

For Intended Recipients Only

SEHK
RULE ENFORCEMENT –
ANNUAL ATTESTATION &
INSPECTION PROGRAMME



(14 & 16 Mar 2017)
Market Surveillance & Monitoring
Markets Division

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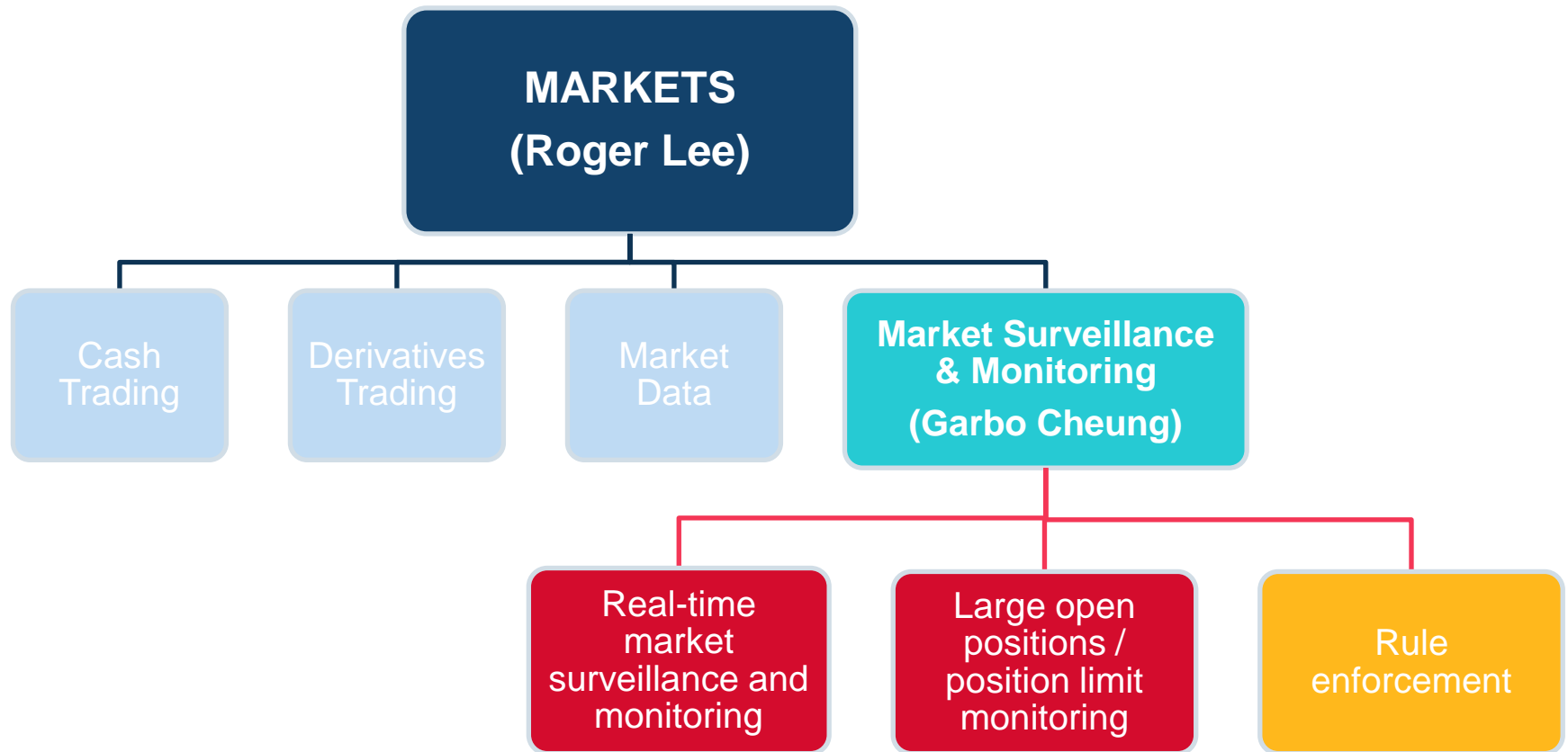
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Introduction to SEHK Rule Enforcement



Elements of Rule Enforcement

Prevention

- Enhance industry understanding of SEHK Rules through:
 - **Briefing sessions**
 - FAQs
 - Circulars and reminders

Detection

- Identify non-compliance through daily monitoring and self-reporting by EPs
- Introduce new **Annual Attestation and Inspection Programme**:
 - Self-attestation of compliance with SEHK Rules
 - Onsite inspection

Correction

- Pursue corrective actions, depending on seriousness of breaches and violations:
 - Rectification measures and other disciplinary actions

Annual Attestation and Inspection Programme

Self-Attestation of Compliance

- Apply to **all Exchange Participants** with activities in any one or more of the priority areas
- Perform self assessment on compliance with relevant SEHK Rules
- Complete **Self-Attestation Questionnaire** prescribed by SEHK
- Submit the Questionnaire, along with any supporting documentation, to SEHK

Onsite Inspection

- Apply to **selected Exchange Participants** based on volume of activities in one or more priority areas
- A more detailed evaluation of Exchange Participants' compliance with the relevant Rules



In consultation with the SFC, 3 priority areas have been identified for 2017

Self-Attestation of Compliance



Available from
HKEX's website
(end Mar – early Apr 2017)

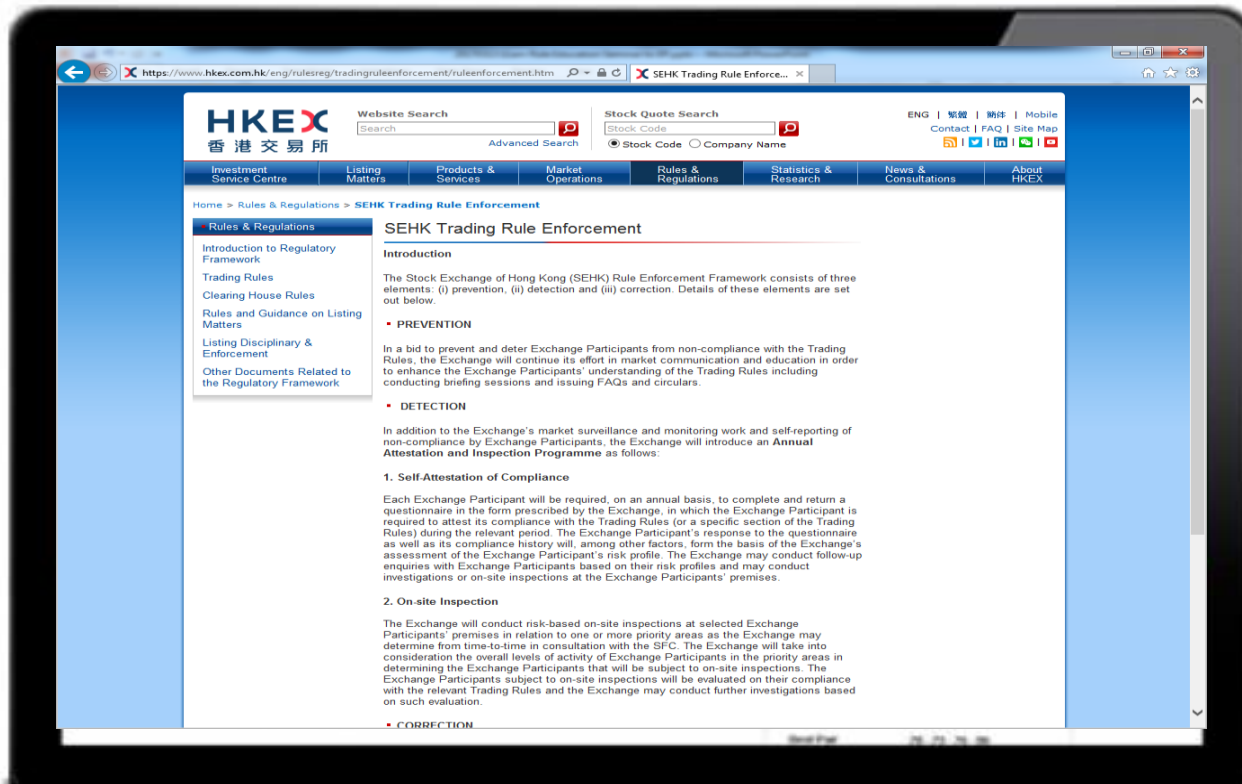


Electronic
Communication
Platform "ECP"
(early May 2017)

SEHK Rule Enforcement Website



<https://www.hkex.com.hk/eng/rulesreg/tradingruleenforcement/ruleenforcement.htm>



surveillance@hkex.com.hk



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Enforcement Focus

SEHK

(Manual Trades)

- Duty of EPs to report manual trades **within 15 minutes of trade execution on T, and not later than 9.45 a.m. on T+1**
(SEHK Rules 501(E)(2), 501(F)(1)-(2), 520(1)-(2), 526(1)-(2))
- Duty of buying EP to review details of manual trades **within the trading session**
(SEHK Rules 501E(3), 523)
- Duty of every EP to perform **day-end review** of both sales and purchases journals including manual trades
(SEHK Rule 528(1))

(Dark Pool / ALP Trades)

- Duty of EPs to report ATS transactions (Dark pool / ALP trades) **within 1 minute of trade execution**
(SEHK Rules 501(F)(1), 526(1))



Applicable to All Listed Securities (including shares, warrants, debt securities, ETFs, etc)

All Listed Securities (excluding Extended Trading Securities) Trading Hours	Extended Trading Securities Trading Hours
Pre-opening Session: 09:00 - 09:30	Pre-opening Session: 09:00 - 09:30
Morning Session: 09:30 - 12:00	Morning Session: 09:30 - 12:00
	Extended Morning Session: 12:00 - 13:00
Afternoon Session: 13:00 - 16:00	Afternoon Session: 13:00 - 16:00
Closing Auction Session: (For Closing Auction Securities only) 16:00 – 16:10	Closing Auction Session: (For Closing Auction Securities only) 16:00 – 16:10



Extended Trading Securities:

Any one or more of securities which is from time to time designated by the Exchange as being eligible for trading in the Extended Morning Session. There are 2 ETFs designated by the Exchange as Extended Trading Securities:

04362 – ISHARES KOR-TR and # 04363 – ISHARES TWN-TR

Reporting Deadline

General Principle: Report off-exchange trades as soon as you can

Transaction Type	Person Liable to Report	Reporting Deadline
Non-Direct Business Transactions (501E(2), 520(1))	Selling EP	Within 15 minutes after the conclusion of the transaction
Direct Business Transactions (501F(1), 526(1))	The EP conducting direct business transactions	ATS (Dark Pool / ALP) transactions: - Within 1 minute after the conclusion of the transactions Other transactions: - Within 15 minutes after the conclusion of the transactions

After Trading Hours (T-Day) (outside Pre-opening Session, hours stipulated in 501(1) and CAS)	Not later than
Direct and Non-Direct Business Transactions 501F(2), 520(2), 526(2)	Within the first 15 minutes of order input period/pre-order matching period of the Pre-opening Session (T+1) or within the first 15 minutes of the commencement of the next Continuous Trading Session (T+1).



Frequently Asked Questions by EPs

Question 1 Person responsible to report the manual trade

- EP conducting Direct Business Transactions *SEHK Rules 501F(1), 526(1)*
- Selling EP for Non-Direct Business Transactions *SEHK Rules 501E(2), 520(1)*

Question 2 Person responsible to review the manual trade

Buying EP

- Each buying Exchange Participant shall review details of the transactions as recorded in its favour in the System and reject any erroneous input as soon as it discovers an error. *SEHK Rule 501E(3), SEHK Rule 523*

Every EP - Day-end Review of Sales/Purchases

- It is the duty of **every** Exchange Participant to review both sales and purchases journals at the end of each trading session. *SEHK Rule 528(1)*
- Any discrepancy, erroneous transaction or complaint should be reported to the Exchange in the form prescribed by the Board from time to time not later than 15 minutes after the commencement of the Morning Session of the next trading day.



Case Study

Broker A failed to report 4,000+ cross trades to SEHK over a 10-year period

Facts

- Broker A was required to report cross trades to SEHK within the timeframes as set out under Rule 526 of the Rules of the Exchange.
- Broker A was aware of its reporting duties, but failed to completely report all of the Late Cross Trades.
- There was a conflict between Broker's trade execution and reporting duties

SEHK / SFC Rule Breaches

- **SEHK Rule 526(1)(a)(ii):** Failure to input manual trades within 15 minutes after the conclusion of the transactions
- **SFC Code of Conduct, General Principle 7 and paragraph 12.1:** Failure to comply with SEHK Trading Rules
- **SFC Code of Conduct, General Principles 2 and 3:** Broker's dealing function was not being provided with sufficient resources to enable the dealers to properly discharge their reporting duties

Regulatory Action

SFC reprimanded and fined the Broker \$11 million for failing to report its direct business transactions (cross trades) to SEHK



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Enforcement Focus

SEHK

- **Duty of EPs, market makers and liquidity providers to input short sell flag**
 - *All: 11th Sch. (5b)*
 - *Securities Market Maker Short Selling: 14th Sch. (24)*
 - *Designated Index Arbitrage Short Selling: 15th Sch. (3, 4, 15, 16, 20)*
 - *Stock Futures Hedging Short Selling: 15th Sch. (22, 29, 31, 32)*
 - *Structured Product Hedging Short Selling: 15th Sch. (34, 40, 41)*
 - *Options Hedging Short Selling: 15th Sch. (44, 50, 51, 52)*
 - *Structured Product Liquidity Provider Short Selling: 18th Sch. (15, 16)*



Six Key Criteria

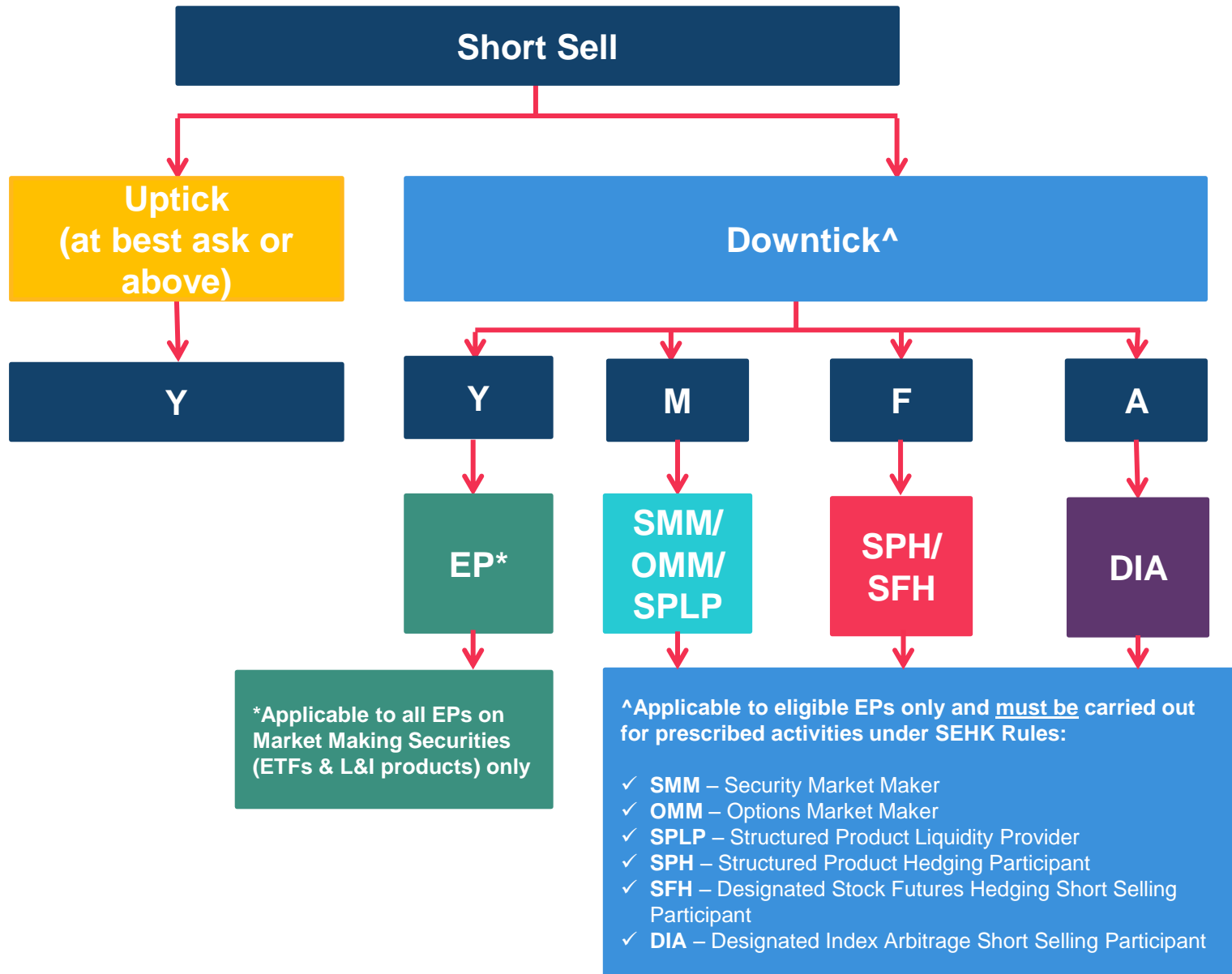
Duties of Exchange Participant	Short Selling Transaction (11 th Schedule)	Market Maker / Liquidity Provider Short Selling Transaction (14 th , 15 th , and 18 th Schedule)
Must be Covered (e.g. stock borrow) before short sale	✓	Exempt*
Limited to Designated Securities	✓	✓ [^]
Only during Continuous Trading Session	✓	✓
Automatching through AMS/3 (i.e. no crossing)	✓	✓
Must flag with a Short Sale Indicator in AMS/3	✓	✓
Must follow Tick Rule , i.e. at or above current best ask	✓	Exempt*

* Certain exemptions are available to Market Makers / Liquidity Providers

[^]Also include other specified structured products for Structured Product Liquidity Providers



Short Sell Indicators and Tick Rule



Responsibilities of Exchange Participants

Scenario 1: EP selling as Agent



EP must obtain Documentary Assurance from Client at the time of order placing:

1. It is a short sale
2. It has been covered



Exchange Participant



SFC's Requirement for Documentary Assurance

- Time stamped and obtained before order placement
- Any register, book, record, email, telephone recording, any form of computer input/output, or in the form of checkbox or pop-up message
- Retained for at least 12 months

Scenario 2: EP selling as Principal



Proprietary Desk of EP

Before placing the order, EP must have obtained Documentary Assurance from its lender that:
It has sufficient securities available to lend to EP



Exchange Participant

Scenario 3: EP selling as Agent facing Intermediary Client



Client

1 EP's affiliate must obtain Documentary Assurance from Client at the time of order placing:

1. It is a short sale
2. It has been covered



EP's Affiliate

2

At the time of order, EP must obtain either Documentary Assurance provided by EP's Affiliate that

1. It is a short sale and
2. It has been covered

OR a copy of the Documentary Assurance provided by Client



Exchange Participant

Proper arrangement in place to ensure the retention and retrieval of Documentary Assurance



Booking Model 1

Based on Net Position

Order*	Buy/Sell	Order Size (Shares)	Net Position	Flagging (Net Position <0, Sell Orders)
0	Stock Borrow	10,000	0	N/A
1	Sell	-10,000	-10,000	Short Sell
2	Buy	8,000	-2,000	N/A
3	Sell	-5,000	-7,000	Short Sell
4	Buy	6,000	-1,000	N/A
5	Sell	-5,000	-6,000	Short Sell

- ***Borrowed 10,000 shares at Time 0.***
- ***When Net Position is negative, all sell orders are short selling.***
- **Orders 3 and 5 are tagged as short sell.**



*Assuming all orders are fully executed immediately in sequence.

Booking Model 2

Shares from Buy Orders are put into Inventory

Order*	Buy/Sell	Order Size (Shares)	Inventory Position	Flagging (Using Inventory to Sell only)
0	Stock Borrow	10,000	0	N/A
1	Sell	-10,000	0	Short Sell
2	Buy	8,000	8,000	N/A
3	Sell	-5,000	3,000	Long Sell
4	Buy	6,000	9,000	N/A
5	Sell	-5,000	4,000	Long Sell

- ***Borrowed 10,000 shares at Time 0.***
- ***Shares from Buy Orders are put into Inventory. When Inventory position is positive and larger than sell orders, sell orders are long sell.***
- **Orders 3 and 5 are long sell.**



*Assuming all orders are fully executed immediately in sequence.

Booking Model 3

Shares from Buy Orders are returned to Borrow Desk

Order*	Buy/Sell	Order Size (Shares)	Residual Borrowing Inventory (Shares)	Flagging (Using Stock Borrow to Sell only)
0	Stock Borrow	10,000	10,000	N/A
1	Sell	-10,000	0	Short Sell
2	Buy	8,000	8,000	N/A
3	Sell	-5,000	3,000	Short Sell
4	Buy	6,000	9,000	N/A
5	Sell	-5,000	4,000	Short Sell

- ***Borrowed 10,000 shares at Time 0.***
- ***Shares from Buy Orders are returned to Borrow Desk first. Shares for the next sell orders will be borrowed from the Residual Borrowing Inventory. All sell orders are short selling.***
- **Orders 3 and 5 are tagged as short sell.**



*Assuming all orders are fully executed immediately in sequence.

Different Booking Models

Order*	Buy/Sell	Order Size (Shares)	Model 1		Model 2		Model 3	
			Net Position	Net Position <0, Sell Orders = Short Selling	Inventory Position	Using Inventory to sell only	Residual Borrowing Inventory (Shares)	Using stock borrow to sell only
0	Stock Borrow	10,000	0	N/A	0	N/A	10,000	N/A
1	Sell	-10,000	-10,000	Short Sell	0	Short Sell	0	Short Sell
2	Buy	8,000	-2,000	N/A	8,000	N/A	8,000	N/A
3	Sell	-5,000	-7,000	Short Sell	3,000	Long Sell	3,000	Short Sell
4	Buy	6,000	-1,000	N/A	9,000	N/A	9,000	N/A
5	Sell	-5,000	-6,000	Short Sell	4,000	Long Sell	4,000	Short Sell

REMINDER

Regardless of the booking model:

- EP should adopt its selected booking model with **consistency**.
- EP should ensure compliance with the SFO and the SFC's Guidance Note on Short Selling Reporting and Stock Lending Record Keeping Requirements at all times.



*Assuming all orders are fully executed immediately in sequence.

Different Booking Models – Short Selling Orders

Points to Note

- In accordance with the SFC's Guidance Note on Short Selling Reporting and Stock Lending Record Keeping Requirements, for the purposes of determining whether an order is a short selling order, the SFC accepts any of the following approaches, i.e. based on:
 - (a) the position of the trader's own trading book; or
 - (b) the aggregated positions of a number of trading books within the same legal entity which the trader controls or has knowledge of; or
 - (c) the aggregated position of the entire legal entity.

- In the three scenarios, the various orders are submitted by the EP's same trading book or different trading books which are under control of the same trader.

- Otherwise, the buy and seller orders may not be aggregated for short selling order flagging purposes.



Short Selling during Closing Auction Session

Can an EP input short selling orders during Closing Auction Session (CAS)?

- **NO.** Short selling orders can only be input into AMS/3 during the Continuous Trading Session.

However:

- All outstanding short sell orders will be carried forward to CAS.
- EP can either cancel or reduce the size of the short sell orders during CAS.
- The short sell orders can be matched during the CAS.



Case Study (1)

Broker A wrongly input short selling indicator and failed to report input errors to HKEX

Facts

- Broker A input the wrong short selling indicator to 1/3 of its sales orders (option trading and proprietary trading).
- Failed to report short selling input errors to HKEX in time.
- Failed to implement adequate internal control procedures to detect and prevent short selling input errors.
- Executed 55 short selling orders (valued about HK\$4m) below the prevailing best ask price when it was not a relevant market maker.

SEHK / SFC Rule Breaches

- SEHK Rules, 11th Sch. (5) - Input short selling order indicator.
- SEHK Rules, 15th Sch. (50) - Input short selling indicator for option hedging.
- SEHK Rules, 11th Sch. (15) - Short sale order not below best ask.
- SEHK Rules, 15th Sch. (52) - Market makers and options hedging participants should report all errors involving options hedging transactions to HKEX.
- General Principle 2, SFC Code of Conduct – Act with due skill, care and diligence, in the best interests of its clients and the integrity of the market.
- General Principle 7, SFC Code of Conduct – Comply with all regulatory requirements applicable to its business activities.
- Paragraph 12.1, SFC Code of Conduct – a licensed person should ensure compliance with all applicable regulatory law, rules and regulations.
- SFO 172,
 - when passing the order to another person, disclose that the order is a short selling order
 - when inputting the order into the trading system, indicate that the order is a short selling order

Regulatory Action

SFC reprimanded and fined the Broker A HK\$1.5m



Case Study (2)

Broker B failed to aggregate inventory positions to determine net long / short positions; Conducted uncovered short sale as long sale

Facts

- Broker B failed to aggregate inventory positions to determine net long / short positions
- Over 41,000 uncovered short sale trades were wrongly treated as long sale trades
- No appropriate “documentary assurance” in place to confirm that the sales were covered

SEHK / SFC Rule Breaches

- SEHK Rules, 11th Sch. 5 – Input the short selling order into the System with short selling order indicator
- SFO 170(1) - “Naked” or “uncovered” short selling is prohibited
- SFO 171 - Adequate systems and controls should be in place to ensure compliance with the requirements
- SFO 171(2) - When passing a short selling order to an agent for execution, provide a “documentary assurance”
- SFO 171(3) - An EP, acting as principal, must have obtained a documentary assurance from the lender before placing the orders

Regulatory Action

SFC reprimanded and fined Broker B HK\$18m



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Enforcement Focus

SEHK Rules: Chapter 14, 14A & 14B

- **Daily Quota**(*SEHK Rule 1428(1)*)
- **Turnaround trading** (*not allowed under SEHK Rule 14A06(4), Rule 14B06(5)*)
- **Pre-trade checking** (*SEHK Rule 1421(2) & 1424, 14A06(5)-(10), Rule 14B06(6)-(12)*)
- **Foreign investors shareholding limit**
(*SEHK Rule 14A08, Rule 14B08*)
- **5% shareholding disclosure requirement**
(*SEHK Rule 14A09, Rule 14B09*)
- **Off-Exchange trades or transfers prohibited** (*SEHK Rule 14A12, 14B12*)
- **Risk disclosure requirements** (*SEHK Rule 14A10, Rule 14B10*)
- **Margin trading confined to Eligible SSE/SZSE Securities for Margin Trading** (*SEHK Rule 14A15, Rule 14B15*)
- **Stock borrowing and lending** (*SEHK Rule 14A16, Rule 14B16*)
- **Naked short selling** (*not allowed under SEHK Rule 14A17, Rule 14B17*)
- **Investor eligibility requirement for trading in ChiNext shares** (*SEHK Rule 14B1606(16)-(18)*)



Key Differences between Hong Kong vs Northbound Trading

	HK Market Trading	Northbound Trading
Manual Trade	✓	X
Turnaround Trading	✓	X
Odd Lot	✓	Sell orders only (all odd lot should be made in one single order)
Short Selling Input Time	Continuous Trading Session	SSE: Opening Call Auction Session and Continuous Auction Session SZSE: Opening Call Auction Session, Continuous Auction Session and Closing Call Auction Session
Daily Quota	X	✓
Settlement Cycle	Both securities and money are settled on T+2 days	Securities: settled on T day Money: settled on T+1 day
Record Keeping	7 years	20 years
Price Limit	<ul style="list-style-type: none"> Cannot deviate 9 times or more from the nominal price Within 24 spreads of current ask/bid price in Continuous Trading Session 	<p>±10% on previous closing price (±5% for stocks under special treatment under risk alert, i.e. ST and *ST stocks)</p> <p>Dynamic price checking for buy orders: Reject order with input price <u>lower than 3%</u> of the current best bid</p>



Daily Quota, Turnaround Trading, Pre-Trade Checking

Focus Area	Key Information	CCEP's Responsibility
<p>Daily Quota</p> <p>每日投資額度</p>	<p><u>Applied to Shanghai & Shenzhen connect</u> NB trade: 13 billion SB trade: 10.5 billion</p> <ul style="list-style-type: none"> • Daily Quota Balance = Daily Quota – Buy orders + Sell Trades + Adjustments • Calculated on “Net buy” and Real-time basis • No restrictions on sell orders • Reject new buy order if quota is fully utilized 	<p>Effective trade surveillance & monitoring system to prevent order input that has or is likely to have the effect of artificially using or filling any quota or quota balance or causing such quota limit to be exceeded</p> <ul style="list-style-type: none"> ✘ No artificial, unauthorised or bulk input of buy orders ✘ No input of buy orders at an artificially low price
<p>Turnaround Trading</p> <p>回轉交易</p> <p>Pre-Trade Checking</p> <p>前端監控</p>	<ul style="list-style-type: none"> ✘ Turnaround (day) Trade is NOT allowed (should not sell stock acquired on the same day) • SEHK conducts pre-trade checks over the relevant EP's designated CCASS account/SPSA account • EPs conduct pre-trade checks at individual client level to ensure that its client has sufficient securities to cover the sell order quantity before order placement 	<p>Must put in place appropriate measures (e.g. pre-trade checking at client level) to:</p> <ol style="list-style-type: none"> prevent day trading, and ensure sufficient funds (securities) to settle the payment (settlement) obligation whether as principal or as agent



Foreign Investors Shareholding Limit

Focus Area	Key information	CCEP's Responsibility											
<p style="text-align: center;">Foreign Investors Shareholding Limit</p> <p style="text-align: center;">境外投資者持股限制</p>	<p>Foreign Investors: QFII, RQFII, A-shares investors trading under Stock Connect</p> <ul style="list-style-type: none"> • 10% limit on shareholding by a single foreign investor • 30% limit on aggregate foreign shareholding <p>Forced Sale Arrangements:</p>	<ul style="list-style-type: none"> • Appropriate monitoring arrangement to ensure and alert clients to comply with the 10% single foreign investor's restriction • Alert clients to the 30% aggregate shareholding limit and the forced-sale arrangements • Appropriate measures including legally enforceable client agreements to enable timely execution of forced-sale arrangements 											
	<table border="1"> <thead> <tr> <th data-bbox="446 501 832 594">Aggregate Foreign Shareholding Level</th> <th data-bbox="832 501 1354 594">Action to be taken by the Exchanges</th> </tr> </thead> <tbody> <tr> <td data-bbox="446 594 832 679">26%</td> <td data-bbox="832 594 1354 679">SSE / SZSE will publish a notice on its website (as the case maybe)</td> </tr> <tr> <td data-bbox="446 679 832 772">28%</td> <td data-bbox="832 679 1354 772">HKEX will publish a notice on its website and reject further buy order</td> </tr> <tr> <td data-bbox="446 772 832 1108">>30% <i>(if due to trading under Stock Connect)</i></td> <td data-bbox="832 772 1354 1108"> <p>On a last-in-first-out basis, SEHK will identify the relevant trades and EP and request the clients concerned to sell the shares <u>within 5 trading days</u></p> <p>Otherwise, the EPs will be required to force-sell the shares for the clients</p> </td> </tr> <tr> <td data-bbox="446 1108 832 1193"><26%</td> <td data-bbox="832 1108 1354 1193">HKEX will announce acceptance of buy order</td> </tr> </tbody> </table>		Aggregate Foreign Shareholding Level	Action to be taken by the Exchanges	26%	SSE / SZSE will publish a notice on its website (as the case maybe)	28%	HKEX will publish a notice on its website and reject further buy order	>30% <i>(if due to trading under Stock Connect)</i>	<p>On a last-in-first-out basis, SEHK will identify the relevant trades and EP and request the clients concerned to sell the shares <u>within 5 trading days</u></p> <p>Otherwise, the EPs will be required to force-sell the shares for the clients</p>	<26%	HKEX will announce acceptance of buy order	
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Aggregate foreign shareholding level

SSE: <http://www.sse.com.cn/disclosure/disclosure/qfii> SZSE: <http://www.szse.cn/main/disclosure/news/qfii/>


Shareholding Disclosure, Off-Exchange Trades

Focus Area	Key Information	CCEP's Responsibility
<p>5% Shareholding Disclosure Requirement</p> <p>持股量披露規定</p>	<ul style="list-style-type: none"> • Disclosure threshold: 5% of the issued shares of a Mainland listed co. • Who is liable? Single holding of 1 investor or by aggregating the holding of other parties “acting in concert” with such investor. • How to disclose? Report in writing to the CSRC and SSE/SZSE, and inform the listed company within 3 working days. 	<ul style="list-style-type: none"> • Appropriate monitoring arrangement to ensure and alert clients to comply with the 5% Shareholding Disclosure Requirement
<p>Off-Exchange Trades or Transfers Prohibited</p> <p>禁止場外交易或過戶</p>	<p>Off-exchange trades or transfers prohibited unless for the following purposes:</p> <ul style="list-style-type: none"> • Stock Borrowing and Lending as permitted under Stock Connect rules • Transfers between Exchange Participants and their clients for the purpose of rectifying error trades • Post-trade allocation to funds or sub-funds in different accounts by fund managers • Transfers * in accordance with Rule 4110iii(e) to (j) of CCASS Rules 	<p>✘ NO execution of off-exchange trade</p> <ul style="list-style-type: none"> • Submission of documents required in the case of rectifying an error trade: Error trade report & supporting documents explaining the nature of the error, how the error was made and providing details of the non-trade transfer to be processed



*Transfers as a result of Succession; Divorce ; Dissolution, liquidation or winding-up of any company or corporation/; Donation to a charitable foundation; Assisting in any enforcement or law/court order/legal proceedings; Any other transfer as may be permitted by the relevant China authorities.


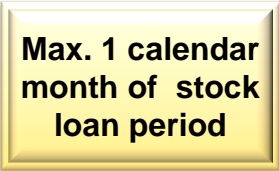

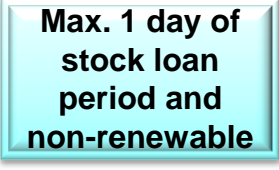
Margin Trading

Focus Area	Key Information	CCEP's Responsibility																																								
<p>Margin Trading</p> <p>保證金交易</p>	<ul style="list-style-type: none"> • Confined to the List of Eligible SSE/SZSE Securities • Subject to “margin trading indicator” (單隻股票的融資監控指標) : Suspension : 25%, Resumption: Drop below 20%  <p>The screenshot shows the Shanghai Stock Exchange website with a search bar at the top. Below the navigation menu, there is a section titled "融资融券/融券余量超25%信息" (Margin Trading/Short Selling Volume Exceeds 25% Information). This section includes a search bar and a table listing securities with their respective margin ratios. Below this, there is another table titled "融资融券交易明细" (Margin Trading Transaction Details) for the date 2017-03-09, showing columns for security code, name, margin purchase amount, margin sale amount, margin balance, and margin short selling amount.</p> <table border="1" data-bbox="734 999 1282 1215"> <caption>融资融券交易明细 2017-03-09</caption> <thead> <tr> <th>证券代码</th> <th>证券简称</th> <th>融资买入额(元)</th> <th>融资卖出额(元)</th> <th>融券卖出(股)</th> <th>融券余额(元)</th> <th>融券余量(股)</th> <th>融资融券余额(元)</th> </tr> </thead> <tbody> <tr> <td>000001</td> <td>平安银行</td> <td>41,280,690</td> <td>2,948,927,655</td> <td>19,100</td> <td>248,908</td> <td>2,334,757</td> <td>2,951,262,412</td> </tr> <tr> <td>000002</td> <td>万科A</td> <td>70,291,796</td> <td>1,949,555,494</td> <td>94,800</td> <td>497,100</td> <td>10,195,521</td> <td>1,959,751,015</td> </tr> <tr> <td>000008</td> <td>深振业A</td> <td>58,540,438</td> <td>1,383,617,734</td> <td>427,735</td> <td>587,735</td> <td>4,973,359</td> <td>1,388,591,093</td> </tr> <tr> <td>000009</td> <td>中国宝安</td> <td>58,447,791</td> <td>2,693,292,599</td> <td>240,700</td> <td>380,750</td> <td>3,510,097</td> <td>2,696,802,696</td> </tr> </tbody> </table>	证券代码	证券简称	融资买入额(元)	融资卖出额(元)	融券卖出(股)	融券余额(元)	融券余量(股)	融资融券余额(元)	000001	平安银行	41,280,690	2,948,927,655	19,100	248,908	2,334,757	2,951,262,412	000002	万科A	70,291,796	1,949,555,494	94,800	497,100	10,195,521	1,959,751,015	000008	深振业A	58,540,438	1,383,617,734	427,735	587,735	4,973,359	1,388,591,093	000009	中国宝安	58,447,791	2,693,292,599	240,700	380,750	3,510,097	2,696,802,696	<ul style="list-style-type: none"> • Effective measures in place to ensure margin trading is confined to the List of Eligible SSE/SZSE Securities for Margin Trading; and in particular, for buy orders, the relevant stock is not under margin trading suspension at the time of order placement • Ensure client's awareness on the restrictions, requirements and conditions applicable to Margin Trading
证券代码	证券简称	融资买入额(元)	融资卖出额(元)	融券卖出(股)	融券余额(元)	融券余量(股)	融资融券余额(元)																																			
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Note: Margin Trading Indicator:
 SSE: <http://www.sse.com.cn/disclosure/magin/margin/>
 SZSE: <http://www.szse.cn/main/disclosure/rzrqxx/ywgg>

Stock Borrowing and Lending

Focus Area	Key Information	CCEP's Responsibility																										
<p>Stock Borrowing and Lending (SBL)</p> <p>股票借貸</p>	<p>❖ Permitted Stock Lenders and Stock Borrowers:</p> <table border="1" data-bbox="517 289 1122 675"> <thead> <tr> <th rowspan="2"></th> <th rowspan="2">Who can be lenders?</th> <th colspan="3">Who can they lend to?</th> </tr> <tr> <th>Clients</th> <th>CCEPs</th> <th>Trade-Through EPs</th> </tr> </thead> <tbody> <tr> <td rowspan="3">EPs</td> <td>(a) CCEPs</td> <td>√</td> <td>√</td> <td>√</td> </tr> <tr> <td>(b) Trade-Through EPs</td> <td>√</td> <td>√</td> <td>√</td> </tr> <tr> <td>(c) Non-Registered EPs</td> <td>x</td> <td>√</td> <td>√</td> </tr> <tr> <td>QIs</td> <td>(d) Qualified Institutions</td> <td>x</td> <td>√</td> <td>√</td> </tr> </tbody> </table> <p>❖ Eligible Permissible Purposes :</p> <div style="display: flex; flex-direction: column; align-items: center;"> <div style="display: flex; justify-content: space-around; width: 100%;"> <div style="text-align: center;">  <p>Covered Short Sell</p> </div> <div style="text-align: center;">  <p>Max. 1 calendar month of stock loan period</p> </div> </div> <div style="display: flex; justify-content: space-around; width: 100%; margin-top: 20px;"> <div style="text-align: center;">  <p>Pre-trade checking</p> </div> <div style="text-align: center;">  <p>Max. 1 day of stock loan period and non-renewable</p> </div> </div> </div>		Who can be lenders?	Who can they lend to?			Clients	CCEPs	Trade-Through EPs	EPs	(a) CCEPs	√	√	√	(b) Trade-Through EPs	√	√	√	(c) Non-Registered EPs	x	√	√	QIs	(d) Qualified Institutions	x	√	√	<ul style="list-style-type: none"> • Provide the prescribed form of undertaking to the Exchange before providing SBL service • Appropriate arrangements to ensure client awareness on the restrictions, requirements and conditions applicable to the SBL • Timely submission of the monthly SBL report to the Exchange
	Who can be lenders?			Who can they lend to?																								
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Note: Qualified Institutions include:

- (i) HKSCC Participants (other than Investor Participants);
- (ii) Funds, unit trusts or collective investment schemes managed by persons licensed or registered to carry out SFC's Type 9 (asset management) regulated activity; and
- (iii) Other persons accepted or specified by SSE or SZSE, as the case may be.



Short Selling

Focus Area	Key Information	CCEP's Responsibility
<p style="text-align: center;">Short Selling</p> <p style="text-align: center;">賣空</p>	<p>✘ Naked Short selling prohibited</p> <ul style="list-style-type: none"> • Covered short sell allowed, subject to <ol style="list-style-type: none"> i) List of Eligible SSE/SZSE Securities ii) Short Selling Ratio Limit: Based on HKSCC's holding of the Short Selling Security in the omnibus account maintained in ChinaClear <ul style="list-style-type: none"> • 1% Daily Limit; • 5% Cumulative Limit in any 10 consecutive trading days <p>System rejects the order if subsequent execution of such order will cause the Daily Limit or Cumulative Limit to be exceeded</p> iii) Total open short positions of the stock's listed and tradable shares (上市可流通量) Suspension : 25% Resumption: Drop below 20% iv) Short Sell Flagging; Multiples of 100 Shares and Tick Rule 	<ul style="list-style-type: none"> • Where SBL by CCEP is involved in the Short Selling activity, the CCEP must provide prior confirmations and undertakings to the Exchange • Appropriate arrangements in place to require the client to <ol style="list-style-type: none"> i) inform / confirm that the order is a Short Selling order and keep such client confirmation properly; ii) provide details on its return of stock loan for CCEP's compliance on the order price requirement* & reporting of open short positions • Proper checking procedure to ensure sufficient borrowing to cover the Short Sell order • Ensure clients' understanding of the relevant Short Selling requirements and restrictions • Reporting requirements to the Exchange: Short Selling Weekly Report and Large Open Short Position Report



Note*: Please refer to the examples discussed in FAQ 1.21.2 : http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Documents/FAQ_En.pdf
 Individual A share's open short position level: SSE: <http://www.sse.com.cn/services/tradingservice/margin>
 SZSE: <http://www.szse.cn/main/aboutus/xywjs/rzrqxzjd/>.

Trading in SZSE's ChiNext Shares

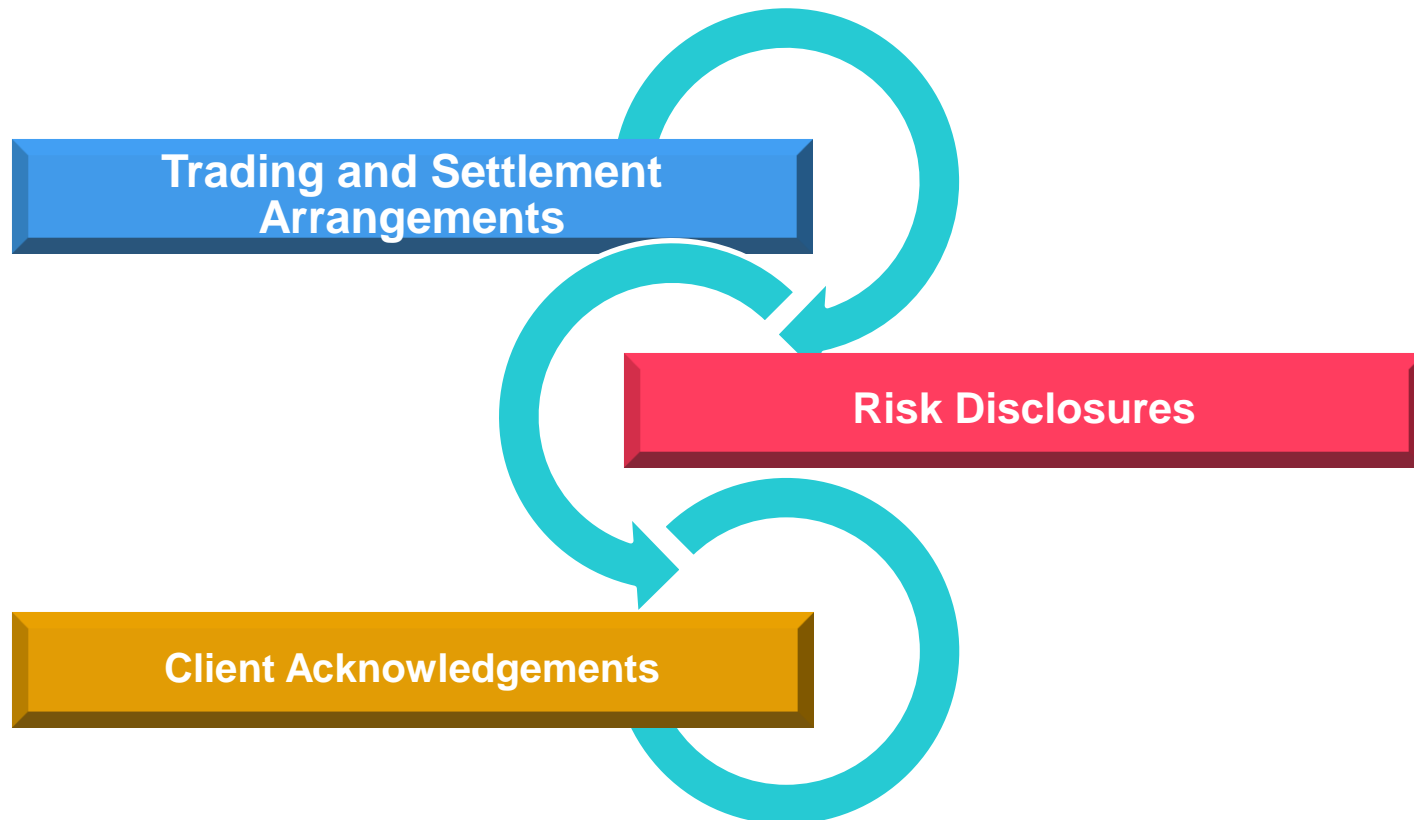
Focus Area	Key Information	CCEP's Responsibility
<p data-bbox="179 511 446 748">Investor Eligibility for Trading in ChiNext Shares</p> <p data-bbox="179 811 465 901">買賣深圳創業板投資者資格規定</p>	<ul data-bbox="556 311 1078 436" style="list-style-type: none"> Initially open for Institutional Professional Investors 機構專業投資者 (IPI)* only <p data-bbox="643 494 1035 591">Existing SZSE stock codes: ChiNext Market start with "300"</p> <div data-bbox="639 596 958 682" style="border: 1px solid black; padding: 5px; text-align: center;"> <p data-bbox="691 615 906 668">300XXX</p> </div>	<ul data-bbox="1151 265 1792 1133" style="list-style-type: none"> Client Agreement should contain sufficient provisions covering the trading of ChiNext stocks including the risks involved Review and reinforce their Know Your Client ("KYC") procedures and put in place control procedures to avoid unauthorized trading of ChiNext stocks and ensure all clients including the underlying customers of intermediate broker clients are also IPIs CCEPs should already have appropriate controls in place to prevent non-compliance with the relevant requirements and necessary measures and prior arrangements with their clients to rectify breaches e.g. requesting the non-IPI to unwind positions of ChiNext shares as soon as possible In case of violations: self-report to SEHK & rectify breaches promptly

Note: * IPI as defined under paragraph 15.2 of the Code of Conduct for Persons Licensed by or Registered with the SFC, means a person falling under paragraphs (a) to (i) of the definition of "professional investors" in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance.



Risk Disclosure Requirements

Client agreement should sufficiently cover the trading of China Connect Securities:



Risk Disclosure Requirements

Key information in relation to trading in China Connect Securities including but not limited to:

Trading and Settlement Arrangements	Risk Disclosures
<ul style="list-style-type: none"> (a) Northbound trading is subject to daily quota (b) Prohibition of day trading, over-the-counter (OTC) trades, block trades and naked short selling (c) Client must have proper stock transfer arrangement for the purpose of meeting the pre-trade checking requirement unless an SPSA arrangement is in place (d) Settlement arrangement under China Connect program: Stocks will be settled on T-day and money will be settled on T+1 day 	<ul style="list-style-type: none"> (e) Client's orders / order cancellation requests may not be able to send by EP in case of contingency and the client should still bear the settlement obligations if the orders are matched and executed (f) Client is provided with adequate disclosure with regards to the risks associated with Northbound trading, including but not limited to prohibition of trading China Connect Securities, being liable for breaching all applicable laws and regulations (g) Client is provided with adequate disclosure with regards to the risks associated with trading of ChiNext stocks
<h2 style="text-align: center; background-color: #f4a460; padding: 5px;">Client Acknowledgments</h2>	
<ul style="list-style-type: none"> (h) Client is fully aware of and accepts the risk associated with Northbound trading. Client also understands that ChiNext stocks is limited to institutional professional investors and is fully aware of and accepts the risks involved in the trading of ChiNext stocks (i) Client must comply with all applicable laws of Mainland China relating to Northbound trading including foreign shareholding restriction (including the forced-sale arrangement); shareholding disclosure obligations and short-swing profit rules in China (j) Client's identity and other relevant information and materials may be provided to SEHK which may on-forward to other Mainland authorities for surveillance and investigation purposes (k) SEHK may, upon SSE's/SZSE's request, require the EP to reject orders from the client; to issue warning statements (verbally or in writing) to the client, and not to extend Northbound trading service to the client (l) HKEX, its subsidiaries and their respective directors, employees and agents shall not be responsible or held liable for any loss or damage directly or indirectly suffered by the EP, the client or any third parties arising from or in connection with Northbound trading 	

Frequently Asked Questions by EPs

Question 1 : How can a CCEP satisfy the ChiNext investor eligibility requirement when dealing with intermediate broker client?

Appropriate Know-Your-Client (KYC) procedures on direct client and understand the clientele of its intermediary clients

Implement effective and appropriate measures to ensure underlying clients of intermediary client is an IPI before accepting its order instructions to trade ChiNext stocks

Common measures adopted by CCEPs:

- Automated control on trading systems to ensure only IPI clients are allowed trade ChiNext stocks
- Requiring intermediate broker client to ensure its underlying clients are IPI through business agreement or representation letter
- Conduct regular KYC review to ascertain client's IPI status

Question 2 : What should a CCEP do if it executed a ChiNext order for a non-IPI?

1. Self-report to SEHK (no specific form provided) in a timely manner
2. Rectify the breach: CCEPs should have prior arrangements with their clients, including but not limited to, requesting the non-IPI to unwind positions of ChiNext shares
3. Review and enhance its existing controls in order to prevent similar events from recurring



Case Study

1. ChiNext Investor Eligibility Requirement

- **Institutional Professional Investor 機構專業投資者 vs Corporate Professional Investor 法團專業投資者**
- **No regular review on client's IPI status**
- **Human error: Omitted to check client's IPI status during the course of handling the client's order manually**
- **Erroneous trading block setup: stock code 300000- 300999**
- **Controls on direct clients only and disregard the nature of clientele of its intermediary clients**

2. Pre-trade Checking Requirement

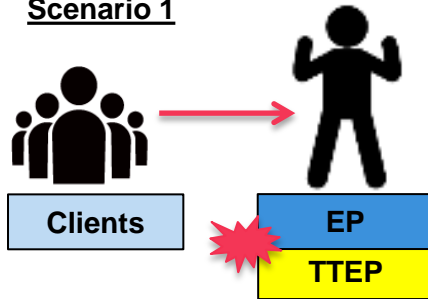
- **Human error:**
 - (i) **Desk covered by trader unfamiliar with Mainland exchange rules and omitted to check the house position before placing order**
 - (ii) **Checked the shareholding position of an incorrect account or incorrect stock**
- **Booking error: A-shares inventory under Stock Connect vs QFII**



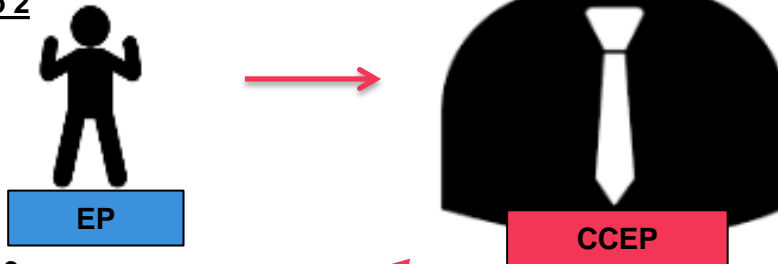
Case Study

3. Registration of Trade-Through Exchange Participant (透過中華通交易所參與者買賣之交易所參與者)

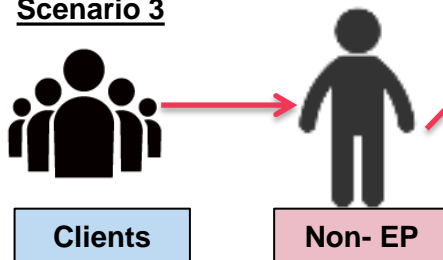
Scenario 1



Scenario 2



Scenario 3



EP must first register as TTEP before conducting trading in China Connect Securities through CCEP for its clients.

CCEP should have verified the EP's TTEP status during the KYC process.

The latest list of TTEPs can be found on HKEX's website.

TTEP registration requirement is NOT applicable:
1) if EP conducts trading in China Connect Securities through CCEP for its own account
2) to non-Exchange Participants

1

Overview of Rule Enforcement Framework

2

Manual Trade Reporting

3

Short Sell Order Flagging

4

China Connect

5

Q&A





Q&A

THANKS!

Feel free to ask questions, or email:
surveillance@hkex.com.hk



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