

For Intended Recipients Only

ANNUAL ATTESTATION &  
INSPECTION PROGRAMME (2019)

**HKEX**  
香港交易所

**RULE ENFORCEMENT  
MARKET SURVEILLANCE & MONITORING**

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# HKEX Rule Enforcement – Key Principles

## Prevention

- Enhance industry understanding of HKEX Rules through:
  - ✓ Briefing sessions
  - ✓ FAQs, guidance notes, circulars and reminders
  - ✓ Compliance Roundtable
  - ✓ Chatbot **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 Participants<sup>1</sup> and Clearing Participants<sup>2</sup>**
- 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
- Inspectors will conduct **Onsite Inspection** at the participants' premises



<sup>1</sup>Exchange Participants of The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited (the "EPs")

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

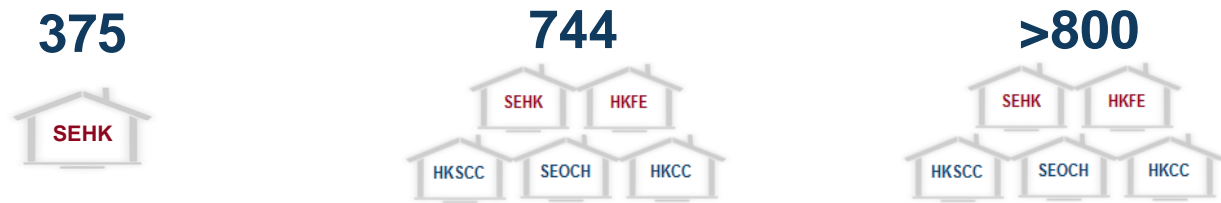
# Annual Attestation and Inspection Programme



## Priority Areas



## Coverage











## Results

2017	2018	2019
<b>100%</b> Questionnaire Response Rate	<b>100%</b> Questionnaire Response Rate	-
<b>12%</b> Compliance Advice Letters (46)	<b>11%</b> Compliance Advice Letters (81)	-
<b>20</b> Onsite Inspections	<b>20</b> Onsite Inspections	-



The priority areas are reviewed, assessed and identified in consultation with the SFC

# 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> 	
<p>HKSCC (non-EP)</p> 	



# Programme Timeline



## Market Announcement

- 2019 Programme and Priority Areas
- Focus Group Meeting and EP Briefing Sessions

## Self Attestation of Compliance and Onsite Inspection at EP Offices

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

## Closing Meeting and Findings

- Corrective Actions
- Guidance Notes

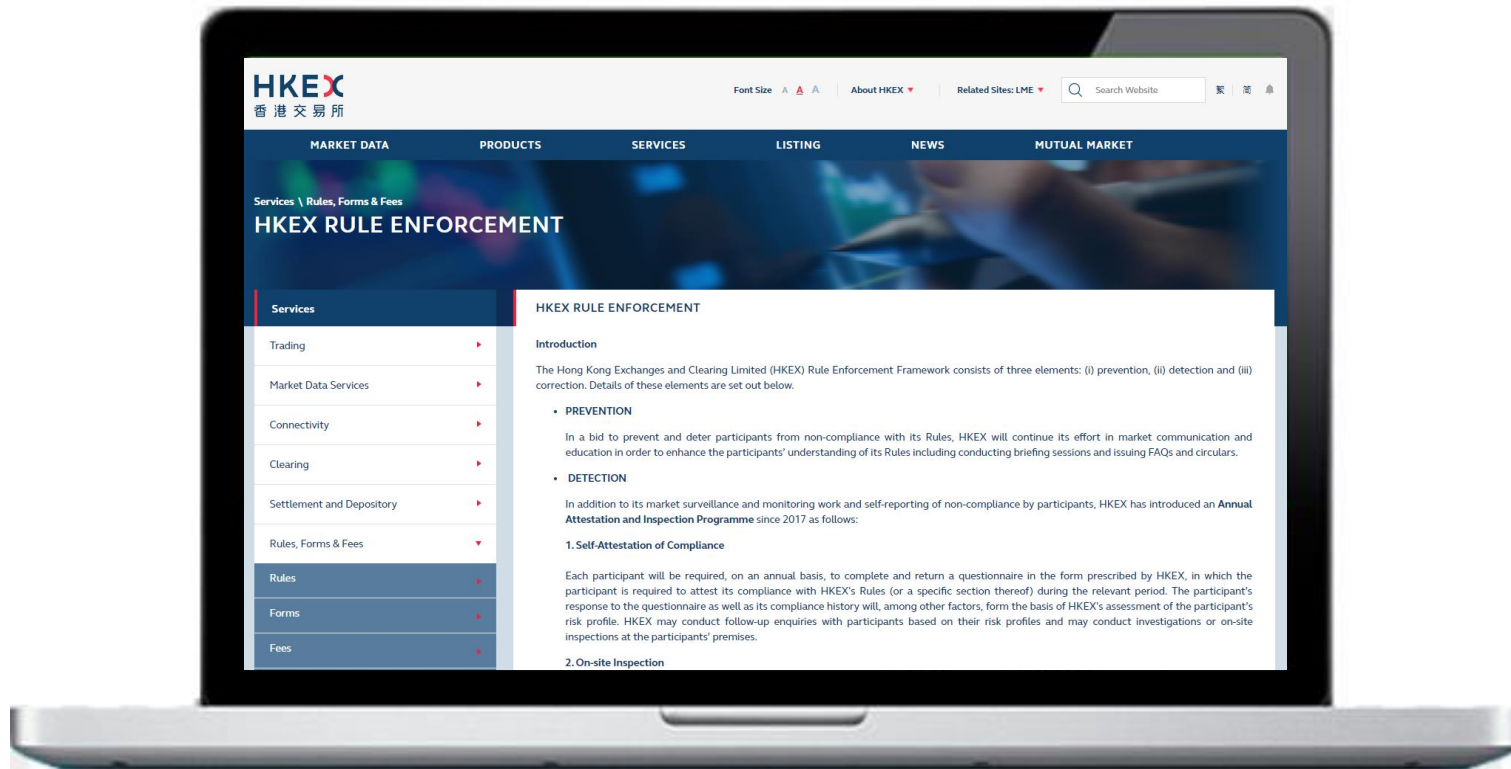
We have worked closely with the SFC on the inspection scope and schedule



# HKEX Rule Enforcement Designated Website & Email Account



[https://www.hkex.com.hk/Services/Rules-and-Forms-and-Fees/HKEX-Rule-Enforcement?sc\\_lang=en](https://www.hkex.com.hk/Services/Rules-and-Forms-and-Fees/HKEX-Rule-Enforcement?sc_lang=en)



[surveillance@hkex.com.hk](mailto:surveillance@hkex.com.hk)



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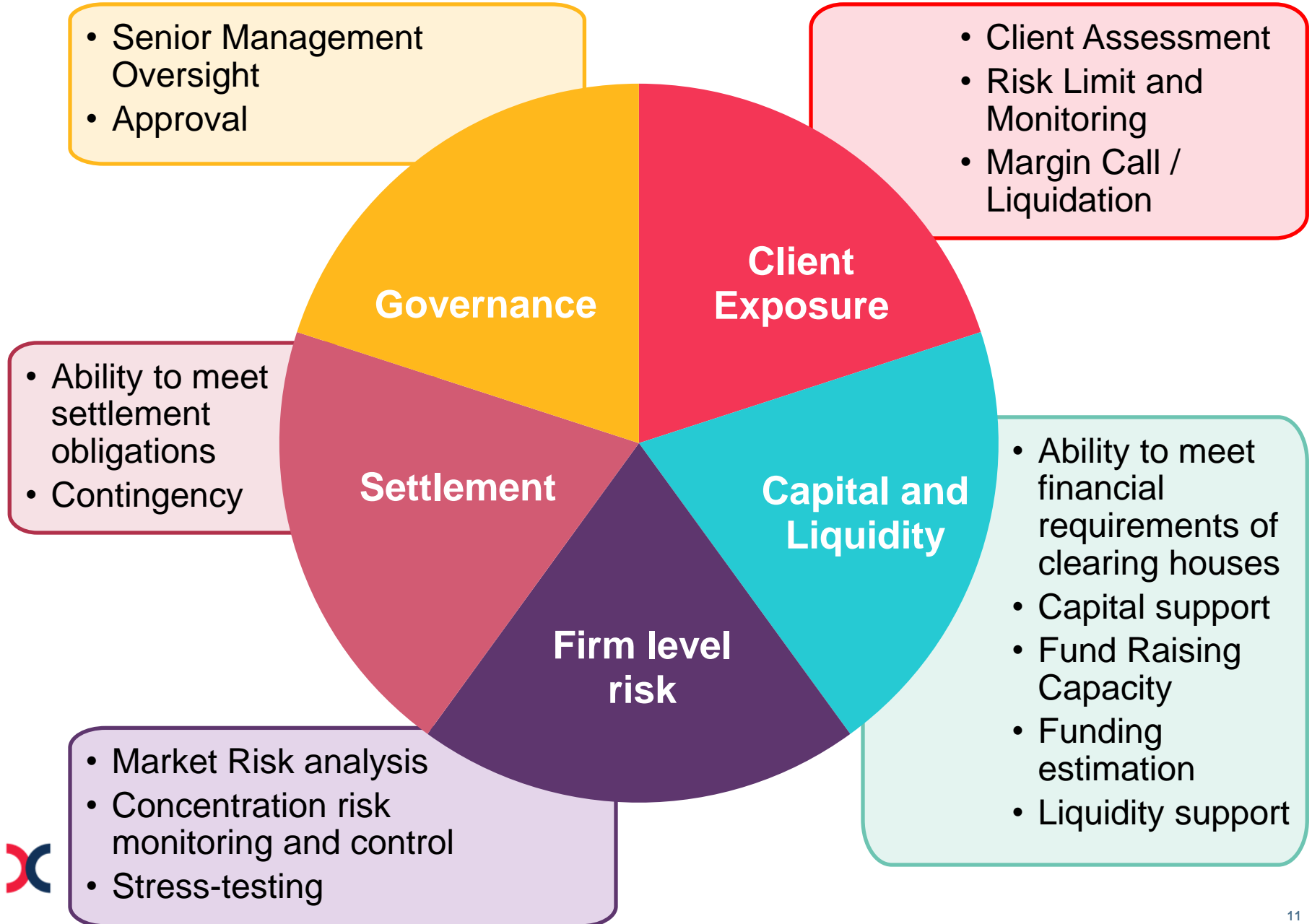
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# Risk Management



# Risk Management

**Enforcement Focus**

**Risk Exposure Monitoring and General Obligations**


**Controls in Meeting Payment Obligation & Other Operational Controls**

**Information Update**





# Risk Management

## Risk Exposure Monitoring and General Obligations

1. Credit Exposure and Control
2. Stress Testing
3. Submission of HKEX when engaging in new business
4. Compliance – How to monitor circular issued by HKEX 

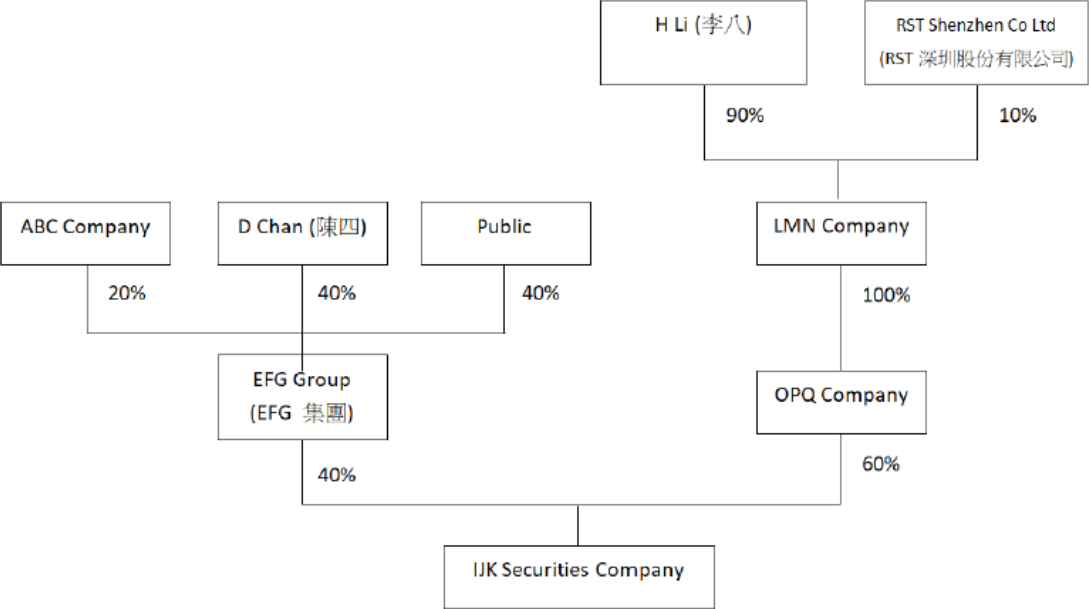
## Controls in Meeting Payment Obligation & Other Operational Controls

1. Timeliness Control (e.g. settlement checklist) (HKSCC)
2. Risk in relation to Client Offset Claim Account (HKCC/SEOCH) 
3. Defective Securities Risk
4. Contingency Arrangements 

# Risk Management

## Information Update *New*

- 1. Contact Update
- 2. Shareholding Structure Update
- 3. Resources and Staff Experience



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# POSITION LIMITS AND LARGE OPEN POSITION REPORTING

## Enforcement Focus

### Prescribed Limits and Reporting Levels

- Position Limits
- Large Open Positions / Reporting Level

### Reporting Requirements

- Notify HKEX on Reportable Positions
- No later than 12:00 noon of the next business day
- Via Electronic Communication Platform (“ECP”)
- Report Format and Content

### Reporting by a person other than an Exchange Participant

- Inform Clients on Requirements and Responsibilities of Reporting





# POSITION LIMITS AND LARGE OPEN POSITION REPORTING

## *Position Limits – Calculation of Contract Exposure*

- **Applicable to most futures and options contracts traded on SEHK and HKFE**
- **Vary by Product / “Group” of Products**

### Futures and Options on HKFE

- Open/Net Contracts
- Position Delta<sup>1</sup>

*where Position Delta = No. of Contracts x delta per Contract*

### Stock Options on SEHK

- Open Contracts
- Number of open contracts per option class in any one market direction<sup>2</sup>

- **Spot / Single / All Month(s)**



<sup>1</sup> Position Delta = No. of Contracts x delta per Contract based on the DCASS report “RP009 – Series Greek Data File”

<sup>2</sup> Long calls/short puts are combined in one direction and short calls/long puts combined are in another direction

# POSITION LIMITS AND LARGE OPEN POSITION REPORTING

## Reporting Requirements

- Futures and options contracts traded on SEHK and HKFE
- A person **holding or controlling** a reportable position to notify HKEX

### WHO

- **Reportable Positions** includes:
  - (i) excess of reporting level
  - (ii) exceeding 60% of position limit of stock index futures and options with same underlying<sup>1</sup>
- **LOP Report Templates** with specific format and content

### WHAT

### FAQs

- Aggregation requirements
- Holding or controlling positions at multiple firms
- Omnibus accounts

### HOW

### WHEN

- No later than **12:00 noon** of the **next business day** after the positions are opened or accumulated
- Continue to file as long as the position remains reportable

### WHERE

- Submission via **Electronic Communication Platform (“ECP”)**<sup>2</sup>



<sup>1</sup> Pursuant to HKFE Rule 628(c), any HKFE Participant, with open position held for its own account or any client exceeding 60% of the position limit of stock index futures and options products with the same underlying index is required to report all outstanding positions in the products concerned to HKFE, including those positions that are below the LOP Reporting Level. Currently applicable to HSI, HHI, MHI, MCH.

<sup>2</sup> ECP Registration Form

<https://www.hkex.com.hk/-/media/HKEX-Market/Services/Trading/Derivatives/Overview/Trading-Mechanism/Large-Open-Positions-and-Position-Limits/ECPReg.pdf?la=en>

# POSITION LIMITS AND LARGE OPEN POSITION REPORTING

## Reporting Capacity

Exchange Participant as  
**Principal**

### Own Account

- HKFE Participants
- SEHK Stock Options Participants

- Multiple proprietary trading desks for different strategies
- Stock Option positions arising from market marking activities held at own or affiliate's Market Maker Account

Exchange Participant as  
**Agency**

### Hold

*on behalf of clients*

### Control

*e.g. exercise discretion to trade or dispose position independently*

- Aggregation requirements
- Omnibus accounts
- Positions at multiple firms
- Reporting for clients upon delegation

A person  
**other than**  
an Exchange Participant

**Directly** to HKEX

### Through

*Exchange Participant(s) who agree to report on behalf*

**Same as above**



# POSITION LIMITS AND LARGE OPEN POSITION REPORTING

## Reportable Positions

### Excess of Reporting Level

All futures and options contracts traded on SEHK and HKFE

- Number of **Open Contracts on gross basis**
- Vary by Products

#### Futures and Options on HKFE

- (Futures) in any one Contract Month
- (Options) in any one Option Series<sup>1</sup>

#### Stock Options on SEHK

- (Options) per Option Class per Expiry Month<sup>2</sup>

### Exceeding 60% of Position Limit

Applicable to HKFE Participants only (Additional Requirement)

- For **Stock index futures and options products with the same underlying index** (HSI, HHI, MHI, MCH currently)
- **Position Delta**
- When **exceeding 60%** of the position limit, EP must report **all** outstanding positions in the products concerned, including positions below the LOP Reporting Level



<sup>1</sup> Different put/call, strike, expiry date are treated as different option series

<sup>2</sup> Different underlying are treated as different option classes

# POSITION LIMITS AND LARGE OPEN POSITION REPORTING

## Large Open Position Report Contents

1. Index futures/options contract or other futures contract

2. Stock options contract

Person	Position
<ul style="list-style-type: none"><li>▪ <b>Exchange Participant Code</b></li><li>▪ <b>Account Number</b></li><li>▪ <b>Account Name</b></li><li>▪ <b>Ultimate Beneficial Owner (“BI”)</b></li><li>▪ <b>Transaction Originator (“TO”)</b></li><li>▪ <b>Reporting Person Capacity</b> i.e. BI / TO / Omnibus Account Operator (“OM”)</li></ul>	<ul style="list-style-type: none"><li>▪ <b>Type of Account</b> i.e. House / Client / Registered Trader</li><li>▪ <b>Nature of Reportable Position</b> i.e. Hedging / Trading / Arbitraging</li><li>▪ <b>Contract Type</b></li><li>▪ <b>Contract Series</b></li><li>▪ <b>Number of long and/or short position</b></li></ul>

Inform HKEX on any changes of account information promptly



### Links to templates:

1. [Index futures/options contract or other futures contract](#)
2. [Stock options contract](#)

# POSITION LIMITS AND LARGE OPEN POSITION REPORTING

## Aggregation Requirements

### Cap 571Y, Section 6(1):

“Any person who **holds or controls** a reportable position shall lodge a notice in writing of that reportable position with the recognized exchange company...”

### HKFE Rule 632A(b):

“For the purpose of this Rule, the positions of all accounts under the **direct or indirect common control or management** of a person, and the positions of all accounts of a person or persons acting pursuant to an express or implied agreement or understanding, shall be **subject to aggregation** by the Exchange.”

### OTP 5.10(4):

“If the Options Exchange Participant is aware that **a number of its client accounts are held for the same beneficial owner**, all open positions of these accounts shall be **aggregated**.”

## Should EP aggregate positions in the following scenarios?

(A) A client holds multiple accounts at an EP - Aggregation **must** apply.

### (B)

- Different proprietary trading desks adopting different strategies
- Group company's affiliate / subsidiary
- Omnibus account operator

### Determining factors include:

- Same / separate legal entities?
- Does the person give day-to-day trading directions to another?
- Does the person has discretion over the management of another's accounts?



# Case Study 1

## Broker A was in breach of prescribed position limits

### Facts

- Broker A breached the prescribed limit in HSCEI futures and options contracts, on 18 occasions, within a three-month period
- Broker A failed to identify the breaches and report to the SFC in a timely manner, due to inadequacies in internal controls:
  - Inadequate staff knowledge (e.g. on aggregation)
  - Position limit monitoring not part of daily operations

### Regulations

- **HKFE Rule 632A:** Holding or controlling open positions in Stock Index Futures & Options Contracts that exceed prescribed position delta (per Contract Specifications)
- **Securities and Futures (Contracts Limits and Reportable Positions) Rules (Cap 571Y), Section 4(1):** Holding or controlling futures contracts or stock options contracts in excess of the prescribed limit (per Schedule 1 of Cap 571Y)

### Regulatory Action

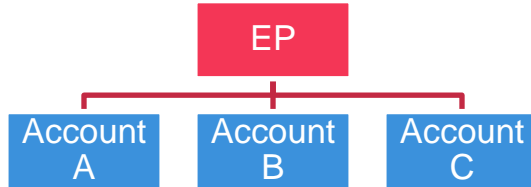
SFC reprimanded and fined Broker A HK\$2.5 million for regulatory breaches and internal control failures for compliance with prescribed the relevant rules and requirements on position limits.



## Case Study 2

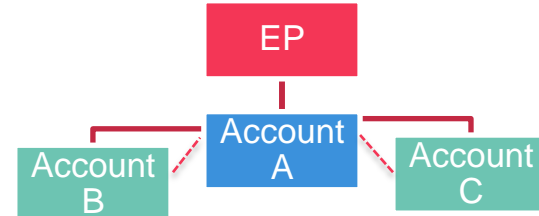
### Under-reporting of LOP for clients – Aggregation Requirements

Situation (1) – **Held** by a common entity



- Client A owns Accounts A, B and C
- EP fails to aggregate positions in all three Accounts

Situation (2) – **Controlled** by a common entity



- Client A owns Account A , and has discretion over Account B and Account C
- EP fails to aggregate positions in all three Accounts

#### Regulations

- **HKFE Rule 632A(b)** – Positions of all accounts under the direct or indirect common control or management of a person should be aggregated
- **OTP 5.10(1)** – Open positions in client accounts with the same beneficial owner should be aggregated
- **SFC Guidance Note on Large Open Position Reporting requirements, paras 5.3, 5.5 and 5.6**

#### Ramifications

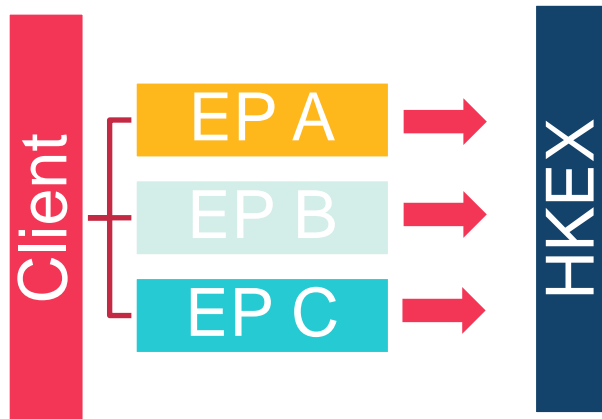
- Failure to apply proper aggregation methodology resulting in:
  - Under-reporting of LOP
  - Failure to detect potential breaches of prescribed limits





## Case Study 3

### Under-reporting of LOP for clients – Delegated Reporting



- Client X holds or controls a reportable position in accounts at multiple EPs (A, B and C)
- Client X instructs each EP to report positions separately to HKFE/SEHK
- EP A only reported client X's positions when they were above the reportable threshold, but not positions below reporting levels

#### Regulations

- **SFC Guidance Note on Large Open Position Reporting requirements, para. 4.6**
- **Operational Trading Procedures for Options Trading Exchange Participants of the Stock Exchange, paras. 5.10(4)**
- **HKFE Circular (Ref: ED/DMD/MD/024/05), para. C2**

Client who holds/controls a reportable position may submit LOP Report to HKEX through (1) one EP and provide its total positions held at other EPs to that EP or (2) all EPs to report positions in each of the accounts even though positions in the individual accounts may not exceed the reportable level

#### Ramifications

- Failure to fulfill LOP reporting obligation



# POSITION LIMITS AND LARGE OPEN POSITION REPORTING

## *Relevant Exchange Rules and Circulars on Position Limits and LOP Reporting*

### Rules, Regulations and Procedures of the Futures Exchange – Chapter VI

- 628 Monitoring Large Open Positions
- 629 Trading Limits and Position Limits
- 631-632 Exceeding Position Limits
- 632A Client-Based Delta Position Limits
- 632B Increasing a Position Limit
- 633(c) Responsibility of Informing Clients of LOP reporting requirements

### Options Trading Rules – Chapter 4

- 435-438 Position Limits
- 439 Reporting Levels
- 440 Responsibility to Disclose Ultimate Beneficial Identity
- 441 Responsibility of Reporting Excess in Position Limits
- 441A Market marking positions held in the account of an Exchange-registered affiliate

### Operational Trading Procedures for Options Trading Exchange Participants of the Stock Exchange – Chapter 5

- 5.9 Position Limit and Reporting Level
- 5.10 Responsibility of Reporting Excess in Reporting Level and Informing Clients of the LOP reporting requirements
- 5.11 Reporting Excess in Reporting Level
- 5.12 Increasing a Position Limit

### Circulars

- **MSM/006/2017** [Frequently Asked Questions – Position Limits and Large Open Position \(“LOP”\) Reporting](#)
- **MSM/001/2016** [Electronic Submission of Large Open Position Report for Stock Options Contracts](#)
- **MSM/001/15** [Electronic Submission of Large Open Position Report](#)
- **EFIC/DT/178/14** [Strengthening Large Open Position Monitoring for Stock Index Futures and Options](#)
- **ED/DMD/MD/024/05** [Harmonisation Of Position Reporting Levels And Position Limits In HKFE Contract Specifications with the Securities and Futures \(Contracts Limits and Reportable Positions\) Rules \(\*Paras. B2 and C\*\)](#)



# POSITION LIMITS AND LARGE OPEN POSITION REPORTING

**Dedicated website:**

[https://www.hkex.com.hk/Services/Trading/Derivatives/Overview/Trading-Mechanism/Large-Open-Positions-and-Position-Limits?sc\\_lang=en#template](https://www.hkex.com.hk/Services/Trading/Derivatives/Overview/Trading-Mechanism/Large-Open-Positions-and-Position-Limits?sc_lang=en#template)

Index	Products	Large Open Positions / Reporting Level	Position Limits
Hang Seng Index	Hang Seng Index Futures (HSIF)	500 open contracts, in any one Contract Month	Position delta for Hang Seng Index Futures, Hang Seng Index Options, Mini-Hang Seng Index Futures, Mini-Hang Seng Index Options, Hang Seng Index (Gross Total Return Index) Futures and Hang Seng Index (Net Total Return Index) Futures combined of 10,000 long or short in all Contract Months combined provided the position delta for Mini-Hang Seng Index Futures or Mini-Hang Seng Index Options shall not at any time exceed 2,000 long or short in all Contract Months combined. For this purpose, (i) the position delta of one Mini-Hang Seng Index Futures Contract will have a value of 0.2 and the position delta of one Mini-Hang Seng Index Option Contract will be one-fifth of the position delta of the corresponding series in the Hang Seng Index Option Contract; and (ii)
	Hang Seng Index Options (HSIO)	500 open contracts, in any one series	
	Mini-Hang Seng Index Futures (MHIF)	2,500 open contracts, in any one Contract Month	
	Mini-Hang Seng Index Options (MHIO)	2,500 open contracts, in any one series	



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# China Connect Northbound Trading

## Enforcement Focus

### New

1. **Broker-to-Client Assigned Number** (SEHK Rule 1425A)

### Common Deficiencies

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



## BCAN

***A unique Broker-to-Clients Assigned Number (BCAN) should be (i) assigned to each of their clients who trade in China Connect Securities, and (ii) mapped to the Client Identification Data (CID) of that particular client.***

### BCAN

- One BCAN for one client (with one or more accounts, except for a joint account)
- For proprietary trading, different BCANs for each of the CCEP's / TTEP's affiliate
- One level down to Non-affiliate of CCEP / TTEP
- Assign to fund or fund manager depending on account opening arrangement
- Not bearing obvious link to client
- Kept confidential
- No changed or re-used for another client

### CID

- Individual – name, ID issuing country, ID type and ID number
- Institution – entity name, place of incorporation, ID type\* and ID number
- Ensure CID is accurate and up to date



\* Legal Entity Identifier (LEI) and certificate of incorporation are acceptable ID types

# BCAN

## *Prescribed Consent*

- CCEPs / TTEPs shall obtain authorisations and written consents for the collection, storage, usage, disclosure and transfer of BCANs and CIDs
- Simple notification of the new arrangement is insufficient
- CCEPs / TTEPs should keep appropriate records of the prescribed consent and other relevant documents
- Generally, without valid authorization / consents, CCEPs / TTEPs may only input sell orders

## *BCAN Tagging*

- CCEPs / TTEPs shall tag the corresponding BCAN to every NB order on a real-time basis
- CCEPs / TTEPs need to handle any incorrect BCAN tagging promptly:
  - **Before execution:** cancel order
  - **After execution:** report correction of BCAN to the Exchange



# Frequently Asked Questions by EPs

## Q 1 – Client consents

***Do CCEPs/TTEPs need to obtain the PDPO prescribed consent from both individual and institutional clients?***

Only individuals' personal data are regulated by the PDPO. The PDPO prescribed consent will therefore be required only from CCEPs'/TTEPs' individual clients but not their institutional clients. For institutional clients, CCEPs'/TTEPs' should have their own internal policies and procedures on obtaining the necessary client approval/consent to allow them to lawfully handle and transfer clients' confidential information as contemplated under the NB Investor ID Model.





## Frequently Asked Questions by EPs

### Q 2 – Client consent cannot be obtained

***What if client consent is not obtained for disclosure of CID and BCAN submission along with orders?***

If the necessary authorizations and consents (both written and prescribed) from an individual client in relation to the collection, storage, use, disclosure and transfer of his/her CID and/or BCAN cannot be obtained by a CCEP or TTEP, or the client's BCAN or BCAN-CID mapping are otherwise invalid or deficient, then, the CCEP or TTEP may only input NB sell order (but not any NB buy order) for such client.

The CCEP/TTEP should confirm with its client who refuses to provide the necessary consent that he/she has not otherwise provided such consent to other CCEPs/TTEPs for NB trading. If the CCEP/TTEP reasonably believes that its client may have provided such consent to other CCEPs/TTEPs (e.g. the shares to be sold are acquired after the implementation of NB investor ID model), it should conduct appropriate due diligence to ascertain why a different approach is taken by the client to ensure that he/she is not abusing this NB sell order exception. If the CCEP/TTEP is aware that the client has indeed provided a subsisting consent to the other CCEPs/TTEPs but fails to give a satisfactory explanation for the refusal with the CCEP/TTEP, the CCEP/TTEP should insist obtaining the necessary consent from such client before placing any further NB orders for him/her.



## Frequently Asked Questions by EPs

### Q 3 – Records of client consents

#### ***Do CCEPs/TTEPs need to submit client consents to HKEX?***

CCEPs/TTEPs do not need to submit client consents to HKEX. However, they should keep appropriate records of the client consents and other relevant documents in accordance with the Rules of the Exchange.

### Q 4 – BCAN not yet validated

#### ***If an individual client has provided client consent to CCEP/TTEP but the BCAN assigned to such client is not yet successfully validated, can such client dispose of its China Connect Securities?***

There may be circumstances where a BCAN is not successfully validated even the relevant BCAN-CID mapping information is timely submitted to the SEHK. In the case where the CCEP/TTEP has duly provided the relevant BCAN-CID mapping information at or before the prescribed deadline on T-1 day to the SEHK in good faith but the BCAN is not validated on the same day, the CCEP/TTEP may nevertheless input NB sell orders (but not NB buy orders) for such client on T-day and the BCAN to be tagged for such NB sell order shall be specific reserved values prescribed by the SEHK in the related interface specifications.



# Shareholding Disclosure, Foreign Investors Shareholding Limit


Focus Area	Key information		Compliance Reminder
<p><b>5% Shareholding Disclosure Requirement</b></p> <p>持股量披露規定</p> <p><b>Foreign Investors Shareholding Limit</b></p> <p>境外投資者持股限制</p>	<ul style="list-style-type: none"> <li>• <b>Disclosure Requirement:</b> Triggered once an investor's holding* reached <b>5% of the issued shares of a Mainland listed co.</b>, and such investor should report in writing to the CSRC and SSE/SZSE, and inform the listed company within 3 working days</li> <li>• <b>Foreign Investors shareholding limit:</b> <b>10%</b> limit on shareholding by a single foreign investor <b>30%</b> limit on aggregate foreign shareholding#</li> <li>• <b>Forced Sale Arrangements:</b></li> </ul>		<p><b>✘ Mistaken belief:</b> 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"> <li>• <b>Appropriate monitoring arrangement</b> to comply and alert clients to comply with the 5% shareholding disclosure requirements and the 10% single foreign investor's shareholding restriction</li> <li>• <b>Alert clients</b> to the 30% aggregate shareholding limit and the forced-sale arrangements</li> <li>• <b>Appropriate measures</b> including legally enforceable client agreements to enable timely execution of forced-sale arrangements</li> </ul>
	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/>



# Margin Trading

Focus Area	Key Information	Compliance Reminder												
<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"> <li>Confined to the List of Eligible SSE/SZSE Securities for Margin Trading</li> <li>Subject to “margin trading indicator” (單隻股票的融資監控指標) :               <ul style="list-style-type: none"> <li><b>Suspension : 25%,</b></li> <li><b>Resumption: Drop below 20%</b></li> </ul> </li> </ul>  <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 buy and sell volumes and margin financing amounts.</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 specific securities like 平安银行, 万科A, 深发展A, and 中国宝安 with their respective trading volumes and margin amounts.</p>	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	<ul style="list-style-type: none"> <li>Ensure clients are <b>informed of the scope of services provided</b> to them</li> <li><b>Effective measures</b> in place to ensure           <ol style="list-style-type: none"> <li>margin trading is confined to the List of Eligible SSE/SZSE Securities for Margin Trading ( <b>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</b> ) ;</li> <li>for buy orders, the relevant stock is not under margin trading suspension at the time of order placement.</li> </ol> </li> <li><b>Ensure clients’ understanding and awareness</b> on the restrictions, requirements and conditions applicable to Margin Trading</li> </ul>
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									



# Trading in SZSE's ChiNext Shares

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<p><b>Investor Eligibility for Trading in ChiNext Shares</b></p> <p>買賣深圳創業板投資者資格規定</p>	<ul style="list-style-type: none"> <li>Initially open for <b>Institutional Professional Investors</b> 機構專業投資者 (IPI)* only</li> </ul> <p>Existing SZSE stock codes: ChiNext Market start with "300"</p> <p><b>300XXX</b></p> <ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Client Agreement should contain sufficient provisions covering the trading of ChiNext stocks including the risks involved</li> <li>Effective controls on <b>pre-trade and post-trade level</b> to ensure compliance with the investor eligibility requirement for trading in ChiNext shares <b>including but not limited to</b> <ol style="list-style-type: none"> <li>assess the clientele of intermediary clients;</li> <li>regular review on the IPI status of their clients; and/or</li> <li>regular and appropriate post trade review which covers all clients including the underlying clients of intermediary clients.</li> </ol> </li> <li>CCEPs should already have appropriate controls in place to <b>prevent non-compliance</b> with the relevant requirements and necessary measures and prior arrangements with their clients to <b>rectify breaches</b> e.g. requesting the non-IPI to unwind positions of ChiNext shares as soon as possible</li> <li>In case of violations: <b>self-report</b> to SEHK &amp; <b>rectify breaches</b> promptly</li> </ul>

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.



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

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



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