

香港聯合交易所有限公司
(香港交易及結算所有限公司全資附屬公司)

THE STOCK EXCHANGE OF HONG KONG LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

Subject: Guidance on Investor Eligibility Requirements

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As part of the continuing efforts to enhance transparency and awareness of our rules and regulations, the Exchange is issuing guidance on investor eligibility requirements on the trading of (1) ChiNext shares and STAR shares, (2) debt securities under Chapter 37 of the Main Board Listing Rules (“**Ch.37 Bonds**”), and (3) SPAC Shares and SPAC Warrants under the Rules of the Exchange (“**Rules**”).

Based on a recent review of the Ch.37 Bonds activities in the market, it was observed that most transactions took place off-exchange, and were often conducted on a back-to-back principal basis¹. While a majority of the Exchange Participants (“**EPs**”) reviewed have already adopted control arrangements to ensure only orders from those who are eligible are accepted (which include assessing their clients’ status to see if they qualify as an individual professional investor, a corporate professional investor or an institutional professional investor, and that when an intermediary broker is involved, its underlying clients are also eligible), EPs generally assumed that these control arrangements are only required to cover those investors with whom they have contractual relationships.

¹ Back-to-back transactions refers to those transactions where an Exchange Participant, after receiving:
(a) a purchase order from an investor, purchases an investment product from a third party and then sells the same investment product to the investor; or
(b) a sell order from an investor, purchases an investment product from the investor and then sells the same investment product to a third party; and
no market risk is taken by the licensed or registered person.

In this regard, the Exchange would like to draw EPs' attention to the following:

- Rules 14A06(14)(a) and 14B06(17)(a) respectively specify that only institutional professional investors are allowed to buy or sell STAR shares and ChiNext shares;
- Rule 525A(1) specifies that only professional investors are allowed to buy Ch.37 Bonds; and
- Rule 592 specifies that only professional investors are allowed to buy SPAC Shares and SPAC Warrants.

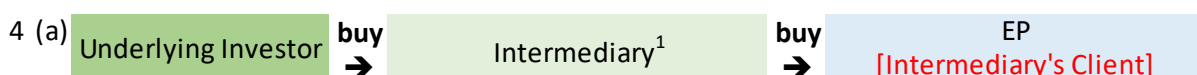
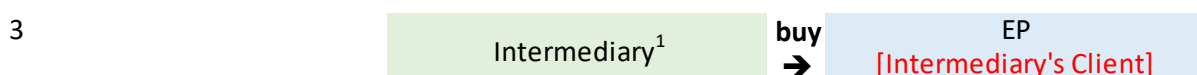
As a guiding principle, EPs should observe that only eligible investors are allowed to transact in the relevant securities as prescribed in the Rules. In addition, EPs are obliged to ensure that any counterparty they transact with through manual trade² also fulfils the relevant eligibility requirement, or when such counterparty is an intermediary, to require such counterparty to ensure that its underlying investor is also eligible. Any EP which fails to comply with the relevant investor eligibility requirements may be liable to potential action by the Exchange, including fines or disciplinary proceedings³.

The Exchange sets out below some illustrative examples of transaction models commonly adopted in the Ch.37 Bond market to demonstrate its expectation for EPs on the investor eligibility requirement. EPs should note that these examples are intended for illustrative purposes only and are not exhaustive, and should assess the applicability of the scenarios set out below in other markets where the investor eligibility requirement also applies.

² EPs are reminded that manual trade is not allowed under China Connect Northbound Trading. As stipulated in Rules 1403 and 1416, a CCEP must input China Connect orders into the CSC via a China Connect Central Gateway session connected with its BSS, which are to be routed to a China Connect Market for automatic matching and execution.

³ EPs should note the amendments to the Rules of the Exchange and the Disciplinary Procedures of The Stock Exchange of Hong Kong Limited announced in December 2021 in the circular (Ref. No. [LSD/091/2021](#)).

Illustrative Examples



(b) Back-to-back principal
Leg 1



Leg 2



(b) Back-to-back principal
Leg 1



Leg 2



Note 1: For the purpose of illustration, "Intermediary" refers to (i) an intermediary as defined in the Ordinance, and (ii) a person who carries on business outside Hong Kong in an activity in respect of which it is regulated overseas and which, if carried on in Hong Kong, would constitute a regulated activity under the Ordinance.

Examples 1 and 2

For clients with which an EP has a contractual relationship, the EP is expected to put in place control arrangements to ensure that only orders from those who are eligible are accepted, and that when an intermediary broker is involved, to require it to ensure that its underlying clients are also eligible.

Examples 3 and 4

If an EP is itself a client of an intermediary, it is expected to ensure that the intermediary meets, and to require the intermediary to ensure that the underlying investor meets, the relevant eligibility requirement. The EP cannot assume that it is not obliged to do so because the intermediary is not a client of the EP.

Examples 5 and 6

If an EP transacts with an intermediary as a counterparty, it is expected to require the intermediary to ensure that its underlying investor meets the relevant eligibility requirement. The EP cannot assume that it is not obliged to do so because the intermediary it transacts with is not a client with which it has a contractual relationship but is merely a broker counterparty.

As a reminder,

- an EP should always check the trading capacity of its counterparty i.e. whether it is transacting on a principal or an agency basis.
- If the counterparty is transacting on an agency basis, the EP should require such counterparty to ensure that the underlying investors meet the relevant eligibility requirement.
- Even if the counterparty is transacting on a back-to-back principal basis (i.e. Examples 4(b) and 6(b)) with a known third party to sell to at the time of the transaction, the EP remains obliged to ensure that the underlying investor also fulfils the relevant eligibility requirement.
- When assessing whether the relevant rule requirements on investor eligibility are met, the Exchange will consider the overall facts and circumstances of each case.

EPs are strongly advised to review their current set up, adopt appropriate measures to strengthen their controls, and where necessary, take appropriate actions to address any potential rule breaches or deficiencies.

Furthermore, EPs are encouraged to make reference to the compliance bulletin issued on 29 December 2021 (Ref. No. [MSM/014/2021](#)), which sets out common deficiencies and related issues identified and good practices observed pertaining to the compliance of investor eligibility requirements. Should there be any question on the above, please contact the Market Surveillance and Monitoring Department (email: surveillance@hkex.com.hk).

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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.