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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: Compliance Bulletin (Issue No. 11) – (1) Usage of Trade Discrepancy Forms and BCAN Error Reports under Hong Kong Securities Market and Northbound Trading under Stock Connect, (2) Restricting Mainland Investors from Northbound Trading under Stock Connect, and (3) Dealings with Suspended Exchange Participants (“EPs”)

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BCAN Error Reports and Restricting Mainland Investors from Northbound Trading under Stock Connect: otpc@hkex.com.hk
Dealings with Suspended EPs: surveillance@hkex.com.hk

As part of our continuous efforts to promote transparency and a culture of compliance in our marketplace, Hong Kong Exchanges and Clearing Limited (“**HKEX**”) has prepared this Compliance Bulletin to offer the industry a better understanding of our enforcement work and regulatory expectations. It serves as a reminder on some salient points in relation to (1) Usage of Trade Discrepancy Forms and BCAN Error Reports respectively under Hong Kong Securities Market and Northbound Trading under Stock Connect, (2) Restricting Mainland Investors from Northbound Trading under Stock Connect, and (3) Dealings with Suspended EPs.

(1) Usage of Trade Discrepancy Forms and BCAN Error Reports under Hong Kong Securities Market and Northbound Trading under Stock Connect

<Under Hong Kong Securities Market>

Trade Discrepancy Related	BCAN Error Related
<p>i. Relevant Rules of The Exchange (“SEHK Rules”)</p> <ul style="list-style-type: none"> ○ Chapter 5 – Trading 	
<ul style="list-style-type: none"> ▪ Rule 528(1)(a) – It is the duty of every EP to review both sales and purchases journals at the end of each trading session. <u>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.</u> 	<ul style="list-style-type: none"> ▪ Rule 538A(7)(a) – An EP which has included an incorrect BCAN (irrespective of whether the incorrect BCAN was tagged by itself or passed on from another Relevant Regulated Intermediary) when inputting an order into the System shall promptly cancel the order through the input of a cancellation request into the System if such order has not been matched or executed by the System. If such order has been matched or executed by the System, the <u>EP shall report any correction of BCAN to the Exchange in such manner as the Exchange may prescribe from time to time.</u>
<p>ii. Frequent Ask Questions (“FAQ”) and Explanatory Notes of Reporting Forms on Reporting of BCAN Error</p> <ul style="list-style-type: none"> ○ FAQ on HKIDR File Submission and Order Tagging – Question C.7 ○ Explanatory Notes of Reporting forms under HKIDR 	
<p>iii. Reporting Form Template</p>	
<ul style="list-style-type: none"> ○ Reporting of Trading Discrepancy / Error (Other than Reporting of Short Selling Input Error) 	<ul style="list-style-type: none"> ○ BCAN Error Report (HK Investor ID Regime)

<Under Northbound Trading through Stock Connect>

Trade Discrepancy Related	BCAN Error Related
<p>i. Relevant SEHK Rules</p> <ul style="list-style-type: none"> ○ Chapter 14 – China Connect Service ○ Chapter 14A – China Connect Service – Shanghai ○ Chapter 14B – China Connect Service – Shenzhen 	
<ul style="list-style-type: none"> ▪ Rule 14A06(12) – A China Connect Exchange Participant (“CCEP”¹) shall review all sales and purchases of China Connect Securities at the end of each SSE trading session on each CSC trading day and <u>shall report any discrepancy, erroneous transaction or complaint to the Exchange at such time and in such manner as the Exchange may prescribe from time to time.</u> ▪ Rule 14B06(15) – A CCEP shall review all sales and purchases of China Connect Securities at the end of each SZSE trading session on each CSC trading day and <u>shall report any discrepancy, erroneous transaction or complaint to the Exchange at such time and in such manner as the Exchange may prescribe from time to time.</u> 	<ul style="list-style-type: none"> ▪ Rule 1425A(7) – A CCEP which has included an incorrect BCAN when inputting a China Connect order into the CSC shall promptly cancel the China Connect order through the input of a cancellation request into the CSC if such China Connect order has not been matched or executed by the relevant China Connect Market System. If such China Connect order has been matched or executed by the relevant China Connect Market System, <u>the CCEP shall report any correction of BCAN to the Exchange at such time and in such manner as the Exchange may prescribe from time to time.</u>
<p>ii. Circular</p> <ul style="list-style-type: none"> ○ Compliance Bulletin (Issue No. 8) – (1) Restricting Mainland Investors from Northbound Trading under Stock Connect, (2) HKIDR, (3) Stock Connect Northbound BCAN requirements, and (4) 2023 Self-attestation of Compliance Questionnaire 	

¹ CCEP in this bulletin refers to both China Connect Exchange Participant and Trade-through Exchange Participant.

Trade Discrepancy Related	BCAN Error Related
iii. Report Form Template	
<ul style="list-style-type: none"> ○ Reporting of Trading Discrepancy / Error (For China Connect Securities Only) 	<ul style="list-style-type: none"> ○ BCAN Error Report for Shanghai Connect <ul style="list-style-type: none"> ➤ Explanatory Notes of <BCAN Error Report for Shanghai Connect> ○ BCAN Error Report for Shenzhen Connect <ul style="list-style-type: none"> ➤ Explanatory Notes of <BCAN Error Report for Shenzhen Connect>

<Under Hong Kong Securities Market and Northbound Trading through Stock Connect>

<p align="center"><i>Common Misunderstanding in Usage of Relevant Trade Discrepancy Forms and BCAN Error Reports</i></p>	
<p><i>Trade Discrepancy Forms</i></p> <ul style="list-style-type: none"> ▪ Some EPs have mistaken the requirements and considered that if the transacted shares are re-allocated from client accounts to the house accounts for error trade handling, reporting / submission of Trade Discrepancy Form is not required. 	<p><i>BCAN Error Reports</i></p> <ul style="list-style-type: none"> ▪ Some EPs have mistakenly used BCAN Error Report for reporting trade error that is not related to BCAN tagging (e.g. incorrect traded quantity).
<p align="center"><i>Reminder to EPs</i></p>	
<p>As a reminder, EPs should file a BCAN Error Report when the executed trades were tagged with incorrect BCANs at the time when the orders were placed. For other trade errors not related to BCAN tagging, Trade Discrepancy Form should be filed.</p>	

(2) Restricting Mainland Investors from Northbound Trading under Stock Connect

Referring to the Exchange Circulars (Ref. No.: [MSM/007/2023](#), [CT/069/23](#), [MSM/010/2022](#) and [CT/088/22](#)) and the relevant announcements by the CSRC, SSE and SZSE respectively, the Exchange would like to remind all CCEPs that Mainland investors are restricted from Northbound Trading under Stock Connect with effect from 25 July 2022 (“**Effective Date**”). As a reminder:

Mainland investors include:

- (a) individuals that possess Mainland ID documents;
- (b) holders of a joint account if one of the holders is considered as Mainland investor under (a); and
- (c) corporate or unincorporated entities which are registered in the Mainland.

The following investors are not considered as “Mainland investors” and may continue to buy and sell China Connect Securities through Northbound Trading under Stock Connect:

- Any individual who holds a Permit for Proceeding to Hong Kong and Macao, i.e. One-way Permit (前往港澳通行證, i.e. 單程證) or who has obtained an identity document as proof of permanent residence in a country or region outside Mainland China; and
- Any branch or subsidiary of a corporate or unincorporated entity registered in Mainland China which branch or subsidiary is lawfully registered in Hong Kong or overseas².

According to the announcements by CSRC, SSE and SZSE:

1. From the Effective Date, **CCEPs shall not register new BCAN for clients who are Mainland investors**, i.e. registration of new BCANs with “CHN” as the country / region of issuance (“**CHN BCANs**”) will be rejected.
2. From 24 July 2023,
 - a) **CCEPs shall delete all CHN BCANs for their clients who are Mainland investors**³;
 - b) Mainland investors shall not proactively buy any China Connect Securities through Northbound Trading under Stock Connect (including subscription for right issues (配股)) but excluding obtaining China Connect Securities passively as a result of certain corporate actions (such as distribution of stock dividends); and
 - c) Existing China Connect Securities held by Mainland investors could be sold through Northbound Trading under Stock Connect by tagging the reserved values “3 = for individual Mainland investors” or “4 = for institutional Mainland investors”.

² For BCAN-CID Mapping Files submission purposes, these entities may use their business registration certificate as identification documents.

³ CHN BCANs can be deleted by way of submitting a BCAN-CID Mapping File that has the CHN BCANs removed.

The Exchange has recently identified several CCEPs which still attempted to register new CHN BCANs on or after the Effective Date or have failed to delete all CHN BCANs for their clients who are Mainland investors as required. Some CCEPs did not remove the CHN BCANs from the BCAN-CID Mapping File as they misunderstood that no follow-up actions are required given the CHN BCANs were rejected.

The Exchange would like to reiterate that under Rule 1432 of SEHK Rules, CCEPs shall comply with and abide by all applicable rules and regulatory requirements with regard to the trading of China Connect Securities. Any non-compliance of the relevant rules and regulatory requirements will be subject to disciplinary actions taken by the Exchange. CCEPs should have appropriate arrangements in place to ensure no new CHN BCAN would be registered and no CHN BCAN will be included in the BCAN-CID Mapping File.

(3) Dealings with Suspended EPs

SEHK	HKFE
i. Relevant Rules	
<p>SEHK Rules</p> <ul style="list-style-type: none"> ○ Chapter 5 – Trading <ul style="list-style-type: none"> ▪ Rule 541 – Except as may otherwise be permitted by the Board or the Chief Executive, <u>under no circumstances</u> shall an EP deal with an EP whose Exchange Participantship or right to access the System has been suspended. An EP which fails to comply with this Rule shall be liable to disciplinary action by the Board. ○ Chapter 6 – Professional Conduct <ul style="list-style-type: none"> ▪ Rule 606 – A Participant shall report in writing to the Exchange any breach, infringement of or non-compliance with any of these Rules or the Regulations, or where it has reason to suspect any such breach, infringement or non-compliance whether by: <ul style="list-style-type: none"> (a) <i>itself;</i> (b) <i>its Responsible Officers or nominated representatives (as the case may be), directors, partners, Authorized Persons, officers, employees, agents and representatives, or persons acting on its behalf, Market Makers, Securities Market Makers, Dual Counter Market Makers, Structured Product Hedging Participants, Structured Product Liquidity Providers or registered arbitrageurs (as defined in the Fifteenth Schedule) (as the case may be); or</i> (c) <i>any other Participant,</i> <p><i>giving particulars of and/or the reasons for suspecting such breach, infringement or non-compliance and all other relevant information and documents.</i></p> 	<p>Rules, Regulations and Procedures of the Futures Exchange (“HKFE Rules”)</p> <ul style="list-style-type: none"> ○ Chapter V – General Obligations of Exchange Participantship <ul style="list-style-type: none"> ▪ Rule 522C – Except as may otherwise be permitted by the Chief Executive, <u>under no circumstances</u> shall an EP deal with an EP whose Exchange Participantship or right to access HKATS has been suspended. ▪ Rule 506 – An EP shall notify the Exchange in writing immediately upon the happening of any one or more of the following: <ul style="list-style-type: none"> “(a) <i>the discovery of a failure by it to comply with any of these Rules, the Regulations, the Procedures, the Ordinance or any of the conditions stipulated in the notice of approval of its Exchange Participantship given pursuant to Rule 305 or in any approval given by the Exchange</i>” ... “(d) <i>its becoming aware of any breach of these Rules, the Regulations, the Procedures or the Ordinance perpetrated by any other EP</i>”

ii. Circulars

- [SEHK Rule 541 – Dealings with Suspended Exchange Participants \(Ref. No. MSM/012/2021\)](#)
- [HKFE Rule 522C – Dealings with Suspended Exchange Participants \(Ref. No. MSM/013/2021\)](#)
- [Compliance Bulletin \(Issue No. 2\) – \(i\) Investor Eligibility Requirement, \(ii\) Dealings with Suspended Exchange Participants and \(iii\) Stock Connect Northbound Trading \(Ref. No. MSM/014/2021\)](#)

iii. Definitions

For the purpose of this section,

- A “**Suspended EP**” refers to:
 - (i) a SEHK EP whose Exchange Participants or right to access the System has been suspended as referred to in SEHK Rule 541; or
 - (ii) a HKFE EP whose Exchange Participants or right to access HKATS has been suspended as referred to in HKFE Rule 522C.
- An “**Appointed EP**” refers to:
 - (i) a EP who receives the clients’ orders from the Suspended EP for execution.

Observations by the SEHK

During our recent inquiries into SEHK Rules related non-compliance incidents, we observed that some Suspended EPs have misunderstood that Rule 541 of SEHK Rules does not prohibit an EP to deal with a Suspended EP if the Suspended EP was trading in its principal capacity and/or as a client of the Appointed EP. As a result, the Suspended EPs failed to ensure the Appointed EPs had obtained the necessary prior approval from the Board or the Chief Executive of SEHK for dealing with it, causing the Appointed EPs to be in breach of Rule 541 of the SEHK Rules.

The Suspended EPs also failed to comply with Rule 606 of SEHK Rules, which stipulates that an EP should notify the Exchange of any breach, infringement of or non-compliance with any of the Rules or the Regulations, as defined in SEHK Rules, by itself or any other Participant.

On the part of the Appointed EPs, they did not obtain the necessary permission from the Exchange prior to **placing orders** for the Suspended EPs leading to a breach of Rule 541 of SEHK Rules.

Reminder to EPs

As a reminder, under no circumstances shall an EP place any orders for a Suspended EP without prior approval from the relevant Exchange. The trading capacity of the Suspended EP (i.e. in principal or agency capacity) is irrelevant.

Suspended EPs should:

- Inform their clients of their suspension status and the detailed arrangement on handling clients' orders in a timely and proper manner.
- State their trading suspension status when they send the clients' orders to another EP for execution.
- Ensure the Appointed EPs have obtained the necessary prior approval from HKEX.

Appointed EPs should:

- Put in place appropriate and effective measures and take reasonable steps to ensure that the SEHK or HKFE EPs they deal with are not in suspension status⁴, unless prior approval has been obtained from HKEX.

All EPs should:

- Notify HKEX as soon as possible in case of any violation of any rule of HKEX and/or the Exchange is identified.

⁴ Suspension of trading is publicly announced through Participant and Members Circulars and on the HKEX website. The full list of current Participants is also available on the HKEX website.

HKEX would like to point out that the requirements and examples set out in this Compliance Bulletin are by no means exhaustive. They are intended for general reference only and should not be construed as legal advice. All liabilities with respect to actions taken or not taken based on the contents of this circular are hereby expressly disclaimed. EPs should always take into consideration their own circumstances to ensure full compliance with the relevant rules and requirements and seek their own professional advice on their specific situation where appropriate.

EPs are strongly advised to review their current set up and implement appropriate measures to strengthen their controls, and where necessary, take appropriate actions to address any potential rule breaches or deficiencies.

EPs are also encouraged to contact the Market Surveillance and Monitoring Department (email: surveillance@hkex.com.hk) should they have any questions on the above.

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