

Compliance Reminder on Flagging of Short Selling Orders

Pursuant to the 11th, 14th, 15th and 18th schedule of the Rules of the Exchange, EPs engaged in short selling should put in place proper system controls and procedures to ensure compliance with all applicable regulatory requirements on short selling order flagging.

In the 2017 Annual Attestation and Inspection Programme, some EPs were found deficient in the following areas:-

1. Short Sale Indicator

- *Failure to apply the specific short sale indicator for short selling orders in relation to market making and hedging activities.*

As stipulated in Regulation (24) of the 14th Schedule, Regulation (16), (29), (40) and (50) of the 15th Schedule and Regulation (16) of the 18th Schedule, EPs engaged in market making or hedging short selling are required to input short selling orders with a specific short sale indicator and in such manner as the Exchange shall from time to time determine.

2. Post-trade Review

- *Failure to report short sell flagging errors to the Exchange in a timely manner.* In some instances, we noted the failure was attributed to the fact that staffs were not provided with adequate and up-to-date written policies and procedures on handling and reporting of misflagging error.
- *Insufficient post trade monitoring on short selling activities.* Some EPs conducted post-trade review on executed short sell orders only, but ignored the unfilled short sell orders.

As stipulated in Rule 528(1), Regulation (20), (32) and (52) of the 15th Schedule of the Rules of the Exchange, EPs are required to review all trading activities and report any errors to the Exchange in a timely manner.

3. Staff Training

- *Inadequate staff training.* Some EPs did not provide mandatory and product-specific training for staff involved in the business activity in the Priority Areas, and 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 EPs that they should provide staff with adequate and appropriate training both initially and on an ongoing basis.