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## 通告 CIRCULAR

Subject: **Compliance Bulletin (Issue No. 3) – (i) Investor Eligibility Requirements and (ii) BCAN Requirements**

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As part of our continuous efforts to promote transparency and a culture of compliance in our marketplace, the Exchange has prepared this Compliance Bulletin to offer the industry a better understanding of our enforcement work and regulatory expectations. It includes some common deficiencies and related issues identified and good practices observed, covering (i) Investor Eligibility Requirements and (ii) BCAN Requirements.

### (I) Investor Eligibility Requirements

#### **Relevant requirements**

##### **i. Rules of the Exchange (“SEHK Rules”)**

- Chapter 5 Trading
  - 525A - Trading of Debt Securities under Chapter 37 of the Main Board Listing Rules (“**Ch.37 Bonds**”)
  - 592 and 593 - Trading of SPAC Shares and SPAC Warrants
- Chapter 14A China Connect Service - Shanghai
  - 14A06(13) to (15) Trading of STAR Shares
- Chapter 14B China Connect Service - Shenzhen
  - 14B06(16) to (18) Trading of ChiNext Shares

**Investor Eligibility Requirements (continued)**

***Relevant requirements (continued)***

**ii. Circular**

- Guidance on Investor Eligibility Requirements (Ref. No.: [MSM/001/2022](#))
- Special Purpose Acquisition Companies (SPAC) - Web Corner and Frequently Asked Questions (FAQ) (Ref. No.: [CT/016/2022](#))
- Shenzhen Connect - Reminder on Investor Eligibility Requirement for Trading of ChiNext Shares (Ref. No. [MSM/009/2021](#))
- Shanghai Connect – Reminder on Investor Eligibility Requirement for Trading of STAR Shares (Ref. No.: [MSM/003/2021](#))
- Shenzhen Connect – Reminder on Investor Eligibility Requirement for Trading of ChiNext Shares (Ref. No.: [MSM/002/2016](#))

**iii. FAQ**

- Special Purpose Acquisition Companies (SPAC [Web Corner](#))
- Stock Connect Another Milestone (Stock Connect [Web Corner](#))

### Investor Eligibility Requirements (continued)

#### **Possible Disciplinary Actions**

Any Exchange Participant (“EP”) which fails to comply with the relevant investor eligibility requirements may be liable to potential disciplinary action by the Exchange, including fines, suspension of trading or disciplinary proceedings.

EPs should note the amendments to SEHK Rules and the Disciplinary Procedures of The Stock Exchange of Hong Kong Limited set out in the circular published in December 2021 (Ref. No.: [LSD/091/2021](#)), in particular on the following sections:

**i. SEHK Rules**

- Chapter 7 Disciplinary

**ii. Disciplinary Procedures**

- Part II:
  - 1 – Offences to be Dealt with under the Standard Penalty Procedures  
*“Failure of an Exchange Participant, a China Connect Exchange Participant or a SPAC Exchange Participant to comply with the requirements under SEHK Rules 525A(2), Rule 14A06(15), Rule 14B06(18) or Rule 593(6), as the case may be, within a 12 month rolling period”*
  - 9 – Schedule of Penalties
    - *for the first offence, issuance of a Warning Letter;*
    - *for the second offence, an imposition of a fine of \$25,000;*
    - *for the third offence, an imposition of a fine of \$50,000; and*
    - *any subsequent offence to be treated as an offence to be dealt with by hearings in accordance with the Procedures For Offences To Be Dealt With By Hearings*

## Investor Eligibility Requirements (continued)

### ***Deficiencies and instances of non-compliance***

Control deficiencies relating to incidents of non-compliance with the relevant investor eligibility requirements, including but not limited to:

#### **Client onboarding**

- (i) Misclassification of client's professional investor ("PI") type;
- (ii) Inadequate communication regarding the investor eligibility requirements for the relevant products with direct clients and intermediaries; and
- (iii) Insufficient prior arrangements with direct clients and intermediaries to ensure compliance with the requirement of unwinding ineligible position(s) within a specific period of time, and to require the intermediaries to observe the investor eligibility requirements.

#### **Pre-trade**

- (i) Insufficient understanding of system functionality (e.g. incorrect functional settings or lack of understanding of system default settings) resulting in system control deployment failure;
- (ii) Insufficient understanding or misinterpretation of rules and requirements;
- (iii) Failure to keep abreast with regulatory changes (e.g. introduction of new product that is subject to investor eligibility requirement) and deploy corresponding controls in time;
- (iv) Pre-trade controls applied on direct clients / affiliates' clients not capable of being extended to non-affiliated intermediaries due to lack of visibility of underlying investors' identity;
- (v) Inadequate user acceptance test ("UAT") conducted before the deployment of any new or modified system control; and
- (vi) Lack of routine checking on the effectiveness of system controls.

**Investor Eligibility Requirements (continued)**

***Deficiencies and instances of non-compliance (continued)***

**Post-trade**

- (i) Failure to put in place any post-trade review exercise to timely identify non-compliance incidents, which are often caused by staff oversight (e.g. staff of the EP or intermediaries), or system failure at the pre-trade control stage (as highlighted in the section above);
- (ii) Failure to put in place a post-trade review framework to cover all products that are subject to the investor eligibility requirements;
- (iii) Inadequate coverage whereby the post-trade review exercise only covers trades conducted by direct clients, but not by underlying clients of the intermediaries as EPs assumed the initial undertaking provided by intermediaries is already sufficient; and
- (iv) Post trade review exercise not diligently carried out, resulting a non-compliance incident left undetected for a prolonged period of time as a consequence.

**Investor Eligibility Requirements (continued)**

***Good practices observed***

Appropriate controls to prevent, identify and report incident of non-compliance with the relevant investor eligibility requirements, including but not limited to:

**Client onboarding**

- (i) Providing adequate training (in addition to on-the-job-training) to staff engaging in business activities (e.g. front-office and back-office staff) that require understanding and knowledge of relevant regulatory requirements, including but not limited to those pertaining to investor eligibility and the professional investor regime;
- (ii) Conducting diligent know-your-client procedures to ascertain clients' PI type and trading capacity (e.g. principal vs agency);
- (iii) Adopting an internal control process in verifying clients' PI type and granting necessary trading access for particular products or markets in the relevant systems and implementing a similar internal control mechanism in other processes that may be prone to human error;
- (iv) Conducting regular review on clients' PI status to ensure the latest PI status is reflected in the relevant systems;
- (v) Communicating with and regularly remind direct clients and intermediaries of the applicable regulatory requirements, including but not limited to those pertaining to investor eligibility and the professional investor regime;
- (vi) Establishing prior arrangements with direct clients and intermediaries to facilitate the unwinding of ineligible position(s) within a specific period of time; and
- (vii) Establishing control arrangements to require intermediaries to ensure that their underlying investors also meet the relevant investor eligibility requirements.

**Investor Eligibility Requirements (continued)**

***Good practices observed (continued)***

**Pre-trade**

- (i) Adopting system control where possible to check clients' status to ensure clients meet the investor eligibility requirement for a particular product or market before accepting the orders; where such pre-trade controls are performed manually, follow an effective maker-checker process and maintain proper approval records;
- (ii) Conducting thorough UAT (e.g. inclusion of all relevant testing scenarios pertaining to pre-trade control for investor eligibility requirement within the scope of the UAT) before system deployment and perform regular system review (e.g. system code, functional settings, completeness of static data and effectiveness of data feed) to ensure that the system and any subsequent modifications are operating properly as designed; and
- (iii) Where the order placement channels permit, confirming that the client or the underlying client of the intermediary meets the relevant investor eligibility requirement before accepting the order.

**Post-trade**

- (i) Implementing post-trade review exercise for timely identification of any cases of potential non-compliance with the respective investor eligibility requirements for trading of Ch.37 Bonds, SPAC Shares, SPAC Warrants, ChiNext shares and STAR shares;
- (ii) Conducting regular post-trade review of trades performed by direct clients to ascertain the degree of compliance with the relevant investor eligibility requirements;
- (iii) Conducting regular post-trade review of trades conducted by intermediaries, and request for positive confirmation that the underlying investors meet the relevant eligibility requirements; and
- (iv) Establishing a designated function for supervising the post-trade review exercise and report any incident of non-compliance to the Exchange as soon as possible.

(II) **BCAN Requirements**

1. **BCAN Assignment**

<i>Relevant requirements</i>	
<i>Rule 1425A(1)(a), FAQ<sup>1</sup>s 3 and 4</i>	A unique BCAN should be assigned to each northbound trading client.
<i>Rule 1425A(1)(b) and FAQ 18</i>	A separate BCAN should be used to identify any joint account held by such client.
<i>Rule 1425A(1)(d), FAQ 6 and 19</i>	If a China Connect Exchange Participant (“ <b>CCEP</b> ”)’s or Trade-through Exchange Participant (“ <b>TTEP</b> ”)’s direct client is an affiliate (for agency trading), BCAN should be assigned at the next level or further levels down until the client is not an affiliate.
	A CCEP executing for TTEPs should set aside BCAN ranges for each of its TTEPs for them to assign to their clients to prevent any overlapping of BCANs between the CCEP and its TTEPs.
	For proprietary trading by a TTEP or its affiliates, the TTEP should assign a BCAN to itself and different BCANs for each of its affiliates as if they were its clients. The BCANs of a TTEP and its affiliates for proprietary trading should be within the same BCAN range designated by its executing CCEP for assigning to its clients.
<i>Rule 1425A(1)(e) and FAQ 4</i>	BCAN assigned to a client should not be changed in respect of the same client or re-used for another client. If BCAN change is required in exceptional cases, the Exchange’s prior written approval must be obtained.
<i>FAQ 11</i>	A unique BCAN can be assigned to a fund manager client or a fund that it manages depending on the account opening arrangement.

<sup>1</sup> The [FAQ on Northbound Investor ID Model](#) (“**FAQ**”) can be located on [HKEX website](#).



1. **BCAN Assignment (continued)**

***Deficiencies and instances of non-compliance***

**A. One BCAN for one client**

Multiple BCANs were assigned to the same client by a CCEP / TTEP due to:

- Control design flaws / vendor system limitation / staff oversight during system migration resulting in the assignment of multiple BCANs to a client with multiple accounts.
- Misinterpretation of rules resulting in assignment of different BCANs to
  - an entity with different branches
  - an intermediary's proprietary and agency accounts, for which only the intermediary's CID was provided
  - a segregated portfolio company which is a single legal entity
  - clients with multiple accounts such as cash and margin accounts, master and sub-accounts, fund and fund manager accounts, segregated accounts set up for different strategies or purposes (e.g. a standalone account for Capital Investment Entrant Scheme related trading) etc
- Inappropriate creation of an additional BCAN instead of correcting the client's inaccurate CID only.
- Clerical mistakes in the manual or semi-auto BCAN assignment process.
- Control design deficiencies in the automated BCAN assignment process (e.g. assignment logics failing to cater for the handling of joint account).
- Treatment of the same client as different persons when different types of identity documents were used for account opening.
- Manual errors resulting in creation of multiple client profiles for the same client.

1. **BCAN Assignment (continued)**

***Deficiencies and instances of non-compliance (continued)***

**B. Account opening arrangement**

- A single BCAN was assigned to a fund manager client, though based on the account opening arrangement, different BCANs should have been assigned to the funds managed by the fund manager client.
- The account was opened at the fund manager level. However, BCANs were assigned to both fund manager and the funds that are managed by the fund manager.

**C. CCEP / TTEP with client-facing affiliates**

- BCAN was only assigned to the affiliate (for agency trading), contrary to the Rules and the FAQ which stated that the BCAN should be assigned at the next level or further levels down until the client is not an affiliate.

**D. BCAN assignment for TTEP**

- Only a single BCAN was assigned to a TTEP by its executing CCEP instead of a BCAN range for the TTEP's agency trading.
- The BCAN of a TTEP assigned for proprietary trading was not within the BCAN range designated by its executing CCEP.
- There are incidents where BCAN was incorrectly assigned to an EP who is not registered as a TTEP<sup>2</sup>, which is inconsistent with the requirement that an EP, other than a CCEP, shall not buy or sell China Connect Securities for the account of its clients before registering as a TTEP.
- Under a contingency situation, a CCEP trading through another CCEP was only assigned with a single BCAN instead of a BCAN range for agency trading. However, a CCEP executing for another CCEP should set aside BCAN ranges for the second CCEP's client as if it was a TTEP<sup>3</sup>.

<sup>2</sup> As stipulated in SEHK Rule 590(2), an EP shall not buy or sell China Connect Securities for the account of its clients before registering as a TTEP.

<sup>3</sup> For the avoidance of doubt, a CCEP shall not trade through another CCEP unless under contingency situation.

1. **BCAN Assignment (continued)**

***Deficiencies and instances of non-compliance (continued)***

**E. Change of BCAN**

Inappropriate / Unauthorized BCAN changes were made in the following circumstances:

- Instead of correcting a CID error in the BCAN-CID Mapping File, a new BCAN mapping with the correct information was assigned to replace the original one.
- Upon discovery that the BCAN intended for one client (“Client A”) was accidentally assigned to another client (“Client B”), the CCEP re-assigned the Client B’s BCAN back to Client A. However, BCAN assigned to a client should not be changed in respect of the same client or re-used for another client.
- BCANs assigned to clients beyond the non-affiliated intermediary level should not be changed back to intermediary level once assigned, notwithstanding that the original assignment was made on a voluntary basis beyond the minimum rule requirement.
- BCAN changed from fund to fund manager level (or vice versa), subsequent to account opening may also amount to unauthorized change of BCAN.

**F. BCAN assignment for affiliates of CCEPs/TTEPs with dual capacity in carrying out both brokerage business and asset management business with SFC license for both Type 1 and Type 9 regulated activities (or affiliates that are similarly regulated under the law of any comparable jurisdictions outside Hong Kong)**

- For affiliates with dual capacity, only a single BCAN designated with client type “4” was assigned by a CCEP/TTEP to its affiliates for the affiliates to carry out both brokerage business and asset management business. However, a BCAN range should be assigned for its proprietary trading and each of its clients for which it conducts agency trading.

## 1. BCAN Assignment (continued)

### ***Good practices observed***

- Adopting automation to minimize manual intervention as much as possible.
- Implementing a control mechanism (e.g. a maker-checker process) where manual procedures are involved.
- Where an automated process is involved, conducting proper testing procedures including a thorough UAT before launch of such process.
- Requesting client to declare in the account opening form whether s/he has opened any other account with the firm and if so, make sure the same BCAN is mapped for such client.
- Performing independent checking to verify if information of such client already exists in the BCAN-CID mapping data.

EPs are also reminded of the following:

- A CCEP executing via another CCEP (which is allowed for contingency purpose only) should include in its BCAN-CID mapping file the BCANs it assigned to each of its clients, including the BCAN assigned to each such client using the designated BCAN ranges provided by its executing CCEP.
- For clients onboarding with both the CCEP/TTEP and its affiliates due to business setup, a BCAN may be assigned to the clients by CCEP/TTEP and a different BCAN may also be assigned to the same client by the CCEP's/TTEP's affiliates.
- For affiliates with dual capacity: for an affiliate's brokerage business, a BCAN should be assigned to each underlying clients of the affiliate (i.e. if a CCEP's or TTEP's direct client is an affiliate, the BCAN at the next level or further levels down is required until the client is not an affiliate). For the affiliate's asset management business, a BCAN designated with client type "4" can be assigned to the affiliate (in its capacity as the asset management company) or a BCAN designated with client type "3" can be assigned to the individual funds (that are under the affiliate's management) depending on the account opening arrangement.

CCEPs and TTEPs should consider adopting relevant practices as appropriate. Adequate and regular training should also be provided to responsible staff involved in the BCAN assignment and amendment processes.

## 2. Accuracy of BCAN-CID Mapping File

<b>Relevant requirements</b>	
<i>Rule 1425A(3) and FAQ 7</i>	BCAN-CID Mapping File should be accurate and up to date. Any correction or update of such file should be submitted to the Exchange in full, including those clients whose BCAN-CID mapping data has not changed.
<i>FAQ 11 and BCAN-CID Mapping File Example<sup>4</sup></i>	For a client that is a <u>fund</u> , the correct BCAN client type should “3”. For a client that is a <u>fund manager</u> , the correct BCAN client type should be “4”.
<i>FAQ 19 and BCAN-CID Mapping File Example</i>	BCAN client type “5” should be used to indicate proprietary or principal trading of the <u>CCEP/TTEP</u> and/or its <u>affiliate(s)</u> .
<i>Northbound Trading Investor ID Model - System File Interface Specification<sup>5</sup> and BCAN-CID Mapping File Example</i>	The name in the BCAN-CID mapping data submitted must be identical to the name set out in the official identity document.
	Exact ID number should be provided - including characters, numbers, and symbols like brackets.

<sup>4</sup> Detailed examples are set out in “[BCAN-CID Mapping File Data Record Examples](#)”

<sup>5</sup> The “[System File Interface Specification](#)” serves as a reference guide for CCEP and TTEP in preparation, submission, and processing of BCAN-CID Mapping file.

2. Accuracy of BCAN-CID Mapping File (continued)

<b>Deficiencies and instances of non-compliance</b>		
Examples of errors noted in the BCAN-CID Mapping File are set out below:		
<b>A. BCAN client type</b>		
Insufficient understanding of the relevant BCAN requirements and/or failing to duly consider relevant client information for determining which BCAN client type should be assigned, for example:		
<b>Scenario</b>	<b>Wrong Client Type Assigned</b>	<b>Correct Client Type</b>
House accounts of non-affiliated clients	5	4
House accounts of <ul style="list-style-type: none"> <li>▪ CCEP</li> <li>▪ TTEP</li> <li>▪ CCEP's affiliates</li> <li>▪ TTEP's affiliates</li> </ul>	4	5 <sup>1</sup>
Fund Manager <sup>2</sup>	3	4
Fund <sup>2</sup>	4	3
Joint account <sup>3</sup>	1	2
<p><b>Note 1:</b> BCAN for the house account should be within the BCAN range designated by its executing CCEP</p> <p><b>Note 2:</b> BCAN should be assigned to fund manager or individual funds in accordance with the account opening arrangement</p> <p><b>Note 3:</b> In addition to wrong client type assignment, the joint account was incorrectly submitted as one entry in the BCAN-CID mapping file</p>		

2. Accuracy of BCAN-CID Mapping File (continued)

<b>Deficiencies and instances of non-compliance (continued)</b>		
<b>B. Client Identification Data</b>		
<p>Insufficient understanding of the relevant BCAN requirements, clerical mistakes and/or design deficiencies in automated BCAN-CID Mapping File compiling process, for example:</p> <ul style="list-style-type: none"> <li>• Accidental input of fund manager’s CID when the BCAN was in fact assigned to a fund it manages.</li> <li>• Subsequent changes to CID (e.g., Legal Entity Identifier (“<b>LEI</b>”)) made within the client database were not reflected in the latest BCAN-CID Mapping File.</li> <li>• Failure to strictly follow clients’ CID during the compilation process, resulting in: <ul style="list-style-type: none"> <li>i. Incorrect / Incomplete input of client’s name</li> </ul> </li> </ul>		
<b>Scenario</b>	<b>Wrong input</b>	<b>Correct input</b>
<ul style="list-style-type: none"> <li>▪ Input of client’s name in abbreviation form</li> </ul>	“ABC SL”	ABC Securities Limited
<ul style="list-style-type: none"> <li>▪ Addition of internal remark after client’s name to indicate account nature</li> </ul>	“ABC SL – House Account” or “ABC SL – Client Account”	ABC Securities Limited
<ul style="list-style-type: none"> <li>▪ Client has no English name</li> </ul>	“No English name”, “Not Applicable”, or “Null” under the English name field (Field No. 7 – 9)	<b>(Note:</b> CCEP should leave the field blank)

2. Accuracy of BCAN-CID Mapping File (continued)

<i>Deficiencies and instances of non-compliance (continued)</i>		
<b>B. Client Identification Data (continued)</b>		
ii. Incorrect / Inconsistent input of identity number ("ID")		
<b>Scenario</b>	<b>Wrong input</b>	<b>Correct input</b>
<ul style="list-style-type: none"> <li>▪ ID does not match the official identity documents</li> </ul>	"A1234567" or "A123456"	A123456(7)
	"123456"	CMY-123456
	"Error", "No LEI" or "Not Applicable"	( <b>Note:</b> CCEP should input client's ID per Certification of Incorporation (" <b>Col</b> ") or other official incorporation documents / LEI)
<ul style="list-style-type: none"> <li>▪ Extra spacing, or omission of characters, numbers and symbols</li> </ul>	"A123456 (7)"	A123456(7)
	"CMY123456"	CMY-123456
<ul style="list-style-type: none"> <li>▪ Incorrect input of Business Registration number instead of ID per Col or other official incorporation documents / LEI</li> </ul>	"88888888-123-45-67-8" ( <b>Note:</b> Use of Business Registration number)	( <b>Note:</b> CCEP should input client's ID per Col or other official incorporation documents / LEI)



2. Accuracy of BCAN-CID Mapping File (continued)

<i>Deficiencies and instances of non-compliance (continued)</i>		
<b>B. Client Identification Data (continued)</b>		
iii. Incorrect input in the country / region of issuance data field		
<b>Scenario</b>	<b>Wrong country / region of issuance</b>	<b>Correct country / region of issuance</b>
▪ Use of Hong Kong identity document for account opening	CHN	HKG
iv. Failure to input data into the designated fields e.g. incorrect input of English name under “Chinese Name” field		
v. Failure to input corresponding ID Type number for the client’s identity document as specified in the System File Interface Specification		
<b>Scenario</b>	<b>Wrong ID type selected</b>	<b>Correct ID type</b>
▪ Use of LEI	3	4
▪ Use of Col or other official incorporation documents	4	3
vi. Inclusion of test data / obsolete data of a client whose trading account / access to China Connect market has been terminated		
<b>C. Mapping file format</b>		
Failure to observe the BCAN-CID Mapping Files format <sup>6</sup> during the compilation process, resulted in BCANs being inadvertently cancelled in some cases.		

<sup>6</sup> For details of the required format of BCAN-CID Mapping File, please refer to “[China Stock Connect Northbound Trading Investor ID Model System File Interface Specification](#)”

## 2. Accuracy of BCAN-CID Mapping File (continued)

### ***Good practices observed***

Other than the control process e.g. maker-checker mechanism and thorough testing of automated processes, staff responsible for any manual procedures should exercise due care and diligence regarding the following issues during client onboarding, BCAN preparation and BCAN-CID Mapping File compilation:

- Who is the client onboarded as per the account opening arrangement?
- Which is the correct client type?
- If the client is an affiliate or TTEP, what is the purpose of trading (i.e. proprietary or principal trading, or agency trading)?
- If the client is an Exchange Participant, is it properly registered as a TTEP?
- Has BCAN range(s) been properly set aside for its affiliates, TTEP clients, or CCEP clients (under contingency situation only)?
- Has client confirmed whether s/he has any other trading account already opened with the firm?
- Has any independent verification been carried out on all client information obtained to ensure accuracy?
- Has any regular reconciliation been carried out on BCAN-CID Mapping File to ensure the data is complete, accurate and up-to-date?

Please note that any request to change BCAN client type should be sent to [OTPC@hkex.com.hk](mailto:OTPC@hkex.com.hk). For more details, please visit the [Guidance Notes on BCAN-CID Mapping File](#).

### 3. BCAN Tagging

<b>Relevant requirements</b>	
<i>Rule 1425A(4) and FAQ 3</i>	The correct BCAN is required to be tagged to each northbound trading order on a real-time basis.
<i>Rule 1425A(7)</i>	An order tagged with an incorrect BCAN should be cancelled promptly. If such order has been matched, then corresponding BCAN correction should be reported to the Exchange.
<i>FAQs 11 and Circular (Ref. no. CT/101/18)<sup>7</sup></i>	While BCAN can be assigned to both fund manager and fund clients, a consistent approach in tagging BCAN should be adopted when submitting northbound trading orders for the fund manager or the fund.
<b>Deficiencies and instances of non-compliance</b>	
<p><b>A. BCAN tagging</b></p> <p>Failure to include the correct BCAN in each northbound trading order due to:</p> <ul style="list-style-type: none"> <li>• Manual input or selection of an incorrect client account, for example: <ul style="list-style-type: none"> <li>i. An order was received via FIX from a trader with authority to place orders for different accounts. The FIX message did not specify which account the order belongs to. Responsible staff selected the wrong client account for the order.</li> <li>ii. An order was received via FIX from a client. After manually inputted client's abbreviation into the system search engine, the system suggested two clients with similar abbreviations. Responsible staff selected the wrong client for the order.</li> <li>iii. An order was received by telephone from a client. Responsible staff inputted the wrong client account number.</li> </ul> </li> <li>• Inadvertent change of the client's identity when the order was being processed by different systems within the organization.</li> </ul> <p><b>B. Reporting BCAN correction</b></p> <p>Failure to follow the specified format when inputting the relevant details into the BCAN Error Report.</p>	

<sup>7</sup> Please refer to Circular "[Northbound Investor ID Model – Guidance on Assignment of Broker-to-Client Assigned Number \(BCAN\)](#)".

### 3. BCAN Tagging (continued)

***Good practices observed***

CCEPs and TTEPs should consider the following practices:

- Performing regular reconciliation between client instructions and client stock positions to identify and rectify any incorrect BCAN included as soon as possible.
- Performing thorough testing on automated process to ensure controls remain effective following any system migration or enhancement.
- Providing training to the relevant staff to ensure that they are conversant with the business operations, including any steps that may impact the BCAN in respect of each northbound trading order.
- Where reporting of BCAN tagging errors is necessary for any executed trades, verifying whether the format of the trade details inputted in the BCAN Error Report is correct (e.g., the Trade Match ID, Transaction Date etc.)

An enhanced BCAN Error Report template with format check is available on [HKEX website](#). CCEPs and TTEPs should use this template when reporting BCAN errors.

#### 4. BCAN Confidentiality

<b><i>Relevant requirements</i></b>	
<i>FAQs 4 and 21</i>	BCAN should be prepared in such a way not to bear any obvious link to a client's identity and must be kept strictly confidential. In particular, the use and accessibility of BCANs (even within the CCEP or the TTEP) should be strictly restricted to a need-to-know basis.
<b><i>Deficiencies and instances of non-compliance</i></b>	
<p>Some examples are set out below:</p> <ul style="list-style-type: none"> <li>• Clients' trading account numbers (in full or part) were used to form the BCANs.</li> <li>• BCANs were displayed in the general enquiry / trading screens of internal systems.</li> <li>• BCANs were used as an identifier for northbound trading clients without masking the full BCAN.</li> </ul>	
<b><i>Good practices observed</i></b>	
CCEPs and TTEPs should consider implementing controls and providing proper training to the relevant staff to ensure that confidentiality of BCANs is preserved.	

**5. BCAN Consent**

<b><i>Relevant requirements</i></b>	
<i>Rule 1425A(5) and FAQ 15</i>	A CCEP shall ensure that all necessary authorizations and written consents are obtained from each individual client.
	The CCEP/TTEP shall confirm with its client who refuses to provide the necessary consent that s/he has not otherwise provided such consent to other CCEPs/TTEPs for northbound trading.
<b><i>Deficiencies and instances of non-compliance</i></b>	
<p>Some examples are set out below:</p> <ul style="list-style-type: none"> <li>• Creation of BCAN without first obtaining clients' consent.</li> <li>• Issuance of one-way notification to individual clients instead of obtaining a written consent.</li> <li>• Failure to follow up with clients who refused to provide the BCAN consent.</li> <li>• Incomplete consent wordings in trading application interface for existing clients who requested to trade in northbound trading following their onboarding.</li> </ul>	
<b><i>Good practices observed</i></b>	
CCEPs and TTEPs should implement control mechanisms and providing proper training to relevant staff to ensure that proper BCAN consent from each individual client is obtained before proceeding with order placing.	

The Exchange would like to point out that the requirements and examples set out above are by no means exhaustive and EPs should always take into consideration their own circumstances and adopt appropriate internal controls and measures to ensure compliance with the 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](mailto:surveillance@hkex.com.hk)) should they have any questions on the above.

**Felix Wang**  
**Head**  
**Market Surveillance and Monitoring**  
**Operations Division**

*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.*