HKEX 香 港 交 易 所

香港聯合交易所有限公司
(香港交易及結算所有限公司全資附屬公司)

THE STOCK EXCHANGE OF HONG KONG LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

事項： 賣空盤標記的指引

查詢： surveillance@hkex.com.hk

為持續提高交易所規則和規例的透明度和市場參與者的理解，交易所今天發佈了《交易所規則》中有關賣空盤標記規定的示範性實例(「示範性實例」)。

本《示範性實例》闡述了交易所參與者及其他市場人士關於賣空盤標記普遍遇到的情況，包括：

一）使用證券借貸時的入帳模式及

二）在若干情況下應否使用賣空盤標記

請交易所參與者及市場人士注意，本《示範性實例》應與《證券及期貨條例》（包括附屬法例），證券及期貨事務監察委員會發佈的《有關申報賣空活動及備存證券借出紀錄規定的指引》以及相關的《交易所規則》一併閱讀。

現隨本通告夾附該《示範性實例》，以供參考。該《示範性實例》也可在香港交易所網站的「聯交所交易規則執行」一欄查閱。

如市場參與者對該《示範性實例》有任何回應或問題，請聯絡市場監察部（電子郵件：surveillance@hkex.com.hk ）。

市場科
市場監察部
主管
張亦伶　謹啟

本通告以英文及中文譯本刊發。如本通告中文本的字義或詞義與英文本有所出入，概以英文本為準。

SEHK'S SHORT SELLING ORDER
FLAGGING REQUIREMENTS

(ILLUSTRATIVE EXAMPLES)

HKEX
香 港 交 易 所

Market Surveillance & Monitoring
Markets Division

REMINDER

1. **The booking models and scenarios set out herein are intended for illustrative purposes only and are not meant to be complete or exhaustive. Exchange Participants ("EP") should carefully consider their particular circumstances when adopting these examples.**

2. **EP should adopt its selected booking model and short selling flagging approach with <u>consistency</u>.**

3. **EP should ensure compliance with <u>the Securities and Futures Ordinance (and its subsidiary legislation)</u>, the SFC's <u>Guidance Note on Short Selling Reporting and Stock Lending Record Keeping Requirements</u> and <u>the Rules of SEHK</u> at all times.**

4. **EP should consult their legal advisors if and when they are in doubt about their obligations relating to short selling flagging.**

5. **For any feedback and enquiries relating to this document, please email: surveillance@hkex.com.hk.**

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Booking Model 1
Based on Net Position

Order	Buy/Sell	Order Size (Shares)	Net Position	Flagging (Net Position <0, Short Sell)
0	Stock Borrow	10,000	0	N/A
1	Sell	-10,000	-10,000	Short Sell
2	Buy	8,000	-2,000	N/A
3	Sell	-5,000	-7,000	Short Sell
4	Buy	6,000	-1,000	N/A
5	Sell	-5,000	-6,000	Short Sell

- **Borrowed 10,000 shares at Time 0.**
- **When Net Position is negative, all sell orders are short selling.**
- **Orders 3 and 5 are tagged as short sell.**

Assumption: Orders are placed in chronological order and fully executed immediately

Booking Model 2
Shares from Buy Orders are put into Inventory first

Order	Buy/Sell	Order Size (Shares)	Inventory Position	Flagging (Only Using Inventory to Sell)
0	Stock Borrow	10,000	0	N/A
1	Sell	-10,000	0	Short Sell
2	Buy	8,000	8,000	N/A
3	Sell	-5,000	3,000	Long Sell
4	Buy	6,000	9,000	N/A
5	Sell	-5,000	4,000	Long Sell

- **Borrowed 10,000 shares at Time 0.**
- **Shares from buy orders are put into Inventory.**
- **When Inventory Position is positive and larger than sell orders, sell orders are placed as long sell.**
- **Orders 3 and 5 are long sell.**

Assumption: Orders are placed in chronological order and fully executed immediately

Booking Model 3
Shares from Buy Orders are returned to Borrow Desk

Order	Buy/Sell	Order Size (Shares)	Residual Borrowing Inventory (Shares)	Flagging (Only Using Stock Borrow to Sell)
0	Stock Borrow	10,000	10,000	N/A
1	Sell	-10,000	0	Short Sell
2	Buy	8,000	8,000	N/A
3	Sell	-5,000	3,000	Short Sell
4	Buy	6,000	9,000	N/A
5	Sell	-5,000	4,000	Short Sell

- **Borrowed 10,000 shares at Time 0.**
- **Shares from buy orders are returned to Borrow Desk first. Shares for subsequent sell orders will be borrowed from the Residual Borrowing Inventory. All sell orders are short selling.**
- **Orders 3 and 5 are tagged as short sell.**

Assumption: Orders are placed in chronological order and fully executed immediately

Different Booking Models

Order	Buy/Sell	Order Size (Shares)	Model 1		Model 2		Model 3	
			Net Position	Net Position <0, Sell Orders = Short Sell	Inventory Position	Only Using Inventory to Sell	Residual Borrowing Inventory (Shares)	Only Using Stock Borrow to Sell
0	Stock Borrow	10,000	0	N/A	0	N/A	10,000	N/A
1	Sell	-10,000	-10,000	Short Sell	0	Short Sell	0	Short Sell
2	Buy	8,000	-2,000	N/A	8,000	N/A	8,000	N/A
3	Sell	-5,000	-7,000	Short Sell	3,000	Long Sell	3,000	Short Sell
4	Buy	6,000	-1,000	N/A	9,000	N/A	9,000	N/A
5	Sell	-5,000	-6,000	Short Sell	4,000	Long Sell	4,000	Short Sell

New

Paragraph 8.2 of the SFC's Guidance Note on Short Selling Reporting and Stock Lending Record Keeping Requirements sets out the different approaches which a Seller might adopt to aggregate / segregate positions, whereas HKEX's illustrative examples set out different approaches by which a Seller might use to determine whether its position is long or short.

Assumption: Orders are placed in chronological order and fully executed immediately

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Scenario 1
Net Position at the Time of Order Entry

Order	Buy/Sell	Order Size (Shares)	Net Position	Flagging (Net Position<0, Short Sell)
0	-	-	1,000	N/A
1	Sell	-500	500	Long Sell
2	Sell	-500	0	Long Sell
3	Sell	-500	-500	Short Sell

- **Sell order should be flagged according to the Seller's Net Position at the time of order entry.**

- **When Net Position is negative, all sell orders are flagged as short sell.**

- **Order 3 is therefore flagged as short sell.**

*Assumptions:
1. Orders are placed in chronological order and fully executed immediately.
2. Prior to placing short sell orders to the market for execution, the Seller must have adequate cover in place.

Scenario 2
Change of Net Position after Order Entry

Order / Trade Time	Order	Type	Order Size (Shares)	Execution Size (Shares)	Net Position	Flagging (Net Position <0, Short Sell)
09:20:00	0	-	-		1,000	N/A
09:45:00	1	Sell	-500			Long Sell
09:46:00	1	Trade		-500	500	N/A
09:50:00	2	Sell	-500			Long Sell
09:51:00	2	Trade		-500	0	N/A
10:00:00	3	Sell	-500			Short sell
10:05:00	4	Buy	1,000			N/A
10:06:00	4	Trade		1,000	1,000	N/A
10:06:01	3	Trade		-500	500	N/A

- **Order 3 is flagged as short sell, because the Seller's Net Position at the time of order entry is 0.**

- **Order 4 is executed and increased the Seller's Net Position to 1,000, while Order 3 is still pending execution. It is NOT necessary to re-flag Order 3 to reflect a change in the Seller's Net Position.**

Scenario 2
Change of Net Position after Order Entry (cont'd)

- Note that where Order 3 is modified or cancelled while pending for execution:

Modification / Cancellation	Order Status	Need to Flag or Re-flag
Decrease order size	Remain as Order 3	No need to re-flag.
Increase order size	New Order	Yes. The New Order must be flagged according to the Seller's Net Position *at the time of order modification*.
Change price of Order 3	New Order	Yes. The New Order must be flagged according to the Seller's Net Position *at the time of order modification*.
Cancel Order 3 and replace with a new order	New Order	Yes. The New Order must be flagged according to the Seller's Net Position *at the time of order placing*.

New

A Seller must, based on its net position at the time of order input / modification, determine the short selling order flagging. Same principle applies to child / sliced order.

Assumptions:
1. Orders are placed in chronological order and executed according to trade time.
2. Prior to placing short sell orders to the market for execution, the Seller must have adequate cover in place.

Scenario 3
Placing a More Competitive Sell Order

Order / Trade Time	Order	Buy/Sell	Order Size (Shares)	Execution Size (Shares)	Net Position	Flagging (Net Position <0, Short Sell)
09:20:00	0	-	-		1,000	N/A
09:45:00	1	Sell	-500 @ $50			Long Sell
09:46:00	1	Trade		-500 @ $50	500	N/A
09:50:00	2	Sell	-500 @ $50			Long Sell
10:00:00	3	Sell	-500 @ $51			Short Sell
10:05:00	4	Sell	-500 @ $49			Short Sell

- **Order 2 is entered to sell an amount of shares equal to the Seller's Net Long Position of 500. Any subsequent orders to sell (i.e. Order 3 and Order 4) should be flagged as short sell.**

  - ✓ **Although Order 2 is pending execution, it is presumed to decrease the Seller's Net Long Position to 0.**
  - ✓ **Although Order 4 is placed with a more competitive price and is more likely to be executed than Order 2, it is NOT necessary to amend the flagging of Order 2 and Order 4 based on their possibility of execution.**

Assumptions:
1. Orders are placed in chronological order and executed according to trade time.
2. Prior to placing short sell orders to the market for execution, the Seller must have adequate cover in place.

Scenario 4
Partial Sale (1)

Order / Trade Time	Order	Buy/Sell	Order Size (Shares)	Execution Size (Shares)	Net Position	Flagging (Net Position <0, Short Sell)
09:20:00	0	-	-		90	N/A
09:45:00	1	Sell	-90			Long Sell
09:46:00	2	Sell	-10			Short Sell

- **The Seller has a Net Position of 90 shares, but wishes to sell a total of 100 shares.**

- **The Seller can place 2 orders:**

  - ✓ **Order 1 for 90 shares can be sold long, and**
  - ✓ **Order 2 for the remaining 10 shares must be flagged as short sell.**

Scenario 4
Partial Sale (2)

Order / Trade Time	Order	Buy/Sell	Order Size (Shares)	Execution Size (Shares)	Net Position	Flagging (Net Position <0, Short Sell)
09:20:00	0	-	-		90	N/A
09:45:00	1	**Sell**	-100			**Short Sell**
09:46:00 .... 09:50:00	1	**10 Trades (10 shares each)**		-10 -10 ... -10 -10	90 80 .... 10 0	N/A

- Even if the Seller has a long inventory of 90 shares and borrowed 10 shares, it is **NOT acceptable** for the Seller to place one short sell order (Order 1) of 100 shares.
- This flagging method is not acceptable as the short selling turnover will be inflated and the market will be misled.

New

(1) The Seller should split the order and mark the portion up to its net long position as long sell.
(2) The Seller should place short sell order with a size that corresponds with the quantity of borrow/locate obtained for such order.
(3) It is acceptable for a Seller, who has long inventory position (board lot or odd lot), to borrow shares and flag the order as a covered short based on the quantity of its borrow.

Scenario 5
Dual Counter Model for RQFII A-Share ETFs (A+B)

Order / Trade Time	Order	Buy/Sell	Order Size (Shares)	Execution Size (Shares)	Net Position (A+B)#	Flagging (Net Position <0, Short Sell)
09:20:00	0	-	-		10	N/A
09:45:00	1	**Sell**	-10 on A			**Long Sell**
09:50:00	2	Buy	10 on B			N/A
10:03:00	3	**Sell**	-10 on B			**Short Sell**

- **The Seller has a total Net Position of 10 shares on dual counter RQFII ETFs.**

- **Order 3 must be flagged as short sell because the Seller's Net Position at the time of order entry is 0, after taking into account of the following:**

  - ✓ **Order 1 (to sell 10 shares on A), while pending, has decreased the Seller's Net Position from 10 to 0 shares.**

  - ✓ **Order 2 (to buy 10 shares on B) is still pending execution.**

- **Note that although the Seller can aggregate its positions on dual counter instruments for the purpose of short sell flagging, the Seller must NOT flag both Order 1 and Order 3 as long sell and report one of them subsequently to SEHK as a mis-flagging error.**

New

The Seller may have separate positions or aggregated positions on dual counter instruments. However, once an approach is adopted, it should be applied consistently.