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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: Closing of 2024 Annual Attestation and Inspection Programme
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With reference to the circular (Ref. No.: MSM/002/2024) dated 5 April 2024, the Hong Kong Exchanges and Clearing Limited (“**HKEX**”) is pleased to announce that it has successfully completed the 2024 Annual Attestation and Inspection Programme (the “**2024 Programme**”).

Under the 2024 Programme, HKEX inspected 29 Exchange Participants¹ (“**EPs**”) and Clearing Participants² (“**CPs**”) (collectively, the “**Participants**”). HKEX also received 100% response on self-attestation questionnaires from 683 Participants on compliance with the relevant rules and requirements concerning China Connect Rules, Hong Kong Investor Identification Regime (“**HKIDR**”) and Risk Management (collectively, the “**Priority Areas**”).

HKEX noted that in general, most Participants had put in place systems and controls for compliance with the relevant rules and requirements in the Priority Areas. However, certain deficiencies and shortcomings which are common across Participants were identified.

In summary, a total of 62 Participants were identified with non-compliance issues and/or deficiencies in various areas, including the followings:

China Connect Rules and HKIDR related areas

- Breaches of various Northbound BCAN requirements;
- Inadequate control arrangements to oversee investor eligibility requirements and Trade-through Exchange Participants (“**TTEP**”) registration;
- Breaches of various HKIDR investor identification requirements, such as failures to:
 - (a) assign correct BCAN to clients;
 - (b) ensure information in the BCAN-CID Mapping File is accurate and up-to-date;

¹ Exchange Participants of The Stock Exchange of Hong Kong Limited

² (i) Clearing Participants and General Clearing Participants of HKFE Clearing Corporation Limited, and (ii) Direct Clearing Participants and General Clearing Participants of Hong Kong Securities Clearing Company Limited and The SEHK Options Clearing House Limited

- (c) submit the BCANs of existing clients on or before the prescribed deadline (i.e. on or before T-1 day);
- (d) tag a correct and valid BCAN to on-exchange orders or off-exchange trades; and
- (e) report underlying BCANs of the executed aggregated orders and off-exchange Trade BCAN (Buy-side) within the prescribed timeframe.

Risk Management related areas

- Inadequate control arrangements on settlement operations, funding estimation and position management during Public Holidays, as well as exposure monitoring (including both exposure on block trade/manual trade and CP's own proprietary trading portfolio) and funding arrangement;
- Failure to conduct derivatives stress testing with appropriate stress parameters or frequency;
- Inadequate support and arrangements in place to ensure handling of client's trades under contingent situation;
- Inadequate precautionary measures to prevent designated account for settlement from becoming inoperative;
- Failure to notify clearing houses of the additional operations and risk control measures associated with new business activities; and
- For Participants who are appointed broker for other EPs, there was a lack of effective measures for identifying trades which are from suspended EPs and to seek a waiver from the Exchange pursuant to Rule 541 of the Rules of the Exchange.

With a view to raising the awareness of Participants' compliance in the Priority Areas, we set out our key findings and elaborate on our compliance reminders in the Appendices ("**Compliance Reminders**"). The provisions highlighted in the Compliance Reminders are not exhaustive and may be subject to change from time to time. Participants are expected to keep abreast of all the relevant rules and regulations applicable to them.

Participants should review their current practices and procedures against our Compliance Reminders, adopt appropriate measures to strengthen their controls, and where necessary, take immediate actions to rectify any breaches or deficiencies.

HKEX takes any rule breaches or deficiencies seriously and may consider taking disciplinary actions against any non-compliant Participants, including issuance of warning letter, imposition of fine and initiation of disciplinary proceedings.

HKEX will continue its efforts in enhancing the industry's understanding and compliance with the relevant rules and requirements through compliance reminders, guidance notes and frequently asked questions.

Participants are encouraged to contact the Market Surveillance and Monitoring Department (email: surveillance@hkex.com.hk) should they have any feedback or questions regarding this circular.

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This circular has been issued in English with a separate Chinese translation of the same. If there is any discrepancy between the Chinese version and the English version, the English version shall prevail.