

For Intended Recipients Only

HKEX
RULE ENFORCEMENT –
ANNUAL ATTESTATION &
INSPECTION PROGRAMME 2018

HKEX
香港交易所

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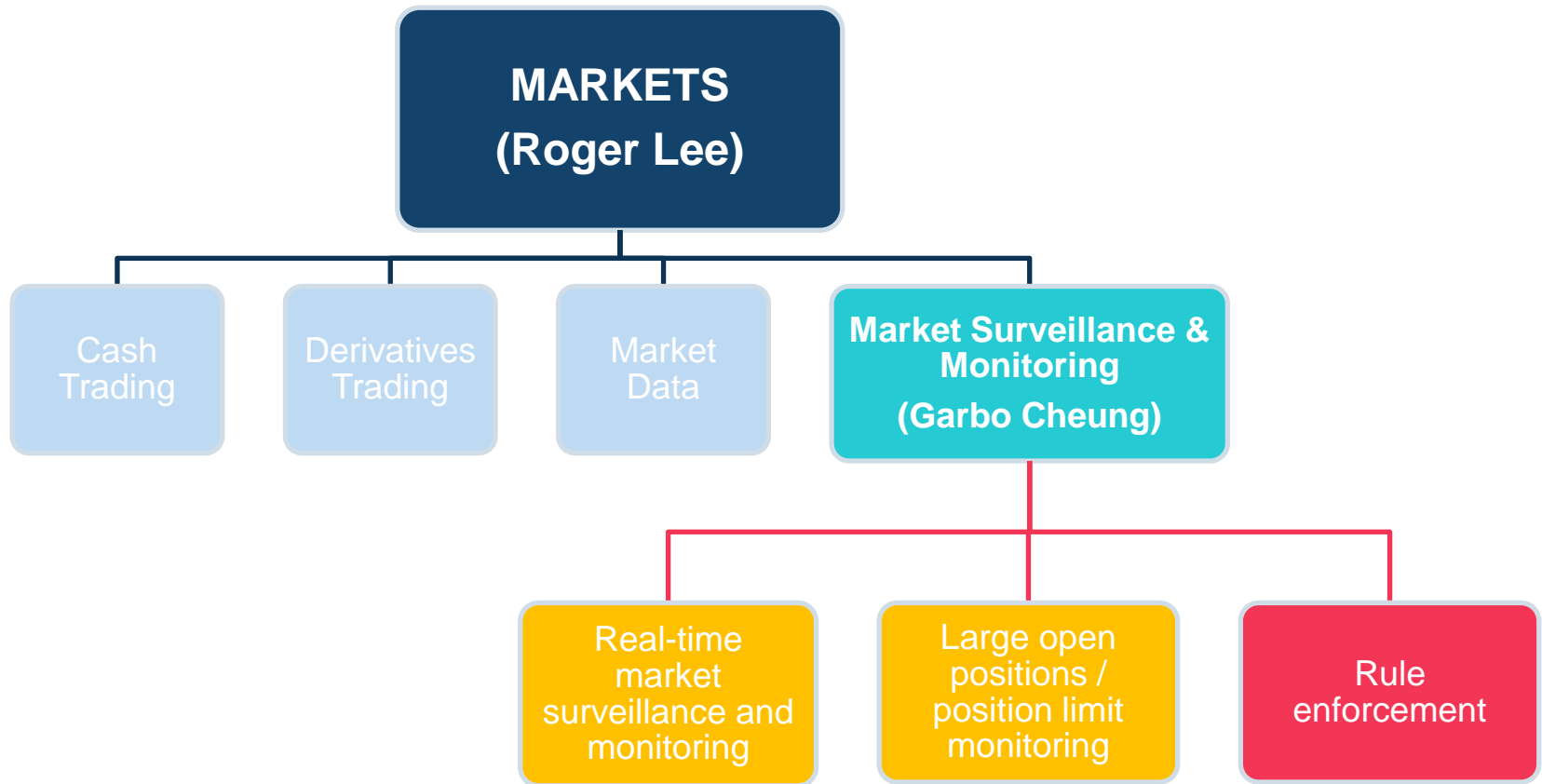
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Introduction to HKEX Rule Enforcement



HKEX Rule Enforcement – Key Principles

Prevention

- Enhance industry understanding of HKEX Rules through:
 - ✓ Briefing sessions
 - ✓ FAQs, guidance notes, circulars and reminders
 - ✓ Compliance Roundtable **New**
 - ✓ Regulatory Webcasts **New**

Detection

- Identify non-compliance through daily monitoring and self-reporting by EPs / CPs
- Introduced **Annual Attestation and Inspection Programme** (since 2017):
 - ✓ Self-attestation of compliance with HKEX Rules
 - ✓ Onsite inspection

Correction

- Pursue corrective actions, depending on seriousness of breaches and violations:
 - ✓ Rectification measures
 - ✓ Disciplinary actions

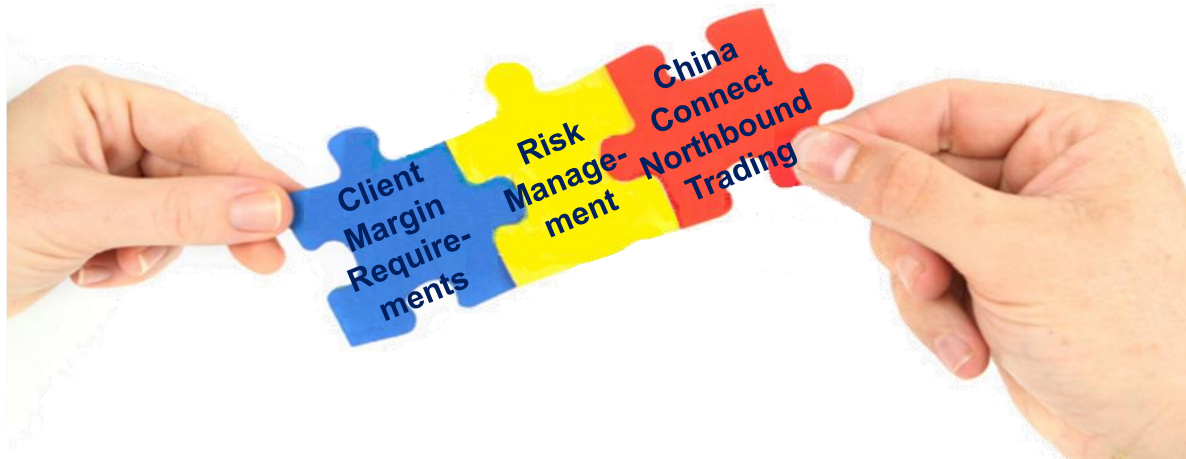
Annual Attestation and Inspection Programme

Self-Attestation of Compliance

- Apply to all Exchange Participants¹ and Clearing Participants²
- Perform self assessment on compliance with relevant HKEX Rules
- Complete **Self-Attestation Questionnaire** prescribed by HKEX
- Submit the Questionnaire, along with any supporting documentation, via the Electronic Communication Platform (ECP)

Onsite Inspection

- Apply to selected Exchange / Clearing Participants based on risk assessment
- A more detailed evaluation of Exchange / Clearing Participants' compliance with the relevant HKEX Rules









In consultation with the SFC, 3 priority areas have been identified for 2018



¹Exchange Participants of The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited

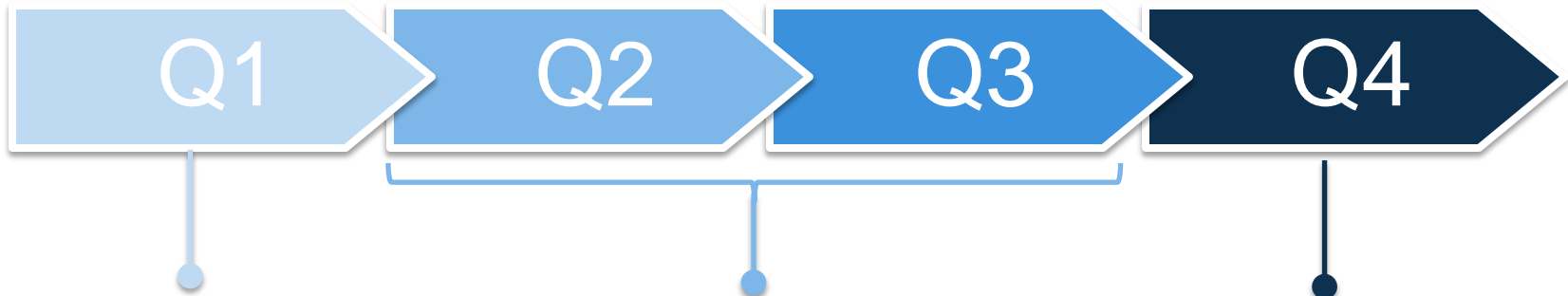
²(i) Clearing Participants and General Clearing Participants of HKFE Clearing Corporation Limited, and (ii) Direct Clearing Participants and General Clearing Participants of Hong Kong Securities Clearing Company Limited and The SEHK Options Clearing House Limited (the "CPs")

Submission of Self-Attestation of Compliance via ECP

Participanship	Log-in and Submit as
<p>SEHK (HKSCC/SEOCH)</p> 	
<p>HKFE (HKCC)</p> 	
<p>SEHK + HKFE (HKSCC/SEOCH/HKCC)</p> 	



High Level Programme Timeline



Market Announcement

- 2018 Priority Areas Programme
- Focus Group Meeting and EP Briefing Sessions

Self Attestation of Compliance & Onsite Inspection at EP Offices

- Publish, review and follow-up on the Self-Attestation of Compliance
- Onsite inspection to be conducted by 4 batches (from May to October)

Closing Meeting and Findings

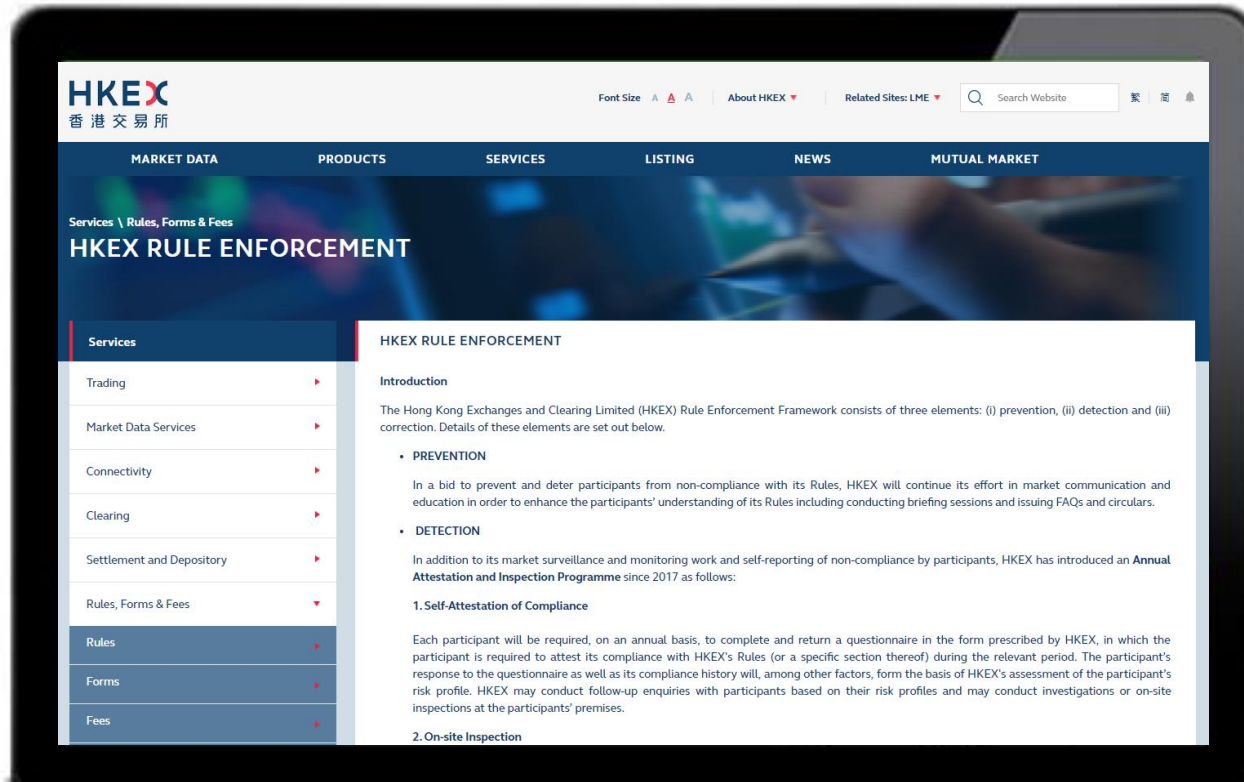
- Corrective Actions
- Guidance Notes

We have worked closely with the SFC on the inspection scope and schedule

HKEX Rule Enforcement Designated Website & Email Account



https://www.hkex.com.hk/Services/Rules-and-Forms-and-Fees/HKEX-Rule-Enforcement?sc_lang=en



surveillance@hkex.com.hk



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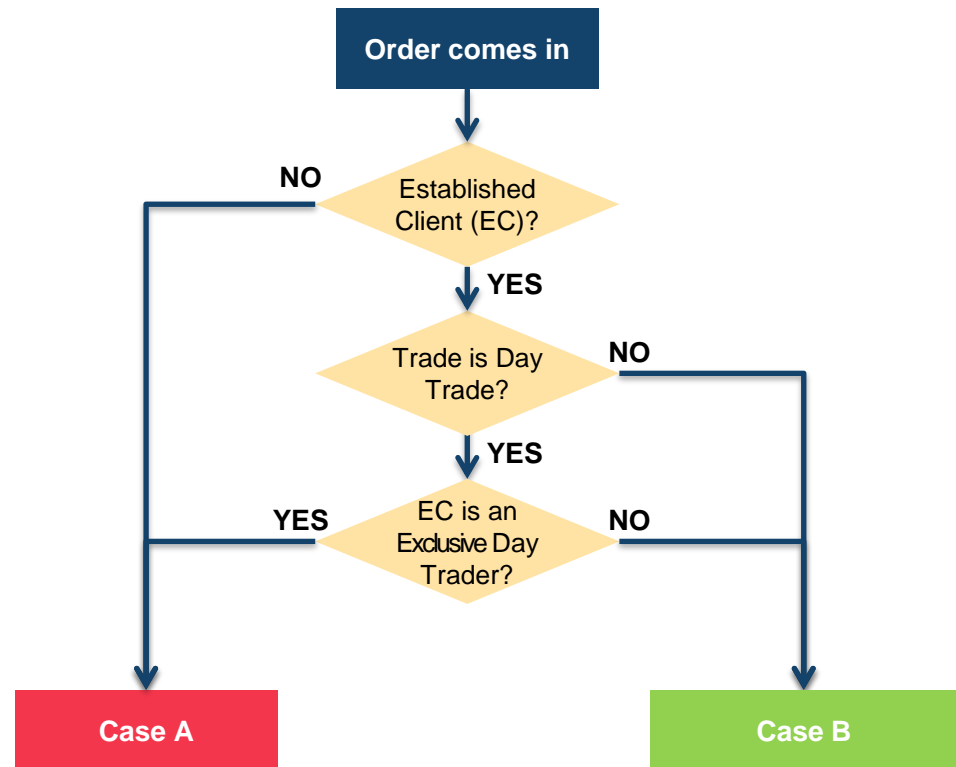
China Connect Northbound Trading



Enforcement Focus

Client Margin Requirements - HKFE Rules 617 and 619

- **Case A**
Duty of EPs to ensure that **sufficient collateral** to cover the minimum margin requirements is received from a Client before establishing any new positions for that Client (*HKFE Rule 617(a)*)
- **Case B**
EPs may nevertheless transact for an **established Client** even though adequate collateral to cover the Client's minimum margin requirement has not been received provided that such established Client satisfied certain requirements. (*HKFE Rule 617(b)*)
- **Duty of EPs to monitor Clients' ability to meet margin calls and notify the Exchange of any failure / default** (*HKFE Rule 619*)

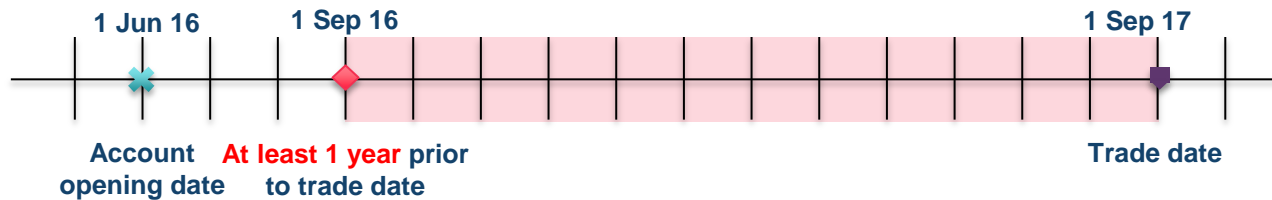


Established Clients

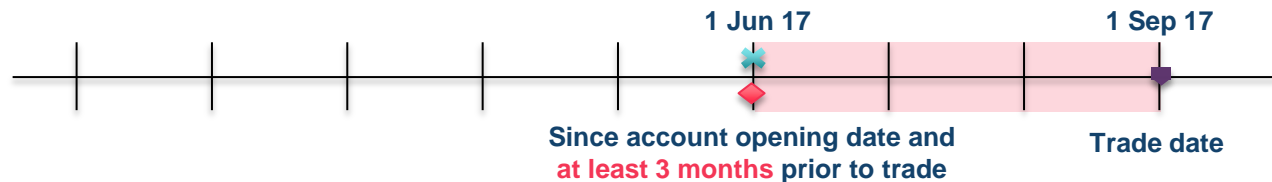
(1) A record of consistently meeting margin obligations and (2) maintaining a sound financial position

1. Consistently Meeting Margin Obligations

- Existing Clients



- New Clients with accounts opened for less than one year



The relevant period during which a client should not have any unfulfilled margin calls, forced liquidation records or returned cheques

- For all Clients - (1) **existing trading relationship** and (2) **settlement pattern** with the EP or its affiliates
- For new Clients - letters, trading records and statements or other formal documentation **issued by other licensed or regulated entities** are also acceptable

2. Sound Financial Position

- Demonstration of sound financial positions on an ongoing basis
- **Internal or publicly** available documents including bank statements, securities account statements, account opening documents, audited financial statements and credit rating reports; and/or any statements that prove the **credit or financing facility** available to the Client

Annual review eligibility of established Clients and proper record keeping of assessment and approval



Exclusive Day Trader

Scenarios where an Established Client NOT considered as an Exclusive Day Trader

Scenario 1: No Day Trade during the preceding one month

- Established Clients that had **not transacted any Day Trade³ during the preceding one month** before the proposed Day Trade shall not be regarded as an Exclusive Day Trader.

OR

Scenario 2: Has / Had Day Trade during the preceding one month

- I. Held overnight positions for at least
 - **10 Business Days during the preceding one year**
 - or
 - **1 Business Day during the preceding one month?**
- II. Minimum margin requirements (per contract) applicable to the overnight positions is **greater than or equal to** minimum margin requirement (per contract) of the proposed Day Trade?
 - If answers to the questions above are **“yes”**, then the relevant established Clients shall not be regarded as an Exclusive Day Trader.

³“Day Trade” shall mean a position that is opened and closed out within the same T Session or within the same T+1 Session.



Frequently Asked Questions by EPs

Is a client's declaration of good track record acceptable?

- Acceptable form of records includes:
 - Client's **existing trading relationship** and **settlement pattern** with the EP or its affiliates
 - For new Clients - letters, trading records and statements or other formal documentation **issued by other licensed or regulated entities**
- A declaration of the client having a record of consistently meeting margin obligations issued by other licensed or regulated entities, **not the client itself**, is acceptable to HKEX. However, a mere client self-declaration is considered not a sufficient record.
- Nevertheless, EPs should demonstrate that they have exercised reasonable checking and due diligence in determining whether the documentation is sufficient to demonstrate the client has a record of consistently meeting margin obligations



Frequently Asked Questions by EPs

Minimum margin rates = initial margin or maintenance margin?

- The margin rate table lists the client minimum margin requirements for both initial margin **and** maintenance margin. In this regard, participants are reminded that the minimum margin rates determined by HKEX are for their **financially strongest clients**.

What is “minimum margin requirement (per contract)” for the purpose of considering “exclusive day trader”?

- In consideration of the requirement of “exclusive day trader”, the minimum margin requirements (per contract) applicable to the Futures/Options Contract(s) in respect of each of the overnight positions are the **same or higher than** that of the relevant Day Trade (per contract).
- In general, it means that the per contract minimum margin requirement of client’s overnight position should be same or higher than that of the products which the client day trades without sufficient collateral is received



Case Study

Broker A and its ROs failed to ensure proper client margin management

Facts

- Client Registered Trader of Broker A had not had adequate margin to support his portfolio.
- Instead of restricting the Client Registered Trader's trading activities, one of Broker A's ROs lent him money to foot his margin shortfall.

HKFE / SFC Rule Breaches

- **HKFE Rule 617/619:** Failure to (i) assess appropriate level of margin requirement for, and (ii) enforce margin policy against, the Client Registered Trader.
- **SFC Code of Conduct, General Principle 2 and paragraph 3.6:** Failure to collect promptly from Clients any amounts due as margin reflecting a lack of due skill, care and diligence and failure to act in the best interests of its Clients and the integrity of the market

Regulatory Action

SFC suspended one of the ROs for eight months and reprimand another RO and fined her HK\$60,000 for their failures to competently manage the regulated activities of Broker A and its affiliates. SFC did not fine Broker A, because it had ceased business.

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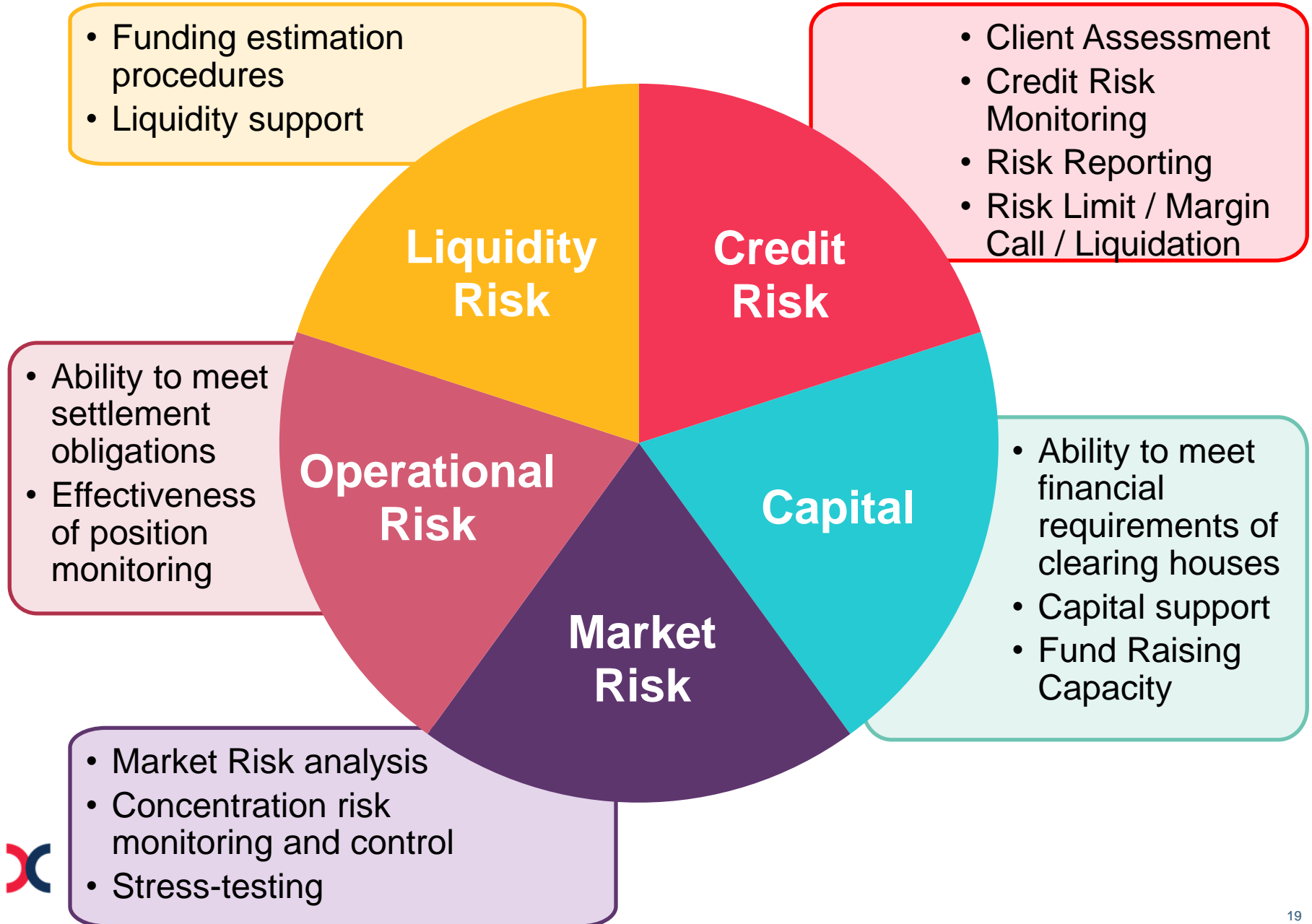
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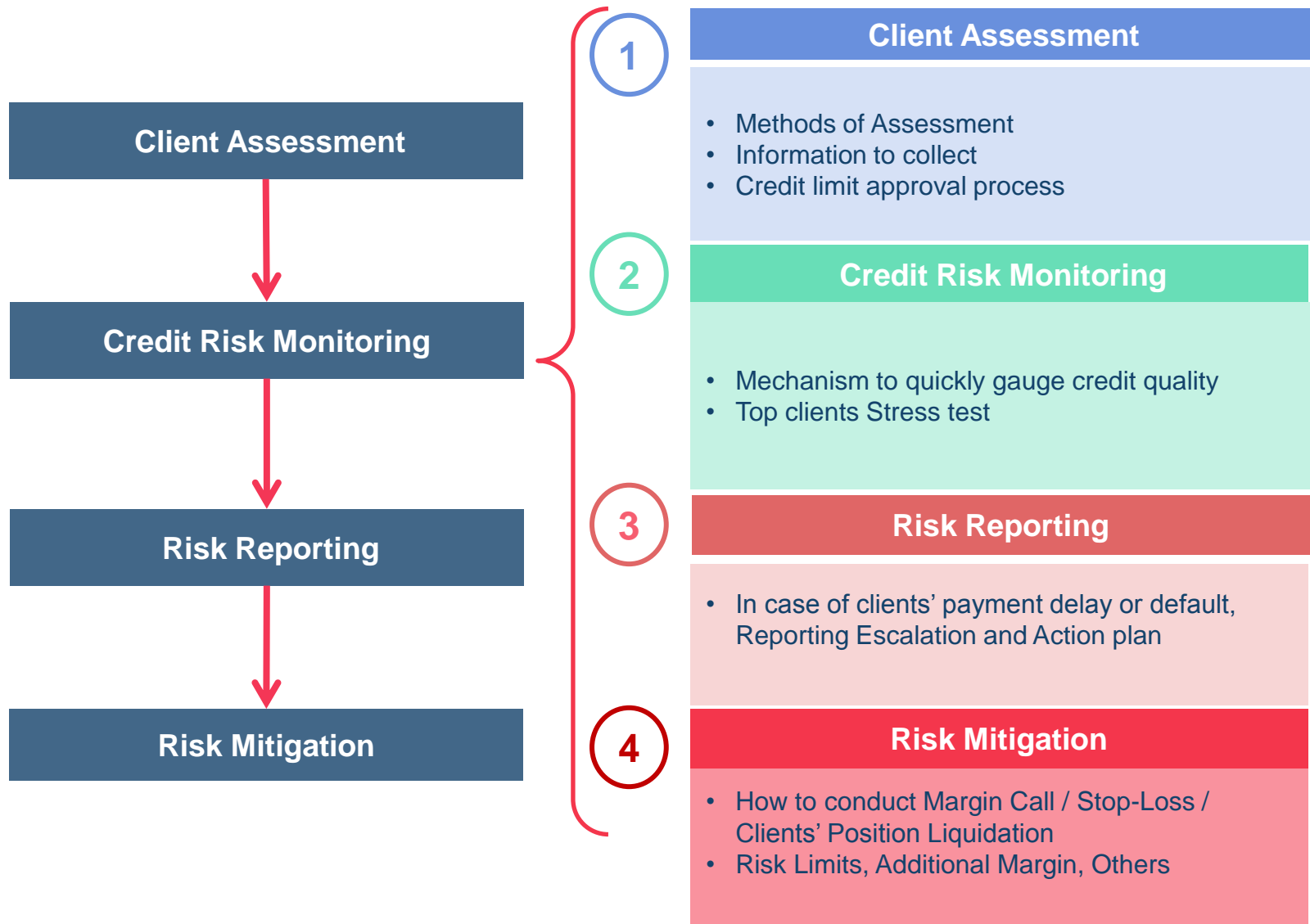
China Connect Northbound Trading



Risk Management – Key Areas



Credit Risk Assessment



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Enforcement Focus

SEHK Rules: Chapter 5, 14, 14A & 14B

- Trade Through Exchange Participant (*SEHK Rule 590*)
- Daily Quota (*SEHK Rule 1428(1)*)
- Turnaround trading (*not allowed under SEHK Rule 14A06(4), Rule 14B06(5)*)
- Pre-trade checking # (*SEHK Rule 1421(2) & 1424, 14A06(2A),(5)-(10), Rule 14B06(3), (6)-(12)*)
- Risk disclosure requirements (*SEHK Rule 14A10, Rule 14B10*)
- Foreign investors shareholding limit # (*SEHK Rule 14A08, Rule 14B08*)
- 5% shareholding disclosure requirement # (*SEHK Rule 14A09, Rule 14B09*)
- Off-Exchange trades or transfers prohibited (*SEHK Rule 14A12, 14B12*)
- Margin trading confined to Eligible SSE/SZSE Securities for Margin Trading # (*SEHK Rule 14A15, Rule 14B15*)
- Stock borrowing and lending (*SEHK Rule 14A16, Rule 14B16*)
- Naked short selling (*not allowed under SEHK Rule 14A17, Rule 14B17*)
- Investor eligibility requirement for trading in ChiNext shares # (*SEHK Rule 14B06(16)-(18)*)



Trade Through Exchange Participant, Daily Quota

Focus Area	Key Information	Compliance Reminder
<p>Trade Through Exchange Participant</p> <p>透過中華通交易所參與者買賣之交易所參與者</p>	<p>Applicable to EPs who do not wish to be registered as CCEPs but who wish to <u>provide services to their clients</u> to trade in China Connect Securities*</p> <p>✘ NOT applicable:</p> <ol style="list-style-type: none"> 1) if EP conducts trading in China Connect Securities through CCEP for <u>its own account</u> 2) to <u>non-Exchange Participants</u> 	<ul style="list-style-type: none"> • EP must first submit a declaration to SEHK declaring their readiness for Northbound trading before providing services to their clients to trade in China Connect Securities. • TTEPs are required to abide by the SEHK Northbound trading rules as if they were CCEPs. • CCEP should verify the EP's TTEP status during the KYC process. • The latest list of TTEPs can be found on HKEX's website.
<p>Daily Quota</p> <p>每日投資額度</p>	<p>Applied to Shanghai & Shenzhen connect</p> <p>NB trade: 13 billion SB trade: 10.5 billion</p> <ul style="list-style-type: none"> • Daily Quota Balance = Daily Quota – Buy orders + Sell Trades + Adjustments • Calculated on “Net buy” and Real-time basis • No restrictions on sell orders • Reject new buy order if quota is fully utilized 	<p>Effective pre-trade control and/or post trade surveillance & monitoring system to ensure</p> <ul style="list-style-type: none"> ✘ No artificial, unauthorized or bulk input of buy orders ✘ No input of buy orders at an artificially low price

Note: * Also see 1.43 of the Stock Connect Frequently Asked Questions (FAQ)
http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Documents/FAQ_En.pdf



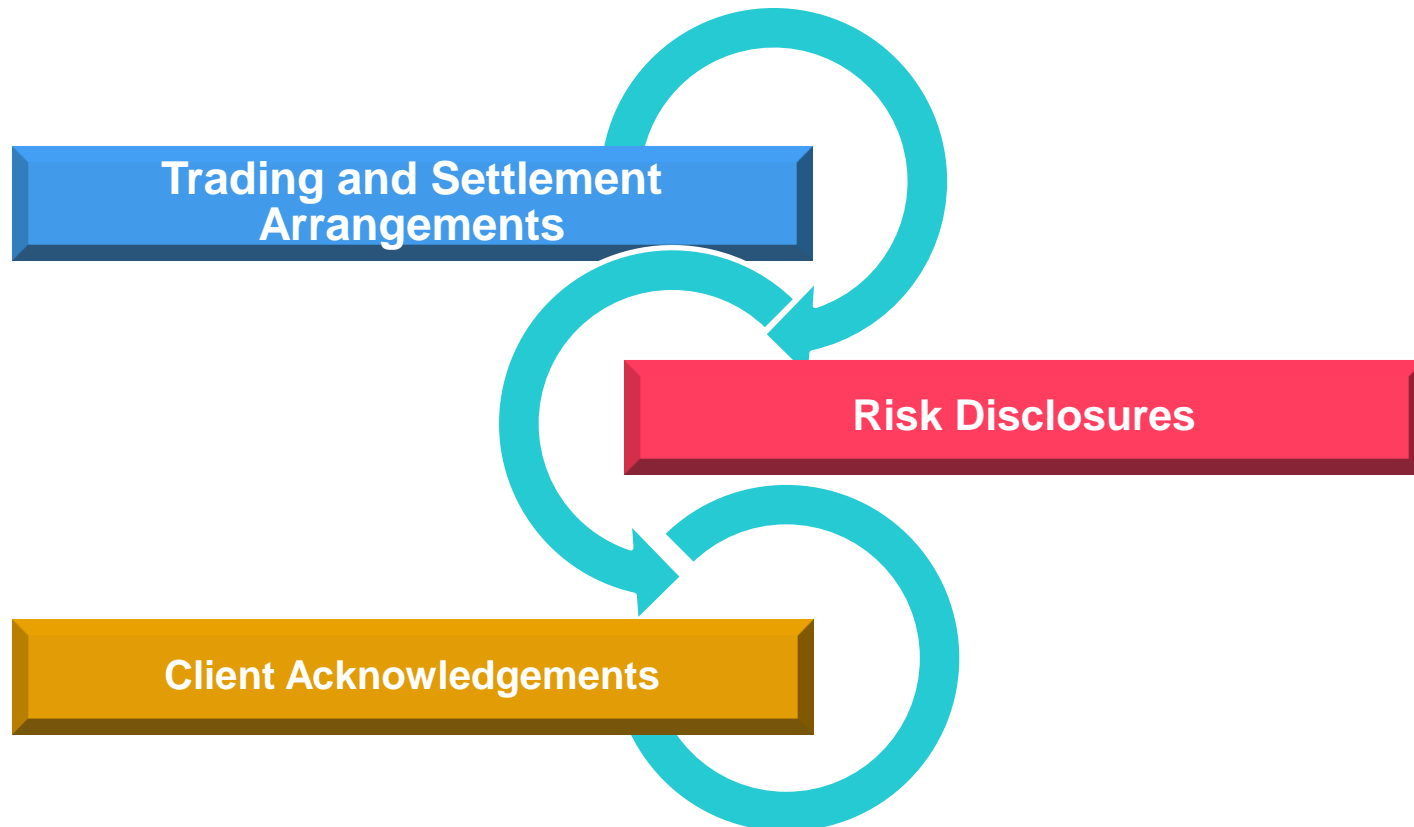
Turnaround Trading, Pre-Trade Checking, Client Agreement & Risk Disclosure requirements

Focus Area	Key Information	Compliance Reminder
<p>Turnaround Trading</p> <p>回轉交易</p> <p>Pre-Trade Checking</p> <p>前端監控</p>	<p>✘ Turnaround (day) Trade is NOT allowed</p> <p>Should not sell stock acquired on the same day</p> <ul style="list-style-type: none"> • SEHK: pre-trade checks over the relevant EP's designated CCASS account/SPSA account • EPs: pre-trade checks at individual client level to ensure that its client has sufficient securities to cover the sell order quantity before order placement 	<p>Must put in place adequate and effective systems and controls (e.g. pre-trade checking at client level) to :</p> <ol style="list-style-type: none"> prevent day trading, and ensure sufficient funds (securities) to settle the payment (settlement) obligation whether as principal or as agent ensure accurate inputs of SPSA investor identification number for SPSA orders.
<p>Client Agreement & Risk disclosure requirements</p> <p>客戶協議及風險披露</p>	<p>Ensure clients (including but not limited to client which is an affiliate of CCEP/TTEP) acknowledged and are aware of the differences in the restrictions, requirements, conditions and risk associated with Northbound trading of China Connect Securities, as well as the scope of services available to clients.</p>	<ul style="list-style-type: none"> • Should include in client agreements or other account opening documents sufficient provisions covering Northbound trading of China Connect Securities including the risks involved. • State clearly the scopes of services provided to the clients and the corresponding terms and conditions where appropriate.



Client Agreement & Risk Disclosure requirements

Client agreement should sufficiently cover the trading of China Connect Securities:



Client Agreement & Risk Disclosure requirements

Key information in relation to trading in China Connect Securities including but not limited to:

Trading and Settlement Arrangements	Risk Disclosures
<ul style="list-style-type: none"> (a) Northbound trading is subject to daily quota (b) Prohibition of day trading, over-the-counter (OTC) trades, block trades and naked short selling (c) Client must have proper stock transfer arrangement for the purpose of meeting the pre-trade checking requirement unless an SPSA arrangement is in place (d) Settlement arrangement under China Connect programme: Stocks will be settled on T-day and money will be settled on T+1 day 	<ul style="list-style-type: none"> (e) Client's orders / order cancellation requests may not be able to send by EP in case of contingency and the client should still bear the settlement obligations if the orders are matched and executed (f) Client is provided with adequate disclosure with regards to the risks associated with Northbound trading, including but not limited to prohibition of trading China Connect Securities, being liable for breaching all applicable laws and regulations (g) Client is provided with adequate disclosure with regards to the risks associated with trading of ChiNext stocks

Client Acknowledgments

- (h) Client is fully aware of and accepts the risk associated with Northbound trading. Client also understands that ChiNext stocks is limited to institutional professional investors and is fully aware of and accepts the risks involved in the trading of ChiNext stocks
- (i) Client must comply with all applicable laws of Mainland China relating to Northbound trading including foreign shareholding restriction (including the forced-sale arrangement); shareholding disclosure obligations and short-swing profit rules in China
- (j) Client's identity and other relevant information and materials may be provided to SEHK which may on-forward to other Mainland authorities for surveillance and investigation purposes
- (k) SEHK may, upon SSE's/SZSE's request, require the EP to reject orders from the client; to issue warning statements (verbally or in writing) to the client, and not to extend Northbound trading service to the client
- (l) HKEX, its subsidiaries and their respective directors, employees and agents shall not be responsible or held liable for any loss or damage directly or indirectly suffered by the EP, the client or any third parties arising from or in connection with Northbound trading



Shareholding Disclosure, Foreign Investors Shareholding Limit

Focus Area	Key information		Compliance Reminder
<p>5% Shareholding Disclosure Requirement</p> <p>持股量披露規定</p> <p>Foreign Investors Shareholding Limit</p> <p>境外投資者持股限制</p>	<ul style="list-style-type: none"> • Disclosure Requirement: Triggered once an investor's holding* reached 5% of the issued shares of a Mainland listed co., and such investor should report in writing to the CSRC and SSE/SZSE, and inform the listed company within 3 working days • Foreign Investors shareholding limit: 10% limit on shareholding by a single foreign investor 30% limit on aggregate foreign shareholding# • Forced Sale Arrangements: 		<p>✘ Mistaken belief: Some CCEPs/TTEPs held the mistaken belief that they not obliged to monitor their client's holding in China Connect Securities as they may not be the client's sole custodian.</p> <ul style="list-style-type: none"> • Appropriate monitoring arrangement to comply and alert clients to comply with the 5% shareholding disclosure requirements and the 10% single foreign investor's shareholding restriction • Alert clients to the 30% aggregate shareholding limit and the forced-sale arrangements • Appropriate measures including legally enforceable client agreements to enable timely execution of forced-sale arrangements
	Aggregate Foreign Shareholding Level	Action to be taken by the Exchanges	
	26%	SSE / SZSE will publish a notice on its website (as the case maybe)	
	28%	HKEX will publish a notice on its website and reject further buy order	
	>30% (<i>if due to trading under Stock Connect</i>)	<p>On a last-in-first-out basis, SEHK will identify the relevant trades and EP and request the clients concerned to sell the shares <u>within 5 trading days</u>.</p> <p>Otherwise, the EPs will be required to force-sell the shares for the clients</p>	
<26%	HKEX will announce acceptance of buy order		

Note: * Single holding of 1 investor or by aggregating the holding of other parties "acting in concert" with such investor

Aggregate foreign shareholding level: 1. SSE: <http://www.sse.com.cn/disclosure/disclosure/qfii> 2. SZSE: <http://www.szse.cn/main/disclosure/news/qfii/>




Off-Exchange Trades

Focus Area	Key Information	Compliance Reminder
<p data-bbox="179 518 446 696">Off-Exchange Trades or Transfers Prohibited</p> <p data-bbox="179 753 465 843">禁止場外交易或過戶</p>	<p data-bbox="511 294 1089 358">Off-exchange trades or transfers prohibited unless for the following purposes:</p> <ul data-bbox="511 401 1155 811" style="list-style-type: none"> <li data-bbox="511 401 1107 465">• Stock Borrowing and Lending as permitted under Stock Connect rules <li data-bbox="511 504 1155 601">• Transfers between Exchange Participants and their clients for the purpose of rectifying error trades <li data-bbox="511 644 1136 708">• Post-trade allocation to funds or sub-funds in different accounts by fund managers <li data-bbox="511 751 1145 811">• Transfers * in accordance with Rule 4110iii(e) to (j) of CCASS Rules 	<ul data-bbox="1213 261 1798 953" style="list-style-type: none"> <li data-bbox="1213 261 1798 394">• Should put in place reasonable and necessary controls that can effectively prevent off-exchange trades including but not limited to:- <ul data-bbox="1251 436 1798 851" style="list-style-type: none"> <li data-bbox="1251 436 1760 534">i) Systems or controls to detect or prevent impermissible off-exchange trades/transfers; <li data-bbox="1251 576 1798 709">ii) Establish appropriate and effective polices and procedures in relation to handling of error trade and permissible off-exchange trade/transfer; and <li data-bbox="1251 752 1798 851">iii) Provide regular and mandatory staff training on China Connect related rules and regulations. <li data-bbox="1213 891 1789 953">• Submission of documents required in the case of rectifying an error trade: <p data-bbox="1251 993 1779 1160">Error trade report & supporting documents explaining the nature of the error, how the error was made and providing details of the off-exchange trade/transfer to be processed</p>



Note: *Transfers as a result of Succession; Divorce ; Dissolution, liquidation or winding-up of any company or corporation; Donation to a charitable foundation; Assisting in any enforcement or law/court order/legal proceedings; Any other transfer as may be permitted by the relevant China authorities.

Margin Trading


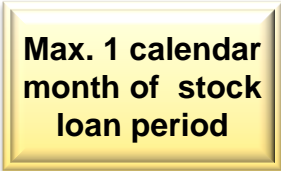

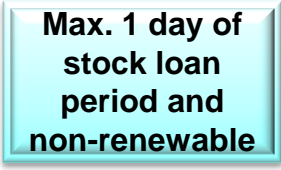
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<p style="color: red; font-weight: bold; font-size: 1.2em;">Margin Trading</p> <p style="color: red; font-weight: bold; font-size: 1.2em;">保證金交易</p>	<ul style="list-style-type: none"> Confined to the List of Eligible SSE/SZSE Securities Subject to “margin trading indicator” (單隻股票的融資監控指標) : <ul style="list-style-type: none"> Suspension : 25%, Resumption: Drop below 20%  <p>The screenshot shows the SSE website's 'Margin Trading' section. It features a table titled '融资融券交易总量' (Total Margin Trading Volume) for the date 2017-03-09. The table lists various securities with their respective margin trading metrics.</p> <table border="1" data-bbox="666 992 1136 1056"> <thead> <tr> <th>融资买入额 (元)</th> <th>融券卖出额 (元)</th> <th>融券买入额 (元)</th> <th>融券卖出额 (股)</th> <th>融券余额 (元)</th> <th>融券融券余额 (元)</th> </tr> </thead> <tbody> <tr> <td>16,205,793,584</td> <td>378,949,143,181</td> <td>11,308,172</td> <td>72,631,324</td> <td>685,954,479</td> <td>379,635,697,660</td> </tr> </tbody> </table> <p>Below this, there is another table titled '融资融券交易明细' (Margin Trading Details) for the same date, listing individual securities and their trading volumes.</p> <table border="1" data-bbox="666 1078 1136 1218"> <thead> <tr> <th>证券代码</th> <th>证券简称</th> <th>融资买入额 (元)</th> <th>融券卖出额 (元)</th> <th>融券买入额 (股)</th> <th>融券卖出额 (股)</th> <th>融券余额 (元)</th> <th>融券融券余额 (元)</th> </tr> </thead> <tbody> <tr> <td>000001</td> <td>平安银行</td> <td>41,288,690</td> <td>2,948,927,655</td> <td>19,100</td> <td>248,908</td> <td>2,334,757</td> <td>2,951,202,412</td> </tr> <tr> <td>000002</td> <td>万科A</td> <td>70,291,796</td> <td>1,949,555,494</td> <td>94,800</td> <td>497,100</td> <td>10,195,521</td> <td>1,959,751,015</td> </tr> <tr> <td>000006</td> <td>深发展A</td> <td>58,540,438</td> <td>1,383,617,734</td> <td>427,735</td> <td>567,735</td> <td>4,973,359</td> <td>1,388,591,093</td> </tr> <tr> <td>000009</td> <td>中国宝安</td> <td>58,447,791</td> <td>2,693,292,399</td> <td>242,700</td> <td>380,730</td> <td>3,510,097</td> <td>2,696,802,496</td> </tr> </tbody> </table>	融资买入额 (元)	融券卖出额 (元)	融券买入额 (元)	融券卖出额 (股)	融券余额 (元)	融券融券余额 (元)	16,205,793,584	378,949,143,181	11,308,172	72,631,324	685,954,479	379,635,697,660	证券代码	证券简称	融资买入额 (元)	融券卖出额 (元)	融券买入额 (股)	融券卖出额 (股)	融券余额 (元)	融券融券余额 (元)	000001	平安银行	41,288,690	2,948,927,655	19,100	248,908	2,334,757	2,951,202,412	000002	万科A	70,291,796	1,949,555,494	94,800	497,100	10,195,521	1,959,751,015	000006	深发展A	58,540,438	1,383,617,734	427,735	567,735	4,973,359	1,388,591,093	000009	中国宝安	58,447,791	2,693,292,399	242,700	380,730	3,510,097	2,696,802,496	<ul style="list-style-type: none"> Ensure clients are informed of the scope of services provided to them Effective measures in place to ensure <ol style="list-style-type: none"> margin trading is confined to the List of Eligible SSE/SZSE Securities for Margin Trading (i.e. the margin financing arrangement should not be provided on a portfolio basis, or allow client, by virtue of the aggregated collateral values of all securities held in his/her portfolio, to purchase securities including China Connect Securities which may not confined to those included in the List of Eligible SSE/SZSE Securities for Margin Trading) ; for buy orders, the relevant stock is not under margin trading suspension at the time of order placement. Ensure clients’ understanding and awareness on the restrictions, requirements and conditions applicable to Margin Trading
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Margin Trading Indicator:

SSE: <http://www.sse.com.cn/disclosure/margin/margin/> SZSE: <http://www.szse.cn/main/disclosure/rzrqxx/ywgg>

Stock Borrowing and Lending

Focus Area	Key Information	Compliance Reminder																										
<p>Stock Borrowing and Lending (SBL)</p> <p>股票借貸</p>	<p>❖ Permitted Stock Lenders and Stock Borrowers:</p> <table border="1" data-bbox="513 289 1122 675"> <thead> <tr> <th rowspan="2"></th> <th rowspan="2">Who can be lenders?</th> <th colspan="3">Who can they lend to?</th> </tr> <tr> <th>Clients</th> <th>CCEPs</th> <th>Trade-Through EPs</th> </tr> </thead> <tbody> <tr> <td rowspan="3">EPs</td> <td>(a) CCEPs</td> <td>√</td> <td>√</td> <td>√</td> </tr> <tr> <td>(b) Trade-Through EPs</td> <td>√</td> <td>√</td> <td>√</td> </tr> <tr> <td>(c) Non-Registered EPs</td> <td>x</td> <td>√</td> <td>√</td> </tr> <tr> <td>QIs</td> <td>(d) Qualified Institutions</td> <td>x</td> <td>√</td> <td>√</td> </tr> </tbody> </table> <p>❖ Eligible Permissible Purposes :</p> <div style="display: flex; flex-direction: column; align-items: center;"> <div style="display: flex; justify-content: space-around; width: 100%;"> <div style="text-align: center;">  <p>Covered Short Sell</p> </div> <div style="text-align: center;">  <p>Max. 1 calendar month of stock loan period</p> </div> </div> <div style="display: flex; justify-content: space-around; width: 100%; margin-top: 20px;"> <div style="text-align: center;">  <p>Pre-trade checking</p> </div> <div style="text-align: center;">  <p>Max. 1 day of stock loan period and non-renewable</p> </div> </div> </div>		Who can be lenders?	Who can they lend to?			Clients	CCEPs	Trade-Through EPs	EPs	(a) CCEPs	√	√	√	(b) Trade-Through EPs	√	√	√	(c) Non-Registered EPs	x	√	√	QIs	(d) Qualified Institutions	x	√	√	<ul style="list-style-type: none"> • Ensure clients are informed of the scope of services provided to them • Provide the prescribed form of undertaking/confirmation to the Exchange before providing SBL service • Ensure clients' understanding and awareness on the restrictions, requirements and conditions applicable to SBL • Timely submission of the monthly SBL report to the Exchange (note: nil SBL activity return is required)
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Note: Qualified Institutions include:

- (i) HKSCC Participants (other than Investor Participants);
- (ii) Funds, unit trusts or collective investment schemes managed by persons licensed or registered to carry out SFC's Type 9 (asset management) regulated activity; and
- (iii) Other persons accepted or specified by SSE or SZSE, as the case may be.



Short Selling

Focus Area	Key Information	Compliance Reminder
<p style="text-align: center;">Short Selling</p> <p style="text-align: center;">賣空</p>	<p>✘ Naked Short selling prohibited</p> <ul style="list-style-type: none"> Covered short sell allowed, subject to <p>i) List of Eligible SSE/SZSE Securities</p> <p>ii) Short Selling Ratio Limit: Based on HKSCC's holding of the Short Selling Security in the omnibus account maintained in ChinaClear</p> <ul style="list-style-type: none"> 1% Daily Limit; 5% Cumulative Limit in any 10 consecutive trading days <p>System rejects the order if subsequent execution of such order will cause the Daily Limit or Cumulative Limit to be exceeded</p> <p>iii) Total open short positions of the stock's listed and tradable shares (上市可流通量)</p> <ul style="list-style-type: none"> Suspension : 25% Resumption: Drop below 20% <p>iv) Short Sell Flagging; Multiples of 100 Shares and Tick Rule</p>	<ul style="list-style-type: none"> Ensure clients are informed of the scope of services provided to them Should put in place reasonable and necessary controls that can effectively prevent mis-flagging of Short Sell orders and proper checking procedure to ensure sufficient borrowing to cover the Short Sell order Where SBL by CCEP is involved in the Short Selling activity, the CCEP must provide prior confirmations and undertakings to the Exchange Reporting requirements to the Exchange: Short Selling Weekly Report and Large Open Short Position Report Appropriate arrangements in place to <ol style="list-style-type: none"> Ensure client's understanding and awareness on the restrictions, requirements and conditions applicable to Short Selling require the client to inform / confirm that the order is a Short Selling order and keep such client confirmation properly; require the client to provide details on its return of stock loan for CCEP's compliance on the order price requirement* & reporting of open short positions



Note: * Please refer to the examples discussed in FAQ 1.21.2 of FAQ http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Documents/FAQ_En.pdf
Individual A share's open short position level:
SSE: <http://www.sse.com.cn/services/tradingservice/margin> SZSE: <http://www.szse.cn/main/aboutus/xywjs/rzrqxzd/>.

Trading in SZSE's ChiNext Shares

Focus Area	Key Information	Compliance Reminder
<p>Investor Eligibility for Trading in ChiNext Shares</p> <p>買賣深圳創業板投資者資格規定</p>	<ul style="list-style-type: none"> Initially open for Institutional Professional Investors 機構專業投資者 (IPI)* only <p style="text-align: center;">Existing SZSE stock codes: ChiNext Market start with "300"</p> <div style="text-align: center; border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> <p>300XXX</p> </div> <ul style="list-style-type: none"> CCEP shall not accept any instruction to buy ChiNext shares or input any buy order for ChiNext shares for any clients unless it is reasonably satisfied that the client including the underlying client is an IPI. 	<ul style="list-style-type: none"> Client Agreement should contain sufficient provisions covering the trading of ChiNext stocks including the risks involved Effective controls on pre-trade and post-trade level to ensure compliance with the investor eligibility requirement for trading in ChiNext shares including but not limited to <ol style="list-style-type: none"> i) assess the clientele of intermediary clients; ii) regular review on the IPI status of their clients; and/or iii) regular and appropriate post trade review which covers all clients including the underlying clients of intermediary clients. CCEPs should already have appropriate controls in place to prevent non-compliance with the relevant requirements and necessary measures and prior arrangements with their clients to rectify breaches e.g. requesting the non-IPI to unwind positions of ChiNext shares as soon as possible In case of violations: self-report to SEHK & rectify breaches promptly

Note: * IPI as defined under paragraph 15.2 of the Code of Conduct for Persons Licensed by or Registered with the SFC, means a person falling under paragraphs (a) to (i) of the definition of "professional investors" in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance.



