulated the <i>Measures for the Formulation and Management of Business Rules of CSDC</i>, which clearly specifies the types, effectiveness of business rules, review criteria, approval procedure and the subsequent interpretation, revision and repeal procedures and sets forth comprehensive normative requirements in drafting business rules. In practice, CSDC strictly abides by all procedural and substantive requirements set forth in the <i>Measures for the Formulation and</i></p>

	<p><i>Management of Business Rules of CSDC</i> in formulating business rules, as well as monitors the formulation and revision of relevant laws and regulations in its business fields to ensure that its business rules are scientific, lawful, clear and understandable.</p>
<p>Key consideration 3 An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.</p>	<p>All effective laws, judicial interpretations and documents, administrative regulations and ministerial rules related to CSDC's businesses are available both at websites of the Company and relevant authorities. Business rules applicable to the business of CSDC are available on its website (www.chinaclear.cn). CSDC also sends information on relevant business rules to participants through remote platforms. CSDC holds training sessions targeted at general participants and agencies and promotes new businesses and new rules through lectures, symposiums, online video clips, so as to answer queries and help participants gain a better understanding of them.</p> <p>When drafting, reorganizing and revising business rules, CSDC values and accepts the opinions and suggestions from competent authorities, participants and clients, and is committed to explaining the legal basis of CSDC's business activities to all parties in a clear and understandable manner.</p> <p>In addition, CSDC keeps improving the accuracy and effectiveness of business rules through regular overhauls to ensure that the business rules available to competent authorities, participants and clients of relevant participants are clear and consistent with business practices.</p>
<p>Key consideration 4 An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.</p>	<p>Article 149 of the <i>Securities Law</i> prescribes that participants in the securities registration and settlement business shall comply with the rules and regulations formulated by the securities registration and settlement organization. The business rules, procedures and contracts of CSDC, which are the supplement to relevant laws, regulations and ministerial rules, are binding upon and enforceable against all parties involved. CSDC requires its participants to strictly abide by its business rules, procedures and contracts. Articles 4 of the <i>Measures for the Administration of Securities Registration and Settlement</i> prescribes that the self-regulatory function of CSDC also assures that its relevant rules, procedures and contracts shall be enforceable. In addition, before launching an innovative business, CSDC will invite experts and scholars (including judges) for panel discussions and conduct analysis and reasoning of legal issues involved or give independent legal opinions. Therefore, as is shown by its history of practices, CSDC's business rules, procedures and contracts have always been well enforced.</p> <p>The actions taken by CSDC under such rules and procedures are backed</p>

	<p>by laws. The securities and funds collected and deposited in the clearing and settlement accounts in accordance with the business rules and regulations shall not be frozen, deducted or transferred by relevant authorities.</p>
<p>Key consideration 5 An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.</p>	<p>With the introduction of B-to-H Conversion, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, H-Share Full Circulation and other cross-border linkage programs, CSDC has been extending its activities to more jurisdictions. When carrying out cross-border business with the approval of CSRC, CSDC carefully identifies the policy differences between jurisdictions, selects appropriate principles of application of law, fully communicates and coordinates with relevant parties, signs agreements, hires external lawyers to issue independent legal opinions and supports cross-border regulatory cooperation mechanisms. CSDC can submit to CSRC for the resolution through its cross-border regulatory cooperation mechanisms if the major issues can not be addressed at the level of two FMIs in cross-border business, so as to minimize risks caused by potential legal conflicts. In practice, no major conflict of laws has been found in CSDC’s cross-border business.</p> <p>In addition, CSDC has been carefully studying the applicability and the possible conflict of laws arising from cross-border business in the future, especially whether the legal basis provides a high degree of certainty when domestic or overseas investors conduct cross-border business and whether investors are protected adequately. Within the scope of its own duties, CSDC takes the initiative to interpret laws and regulations and enhance the transparency of laws and regulations, in order to make sure that domestic laws and regulations on securities registration and settlement are clear and understandable to overseas investors. Meanwhile, the Company also works to improve relevant arrangements for the protection of domestic investors.</p>

Principle 2: Governance

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

<p>Summary</p>	<p>CSDC is a non-profit corporation subject to the regulation and supervision by CSRC. CSDC has clear governance arrangements that provide clear and direct lines of responsibility and accountability and discloses such arrangements through various channels to the public. To ensure the high priority of safety and efficiency in all business operations, CSDC explicitly sets the objective of supporting financial stability, other relevant public interest considerations and relevant stakeholders.</p> <p>CSDC has clearly specified the roles and responsibilities of its General Meeting of Shareholders, Board of Directors, Board of Supervisors and management team. All members of its management team have the experience and skills necessary to fulfill their duties and obligations. CSDC has a clear risk management framework to enable management of risks and to ensure that CSDC is able to fulfill the responsibility for financial stability and other public interests.</p> <p>All major decisions of CSDC basically reflect opinions of stakeholders and are disclosed to the public through various channels.</p>
<p>Key consideration 1 An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.</p>	<p>Under the <i>Securities Law</i>, CSDC is a non-profit corporation that provides central registration, depository and settlement services for securities transactions. In accordance with the <i>Articles of Association</i> of CSDC, the Company aims to “create a centralized, safe and effective system of securities registration and settlement that meets standardization and internationalization requirements, features openness and scalability, prevents market risks, boosts market efficiency and better meets the future development needs of China’s securities market”. CSDC has already identified safety, efficiency and explicit support for financial stability and other public interest considerations as its basic goal in every aspect of its operation.</p> <p>In its day-to-day operation and major decision making, CSDC gives top priority to safety and efficiency and provides explicit support for financial stability and other relevant public interest considerations. With respect to day-to-day work, CSDC has in place sound management and control mechanisms. Risk events are prevented to the maximum extent possible by continuously enhancing risk control and internal management. The efficiency of work is enhanced by continuously improvement of internal workflows. In making major decisions and supporting market innovation, CSDC conducts thorough pre-assessment and risk test on new businesses and develops contingency plans. With these efforts, CSDC has also established a mechanism enabling ex-ante prevention, ongoing monitoring and timely identification and resolution of problems. Also, CSDC is dedicated to preventing and controlling systemic risk and settlement</p>

	<p>risks, striving to increase market efficiency and reduce market costs while controlling risks and protecting market safety.</p> <p>The General Meeting of Shareholders, the Board of Directors, the Board of Supervisors and the management team of CSDC regularly deliberate, execute, assess and supervise the overall business objectives of CSDC within their respective sphere of duties. CSDC has developed relevant medium-term development plans and periodically assess the plan execution to ensure the above objectives are met, so as to support financial stability and other relevant public interest considerations.</p>
<p>Key consideration 2 An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.</p>	<p>According to the <i>Articles of Association</i>, the governance structure of CSDC is well established. The specific arrangements are as follows: The Company has a General Meeting of Shareholders composed of two shareholders, namely SSE and SZSE. The general meeting of shareholders is held regularly each year to examine and approve the Company’s annual budget, business strategy, major investments, asset disposal and other major or key issues. Under the General Meeting of Shareholders is the Board of Directors, which meets regularly or whenever deemed necessary each year to deliberate on major issues regarding management and business development of the Company. In addition, CSDC has a Board of Supervisors, which is an independent supervisory body in charge of internal supervision and risk management. CSDC has a management team headed by the General Manager in charge of day-to-day management of the Company and collective decision making through such mechanisms as the General Manager’s Work Meeting. All governance bodies work independently, perform their respective duties, support one another and provide checks and balances on one another. CSDC has documented <i>Articles of Association</i> and rules of procedure for decision-making meetings, etc.</p> <p>To formulate any important business rules, CSDC as a self-regulatory organization must go through the procedure of soliciting inputs from market participants and ensure that such inputs are reasonably and adequately absorbed. CSDC has a department designated for internal discipline inspection. In addition, the Company also provides communication channels to give timely feedback on participants’ opinions in the forms of petition letters, complaints and consultation, etc. In addition, CSDC is effectively supervised by regulatory authorities such as CSRC and can fully assume its responsibility in implementing rules.</p> <p>CSDC regularly holds the general meeting of shareholders to present important information to shareholders and conducts research on major</p>

	<p>issues in the Company’s operation. CSDC provides written reports on the Company’s operation and important matters that may have a systematic effect on the market regularly or when needed.</p> <p>CSDC discloses its corporate governance framework and organizational structure through its website, and announces or updates its senior management changes in a timely manner. In addition, CSDC discloses documentation via its website of major business decisions or business rules of the Company in a timely manner. Any participant or investor can log onto the Company’s website for relevant information.</p>
<p>Key consideration 3 The roles and responsibilities of an FMI’s board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.</p>	<p>The <i>Articles of Association</i> of CSDC specifies the duties of its Board of Directors (the “BoD”). The BoD meetings consist of regular meetings and special meetings. Regular meetings are held at least once a year, and special meetings are held when necessary. Resolutions made at the BoD meetings must be approved by the majority of all directors. General Manager of the Company is responsible for organizing the implementation of the BoD resolutions and updating their progress to Chairman of the BoD in a timely manner. Minutes of BoD meetings shall be kept in writing. The BoD shall report to the shareholders and the securities regulatory authorities.</p> <p>As the supervisory authority for CSDC, CSRC represents the public interests. CSRC examines and approves the Company’s appointment of important personnel and supervises the Company’s major issues in accordance with the provisions of the <i>Securities Law</i>, the <i>Measures for the Administration of Securities Registration and Settlement</i> and other relevant laws and regulations.</p> <p>CSDC has established a three-pronged supervision system featuring oversights by regulatory authorities, shareholders and users. The existing corporate governance already forms a regular review mechanism.</p>
<p>Key consideration 4 The board should contain suitable members with the appropriate skills and incentives to fulfill its multiple roles. This typically requires the inclusion of non-executive board member(s).</p>	<p>At present, all BoD members of CSDC are senior experts in the financial field, who have years’ experience in the securities/finance sector and have served as senior executives of relevant companies or departmental heads of regulatory authorities. Their educational and professional backgrounds have been carefully reviewed and kept in their personal files.</p> <p>CSDC grants full authority to its BoD members within the scope specified by its <i>Articles of Association</i> so that they can give full play to their respective skills and abilities. When nominating BoD members, the Company examines their operating philosophy and management ideas to identify those who best meet the Company’s long-term development strategy.</p>

	<p>The non-executive BoD members are the directors appointed by SSE and SZSE, and do not take part in the Company's day-to-day management. Currently the Company has no independent BoD members.</p>
<p>Key consideration 5 The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.</p>	<p>The <i>Rules of Procedure for the General Manager's Work Meeting</i> of CSDC clearly defines the responsibilities of the Company's management. The BoD of the Company meets each year to learn about and assess the performance report of the management. At the end of each year, the securities regulatory authority will send a special assessment team to evaluate the work of the Company's management in the previous year. Under the leadership of the BoD, the management team takes charge of the day-to-day management of the Company.</p> <p>All members of the management of CSDC are senior experts in the financial field, with extensive experience in the securities/finance sector and employment history at securities regulatory authorities or FMIs. They are familiar with the operation of the securities market and proficient in laws and regulations. They have maintained fairness, impartiality and integrity throughout their career.</p> <p>If it is necessary to replace senior management members, the securities regulatory authority will propose such replacement to the BoD of CSDC for discussion, and replace relevant personnel according to the resolution of the BoD.</p>
<p>Key consideration 6 The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have</p>	<p>The BoD of CSDC attaches great importance to the setup and refinement of its risk management framework. CSDC has formulated the <i>Provisional Measures for Comprehensive Management of Business Risks of the Company</i> and other internal policies and procedures to guide its work. CSDC has in place a risk management hierarchy that consists of first-tier business departments, second-tier business management departments, third-tier risk management departments, Risk Management Committee of the Company and Risk Committee of the BoD, with risk management responsibilities assigned to each hierarchical level.</p> <p>The BoD of the Company has a Board Risk Committee composed of directors representing shareholders and chaired by Chairman of the BoD. The Risk Committee is authorized by the BoD to examine and approve specific risk matters, assist the BoD with its risk management duties and supervise the Company's management in executing risk management decisions.</p> <p>The Company's management has a Risk Management Committee, which can report directly to the BoD. The Risk Management Committee is responsible for coordinating the day-to-day risk</p>

<p>sufficient authority, independence, resources, and access to the board.</p>	<p>management of the Company, and reporting its work on general risk matters and major risk matters to the General Manager’s Work Meeting and the Board Risk Committee, respectively.</p> <p>Basically CSDC has a well-established governance framework, and its risk management methods are evaluated for completeness, effectiveness and efficiency on a regular basis and when necessary.</p>
<p>Key consideration 7 The board should ensure that the FMI’s design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.</p>	<p>Before making major decisions, CSDC will conduct thorough market research, organize relevant meetings to learn about the opinions of stakeholders such as securities companies, settlement banks, listed companies, investors and exchanges. After the drafts of documented policies and procedures are issued, the comments of stakeholders will be solicited through public channels such as Internet and written documents, and the draft will be implemented on a trial basis. Full implementation will not begin until the condition is ripe as shown by trial implementation. Any conflict of interests with stakeholders will be addressed through coordination by CSRC.</p> <p>CSDC promptly discloses its main business rules and major business changes to investors through websites, newspaper, journals and other channels. Investors can also voice their opinions through the Company’s hotline.</p>

Principle 3: Framework for the comprehensive management of risks

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

<p>Summary</p>	<p>CSDC as a CSD, SSS and CCP is exposed to legal, credit, liquidity, general business, custody, investment, operational and other risks. CSDC has in place a comprehensive risk management framework. The Company has established a multi-tiered risk management system led by the Board of Directors, with specific duties assigned to each management level. The Company uses internal and external mechanisms to effectively identify, measure, monitor and manage various risks and assesses the risks the Company bears from or poses to other entities on an irregular basis.</p> <p>CSDC has developed a business continuity plan. The Company regularly conducts emergency drills and continuously provides key operations and services to minimize losses and the impact of emergencies in order to maintain financial stability. CSDC will develop a more specific plan for recovery or orderly wind-down at the appropriate time.</p>
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<p>Key consideration 1</p> <p>An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.</p>	<p>CSDC is exposed mainly to legal, credit, liquidity, operational, general business, custody and investment risks. At present, CSDC has a sound risk management framework. The Company has established a multi-tiered risk management system led by the Board of Directors, with duties assigned to each management level. The comprehensive risk management framework specifies three lines of defense and the roles and responsibilities of the headquarter and branches, and sets out the management requirements regarding information collection, risk identification, risk assessment, risk monitoring and risk disposal and reporting. With a well-established risk screening mechanism, CSDC has improved its emergency response arrangements and boosted its risk response capabilities. The comprehensive risk management system works well to effectively prevent various risks.</p> <p>Internally, CSDC maintains and employs an integrated risk monitoring system, which allows for the risk monitoring of settlement participants. It enables calculation and monitoring of liquidity coverage ratio, and real-time dynamic monitoring and analysis of business pressures and trends. CSDC optimizes its IT architecture from time to time to ensure that the IT systems can handle business volume three times the historical peak. The Company can identify any deficiency in the IT system capacity in advance and upgrade its capacity. In addition, the Company has established a stress testing mechanism and set stress scenarios pursuant to PFMI requirements in order to stress-test liquidity, credit and other risks. Externally, CSDC receives strong technical support for preventing credit risk to settlement participants, which is provided by external mechanisms such as front-end monitoring of securities short-selling, third-party custody of customer funds and front-end risk control of trading funds implemented by stock exchanges, securities companies and third-party custody banks. Among them, the front-end monitoring of securities short-selling guards against default risk for securities delivery, and the third-party custody mechanism for customer funds guards against default risk for settlement of customer funds.</p> <p>The effectiveness of risk management policies, procedures and systems has stood the test in practice. CSDC adjusts its risk management policies according to changes in the market environment.</p>
<p>Key consideration 2</p> <p>An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.</p>	<p>CSDC provides and gradually improves incentives and disincentives to settlement participants. As for positive incentives, if a settlement participant receives a good rating for the settlement's overall assessment, CSDC will support its innovative business to the extent permitted by business rules. As an example of a disincentive, when one participant breaches rules (e.g. failure to meet the minimum reserve requirement, insufficient settlement reserve, insufficient collateral and overdraft), CSDC will take measures such as a written warning, disciplinary interview, written reprimand and disqualification from participation, as appropriate.</p>

<p>Key consideration 3</p> <p>An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk management tools to address these risks.</p>	<p>In addition to settlement participants, CSDC has business ties with settlement banks, HKSCC Nominees Limited, China Central Depository and Clearing Corporation Limited (CCDC) and China Financial Futures Exchange (CFFEX) to varying degrees as a result of interdependencies. For settlement banks, CSDC has formulated the <i>Measures for the Administration of Securities Funds Settlement via Settlement Banks</i>, which provides for the eligibility management, business management, routine management, risk management and annual inspection of settlement banks. CSDC has formulated a series of policies setting forth the rights and obligations of settlement participants. CSDC monitors the liquidity and capital adequacy of settlement participants with its registration and settlement system, integrated risk monitoring system and other tools available. When linking with other FMIs, CSDC assesses the material risks it bears from or poses to other FMIs. For details, please see the description under Principle 20.</p>
<p>Key consideration 4</p> <p>An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.</p>	<p>CSDC has developed a comprehensive recovery plan, taking into account the circumstances that may prevent it from providing services (including judicial proceedings, cooperating with law enforcement, violent emergencies, fires, earthquakes, declaration of CSDC bankruptcy by a court, decision by regulatory authorities to dissolve, split up or reorganize CSDC in accordance with the law, or by the General Meeting of Shareholders to dissolve CSDC, etc.).</p> <p>CSDC has a well-established contingency plan for various scenarios and conducts regular emergency drills to ensure business continuity, effectively reduce losses and the impact of emergencies, and maintain safe and stable operation of its securities registration and settlement system. In addition, CSDC has provided the relevant information and suggestions to CSRC for revision of its resolution plan.</p> <p>CSDC sets forth its wind-down scenario and the principles for bankruptcy liquidation upon wind-down in its <i>Articles of Association</i>.</p>

Principle 4: Credit risk

An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain

sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.

<p>Summary</p>	<p>As a CCP, CSDC has established six aspects of policy arrangements for managing settlement participant credit risk, namely screening of settlement participants, DVP settlement mechanism, financial resource arrangements, risk monitoring, default by settlement participants and external supervision mechanisms. CSDC uses historical transaction price data to monitor the funds payable by settlement participants, and uses product-specific tools to manage market credit risks. CSDC employs every financial resource available including the minimum settlement reserve (see description under principle 6 for details), settlement guarantee fund, pre-issued treasury bond margins, collateral bonds and cash collateral in pledge-style repo, stock option margin and guarantee fund, settlement risk fund, general risk fund, and sets applicable collateral haircuts in pledge-style repo to fully cover its current and potential future exposures. With the above policy arrangements and financial resources in place, CSDC is able to cover the largest aggregate credit exposure which could potentially be caused by the default of the largest two settlement participants and their affiliates under extreme but plausible market conditions. As SSS and CSD, CSDC is exposed to no credit risk.</p>
<p>Key consideration 1</p> <p>An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.</p>	<p>CSDC has established a systematic management framework for settlement participant credit risk. The framework is six-pronged: screening of settlement participants, a DVP settlement mechanism, financial resource arrangements, risk monitoring, default by settlement participants and external supervision mechanisms.</p> <p>I. Screening of settlement participants</p> <p>CSDC has formulated the <i>Rules for the Management of Settlement Participants</i>, which encompasses the eligibility requirements, supervision and inspection and risk management of settlement participants (For details, please see the description under Principle 18).</p> <p>II. DVP Settlement Mechanism</p> <p>CSDC implements DVP settlement arrangements (For details, please see the description under Principle 12).</p> <p>III. Financial Resource Arrangements</p> <p>When default happens, CSDC could use the following Financial</p>

	<p>Resources: the cash posted by the default settlement participants as collateral, settlement guarantee fund, settlement risk fund, general risk fund and other funds.</p> <p>If the use of the above financial resources results in deficiency of the settlement guarantee fund or settlement risk fund, CSDC will restore them to the required minimum levels. The general risk fund is gradually replenished according to CSDC’s profitability.</p> <p>In addition, under the Mainland-Hong Kong Stock Connect program, CSDC’s Shanghai and Shenzhen branches collect the marks and margin from domestic settlement participants respectively according to their outstanding settlement positions, pursuant to the risk management requirements of HKSCC Nominees Limited.</p> <p>IV. Risk Monitoring</p> <p>CSDC steadily improves the risk management function of its registration and settlement system and optimizes its integrated risk monitoring system, and monitors the settlement compliance, pledge-style repo and stock option with the system and other tools.</p> <p>V. Disposal of Settlement Participant Default</p> <p>If a settlement participant defaults, CSDC may proceed with default management measures such as confiscating securities or disposing of securities to cover the amount of the default in accordance with the procedures set forth in the <i>Settlement Rules of China Securities Depository and Clearing Corporation Limited</i>. Regarding the handling of to-be-disposed securities in default management, CSDC has formulated the <i>Implementing Rules for Handling To-be-Disposed Securities</i> in order to standardize the disposal mechanism. (For details, please see the description under Principle 13.)</p> <p>VI. External Supervision Mechanisms</p> <p>CSDC has strengthened external supervision mechanisms. In cooperation with SSE and SZSE, it imposes a limit on the total amount of net buys in one day per relevant trading unit declared by trading participants. The exchanges’ front-end monitoring of trading participants prevents trade abnormalities and settlement risks caused by technical failures or the operational errors of trading participants or settlement participants, thereby shifting risk control safeguards toward the front line.</p>
<p>Key consideration 2</p> <p>An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools</p>	<p>CSDC conducts risk assessment in regards to trading products, trading parties (e.g. the financing party in a repo) and settlement participants.</p> <p>In light of the front-end monitoring of securities sales by stock exchanges, CSDC’s credit risk exposure to settlement participants is centered on fund settlement when CSDC acts as a CCP. According to the daily clearing and pre-settlement results, CSDC determines the amount of funds payable by each settlement participant according to the</p>

<p>to control these risks.</p>	<p>transaction price and volume.</p> <p>Currently, CSDC controls the above credit risks mainly through DVP settlement mechanism, financial resource arrangements and external mechanisms. For details about the DVP settlement arrangements, please see the description under Principle 12. In terms of financial resources, CSDC requires settlement participants to provide minimum settlement reserve and settlement guarantee fund (specific requirements vary by product), and maintains a settlement risk fund to cover losses that could potentially be caused by the default of settlement participants. In terms of external mechanisms, customer funds are fully deposited in third-party commercial banks to ensure their safety, and customer transactions are subject to full margin requirements. For institutional investors that have not been included into the third-party custody system of settlement funds, CSDC has established a front-end risk monitoring mechanism for securities transaction funds, which imposes a limit on the total amount of net buys declared in one day. Over-limit buys will be warned and restricted by trading venues, thereby shifting settlement risk control safeguards toward the front line and reducing the impact of credit risks and liquidity risks.</p>
<p>Key consideration 3</p> <p>A payment system or SSS should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see Principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its participants face credit exposures arising from its payment, clearing, and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two</p>	<p>As an SSS, CSDC provides neither credit nor guaranteed settlement to participants during the settlement stage. Therefore, CSDC bears no credit risk from counterparties to settlement.</p>

<p>participants and their affiliates that would create the largest aggregate credit exposure in the system.</p>	
<p>Key consideration 4</p> <p>A CCP should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources (see Principle 5 on collateral and Principle 6 on margin). In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of</p>	<p>As a CCP, CSDC faces settlement risk arising from the open positions of counterparties (settlement participants). The credit risk exposure of settlement participants is mainly covered by financial resources, including minimum settlement reserve, settlement guarantee fund, pre-issued treasury bond margins, collateral bonds and cash collateral in pledge-style repo, stock option margin and guarantee fund, settlement risk fund and general risk fund.</p> <p>The minimum settlement reserve, settlement guarantee fund, stock option margin and guarantee fund, and general risk fund are either directly held or controlled by CSDC, or deposited with banks in the name of CSDC, and can be used by CSDC in accordance with established rules. The settlement risk fund has a minimum payment limit of RMB20 million.</p> <p>At present, CSDC has established a stress testing mechanism to regularly assess the adequacy of its financial resources.</p> <p>CSDC is systemically important only within the jurisdiction of the People’s Republic of China, and is not “involved in activities with a more-complex risk profile.” According to the 2022 annual monitoring results, the financial resources are able to cover the risk exposure resulting from a default by two participants and their affiliates that would generate the largest aggregate obligation to CSDC under extreme but plausible market conditions. CSDC forecasts the scale on a daily basis.</p>

<p>potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. In all cases, a CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains.</p>	
<p>Key consideration 5</p> <p>A CCP should determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. A CCP should have clear procedures to report the results of its stress tests to appropriate decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests should be performed daily using</p>	<p>CSDC calculates on a daily basis the risk exposure resulting from default by settlement participants with most sizable net funds payables, and assesses the adequacy of financial resources regularly. The stress test results are provided to the Company's management for decision-making. CSDC conducts stress tests using standard and predetermined parameters and assumptions. CSDC reviews, summarizes and analyzes stress test results regularly. In the event of violent market fluctuations, CSDC conducts stress tests more frequently. CSDC verifies the effectiveness of the risk management model every year.</p>

<p>standard and predetermined parameters and assumptions. On at least a monthly basis, a CCP should perform a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. A CCP should perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CCP's participants increases significantly. A full validation of a CCP's risk-management model should be performed at least annually.</p>	
<p>Key consideration 6</p> <p>In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible</p>	<p>In conducting stress testing, CSDC will consider whether the Company's financial resources are sufficient to ensure successful settlement in the event of defaults under extreme market conditions, such as the default of two settlement participants with the most sizable net payables. In regards to such testing, CSDC also assesses whether the liquidity resources are sufficient to cover risk exposure during extreme price movements or that caused by price changes during the bond disposal period. Stress scenarios are designed to include market factors such as peak historic price volatilities, price-deciding factors and yield</p>

<p>price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.</p>	<p>curves.</p>
<p>Key consideration 7</p> <p>An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI</p>	<p>According to <i>the Settlement Rules of China Securities Depository and Clearing Corporation Limited</i>, if the defaulting settlement participant fails to replenish funds and securities within the specified period, the securities registration and settlement organization may dispose of the collateral provided by the defaulting settlement participant and securities pledged for repo in the collateral depository, and sell the securities in the designated account for default disposal. If securities or funds cannot be replenished within the prescribed time limit, the securities registration and settlement organization may use the settlement guarantee fund and settlement risk fund to cover the loss.</p> <p>CSRC sets forth the rules and procedures for replenishing exhausted financial resources during a stress event in its <i>Measures for Management of the Securities Settlement Risk Fund</i> and <i>Measures for Management of the Securities Settlement Guarantee Fund</i>.</p>

<p>may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.</p>	
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Principle 5: Collateral

An FMI that requires collateral to manage its or its participants’ credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

<p>Summary</p>	<p>CSDC has formulated clear rules to ensure that routinely accepted collateral is of low risk in terms of credit, liquidity and market, and takes appropriate measures to monitor and ensure the collateral is up-to-standard.</p> <p>For pledge-style repo, CSDC manages acceptance of collateral by setting and adjusting “repo eligibility” to ensure that only bonds with low credit, liquidity, and market risks are accepted as collateral. CSDC determines the applicable valuation level of a bond pledged as collateral by taking into account the latest market price of the bond, external and internal valuation, prudently determining which is the lowest, and setting valuation standards of different haircuts for bonds pursuant to their categories and ratings. In addition, CSDC makes continual improvements to the dynamic adjustment mechanism for the valuation of collateral bonds. At present, as an integral part of CSDC’s registration and settlement system, the collateral bond management system for pledge-style repo spans a comprehensive set of functions and performs effectively.</p> <p>For sellers of covered call options, CSDC blocks the underlying securities of the contract and exempt them from maintenance margin. The blocked securities work as collateral to ensure the execution of the covered call option.</p>
<p>Key consideration 1</p> <p>An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity, and market risks.</p>	<p>CSDC determines the scope of eligible collateral and accepts relevant collateral pursuant to established business rules in order to ensure that the assets it accepts as collateral pose low credit, liquidity, and market risks.</p> <p>For pledge-style repo, CSDC manages collateral acceptance by setting and adjusting “repo eligibility” criteria, under which interest-bearing securities, interest-bearing securities funds, high-rating debentures and debentures with credit protection are accepted as eligible collateral for pledge-style repo. In terms of debentures, CSDC currently accepts publicly issued debentures with an issuer rating of AA or above and an issue rating of AAA, or with an issue rating of AA+ or AA and credit protection from qualified CDS sellers, as collateral for pledge-style repo.</p>

	<p>In November 2019, CSDC launched the cash collateral business for pledge-style repo, allowing settlement participants to use cash as temporary collateral in pledge-style repo .</p> <p>In addition, CSDC continues to improve the dynamic management mechanism for collateral bonds of pledge-style repo. The Company adjusts the haircut applicable to bonds in a timely manner in accordance with the <i>Administrative Measures for Bond Haircuts, Guidelines for Eligibility Criteria of Pledge-style Repo and Valuation of Standard Bond Haircut</i>, taking into account the market implied rating mechanism, internal credit rating mechanism, regulatory linkage mechanism and risk monitoring and screening results. Collateral bonds with serious risks will be disqualified in a timely manner.</p> <p>As for settlement collateral, CSDC accepts securities such as stocks as collateral, including “securities that are publicly traded on stock exchanges with good performance, good liquidity and appropriate circulation size,” as set forth in the second paragraph of Article 3 of the <i>Measures for the Administration of Settlement Collateral</i>.</p>
<p>Key consideration 2</p> <p>An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions.</p>	<p>At present, the valuation of securities collateral mainly involves pledge-style repo.</p> <p>CSDC determines the applicable valuation level of a bond pledged as collateral by taking into account the latest market prices, external third-party valuation accepted in market and internal valuation, prudently determining which is the lowest, and setting valuation standards of different haircuts for bonds pursuant to their categories and ratings. In designing the formula for calculating the haircut of standard bonds, CSDC assesses the haircut’s appropriateness by using historical data, in order to demonstrate the adequacy of the relevant haircut.</p> <p>In recent years, CSDC has established and improved the internal valuation system from the perspective of CCP risk management. Risk-adjusted valuation is determined by applying a haircut to a simple valuation based on internal credit risk assessment, historical extreme value fluctuations, liquidity level and adequacy of market-based pricing. It will be phased in as a valuation standard for the management of collateral for pledge-style repo that ensures quick and full liquidation in most risk circumstances.</p>
<p>Key consideration 3</p> <p>In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to</p>	<p>CSDC prudently assesses the potential procyclicality of haircuts on collateral bonds in pledge-style repo. CSDC has established a dynamic adjustment mechanism for collateral bonds. The Company regularly assesses the procyclical risks of collateral bonds and takes preemptive counter-cyclical management measures to adjust the haircut level of collateral bonds with potential procyclical risks.</p>

<p>the extent practicable and prudent.</p>	
<p>Key consideration 4</p> <p>An FMI should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.</p>	<p>Securities are used as collateral mainly in pledge-style repo. CSDC regularly checks the market concentration of collateral bonds holding, pays extra attention to any overconcentration of collateral securities and adjusts the applicable haircuts as appropriate, according to the concentration of collateral securities. In addition, CSDC responsibly manages the concentration of collateral bonds held by the repo borrower in the name of the settlement participant.</p> <p>In addition, settlement collateral is applicable to the collateral provided by the settlement participant in case of settlement default. The concentration level is primarily dependent on the participant's proprietary securities trading.</p>
<p>Key consideration 5</p> <p>An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.</p>	<p>CSDC currently accepts no cross-border collateral.</p>
<p>Key consideration 6</p> <p>An FMI should use a collateral management system that is well-designed and operationally flexible.</p>	<p>For pledge-style repo, the collateral depository is part of CSDC's settlement registration and settlement system, which mainly provides settlement participants with remote submission, transfer-out and collateral bond replacement services. In addition, CSDC has in place an independent collateral management system with assigned full-time and stand-by duties. It provides participants with third-party collateral management services, including collateral deposits, withdrawals, replacements, trading, returns, mark-to-market calls, rights and interests handling, default disposal, inquiry and statistics.</p>

Principle 6: Margin

A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

Summary	<p>CSDC has established a margin system that is based on risks, specific businesses, investment portfolios and the markets it serves. The Company assesses and adjusts models and related systems from time to time to ensure that margins can cover its credit exposures to participants for each type of product with a high degree of confidence.</p> <p>CSDC requires settlement participants to pay the minimum settlement reserve, settlement guarantee fund, pre-issued treasury bond margins and stock option margin for stock option trading. In estimating the key parameters and inputs of the margin model, CSDC takes into account the market risk, price fluctuations, trading cycle and other factors of equity and fixed income products. Different ratios are used in the calculation to effectively cover relevant risks. CSDC has established clear margin call period arrangements and mark-to-market policies, and has applied back testing, sensitivity analysis and other methods to routine risk management.</p> <p>Before making any material adjustments to the margin system, CSDC follows the procedures for major business changes, including internal special discussions, solicitation of market participant opinions and examination and approval by regulatory authorities.</p>
Key consideration 1 A CCP should have a margin system that establishes margin levels commensurate with the risks and particular attributes of each product, portfolio, and market it serves.	<p>CSDC has established a margin system that is based on risks, specific businesses, investment portfolios and the markets it serves. Specifically, it includes a minimum settlement reserve, settlement guarantee fund, pre-issued treasury bond margins and stock option margin.</p> <p>I. Minimum Settlement Reserve</p> <p>The securities settlement reserve is the funds deposited for settlement purposes by a settlement participant in their settlement reserve account with CSDC. CSDC determines the minimum settlement reserve ratio applicable to each settlement participant on a monthly basis according to their risk level. It also determines the limit on each settlement participant's minimum settlement reserve according to their average daily amount of securities purchases in the previous month and their minimum settlement reserve ratio.</p> <p>II. Settlement Guarantee Fund</p> <p>The securities settlement guarantee fund is the funds paid by a settlement participant and allocated by CSDC pursuant to regulations, in order to advance the liquidity of the settlement system, cover the default losses incurred by the overdraft settlement participant (self-guarantee)</p>

	<p>and by other settlement participants (mutual guarantee). Settlement guarantee funding focuses on replacement risks posed by different types of products and services. The settlement guarantee fund is calculated separately for proprietary transactions and customers' transactions and paid on a monthly basis.</p> <p>III. Pre-issued Treasury Bond Margins</p> <p>In pre-issued treasury bond business, CSDC collects performance risk margins and replacement risk margins from settlement participants to guarantee the performance of future contractual obligations in pre-issued treasury bond transactions. The pre-issued treasury bond margin is calculated and collected on a daily basis according to positions and historical transaction prices.</p> <p>IV. Stock Option Margin</p> <p>In its stock option business, CSDC collects option margins from settlement participants. In option trading, settlement participants must pay the minimum settlement reserve pursuant to certain rules. At the end of each day, CSDC calculates the maintenance margin for investors in an open position, on a mark-to-market basis according to price fluctuations and the end-of-day position.</p> <p>All the above business policies set forth relevant margin methods, including the formula for calculating the margin amount and the collection procedure. For products subject to CSDC's multilateral net settlement, the credit risk exposure to the settlement participant is mainly determined by the size of the net amount payable by the participant, amounts of settlement reserve deposited, the settlement guarantee fund paid, and the price fluctuations of securities receivable during the disposal period.</p> <p>In addition, under the Mainland-Hong Kong Stock Connect program, CSDC's Shanghai and Shenzhen branches collect the marks and margins from mainland settlement participants according to their respective outstanding settlement positions pursuant to the risk management requirements of HKSCC Nominees Limited. For details, please refer to the relevant business rules of CSDC.</p>
<p>Key consideration 2</p> <p>A CCP should have a reliable source of timely price data for its margin system. A CCP should also have procedures and sound valuation models for addressing circumstances in which pricing data are not readily available</p>	<p>The price data used in CSDC's settlement guarantee fund model come from stock exchanges.</p> <p>To ensure timeliness and reliability of data, CSDC has signed memoranda with the stock exchanges specifying the content, time and other aspects of data exchange, as well as the levels for abnormalities and relevant countermeasures.</p>

or reliable.	
<p>Key consideration 3</p> <p>A CCP should adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. Initial margin should meet an established single-tailed confidence level of at least 99 percent with respect to the estimated distribution of future exposure. For a CCP that calculates margin at the portfolio level, this requirement applies to each portfolio's distribution of future exposure. For a CCP that calculates margin at more-granular levels, such as at the subportfolio level or by product, the requirement must be met for the corresponding distributions of future exposure. The model should (a) use a conservative estimate of the time horizons for the effective hedging or close out of the particular types</p>	<p>The estimation of the key parameters and inputs of the minimum settlement reserve model only involves the replacement risk of the securities purchased by the defaulting participant. Now, the minimum settlement reserve ratio is set at 10% for bonds (both repo and spot trading) and 16% for other securities.</p> <p>The key parameters and inputs of the settlement guarantee fund model are estimated by covering the replacement risk during the period from the conclusion of the transaction to completion of the disposal with a high degree of confidence. Therefore, with reference to the historical simulation method and according to the historical movements in the representative securities market price indices, the maximum disposal replacement risk ratio during the disposal period is determined at the 99% confidence level. At present, the replacement risk ratios for equities in Beijing, Shanghai and Shenzhen markets are 15%, 13% and 15% respectively. The replacement risk ratios for fixed income are 1.5%, 3.5% and 1.5% respectively.</p> <p>Regarding the estimation of key parameters and inputs of the pre-issued treasury bond margin model, the margins are set at 1%, 2%, 3%, 4% and 5% for the key terms of 1 year, 3 years, 5 years, 7 years and 10 years respectively, which cover the greatest price volatility for T-bond prices for each key term in the past five years.</p> <p>T-bond pre-issue margin is not procyclical, but its replacement risk margin is procyclical when the market falls. To support market liquidity and complete risk disposal as soon as possible in order to cover overdrafts, CSDC usually completes liquidation within two trading days and sets the margin in accordance with relevant risk disposal procedures.</p> <p>In terms of option margin, settlement participants must pay the minimum settlement reserve in accordance with rules. In addition, at the end of each day, CSDC adopts a mark-to-market approach to calculating and collecting the maintenance margins for investors with holdings in an open position according to price fluctuations. At present, there are three main principles for calculating the option margin: covering the replacement risk of two consecutive trading days with a high degree of confidence; considering deduction of the out-of-the-money portion when collecting the margin for out-of-the-money options in order to improve the fund efficiency (but the margin after out-of-the-money deduction shall not be lower than the maintenance margin collected at the preset minimum maintenance margin ratio); requiring the settlement participant to collect margins from investors that is not less than the margin collected by CSDC from settlement participants.</p> <p>Overall, the above-mentioned types of margins are not significantly procyclical. CSDC's margin system has a high degree of confidence and thus effectively covers potential risks.</p>

<p>of products cleared by the CCP (including in stressed market conditions), (b) have an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products, and (c) to the extent practicable and prudent, limit the need for destabilizing, procyclical changes.</p>	
<p>Key consideration 4</p> <p>A CCP should mark participant positions to market and collect variation margin at least daily to limit the build-up of current exposures. A CCP should have the authority and operational capacity to make intraday margin calls and payments, both scheduled and unscheduled, to participants.</p>	<p>CSDC has developed business-specific policies to monitor risks. Specifically, the minimum reserve and settlement guarantee fund are collected on a monthly basis, instead of mark-to-market. For T-bond pre-issue, margins are collected at a fixed ratio to the unilateral transaction value, and replacement risk margins are collected in the amount of the closing-out loss. For T-bond pre-issue through interest rate auctions, margins are collected at a fixed ratio to the trade par value, and replacement risk margin are collected at a fixed ratio to the expected closing-out loss. As for option margins, mark-to-market is adopted without intraday margin calls.</p>
<p>Key consideration 5</p> <p>In calculating margin requirements, a CCP may allow offsets or reductions in required margin across products that it clears or between products that it and another CCP clear, if the risk of one product is significantly and reliably correlated with the risk of the other product. Where</p>	<p>CSDC considers offsets in calculating the margin of options group. In certain conditions, there are offsets, reductions or netting between long positions and short positions, between cash receivables and payables of different positions belonging to the same investor, and between securities receivables and payables of the same investor.</p>

<p>two or more CCPs are authorized to offer cross-margining, they must have appropriate safeguards and harmonized overall risk-management systems.</p>	
<p>Key consideration 6</p> <p>A CCP should analyze and monitor its model performance and overall margin coverage by conducting rigorous daily backtesting and at least monthly, and more frequent where appropriate, sensitivity analysis. A CCP should regularly conduct an assessment of the theoretical and empirical properties of its margin model for all products it clears. In conducting sensitivity analysis of the model's coverage, a CCP should take into account a wide range of parameters and assumptions that reflect possible market conditions, including the most-volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices.</p>	<p>At present, CSDC applies back testing, sensitivity analysis and other methods to day-to-day risk management. In settlement risk assessment, CSDC conducts stress back testing based on historical data. Taking into full consideration of various parameters and assumptions, CSDC conducts sensitivity analysis under various scenarios concerning historical prices, volatilities affecting price decisions and different defaults of pledged bonds.</p>
<p>Key consideration 7</p> <p>A CCP should regularly review and validate its margin</p>	<p>When business innovation or market changes require substantial adjustments to the margin calculation and collection methods, CSDC follows the procedures for major business changes, including special internal discussions, solicitation of market participants' opinions and examination and approval by regulatory authorities, before determining</p>

system.	such adjustments.
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Principle 7: Liquidity risk

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Summary	<p>As a CCP, CSDC has established a relatively sound liquidity risk management framework to manage liquidity risks from all settlement participants and settlement banks. CSDC identifies, measures and monitors liquidity risks via its settlement system, fund management system and the integrated risk monitoring system. CSDC holds sufficient liquidity resources to cover the liquidity risks posed to CSDC by the default of the two participants and their affiliates that would generate the largest aggregate liquidity obligations under extreme but plausible market conditions.</p> <p>As an SSS, CSDC does not provide temporary advance service to settlement participants, so there is no liquidity risk.</p>
<p>Key consideration 1</p> <p>An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.</p>	<p>CSDC has a risk management framework for managing liquidity risks from all relevant entities, including settlement participants and settlement banks. CSDC has formulated the <i>Measures for the Administration of Securities Funds Settlement via Settlement Banks</i> to manage liquidity risks from settlement banks, and has set forth a framework for managing liquidity risks from settlement participants in the <i>Rules for Management of Settlement Participants</i>.</p> <p>By making use of its systems and relevant tools, CSDC quantitatively monitors its total financial resources and the liquidity risks that may be caused by default of settlement participants and reduction of collateral haircut. The distribution of CSDC's settlement reserve deposits among banks is also monitored on a real-time basis so that funds are allocated accordingly.</p> <p>In addition, policy arrangements such as settlement guarantee fund, settlement risk fund, commercial bank credit lines and CSDC's general risk fund all guard against liquidity risk.</p>
<p>Key consideration 2</p> <p>An FMI should have effective operational</p>	<p>CSDC identifies, measures and monitors settlement and funding flows through its settlement system, fund management system and integrated risk monitoring system, among others. The settlement system is the main data source of settlement and funding flows. The integrated risk</p>

<p>and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.</p>	<p>monitoring system identifies, measures and monitors settlement and funding flow using a series of risk monitoring indicators. The fund management system monitors and adjusts the distribution of settlement reserves among banks on a real-time basis.</p>
<p>Key consideration 3</p> <p>A payment system or SSS, including one employing a DNS mechanism, should maintain sufficient liquid resources in all relevant currencies to effect same-day settlement, and where appropriate intraday or multiday settlement, of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions.</p>	<p>As an SSS, CSDC neither guarantees settlement nor provides temporary advance services to settlement participants, so it is exposed to no liquidity risk.</p>
<p>Key consideration 4</p> <p>A CCP should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and</p>	<p>According to CSDC’s monitoring results in 2022, its financial resources can meet the liquidity demand resulting from default of the two settlement participants and their affiliates that would generate the largest aggregate liquidity obligation to the CCP under extreme but plausible market conditions. CSDC maintains sufficient liquid resources to meet debt obligations with a high degree of confidence under potential stress scenarios. The current stress scenarios take into account the risks that CSDC may face under extreme but plausible market conditions.</p> <p>In the Shanghai/Shenzhen-Hong Kong Stock Connect program, CSDC</p>

<p>meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios. That should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions.</p>	<p>is not a systemically important FMI in the Hong Kong market.</p>
<p>Key consideration 5</p> <p>For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash</p>	<p>CSDC's qualifying liquid resources mainly include the following:</p> <ul style="list-style-type: none"> ● Cash, including settlement guarantee fund, general risk fund and settlement risk fund. ● Liquidity support from commercial banks. <p>CSDC maintains sufficient qualifying liquid resources. CSDC regularly monitors the liquidity indicators.</p>

<p>at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.</p>	
<p>Key consideration 6</p> <p>An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form</p>	<p>Supplemental liquid resources currently available to CSDC include securities pledged as collateral by defaulting settlement participants involved in pledge-style repos. According to the <i>Implementation Rules for Bond Registration, Custody and Settlement</i> and other relevant business rules, CSDC has the right to dispose of relevant collateral bonds to cover the overdraft amount if a settlement participant defaults on settlement and fails to remedy the default in a timely manner. CSDC can dispose of collateral bonds through exchange-based trading and over-the-counter quotation, ensuring quick liquidation with a high degree of reliability.</p>

<p>of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan.</p>	<p>Historically, under extreme market conditions, CSDC has pledged collected collateral to the central bank for emergency liquidity support.</p>
<p>Key consideration 7</p> <p>An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity</p>	<p>Under the front-end monitoring mechanism of stock exchanges where short selling of securities are restricted, CSDC faces no risks that may be incurred by settlement participants' failure to deliver securities. Hence, there is no need for CSDC to establish the mechanism of securities liquidity providers. In practice, the current providers of cash liquidity for CSDC are mainly CSDC's settlement banks. All of CSDC's settlement banks are large commercial banks that can directly participate in the inter-bank market and are eligible for liquidity support from the central bank. CSDC regularly examines the financial position of settlement banks to ensure that liquidity providers have sufficient information to understand and manage their associated liquidity risks with respect to a particular currency.</p>

<p>to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider.</p>	
<p>Key consideration 8</p> <p>An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.</p>	<p>Not applicable. CSDC doesn't have or enjoy access to central bank accounts, payment services, securities services or collateral management services.</p>
<p>Key consideration 9</p> <p>An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk management</p>	<p>CSDC is able to determine the amount of its liquid resources and regularly stress-test its LCR, in order to check whether the Company's liquid resources are sufficient to ensure successful settlement in the event of the default of the largest two net settlement participants. The stress test results are reported to the management team.</p> <p>In conducting stress testing, CSDC considers a wide range of relevant scenarios, including relevant historic peak price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios under a variety of extreme but plausible market conditions.</p>

framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.

<p>Key consideration 10</p> <p>An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.</p>	<p>In case of a settlement participant's default on fund settlement, <i>the Settlement Rules</i> clearly specifies the liquidity resources available to CSDC and their order of priority. CSDC has formulated a <i>Contingency Plan for Defaults on Fund Settlement by Settlement Participants</i> to further refine the requirements for management, allocation and use of relevant liquidity resources in case of default by settlement participants, so as to ensure timely fulfillment of funds settlement obligations following any individual or combined default by settlement participants.</p> <p>The <i>Liquidity Contingency Plan</i> sets forth monitoring indicators to detect unpredictable potential liquidity risks.</p> <p>In addition, <i>Measures for Management of Securities Settlement Guarantee Fund</i>, <i>Measures for Management of the Securities Settlement Risk Fund</i> and the <i>Measures for Management of General Risk Fund for Securities Registration and Settlement</i> clearly set forth the procedures for replenishing and recovering settlement guarantee fund, settlement risk fund and general risk fund respectively.</p>
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Principle 8: Settlement finality

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

<p>Summary</p>	<p>The <i>Securities Law</i> provides a solid legal basis for CSDC to enforce settlement finality. CSDC's business rules such as <i>the Settlement Rules</i> specify the points at which settlement is final, and are published on its</p>
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	<p>website.</p> <p>According to the provisions of the <i>Securities Law</i> on the finality of transactions, CSDC organizes clearing and settlement based on trading data from stock exchanges. Investors/settlement participants have no right to cancel trading orders that have been concluded. Any party that fails to complete securities/fund settlement on time bears liability for default.</p>
<p>Key consideration 1</p> <p>An FMI's rules and procedures should clearly define the point at which settlement is final.</p>	<p>In China's securities market, the main legal basis of settlement finality is provided by Article 117, 158 and 159 of the <i>Securities Law</i> and Article 52 and 81 of the <i>Measures for the Administration of Securities Registration and Settlement</i>, which cover the main implications of settlement finality.</p> <p>Articles 131, 158 and 159 of the <i>Securities Law</i> provide isolation to certain degree from the <i>Enterprise Bankruptcy Law</i>. CSDC's business rules such as <i>the Settlement Rules</i> specify the time points for settlement.</p> <p>At present, under the Shanghai/Shenzhen-Hong Kong Stock Connect program, CSDC has established links with other FMIs (HKSCC Nominees Limited). The two sides agreed in the <i>Central Securities Depository and Settlement Agreement on the Shanghai/Shenzhen-Hong Kong Stock Exchanges Connectivity Mechanisms</i> that CSDC, as a settlement participant in HKSCC Nominees Limited, would not conduct final settlement with domestic settlement participants until HKSCC Nominees Limited finished its final settlement, thus ensuring the finality of settlement.</p> <p>CSDC has fully defined the rights and responsibilities of both parties in relevant agreements with each settlement participant. Each settlement participant has a full and clear understanding of the provisions for the time of final settlement for each product.</p>
<p>Key consideration 2</p> <p>An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the settlement day.</p>	<p>For trading of A-shares, close-end funds, ETFs, LOFs, REITs, DRs, stocks of NEEQ listed companies, treasury bonds, local government bonds, policy bank bonds, corporate bonds and convertible bonds compliant to net settlement standards, pledge-style repo, as well as ETF subscription and redemption which are suitable for net settlement, CSDC completes the final settlement by the end of T+1 at the latest, and ensures principal risk mitigation by conforming to DVP settlement model that establishes a link between the securities leg and the cash leg. In reality, there is no delay of final settlement to T+2, but CSDC does have a contingency plan that prescribes the arrangements and measures to deal with the above delay. CSDC's branches have signed MoUs with securities exchanges for dealing with the above delay.</p> <p>For B-shares, CSDC adopts 16:00 on T+3 as the finality point for securities and funds settlement.</p> <p>Based on market demands, CSDC adopts RTGS for private placement bonds, ABS, etc.</p>

<p>Key consideration 3</p> <p>An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.</p>	<p>According to the provisions of Articles 108 and 117 of the <i>Securities Law</i>, once a securities transaction is concluded, settlement responsibility is established and irrevocable and CSDC receives transaction data from stock exchanges and organizes clearing and settlement accordingly. Investors/settlement participants have no right to cancel trading orders that have been concluded. Any investor/settlement participant who fails to complete securities/fund settlement on time will be deemed in default and held fully liable.</p> <p>According to the provisions of Article 111 of the <i>Securities Law</i>, where emergency events such as force majeure, unexpected events, major technical failure or major human error, have significant impact on the normal order of securities transaction and the fairness of the market, a stock exchange may adopt measures such as canceling trading and notifying CSDC to defer delivery.</p>
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Principle 9: Money settlements

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimize and strictly control the credit and liquidity risk arising from the use of commercial bank money.

<p>Summary</p>	<p>CSDC conducts settlement of funds in commercial bank money through its own book-entry system. CSDC has formulated the <i>Measures for the Administration of Securities Funds Settlement via Settlement Banks</i> and enforces strict access standards and day-to-day management requirements for settlement banks. The Company is able to minimize and strictly manage credit risk or liquidity risk from settlement banks.</p> <p>In order to prevent credit risk and liquidity risk arising from settlement of funds through its own book-entry system, CSDC strictly controls the use of settlement funds within the scope of clearing and settlement and prohibits their use for other purposes such as investment or lending. In addition, the Company is subject to external supervision by, for example, CSRC.</p>
<p>Key consideration 1</p> <p>An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.</p>	<p>CSDC conducts settlement of funds through its own book-entry system. Funds are deposited in commercial banks (settlement banks) and are transferred at the instruction of CSDC.</p> <p>The reasons why central bank money is not yet used by CSDC for settlement are as follows: First, CSDC's practice in fund settlement with commercial bank money can be dated back to the time when SSE and SZSE were established. Due to the absence of a national-level payment system at that time, CSDC has been using the commercial bank money settlement system and has formed over time a fairly mature, sound and established landscape for money settlement. Second, since CSDC and some settlement participants have no access to the central bank payment</p>

	<p>system, conducting full-scale settlement of funds with central bank money will significantly impact the settlement efficiency and operations of some settlement participants.</p> <p>CSDC uses a monetary settlement system in which settlement of funds is effected by book entry and funds are deposited in and allocated by settlement banks. The system is different from settlement in either central bank money or commercial bank money. It is a full-fledged system that has been running stably for many years. As CSDC completes money settlement within its own system, it faces extremely low external credit and liquidity risks.</p>
<p>Key consideration 2</p> <p>If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.</p>	<p>The settlement assets CSDC uses for settlement of funds are mainly settlement participants' settlement reserves deposited with CSDC. The cash positions are all placed in settlement banks.</p> <p>As for the credit risk of settlement banks, the existing settlement banks are all financial institutions of great relevance in China's financial market. Given the track record and current national conditions, CSDC is exposed to minimal credit risk and is very unlikely to suffer a loss on settlement money.</p> <p>As for the liquidity risk of settlement banks, on the one hand, CSDC implements a settlement reserve mechanism and maintains a sufficient reserve level to support the day-to-day liquidity needs of participants. On the other hand, participants use intra-bank transfer for funds from CSDC to improve the efficiency of fund transfer.</p>
<p>Key consideration 3</p> <p>If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalization, access to liquidity, and operational reliability.</p>	<p>CSDC has formulated the <i>Measures for the Administration of Securities Funds Settlement via Settlement Banks</i>, which sets forth strict requirements for settlement banks. In practice, CSDC monitors the compliance of settlement banks with qualification standards and manages the credit risk and liquidity risk of settlement banks by reviewing and analyzing the following information. By analyzing annual reports of settlement banks, the Company gains an overall picture (including assets, net capital, business scale and development of branches) of the settlement banks and collects information on their significant events. By analyzing financial and related risk control indicators, the Company tracks the capital adequacy ratio and liquidity level of the settlement banks. By analyzing settlement work reports and internal control audit reports, the Company looks into the reliability of settlement operations and the internal control and compliance performance of the settlement banks. With regard to cross-border business, CSDC has formulated the <i>Implementing Rules for Registration, Depository and Clearing Services under Mainland-Hong Kong Stock Connect</i>, setting stricter access standards for settlement banks under the Mainland-Hong Kong Stock Connect program. In addition, for monitoring of credit standing and assessment of settlement banks, CSDC resorts to public opinion, interviews with settlement participants and other channels.</p>

<p>An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.</p>	<p>CSDC assesses settlement banks annually but has not yet established any stress testing mechanism for default of the largest settlement bank as it's highly unlikely that settlement bank could face credit risks.</p>
<p>Key consideration 4</p> <p>If an FMI conducts money settlements on its own books, it should minimize and strictly control its credit and liquidity risks.</p>	<p>To prevent credit risk and liquidity risk, CSDC strictly controls the use of settlement funds within the scope of clearing and settlement procedures, and prohibits their use for other purposes such as investment or lending. In addition, CSDC conducts daily reconciliation between commercial bank accounts and its own book-entry accounts to ensure balance between the general ledger and sub-ledgers.</p> <p>In terms of external supervision, while subject to strict supervision by CSRC, CSDC also sends clearing data (including details of each transfer between commercial bank and settlement reserve account) to China Securities Investor Protection Fund Corporation Limited on a daily basis.</p>
<p>Key consideration 5</p> <p>An FMI's legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.</p>	<p>CSDC has entered into a <i>Securities Transaction Settlement Funds Management Agreement (Applicable to Settlement Banks)</i> with settlement banks, which clearly stipulates that transfers are final once effected.</p> <p>Articles 14 and 15 of the <i>Measures for the Administration of Securities Funds Settlement Business via Settlement Banks</i> specify the time limits on the placement/withdrawal of settlement funds in/from settlement banks to make sure that transfer between CSDC and settlement participants could occur before the end of the day.</p>

Principle 10: Physical deliveries

An FMI should clearly state its obligations with respect to the delivery of physical instruments or

commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

Summary	CSDC registers and delivers securities through electronic book-entry. No financial instruments or commodities are physically stored or delivered during its business transactions. Not applicable.
Key consideration 1 An FMI's rules should clearly state its obligations with respect to the delivery of physical instruments or commodities.	Not applicable.
Key consideration 2 An FMI should identify, monitor, and manage the risks and costs associated with the storage and delivery of physical instruments or commodities.	Not applicable.

Principle 11: Central securities depositories

CSD should have appropriate rules and procedures to determine the integrity of securities issuance, minimize and manage risks related to securities custody and transfer. A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry.

Summary	<p>Securities have been fully dematerialized in China's securities market. CSDC maintains and transfers 100% of securities through its electronic book-entry system.</p> <p>CSDC has business rules and procedures as well as internal and external audit and supervision measures to strictly prevent internal operational risks, prevent unauthorized creation or deletion of securities, ensure the integrity of securities issuance and protect customer securities assets from custody risk. CSDC performs daily reconciliation between CSD records and registration records. In addition, CSDC collaborates with stock exchanges and other organizations to prevent securities accounts from overdraft through a front-end monitoring system.</p> <p>At present, CSDC employs different accounts to segregate its own assets from the securities of settlement participants and those of their clients.</p>
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	<p>CSDC strictly manages the credit risk and liquidity risk posed by other business activities.</p>
<p>Key consideration 1</p> <p>A CSD should have appropriate rules, procedures, and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, prevent the unauthorized creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains.</p>	<p>China’s stock exchange market has long been dematerialized. CSDC registers investor securities holdings and transfers in its registration and settlement system. Compared with foreign countries or regions where securities are materialized, CSDC functions as both a registrar and a central securities depository.</p> <p>CSDC has formulated and improved business rules and supporting guidelines that set forth standard business procedures. According to its business rules, CSDC utilizes direct holding. The Company directly opens respective securities accounts for securities companies and investors in its electronic book-entry system, uses these accounts to record and maintain proprietary securities assets of securities companies and of their clients, and registers the holders of securities according to account records. After clearing and settlement of securities are completed each day, CSDC electronically sends securities companies the detailed data of their proprietary securities and investors’ securities under their custody. The above rules, procedures and controls ensure the accuracy of securities holding records and effectively safeguard the rights and interests of securities issuers and holders.</p> <p>CSDC strictly prevents unauthorized creation or deletion of securities by standardizing internal business procedures, reasonably setting posts, access control and conducting audits and supervisions.</p> <p>At the end of each trading day, CSDC performs internal reconciliation of CSD records and registration records through its IT systems.</p>
<p>Key consideration 2</p> <p>A CSD should prohibit overdrafts and debit balances in securities accounts.</p>	<p>CSDC’s business rules prohibit any overdraft of securities accounts. In addition, CSDC collaborates with stock exchanges and other organizations to technically prevent overdraft of securities accounts. Specifically, for exchange-based transactions, CSDC completes securities settlement in its registration and settlement system according to transaction clearing results. Since the stock exchange implements front-end monitoring, securities cannot be sold short. Thus the clearing and settlement of transactions will not result in any overdraft or debit balance of securities accounts. For other securities transfer requests, CSDC does not allow overdraft if the balance of the securities account is insufficient.</p>
<p>Key consideration 3</p> <p>A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry. Where appropriate, a CSD</p>	<p>China’s securities market has been fully dematerialized. CSDC maintains and transfers 100% of securities through its electronic book-entry system.</p>

<p>should provide incentives to immobilize or dematerialize securities.</p>	
<p>Key consideration 4</p> <p>A CSD should protect assets against custody risk through appropriate rules and procedures consistent with its legal framework.</p>	<p>CSDC has formulated and improved rules and procedures for registration and depository services in accordance with the <i>Securities Law, Measures for the Administration of Securities Registration and Settlement</i>, and other relevant laws, regulations and ministerial rules. These rules and procedures specify the business scope, procedures and precautions in order to avoid the risk of registration errors due to loopholes in policy arrangements. In addition, CSDC controls business procedures by formulating various manuals that define roles, responsibilities, workflow and key operational elements, so as to prevent risks at the operational level.</p> <p>CSDC handles change registration, such as transfer registration for centralized transactions, transfer registration for decentralized transactions and pledge registration, according to transaction settlement results or at the request of the parties concerned, except in cases of assisting law enforcement, in order to prevent the risk of misappropriation or theft of investor securities. In addition, after the securities clearing is completed each day, CSDC electronically sends detailed data on investor securities holdings to stock exchanges and securities companies serving as custodians for investor securities. As for the requests for intraday transfer, freezing or other operations for the same securities, CSDC has specified the sequence of operations and will relay the results to the securities company serving as its custodian in a timely manner. By taking the above measures, CSDC ensures CSD records are consistent with information on investor securities assets maintained by exchanges and settlement participants.</p>
<p>Key consideration 5</p> <p>A CSD should employ a robust system that ensures segregation between the CSD's own assets and the securities of its participants and segregation among the securities of participants. Where supported by the legal framework, the CSD should also support operationally the</p>	<p>At present, CSDC employs different accounts to segregate its own assets from the securities of settlement participants.</p> <p>Under the direct holding system, CSDC opens securities accounts for securities companies and their customers respectively which record their securities asset holdings, effectively ensuring that the securities of different settlement participants are segregated from each other, and that the securities of settlement participants are segregated from those of their customers.</p> <p>To facilitate the transfer of securities held by customers, CSDC supports custody transfer of securities assets held by customers between settlement participants. A customer may, through the original settlement participant, apply to CSDC for transfer of securities assets held by the customer to another settlement participant for custody.</p>

<p>segregation of securities belonging to a participant's customers on the participant's books and facilitate the transfer of customer holdings.</p>	
<p>Key consideration 6</p> <p>A CSD should identify, measure, monitor, and manage its risks from other activities that it may perform; additional tools may be necessary in order to address these risks.</p>	<p>CSDC, as the statutory registration and settlement organization for China's securities market, functions as CSD, CCP and SSS in accordance with the <i>Securities Law, Measures for the Administration of Securities Registration and Settlement</i> and other relevant regulations. In addition, CSDC also provides collateral management services.</p> <p>CSDC has established a systematic, comprehensive risk management framework. The framework specifies three lines of defense and the roles and responsibilities of CSDC headquarter and branches, and sets forth management and control requirements regarding information collection, risk assessment, risk monitoring and risk disposal and reporting. CSDC has established and employs an integrated risk monitoring system to effectively identify, measure, monitor and manage risks from activities it may be involved in.</p> <p>For CCP services it provides, CSDC adopts strict internal isolation measures, arranges independent teams to take charge of CSD and CCP operations and management separately and ensures that any operations must follow established rules and procedures. The Company also repeatedly tests CCP-related IT systems prior to their go-live in order to eliminate deficiencies and isolate CCP errors from CSD operations.</p> <p>As for its SSS operations, CSDC always follows the principle of acting on the transferor's instructions, that is, the Company examines the true intention of the transferor by business or technological means to ensure that investors have truly and fully authorized CSDC's transfer of their securities. Therefore, CSDC's SSS operations do not pose any additional risks to its CSD business.</p> <p>As for collateral management services, CSDC is a third party entrusted to monitor the adequacy of securities collateral. The Company conducts relevant operations such as collateral change and replenishment at the behest of clients. Due to the fact that CSDC does not directly engage in financing or securities lending, the collateral management service does not pose any potential credit risk or liquidity risk to CSDC. CSDC manages potential operational risks mainly by segregating the handling, preliminary check and review duties from each other and by controlling business procedures.</p>

Principle 12: Exchange-of-value settlement systems

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

Summary	For different types of securities and businesses, CSDC can provide guaranteed multilateral net settlement service as a CCP. Nevertheless, CSDC also provides non-guaranteed settlement without serving as a CCP. In multilateral net settlement business, CSDC adopts DVP settlement principle to prevent principal risk.
Key consideration 1 An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.	I. Guaranteed Multilateral Net Settlement As a CCP, CSDC guarantees multilateral net settlement for securities transactions investors have reached and locked-in at securities trading venues. In addition to front-end monitoring of securities selling by securities companies, the stock exchanges also have a front-end monitoring system to technically prevent investors from short-selling securities. Therefore, after a securities transaction is concluded, there will be no case where the seller cannot deliver the securities, and thus no principal risk arising from CSDC's remitting of funds without receiving securities. The principal risk that CSDC is exposed to mainly arises from the possibility of CSDC delivering securities without receiving corresponding funds. To implement the requirements of the <i>Securities Law</i> , further improve the basic regime of China's capital market and enhance settlement risk management, CSDC has been pushing forward the DVP reform steadily. By implementing the DVP reform, CSDC is able to prevent the above-mentioned principal risk by establishing a DVP settlement system that links the securities leg with the cash leg. Approved by CSRC, the reform entered the simulation period on June 20th, 2022, and was officially implemented on December 26th, 2022, marking the beginning of the transition period. i Brokerage business and securities margin trading by settlement participants Principal risk of brokerage business and securities margin trading is well-managed after the introduction of a series of external risk control systems with Chinese characteristics, such as the third-party custody system of settlement funds, full margin requirement and customer transaction settlement funds monitoring by China Securities Investor Protection Fund Corporation Limited. These policy arrangements ensure that securities companies strictly abide by the stipulation that "securities

companies shall not accept the purchase orders of any customer with insufficient funds” and prevent securities companies from misappropriating customer transaction settlement funds. Under extremely exceptional circumstances, for example, the commercial bank’s payment system prevents the securities company from effecting timely money transfer and as a result the securities company fails to make payment to CSDC at 16:00 on T+1 day, CSDC will bear occasional principal risk. However, this risk is occasional and can be quickly eliminated. In the event of an occasional default on money settlement, CSDC will take action, such as deducting the proprietary settlement reserve and proprietary securities holdings of the settlement participant. Practice has proved that the principal risk of brokerage business and securities margin trading can be effectively mitigated. Ever since the introduction of the third-party custody system and full margin trading system, such default event has never occurred.

ii Proprietary trading and custody services of settlement participants

For the proprietary trading and custody services, where the third-party custody system and full margin requirement are not introduced, CSDC establishes a link between the securities leg and the cash leg by way of tagging shares with “sellable settlement block”, specifies default management arrangement and applies multi-batch DVP settlement model. When the balance is verified to be insufficient by the end of T Day, CSDC transfers the receivable shares while tagging these shares with “sellable settlement block”. Whenever the balance is verified to be sufficient on T+1, the tag will be removed and the settlement is completed. If the balance is insufficient at 16:00 on T+1, there follows the default disposal. By implementing DVP settlement model, the principal risk of proprietary trading and custody services that do not adopt third-party custody system and full margin requirement can be effectively mitigated.

Additionally, northbound trading of the Stock Connect adopts DVP settlement model since its launch. According to *Implementing Rules for Registration, Depository and Clearing Services under Mainland-Hong Kong Stock Connect*, if HKSCC Nominees Limited defaults on cash settlement, CSDC will deduct from its account the securities which are equivalent to the default value in accordance with relevant stipulations.

II. Non-Guaranteed Settlement

CSDC provides non-guaranteed settlement in accordance with the DVP principle on a bilateral net basis or on a gross basis.

In terms of gross settlement, CSDC provides RTGS or gross settlement at the end of T day. Each settlement takes into account the sufficiency of securities and funds available for settlement. If one of them is

	<p>insufficient, the settlement fails.</p> <p>Bilateral net settlement is only applied in pledge-style quotation repos, where CSDC clears the transactions on a net basis and provides net funds (securities) payable and net funds (securities) receivable for the two parties, while not offering guaranteed settlement.</p>
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Principle 13: Participant-default rules and procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Summary	<p>CSDC has effective and clearly defined rules and procedures to manage participant defaults, including the order of priority for use of relevant financial resources. The Company also employs various internal mechanisms and communication/coordination procedures to ensure CSDC can contain losses and liquidity pressures and continue to meet its obligations should a settlement participant default.</p> <p>CSDC publicly discloses its rules and procedures for management of defaults in its documented policies and agreements. It assesses and revises the relevant plans and IT systems for default handling procedures according to specific risk handling practices.</p>
<p>Key consideration 1</p> <p>An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.</p>	<p>In business rules such as the <i>Settlement Rules</i>, CSDC has clearly defined the concept of settlement participant default, and specifies the procedure and measures of default disposal. If the defaulting settlement participant fails to replenish funds and securities within the specified period, CSDC may dispose of the collateral provided by the defaulting settlement participant and securities pledged for repurchase in the collateral depository, and sell the securities in the designated default account or purchase securities with the cash in the designated default account. To cover default losses, CSDC has maintained settlement guarantee fund and settlement risk fund at disposal. When the two types of resources are heavily drawn on, CSDC will restore them to the required minimum level. To address liquidity risk, CSDC can employ the following financial resources: the proprietary funds posted by the settlement participant as collateral, settlement guarantee fund, settlement risk fund, and credit line from institutions such as commercial banks, etc.</p>
<p>Key consideration 2</p> <p>An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary</p>	<p>CSDC’s Risk Management Committee and business departments maintain adequate internal preparedness for disposal of defaults, which follow the principles of localized management, hierarchical authorization and timely reporting. Relevant default procedures or contingency plans are formulated and revised by CSDC’s settlement business departments, under the guidance of the Company’s Risk Management Committee and subject to final approval by the Company’s Management Team. CSDC assesses and improves the practical effectiveness of its default rules and procedures at set intervals (every 1</p>

procedures provided for in its rules.	to 2 years).
Key consideration 3 An FMI should publicly disclose key aspects of its default rules and procedures.	CSDC publicly discloses the main content of its procedures for handling settlement default in its documented policies including the <i>Settlement Rules</i> and the <i>Implementing Rules for Handling To-be-Disposed Securities</i> , contracts, and agreements.
Key consideration 4 An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.	Each year (or when a major risk event occurs or potential vulnerabilities/threats arise), CSDC conducts stress testing of defaults, examines and revises relevant plans for default procedures, and optimizes/upgrades supporting technical systems.

Principle 14: Segregation and portability

A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.

Summary	<p>CSDC is able to effectively protect the positions of participant's customers and related collateral from default or insolvency of said participant. CSDC effectively segregates settlement participant assets from their customers' positions and collateral using the appropriate rules, procedures and account structure, and provides effective protection for customer securities positions and for the collateral provided by customers in the repurchase or covered call business. CSDC has disclosed its rules, policies and procedures for segregation of the positions of settlement participants' customers.</p> <p>Institutional arrangements have been made in the form of laws and regulations for the portability of customer positions and collateral. CSDC can support the portability of customer positions and collateral in</p>
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	<p>practice. If a securities company is closed down, the trustee securities company will fully assume charge of the customers of the closed securities company, and CSDC will assist in transferring the customers' securities positions and collateral.</p>
<p>Key consideration 1</p> <p>A CCP should, at a minimum, have segregation and portability arrangements that effectively protect a participant's customers' positions and related collateral from default or insolvency of that participant. If the CCP additionally offers protection of such customer positions and collateral against the concurrent default of the participant and a fellow customer, the CCP should take steps to ensure that such protection is effective.</p>	<p>I. Institutional Arrangements for Segregation</p> <p>The <i>Securities Law, Regulations on the Supervision and Administration of Securities Companies, Measures for the Administration of Securities Registration and Settlement, Securities Account Management Rules, Measures for Management of Securities settlement guarantee fund and Measures for Management of Settlement Reserves</i>, among other laws and rules, provide clear institutional arrangements for segregation. For example, the <i>Securities Law</i> provides that “when a securities company goes into bankruptcy or liquidation, its customers' transaction settlement funds and securities shall be excluded from its bankruptcy assets or liquidation assets. It is not permitted to seize, freeze, deduct or enforce the transaction settlement funds and securities of its customers unless necessary to discharge customer debts, or required by laws or regulations”. Customer positions and rights to related collateral are protected by laws and regulations. Similarly, the <i>Notice on Issues Concerning Inquiry, Freezing and Deduction of Securities and Securities Transaction Settlement Funds and Regulations on the Supervision and Administration of Securities Companies</i> clearly provide for the protection of customer assets.</p> <p>CSDC actively enforces the institutional arrangements for segregation set forth in relevant laws and rules, so as to effectively protect the positions of settlement participants' customers and related collateral from the bankruptcy of said participant.</p> <p>II. Institutional Arrangements for Portability</p> <p>According to the <i>Measures for Risk Disposal of Securities Companies</i>, a securities company ordered to suspend its securities brokerage business for rectification shall entrust its securities brokerage business to another securities company approved by the securities regulatory department of the State Council for management, or transfer its customers to another securities company within the prescribed time limit. If the securities company fails to entrust its securities brokerage business or transfer its customers within the set time, the securities regulatory department of the State Council shall enforce the transfer of its customers to other securities companies. CSDC will transfer relevant customer positions and related collateral in accordance with the <i>Measures for Risk Disposal of Securities Companies</i>.</p> <p>Under the current settlement regime, CSDC provides effective protection for customer positions and for the collateral provided by customers in repo or covered call option business. In addition, CSDC maintains an account structure sufficient to ensure the effectiveness of relevant protections.</p>

<p>Key consideration 2</p> <p>A CCP should employ an account structure that enables it readily to identify positions of a participant’s customers and to segregate related collateral. A CCP should maintain customer positions and collateral in individual customer accounts or in omnibus customer accounts.</p>	<p>CSDC currently employs different account structure settings to segregate settlement participants’ own positions and collateral from those of their customers.</p> <p>The Company employs a separate account structure for the securities positions of customers and the collateral provided by customers in the repo or covered call option business.</p> <p>As for customer cash positions and settlement guarantee fund, CSDC utilizes an omnibus account structure; that is, customer cash positions and related settlement guarantee fund are commingled and respectively held in the customer settlement reserve account and the customer settlement guarantee fund account of the settlement participant, without subsidiary accounts. To a certain extent, the customers’ money assets face a “fellow-customer risk.” However, the “fellow-customer risk” is minimal, as the securities company and the third-party custody bank have cash accounts for each customer and conduct reconciliation on a daily basis, and China Securities Investor Protection Fund Corporation Limited systematically monitors the cash accounts of all customers of the securities company on a daily basis.</p>
<p>Key consideration 3</p> <p>A CCP should structure its portability arrangements in a way that makes it highly likely that the positions and collateral of a defaulting participant’s customers will be transferred to one or more other participants.</p>	<p>According to the <i>Regulation on Risk Disposal of Securities Companies</i>, if a securities company is closed down, the trustee securities company will fully assume charge of the customers of the closed securities company, and CSDC will assist in transferring said customer positions and collateral. CSDC will determine which positions and collateral should be transferred according to the securities transfer instructions of the defaulting participant.</p>
<p>Key consideration 4</p> <p>A CCP should disclose its rules, policies, and procedures relating to the segregation and portability of a participant’s customers’ positions and related collateral. In particular, the CCP should disclose whether customer</p>	<p>CSDC publicly discloses its securities and fund segregation arrangements in the <i>Securities Account Management Rules</i>, <i>Measures for Management of Settlement Reserves</i>, <i>Measures for Management of Securities Settlement Guarantee Fund</i>, <i>Guidelines for Securities Fund Settlement Business of the CSDC Beijing Branch</i>, <i>CSDC Shanghai Branch Guidelines for Settlement Account Management and Fund Settlement</i>, and <i>CSDC Shenzhen Branch Guidelines for Securities Fund Settlement</i>. The Company publicly discloses its collateral segregation arrangements for repos in the <i>Rules for Bond Registration, Custody and Settlement</i> and publicly discloses its collateral segregation arrangements for stock options and other derivatives in the <i>Rules for Pilot Settlement of Shanghai Stock Exchange Stock Options and the Implementation Rules for Pilot Settlement of Shenzhen Stock Exchange Stock Options</i>.</p>

<p>collateral is protected on an individual or omnibus basis. In addition, a CCP should disclose any constraints, such as legal or operational constraints, that may impair its ability to segregate or port a participant's customers' positions and related collateral.</p>	<p>CSDC clearly states in its relevant business rules and guidelines whether the settlement participants' customer collateral is protected on an individual or omnibus basis.</p> <p>CSDC's <i>Rules for Management of Settlement Participants</i> provides that, for settlement participants on the watch list, CSDC may take action to restrict the settlement participant from transferring the designation or custody of its securities account for securities purchases if they default on cash settlement.</p> <p>There are no legal or operational restrictions on the porting of customer positions when the settlement participant does not default.</p>
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Principle 15: General business risk

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialize. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

<p>Summary</p>	<p>CSDC can effectively identify, monitor and manage general business risks, including risks to its reputational and financial risks, as well as legal, operational, custody and investment risks that might cause losses to CSDC's management or operations. CSDC has sufficient liquid assets and a complete business continuity plan to ensure the recovery or orderly wind-down of its key operations and services.</p>
<p>Key consideration 1</p> <p>An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.</p>	<p>The general business risks identified by CSDC are mainly reputational and financial risks (see description under this principle for details), as well as legal risks (see description under principle 1 for details), operational risks (see description under principle 17 for details) and custody and investment risks (see description under principle 16 for details).</p> <p>To address risk to its reputation, CSDC collects and collates reports which monitor public opinion on a daily basis. CSDC has developed a contingency plan for handling public events. If any incident (e.g. petition) affecting the Company's reputation occurs, it will deal with the incident according to the contingency plan and ensure efficient communication and coordination with the media outlets.</p> <p>To address financial risk, CSDC has established an internal financial control system under the leadership of the Company's General Manager to ensure the safety and efficiency of the Company's financial operations. In addition, CSDC has a General Meeting of Shareholders</p>

	<p>and a Board of Directors which reviews the Company’s annual budget and the previous year’s final accounts at the beginning of each year in order to prevent financial fraud.</p>
<p>Key consideration 2</p> <p>An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.</p>	<p>CSDC holds its liquid net assets mainly in the form of deposits in commercial banks. The Company has sufficient funds to ensure it can continue operations and services in the event that general business losses are incurred.</p>
<p>Key consideration 3</p> <p>An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses.</p>	<p>CSDC has formulated business continuity (contingency, etc.) plans (For details, please see the description under Principle 17). CSDC’s <i>Articles of Association</i> sets forth relevant principles for the recovery or wind-down plan.</p> <p>CSDC uses settlement guarantee fund, settlement risk fund and general risk fund to cover the risk of loss in the event of default of settlement participants, and uses its own funds to cover general business risks. The settlement guarantee fund, settlement risk fund, general risk fund and proprietary funds are managed in separate accounts in accordance with relevant regulations to ensure full segregation. CSDC holds liquid net assets funded by equity equal to at least six months of current operating expenses.</p>

<p>These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.</p>	
<p>Key consideration 4</p> <p>Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.</p>	<p>Pursuant to regulatory requirements, CSDC must exercise prudence in investing and managing assets. Therefore, CSDC holds its liquid net assets basically entirely in the form of bank deposits. Its assets quality and liquidity are sufficient to meet the expected operational expenses under current or extreme market conditions. CSDC forms its own annual report on the deposit and use of the Company's own funds, and the annual budget.</p>
<p>Key consideration 5</p> <p>An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.</p>	<p>CSDC, as an organization directly managed by CSRC, can ensure the rapid raising of additional capital in an emergency.</p> <p>Article 12 of CSDC's <i>Articles of Association</i> provides that "the transfer of shareholders' capital contributions and the increase or decrease of the Company's capital shall be approved by a resolution of the General Meeting of Shareholders and reported to the China Securities Regulatory Commission for approval." Article 30 provides that "the functions and powers of the Board of Directors include formulating plans for registered capital increase or decrease and for bond issuance by the Company."</p>

Principle 16: Custody and investment risks

An FMI should safeguard its own and its participants' assets and minimize the risk of loss on and

delay in access to these assets. An FMI’s investments should be in instruments with minimal credit, market, and liquidity risks.

<p>Summary</p>	<p>CSDC has established an effective safekeeping management system for its own assets and the assets of settlement participants. Funds delivered by settlement participants and CSDC’s own funds are deposited separately in commercial banks. CSDC has established a sound system of standards for selection and assessment of commercial banks. Funds are deposited in a number of commercial banks to effectively reduce custody and investment risks. The Company has prompt access to its own assets as well as the assets provided by settlement participants.</p> <p>CSDC’s own funds and the funds of settlement participants are not engaged in investment activities unrelated to securities registration and settlement businesses. Any major investment must be reported to the Board of Directors and the General Meeting of Shareholders for approval and finalized by CSRC.</p>
<p>Key consideration 1</p> <p>An FMI should hold its own and its participants’ assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.</p>	<p>There is no custody or investment risk in terms of CSDC’s mainland businesses, as financial assets in the securities category are directly registered in the name of investors, and CSDC is prohibited from misappropriating the securities assets of investors for investments or other purposes.</p> <p>As for overseas business, under the Shanghai/Shenzhen Hong Kong Stock Connect program, the Hong Kong market securities that domestic investors hold through settlement participants are deposited in the securities account of CSDC in HKSCC Nominees Limited. HKSCC Nominees Limited is the only CSD in the Hong Kong market, and is subject to supervision of local ordinance and regulatory authorities, thus posing minimal custody risk.</p> <p>The assets under the custody of CSDC mainly include settlement reserves and settlement guarantee fund. CSDC’s <i>Measures for the Administration of Securities Funds Settlement via Settlement Banks</i> enforce a strict access mechanism for settlement banks.</p>
<p>Key consideration 2</p> <p>An FMI should have prompt access to its assets and the assets provided by participants, when required.</p>	<p>According to the <i>Measures for the Administration of Securities Funds Settlement via Settlement Banks</i>, an important eligibility requirement for settlement banks is “possessing a transfer system that allows for nationwide real-time transfer of securities funds within the said system.” This rule ensures that when a settlement participant defaults, CSDC can quickly freeze the settlement funds and dispose of the collateral.</p>
<p>Key consideration 3</p> <p>An FMI should evaluate and understand its exposures to its</p>	<p>CSDC dissipates risk by depositing funds in a number of settlement banks and has established a regular settlement bank review system. CSDC conducts an annual review of each settlement bank’s performance in securities fund settlement with CSDC and comprehensively assesses the timeliness, safety and accuracy of its securities monetary</p>

<p>custodian banks, taking into account the full scope of its relationships with each.</p>	<p>settlements. The assessment method is a combination of on-site and off-site inspections.</p>
<p>Key consideration 4</p> <p>An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.</p>	<p>Except for the Company's equity investments, CSDC currently does not engage in non-deposit investment activities. Its own funds, settlement reserve, settlement guarantee fund and settlement risk fund are all deposited in banks and bears interest. The interest income from the settlement reserve and settlement guarantee fund is the property of settlement participants, who have full knowledge of the investment income.</p>

Principle 17: Operational risk

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfillment of the FMI's obligations, including in the event of a wide-scale or major disruption.

<p>Summary</p>	<p>CSDC has a comprehensive operational risk management framework that enables it to effectively identify various operational risks and take relevant measures to manage them.</p> <p>CSDC has established a policy framework and organizational structure for operational risk management. CSDC has clear operational stability indicators and has adopted a series of measures to ensure the fulfillment of its objectives. CSDC's centralized monitoring system monitors the load and future development trends of business systems in real time and has adequate scalable capacity to allow scaling-up/scaling-out during periods of system overload.</p> <p>CSDC has formulated physical security and information security policies to deal with all potential security vulnerabilities and threats</p>
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	<p>based on multi-level security standards, CSRC requirements and good industry practices. CSDC has established business continuity and contingency plans to ensure CSDC's timely recovery of operations and the fulfillment of its obligations.</p> <p>CSDC monitors and manages the risks of relevant external institutions such as exchanges, settlement participants and outsourcing service providers through its policies and controls.</p>
<p>Key consideration 1</p> <p>An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.</p>	<p>CSDC has established a comprehensive system of business rules and policies, and has specified the procedures, standards and organizational structure for its various business operations and management.</p> <p>CSDC ensures the identification of possible sources of operational risks through regular or irregular self-checks and assessments as well as supervision and inspection by the auditing departments.</p> <p>CSDC monitors and manages identified operational risks through internal self-checks, audits and policy revisions. Most of CSDC's daily business operations are fixed in IT systems. Therefore, the operational risks addressed by CSDC are mainly related to IT systems. CSDC has formulated various information system policies covering the research, development and maintenance of IT systems, and explicitly requires proper management and strict prevention of IT risks. CSDC regularly audits operation records, and improves the procedures and standards in accordance with the ISO20000 standard for IT service management. Within the ISO20000 management framework, CSDC regularly develops, reviews and summarizes availability and continuity indicators, regularly records and discusses the problems that have occurred, and regularly formulates problem reports, knowledge bases, etc. CSDC regularly holds technical meetings to research the existing and potential problems and specifies risk response measures in the minutes of meetings and other documents, so as to identify potential safety hazards and improve risk handling capabilities.</p> <p>As for operational risks not related to IT systems, CSDC has established a complete set of internal policies and procedures to manage risks. The Company effectively prevents operational risks through separation and supervision of functions/duties, reasonable operating procedures, record keeping, regular review and continuous optimization.</p> <p>These systems, policies, procedures and controls are mainly documented in business rules, policies and the minutes of meetings.</p>
<p>Key consideration 2</p> <p>An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and</p>	<p>CSDC has established a multi-tiered risk management system led by the Board of Directors, with specific duties assigned to each management level. Business and IT departments of CSDC's headquarters and branches assume specific responsibilities for preventing operational risks. The audit department is responsible for supervision and inspection. The IT development and planning department is responsible for designing the Company's information security system, tracking and checking information security development and coordinating internal</p>

<p>should endorse the FMI’s operational risk management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.</p>	<p>and external inspections and audits on information security.</p> <p>Organizational structure changes, staffing, as well as announcement and implementation of policies, procedures and standards related to operational risk management are subject to approval by the Company’s management team. The Risk Management Committee and functional departments regularly or irregularly assess and revise relevant policies according to business changes and market developments when necessary.</p> <p>With regard to IT systems, CSDC holds meetings on safe operation, regularly analyzes and assesses the operational status of various systems, conducts regular emergency operation manual drills, and regularly scans and inspects system security vulnerabilities. The audit department also regularly conducts IT audits and requires timely rectification of any problems discovered. After changes occur or before new business goes live, CSDC reviews and tests any relevant changes in accordance with procedures. In addition, the Company has procedures for effectively managing items for improvement of management processes and services identified during operation of its management system, so as to ensure the effectiveness and continuous improvement of its systems. CSDC conducts routine tests with participants in simulated, real-world, whole network and other testing environments on an ongoing basis. In areas unrelated to IT systems, CSDC’s audit department conducts special internal audits each year.</p> <p>CSDC regularly receives information security inspection from CSRC, the cyber-security management departments of local public security bureaus, and other authorities.</p>
<p>Key consideration 3</p> <p>An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.</p>	<p>CSDC’s operational reliability objectives are “ensuring security and efficiency” and “forestalling systemic and major business risks” and are recorded in CSDC’s work plan. As for IT systems, CSDC currently has a <i>Service Level Agreement</i> (SLA) and key performance indicators (KPI) for each procedure, which are recorded in the Company’s system operation documentation.</p> <p>CSDC maintains sound ex-ante, real-time and ex-post risk management by strengthening day-to-day risk management and updating its risk management system, thereby ensuring high operational stability. In particular, in terms of maintaining the stability of IT systems, CSDC regularly reviews SLA implementation and the validity of its content, annually evaluates and revises performance indicators for its procedures, and assesses the fulfillment status of these indicators. The Company has established service management objectives in terms of system availability, service recovery capability, timely resolution of incidents, and customer satisfaction.</p>
<p>Key consideration 4</p> <p>An FMI should ensure that it has scalable</p>	<p>With regard to IT systems, CSDC has established a centralized monitoring system to conduct real-time monitoring and dynamic analysis of business stress and trends, optimize the IT framework in due</p>

<p>capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.</p>	<p>time, identify any deficiencies in the IT system in advance, and upgrade the system capacity. In addition, CSDC regularly assesses system capacity in accordance with ISO20000 capacity management requirements. In terms of human resources, CSDC evaluates the increase in business volume each year to maintain appropriate human resources and ensure their adequacy.</p> <p>When an emergency occurs, CSDC will initiate an emergency response according to the Company’s contingency plan. Countermeasures include optimizing operational procedures, adjusting the IT framework, increasing hardware resources and releasing relevant public announcements in a timely manner. Scalability was taken into account when the system architecture was developed to ensure that its capacity could be scaled up quickly in emergency. CSDC reduces pressure on human resources through staff rotation, recruitment and automation of operations.</p>
<p>Key consideration 5</p> <p>An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.</p>	<p>CSDC has established a full-fledged system for management of physical security and information security pursuant to the basic requirements for multi-level network security, CSRC requirements, and good industry practices.</p> <p>In terms of physical security, the Company has relevant security management policies, procedures and measures to resist physical threats in its office spaces, control centers and computer rooms, which appear in ascending order of risk level. Specifically, the Company’s requirements for multi-level information system security include regular screening of the risks regarding physical location, physical access control, theft prevention, damage, fires, lightning strikes, floods, humidity, static electricity, power interruptions and other hazards to the computer room, and include improvement of risk prevention measures.</p> <p>With regard to information security, the Company has policies for procedures regarding information security management, internal audits, and changes, as well as personnel access control and data backup, which are regularly improved through security self-checks and security assessments. CSDC has entered into information security/confidentiality agreements with its vendor partners to strictly control user access and data use pursuant to relevant operations and maintenance management procedures.</p>
<p>Key consideration 6</p> <p>An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a</p>	<p>In order to ensure business continuity, CSDC has established an organizational structure for emergency response, a system of emergency policies and procedures, and conducts emergency drills each year.</p> <p>All of CSDC’s facilities are backed up with redundancy. For example, the computer room has a dual power supply, and the communication links with relevant participants are separately maintained from the primary site and a backup site via private lines rented from two different telecommunications providers. On the other hand, the local and intra-city disaster recovery systems for all core business systems can</p>

<p>wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.</p>	<p>ensure that the recovery time objective (RTO) is about 1 to 2 hours and the recovery point objective (RPO) is zero. Thus, operations can be resumed within 2 hours following disruptive events and disaster recovery requirements can be met. Currently, CSDC has in place 6 data centers in three cities where its headquarter and branches operate, enabling both intra-city and between-city disaster recovery systems. All data centers can work independently to support the Company's securities depository and clearing services continuously.</p> <p>CSDC's contingency plan and other documents set forth how and what CSDC should disclose to CSRC, exchanges, participants and the entire market in the event of a crisis, and specify CSDC's countermeasures in the case of an emergency.</p> <p>CSDC regularly assesses IT risks, reviews and revises the contingency plan, and conducts annual industry-wide and in-house emergency drills. Each year, relevant institutions in the industry also conduct multiple whole network tests and switch over drills with each other.</p>
<p>Key consideration 7</p> <p>An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.</p>	<p>Through its IT systems, CSDC is able to monitor the communication status, data integrity and transmission points with exchanges, participants and other institutions with which it has business links, in real-time, so as to ensure the timely detection and early resolution of problems.</p> <p>By signing MoU or otherwise, CSDC has reached agreements with exchanges, settlement participants and other external institutions on the times of data transmission and receiving as well as coordination and emergency mechanisms in case of serious abnormalities. The practice aims at identifying problems as early as possible to effectively segregate risks in the event of an incident and avoid IT risks arising from systems changes of any party.</p> <p>CSDC maintains redundancy of all resources to cope with risks from external public utilities, such as power and telecommunications.</p> <p>For outsourced services, CSDC specifies the work standards and confidentiality requirements for its vendors in service contracts and confidentiality agreements, while also restricting access by outsourced personnel via managerial and technical means, and monitoring and auditing outsourced operations. In addition, CSDC requires key service providers to participate in its emergency drills each year.</p>

Principle 18: Access and participation requirements

An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

<p>Summary</p>	<p>CSDC has formulated the <i>Rules for Management of Settlement Participants</i> and has sound policy arrangements for both access and continuity management of settlement participants. All settlement participants have fair and open access to services provided by CSDC in accordance with the rules.</p> <p>Based on reasonable and risk-related considerations, CSDC has defined and publicly disclosed different access requirements for various types of settlement participants.</p> <p>CSDC monitors the compliance of settlement participants on an ongoing basis. The Company has clearly defined procedures for facilitating the suspension and orderly exit of a settlement participant that breaches, or no longer meets, the participation requirements.</p>
<p>Key consideration 1</p> <p>An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.</p>	<p>CSDC has formulated the <i>Rules for Management of Settlement Participants</i>. Settlement participants are divided into participating securities companies, participating banks and other participants (including HKSCC Nominees Limited). Participating securities companies are divided into Type A settlement participants and Type B settlement participants according to their eligibility of acting as settlement agents.</p> <p>Based on laws and regulations, risk control needs, and the requirements for day-to-day management of settlement participants, CSDC has formulated the <i>Rules for Management of Settlement Participants</i> and <i>Guidelines for Management of Settlement Participants</i>, in which detailed requirements for the financial situation, IT infrastructure and staffing of participants serve as the basis for continuity management and the determination of their eligibility.</p> <p>The relevant requirements neither impose restrictions on the minimum transaction amount or the customers of settlement participants, nor include any annual fees or access fees. All settlement participants that meet CSDC's criteria can have fair and open access to services provided by CSDC.</p>
<p>Key consideration 2</p> <p>An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it</p>	<p>CSDC requires settlement participants to have a valid business license, solid financial guarantee, IT and risk control systems that meet the requirements for settlement transactions, as well as specialized bodies and full-time settlement personnel, in order to ensure that settlement participants have sufficient technical and human resources to support its business activities.</p> <p>In terms of specific risks, CSDC uses different access standards for different classes of settlement participants. In addition, CSDC sets</p>

<p>serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavor to set requirements that have the least-restrictive impact on access that circumstances permit.</p>	<p>settlement guarantee fund ratios and minimum settlement reserve ratios specific to the business type of settlement participants (For details, please see the description under Principle 6).</p> <p>Except for the financial licensing and regulatory requirements imposed by law, the participation restrictions set by CSDC are all based on risk management considerations. There are no participation restrictions that are unrelated to risks.</p>
<p>Key consideration 3</p> <p>An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.</p>	<p>CSDC inspects and monitors the compliance of settlement participants as appropriate, in forms of on-site and off-site inspections and routine risk monitoring. CSDC regularly conducts evaluations of settlement participants' overall businesses, in terms of the operation of settlement business and other related businesses, occasions of receiving regulatory penalties or self-discipline measures, professional qualifications and financial situations. The evaluation results fall into three categories: A (Excellent), B (Good), and C (Watch).</p> <p>Those who no longer meet CSDC's requirements for Type A or Type B settlement participants will be downgraded or disqualified. Settlement participants who are deemed unlikely to perform their settlement obligations properly due to high-risk rating or regulatory measures from CSRC, stock exchanges or other regulatory authorities, or because of regulatory measures enforced against them, will be placed on CSDC's watch list and may be subject to various risk control measures according to their risk level. For those settlement participants who (1) voluntarily apply to CSDC for disqualification, (2) no longer meet the requirements for settlement participants, (3) seriously violate the business rules or settlement discipline of CSDC, (4) are announced according to law to revoke business licenses, declare closure, dissolution, or bankruptcy, (5) are deemed by CSRC to be no longer qualified as a settlement participant, CSDC will disqualify them in accordance with relevant regulations and proceed with special management on their following settlement operations. The results of disqualification and special settlement operations will be reported to CSRC and released on CSDC's website. The disqualification procedures for settlement participants are also published on CSDC's website.</p>

Principle 19: Tiered participation arrangements

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

<p>Summary</p>	<p>In accordance with the <i>Measures for the Administration of Securities Registration and Settlement</i> and the <i>Rules for Management of Settlement Participants</i>, among other regulations and rules, CSDC has provided a well-founded legal basis for implementing tiered participation arrangements. CSDC has established settlement risk management policies and system to effectively identify, monitor, prevent and manage material risks arising from tiered participation arrangements.</p> <p>For the time being, there are no non-settlement participants (indirect participants) in CSDC.</p>
<p>Key consideration 1</p> <p>An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements.</p>	<p>CSDC has institutional arrangements for tiered settlement participation. The <i>Measures for the Administration of Securities Registration and Settlement</i> and <i>Rules for Management of Settlement Participants</i> set forth a three-tiered management structure consisting of CSDC, settlement participants (direct participation) and non-settlement participants (indirect participation). CSDC has a direct settlement relationship with settlement participants, who have an agency settlement relationship with non-settlement participants.</p> <p>According to the eligibility criteria for settlement agency settlement participants are divided into Type A and Type B settlement participants. Only Type A settlement participants can establish an agency settlement relationship with non-settlement participants, while Type B settlement participants are not eligible as settlement agents for non-settlement participants.</p> <p>The identified material risks to CSDC arise from tiered participation arrangements where the direct participants' incapability in managing the of risks posed by its indirect participants lead to transmission of credit risks to CSDC.</p> <p>CSDC mitigates risks arising from tiered participation arrangements by establishing agreements with settlement participants regarding risk management of their customers, which require that settlement participants shall impose risk management requirements on the non-settlement participants to the same extent or no less than those imposed by CSDC on its direct participants.</p>
<p>Key consideration 2</p> <p>An FMI should identify material dependencies between direct and indirect participants that might affect the FMI.</p>	<p>CSDC is able to monitor the risks of all settlement participants (direct participants). If in the future, there are indirect participants, CSDC is also able to identify any material dependencies arising from them that may affect the Company, with the help of its systems and risk management tools.</p>

<p>Key consideration 3</p> <p>An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions.</p>	<p>For the time being, there are no indirect participants for CSDC as all settlement participants are direct participants. CSDC is not exposed to any risks arising from tiered participation arrangements and therefore has no established risk control and monitoring measures in this regard.</p>
<p>Key consideration 4</p> <p>An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate.</p>	<p>For the time being, there are no indirect participants for CSDC as all settlement participants are direct participants. CSDC is not exposed to any risks arising from tiered participation arrangements and therefore has no established risk control and monitoring measures in this regard.</p>

Principle 20: FMI links

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

<p>Summary</p>	<p>At present, CSDC’s CSD-CSD link only involves free-of-payment (FOP) settlement, where there are no temporary arrangements for securities transfer or credit granting and no credit or liquidity risks are involved.</p> <p>CSDC and HKSCC Nominees Limited has established a CCP-CCP link. Before the link was established, CSDC formulated detailed business plans to comprehensively analyze and identify potential risks that might arise from the link and made institutional arrangements to effectively prevent and manage risks. Under the link, CSDC and HKSCC Nominees</p>
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	<p>Limited became each other’s participant according to the principles of host jurisdiction and risk segregation. Settlement risks of participants in CSDC will not spread to HKSCC Nominees Limited and vice versa.</p>
<p>Key consideration 1</p> <p>Before entering into a link arrangement and on an ongoing basis once the link is established, an FMI should identify, monitor, and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.</p>	<p>At present, CSDC maintains the following FMI links: the two-way CSD link and two-way CCP link with HKSCC Nominees Limited for settlement under the Shanghai/Shenzhen-Hong Kong Stock Connect program, the link with China Central Depository & Clearing Corporation (CCDC) for cross-market custody transfer of treasury bonds, the link with China Financial Futures Exchange (CFFEX) for bond transfer regarding the treasury bond futures delivery, and the one-way CSD link with HKSCC Nominees Limited for B-to-H Conversion and H-Share Full Circulation.</p> <p>Before establishing a link with any other FMIs, CSDC will set up cross-departmental joint working group consisting of the Company’s legal, business and technical personnel to comprehensively identify various risks points according to PFMI and analyze and assess potential risks (e.g., legal, credit, liquidity, custody and operational risks) that might arise from such links. In addition, the Company will set up a bilateral working group with the to-be-linked FMI in order to fully communicate and exchange ideas, provide preliminary assessments and suggest preventive measures for identified risks. In addition, CSDC employs lawyers from external agencies to independently assess relevant legal risks. CSDC’s Risk Management Committee and Management Team review the assessment results and report to CSRC for further review and approval. The above assessment results directly influence CSDC’s decision on whether to link with other FMIs. If the assessment results show that the potential risks are too high and cannot be effectively controlled through improved solutions, CSDC will terminate efforts in establishing the link.</p> <p>CSDC reviews the validity and compliance of the linkage from time to time. In the case of revisions to laws and regulations or business rules change, CSDC will review and assess the impact of such changes on the link, and, when necessary, adjust the relevant business agreements and rules or even terminate the link.</p> <p>CSDC continuously identifies, monitors and manages risks arising from established links through business agreements, operating procedures, regular reconciliation, contingency planning and other arrangements. For risky links, CSDC conducts financial assessment and due diligence on the linked FMIs regularly (once a year) and identifies, measures and manages the risk exposure arising from the links on an ongoing basis.</p>
<p>Key consideration 2</p> <p>A link should have a well-founded legal basis, in all relevant jurisdictions, that</p>	<p>As for cross-border links, CSDC conducts its businesses involved with the link in accordance with the principle of host jurisdiction and laws, regulations and business rules applicable to linked markets and bilateral business agreements with the linked FMI. CSDC employs professional lawyers to issue relevant legal opinions and also requires the linked FMI to issue relevant legal opinions to ensure that the link has a well-founded</p>

<p>supports its design and provides adequate protection to the FMIs involved in the link.</p>	<p>legal basis, and is free of any conflicts of interest. In the existing cross-border link with HKSCC Nominees Limited, CSRC has signed MOUs on regulatory cooperation with Hong Kong Securities and Futures Commission (SFC), providing an adequate regulatory basis for cross-border links. When relevant laws and regulations are revised, CSDC comprehensively assesses their impact on relevant business rules, agreements and arrangements for cross-border links and makes appropriate adjustments when necessary. In case of major legal conflicts, CSDC may terminate the relevant cross-border link agreement under the regulatory authorities' arrangements.</p>
<p>Key consideration 3</p> <p>Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits.</p>	<p>Regarding the CSD-CSD link between CSDC and HKSCC Nominees Limited under the Shanghai/Shenzhen-Hong Kong Stock Connect program, neither temporary arrangements for securities transfer nor credit granting is available for securities delivery under the Shanghai/Shenzhen-Hong Kong Stock Connect program. Regarding the CCP-CCP link between CSDC and HKSCC Nominees Limited under the Shanghai/Shenzhen-Hong Kong Stock Connect program, please see descriptions in Key consideration 7 under this principle.</p> <p>CSDC-CCDC link for cross-market custody transfer of treasury bonds CSDC performs write-down according to the investor's application for outgoing transfer, and sends the verified custody transfer instruction to CCDC through the user terminal of the book-entry system. Following the confirmation by CCDC, the Company indicates successful custody transfer. No credit is granted to the investor in the process. In addition, the cross-market incoming transfer of treasury bonds follows the FOP mechanism, and CSDC also grants no credit to CCDC in the process.</p> <p>CSDC-CFFEX link for bond transfers regarding treasury bond futures delivery: At the instruction of CFFEX, CSDC forwards the pre-delivery amount of the seller (investor) to the securities company or bank acting as its custodian, and completes the transfer of relevant securities or funds according to CFFEX instructions. CSDC mainly transfers funds or securities as instructed and makes no advances, thus facing no credit risks.</p> <p>The link between CSDC and HKSCC Nominees Limited for B-to-H Conversion: When a domestic investor sells H-shares, CSDC is responsible for completing the DVP settlement of securities in real time with the overseas securities company acting as an agent according to the transaction data. CSDC mainly functions as a custodian bank in the process and faces no credit risks.</p> <p>To sum up, CSDC is not exposed to any credit risks arising from its current CSD-CSD links.</p>
<p>Key consideration 4</p> <p>Provisional transfers of securities between linked CSDs should</p>	<p>Existing business rules prohibit provisional transfer of securities to or from linked CSDs. In inter-system cooperation, CSDC does not transfer securities provisionally. The agreements between CSDC and linked FMIs confirm the finality of securities transfer and prohibit provisional</p>

<p>be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final.</p>	<p>transfer.</p>
<p>Key consideration 5</p> <p>An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's participants.</p>	<p>The agreements between CSDC and linked FMIs stipulate that CSDC as an investor CSD, opens an account with the issuer CSD, with its participant accounts segregated from the issuer CSD's participant accounts, and its participant assets are segregated from the issuer CSD's own and its participants' assets. The assets of CSDC's participants are immune from claims of the issuer CSD's creditors. The issuer CSD shall, should it go bankrupt, protect the assets of CSDC's participants from freezing or other bankruptcy claims. The assets of CSDC's participants share no losses with other participants in the issuer CSD.</p> <p>As an investor CSD, CSDC reconciles shares with the issuer CSD on a daily basis. As an investor CSD, CSDC implements an internal segregation system; that is, the Company opens securities accounts in the name of participants and investors in order to register their securities holdings, which are segregated from CSDC's own assets and immune from CSDC's financial risks. Therefore, participants and investors are highly protected.</p>
<p>Key consideration 6</p> <p>An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.</p>	<p>Not applicable. CSDC uses no intermediary for CSD links.</p>
<p>Key consideration 7</p> <p>Before entering into a link with another CCP, a CCP should identify and manage the potential spill-over effects from the default of the linked CCP. If a link has</p>	<p>CSDC operates a CCP-CCP link with HKSCC Nominees Limited under the Shanghai/Shenzhen-Hong Kong Stock Connect program. Before the CCP-CCP link was created, CSDC formulated a detailed business plan to comprehensively analyze and identify potential risks that might arise from the link and made policy arrangements (including business rules and agreements) to effectively prevent and manage risks. Under the link, CSDC and HKSCC Nominees Limited became each other's participant and abide by each other's business rules according to the principles of host jurisdiction and risk segregation.</p>

<p>three or more CCPs, each CCP should identify, assess, and manage the risks of the collective link arrangement.</p>	<p>CSDC and HKSCC Nominees Limited pay settlement guarantee fund to each other and strictly manage each other's credit risk and liquidity risk, in the same way with other settlement participants.</p> <p>In addition, settlement participants in the two markets are segregated from each other, i.e. CSDC's settlement participants will not become settlement participants of HKSCC Nominees Limited or vice versa. Thus, the settlement risks of settlement participants in the two markets are segregated from each other.</p>
<p>Key consideration 8</p> <p>Each CCP in a CCP link arrangement should be able to cover, at least on a daily basis, its current and potential future exposures to the linked CCP and its participants, if any, fully with a high degree of confidence without reducing the CCP's ability to fulfill its obligations to its own participants at any time.</p>	<p>In the CCP-CCP link under the Shanghai/Shenzhen-Hong Kong Stock Connect program, HKSCC Nominees Limited, like other settlement participants in CSDC, shall abide by relevant business rules of CSDC. The assessment results under other principles in this Report are all applicable to this link (including Principles 4, 5, 6 and 7). Potential credit risks from HKSCC Nominees Limited are prevented by the DVP mechanism, minimum settlement reserve as well as settlement guarantee fund.</p> <p>Unlike other settlement participants, under the Shanghai/Shenzhen-Hong Kong Stock Connect program, the exchanges on both sides have set a daily ceiling for trading volume and a range for tradable securities (stocks of relatively good quality), which limit current and potential maximum mutual exposures to a relatively low level. Such arrangements, together with the existing margin system, effectively cover the above risk exposures.</p>
<p>Key consideration 9</p> <p>A TR should carefully assess the additional operational risks related to its links to ensure the scalability and reliability of IT and related resources.</p>	<p>Not applicable.</p>

Principle 21: Efficiency and effectiveness

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

<p>Summary</p>	<p>CSDC is not for profit. The Company's priority objectives are safety, efficiency and supporting market development, and it continuously meets the needs of its participants and the markets it serves. By regularly formulating and implementing its development strategy, annual work</p>
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	plans and operating factors and indicators, CSDC clearly defines, strictly implements and regularly assesses its long-term goals and short-term objectives.
<p>Key consideration 1:</p> <p>An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.</p>	<p>CSDC is not for profit. It strives to meet the needs of its participants and the markets it serves. Further explanations are provided below as to how CSDC meets the needs of its participants and the market it serves in terms of clearing and settlement, operational structure, scope of products, use of technology and procedures, and cost control.</p> <ul style="list-style-type: none"> ● Clearing and settlement arrangements: The Company provides settlement participants with guaranteed multilateral net settlement, non-guaranteed bilateral net and gross obligation-by-obligation settlement, and non-guaranteed settlement in the primary market. ● Operating structure: CSDC has achieved straight-through processing (STP) with exchanges, settlement participants and settlement banks, ensuring high operational efficiency. ● The scope of products cleared, settled or recorded: CSDC provides services for A-shares, B-shares, DRs, treasury bonds, corporate bonds, enterprise bonds, ETFs, LOFs, REITs, asset-backed securities and stock options, etc. Three branches of CSDC have achieved net settlement under a single agreement for the majority of products except B-shares, stock options and so on in their respective markets with high settlement efficiency. ● Technology and procedures: Currently CSDC follows domestic standards and specifications that are sufficient to meet market needs. In the future, CSDC will conduct further research on how to accommodate internationally accepted communication procedures and standards according to the needs of the two-way opening up of China’s capital market. ● IT arrangements: The Company’s IT development and planning department is responsible for the formulation of IT plans, overall planning of development resources, and arrangements for the development of new products and technologies. Finally, the Company makes the overall arrangements for implementation. During implementation, the Company makes necessary adjustments according to the needs of settlement participants and exchanges, aiming to minimize the adverse impact on participants’ business costs.
Key consideration 2:	In accordance with CSDC’s <i>Articles of Association</i> , the Company will

<p>An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.</p>	<p>“create a centralized, safe and effective system of securities registration and settlement that meets standardization and internationalization requirements, features openness and scalability, prevents market risks, boosts market efficiency and better meets the future development needs of China’s securities market.”</p> <p>In accordance with the <i>Administrative Measures for Development Planning</i> of the Company, CSDC has formulated the Company’s strategic plan, annual work plan and developed other development goals and objectives in line with the Company’s statement of purpose. When goals and objectives are set, whether they are measurable and achievable is taken into consideration.</p> <ul style="list-style-type: none"> ● Long-term goals are mainly defined in the Company’s strategic development plan. CSDC always strives to become a globally important financial market infrastructure featuring sound rules and regulations, comprehensive risk control system, advanced technology, strong service capabilities, and high-quality innovation and development and has made decisive actions toward the long-term goals. Formulation of CSDC’s strategic development plan includes breaking the plan down into smaller tasks and specifying the deliverables and scheduling of relevant tasks, so as to make long-term goals more actionable. In defining its long-term goals, the Company comprehensively weighs its own capabilities and resources, as well as the development plans in national and regulator levels and external supports available to the Company. Besides, the necessary means of ensuring adequate implementation of the strategic development plan are also included in the plan. ● Short-term objectives are defined mainly in the Company’s annual work plan. The annual work plan gives top priority to supporting market development, improving market efficiency and forestalling risks, and provides specific supportive measures to make sure the short-term objectives are achieved. At the beginning of each year, CSDC defines tasks for the year based on its strategic development plan, major work and innovation activities conducted in the previous year. In determining annual tasks, the Company comprehensively weighs its own capabilities and resources and external supports available to the Company, so as to ensure that the tasks are actionable.
<p>Key consideration 3: An FMI should have</p>	<p>CSDC has established a set of procedures and indicators such as its strategic development plan, annual work plan and operating factors and indicators, which basically reflect CSDC’s operating efficiency and</p>

<p>established mechanisms for the regular review of its efficiency and effectiveness.</p>	<p>effectiveness. Regular review of strategic development plan, work plan and operating factors and indicators includes but is not limited to the following: Is safe operation guaranteed? Are systemic risks prevented? Have the innovation and development important and urgent to the whole market been supported? These elements all involve CSDC's pursuit of efficiency and effectiveness. CSDC conducts interim and final reviews of its strategic development plan, and assesses the Company's operating factors once annually.</p>
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Principle 22: Communication procedures and standards

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

<p>Summary</p>	<p>In order to meet business needs and taking into account security and efficiency considerations, CSDC mainly uses domestic communication procedures and standards. From a practical point of view, CSDC's IT systems are capable of providing efficient and safe services. Meanwhile, the Company has kick-started research on ISO20022 and other international communication procedures and standards. In case the need to support cross-border business development arises in the future, the Company can provide a short-term solution where international communication procedures and standards can be accommodated through interface conversion.</p>
<p>Key consideration 1 An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.</p>	<p>CSDC mainly operates within the territory of the People's Republic of China. For efficiency and security considerations, it mainly follows domestic or in-house communication procedures and standards.</p> <p>To support cross-border business development in the future, the Company has kick-started research on ISO20022 and other international communication procedures and standards. In case the need to support cross-border business development arises in the future, the Company can provide a short-term solution where international communication procedures and standards can be accommodated through interface conversion.</p>

Principle 23: Disclosure of rules, key procedures, and market data

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

<p>Summary</p>	<p>CSDC has clear and comprehensive rules and procedures, which are publicly disclosed in a timely manner through the Company’s website (www.chinaclear.cn).</p> <p>CSDC clearly discloses relevant system designs and operations and service fees, interacts with participants through training and other means, and helps participants assess and manage the risks and costs incurred by their use of CSDC’s services. In addition, CSDC regularly discloses relevant business data to the market in order to improve market transparency.</p>
<p>Key consideration 1</p> <p>An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.</p>	<p>CSDC has clear and comprehensive rules and procedures, and discloses them to the general public in a timely manner through the Company’s website (www.chinaclear.cn). Relevant document types include business rules, detailed rules for implementation, guidelines and directives, standard-form agreements (contracts) and notices. The above documents include all the important rules and procedures binding CSDC and its settlement participants, as well as the relevant rules and measures for dealing with non-conventional events such as participant default, system failure and temporary market suspensions.</p> <p>CSDC usually discloses its revisions to rules and procedures publicly in the form of notices on its website. In addition, the Company will notify settlement participants in a timely manner of the revisions to the rules involving settlement participants. CSDC will disclose important ad hoc matters and data changes in accordance with relevant procedures as appropriate to ensure that participants have equal access to relevant information. In addition, material information will be released through public media channels in China’s securities industry.</p>
<p>Key consideration 2</p> <p>An FMI should disclose clear descriptions of the system’s design and operations, as well as the FMI’s and participants’ rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.</p>	<p>The rights and obligations between CSDC and settlement participants are set forth in CSDC’s business rules. CSDC’s rules and procedures also include information on the design and operations of its systems. CSDC’s business rules are published on its website without any access restrictions and are transparent and open to the general public.</p> <p>With regard to CSDC’s clearing and settlement operations, the Company provides settlement participants with sufficient information to enable identification and assessment of risks and costs incurred by their use of CSDC’s services. CSDC’s clearing and settlement rules provide the following information: the types of transactions that can be cleared and settled by CSDC and the conditions for clearing and settlement of transactions; how CSDC handles the defaults of settlement participants, including the sources of funds for supporting the handling of defaults and the relevant measures taken against defaulting members; operational risks of CSDC’s clearing facilities.</p> <p>As for the registration and depository functions of CSDC, the Company’s registration and depository rules specify how CSDC should</p>

	<p>operate. The Company provides sufficient information to enable participants to identify and assess risks and costs incurred by their use of CSDC’s registration and depository services.</p>
<p>Key consideration 3</p> <p>An FMI should provide all necessary and appropriate documentation and training to facilitate participants’ understanding of the FMI’s rules and procedures and the risks they face from participating in the FMI.</p>	<p>CSDC maintains interaction with existing and prospective settlement participants to facilitate their understanding of CSDC’s relevant rules, procedures, systems and requirements. In addition, CSDC provides necessary training and assistance to settlement participants. CSDC provides face-to-face or distance training on a regular basis over a range of topics, including business issues, risks and regulatory issues, changes in relevant regulatory policies and CSDC’s rules and procedures. Gathering together market participants including securities companies, listed companies, settlement participants and other market players, CSDC’s training sessions cover a range of areas, such as registration and depository, settlement, pledge, non-transaction transfers, issuer services, business innovation and major market developments. CSDC conducts a survey among attendees during each training session and summarizes the survey findings, in order to assess the training results and provide ongoing training in a more targeted manner.</p> <p>CSDC has established a customer service center that enables all participants to consult both via business hotline or online channels. In addition, CSDC’s website offers an FAQ module to facilitate settlement participants’ understanding of CSDC’s rules, procedures and participation risks.</p>
<p>Key consideration 4</p> <p>An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.</p>	<p>CSDC discloses its fees on its website, including registration and settlement service fees, and fees collected on behalf of CSRC and Ministry of Finance (MOF). In addition, CSDC also publishes its policies on available discounts.</p> <p>CSDC discloses the descriptions of its priced services on its website. Relevant information on the fees for such services is sufficiently detailed for comparability with those of other clearing and depository institutions.</p>
<p>Key consideration 5</p> <p>An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO Disclosure framework for financial market</p>	<p>CSDC has conducted a disclosure based on CPMI-IOSCO’s <i>Principles for Financial Market Infrastructures</i>. This disclosure report was prepared and disclosed in accordance with the requirements of the <i>Disclosure Framework for Financial Market Infrastructures</i>. In the future, CSDC will update the disclosure report in accordance with relevant requirements and procedures. CSDC regularly publishes relevant market data in forms of monthly and annual data reports.</p>

infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.	
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Principle 24: Disclosure of market data by trade repositories

A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.

Summary	CSDC has not been legally recognized as a TR. Principle 24 is not applicable.
Key consideration 1 A TR should provide data in line with regulatory and industry expectations to relevant authorities and the public, respectively, that is comprehensive and at a level of detail sufficient to enhance market transparency and support other public policy objectives.	Not applicable.
Key consideration 2 A TR should have effective processes and procedures to provide data to relevant authorities in a timely and appropriate manner to enable them to meet their respective regulatory mandates and legal responsibilities.	Not applicable.

Key consideration 3

A TR should have robust information systems that provide accurate current and historical data. Data should be provided in a timely manner and in a format that permits it to be easily analyzed.

Not applicable.

V. List of Publicly Available Resources

All effective laws, judicial interpretations and documents, administrative regulations and ministerial rules related to CSDC's businesses are available both at websites of the Company and relevant authorities. Business rules applicable to the business of CSDC are available on its website (www.chinaclear.cn).