



Self-Match Prevention in Securities and Derivatives Market – Webinar

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HKEX
香港交易所

Agenda

- 01 | Overview of SMP Model Design
- 02 | SMP in Securities and Derivatives Market
- 03 | FAQs on SMP ID Registration and SMP Service Usage
- 04 | System Requirements and Timeline



01 Overview of SMP Model Design



Overview of SMP Model Design – Introduction of SMP in Securities Market and Enhancement in Derivatives Market

- 1 Service Nature**
 - ✓ Free service*
- 2 Level of Granularity on SMP Setting**
 - ✓ Based on SMP ID. Different SMP IDs for securities and derivatives market (Securities: 9 digit; Derivatives: 5 alphanumeric)
- 3 Cancellation Method**
 - ✓ Cancel Aggressive or Cancel Passive prescribed at SMP ID
- 4 SMP Coverage**
 - ✓ Multi-broker model (Prevent self-matching for orders with the same SMP ID within/ across EPs)
- 5 Applicable Session**
 - ✓ Continuous Trading Session



* Note: SMP is a free service for all participants, and an optional service depending on participants' needs

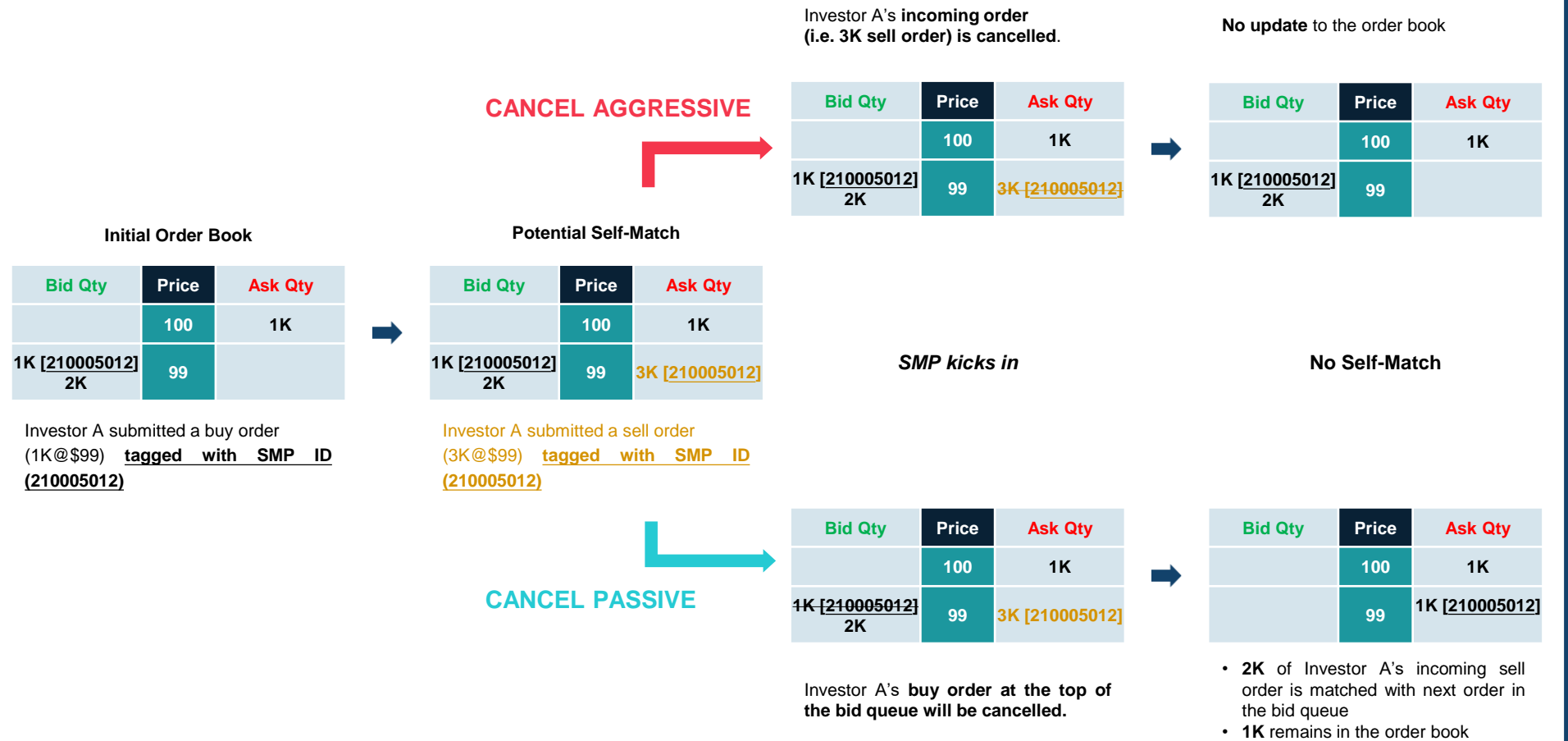
02 SMP in Securities and Derivatives Market



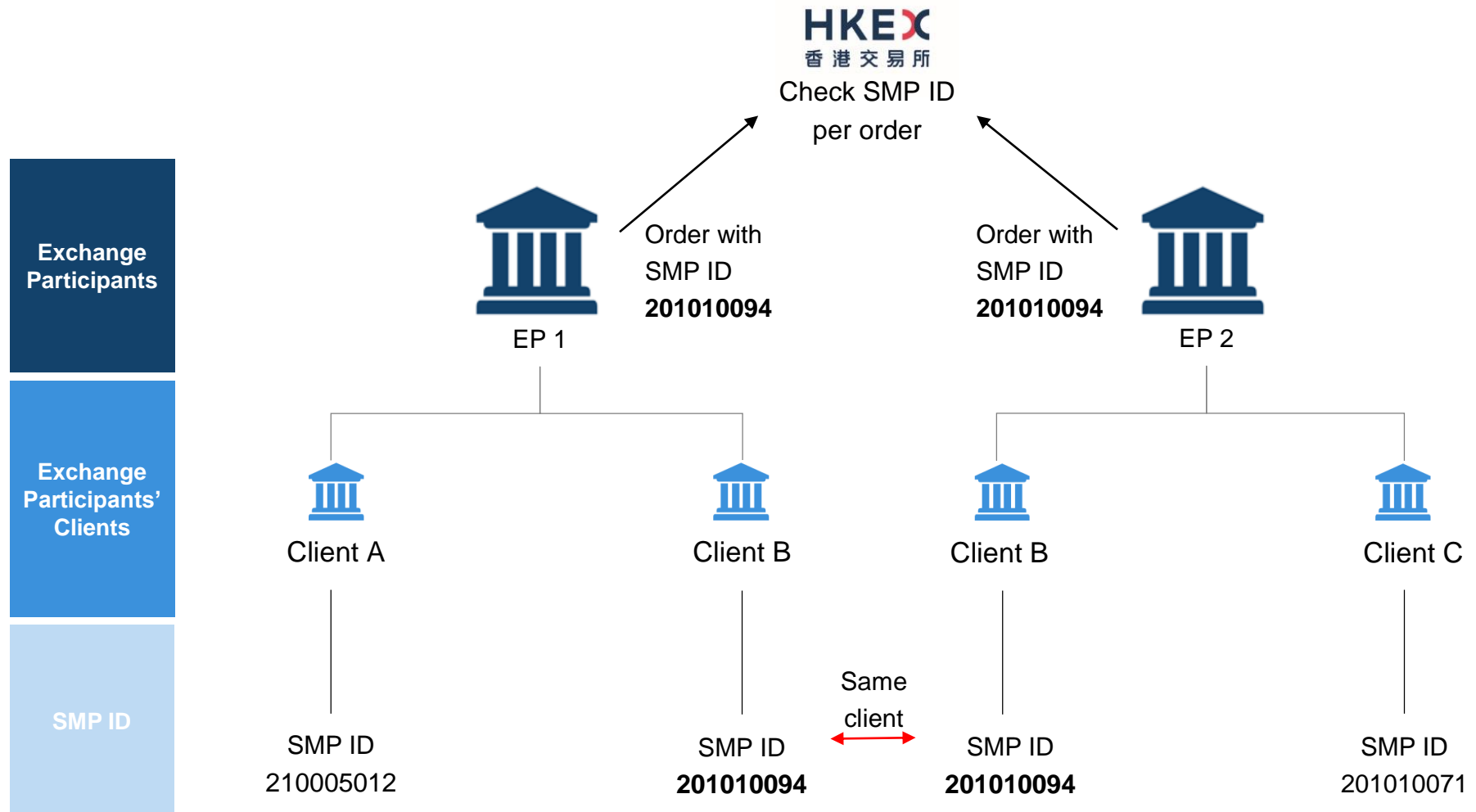
Securities Market – Illustration of Cancellation Method

SMP (Securities Market)

Scenario: Investor A possesses a SMP ID (210005012)





Securities Market – Illustration of SMP ID Setting (by SMP ID)



Derivatives Market – Two Types of SMP Models

The newly introduced ID-based model will co-exist with the existing HKATS Username-based model:

	 Existing model	 Additional new model
	HKATS Username-based SMP	ID-based SMP
Service Nature	Free service*	
Applicable Session	Continuous Trading Session (day trading session and after-hours trading session)	
Level of Granularity on SMP Setting	Based on HKATS Username	Based on SMP ID
Cancellation Method	Cancel Aggressive	Cancel Aggressive or Cancel Passive
SMP Coverage	Single broker model	Multi broker model
System change or testing required	Nil	Required



* Note: SMP is a free service for all participants, and an optional service depending on participants' needs

Derivatives Market – Illustration of Cancellation Method (HKATS Username – Based SMP)

HKATS Username-based SMP

Scenario: EP (e.g. ABC) has enabled HKATS Username-based SMP for Investor A's HKATS Usernames (ABC1091)

Initial Order Book

Bid Qty	Price	Ask Qty
	100	1K
1K [ABC1091] 2K	99	

Investor A submitted a buy order (1k lot @ \$99) via HKATS Username ABC1091

Potential Self-Match

Bid Qty	Price	Ask Qty
	100	1K
1K [ABC1091] 2K	99	3K [ABC1091]

Investor A submitted a sell order (3k lot @ \$99) via HKATS Username ABC1091

SMP kicks in

Bid Qty	Price	Ask Qty
	100	1K
1K [ABC1091] 2K	99	3K [ABC1091]

Investor A's **incoming order** (i.e. 3k lot sell order) is **cancelled**.

No Self Match

Bid Qty	Price	Ask Qty
	100	1K
1K [ABC1091] 2K	99	

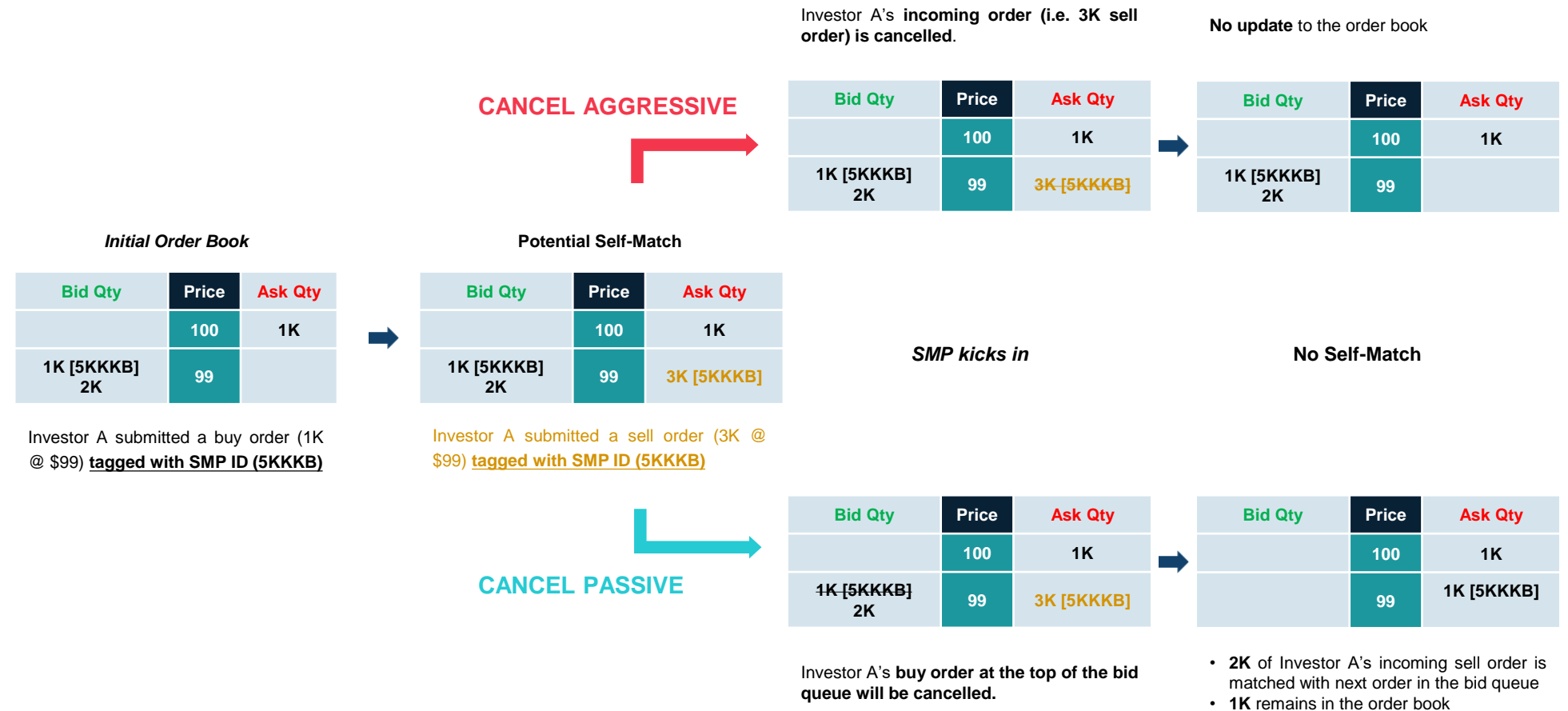
No updates to the order book



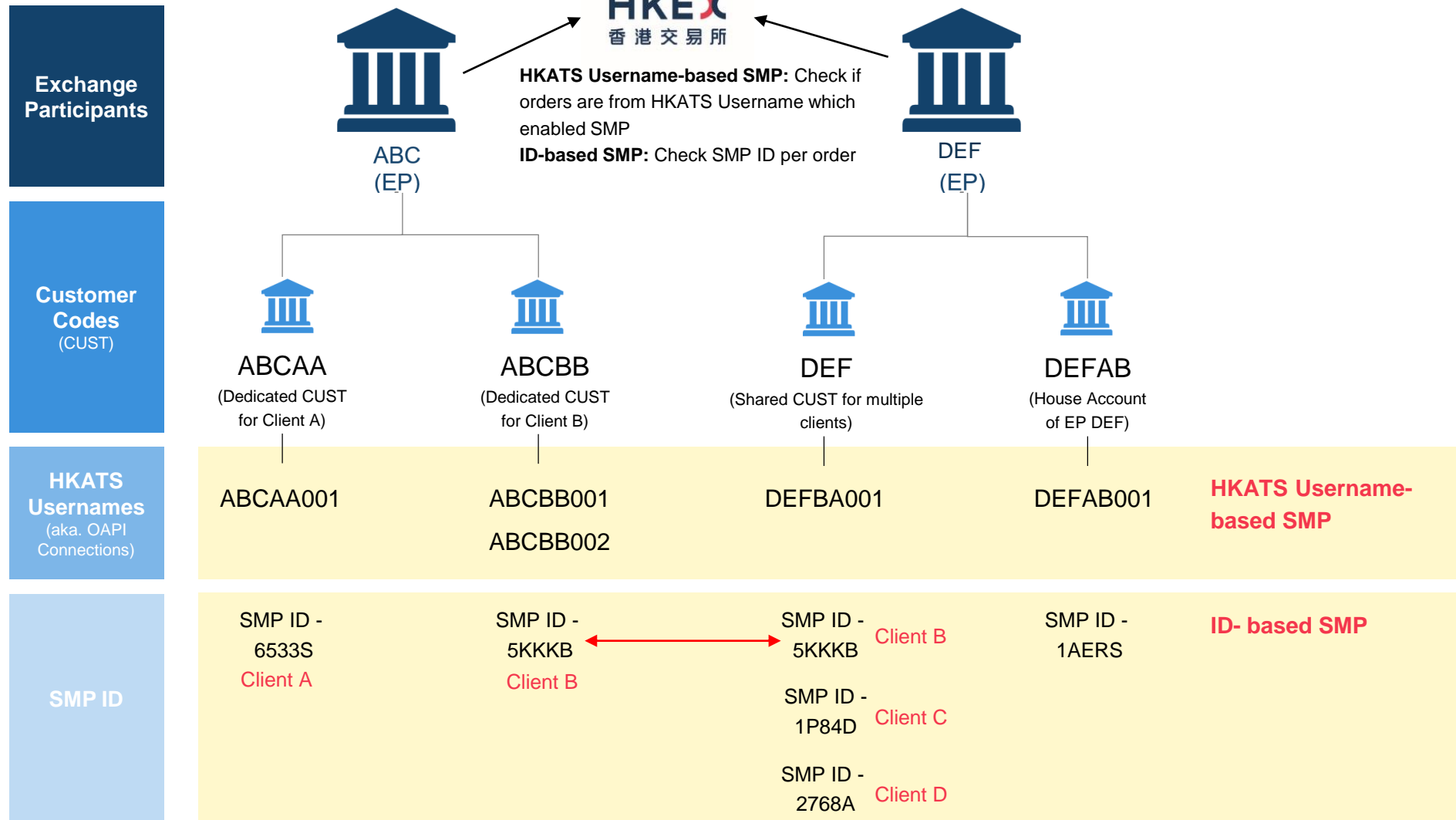
Derivatives Market – Illustration of Cancellation Method (ID - Based SMP)

ID-based SMP

Scenario: Investor A possesses a SMP ID (5KKB)



Derivatives Market – Illustration of SMP Setting



Each Customer Code (CUST) can either use ID-based SMP or HKATS Username-based SMP, i.e. same CUST cannot use ID-based SMP and HKATS Username-based SMP at the same time



03 FAQs on SMP ID Registration and SMP Service Usage



Registration of a SMP ID*

- A. Only one SMP ID may be registered for use by an EP for its proprietary orders and only one SMP ID may be registered for each client of an EP, except where there are any other independently operated trading unit(s) within the EP or the client, additional SMP IDs may be registered.

No SMP ID may be registered for use in respect of an individual investor.

- B. A SMP ID may be registered for use by an EP or a client, as the case may be, together with any of its direct or indirect subsidiary or holding company or any subsidiary of such holding company.
- C. In the case of a client which is an asset management company, separate SMP IDs may be registered for use for different funds or trading accounts managed or controlled by fund managers or trading decision makers whose operations are independent from one another.
- D. For the purpose of the SMP Service, a “client” shall include a direct client of an EP and where such client is itself an intermediary, the clients of such intermediary client.
- E. Any usage not mentioned above will be determined by the Exchange (i.e. SEHK or HKFE as the case may be) on a case-by-case basis.

** Note: subject to regulatory approval and exact terms would be available at a later stage*



FAQs on the SMP ID application

Q1. What information is required when applying for a SMP ID?

A1. Basic information (e.g. Legal entity name) and a description of the business setup (e.g. number of trading desks) of the EP or the client, as the case may be, are expected to be required. In addition, self-attestation on the relevant controls relating to the use of SMP Service will be required.

Q2. Are supporting documents required upon registration?

A2. Supporting documents are generally not required for the application of a SMP ID except that documentary evidence for multiple teams structure, control measures relating to the use of SMP Service and organization structure may be requested by the Exchange during the application process or when deemed necessary for the ongoing use of the SMP Service in the future.

Q3. Are there any specific requirements for an EP to apply for the registration of a SMP ID to be used for its indirect clients which are not themselves an intermediary?

A3. Yes. EPs are required to put in place or procure its direct client which is an intermediary to put in place relevant controls to ensure the proper use of the SMP ID and detect misuse of SMP.



FAQs on the use of the SMP Service

Q1. Will the usage of SMP Service be monitored?

A1. Yes, the use of the SMP Service will be monitored. EPs are reminded and should also remind its clients that the use of SMP Service for any non-bona fide purpose may be a non-compliance with the terms and conditions for the use of the SMP Service and may violate the Exchange Rules. EPs should report to the Exchange when it detects any misuse of any SMP ID.

Q2. What should EPs be aware of and remind their clients when using the SMP Service?

A2. EPs and its clients may tailor their use of SMP IDs in ways that are appropriate for its business model and trading strategies. They shall comply with the Rules of the relevant Exchange (i.e. SEHK and HKFE), the terms and conditions for the use of SMP Service and the relevant application form (available at a later stage) and take steps in preventing and detecting any market misconduct, including spoofing, unusual trading practice or non-compliance with any relevant Rules and Regulations.

Order cancellations via the use of the SMP Service will be treated as activities initiated by the relevant EP and/or its clients and the use of the SMP Service cannot be used as a defence of any market misconduct / manipulative behaviour.

Q3. What should I do if there are changes in the registration details relating to a SMP ID?

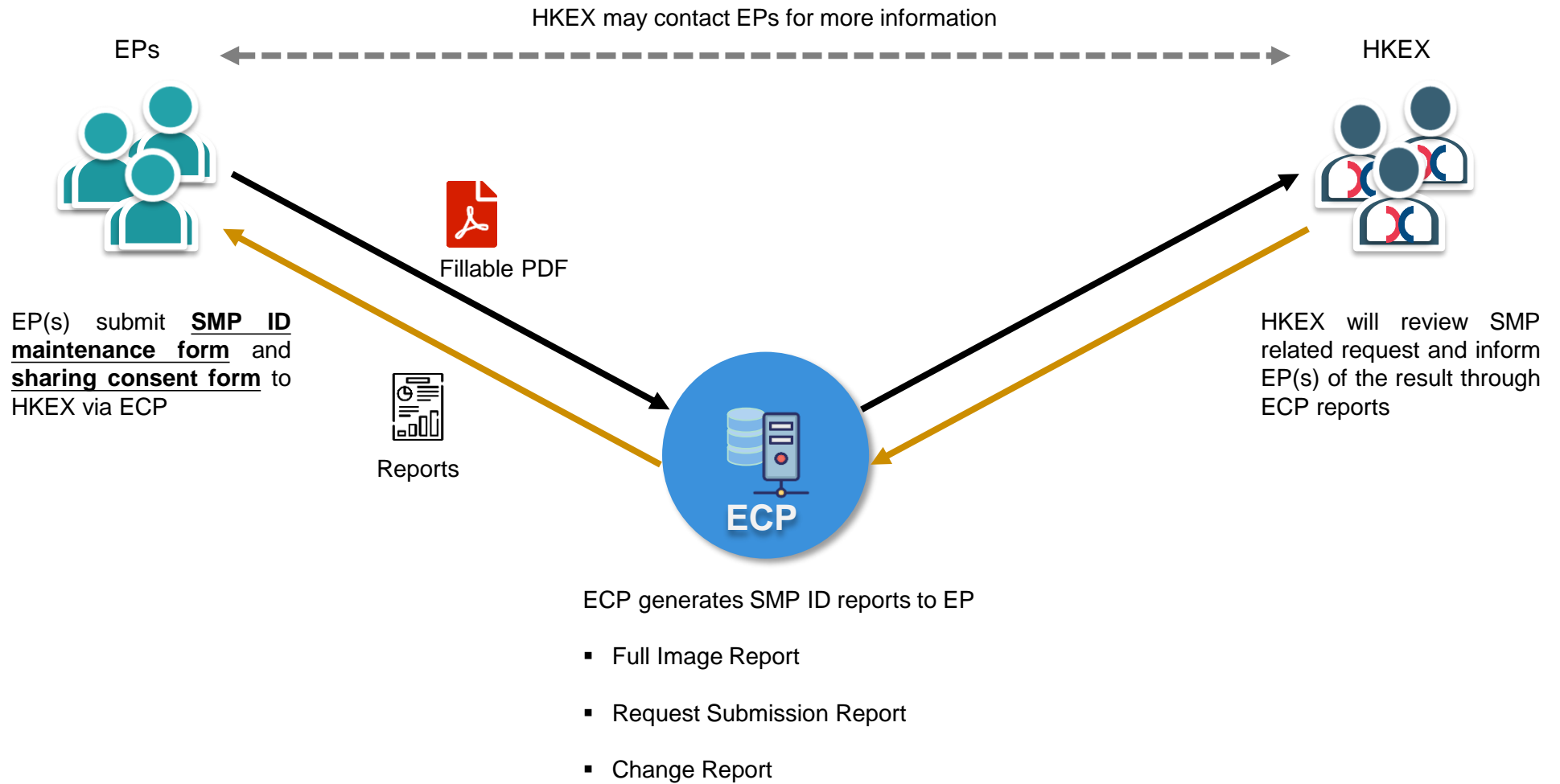
A3. Any change in the information submitted after registration shall be updated to the relevant Exchange in a prescribed form within a time period specified by the Exchange (available at a later stage).

Q4. What will happen if misuse of a SMP ID or market misconduct involving a SMP ID is detected?

A4. The Exchange has the sole discretion in suspending, restricting or terminating the use of a SMP ID or the SMP Service, if there is reasonable cause to suspect or believe that the SMP ID has been used or involved in any market misconduct / manipulative behaviour.



SMP ID Registration Workflow



04 System Requirements and Timeline



Securities Market – System Interface Change



System backward Compatibility

- No system change required for EPs not planning to use SMP service



ID-based SMP

- One new field for OCG-C for using Securities Market SMP service

Binary Trading Protocol

Field Name	Required	Description
SMP ID	N (optional)	The identifier to prevent self-matching

FIX Trading Protocol

Field Name	Required	Description
2362 – SelfMatchPreventionID	N (optional)	The identifier to prevent self-matching

Derivatives Market – System Requirement



HKATS Username-based SMP

- No system change



ID-based SMP

- Will have system changes

1 Introduction of “SMP Token”

2 Introduction of Optimized Quote MO960

1. In the below listed HKATS Online Windows

2. In the below listed OAPI messages

- 1) Enter Order
- 2) Change Order
- 3) Execute Order
- 4) Enter Tailor-Made Combination
- 5) Quotes
- 6) Quote Reply
- 7) Order Book
- 8) Order History
- 9) Local Inactive Orders
- 10) Automatic Quote Order Book

- 1) Order Entry Transaction MO31
- 2) Order Alteration Transaction MO33
- 3) Standard Quotes Transaction MO37
- 4) Extended Mass Quote Transaction MO93
- 5) Firm Order Book Broadcast BO5
- 6) Total Order Query MQ8
- 7) Total Inactive Order Query MQ9

Features:
MO96 plus the field for “SMP Token”

Note:
Existing Optimized Quote MO96 will not be changed. i.e., MO96 will not support SMP Token

- Via field “smp_token_s” in existing structure “hhex_exchange_info”



Timeline and Milestone Updates

