

Appendix 1

Compliance Reminder on Clearing Rules Obligations¹
(Applicable to Clearing Participants² only)

Clearing Participants (“**CPs**”) of HKSCC, HKCC and SEOCH (collectively, the “**Clearing Houses**”), are required to at all times, comply with the relevant clearing rules obligations as stipulated in the rules and procedures of the respective Clearing Houses³.

In the 2022 Annual Attestation and Inspection Programme, some CPs were found to be deficient in the following areas:-

1. Continuing Obligations

▪ ***Inadequate controls to ensure change of details are timely reported to HKEX***

The continuing obligations require applicable CPs to, amongst other things, notify the respective Clearing Houses of any change of their details under the relevant rules and procedures.

Specifically, it was observed that a number of CCASS Participants have failed to notify HKSCC of any change in the details supplied at the time of admission and thereafter, including but not limited to changes in respect of their Designated Officer and/or Alternate Designated Officer within the specified timeframe.

Under CCASS Rules 1703(iii), each CCASS Participant undertakes that it will notify HKSCC of any change in the details supplied to HKSCC at the time of admission and thereafter, including but not limited to anything relating to such CCASS Participant, its directors or employees which would render inaccurate, incomplete or superseded a statement or information previously furnished by such CCASS Participant to HKSCC.

In addition, CCASS Operational Procedures 2.6 provides that CCASS Participants (other than Corporate Investor Participants) must inform HKSCC in writing of any change of their Designated Officer and/or Alternate Designated Officer and Corporate Investor Participants must inform HKSCC in writing of any change of their Designated Officer by completing and submitting the prescribed form at least three Business Days before the change takes effect.

CPs are reminded to put in place appropriate controls (including adequate policies and procedures and workflow) to ensure that notification of any change of their details is given to HKSCC on a timely basis or within the specified timeframe in the event that such change involves details of their Designated Officer and/or Alternate Designated Officer.

¹ Unless otherwise defined, capitalized terms and abbreviations used in this circular shall have the same meanings as defined in the relevant rules and procedures of the Clearing Houses.

² Referring to (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.

³ Referring to (i) HKSCC: The General Rules of CCASS (“**CCASS Rules**”), the CCASS Operational Procedures; (ii) HKCC: The Rules and Procedures of HKCC (“**HKCC Rules**”); and (iii) SEOCH: The Options Clearing Rules of SEOCH (“**SEOCH Rules**”).

For details about the relevant clearing house rules and requirements, please refer to the circulars issued on 1 December 2022, with reference numbers [MSM/011/2022](#), [MSM/012/2022](#) and [MSM/013/2022](#).

2. Access to CCASS Terminal / Installation outside Office Premises or in Foreign Jurisdiction

- ***Access to CCASS terminal from foreign jurisdiction without prior approval from HKSCC***

Some incidents were noted where the CPs have failed to obtain prior written approval from HKSCC under CCASS Rules for the access to CCASS via CCASS Terminals and Participant Gateways installed in a foreign jurisdiction.

CCASS Rules 704 and 3901 to 3904 respectively specify that unless the prior written approval of HKSCC is obtained, CCASS Terminals and Participant Gateways can only be installed at the office premises of a CCASS Participant or its Settlement Agent. Where a CCASS Terminal is approved to be installed in a foreign jurisdiction or where CCASS is approved to be accessed and operated from a foreign jurisdiction pursuant to Rule 3901, such installation shall be subject to the conditions as stipulated in Rules 3902 to 3904.

CCASS Participants are reminded to confirm that prior written approval from HKSCC is obtained before arranging for installation of CCASS Terminal outside the office premises of a CCASS Participant or its Settlement Agent, or accessing to or conducting activities in CCASS from a foreign jurisdiction.

3. Types of Clearing Accounts in DCASS

- ***Incorrect recording of proprietary positions to Individual Client Account (“ICA”)***

Procedure 1.2.3 under HKCC Rule stipulates, *inter alia*, that an ICA is for the recording, on an individual client basis, of trades and positions of “a client of an HKCC Participant”. A CP was noted to have incorrectly recorded proprietary positions in an ICA for the purpose of segregating its house positions.

HKCC Participants shall ensure that all trades and positions maintained in an ICA belong to one client only and such trades and positions are not held by a client of a HKCC Participant operating an omnibus account.

In this regard, HKCC Participants are reminded to put in place proper controls to ensure compliance with the applicable rules and regulatory requirements.

4. Policies and Procedures

- ***Inadequate policies and procedures***

Continuing Obligations. Some CPs have failed to establish adequate written policies and procedures in relation to the notification requirements under CCASS Rules 1703(iii), HKCC Rules 214(n) and SEOCH Rules 403 (17), including but not limited to timely notification of changes in respect of:

- Their Designated Officer and/or Alternate Designated Officer within the specified timeframe;
- Their key contact persons for daily operations (i.e. Margin Call and Money Settlement, DCASS Operations Day / Night and DCASS IT Day / Night); and/or
- Their updated risk and control documents when engaging in new business activities such as proprietary trading, stock lending, China Connect market and margin financing.

Non-comprehensive policies and procedures may pose compliance risk as well as operational risk on the participants. CPs are reminded of the need to establish and maintain comprehensive policies and procedures to ensure compliance with all relevant rules and requirements. In addition, regular review and revision should be conducted to ensure they are consistent, effective and up-to-date.

CPs should also notify the respective clearing houses in case of any violations of the clearing rules, or any of the conditions in any approval given by the respective clearing houses.

5. Staff Training

- ***Inadequate staff training.*** Some CPs did not provide adequate training to the relevant staff in respect of the continuing clearing rules obligations on a regular basis, but merely relied on on-the-job training through sharing and coaching by senior staff members.

To foster a culture of compliance, CPs are reminded that they should provide their staff members with adequate and appropriate training both initially and on an on-going basis.