

## **The Stock Exchange of Hong Kong Limited**

### **Terms of Reference of Compensation Committee**

The powers and functions and limitations thereon of the Compensation Committee shall be as follows:-

- 1) To exercise all the powers, duties and functions of the Board on all matters relating to:-
  - a. the administration of the Exchange Participants' Compensation (Fidelity Fund and Guarantee Scheme) in accordance with Chapter 9 of the Rules of the Exchange ("Chapter 9"), and
  - b. the administration of the Unified Exchange Compensation Fund ("Compensation Fund") in accordance with Part X of the Securities Ordinance and Chapter 12 of the Rules of the Exchange ("Chapter 12").
- 2) Without prejudice to the generality of the foregoing:-
  - a. to investigate and determine whether any claim for compensation lodged under Chapter 9 is valid or invalid;
  - b. to issue notices inviting claims from Exchange Participants under Chapter 9;
  - c. to process all claims received under Chapter 9 and to require claimants or any person who is reasonably believed to have possession of the relevant information and/or documents to attend before the Compensation Committee and to provide or produce such information or documents in respect of the claim as the Compensation Committee shall think necessary;
  - d. to make determination in allowing, partially allowing or disallowing any claims, interest, legal and other costs under Chapter 9, which determination shall be conclusive and binding on all holders of Stock Exchange Trading Rights/ Exchange Participants;
  - e. to approve and instruct any compensation payment including any apportionment if appropriate, in payment out of the Fidelity Fund after determination is made;
  - f. to enforce the Guarantees furnished by Defaulting Exchange Participants in satisfying relevant compensation payments;
  - g. to determine any apportionment of payments in satisfaction of claims where the aggregate amount payable to all successful claimants in respect of any Defaulting Exchange Participant exceeds the maximum limit for payment under Chapter 9;
  - h. to determine the apportionment of compensation payments in the event that the funds comprising the Fidelity Fund or realisable under the Guarantee furnished by the Defaulting Exchange Participant are insufficient to satisfy the loss of all

claimants in such manner as the Compensation Committee shall consider equitable;

- i. to approve and to register participants in the Fidelity Fund as considered appropriate and to receive and keep the deposits contributed by participants;
- j. to expel any participants from the Fidelity Fund as considered appropriate;
- k. to call on participants of the Fidelity Fund for replenishment of the Fidelity Fund by such amounts as it deems fit upon compensation payment being made;
- l. to manage, invest and administer the Fidelity Fund in such manner as the Compensation Committee may in its absolute discretion think fit or as directed by the board of Hong Kong Exchanges and Clearing Limited.
- m. to prepare and arrange for audit of the annual accounts of the Fidelity Fund and deliver them to all its participants;
- n. to convene a meeting of the participants in the Fidelity Fund for the purpose of dissolving the Fidelity Fund under Rule 915 of the Rules of the Exchange;
- o. to consider and to approve withdrawals from the Fidelity Fund, the release of any Guarantee, the changes in the form of Guarantee and the changes of Guarantee to or from Fidelity Fund, as appropriate;
- p. to approve and instruct refunds of Fidelity Fund deposits to former participants under Chapter 9;
- q. to request participants of the Fidelity Fund to execute any legal documents thought necessary for the purpose of subrogation upon any compensation payment being made out of the Fidelity Fund;
- r. to determine from time to time what property or other assets are acceptable as a basis for any Guarantee and its valuation method;
- s. to approve and accept any Guarantee furnished by Exchange Participants;
- t. to advise holders by Stock Exchange Trading Rights/Exchange Participants and participants of the Fidelity Fund of any instruction, requirements or directions made by the Compensation Committee relating to the Fidelity Fund or Guarantee Scheme;
- u. to require participants of the Fidelity Fund to make further or additional payments to the Fidelity Fund, to increase the guarantee amount and to increase the maximum limit of payment out of the Fidelity Fund or Guarantees as considered appropriate, subject to the approval of the Securities and Futures Commission;
- v. to establish, maintain and revise criteria and procedures for processing claims against the Compensation Fund, and to ensure that they are consistent with Part X of the Securities Ordinance;

- w. to investigate and process all claims made against the Compensation Fund;
  - x. to determine whether any claims made against the Compensation Fund are valid or invalid;
  - y. to issue notices calling for claims against the Compensation Fund, if a prima facie case for a valid claim in respect of a Defaulting Exchange Participant is established;
  - z. to request claimants and any other person to produce such evidence in order to substantiate the claims against the Compensation Fund as the Compensation Committee shall think necessary;
  - aa. to interview claimants to obtain their verbal representations in support of their claims;
  - bb. to conduct hearings or meetings with the Defaulting Exchange Participant for his explanation of and co-operation on relevant claims;
  - cc. to allow (or partially allow) or disallow any claims made against the Compensation Fund as considered appropriate;
  - dd. to serve notice of the determinations in accordance with Part X of the Securities Ordinance;
  - ee. to calculate the amount of compensation payable in respect of each successful claim against the Compensation Fund, subject to the availability of sufficient funds;
  - ff. to require the Compensation Fund deposit from holders of Stock Exchange Trading Rights;
  - gg. to call on holders of Stock Exchange Trading Rights for replenishment of the Compensation Fund by such amounts as it deems fit upon compensation payment being made; and
  - hh. to maintain a Compensation Fund Reserve Account for all receipts and payments by the Exchange in relation to the Compensation Fund and to have absolute discretion in dealing with the funds therein in accordance with Chapter 12.
- 3) To review the provision of the Rules of the Exchange relating to Exchange Participants' Compensation (Fidelity Fund and Guarantee Scheme) and Investors' Compensation (Unified Exchange Compensation Fund) from time to time and to consider and advise on any amendments to those provisions and to recommend such amendments as it sees fit for the approval of the Board, and the Securities and Futures Commission.
  - 4) To liaise with the Securities and Futures Commission (or their successors) and other relevant bodies as the Compensation Committee shall think fit in relation to its powers and duties.

- 5) To submit written and/or oral reports to the Board or the board of Hong Kong Exchanges and Clearing Limited regarding its activities and proceedings as and when requested by it.
- 6) To conform to any written and/or oral regulation (which shall include any direction) that may from time to time be prescribed by the Board or the board of Hong Kong Exchanges and Clearing Limited.
- 7) To delegate at any time and from time to time all or any of its powers to a sub-committee of itself and/or to the Chief Executive and /or any member or members of the staff of the Exchange, subject to such requirements, directions or regulations as it may think fit.

- **END** -

Note:

The Securities Ordinance under which the Unified Exchange Compensation Fund had been set up and administered was repealed by the Securities and Futures Ordinance on 1 April 2003. However, under the transitional arrangements provided in Part XII of Schedule 10 to the Securities and Futures Ordinance, Part X of the repealed Securities Ordinance shall continue to apply to any claim for compensation against the Unified Exchange Compensation Fund in relation to any default of an exchange participant occurring before 1 April 2003.