



2024
ANNUAL ATTESTATION &
INSPECTION PROGRAMME

OPERATIONS
MARKET SURVEILLANCE & MONITORING

HKEX
香港交易所

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Agenda

01 | Overview of HKEX Rule Enforcement Framework

02 | 2024 Priority Areas

- i. | Hong Kong Investor Identification Regime (HKIDR)
- ii. | China Connect Rules
- iii. | Risk Management



Overview of HKEX Rule Enforcement Framework



HKEX Rule Enforcement – Key Principles

Prevention

- Enhance industry understanding of HKEX Rules through:
 - ✓ Briefing sessions
 - ✓ Compliance Bulletin
 - ✓ Circulars, FAQs, guidance notes and reminders
 - ✓ Compliance sharing

Detection

- Identify non-compliance through daily monitoring and self-reporting by Exchange Participants / Clearing Participants
- Introduced **Annual Attestation and Inspection Programme** (since 2017):
 - ✓ Self-attestation of compliance with HKEX Rules
 - ✓ Onsite inspection
 - ✓ Thematic review

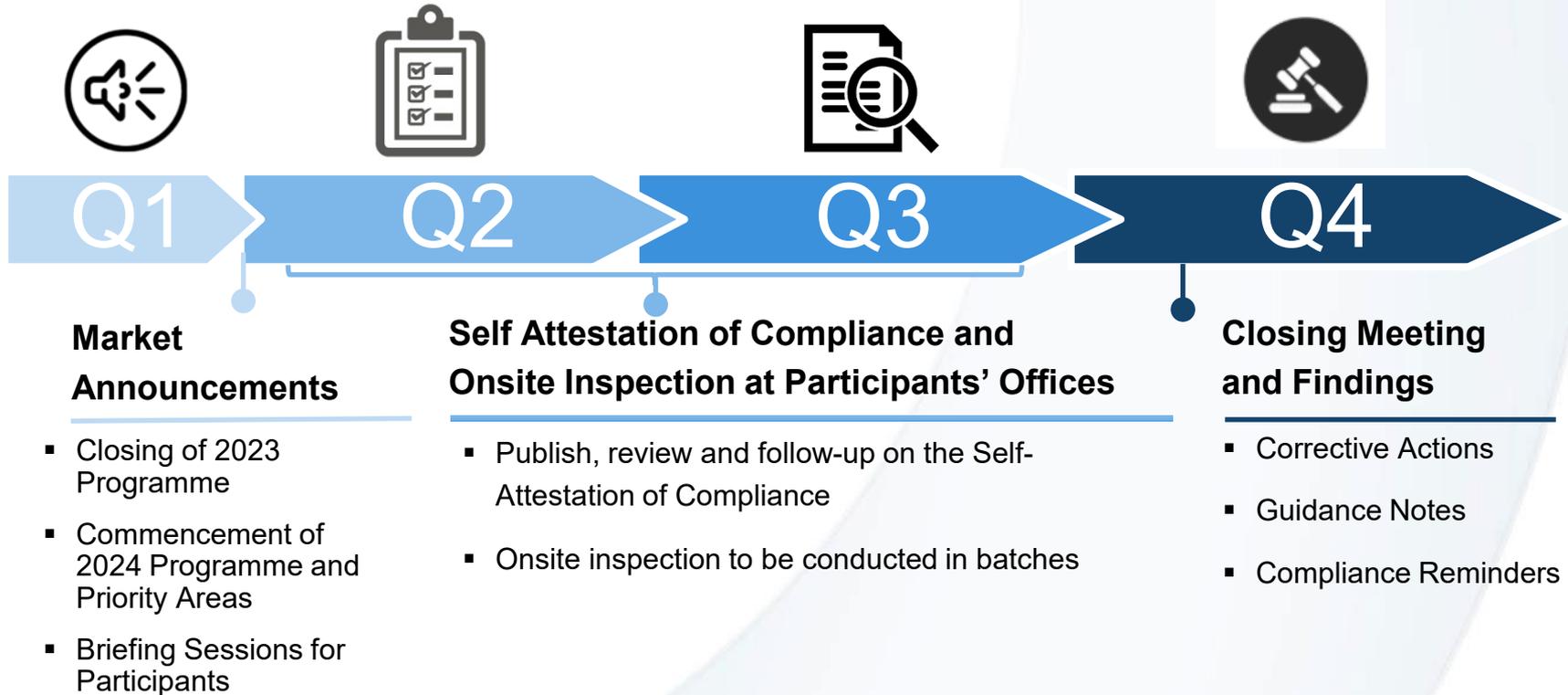
Correction

- Pursue corrective actions, depending on seriousness of breaches and violations:
 - ✓ Rectification measures
 - ✓ Standard Penalties
 - ✓ Disciplinary Proceedings



Annual Attestation and Inspection Programme

Timeline



Annual Attestation and Inspection Programme

Self-Attestation of Compliance

- Apply to **all Exchange Participants¹ and Clearing Participants²**
- Perform self assessment on compliance with relevant HKEX Rules
- Complete **Self-Attestation Questionnaire** prescribed by HKEX
- Submit the Questionnaire, along with any supporting documentation, via the **Electronic Communication Platform (“ECP 2.0”)**

Onsite Inspection

- Apply to **selected Exchange / Clearing Participants** based on risk assessment
- A more detailed evaluation of Exchange / Clearing Participants’ compliance with the relevant HKEX Rules
- Inspectors will conduct **Onsite Inspection** at the participants’ premises

¹ Exchange Participants of The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited (the “EPs”)

² (i) Clearing Participants and General Clearing Participants of HKFE Clearing Corporation Limited, (ii) Direct Clearing Participants, General Clearing Participants and Custodian Participants of Hong Kong Securities Clearing Company Limited, and (iii) Direct Clearing Participants and General Clearing Participants of The SEHK Options Clearing House (the “CPs”)



Onsite Inspection

Pre-Inspection Information Request

(4 weeks for participant to prepare and submit)

- Documents and records that can demonstrate compliance of the relevant rules should be submitted to the HKEX Inspectors prior to the onsite inspection meeting
- These documents and records can be:
 - ✓ Policies, guidelines, manuals and procedures
 - ✓ Workflow / System flow
 - ✓ Internal training materials and related records
 - ✓ Other relevant documents

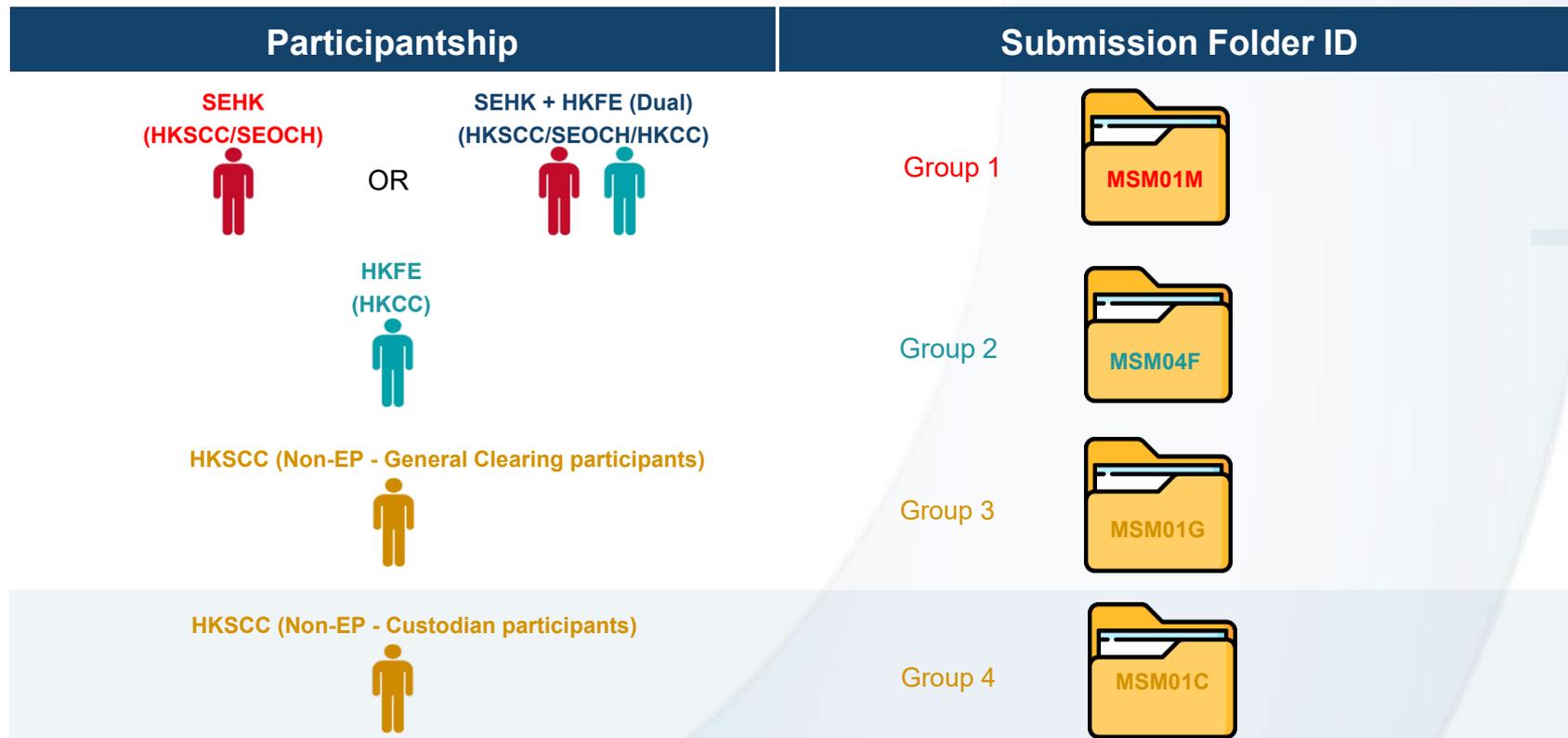
During Onsite Inspection

(<2 days)

- In general, the following staffs should participate in the onsite inspection meeting with the HKEX Inspectors:
 - ✓ Responsible Officers
 - ✓ Senior management with oversight of the relevant Priority Areas
(e.g. Head of Operations, Head of Compliance, Head of Risk Management, business heads etc.)
 - ✓ Experienced staff of the responsible areas
- Staff attending the meeting will be expected to describe their policy and procedures, walk through workflow / system flow, explain internal controls and processes, and answer any queries from the HKEX Inspectors



Submission of Self-Attestation of Compliance via “ECP 2.0”



Link to “ECP 2.0”: <https://ecp2.hkex.com.hk/>

“ECP 2.0” User Support Teams: Please refer to <https://www.hkex.com.hk/-/media/HKEX-Market/Services/Trading/Securities/Stamp-Duty-Reporting-and-Payment/ECP-and-Docummentation/ECP-User-Guide/ECP2-Application-Form.pdf>

“ECP 2.0” User Guide: https://www.hkex.com.hk/-/media/HKEX-Market/Services/Trading/Securities/Stamp-Duty-Reporting-and-Payment/ECP-and-Docummentation/ECP-User-Guide/ECP2_frontend_userguide.pdf



Reminders on Attestation Submission

Participants should:

- Complete and submit on or before the submission deadline (Participant who does not engage in the priority areas is **still** required to complete and submit the questionnaire)
- Complete and submit in editable form (**Do not** modify the questionnaire or submit a scanned copy of the questionnaire) - *Adobe Acrobat is recommended*
- Submit together with any supplementary information as **one file** in ".zip" format (**No** other zip file and **No** multi-level folders within the zip file) – *WinZip is recommended*
- Limit your zip file to **100MB max**
- Note the zip file naming convention:
 - (a) Group 1 (SEHK, HKSCC and SEOCH participants) - MSM01**M**_XXXXX_YYYYMMDD.zip; or
 - (b) Group 2 (HKFE and HKCC participants) - MSM04**F**_XXXXX_YYYYMMDD.zip; or
 - (c) Group 3 (General Clearing participants) - MSM01**G**_XXXXX_YYYYMMDD.zip; or
 - (d) Group 4 (Custodian participants) - MSM01**C**_XXXXX_YYYYMMDD.zip
- Make sure the submitted questionnaire is **complete, true and accurate**



Reminders on Attestation Submission

The 2024 Self-Attestation of Compliance Questionnaire will be ...

- Announced via Participant Circular
- Published on [HKEX Rule Enforcement website](#)
- Embedded with data validation function

Action Now

- ✓ Subscribe to [HKEX News Alert](#)
- ✓ Make sure your “ECP 2.0” account is in *active* status



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<input type="checkbox"/>	4. Updates to the Rules of the Clearing Houses
<input type="checkbox"/>	5. Research Materials
<input checked="" type="checkbox"/>	6. Participant Circulares - The Stock Exchange of Hong Kong Limited (SEHK)
<input checked="" type="checkbox"/>	7. Participant Circulares - Hong Kong Securities Clearing Company Limited (HKSCC)
<input checked="" type="checkbox"/>	8. Participant Circulares - Hong Kong Futures Exchange Limited (HKFE)
<input checked="" type="checkbox"/>	9. Participant Circulares - HKFE Clearing Corporation Limited (HKCC)
<input checked="" type="checkbox"/>	10. Participant Circulares - The SEHK Options Clearing House Limited (SEOCH)
<input type="checkbox"/>	11. Member Circulares - OTC Clearing Hong Kong Limited (OTC Clear)

Update

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**WELCOME TO THE ELECTRONIC
COMMUNICATION PLATFORM
(ECP)**

Log on to the ECP through the following Authentication Systems:

HKEX Access Management Portal

SFC WINDS⁽¹⁾

(1) For SFC-licensed corporations and registered institutions

By logging into this website via HKEX Access Management Portal or the SFC's WINDS platform, you are deemed to have read and accepted the Terms and Conditions of Electronic Communication Platform, which have been confirmed that the individual's online personal data is processed in the use of this application consistent to the processing of their personal data in accordance with the privacy policy statement as incorporated and supplemented in the Terms and Conditions.

Unauthorized access and use are prohibited. HKEX reserves the right to take actions against offenders.

2024 Priority Areas



General Observations

Policies and Procedures

Common Deficiencies

- Summarized applicable rules and regulations, but lacked details on controls to ensure compliance
- Inadequate coverage in policies and procedures; some procedures set out details on part but not all of the controls / systems / order placing channels
- No regular review and revision

Compliance Reminder

- Comprehensive policies and procedures should be established to ensure ongoing compliance with the relevant rules and requirements
- Regular review and revision should be conducted to ensure they are consistent, effective and up-to-date

Training

Common Deficiencies

- Lack of adequate and product-specific training for responsible staff involved in the priority areas, both initially and on an ongoing basis
- Some merely relied on on-the-job training through sharing and coaching by senior staff members

Compliance Reminder

- To foster a culture of compliance, EPs should provide adequate and appropriate training to all its responsible staff, both initially and on an ongoing basis





2024 Priority Areas

Hong Kong Investor Identification Regime



Hong Kong Investor Identification Regime

List of Enforcement Focus

SEHK Rule 538A - Investor Identification

- BCAN-CID Mapping File Submission Requirement (*SEHK Rules 538A(3) and 538A(4)*)
- Accurate and Up-to-date Information in the BCAN-CID Mapping File (*SEHK Rule 538A(5)*)
- No change or Re-use of BCAN (*SEHK Rule 538A(5)*)
- Reporting of BCAN Change (*SEHK Rule 538A(5)*)
- Reporting of Off-Exchange Trade BCAN (Buy-Side) (*SEHK Rule 538A(6)(c)*)
- Aggregated Orders Tagging and Reporting (*SEHK Rule 538A(6)(d)*)
- BCAN Tagging (*SEHK Rule 538A(6)(f)*)
- Reporting of BCAN Error (*SEHK 538A(7)(a)*)
- Client Consent (*SEHK Rule 538A(8) and 538A(9)*)
- BCAN Confidentiality (*Information Paper¹ paragraph 14*)



¹ Information Paper on HKIDR (“Information Paper”) could be located on [HKEX website](#).

Hong Kong Investor Identification Regime

BCAN-CID Mapping File Submission Requirement

Key Information

- Submit the BCAN-CID Mapping File on or before the T-1 day unless it is a new client whose trading account is opened on T day, or the client's trading account has been inactive for at least 24 months since the last trade

(SEHK Rules 538A(3) & 538A(4))

Compliance Reminder

❌ Deficiencies Noted

- Orders tagged with BCANs that are not included in the BCAN-CID Mapping File submitted on or before the **T-1 day** due to system or process issues

✅ Good Practices

- Perform review on BCAN-CID Response File, BCAN-CID Validation Result File, and BCAN Full Image File to ensure the BCAN-CID Mapping File is successfully submitted and processed
- Adopt controls to prevent orders tagged with BCANs that are not included in the BCAN-CID Mapping File submitted on or before the T-1 day for trading accounts, which are neither new nor dormant on T day



Hong Kong Investor Identification Regime

Accuracy and up-to-date information in the BCAN-CID Mapping File

Key Information

- BCAN-CID Mapping File should be accurate and up-to-date
(*SEHK Rule 538A(5)*)
- Submit BCAN-CID Mapping file whenever there is any update or changes
(*SEHK Rule 538A(5)*)
- BCAN standard format is a code consisting of a number not exceeding 10 digits
(*Information Paper paragraph 13 &17*)
- BCAN client type “5” for Proprietary Trading used by a RRI¹ for its **own** account only
(*FAQ² B10 & B11*)
- BCAN client type “6” for Legal entity - Others
(*FAQ B11*)

Compliance Reminder

✘ Deficiencies Noted

- Failed to upload a complete and accurate BCAN-CID Mapping File on or before T-1 day for existing clients with consent provided
- Bulk deletion of BCAN records in the BCAN-CID Mapping File due to internal technical issues or processing errors, and overlook of the submission deadline
- Failed to strictly follow clients’ CID during the BCAN-CID Mapping compilation process

✔ Good Practices

- Obtain accurate and sufficient client information for assigning BCAN and compiling BCAN-CID Mapping File
- Perform regular checks on all data in the BCAN-CID Mapping File, especially when there are changes (e.g. addition / deletion / amendment) and timely reconciliation between internal system records and the BCAN-CID mapping file



¹ “RRI” means a relevant licensed or registered person as defined in paragraph 5.6(b)(xiv) of the SFC Code of Conduct, whether or not it is an Exchange Participant.

² FAQ on HKIDR File Submission and Order Tagging (“FAQ”) could be located on [HKEX website](#).

Hong Kong Investor Identification Regime

No change or Re-use of BCAN and Reporting of BCAN Change

Key Information

- Assigned BCAN cannot be changed or re-used
(*SEHK Rule 538A(5)*)
- In exceptional cases where modification of BCAN assigned to a client is necessary, report such amendment of BCAN assignment to the Exchange and the reasons for such amendment, with submission of *<BCAN Change Report>*
(*SEHK Rule 538A(5) and FAQ C1*)

Compliance Reminder

❌ Deficiencies Noted

- Failed to submit the *<BCAN Change Report>* to the Exchange after changing the BCAN of a client in the BCAN-CID Mapping File

✅ Good Practices

- Provide adequate and regular training to responsible staff
- Implement maker-checker mechanism to detect human errors
- Use the *<BCAN Change Report>* template¹ with format validation and make sure the trade details submitted are accurate



¹ Reporting Form Templates are available on [HKEX website](https://www.hkex.com.hk).

Hong Kong Investor Identification Regime

Reporting on Off-Exchange Trade BCAN (Buy-Side)

Key Information

- Within 15 minutes after the selling EP input the details of a sale transaction or within 30 minutes after the conclusion of the transaction (whichever is later), before the market close, the buying EP shall input (i) the CE number of the RRI which assigned the BCAN and (ii) the BCAN for the buy side

(SEHK Rule 538A(6)(c))

- *<Off-exchange Trade BCAN (Buy-side) Report>* shall be submitted to the Exchange if the buying EP fails to input CE number or BCAN before market close

(SEHK Rule 538A(6)(c) and FAQ C1)

Compliance Reminder

❌ Deficiencies Noted

- Failed to provide BCAN of the buy side clients within the prescribed timeframe
- Failed to submit the *<Off-exchange Trade BCAN (Buy-side) Report>* to SEHK via ECP

✅ Good Practices

- Adopting system controls to ensure timely input of buy-side BCAN
- Use the *<Off-exchange Trade BCAN (Buy-side) Report>* template with format validation and make sure the trade details submitted are accurate



Hong Kong Investor Identification Regime

Aggregated Orders Tagging and Reporting

Key Information

- Submit *<Aggregated Transaction Report>* to report each order underlying an executed aggregated order (on-exchange or off-exchange) in the prescribed form on or before T+3 day (*SEHK Rule 538A(6)(d) and FAQ C1*)
- Tag specific reserved BCAN value to the order submitted to the Exchange (*SEHK Rule 538A(6)(d)*)
- Only report the portion of the order that has been executed for partially executed aggregated order (*SEHK Rule 538A(6)(d)*)

Compliance Reminder

❌ Deficiencies Noted

- Correctly tagged the aggregated orders with the reserved value “2” but failed to report the BCANs of each underlying order by the prescribed timeframe
- Failed to file the *<Aggregated Transaction Report>* for the aggregated order, or the reported quantity did not match

✅ Good Practice

- Use the *<Aggregated Transaction Report>* template with format validation and make sure the trade details submitted are accurate



Hong Kong Investor Identification Regime

BCAN Tagging and Reporting of BCAN Error

Key Information

- Tag correct and valid BCAN or specific reserved BCAN values to on-exchange orders or off-exchange trades

(SEHK Rule 538A(6)(f))

- Promptly cancel any order tagged with an incorrect BCAN. If such order has been matched, then report any correction of BCAN to the Exchange

(SEHK Rule 538A(7)(a))

Compliance Reminder

✘ Deficiencies Noted

- Human errors when processing high-touch orders e.g. wrong trading account selection when placing the order
- Incorrectly tagged the BCAN of an intermediary RRI instead of passing on the BCAN tagged by the intermediary RRI for the client when the orders were routed through multiple RRIs
- Failed to follow the specified format when completing the *<BCAN Error Report>*
- BCAN tagged to an order/trade was being unknowingly overridden by a reserved value due to wrong system logic deployed by the vendor

✔ Good Practices

- Perform regular checks to identify and rectify any incorrect BCAN tagging as soon as possible
- Conduct proper and thorough testing before launch of any new system, system migration or enhancement
- Implement regular control measure such as reconciliation to ensure BCAN tagging generated by third party vendor system are accurate and up-to-date before submitted to the Exchange



Hong Kong Investor Identification Regime

Client Consent and BCAN Confidentiality

Key Information

Client Consent

- All necessary authorizations and written or other express consents (“**Consent**”) are obtained from each individual client
(SEHK Rule 538A(8))
- EP shall only execute sell orders in respect of existing holdings of securities for the client, with tagged specific reserved BCAN value for individual client who refuses to provide the Consent
(SEHK Rule 538A(9))

BCAN Confidentiality

- BCAN should be kept strictly confidential and only accessible on a need-to-know basis
(Information Paper paragraph 14)

Compliance Reminder

❌ Deficiencies Noted

- No checking conducted to confirm Consent has been obtained from the relevant client before buy order was placed due to staff oversight

✅ Good Practices

- Provide proper training to relevant staff in relation to seek appropriate Consent
- Maker-checker mechanism to ensure that BCANs are only assigned to individual clients with Consent obtained
- System controls to reject buy orders from individual clients without Consent
- BCAN access is only granted to relevant parties under the need-to-know basis
- Hide the BCAN data by only showing a mask code “*****” instead of actual BCAN data in the internal systems

Hong Kong Investor Identification Regime

BCAN Assignment

– detailed requirements specified in the *SFC Code of Conduct*¹ paragraph 5.6

Relevant Information	Salient Points to Note
<p data-bbox="175 364 830 399">Paragraph 5.6 of the SFC Code of Conduct</p> <p data-bbox="175 459 542 494"><u>Other HKEX Publication</u></p> <ul data-bbox="175 514 836 661" style="list-style-type: none"><li data-bbox="175 514 836 585">• Information Paper paragraphs 2, 10, 13, 15, 18 & 19<li data-bbox="175 628 481 661">• FAQ B7, B10 & G1	<ul data-bbox="890 339 1785 500" style="list-style-type: none"><li data-bbox="890 339 1785 410">✘ EP RRI assigned a BCAN to its intermediary client which is also a RRI<li data-bbox="890 432 1785 500">✘ EP RRI failed to assign BCAN to itself for its proprietary trading <p data-bbox="890 549 1170 584">✓ Good Practices</p> <ul data-bbox="900 601 1785 930" style="list-style-type: none"><li data-bbox="900 601 1785 636">▪ Provide adequate and regular training to responsible staff<li data-bbox="900 650 1785 721">▪ Obtain sufficient client information for BCAN assignment and BCAN-CID Mapping File compilation<li data-bbox="900 736 1785 841">▪ Adopt automation to minimize manual processes and implement maker-checker mechanism to detect human errors<li data-bbox="900 856 1785 930">▪ Conduct proper and thorough testing before launch of any new system, system migration or enhancement



¹ SFC Code of Conduct refers to the “SFC Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission” which could be located on [SFC website](#).

Q & A Session





2024 Priority Areas

China Connect Rules



China Connect Rules

List of Enforcement Focus

1. **Broker-to-Client Assigned Number** (SEHK Rule 1425A)
 - BCAN Assignment
 - Accuracy of BCAN-CID Mapping File
 - BCAN Tagging
 - BCAN Confidentiality
 - Client Consent
2. **Investor eligibility requirement for trading of STAR shares and ChiNext shares** (SEHK Rules 14A06(13)-(15), 14B06(16)-(18))
3. **Trade Through Exchange Participant** (SEHK Rule 590)
4. **Margin trading confined to Eligible SSE / SZSE Securities for Margin Trading** (SEHK Rule 14A15 & Rule 14B15)
5. **Client agreement and risk disclosure** (SEHK Rule 14A10 & Rule 14B10)
6. **Odd lots** (SEHK Rule 14A06(3) & 14B06(4))
7. **Pre-trade checking and post-trade monitoring** (SEHK Rules 14A06(4), 14B06(5), 14A06(9)-(10), 14B06(11)-(12), 14A17, 14B17, 1421(2), 1428(1), 1432 & 1433)
8. **Foreign investors shareholding limit** (SEHK Rule 14A08 & Rule 14B08)
9. **5% shareholding disclosure requirement** (SEHK Rule 14A09 & Rule 14B09)
10. **Quota hogging** (SEHK Rule 1428(1))
11. **Turnaround trading** (not allowed under SEHK Rule 14A06(4) & Rule 14B06(5))
12. **Off-Exchange trades or transfers prohibited** (SEHK Rule 14A12 & 14B12)
13. **Stock borrowing and lending** (SEHK Rule 14A16 & Rule 14B16)
14. **Naked short selling** (not allowed under SEHK Rule 14A17 & Rule 14B17)

China Connect Rules - BCAN Requirements

BCAN Assignment

Key Information

- One BCAN for one client
(SEHK Rule 1425A(1)(a), FAQ¹ 3 and 4)
- A separate BCAN for a client's joint account
(SEHK Rule 1425A(1)(b) and FAQ 18)
- Assign BCAN to affiliate's clients
(SEHK Rule 1425A(1)(d) and FAQ 6)
- Assigned BCAN cannot be changed or re-used
(SEHK Rule 1425A(1)(e) and FAQ 4)
- Assign BCAN to fund manager / fund per account opening arrangement
(FAQ 11)
- Set aside BCAN ranges for each TTEP
(FAQ 19)

Compliance Reminder

❌ Common Deficiencies

- Multiple BCANs assigned to same client due to rule misinterpretation, system limitation and deficiencies in handling client with multiple accounts, or clerical mistakes in manual process
- BCAN not assigned to affiliate's clients
- Changed BCAN without the Exchange's prior approval
- Assigned BCAN to fund manager / fund not according to the account opening arrangement
- Single BCAN assigned to a TTEP instead of a BCAN range

✅ Good practices observed

- Perform regular check on BCAN-CID Response File, BCAN-CID Validation Result File, BCAN Full image File
- Provide adequate and regular training to responsible staff
- Obtain sufficient client information for BCAN assignment and BCAN-CID Mapping File compilation
- Adopt automation to minimize manual processes and implement maker-checker mechanism to detect human errors
- Conduct proper and thorough testing before launch of any new system, system migration or enhancement



China Connect Rules - BCAN Requirements

Accuracy of BCAN-CID Mapping File

Key Information

- BCAN-CID Mapping File should be accurate and up to date (*SEHK Rule 1425A(3) and FAQ 7*)
- BCAN client type “3” for a fund (*FAQ 11 and BCAN-CID Mapping File Example¹*)
- BCAN client type “4” for a fund manager or other legal entity (*FAQ 11 and BCAN-CID Mapping File Example*)
- BCAN client type “5” for proprietary or principal trading of the CCEP/TTEP and/or its affiliate(s) (*FAQ 19 and BCAN-CID Mapping File Example*)
- CCEPs/TTEPs should remove relevant BCAN-CID mapping data from the BCAN-CID Mapping File the day before the effective date of resignation or cessation (*System File Interface Specification 2.1.1²*)
- The information (e.g. name and ID number) in the BCAN-CID mapping data submitted must be exactly the same as in the official identity document (*System File Interface Specification 2.1.1²*)

Compliance Reminder

✘ Common Deficiencies

- Used incorrect BCAN client type (e.g., type 3 for fund manager, type 4 for fund and type 5 for non-affiliated client, etc.)
- Failed to correctly reflect changes to clients' CIDs
- Incorrect input of client's information / not inputted exactly as per the clients' official identity documents
- Incorrect input of data in the designated fields
- Wrong inclusion of test / obsolete data
- Lack of adequate control over data accuracy regarding BCAN assigned by its affiliate to underlying clients³
- Failure to remove BCANs (upload blank file) upon resignation or cessation of business
- Submitted a new BCAN registration with “CHN” as the country/ region of issuance

✔ Good practices observed

- Obtain accurate and sufficient client information for BCAN assignment and compiling BCAN-CID Mapping File
- Perform regular checks on all data in the BCAN-CID Mapping File, including but not limited to changes (e.g. addition/deletion/amendment) and timely reconciliation between internal system records and the BCAN-CID mapping file and/or request affiliate to perform regular review to ensure BCAN-CID Mapping File remains up-to-date and accurate
- Send BCAN client type change request to OTPC@hkex.com.hk



¹ Detailed examples are set out in “[BCAN-CID Mapping File Data Record Examples](#)”

² The “Northbound Trading Investor ID Model - System File Interface Specification” could be located on [HKEX Website](#).

³ Please note that how CCEP's and TTEP's affiliates collect or record investor's name is irrelevant to the Northbound BCAN requirements. The information (e.g. name and ID number) provided in the BCAN-CID mapping file must be exactly the same as in the official identity document.

China Connect Rules - BCAN Requirements

Accuracy of BCAN-CID Mapping File

Examples of errors noted in the BCAN-CID Mapping File are set out below:

A. BCAN Client type

Scenario	Wrong Client Type Assigned	Correct Client Type
House accounts of non-affiliated clients	5	4
House accounts of <ul style="list-style-type: none"> ▪ CCEP ▪ TTEP ▪ CCEP's affiliates ▪ TTEP's affiliates 	4	5 (Note 1)
Fund Manager ^(Note 2)	3	4
Fund ^(Note 2)	4	3
Joint account ^(Note 3)	1	2

Note 1: BCAN for the house account should be within the BCAN range designated by its executing CCEP

Note 2: BCAN should be assigned to fund manager or individual funds in accordance with the account opening arrangement

Note 3: In addition to wrong client type assignment, the joint account was incorrectly submitted as one entry in the BCAN-CID mapping file



China Connect Rules - BCAN Requirements

Accuracy of BCAN-CID Mapping File

B. Client Identification Data

- Failure to strictly follow clients' CID during the compilation process, resulting in:

i) Incorrect/ Incomplete input of client's name

Scenario	Wrong input	Correct input
<ul style="list-style-type: none"> ▪ Input of client's name in abbreviation form 	"ABCSL"	ABC Securities Limited
<ul style="list-style-type: none"> ▪ Addition of internal remark after client's name to indicate account nature 	"ABCSL – House Account" or "ABCSL – Client Account"	ABC Securities Limited
<ul style="list-style-type: none"> ▪ Client has no English name 	"No English name", "Not Applicable", or "Null" under the English name field (Field No. 7 – 9)	(Note: CCEP/TTEP should leave the field blank)
<ul style="list-style-type: none"> ▪ Client's name on official identity document contains non-alphabetic characters, Chinese characters and symbols (e.g. 손진진 (孫眞眞)) 	"손진진" (Field No. 10)	손진진 (孫眞眞) (Field No. 10)



China Connect Rules - BCAN Requirements

Accuracy of BCAN-CID Mapping File

B. Client Identification Data

ii) Incorrect / Inconsistent input of identity number (“ID”)

Scenario	Wrong input	Correct input
<ul style="list-style-type: none"> ID does not match the official identity documents 	“A1234567” or “A123456”	A123456(7)
	“123456”	CMY-123456
	“Error”, “No LEI” or “Not Applicable”	(Note: CCEP/TTEP should input client’s ID per Certification of Incorporation (“ Col ”) or other official incorporation documents / Legal Entity Identifier (“ LEI ”))
<ul style="list-style-type: none"> Extra spacing, or omission of characters, numbers and symbols 	“A123456 (7)”	A123456(7)
	“CMY123456”	CMY-123456
<ul style="list-style-type: none"> Incorrect input of Business Registration number instead of ID per Col or other official incorporation documents / LEI 	“88888888-123-45-67-8” (Note: Use of Business Registration number)	(Note: CCEP/TTEP should input client’s ID per Col or other official incorporation documents / LEI)



China Connect Rules - BCAN Requirements

BCAN Tagging

Key Information

- Tag correct BCAN to each northbound China Connect order on a real-time basis.
(SEHK Rule 1425A(4) and FAQ 3)
- Promptly cancel any order tagged with an incorrect BCAN. If such order has been matched, then submit BCAN Error Report to the Exchange
(SEHK Rule 1425A(7))
- Tagging BCAN in a consistent manner when submitting northbound trading orders for the fund manager or the fund
(FAQ 11 and Circular (Ref. No. CT/101/18)¹)

Compliance Reminder

❌ Common Deficiencies

- Human errors when processing high-touch orders and implementing new booking flow in the order system leading to incorrect BCAN tagging
- Incorrect BCAN mapping in the system leading to wrong tagging
- Erred in placing an order to a wrong client account, resulting in wrong tagging
- Accidentally changed client's identity details when the order was being processed by different systems within the organization
- Failed to follow the specified format when completing the BCAN Error Report

✅ Good practices observed

- Perform regular checks to identify and rectify any incorrect BCAN tagged as soon as possible
- Conduct proper and thorough testing before launch of any new system, system migration or enhancements
- Provide adequate and regular training to responsible staff
- Use the enhanced BCAN Error Report template² with format checks and make sure the trade details are correct



¹ Circular (Ref. No. CT/101/18) is available on [HKEX website](#).

² The enhanced BCAN Error Report template with format check is available on [HKEX website](#).

China Connect Rules - BCAN Requirements

BCAN Confidentiality

Key Information

- In particular, the use and accessibility of BCANs (even within the CCEP or the TTEP) should be strictly restricted to a need-to-know basis
- CCEPs/TTEPs should lawfully handle and transfer clients' confidential information as contemplated under the NB Investor ID Model

(FAQ 4, 21 & 22)

Compliance Reminder

❌ Common Deficiencies

- Displayed BCANs in the general enquiry / trading screens of internal systems defeating the principle of keeping BCANs in strict confidence
- Used BCAN as an identifier for China Connect Northbound clients without masking the BCAN
- Insufficient controls / arrangements to ensure the use of and accessibility to BCANs are strictly restricted on a need-to-know basis

✅ Good practices observed

- CCEPs and TTEPs implement controls and provide proper training to the relevant staff to ensure that BCANs are kept confidential
- Hide the BCAN data by only showing a mask code "*****" instead of actual BCAN data in the internal systems
- Access is only granted to relevant parties under the need-to-know basis



China Connect Rules - BCAN Requirements

Client Consent

Key Information

- A CCEP/TTEP shall ensure that all necessary authorizations and written consents are obtained from each individual client.
- The CCEP/TTEP shall confirm with its client who refuses to provide the necessary consent that he/she has not otherwise provided such consent to other CCEPs/TTEPs for Northbound trading.

(SEHK Rule 1425A(5) and FAQ 15)

Compliance Reminder

❌ Common Deficiencies

- Failed to obtain client consent before creating BCAN for individual clients
- Issued one-way notification to clients instead of obtaining a written consent
- Presented incomplete consent wording to clients who requested to participate in China Connect Northbound Trading
- Failed to follow up with clients who refused to provide client consent

✅ Good practices observed

- CCEPs and TTEPs implement controls and provide proper training to the relevant staff to ensure that adequate client consent is obtained properly
- CCEPs and TTEPs have proper controls in place to follow up with the client who refused to provide client consent



China Connect Rules

Investor Eligibility Requirement for Trading of ChiNext Shares and STAR Shares

Key Information

- **Institutional Professional Investors¹ (“IPI”) Only**
- Where the direct client is an intermediate broker, CCEPs/TTEPs shall require such client to ensure that the underlying customers are IPIs only
(SEHK Rule 14B06(18) and 14A06(15))
- Any CCEP/TTEP which fails to comply with the investor eligibility requirement repeatedly within a 12 month rolling period, will be liable to disciplinary action, including fines, suspension of trading or disciplinary proceedings
(SEHK Disciplinary Procedures)

Compliance Reminder

✘ Common Deficiencies

- Insufficient prior arrangements (e.g. communicating regulatory requirement and outlining contractual obligation) in place to require intermediate broker to observe the investor eligibility requirement
- Failure to keep abreast with regulatory changes and deploy corresponding controls in time (e.g. for covering new stock codes of STAR shares or ChiNext shares)
- Inadequate user acceptance test (“UAT”) conducted before the deployment of any new or modified system control
- Misclassification of client’s professional investor (“PI”) type
- Failure to put in place any post-trade review exercise or post-trade review exercise not diligently carried out, resulting a non-compliance incident left undetected for a prolonged period of time

¹ Institutional Professional Investor 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 investor” in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance.



China Connect Rules

Investor Eligibility Requirement for Trading of ChiNext Shares and STAR Shares

✓ Good practices observed

Client Onboarding

- ✓ Provide adequate training (in addition to on-the-job-training) to staff
- ✓ Conduct diligent know-your-client procedures to ascertain clients' PI type and trading capacity
- ✓ Communicate with and regularly remind direct clients and intermediate brokers of the applicable regulatory requirements
- ✓ Establish control arrangements to require intermediate brokers to ensure that their underlying investors are IPIs

Pre-trade

- ✓ Adopt appropriate system controls (e.g. hard block) where possible
- ✓ Conduct thorough UAT before system deployment
- ✓ Adopt automation to utilize product flagging directly from the websites¹ of SSE and SZSE, followed by reconciliation between the information obtained from the exchanges and third party vendor
- ✓ Perform regular system review (e.g. system code, functional settings, completeness of static data and effectiveness of data feed)
- ✓ Confirm the client or the underlying investors are IPIs, where possible

Post-trade

- ✓ Implement post-trade review exercise for timely identification of any potential non-compliance incidents
- ✓ Conduct regular post-trade review of trades conducted by both direct clients and underlying investors of intermediate brokers
- ✓ Establish a designated function to supervise the post-trade review exercise and reporting of incident



¹ Shanghai Stock Exchange ("SSE"): <http://www.sse.com.cn/assortment/stock/list/share/>
Shenzhen Stock Exchange ("SZSE"): <http://www.szse.cn/market/product/stock/list/index.html>

China Connect Rules

Trade Through Exchange Participants

Key Information

- EPs who are not registered as CCEPs but wish to provide services to their clients to trade in China Connect Securities may do so through other CCEPs for the account of their clients, **after** submitting a declaration to the Exchange, as TTEPs
- EPs shall not provide instructions to a CCEP or accept instructions from any client to sell or buy China Connect Securities through the China Connect Service which may be in breach of or not be in compliance with any provision in the applicable rules
(Rule 590(2) and (4))

Compliance Reminder

✘ Common Deficiencies

- CCEPs failed to check the trading capacity of their clients who are also EPs during on-boarding, overlooking the need to ensure their EP clients should have been registered as TTEPs before they could conduct trading through the China Connect Service for the account of their underlying clients
- CCEPs conducted China Connect trading activities through other CCEPs for principal and/or agency trading for purposes other than contingency situation

✔ Good practices observed

- CCEPs should put in place adequate controls to ensure that their intermediate broker clients, who are EPs and conduct trading for their clients, **must be registered as TTEPs, both initially and on an on-going basis**



Q & A Session



2024 Priority Areas

Risk Management



Risk Management Areas of Clearing Business



Risk Management

List of Enforcement Focus

- 1 **Stress Testing**
- 2 **Credit Exposure and Positon Management (including Capital Based Positon Limit)**
- 3 **Settlement Control and Monitoring**
- 4 **Notification of Change in Operations and Risk Control Plan**
- 5 **Third party service management, Business Continuity and Contingency Arrangements (including e-banking authorisation)**



Risk Management

1. Stress Testing

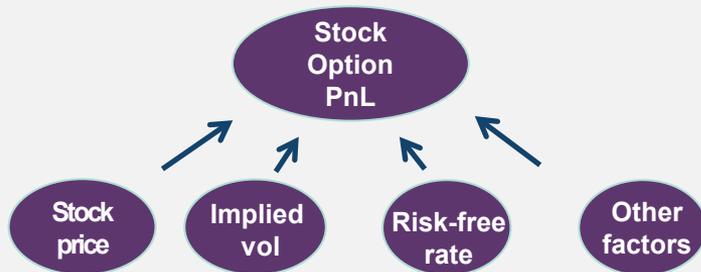
Key Information

Stress Testing of **non-linear products** (e.g. options) is crucial since the losses of non-linear products increase exponentially under extreme scenarios.

Linear Products



Non-linear Products



Compliance Reminder

CPs are required to have **proper stress testing** for its own or clients' exposure on HKEX's products, especially on **non-linear products**.

CPs are expected to implement and conduct stress testing regularly and at least on a **weekly basis**, to evaluate the maximum potential loss under extreme but plausible market conditions.

Major Products	Downside Scenario	Upside Scenario
HSI	Price -20% Volatility +43%	Price +20% Volatility -24%
HHI	Price -20% Volatility +43%	Price +20% Volatility -24%
HTI	Price -29% Volatility +62%	Price +29% Volatility -35%
CUS	Price -4% Volatility +38%	Price +4% Volatility -22%
Single Stock	Price -22% Volatility +43%	Price +22% Volatility -24%

Proper stress testing policies and procedures should clearly set out:

- ✓ Methodology
- ✓ Frequency
- ✓ Review and escalation mechanism



Risk Management

2. Credit Exposure and Position Management (including Capital Based Position Limit)

Key Information

Client limits (e.g. position limits, credit limits and/or trading limits) are imposed by CPs on their clients for controlling their client exposure.

CPs shall implement appropriate and adequate monitoring arrangements, which include inputting the limits assigned to clients into the system for continuous monitoring.

Client limits, including limits set in third party systems, should be subject to regular review and integrate with the firm's credit risk management process.

Compliance Reminder

Lack of sufficient and effective monitoring and control on credit exposures

Common deficiencies

- ❌ CPs had not implemented any system to monitor their clients' positions against limits for their clients
- ❌ CPs had allowed clients to transact above the predefined limits and based on their clients' available fund instead
- ❌ Policies and procedures in relation to the treatment of outstanding loan payments were inadequate, where follow-up, escalation and provisioning/ write-off of such loans were not clearly set out
- ❌ Client limits, once granted, were not subject to regular review.



Risk Management

3.1 Settlement Control and Monitoring

Key Information

CPs should put in place adequate and comprehensive **internal controls** and procedures governing the settlement process.

Examples

- ✓ A **checklist** with maker-checker signoff over key settlement steps
- ✓ A **system dashboard** monitoring the timeliness in completing each key settlement steps with automatic escalation alerts

CPs should ensure that their staff has **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.

Compliance Reminder

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

Common deficiencies

- ✗ **Inadequate holiday backup arrangement of settlement and accounting officers**
- ✗ **Insufficient e-banking authorization**
- ✗ **Insufficient contingency funding channels (e.g. buffer, overdraft lines and FX facility)**
- ✗ **Insufficient review of funding sufficiency**

CPs rely on **internal position data** (instead of clearing houses' data/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/ SEOCH)



Incorrect forecast of the settlement amount and may result in payment failure



Risk Management

3.2 Settlement Control and Monitoring (DvP)

Key Information

CPs should also put in place funding estimation and position management procedures for collateral requirements (e.g. marks and margins) and settlement obligations, **particularly in:**

- ✓ **Liquidity buffer to meet clearing obligations** - pre-allocating buffer funding to prepare for the potential increase between the collateral requirements estimates and its final amount;
- ✓ **Additional liquidity planning and exposure controls for trade that settled with client on DvP basis** – Since DvP clients are not providing stock/margin/cash upfront by the time of placing order, this may reduce the ability of broker to manage the marginable position by placing Specific Cash Collateral / Specific Stock Collateral. Therefore, CP should review the exposure limit for these group of client and house liquidity to support the clearing of these trades.



Risk Management

3.2 Settlement Control and Monitoring (Large Orders Control)

Key Information

CPs should also put in place funding estimation and position management procedures for collateral requirements (e.g. marks and margins) and settlement obligations, **particularly in:**

- ✓ **Large trade order management** - which includes process to reduce the position for computation of collateral requirements (e.g. to provide Specific Cash Collateral / Specific Stock Collateral to HKSCC for large long / short stock positions under CNS)
 1. CPs should set a threshold and procedure for placing SCC/SSC.
 2. CP should be aware of the cut-off time for placing SCC/SSC.
 3. When a CP has provided the relevant amount/ stock of SCC/SSC to cover the position, the position covered will be waived from computation of Marks and Concentration Collateral.



Risk Management

3.3 Settlement Control and Monitoring (For Holiday Trading Clearing Participants)

Arrangement with appointed settlement bank and liquidity monitoring

Key Information

	Areas	Details
	Awareness of Clearing House Reports to review	<ul style="list-style-type: none">• Update settlement control checklist / dashboard with H day related settlement reports and timelines
	Liquidity Forecast	<ul style="list-style-type: none">• Conduct funding estimate at currency level
	Pre-funding	<ul style="list-style-type: none">• Arrange funding in advance on H-1 day• Extend pre-funding or credit facilities coverage to non-HKD and H day
	E-banking and transfer Authorization	<ul style="list-style-type: none">• Proper e-banking authorization and limits, coverage include FX conversion and inter-bank transfer• Proper authorization granted to staff on duty to conduct funding transfer on H day



Risk Management

3.4 Settlement Control and Monitoring (**Contingency Plan in case of Late Payment for HCPs**)

e.g. insufficient funding is found in designated bank account on H day

Key Information

	Areas	Details
	Ability to provide proof of financial position	Sufficient authorization to allow staff on duty to provide bank balance to clearinghouse upon request
	Ability to conduct immediate funding transfer	Proper limit and authorization assigned to conduct third party account transfer (i.e. between CP's bank accounts and to HKCC bank accounts)
	Currency of obligations	Prepare to provide and transfer cash collateral other than the currency of the obligation at last resort

Important: Any failure to meeting clearing house obligations would trigger an event default and could have serious consequence on your firm



Risk Management

4. Notification of Change in Operations and Risk Control Plan

Key Information

CPs should **notify** the clearing houses of any change in the details supplied at the time of admission

Examples



Updated risk and control documents when engaging in **new business activities** such as proprietary trading, stock lending, China Connect market and margin financing

For filings of new business activities, information should be submitted to ClearingCreditRisk@HKEX.COM.HK

Please also refer to Circular [MSM/001/2024](#) issued on 3 April 2024 for details.

Compliance Reminder

Failure to notify the clearing houses when there is a **change** in operations and risk control



Risk Management

5.1 Third party service management, Business Continuity and Contingency Arrangements

Third party service management

Key Information

CPs should establish **proper review and testing procedures** in relation to **system changes** (e.g. system changes that has impact on settlement and margin calculation), which includes:

- ✓ Thorough user acceptance testing, and
- ✓ Parallel run.

Compliance Reminder

Inadequate controls in relation to **system changes**

Common deficiencies

- ✗ Logic error during critical system enhancement made by third party system providers.

Business Continuity Plan and Contingency Arrangements

Key Information

CPs should develop and maintain a business contingency plan to cope with disruptions that may impair CPs' ability to meet settlement obligations, including **remote access**.

Compliance Reminder

Inadequate arrangement in place to ensure its fulfillment of the clearing houses' **settlement obligations** under **contingency situation**.



Risk Management

5.2 Contingency Arrangements to ensure fulfilment of settlement obligations

In situation where the firm's operation capacity is limited
(e.g. Pandemic, before long holidays, severe weather situation)

- 1 Backup staffs arrangement on key settlement task and funding transfer process
- 2 Buffer up designated settlement account
- 3 Regular test and remind important staffs to test or bring along the access token



Risk Management

5.3 E-banking Authorization and Back up Broker Arrangements

E-banking

Key Information

CPs should arrange electronic/phone banking channel to ensure timely transfer of funding between house accounts and to HKEX's bank account.

- ✓ Maker and checker mechanism
- ✓ Limit of transfer fund is set above liquidity needed

Compliance Reminder

Inadequate controls in relation to **e-banking**

Common deficiencies

- ✗ CPs do not have e-banking set up.

Back up Broker(s)

Key Information

CPs should have a back up broker arranged, so client order can be route to a peer broker in case of disruptions.

Compliance Reminder

Inadequate arrangement in place to cover contingency handling of trades leading to CPs unable to meet settlement obligations.



Risk Management

Notification of update of shareholding chart

Key Information

CPs should **provide to clearing houses an updated shareholding chart***:

- ✓ 1. **on an annual basis (via annual attestation)**
- ✓ 2. as soon as reasonably practicable subsequent to any reorganisation of its corporate group
- ✓ 3. as soon as reasonably practicable following a change (direct or indirect) of 10% of more in the share capital or voting rights

For filings following shareholding change under (2) or (3) above, information should be submitted to ClearingCreditRisk@HKEX.COM.HK using the template provided in the attestation submission pack

*Reference: HKSCC Rule 1703(viii), HKCC Rule 214A(a) and SEOCH Rule 403F



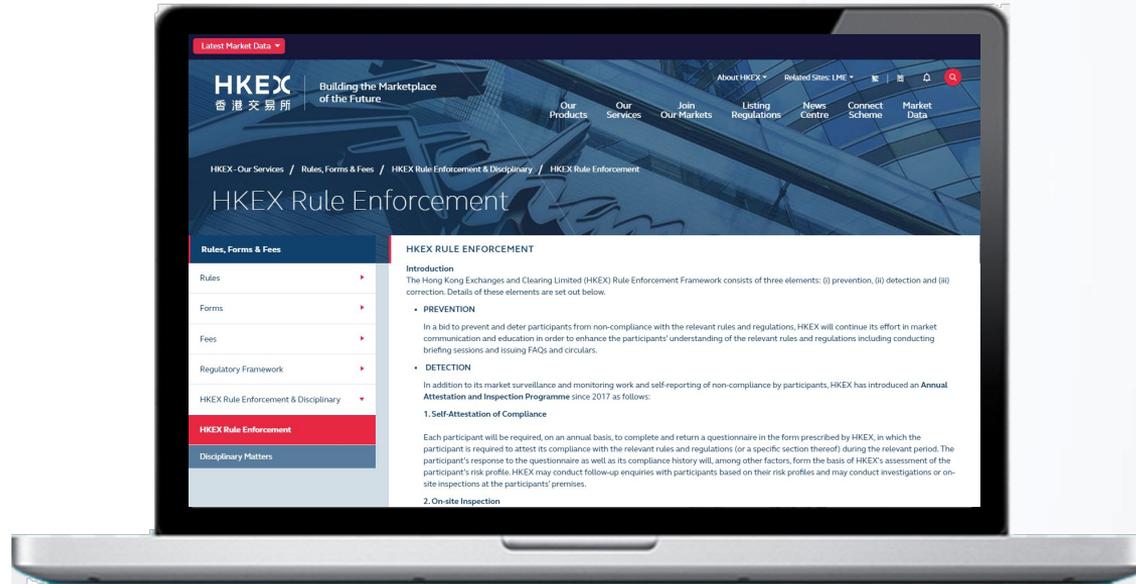
Q & A Session



HKEX Rule Enforcement Designated Website & Email Account



https://www.hkex.com.hk/Services/Rules-and-Forms-and-Fees/HKEX-Rule-Enforcement-and-Disciplinary/HKEX-Rule-Enforcement?sc_lang=en



surveillance@hkex.com.hk



For further information, please visit hkexgroup.com | hkex.com.hk



Appendix I

Past publications on Northbound BCAN requirements

2024

- [2023 Compliance Reminder on China Connect Rules](#)

2023

- [Compliance Bulletin \(Issue No. 8\) – \(1\) Restricting Mainland Investors from Northbound Trading under Stock Connect, \(2\) Hong Kong Investor Identification Regime \(“HKIDR”\), \(3\) Stock Connect Northbound BCAN \(“NB BCAN”\) requirements, and \(4\) 2023 Self-attestation of Compliance Questionnaire \(Ref. No. MSM/007/2023\)](#)
- [2022 Compliance Reminder on China Connect Rules](#)

2022

- [Seminar on 2022 Annual Attestation and Inspection Programme](#)
- [Compliance Bulletin \(Issue No. 5\) – \(i\) Stock Connect Northbound Trading - Abnormal Trading Activities and \(ii\) Restricting Mainland Investors from Northbound Trading under Stock Connect \(Ref. No. MSM/010/2022\)](#)
- [Compliance Bulletin \(Issue No. 3\) – \(i\) Investor Eligibility Requirements and \(ii\) BCAN Requirements \(Ref. No. MSM/002/2022\)](#)
- [2021 Compliance Reminder on China Connect Rules](#)

2021

- [BCAN Client Type Classification for Proprietary or Principal Trading \(Ref. No. MSM/008/2021\)](#)
- [2020 Compliance Reminder on China Connect Rules](#)

2020

- [2019 Compliance Reminder on China Connect Rules](#)



Appendix II

Past publications on HKIDR BCAN requirements

2023

- Compliance Bulletin (Issue No. 9) – (1) Hong Kong Investor Identification Regime (“HKIDR”), (2) Reporting Requirements for Non-Automatch Trades, (3) Pre-trade and Post-trade Controls for Detecting Significant Price Deviation, and (4) Investor Eligibility Requirements (Ref.No.MSM/009/2023)
- Compliance Bulletin (Issue No. 8) – (1) Restricting Mainland Investors from Northbound Trading under Stock Connect, (2) Hong Kong Investor Identification Regime (“HKIDR”), (3) Stock Connect Northbound BCAN (“NB BCAN”) requirements, and (4) 2023 Self-attestation of Compliance Questionnaire (Ref. No. MSM/007/2023)
- HONG KONG INVESTOR IDENTIFICATION REGIME (HKIDR) – Explanatory Notes of Five Reporting Forms and Update of Frequently Asked Question (FAQ), File Interface Specification and Information Paper (Ref. No. MSM/003/2023)

