

**Appendix 1**

**Compliance Reminder on Manual Trade**  
*(Applicable to SEHK Participants only)*

Under Chapter 5 of the Rules of the Exchange (“**SEHK Rules**”), Exchange Participants (“**EPs**”) should observe the general principles of the relevant rules and establish controls and processes to ensure that (i) manual trades are reported accurately and timely to the Exchange and (ii) the price of manual trades concluded during the Continuous Trading Session (“**CTS**”) are within the prescribed price range.

In the 2021 Annual Attestation and Inspection Programme, some EPs were found to be deficient in the following areas:-

**1. Reporting of Manual Trades**

- ***Failure to report the manual trades to the Exchange within the prescribed timeframe due to misunderstanding of the requirements.***
- ***Misunderstanding regarding the term “conclusion of the transactions”***

The time a transaction is concluded is misunderstood as the time when the trade is reported to the Exchange. Generally speaking, it should instead refer to the point of time at which the trade details are confirmed (either through oral or written confirmation) between the buying and selling parties.

- ***Inadequate controls / arrangements to ensure all manual trades are reported accurately and timely to the Exchange***

Some EPs mistakenly believed that no control is required due to the limited trading size and volume.

EPs are reminded to observe and comply with SEHK Rules 520(1) to (3), and 526(1) to (2).

EPs are also reminded that they are required to report the manual trades to the Exchange within the prescribed timeframe. Specifically,

- Within 15 minutes after the conclusion of the transactions in respect of direct and non-direct business transactions; and
- Within 1 minute after the conclusion of the transactions in respect of direct business transactions which are ATS transactions.

In any event, the reporting should be made not later than the timeframe as stipulated in the relevant rules.

## 2. Post-trade Review of Reported Manual Trades

- ***Lack of post-trade review for the purpose of timely identification of errors and/or non-compliance incidents in relation to manual trade reporting***
  - (i) Some EPs failed to put in place appropriate post-trade review to review both sales and purchase journals at the end of each trading session.
  - (ii) Some EPs only conducted post-trade review to check on accuracy of the transaction details, but failed to cover the trade reporting time to ensure they were reported within the prescribed timeframe.

Under Rule 528(1) of the SEHK Rules, EPs are required to review both sales and purchase journals at the end of each trading session, and to report any discrepancy, erroneous transaction or compliant to the Exchange not later than 15 minutes after commencement of the Morning Session of the next trading day.

## 3. Policies and Procedures

- ***Inadequate policies and procedures and lack of regular reviews***
  - (i) ***Manual Trade Reporting requirements.*** Some EPs failed to incorporate applicable manual trade reporting requirements in their written policies and procedures for the purpose of ensuring compliance with the relevant rules. For example, we noted that some of them did not:
    - clearly define the time of conclusion;
    - clearly specify the manual trade reporting timeframe; and
    - establish clear procedures on manual trade reporting.
  - (ii) ***Review of Sales and Purchase journal and Error Reporting.*** Some EPs failed to establish written policies and procedures in relation to (i) the review of transaction details and/or (ii) error reporting handling for the purpose of ensuring the compliance with SEHK Rules 523 and 528(1).

Non-comprehensive policies and procedures may pose compliance risk as well as operational risk on the EPs. The Exchange wishes to remind EPs of the need to establish and maintain comprehensive policies and procedures to ensure compliance with all relevant rules and requirements. Regular review and revision should also be conducted to ensure they are consistent, effective and up-to-date.

#### 4. Staff Training

- ***Inadequate staff training.*** Some EPs did not provide adequate and product-specific training for their staffs involved in the business activities of 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 EPs that they should provide staff with adequate and appropriate training both initially and on an on-going basis.