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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 2019 Annual Attestation and Inspection Programme**

**Enquiry: [surveillance@hkex.com.hk](mailto:surveillance@hkex.com.hk)**

With reference to the circular (Ref. No.: MSM/002/2019) dated 26 February 2019, the Hong Kong Exchanges and Clearing Limited ("HKEX") is pleased to announce that it has successfully completed the 2019 Annual Attestation and Inspection Programme (the "2019 Programme").

Under the 2019 Programme, HKEX inspected 24 Exchange Participants<sup>1</sup> and Clearing Participants<sup>2</sup> (collectively, the "Participants"). HKEX also received 100% response on self-attestation questionnaires from 787 Participants on compliance with the relevant rules and requirements on position limits and large open position reporting, risk management and China Connect trading activities (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, we have identified certain deficiencies and shortcomings which are common across the Participants. Compliance advice letters have been issued to 95 Participants with recommendations for improvement in the following areas, including:

- Inadequate communication with clients on prescribed position limits, LOP reporting requirements and responsibilities of reporting;
- Inadequate controls and inappropriate methodologies for conducting position limit monitoring and identifying reportable positions;
- Limited coverage and frequency of stress testing on proprietary / client exposures;
- Inadequate controls for fulfilling the settlement obligations of clearing houses;
- Inadequate controls / arrangements for fulfilling certain BCAN requirements.

With a view to raising the awareness of Participants' compliance in the Priority Areas, we set out our key findings and elaborate 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.

<sup>1</sup> Exchange Participants of The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited

<sup>2</sup> (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

Participants should review their practices and procedures against our Compliance Reminders, adopt appropriate measures to strengthen their controls, and where necessary, take immediate actions to rectify any similar breaches or deficiencies. Any breaches or deficiencies will be taken seriously and may result in disciplinary actions against the Participants, including but not limited to summary fines and the issuance of warning letter.

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](mailto:surveillance@hkex.com.hk)), should they have any feedback or questions regarding this circular.

**Garbo Cheung**  
**Head**  
**Market Surveillance and Monitoring**  
**Post Trade Division**

*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.*

**Appendix 1**

**Compliance Reminder on Position Limits and Large Open Position Reporting**

*(Applicable to HKFE Participants and SEHK Options Exchange Participants only)*

HKFE Participants and SEHK Options Exchange Participants (“EPs”) are required to comply with the relevant rules and requirements in relation to Position Limits and Large Open Position Reporting as stipulated in Chapter VI of Rules, Regulations and Procedures of the Futures Exchange (“HKFE Rules”), Chapter 4 of Options Trading Rules (“OTR”) and Chapter 5 of Operational Trading Procedures for Options Trading Exchange Participants of the Stock Exchange (“OTP”). EPs are advised to establish and maintain proper policies and procedures, as well as robust systems and controls, to ensure ongoing compliance to these rules and other applicable regulatory requirements.

In the 2019 Annual Attestation and Inspection Programme, some EPs were found deficient in the following areas:-

**1. Responsibility of Informing Clients**

- ***Failure to inform clients or inadequate communication with clients on prescribed position limits, Large Open Position (“LOP”) reporting requirements and responsibilities of reporting.***

Some EPs did not inform their clients on the relevant rules and requirements in relation to position limits and LOP reporting, while some assumed that they only need to inform when clients’ position reach the reportable level and/or prescribed limits

For those EPs who have informed their clients, we observed that EPs adopted different communication channels, including but not limited:

- Client Agreement
- New Client Onboarding Notice
- Client Statement
- Company Website
- Face-to-face Communication with Clients by Account Executives

It was noted that:

- Some EPs included inadequate provisions and clauses in those documents used for communicating such reporting responsibilities with regard to the product coverage, comprehensiveness of the rules and requirements, as well as the relevant references provided to clients.
- Some EPs merely make disclosures through company website but failed to properly communicate with clients to make reference to them.
- Some EPs failed to maintain proper documentary evidence to demonstrate such communication with clients.

- Some EPs incorporated the relevant reporting responsibilities in the internal procedures, but failed to provide sufficient guidelines in governing the details that should be covered during the communication with clients.
- ***EPs who are Non-Clearing Participants (“NCPs”) (1) failed to inform Clients and (2) assumed LOP reporting responsibility on General Clearing Participants (“GCPs”) without proper delegation arrangement***
  - Since the clients’ positions are cleared / kept by GCPs, some NCPs assumed that they have no responsibility to inform their clients in this regard.
  - Some NCPs assumed that the LOP reporting responsibilities would be taken up by the GCPs, or they have delegated such duties to the GCPs but without any documentary evidence on detailed arrangements.
  - Some NCPs claimed to have communicated the relevant rules and requirements in the tripartite agreement entered among the EP, Client and GCP, but the provision and clauses in the agreement were found to be inadequate to fulfil the requirement to inform clients of the relevant rules and requirements.

We wish to draw EPs’ attention to HKFE Rules 632A(a) & 633(c) and OTP 5.10(3) which stipulate that, EPs shall advise their clients of the prescribed position limits, reporting requirements and the responsibilities of reporting set out in the HKFE Rules, Regulations and Procedures, OTP 5.9, and in the Securities and Futures (Contracts Limits and Reportable Positions) Rules and related guidance notes issued by the Securities and Futures Commission. EPs are reminded to have adequate procedures and guidelines to ensure their clients are properly informed about the relevant rules and requirements.

EPs engaging in F.O Business and/or Exchange Traded Options Business are primarily obliged to comply with the Rules, Regulations and Procedures of the Futures Exchange, Options Trading Rules of the Stock Exchange, and Operational Trading Procedures for Options Trading Exchange Participants of the Stock Exchange. When delegating the reporting duties, EPs should clearly communicate with the designated party on the delegation, and maintain proper documentation on such arrangement.

## 2. Position Limit Monitoring

- ***Failure to observe position limits at all times.***

Some EPs conduct position limit monitoring on the opening positions at end-of-day only.

- ***Failure to apply appropriate and effective limits for position limit monitoring.***

Most EPs apply exposure limits in terms of margin and/or number of contracts in the trading system to prevent any trading account from exceeding the prescribed limits. However, some EPs did not apply appropriate limits on aggregate level for positions commonly held or controlled by the same person across different trading accounts. In some cases, the mere application of these exposure limits might not be sufficient given the different prescribed limits for different futures and options contracts within the portfolio. EPs should assess whether the controls in place can effectively ensure the positions from exceeding the relevant position limits.

Some EPs were found to have inadequate controls to ensure compliance with the prescribed limits for Spot Month USD/CNH Futures Contract and Options Contract, which is at position delta of 2,000 long or short currently.

- ***Inappropriate aggregation methodology for the purpose of position limit monitoring.***

Some EPs failed to compute the aggregated position delta of all products under the same underlying index for the comparison with the prescribed limits. For example, instead of adding up the position delta of all contracts with HSI as the underlying, some EPs used the delta of HSI futures, without aggregating those of HSI option, mini-HSI futures, mini-HSI options and other contracts with HSI as underlying, to compare with the prescribed limit at 10,000.

- ***Inadequate position limit monitoring mechanism.***

In some cases, the aggregation of positions commonly held or controlled by the same person for the purpose of position limit monitoring involves manual process which is prone to error, especially when considering the level of trading activities the EPs are involved in, as well as the number of positions requiring aggregation.

Position limits should be observed at all times, and are applicable to open positions on exchange traded products, accumulated and/or established, on both an inter-day and intra-day basis. EPs are reminded to implement appropriate and effective controls to ensure ongoing compliance with all applicable rules and requirements with regard to position limits.

### 3. Large Open Position Reporting

- ***Inappropriate aggregation methodology for identifying reportable positions, including:***
  - ***Failure to aggregate long and short positions of open contracts on a gross basis.***
  - ***Failure to aggregate positions controlled by the same transaction originator held in different accounts.***
  - ***Failure to aggregate positions arising from market making activities and proprietary trades.***
  - ***Failure to aggregate positions according to the reporting rule stipulated in the HKFE's Circular "[Strengthening Large Open Position Monitoring for Stock Index Futures and Options](#)" dated 26 November 2014.*** Some EPs failed to compute the aggregated position delta of all products under the same underlying index for the comparison with the 60% of position limit threshold.

Pursuant to HKFE Rule 628 and OTP 5.11(3) and, an EP holding positions in excess of the reporting level for its own account or for any clients should file an LOP report with the respective exchange in accordance with the prescribed form and timeframe. EP should implement appropriate and effective controls to ensure ongoing compliance with the LOP reporting requirements in this regard.

### 4. Policies and Procedures

- ***Inadequate details and lack of regular review on written policies and procedures.*** It was noted that the written policies and procedures contained inadequate details relating to controls over position limit monitoring and LOP reporting, including but not limited to:
  - obligation to inform clients of reporting responsibilities and requirements
  - identification, maintenance and review of accounts requiring aggregation
  - aggregation methodology for the purpose of position limit monitoring and identification of reportable positions
  - position limit monitoring, both intra-day and inter-day
  - follow-up procedures when the positions are approaching or exceeded the limits
  - controls in ensuring the completeness, accuracy and timeliness of LOP reporting
  - maker-checker mechanism over manual processes

In some cases, the procedural manual only summarizes rules and regulations that are applicable to the trading activities of the firm, but fails to establish and/or document the control arrangements to ensure compliance with those rules and requirements. Some procedures cover the controls in some but not all available systems and/or order placing channels.

It was also noted that some EPs did not conduct regular review even though such policies and procedures were in place.

Non-comprehensive policies and procedures may pose the risk of non-compliance with position limits, failure to identify reportable positions and to file the LOP report in accordance with the requirements and prescribed time frame. We wish to remind EPs that adequate policies and procedures should be established to ensure ongoing compliance with the relevant rules and requirements. Regular review and revision should also be conducted to ensure they are consistent, effective and up-to-date.

## 5. Staff Training

- **Inadequate staff training.** Some EPs did not provide adequate and product-specific training for all responsible staff involved in position limit monitoring and LOP reporting on a regular basis, while some merely relied on on-the-job training through sharing and coaching by senior staff members.

To foster a culture of compliance, we wish to remind EPs that they should provide adequate and appropriate training to all its responsible staff, both initially and on an ongoing basis.

## **Appendix 2**

### **Compliance Reminder on Risk Management** *(Applicable to Clearing Participants<sup>3</sup> only)*

Risk management is one of the key responsibilities of Clearing Participants (“CPs”) of HKSCC, HKCC and SEOCH (collectively, the “Clearing Houses”), as set out under the admission materials and relevant rules and procedures of the Clearing Houses.

CPs should set up robust risk management frameworks and controls, so as to ensure the proper assessment, monitoring and mitigation of key risks (including but not limited to, credit risk, liquidity risk, operational risk, market risk and capital) at all times.

In the 2019 Annual Attestation and Inspection Programme, control weaknesses were found in the following risk management areas:-

#### **1. Stress Testing**

- ***Absence of proper stress testing for its own or clients’ exposure on HKEX’s products, particularly on non-linear products such as options.***

Stress testing of non-linear products (e.g. options) is crucial to CPs since the losses of non-linear products increase exponentially under extreme scenarios. CPs with significant activities in non-linear products are expected to implement and conduct stress testing regularly and at least on a weekly basis, to evaluate the potential loss of its portfolio under extreme but plausible market conditions. Proper stress testing policies and procedures should also be established to clearly set out the stress testing methodology, frequency and the review and escalation mechanism.

As a benchmark, the underlying movement adopted by Clearing Houses under extreme but plausible market conditions is  $\pm 20\%$  for index options and  $\pm 22\%$  for stock options.

Further information on stress testing can be found in the [Annex](#).

#### **2. Credit Exposure Management - Monitoring of Position Limit and Late Payment Management**

- ***Lack of sufficient and effective monitoring and control on credit exposures***

Client limits (e.g. position limit, credit limit, trading limit and/or limits granted to DvP clients in stock trading to settle on T+2) are imposed by CPs on their clients for controlling their credit exposure. It was noted that while CPs had set up limits for their clients, had not implemented any system to monitor their clients’ positions against limits assigned to such clients and/or had allowed clients to transact based on their clients’ available funds instead. Policies and procedures in relation to the treatment of outstanding loan payments were also found to be

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<sup>3</sup> (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



inadequate where follow-up, escalation and provisioning / write-off of such loans were not clearly set out. It was also noted that client limits, once granted, were not subject to regular review.

CPs are reminded to implement appropriate and adequate monitoring arrangements in this regard, including but not limited to inputting the limits assigned to clients into the system for continuous monitoring. Failure to implement appropriate and adequate monitoring arrangements may result in regulatory breaches, which could be grounds for disciplinary actions.

### 3. Notification of Change in Operations and Risk Control Plan

- ***Failure to notify the Clearing Houses when there is a change in operations and risk control, including but not limited to changes arising from engaging in new business activities***

According to the admission material (Note 2 of Attachment 2 of the “[Explanatory Notes for applications for Participants and Trading Right](#)”) and the responsibilities set out under CCASS Rule 1703(iii), HKCC Rule 214(n) or SEOCH Rule 403(17), CPs are required to submit to the Clearing Houses any change in the details supplied to the respective Clearing Houses at the time of admission and thereafter including, among other things, updated risk and control documents when engaging in new business activities such as proprietary trading and margin financing.

### 4. Controls on Managing Defective Securities Risk associated with Deposit of Physical Certificates

- ***Absence of proper control measures that can effectively limit the risks or losses arising from defective securities***

CPs are responsible for defective securities they deposited into the CCASS Depository and their responsibilities are set out under Section 7.2.2 of CCASS Operational Procedures. Proper measures should be implemented on managing defective securities risk, which may include the following:

- (i) procedures in place to put on hold the shares from utilization (e.g. for settlement of short positions) until re-registration into the name of HKSCC Nominees Limited is completed (i.e. when the share registrar has confirmed the validity and good title of the participant's physical certificates);
- (ii) withhold the sales proceeds from its selling clients until completion of re-registration of the physical certificates; or
- (iii) other measure(s) to manage the risk involved in utilizing shares with immediate credit given before physical certificates are confirmed to be good and valid.

## 5. Control, Monitoring and Staff Training in relation to the Fulfillment of Settlement Obligations

- ***Inadequate monitoring and controls over Settlement Operations for ensuring the timely completion of steps essential to fulfill the settlement obligation of the Clearing Houses***

CPs should put in place adequate and comprehensive internal controls and procedures governing the settlement process; and all relevant officers should strictly follow the prescribed timeline to facilitate smooth operation, especially for backup or holiday covers. Examples of effective tools for settlement controls include: a checklist with maker-checker signoff over key settlement steps (with timelines clearly set out for each step); or a system dashboard to monitor the timeliness in completing each key settlement steps with automatic escalation / alerts. For each key settlement task, sufficient buffer time should be allocated between the internal completion timeline and the Clearing Houses' settlement timeline, in order to allow exception handling process (e.g. additional transfer of funds) to be completed before the Clearing Houses' settlement timeline.

CPs are advised that the review of funding sufficiency at market close should be based on the actual position data or settlement reports disseminated by Clearing Houses. By relying on internal position data (instead of Clearing Houses' date/report) during the funding forecast/arrangement process, CPs may fail to capture errors caused by internal system or manual process e.g. incorrect/incomplete positions net-down in HKCC/SEACH. This would lead to an incorrect forecast of the settlement amount and may result in payment failure.

CPs are also advised to strengthen its operational and funding backup arrangements, including but not limited to (1) holiday backup arrangement of settlement and accounting officers; (2) enabling money transfer through e-banking between house / client accounts and CPs' designated account for settlement and (3) setting up overdraft facilities to provide contingency funding (including non-HKD settlement currency, e.g. CNY for China Connect Participants).

CPs should keep abreast of circulars issued by the Clearing Houses and conduct regular reviews on their operation procedures to ensure compliance with the relevant rules and requirements at all times. Among other things, CPs should ensure that their settlement arrangements (including arrangements during holiday periods) comply with the latest requirements stipulated by the Clearing Houses.

CPs should ensure that their staffs (including their backup and holiday cover) have adequate and up-to-date knowledge on operational risk and control, payment obligations and the consequences of failure in meeting the obligations of the Clearing Houses. CPs should arrange for staff to attend training courses, such as the one mentioned in the circular [“Training course jointly organized by HKEX and HKSI Institute”](#) issued by the Clearing Houses on 31 December 2018 (Ref. No. CD/CDCRM/243/2018) and make reference to circulars such as [“Reminder on Payment Obligations of Clearing Participants”](#) issued by the Clearing Houses on 7 February 2020 (Ref. No. [CD/CDCRM/034/2020](#), [CD/CDCRM/035/2020](#) and [CD/CDCRM/036/2020](#)) to enhance the staff's awareness on payment obligations of the Clearing Houses.

## 6. Risk Governance, Operational Capability and Risk Culture

- ***Inadequate control in relation to risk management governance***

A proper risk governance framework usually involves establishment of a risk management committee for exercising senior management oversight over key risk areas. In some instances, CPs did not keep proper meeting records/reports to show that a committee meeting has been conducted or the focus items discussed by senior management at the meeting.

CPs should establish a proper risk governance framework (e.g. by setting up a risk management committee with regular meetings) and maintain documentation to demonstrate senior management's oversight of issues and to keep track of their discussion and monitoring over key risk areas, in particular, on the treatment of credit risk, concentration risk and monitoring of sufficiency of liquid capital.

CPs should also establish detailed policies and procedures to effectively manage the key risks. In this connection, the Appendix 2 of the ["Explanatory Notes for Application for Participantship and Trading Right"](#) can serve as a reference of the Clearing House's latest expectation on a CP's risk management practices.

## 7. Business Continuity Plan and Contingency Funding Arrangement

- ***Inadequate arrangement in place to ensure its fulfillment of the Clearing Houses' settlement obligations under contingent situation***

To cope with disruptions that may impair CPs' ability to meet settlement obligations with the Clearing Houses, CPs should develop and maintain a business continuity plan, which should clearly set out the actions that the firm would take during contingent scenarios.

**Appendix 3**

**Compliance Reminder on China Connect Rules**

*(Applicable to China Connect Exchange Participants and Trade-through Exchange Participants only)*

China Connect Exchange Participants (“CCEPs”) and Trade-through Exchange Participants (“TTEPs”) are required to comply at all times with the relevant rules and regulations regarding to the trading of China Connect Securities as stipulated in the Rules of the Exchange (“SEHK Rules”), including but not limited to Chapters 5, 14, 14A and 14B.

In the 2019 Annual Attestation and Inspection Programme, some CCEPs and TTEPs were found deficient in the following areas:-

**1. Broker-to-Client Assigned Number (BCAN)**

- ***Failure to obtain client written consents.*** We noted that some CCEPs only issued one-way notification but did not obtain written consents from each individual client regarding the collection, storage, use, disclosure and transfer of personal data in relation to its clients.
- ***Failure to properly assign BCANs.*** We noted that some CCEPs assigned different BCANs to the same client holding multiple accounts and provided inaccurate client information in the BCAN-CID Mapping File.
- ***Insufficient controls / arrangements to ensure that BCANs are kept confidential.*** We noted that some CCEPs displayed the BCANs in some internal systems and failed to ensure that the use of and accessibility to BCANs are strictly restricted to a need-to-know basis.

CCEPs and TTEPs are reminded to observe and comply with SEHK Rule 1425A and paragraphs 4, 21 and 22 of the Northbound Investor ID Model FAQ<sup>4</sup>. To these ends, CCEPs and TTEPs should put in reasonable and effective controls / arrangements to obtain the necessary client approval / consent for handling and transferring of clients’ confidential information, assign unique BCAN to each client and keep BCANs strictly confidential.

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<sup>4</sup> <https://www.hkex.com.hk/-/media/HKEX-Market/Mutual-Market/Stock-Connect/Reference-Materials/Northbound-Investor-ID-Model/NB-Investor-ID-FAQ-Eng.pdf?la=en>

## 2. Client Agreement and Risk Disclosure

- ***Insufficient provisions in client agreements or other account opening documents to ensure clients acknowledged and are aware of the differences in the restrictions, requirements, conditions and risk associated with Northbound trading of China Connect Securities, as well as the scope of services available to clients.***
- ***Failure to communicate clearly the scope of services provided to the clients.*** We noted that some CCEPs included in the client agreement certain provisions and clauses related to services which they did not provide to the clients.

To comply with the requirements under SEHK Rules 14A10, 14B10 and 14B06(16) to (18), and 1.26 and 1.53 of the FAQ, CCEPs and TTEPs should include in the client agreement sufficient provisions covering Northbound trading of China Connect Securities including the risks involved, and clearly communicate the scope of services provided to the clients.

## 3. Pre-trade Controls and Post-trade Monitoring

- ***Lack of effective and sufficient pre-trade controls and post-trade monitoring on their Northbound trading activities.***

CCEPs and TTEPs are reminded to observe and comply with SEHK Rules 14A06(4), 14B06(5), 14A06(9)-(10), 14B06(11)-(12), 14A17, 14B17, 1421(2), 1428(1), 1432 and 1433 in particular. To these ends, CCEPs and TTEPs should put in place reasonable and necessary controls that can effectively prevent day trading, overselling of sellable inventory positions, misflagging of short selling orders and mischievous behavior towards the use of the Northbound quota and ensure compliance with all applicable laws with regard to the Northbound trading of China Connect Securities including but not limited to laws and regulations prohibiting insider dealing, market manipulation, price rigging, false trading or the creation of a false or misleading appearance of active trading on any China Connect Securities.

## 4. Margin Trading

- ***Providing funds or securities margin financing arrangement to their clients on a portfolio basis.*** We noted that some CCEPs provided securities margin financing arrangement to their clients, by reference to the aggregated collateral values of all securities held in their portfolio, to purchase securities including China Connect Securities which may **not** be confined to those included in the List of Eligible SSE/SZSE Securities for Margin Trading.

Under SEHK Rules 14A15 and 14B15, CCEPs and TTEPs shall ensure that Margin Trading is confined to those China Connect Securities that are included in the List of Eligible SSE/SZSE Securities for Margin Trading published by the Exchange from time to time.

## 5. Trading of ChiNext Shares

- **Failure to put in place adequate controls to ensure that only Institutional Professional Investors (“IPIs”) are allowed to buy ChiNext shares.** In particular, we noted that some CCEPs failed to conduct (i) regular review on the IPI status of their clients, and/or (ii) regular and appropriate post trade review which covers all clients including the underlying clients of intermediary clients.

The Exchange is of the view that effective controls on pre-trade and post-trade level are essential to ensure compliance with the investor eligibility requirement for trading in ChiNext shares under SEHK Rules 14B06(16) to (18).

## 6. Off-exchange Trades or Transfers

- **Inadequate policies, procedures and controls to ensure that off-exchange trades or transfers are prohibited.** In particular, we noted that some CCEPs failed to establish written policies and procedures in relation to handling of off-exchange trades or transfers for the purposes prescribed under SEHK Rules 14A12 and 14B12.

To comply with the requirements under SEHK Rules 14A12 and 14B12, CCEPs and TTEPs shall put in place adequate controls to prevent or detect non-trade transfers or to handle those permitted under SEHK Rules 14A12(2) and 14B12(2).

## 7. Policies and Procedures

- **Inadequate and lack of regular review on policies and procedures.** We noted that the written policies and procedures of some CCEPs contained inadequate details and guidance relating to trade monitoring, margin trading, shareholding monitoring and non-trade transfer.

The Exchange wishes to remind CCEPs that adequate policies and procedures should be established to ensure ongoing compliance with the relevant rules and requirements. Regular review and revision should also be conducted to ensure they are consistent, effective and up-to-date.

## 8. Staff Training

- **Inadequate staff training.** Some CCEPs did not provide adequate and product-specific training for staff involved in the business activity in the Priority Areas, and merely relied on on-the-job training through sharing and coaching by senior staff members.

To foster a culture of compliance, the Exchange wishes to remind CCEPs that they should provide staff with adequate and appropriate training both initially and on an ongoing basis.