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Hong Kong Exchanges and Clearing Limited is a recognized exchange controller under the Securities and Futures Ordinance which is the controller of The Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited, Hong Kong Securities Clearing Company Limited, The SEHK Options Clearing House Limited, HKFE Clearing Corporation Limited and OTC Clearing Hong Kong Limited.

通告 CIRCULAR

Subject: Compliance Bulletin (Issue No. 12) – Payment Obligations towards Hong Kong Securities Clearing Company Limited, HKFE Clearing Corporation Limited, The SEHK Options Clearing House Limited (collectively as “Clearing Houses”) in volatile markets

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As part of our continuous efforts to promote transparency and a culture of compliance in our marketplace, Hong Kong Exchanges and Clearing Limited (“HKEX”) has prepared this Compliance Bulletin to offer the industry a better understanding of our enforcement work and regulatory expectations. It serves as a reminder on some salient points in relation to payment obligations towards the Clearing Houses.

With the increased market volatility observed in recent months, HKEX would like to remind all Clearing Participants of the importance of having proper risk management and robust funding arrangements in place to adequately monitor their exposures and fulfil their payment obligations towards the respective Clearing Houses on time to ensure the smooth operations of both Hong Kong and China Connect markets. In this bulletin, specific risk areas and settlement monitoring processes to be noted during periods of volatile market conditions are being summarized in the presentation material attached below. Also, attention should be drawn to the enforcement actions and/or disciplinary actions that may be taken by the Clearing Houses in response to the occurrence of an event of default.

HKEX would like to point out that the requirements and examples set out in this Compliance Bulletin are by no means exhaustive. They are intended for general reference only and should not be construed as legal advice. All liabilities with respect to actions taken or not taken based on the

contents of this circular are hereby expressly disclaimed. All Exchange Participants and Clearing Participants (“**Participants**”) should always take into consideration their own circumstances to ensure full compliance with the relevant rules and requirements and seek their own professional advice on their specific situation where appropriate.

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

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

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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. 12 – Payment obligations towards Clearing Houses in volatile markets

HKEX

Market Surveillance and Monitoring Department & Financial Risk Management Department

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“Payment obligations” of Clearing Participants

For the purpose of this document:

- In the context of **HKSCC**, “payment obligations” shall include (without limitation) obligations to satisfy money settlement of China Connect Securities Trades or Exchange Trades, and payment of marks, margins, Mainland Settlement Deposits, Mainland Security Deposits, Guarantee Fund Contributions and Guarantee Fund Risk Collaterals.
- In the context of **HKCC**, “payment obligations” shall include (without limitation) obligations to make cash payment under Cash Settled Contracts and to satisfy calls for margins, variation adjustments, and Reserve Fund contributions.
- In the context of **SEOCH**, “payment obligations” shall include (without limitation) obligations to satisfy money settlement of OCH Contracts, calls for margins, premiums, and Reserve Fund contributions.



Clearing Participants' ("CPs") Payment Obligations In Volatile Markets

Change in Market Condition

Trading volume ↑
Order size ↑
Price Volatility ↑

Change in Risk

Client Exposure ↑
Liquidity Stress ↑
Obligation size / Type and Frequency ↑

Risk Management Measures

Capital and Liquidity Buffer ↑
Review on Client Limits ↑
Risk Management and Control ↑

Key Risk Areas and Settlement Monitoring Processes to be noted in Volatile Markets (1. Preparation)

Important: CPs must adhere to the settlement timelines stipulated by HKSCC/ HKCC/ SEOCH (the “Clearing Houses”). Failure to do so will constitute an event of default. The Clearing Houses may take enforcement actions and/or disciplinary actions against the defaulting CPs, including (without limitation) suspension of trading rights, imposition of penalties and/or additional risk management measures.

	Key Areas	Details
1	Enhance liquidity via capital injection or cash buffer and credit facilities increment	CPs should pre-allocate buffer funding to prepare for the potential increase of collateral requirements in volatile market with high trade volume.
2	Review clients' credit limits and manage client exposures	CPs should review clients' credit limits or client margin arrangements to mitigate the client credit and funding liquidity risk that may arise due to market movements, for example, review and adjust the limit granted to top/established client trading highly volatile products.



Key Risk Areas and Settlement Monitoring Processes to be noted in Volatile Markets (2. Daily Workflow Management)

	Key Areas	Details
3	Review all applicable clearing reports (and pay special attention to those rarely applicable to your firm in non-volatile markets)	<p>Some payment obligations (e.g. intraday margin call, intraday marks, guarantee/reserve fund contribution, guarantee/reserve fund risk collateral etc.) may not be applicable to some CPs when the market volatility is low.</p> <p>CPs should check the most updated “Reminder on Payment Obligations” circular and make sure your team review all applicable clearing reports and settle the relevant obligations timely prior to the stipulated deadline.</p>
4	Make sure staff with authorizations of fund transfer are aware of the need for ad hoc intraday transfer	CPs should make sure the relevant staff processing the fund allocation, including the checker and authorizer, would make themselves available to fulfill their role timely.
5	Make use of specific collateral posting to reduce potential liquidity stress (applicable to HKSCC CPs only)	CPs should consider making use of specific cash collateral and specific stock collateral to manage down the marginable position, so as to reduce the overall marks and margin amount in volatile market.
6	Enhance position management to avoid exceedance of Capital Based Position Limit (“CBPL”) (applicable to HKCC/ SEOCH CPs only)	CPs should consider making use of closing out, hedging, position transfer or advance deposit to manage down the CBPL utilization rate.



References

Circulars relating to Reminder on Payment Obligations:

[HKSCC \(Circular ref. number: CD/CDCRM/270/2024\)](#)

[HKCC \(Circular ref. number: CD/CDCRM/247/2024\)](#)

[SEOCH \(Circular ref. number: CD/CDCRM/248/2024\)](#)

Circulars relating to Standard Penalty:

Standard Penalty Offences (Circular ref. number: MSM/003/2019)

[HKSCC](#)

[HKCC](#)

[SEOCH](#)

