

**Appendix 1**

**Compliance Reminder on China Connect Rules**

*(Applicable to China Connect Exchange Participants, Trade-through Exchange Participants and China Connect Clearing Participants only)*

China Connect Exchange Participants (“**CCEPs**”) and Trade-through Exchange Participants (“**TTEPs**”) are required to, at all times, comply with the relevant rules and regulations regarding the trading of China Connect Securities as stipulated in the Rules of the Exchange (“**SEHK Rules**”) of the Stock Exchange of Hong Kong Limited (“**SEHK**”, or the “**Exchange**”), including but not limited to Chapters 5, 14, 14A and 14B.

China Connect Clearing Participants (“**CCCPs**”) and Custodian Participants are required to, at all times, comply with the relevant rules and regulations regarding China Connect Clearing Services as stipulated in the General Rules of HKSCC (“**HKSCC Rules**”) of Hong Kong Securities Clearing Company Limited (“**HKSCC**”), including but not limited to Chapter 41.

In the 2025 Annual Attestation and Inspection Programme, some CCEPs, TTEPs and CCCPs were found to be deficient in the following areas:

**1. Broker-to-Client Assigned Number (“**BCAN**”) Requirements**

▪ ***Multiple BCANs assigned for the same client***

A misunderstanding of the applicable requirements had led to multiple BCAN assignment instances, whereby different BCANs were assigned to different branches of the same entity.

▪ ***Accurate and up-to-date Information in the BCAN-CID Mapping File***

Inaccurate Client Identification Data (“**CID**”)

- (i) Due to a misunderstanding of the requirements, system limitation in supporting non-alphabetic languages, clerical mistakes and staff oversight, some CCEPs/TTEPs failed to provide the exact CID as shown on clients’ official identity documents (“**ID**”), including but not limited to omission of Chinese or non-English names available in the ID and incorrect input of client name, ID number, ID type and/or country of issuance. Some CCEPs also mistakenly included testing data or internal references in the BCAN-CID Mapping File.

- (ii) In one instance, it was noted that a CCEP had inadvertently removed non-alphabetic names from the BCAN-CID Mapping File when attempting to comply with other regulatory requirements that imposed different formatting requirements.

Incorrect client type classification

- (iii) Due to human errors, some CCEPs mistakenly assigned joint accounts under “*Individual*” (Type 1), which is intended for individuals only.
- (iv) Due to clerical mistakes during client onboarding and misunderstanding of the BCAN requirements, some CCEPs mistakenly assigned their fund managers and corporate clients under “*Legal Entity – Fund*” (Type 3), which is intended for fund clients only.
- (v) Due to staff oversight and insufficient understanding or misinterpretation of the BCAN requirements, some CCEPs mistakenly assigned their fund clients, own house account and/or their affiliates’ house accounts under “*Legal Entity – Fund managers and others*” (Type 4), which is intended for fund managers or corporate clients only.
- (vi) Due to incorrect system logic adopted in the vendor systems, some CCEPs/TTEPs mistakenly assigned the house accounts of their corporate clients under “*Proprietary or Principal Trading*” (Type 5), which is intended solely for the house accounts of the CCEPs/TTEPs or those of their affiliates.
- (vii) Due to a misinterpretation of the requirements, some CCEPs assigned client type based on the beneficiary owner entity, rather than in accordance with the account opening arrangement.

Not Up-to-date BCAN-CID Mapping File

- (viii) Due to staff oversight, some CCEPs did not remove client BCANs from the BCAN-CID Mapping File when those client accounts had been closed prior to submission.

- ***Insufficient controls/arrangements to ensure BCAN-CID Mapping File data accuracy***

- (i) ***No regular review.*** Some CCEPs/TTEPs did not conduct any regular review of the data in the BCAN-CID Mapping File and failed to detect inaccurate client type assignments and/or incorrect CID input.
- (ii) ***Absence or ineffective maker-checker process for client data input.*** Some CCEPs/TTEPs did not put in place maker-checker process to ensure client data is accurately inputted into their internal systems. The absence of, or an ineffective maker-checker control, could contribute to inaccurate client type assignments and/or incorrect CID input.

- ***Change of BCAN***

Due to inadequate procedures in place, some CCEPs removed the relevant BCAN with incorrect client type assigned and created a new BCAN to rectify the client type. However, prior notification from the Exchange was not obtained for the relevant change.

- ***Insufficient controls to ensure correct BCAN tagging***

Due to inadequate system control design and procedures and staff misunderstanding of system behavior, it was noted in one instance that a CCEP made inappropriate use of specific reserved BCAN values, and had also failed to properly handle TTEP orders submitted without BCANs. In another instance, erroneous FIX configurations resulted in incorrect BCAN tagging, whereby orders were tagged with BCANs belonging to another client.

- ***Incorrect usage of BCAN error report***

Due to misunderstanding of the relevant requirements, some CCEPs were found to have used BCAN error reports for reporting trade errors other than BCAN tagging, which in fact should have been handled by submission of Trade Discrepancy Forms. CCEPs should note that BCAN error reports should not be used to reflect any trade reallocation from client accounts to their house accounts resulting from trade errors such as incorrect trade quantity / price / stock. CCEPs should make reference to relevant publication concerning the usage of Trade Discrepancy Forms and BCAN Error Reports (Ref. No.: [MSM/005/2024](#)).

- ***Incorrect BCAN assignment for CCEPs***

Due to inadequate onboarding controls, some CCEPs assigned a BCAN to another CCEP without confirming whether the accounts were opened solely for contingency purposes. Pursuant to SEHK Rule 590, only a TTEP is permitted to trade through a CCEP. Accordingly, as an executing CCEP, it should not accept instructions from another CCEP or grant China Connect trading permission to another CCEP other than for contingency purposes.

- ***Incorrect BCAN assignment for TTEPs***

Due to the lack of regular review on its clients' SEHK Exchange Participants status and changes in trading capacity, a CCEP assigned a single BCAN, instead of a BCAN range, to a client that subsequently became a TTEP after onboarding. In fact, a CCEP executing for TTEPs should set aside BCAN ranges for each of its TTEPs for them to assign to their clients so that BCANs used by the CCEP will not overlap with those used by its TTEPs. The BCANs of a TTEP for proprietary trading should also be within the same BCAN range designated by its executing CCEP.

- ***Registration of CHN BCANs***

With effect from 25 July 2022, neither CCEPs nor TTEPs shall register new BCAN for clients who are Mainland investors, i.e. no registration of new BCANs with 'CHN' as the country/region of issuance ("**CHN BCANs**"). Due to manual errors during onboarding and incorrect system logic to retrieve ID from a client with multiple identification documents, some CCEPs registered or attempted to register CHN BCANs in the BCAN-CID Mapping File.

- ***Insufficient controls / arrangements to ensure BCAN confidentiality and BCAN access granted strictly on a need-to-know basis only***

Some CCEPs unnecessarily displayed BCANs in their internal systems and some CCEPs/TTEPs unnecessarily granted BCAN access to Responsible Officers, dealers, compliance staff, settlement staff, finance staff, licensed representatives or account executives without proper or adequate justifications provided. These CCEPs/TTEPs are considered to have failed to ensure that the use of and accessibility to BCANs are strictly restricted on a need-to-know basis.

CCEPs and TTEPs are reminded to observe and comply with the BCAN requirements as set out in SEHK Rule 1425A, and to refer to various guidance, including but not limited to the [Northbound Investor ID Model FAQ](#), [Guidance Notes on BCAN-CID Mapping File](#), [BCAN – CID Mapping File Data Record Examples](#) and [Northbound Trading Investor ID Model - System File Interface Specification](#).

In this regard, CCEPs and TTEPs should put in place necessary controls and arrangements, and regularly assess their effectiveness, such that they can, amongst other things: (i) assign unique BCAN to each of their Northbound trading clients; (ii) ensure BCAN client type and CID submitted to the Exchange is accurate and up to date; (iii) keep BCANs strictly confidential; (iv) ensure BCAN assignment is correct; and (v) ensure BCAN consent with adequate coverage is obtained from clients before proceeding with order placing. Regardless of whether the controls and arrangements are performed by CCEPs or TTEPs themselves or are outsourced to/handled by their affiliates, CCEPs and TTEPs are accountable for the effectiveness of the controls and arrangements pertaining to the aforementioned areas. In addition, CCEPs and TTEPs are reminded that once a BCAN is assigned to a client, it shall not be changed and shall not be reused for other clients, unless with prior written approval from the Exchange. Comprehensive guidelines should be in place to ensure that the controls and arrangements are implemented as designed and in a consistent manner. Furthermore, adequate training should be provided to staff involved in BCAN-related process on a regular and on-going basis.

The Exchange wishes to draw CCEPs' and TTEPs' attention to some of the good practices that were observed during the onsite inspection:

- (i) To avoid treating a client with multiple accounts as different clients and inadvertently assigning that client with multiple BCANs as a result, some CCEPs/TTEPs would request the client to declare in its account opening form that he/she has not opened any account with the firm previously. Some CCEPs/TTEPs would also compare other client information (e.g. address, contact number) to identify any potential matches.
- (ii) To handle multiple trading accounts setup arrangements (e.g. cash and margin accounts, master/sub-accounts, fund and fund manager accounts etc.) in a prudent manner, some CCEPs/TTEPs assign BCANs based on the ID number for individual clients and business registration number for corporate clients, rather than on trading account level.
- (iii) Some CCEPs/TTEPs conduct an independent review on all client information obtained during onboarding to ensure data accuracy.
- (iv) Some CCEPs/TTEPs implement system check to prevent the inclusion of BCANs with country of issuance "CHN" in the BCAN-CID Mapping File prior to submission to the Exchange.
- (v) Some CCEPs/TTEPs perform regular reviews on all data in the BCAN-CID Mapping File, including but not limited to changes (e.g. addition/deletion/amendment) and timely reconciliation between internal system records and the BCAN-CID mapping file to ensure the CIDs submitted to the Exchange are complete, accurate and up-to-date.
- (vi) Adopt automation and minimize manual intervention as much as possible. Where manual procedures are involved in BCAN assignment and submission process, maker-checker mechanism is implemented with audit trail and properly documented in the written policies and procedures.

CCEPs and TTEPs are encouraged to make reference to our Compliance Bulletins (Ref. Nos.: [MSM/005/2024](#), [MSM/007/2023](#) and [MSM/002/2022](#)) and Compliance Reminders issued under previous Annual Programmes, which listed out some common deficiencies and related issues identified and also good practices observed with respect to compliance with the relevant BCAN requirements.

## 2. TTEP registration and Provision of brokerage service in China Connect Securities to CCEPs

### ▪ *TTEP registration*

When onboarding clients who are also Exchange Participants (“EPs”), some CCEPs failed to conduct thorough due diligence checks, which include but not limited to checking their trading capacity to ensure that the EP clients that wish to conduct trading through the China Connect Service for the account of their clients have been registered as TTEPs.

### ▪ *Provision of brokerage service in China Connect Securities to CCEPs*

- (i) Some CCEPs activated China Connect trading services for their CCEP clients without ascertaining their purpose of activating such services at their firm.
- (ii) Pursuant to SEHK Rule 590, only a TTEP (not CCEP) is allowed to trade through a CCEP; the only exception would be for contingency purposes.

The Exchange wishes to draw EPs’ attention to the following:

- (i) Pursuant to SEHK Rules 590(2) and 590(4) and as stated in paragraph 1.43 of the [Stock Connect Frequently Asked Questions \(“Stock Connect FAQ”\)](#), EPs who are not registered as CCEPs but wish to provide services to their clients to trade in China Connect Securities may do so through CCEPs for the account of their clients as TTEPs.
- (ii) TTEPs are required to provide a declaration to the Exchange confirming such matters as the Exchange may require, including the TTEPs’ awareness of and the ability and undertaking to comply with the applicable laws in respect of the trading of China Connect Securities. Among other things, their systems must have the capability of conducting pre-trade checking, client agreements must be amended to allow for Northbound trading and appropriate arrangements must be made to ensure that their clients understand the risks of investing in China Connect Securities, etc. TTEPs are required to abide by the rules governing Northbound trading under the SEHK Rules as if they were CCEPs. From time to time, the Exchange may publish on the HKEX website (or by such other means as it considers appropriate), a list of TTEPs who have submitted declarations to the Exchange. TTEPs must not provide instructions to a CCEP, whether directly or indirectly, to trade in China Connect Securities for the account of their clients before their names are included in such published list of TTEPs.

- (iii) CCEPs should put in place adequate controls to ensure that their intermediary broker clients, who are EPs and conduct trading for their clients, must be registered as TTEPs both initially and on an on-going basis.

### 3. Trading of ChiNext and STAR Shares

- ***Insufficient communication of regulatory requirements with clients***

Some CCEPs did not provide their clients, who engaged in trading China Connect Securities, with the relevant documentation setting out the regulatory requirements for trading ChiNext and STAR shares, including explanations on the relevant investor eligibility requirements and the prior arrangements to be made where ineligible transactions were identified.

- ***Inadequate pre-trade controls in place***

Due to incorrect system configuration or staff unawareness of the new stock code prefixes, some CCEPs implemented pre-trade controls to block all clients or non-institutional professional investors (“IPI”) from trading ChiNext shares but failed to include ChiNext instruments with stock codes beginning with “301” and/or “302” within the block parameters.

- ***Inadequate procedures and controls for a timely identification of non-compliance incident in relation to investor eligibility requirements***

- (i) Some CCEPs/TTEPs did not put in place adequate post-trade reviews on direct clients and/or intermediary broker clients to identify potential violation of the investor eligibility requirements for trading ChiNext and STAR shares. This was attributed to their sole or heavy reliance on pre-trade controls such as system controls blocking all clients/non-IPIs from trading ChiNext and STAR shares, which is considered insufficient for the purpose of timely identification of non-compliance incidents.
- (ii) Some CCEPs and TTEPs only conducted post-trade reviews on IPI clients, but failed to cover all clients, including non-IPI clients.

The Exchange is of the view that effective controls on client onboarding, pre-trade and post-trade level are essential to ensure compliance with the investor eligibility requirements for trading in ChiNext and STAR shares respectively under SEHK Rules 14A06(13) to (15) and 14B06(16) to (18).

The Exchange wishes to draw CCEP's and TTEP's attention to a good practice we observed during the onsite inspection. We noted that some CCEPs have adopted automation to utilize ChiNext/STAR product flagging directly from the websites<sup>1</sup> of Shenzhen and Shanghai Stock Exchanges respectively on a daily basis to help them to ascertain whether a particular stock is listed on the ChiNext or STAR board, followed by a reconciliation conducted between the information obtained from the exchange data feeds and third party vendor on a real time basis.

CCEPs and TTEPs are also encouraged to make reference to our Compliance Bulletins (Ref. Nos.: [MSM/001/2025](#), [MSM/005/2024](#), [MSM/009/2023](#) and [MSM/002/2022](#)), which listed out some common deficiencies and related issues identified, and good practices observed with respect to compliance with the relevant investor eligibility requirements.

#### 4. Pre-trade checking and non-trade transfer prohibited

- ***Ineffective communication of non-trade transfer restrictions with clients***

Some CCEPs/CCCPs did not effectively communicate the regulatory requirements applicable to non-trade transfers to clients trading China Connect Securities through appropriate channels.

- ***Incorrect input of Investor ID for Special Segregated Account (“SPSA”) orders***

Due to manual input error and issues arising from technical changes, some CCEPs inputted incorrect investor ID when placing SPSA orders.

- ***Inadequate control to review settlement instructions with change of beneficial ownership***

Some CCCPs relied solely on blanket clauses in client agreements and failed to establish adequate controls to review the settlement instructions involving changes in beneficial ownership, including assessing whether settlement instructions without such indication involved any potential non-trade transfer, and if so, whether such non-trade transfer was eligible.

- ***Untimely position reconciliation for availability of an accurate sellable balance for pre-trade checking***

Due to the lack of appropriate staffing arrangements or system limitation on data feed schedule, some CCCPs only performed or completed the position reconciliation at the CCASS/client levels after market open. As a result, an accurate stock sellable balance was not available at the start of the trading day, prior to market open, for the purpose of pre-trade checking.

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<sup>1</sup> SSE: <http://www.sse.com.cn/assortment/stock/list/share/>  
SZSE: <http://www.szse.cn/market/product/stock/list/index.html>

CCEPs, TTEPs and CCCPs should observe the relevant rules and requirements:

- (i) Pursuant to SEHK Rules 14A12 and 14B12 and HKSCC Rule 4110(iii) and as stated in paragraph 1.24, 2.16 of the [Stock Connect Frequently Asked Questions \(“Stock Connect FAQ”\)](#), non-trade transfers are not allowed unless otherwise permitted.
- (ii) Pursuant to SEHK Rules 1421(2), 14A06(5)-(10) and 14B06(6)-(12)), before a CCEP inputs a China Connect sell order for routing through the China Connect Service, it shall ensure that it or its clients have sufficient securities at the time of placement of such order to settle the delivery obligation assuming that the China Connect order will be matched and executed on the relevant China Connect Market System.
- (iii) Pursuant to SEHK Rules 14A06(2A)-(2B) and 14B06(3)-(3A), a CCEP should ensure accurate input of SPSA or Master SPSA ID before inputting an SPSA order into the CSC<sup>2</sup>.

The Exchange and HKSCC wishes to draw CCEPs, TTEPs and CCCPs’ attention to good practices we observed during the onsite inspection:

- (i) Some CCEPs/CCCPs maintained clear and effective communication with their clients regarding the regulatory requirements in relation to the non-trade transfer restrictions.
- (ii) Some CCCPs reviewed the settlement instructions to confirm there was no change in beneficial ownership or, where applicable, that the non-trade transfer was permitted under the relevant rules.
- (iii) Some CCEPs/CCCPs put in place night-shift and early-morning shift arrangements to perform timely position reconciliation prior to market open, in order to ensure accurate opening balances of its client or house accounts for pre-trade checking.

To comply with the above requirements, CCEPs, TTEPs and CCCPs should put in place appropriate arrangements to ensure that they or their clients have sufficient securities at the time of order placement to settle the delivery obligations, and to establish adequate controls to prevent or detect non-trade transfers, or to properly handle those permitted under the applicable rules.

## 5. Policies and Procedures

### ▪ ***Inadequate policies and procedures, and lack of regular reviews***

- (i) ***BCAN requirements.*** Some CCEPs/TTEPs failed to establish adequate written policies and procedures in relation to the handling of BCAN assignment, CHN BCAN and CID collection for the purpose of ensuring compliance with the BCAN requirements under SEHK Rule 1425A.

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<sup>2</sup> Refers to the China Stock Connect System as defined in the SEHK Rules.

- (ii) **TTEP registration.** The written policies and procedures of some CCEPs did not contain adequate details and guidance relating to the provision of brokerage services to EPs for the purpose of ensuring compliance with the TTEP registration requirement under SEHK Rule 590.
- (iii) **ChiNext and STAR trading.** The written policies and procedures of some CCEPs did not contain adequate details and guidance in relation to: (i) regular review of the stock code range to ensure such range is accurate and up-to-date; and (ii) regular and appropriate post-trade review to cover all clients, for the purpose of ensuring compliance with the investor eligibility requirement for trading in ChiNext and STAR shares respectively under SEHK Rules 14A06(13) to (15) and 14B06(16) to (18).
- (iv) **Client onboarding and communication of regulatory requirements.** Some CCEPs/TTEPs failed to establish adequate written policies and procedures in relation to the handling of client onboarding and communication of regulatory requirements as well as prior arrangements.

Non-comprehensive policies and procedures may pose compliance risks as well as operational risks on the participants. The Exchange wishes to remind CCEPs, TTEPs and CCCPs of the need to establish and maintain comprehensive policies and procedures to ensure compliance with all relevant rules and requirements. Regular review and appropriate updates should also be conducted to ensure the policies and procedures are consistent, effective and up-to-date.

## 6. Staff Training

- **Inadequate staff training**

Some CCEPs/TTEPs did not provide adequate and product-specific training to staff involved in the business activities of the China Connect rules but merely relied on on-the-job training through sharing and coaching by senior staff members.

To foster a culture of compliance, the Exchange wishes to remind CCEPs, TTEPs and CCCPs that they should provide their staff with adequate and appropriate training both when onboarded and on an on-going basis.