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通告 CIRCULAR

Subject: Compliance Bulletin (Issue No. 5) – (i) Stock Connect Northbound Trading - Abnormal Trading Activities and (ii) Restricting Mainland Investors from Northbound Trading under Stock Connect

Enquiry: surveillance@hkex.com.hk

As part of our continuous efforts to promote transparency and compliance culture of our marketplace, the Exchange has prepared a Compliance Bulletin to offer the industry a better understanding of our enforcement work and regulatory expectations. It includes as a reminder on (i) the major types of Northbound abnormal trading activities under Stock Connect and (ii) the arrangements of restricting Mainland investors from Northbound trading.

Reference is made to the circulars issued by the Exchange dated (i) 29 December 2021 (Ref. No.: [MSM/014/2021](#)) regarding matters in relation to Stock Connect Northbound Trading and (ii) 24 June 2022 (Ref. No.: [CT/088/22](#)) regarding amendment of rules in relation to Northbound Trading of Stock Connect by the China Securities Regulatory Commission (“CSRC”), Shanghai Stock Exchange (“SSE”) and Shenzhen Stock Exchange (“SZSE”).

The Exchange would like to point out that the requirements and examples set out in this compliance bulletin are by no means exhaustive and Exchange Participants (“EPs”) should always take into consideration their own circumstances to adopt appropriate internal controls and measures to ensure the compliance of relevant rules and requirements.

EPs are strongly advised to review their current set up and implement appropriate measures to strengthen their controls. Any identified non-compliance incidents should be reported to the Exchange as soon as practicable.

EPs are also encouraged to contact the Market Surveillance and Monitoring Department (email: surveillance@hkex.com.hk) should they have any questions on the above.

Felix Wang
Head of Market Surveillance and Monitoring
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This circular has been issued in English together with Chinese translation of the same. If there is any discrepancy between the Chinese translation and the English version, the English version shall prevail.



COMPLIANCE BULLETIN

Issue No. 5

HKEX
Market Surveillance and Monitoring

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HKEX
香港交易所

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Stock Connect Northbound Trading - Abnormal Trading Activities



China Connect – Northbound Trading

Surveillance and Monitoring at “BCAN” level

- Surveillance and Monitoring of CCEPs’ Northbound trading activities are conducted at “**BCAN**”^{*} level.
- Pursuant to Rule 1432 of the Rules of The Stock Exchange of Hong Kong Limited, a CCEP, shall, among others, comply with and abide by all applicable laws with regard to the trading of China Connect Securities on the relevant China Connect Market.
- In the event that the Exchange is notified by a China Connect Market Operator that there is reasonable cause to suspect or believe that a China Connect Exchange Participant or any of its clients has failed to comply with or has breached any applicable laws of Mainland China with regard to the trading of China Connect Securities on the relevant China Connect Market through the use of the China Connect Service, the Exchange may exercise the powers specified in Rules 1437(1)-(3) of the Rules.

** BCAN refers to the Broker-to-Client Assigned Number under the Northbound Investor ID Model only*



China Connect – Northbound Abnormal Trading Activities

Major Types of Trading Activities Considered As Abnormal

Trading Price Maintained at Price Limit	Orders are massively, continuously or intensively placed in order to maintain the trading price of a stock at the upper or lower limit price.
Pumping and Dumping	Orders are massively, continuously or intensively placed, or executed at a price obviously deviating from the last closing price, resulting in a significant rise or decline in the trading price of the stock.
Fictitious Orders	A large number of orders not intended to be executed are placed and cancelled to induce, mislead or influence other investors in their trading decision-making.
Wash Trading	Trades are conducted between accounts under same control and/or affiliated accounts in order to affect the trading price or volume of a stock.
Abnormal Order Placement Rate*	Orders are intensively placed within a short period of time so as to aggravate the abnormal fluctuation in the price of such stock.

* Abnormal order placement rate applied to Highly Fluctuated Stocks of ChiNext / STAR only.

Rules Governing the Real-Time Monitoring of Abnormal Trading of Stocks:

- ChiNext Market of Shenzhen Stock Exchange (for Trial Implementation) / 《深圳证券交易所创业板股票异常交易实时监控细则（试行）》
- STAR Market of Shanghai Stock Exchange (for Trial Implementation) / 《上海证券交易所科创板股票异常交易实时监控细则（试行）》

(Link: [Chinese](#) only)

(Link: [Chinese](#) / [English](#))



China Connect – Northbound Abnormal Trading Activities

Trading Price Maintained at Price Limit

Continuous Auction Session

- Stock is traded at price limit
- Outstanding order at price limit \geq 1 million shares or RMB 10 million and \geq 30% of total market quantity at price limit, for 10 minutes or longer

Closing Call Auction Session

- At the end of the Continuous Auction Session (“CAS”), stock is traded at price limit
- At the end of the CAS and the Closing Call Auction Session (“CCAS”), market-wide outstanding orders at price limit \geq 1 million shares or RMB 10 million
- At the end of the CCAS, outstanding orders at price limit entered during CCAS \geq 300k shares or RMB 3 million
- At the end of the CCAS, outstanding orders at price limit \geq 30% of total market quantity at price limit



China Connect – Northbound Abnormal Trading Activities

Price pumping and dumping

Opening Call Auction Session

- Trading volume or amount \geq 300k shares or RMB 3 million
- Trading volume \geq 30% of total market volume
- Opening price increases (decreases) \geq 5% (3% for ST stocks)
- When the opening price reaches the price limit, order size \geq 10% of total market quantity at price limit (ChiNext only)

Continuous Auction Session

- Execution price shows an upward trend or downward trend
- Trading volume or amount \geq 300k shares or RMB 3 million
- Trading volume \geq 30% of total market volume
- Trading price increases (decreases) \geq 4% (2% for SSE index constituents)
- Above situations occur within any 3-minute-period

Closing Call Auction Session

- Trading volume or amount \geq 300k shares or RMB 3 million
- Trading volume \geq 30% of total market volume
- Trading price increases (decreases) \geq 3% (2% for SSE index constituents)



China Connect – Northbound Abnormal Trading Activities

Fictitious Orders

Opening Call Auction Session

- Order price deviates from the previous closing price $\geq 5\%$ (ST stocks $\geq 3\%$)
- Aggregated order size $\geq 300\text{k}$ shares or RMB 3 million
- Aggregated order size $\geq 30\%$ of total market quantity (same buy/sell direction)
- Aggregated order cancellation rate $\geq 50\%$ aggregated orders entered
- A reverse sale is made at a price lower than the bid price, or a reverse purchase is made at a price higher than the offer price
- Virtual Reference Price increases (decreases) $\geq 5\%$ (ST stocks 3%)

Continuous Auction Session

Case 1

- Order placed at the 5 best prices
- Aggregated order size at the 5 best prices ≥ 1 million shares or RMB 10 million, and $\geq 30\%$ of total market quantity at the 5 best prices
- Aggregated Order cancellation rate $\geq 50\%$
- Above situations occur ≥ 3 times

Case 2

- Stock is traded at price limit
- Aggregated order size at price limit ≥ 1 million shares or RMB 10 million, and $\geq 30\%$ of total market quantity at price limit
- Aggregated order cancellation rate $\geq 50\%$ of aggregated order at price limit
- Above situations occur ≥ 2 times



China Connect – Northbound Abnormal Trading Activities

Wash Trading

- Trades conducted between accounts under same control and/or affiliated accounts reaching:
 - 10% of accumulated total daily stock turnover; or
 - 30% participation rate vs market turnover during closing auction (applicable to ChiNext / STAR only)

Abnormal Order Placement Rate *(Applicable to Highly Fluctuated Stocks of ChiNext / STAR only)*

- In the following 10 trading days, aggregated order size (within 1min during Continuous Auction Session) \geq RMB 10 million



Restricting Mainland Investors from Northbound Trading under Stock Connect



Restricting Mainland Investors from Northbound Trading under Stock Connect

Background

- On 17 December 2021, the CSRC, SSE and SZSE published market consultation in relation to restricting Mainland investors from Northbound Trading under Stock Connect.

Mainland investors include:

- (a) Individuals that possess Mainland ID documents;
- (b) Holders of a joint account if one of the holders is considered as Mainland investor under (a); and
- (c) Corporate or unincorporated entities which are registered in the Mainland.

The following investors will not be considered as “Mainland Investors” and may continue to buy and sell China Connect Securities through Northbound Trading under Stock Connect:

- (a) Any individual who holds a Permit for Proceeding to Hong Kong and Macao, i.e. One-way Permit (前往港澳通行證, i.e. 單程證) or who has obtained an identity document as proof of permanent residence in a country or region outside Mainland China; and
- (b) Any branch or subsidiary of a corporate or unincorporated entity registered in Mainland China which branch or subsidiary is lawfully registered in Hong Kong or overseas.



Restricting Mainland Investors from Northbound Trading under Stock Connect

Implementation arrangements

Effective date: 25 July 2022

- Neither CCEPs nor TTEPs* shall register new BCAN for clients who are Mainland investors, i.e. registration of new BCANs with 'CHN' as the country/ region of issuance ("**CHN BCANs**") will be rejected.

1-year transitional period: from 25 July 2022 to 23 July 2023

During this transitional period:

- Mainland investors with registered CHN BCANs could still buy and sell China Connect Securities through Northbound Trading under Stock Connect with the registered CHN BCANs; and
- Mainland investors with registered CHN BCANs who cannot buy or sell China Connect Securities through Northbound Trading due to exceptional circumstances including bankruptcy of their brokers could open Northbound Trading account at other CCEPs or TTEPs for new CHN BCANs registration.

After the transitional period: from 24 July 2023

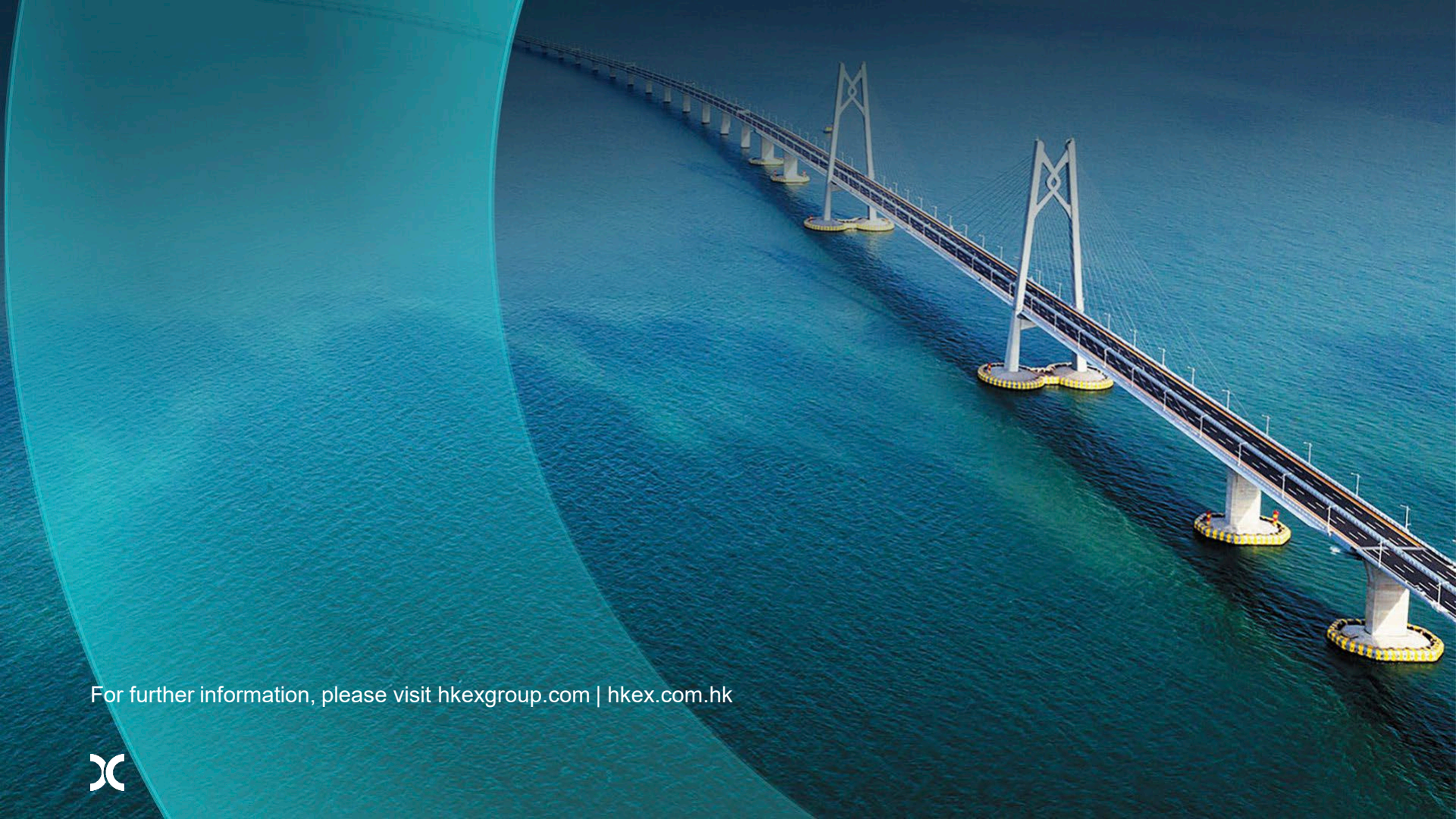
- **CCEPs and TTEPs shall delete all CHN BCANs for their clients who are Mainland investors[^];**
- Mainland investors shall not proactively buy any China Connect Securities through Northbound Trading under Stock Connect (including subscription for right issues (配股)), but excluding obtaining China Connect Securities passively as a result of corporate actions (such as distribution of stock dividends); and
- Existing China Connect Securities held by Mainland investors could be sold by tagging the reserved value prescribed by the Exchange.

* "CCEP" refers to China Connect Exchange Participant

"TTEP" refers to Trade Through Exchange Participant

[^] Given 22 and 23 July 2023 are weekends, CHN BCANs should be removed from the submission of BCAN-CID Mapping File by CCEPs and TTEPs on or before 21 July 2023.





For further information, please visit hkexgroup.com | hkex.com.hk

