

A nighttime photograph of a city street, likely in Hong Kong, featuring tall buildings and light trails from moving vehicles. A semi-transparent blue curved shape is overlaid on the left side of the image.

2025 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 | 2025 Priority Areas

i. | China Connect Rules

ii. | 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

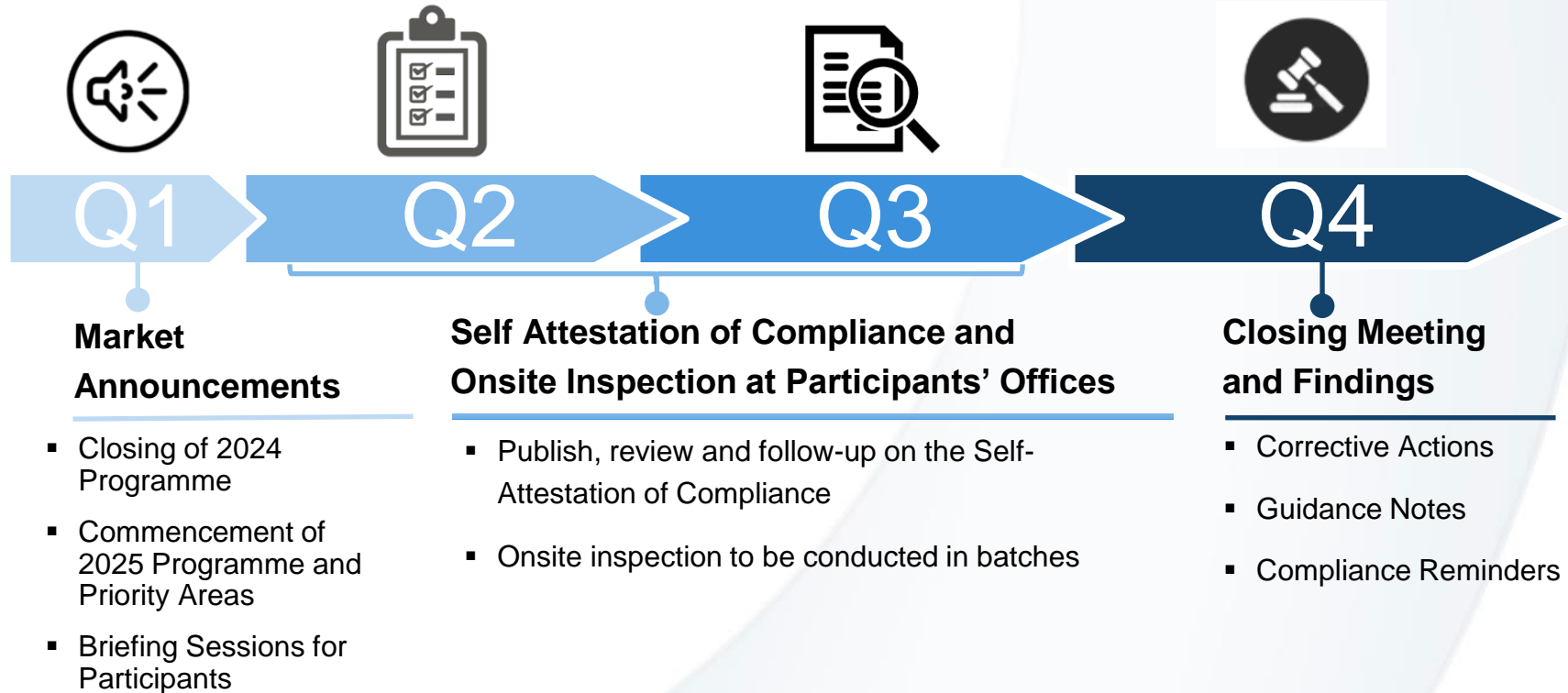
- Identify non-compliance through daily monitoring and self-reporting by Exchange Participants / Clearing Participants
- Conduct **Annual Attestation and Inspection Programme**:
 - ✓ Self-attestation of compliance with HKEX Rules
 - ✓ Onsite inspection
 - ✓ Thematic review

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”)**

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”)

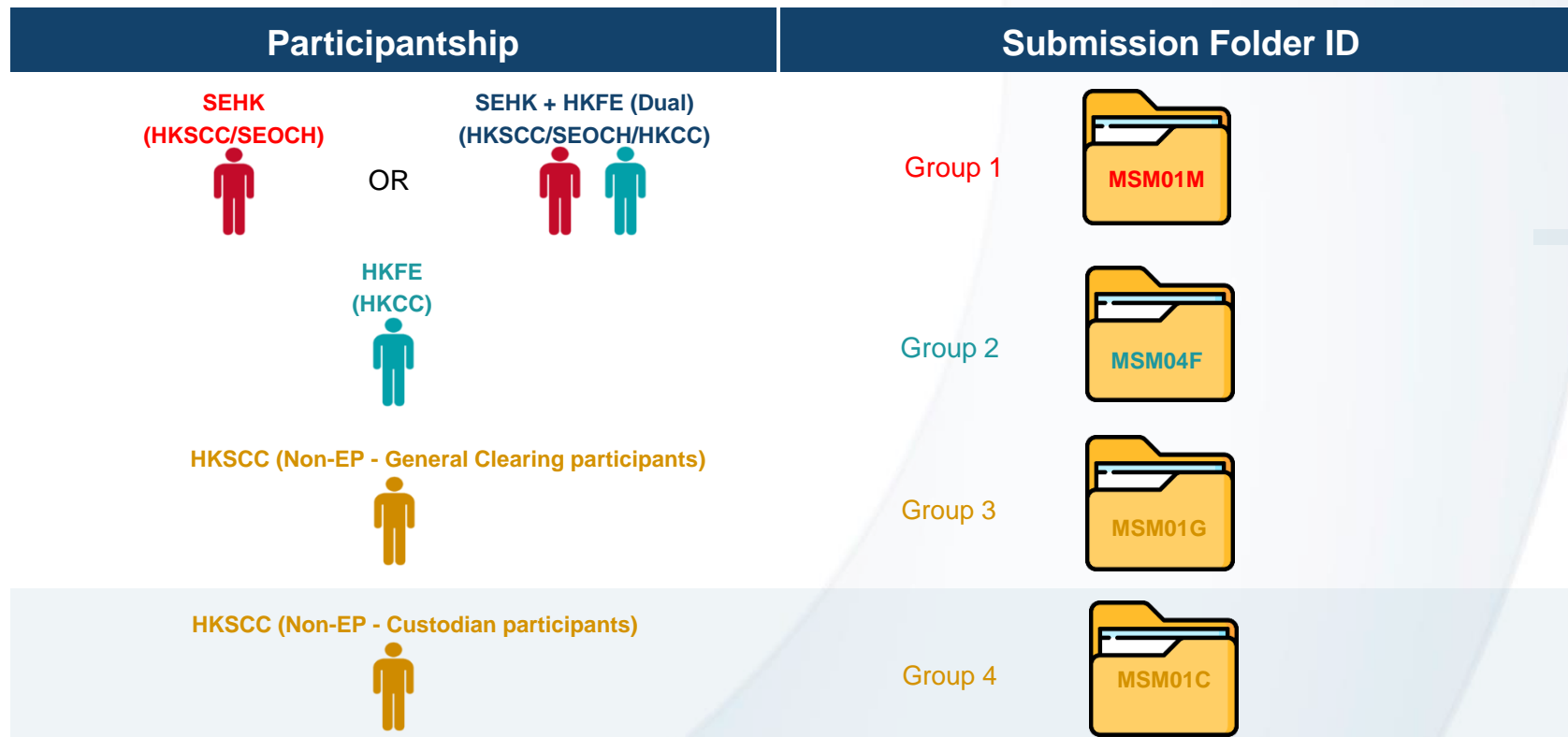
² (i) Clearing Participants and General Clearing Participants of HKFE Clearing Corporation Limited, (ii) Direct Clearing Participants, General Clearing Participants and Custodian Participants of Hong Kong Securities Clearing Company Limited, and (iii) Direct Clearing Participants and General Clearing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



Onsite Inspection


Pre-Inspection Information Request	During Onsite Inspection
(4 weeks for participant to prepare and submit)	(<2 days)
<ul style="list-style-type: none">Documents and records that can demonstrate compliance of the relevant rules should be submitted to the HKEX Inspectors prior to the onsite inspection meetingThese documents and records can be:<ul style="list-style-type: none">✓ Policies, guidelines, manuals and procedures✓ Workflow / System flow✓ Internal training materials and related records✓ Other relevant documents	<ul style="list-style-type: none">In general, the following staffs should participate in the onsite inspection meeting with the HKEX Inspectors:<ul style="list-style-type: none">✓ 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 areasStaff 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”



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

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

 “ECP” User Guide: https://www.hkex.com.hk/-/media/HKEX-Market/Services/Trading/Securities/Stamp-Duty-Reporting-and-Payment/ECP-and-Documentation/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 2025 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” 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 Circulars - The Stock Exchange of Hong Kong Limited (SEHK)
<input checked="" type="checkbox"/>	7. Participant Circulars - Hong Kong Securities Clearing Company Limited (HKSCC)
<input checked="" type="checkbox"/>	8. Participant Circulars - Hong Kong Futures Exchange Limited (HKFE)
<input checked="" type="checkbox"/>	9. Participant Circulars - HKFE Clearing Corporation Limited (HKCC)
<input checked="" type="checkbox"/>	10. Participant Circulars - The SEHK Options Clearing House Limited (SEOCH)
<input type="checkbox"/>	11. Member Circulars - OTC Clearing Hong Kong Limited (OTC Clear)

[Update](#)

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WELCOME TO THE ELECTRONIC
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(ECP)

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[HKEX Access Management Portal](#)

[SFC WINDS^{\(1\)}](#)

(1) For SFC-licensed corporations and registered institutions

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2025 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 / workflows
- 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
- Lack of adequate audit trails for training record

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



2025 Priority Areas

China Connect Rules



China Connect Rules

List of Enforcement Focus

1. **Broker-to-Client Assigned Number** (SEHK Rule 1425A)
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. **Turnaround trading, Pre-trade checking and Non-trade transfers prohibited** (SEHK Rules 1421(2), 1424, 14A06(4)-(10), 14B06(5)-(12), 14A06(2A)-(2B), 14B06(3)-(3A), 14A12 & 14B12) (HKSCC Rules 4104, 4104A & 4110(iii))
5. **Margin trading confined to Eligible SSE / SZSE Securities for Margin Trading** (SEHK Rule 14A15 & Rule 14B15)
6. **Client agreement and risk disclosure** (SEHK Rules 14A10 & Rule 14B10)
7. **Odd lots** (SEHK Rule 14A06(3) & Rule 14B06(4))
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. **Stock borrowing and lending** (SEHK Rule 14A16 & Rule 14B16)
12. **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 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
- Assigned BCANs to Mainland investors

✅ Good practices observed

- To avoid assigning a client with multiple BCANs, some CCEPs/TTEPs ask clients to declare in their account opening form that they have not opened any account with the firm previously
- For multiple trading accounts (e.g., cash, margin, master/sub-accounts, fund and fund manager accounts), some CCEPs/TTEPs assign BCANs based on the client's ID number or business registration number, rather than the trading account level
- Obtain accurate and sufficient client information for BCAN assignment and compiling BCAN-CID Mapping File
- Adopt automation to minimize manual processes and implement maker-checker mechanism to detect human errors



¹ FAQ on Northbound Investor ID Model ("FAQ") could be located on [HKEX website](https://www.hkex.com.hk/faq).

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
- Mistakenly deleted existing clients' BCANs from the BCAN-CID Mapping File
- 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
- Registered BCAN with “CHN” as the country/ region of issuance

✅ Good practices observed

- Conduct independent review on all client information obtained during onboarding to ensure data accuracy
- Perform checks on BCAN-CID Response File, BCAN-CID Validation Result File, BCAN Full image File upon each submission
- Perform regular checks and reconciliation with the internal system to ensure the BCAN-CID Mapping File is up-to-date and accurate, including records of affiliates' clients
- 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

BCAN-CID Response File, BCAN-CID Validation Result File, and Full Image File

BCAN-CID Response File

- The **Response File** is given back to CCEPs and TTEPs within 10 minutes after submitting the Mapping File
- The file returns results of format validation of submitted BCAN-CID Mapping File containing list of failed validation
- See complete list of response codes in System File Interface Specification 3.1

BCAN-CID Validation Result File

- The **Validation Result File** is distributed after 6:00pm on scheduled Northbound trading days
- The file provides final process status of BCAN-CID Mapping for that day
- Validation Result File contains only list of BCAN records that have been either added, deleted, or modified. BCAN records that remain unchanged are not reported in the Validation Result File
- Newly created BCANs that are not accepted by Mainland exchanges/ChinaClear on T-1 day cannot be used for Northbound trading on T-day
- See complete list of process result codes in System File Interface Specification 3.2

BCAN Full Image File

- The **Full Image File** is distributed after 6:00pm on scheduled Northbound trading days
- The file contains the final list of BCANs of each CCEP and TTEP, which are accepted by the Mainland exchanges/ChinaClear and ready for Northbound trading on T-day
- The file is distributed to all CCEPs and TTEPs on Northbound trading days, regardless whether they submitted BCAN-CID Mapping File or not



¹ For a full list of response codes and process result codes, please refer to [System File Interface Specification](#)

China Connect Rules - BCAN Requirements

BCAN-CID Response File, BCAN-CID Validation Result File, and Full Image File

BCAN-CID Response File

3 Appendix I

3.1 Response Codes used in Response Files

Response Code	File Level Error	Synopsis
D0101	Yes	Submitted file is corrupted.
D0102	Yes	Invalid (txt) file name.
D0103	Yes	Invalid file layout (e.g. format or missing of header/control records).
D0104	Yes	Invalid control counters (record count in control record).
D0105	Yes	Invalid encoding (file is not UTF-8 encoded).
D0106	No	Invalid data record layout (e.g. invalid record type, invalid record length).
D0201	Yes	Header record error: Invalid file ID.
D0202	Yes	Header record error: Invalid file format version.
D0203	Yes	Header record error: Invalid Firm ID.
D0204	Yes	Header record error: Invalid submission date.
D0205	Yes	Header record error: Invalid submission sequence number.
D0221	No	Data record error: Duplicated record sequence number.
D0222	No	Data record error: Invalid data format (e.g. putting in text for BCAN).
D0223	No	Data record error: Invalid data value (e.g. putting in 20 for Client Type).
D0224	No	Data record error: Failed validation rule (e.g. Client Type was 1 but English First Name and Middle Name, English Last Name and Chinese Name were all missing).
D0225	No	Data record error: Invalid Executing CCEP Firm ID. Submitting Firm is not authorised by the executing CCEP.
S0102	Yes	General system error. Contact HKEX.

BCAN-CID Validation Result File

3.2 Result Codes used in BCAN-CID Validation Result File

Process result codes returned by ChinaClear are listed in the table below.

Process result text has two parts: first part is the Record Sequence Number (enclosed in square brackets, [nnnnnnnnnn]) of the BCAN-CID record in the submitted mapping file; second part, which follows the Record Sequence Number and is optional, is the text description of the process result.

Process Result Code	Process Result Text
0000	[nnnnnnnnnn] Successfully processed and accepted.
9001	[nnnnnnnnnn] XXX (field name) cannot be blank
9002	[nnnnnnnnnn] The content in XXX (field name) is in wrong format
9003	[nnnnnnnnnn] When sending an ADD entry, "broker code + BCAN" already exists in system
9004	[nnnnnnnnnn] When sending a MODIFY entry, "broker code + BCAN" does not exist
9005	[nnnnnnnnnn] "Broker code + BCAN" is not unique
9006	[nnnnnnnnnn] The number of BCANs does not equal the number of clients in a joint account
9007	[nnnnnnnnnn] The identification card number does not conform with standards
9008	[nnnnnnnnnn] The status of BCANs in a joint account are inconsistent
9009	[nnnnnnnnnn] Client Type cannot be modified
9011	[nnnnnnnnnn] The client name does not match the identification card number
9012	[nnnnnnnnnn] The information of the closed BCAN cannot be modified
9015	[nnnnnnnnnn] The Action Codes for BCANs from the same joint account are different
9016	[nnnnnnnnnn] The Numbers of Account Holders for BCANs from the same joint account are different.
9017	[nnnnnnnnnn] The other BCAN of Account Holders is in wrong format
0999	[nnnnnnnnnn] Other error ¹



¹ For a full list of response codes and process result codes, please refer to [System File Interface Specification](#)

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	3 and 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
▪ Input of client's name in abbreviation form	"ABCSL"	ABC Securities Limited
▪ Addition of internal remark after client's name to indicate account nature	"ABCSL – House Account" or "ABCSL – Client Account"	ABC Securities Limited
▪ 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)
▪ Failed to input client names in languages other than English (including Chinese)	left field blank (Field No. 10)	(Note: CCEP/TTEP should NOT leave the field blank) (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")
- iii) Failure to remove test/obsolete data

Scenario	Wrong input	Correct input
▪ ID does not match the official identity documents	"A1234567" or "A123456"	A123456(7)
	"Error", "No LE`I" 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"))
▪ Extra spacing, or omission of characters, numbers and symbols	"A123456 (7)"	A123456(7)
	"CMY123456"	CMY-123456
▪ One particular ID type was used by default	"1" (regardless of the ID type provided by the client)	(Note: CCEP/TTEP should input the ID type number that corresponds to the document type provided by the client)
▪ 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)
▪ Inclusion of test/obsolete data	"Testing – XXX"	(Note: All testing data should be removed prior to the BCAN-CID Mapping File submission)



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)
- Reject registration of new BCANs for clients who are Mainland investors
(Circular (Ref. No. CT/088/22)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 usage of BCAN error report for reporting trade errors other than BCAN tagging due to misunderstanding of the relevant requirements²
- Failure to follow the specified format when inputting the relevant details into 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 template³ with format checks and make sure the trade details are correct



¹ Circular (Ref. No. CT/088/22) is available on [HKEX website](#).

² Compliance bulletin (Issue No. 11) (Ref No. MSM/005/2024) is available on [HKEX website](#).

³ 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 i.e **302XXX²**)
- Misclassification of client’s professional investor (“PI”) type
- Pre-trade system controls were inadequately implemented due to insufficient UAT, incorrect configurations, or failure to ensure proper deployment of system settings
- Failure to put in place any post-trade review exercise, or post-trade review exercise not diligently carried out and/or with incomplete client coverage (e.g. covers direct clients but not underlying clients of intermediaries), 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.

² Compliance Bulletin (Issue No. 13) (Ref no. MSM/001/2025) is available on [HKEX website](#).

China Connect Rules

Investor Eligibility Requirement for Trading of ChiNext Shares and STAR Shares

✓ Good practices observed

Client Onboarding	Pre-trade	Post-trade
<ul style="list-style-type: none">✓ 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	<ul style="list-style-type: none">✓ 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	<ul style="list-style-type: none">✓ Implement post-trade review exercise for <u>timely</u> 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
- Some 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**



China Connect Rules

Turnaround trading, Pre-trade checking and Non-trade transfers prohibited

Key Information for EPs

SEHK Rules

- Turnaround (day) trade is **NOT** allowed. CCEPs must put in place appropriate measures to ensure that China Connect Securities purchased by or through it on a CSC trading day will not be sold on the same day
(Rules 14A06(4) and 14B06(5))
- Ensure sufficient securities (based on T-1 day-end balances) to settle delivery obligation, and sufficient funds to settle payment obligation
(Rules 1421(2), 1424, 14A06(2A)-(2B), 14B06(3)-(3A), 14A06(5)-(10), 14B06(6)-(12))
- Ensure accurate input of SPSA/Master SPSA ID, and receipt of pre-allocation instructions from Master SPSA Holder for Master SPSA orders
(Rules 14A06(2A)-(2B) and 14B06(3)-(3A))
- Non-trade transfers are prohibited unless explicitly permitted by the rules
(Rules 14A12 and 14B12)
- Appropriate controls to ensure (and records to demonstrate) no misappropriation of client assets
(Stock Connect FAQ 1.48.1 and 1.48.2)

Key Information for CPs

HKSCC Rules

- Ensure that the account designation is performed accurately and properly, and that the clients' holdings are correctly maintained in their designated accounts
- Each SPSA can be mapped to only one Master SPSA ID; the aggregate sellable balances in all the SPSAs mapped to the same Master SPSA ID, and not those in the individual SPSA, will be used for pre-trade checking
(Rules 4104 and 4104A)
- Non-trade transfers are prohibited unless explicitly permitted by the rules
(Rule 4110(iii))



Q & A Session



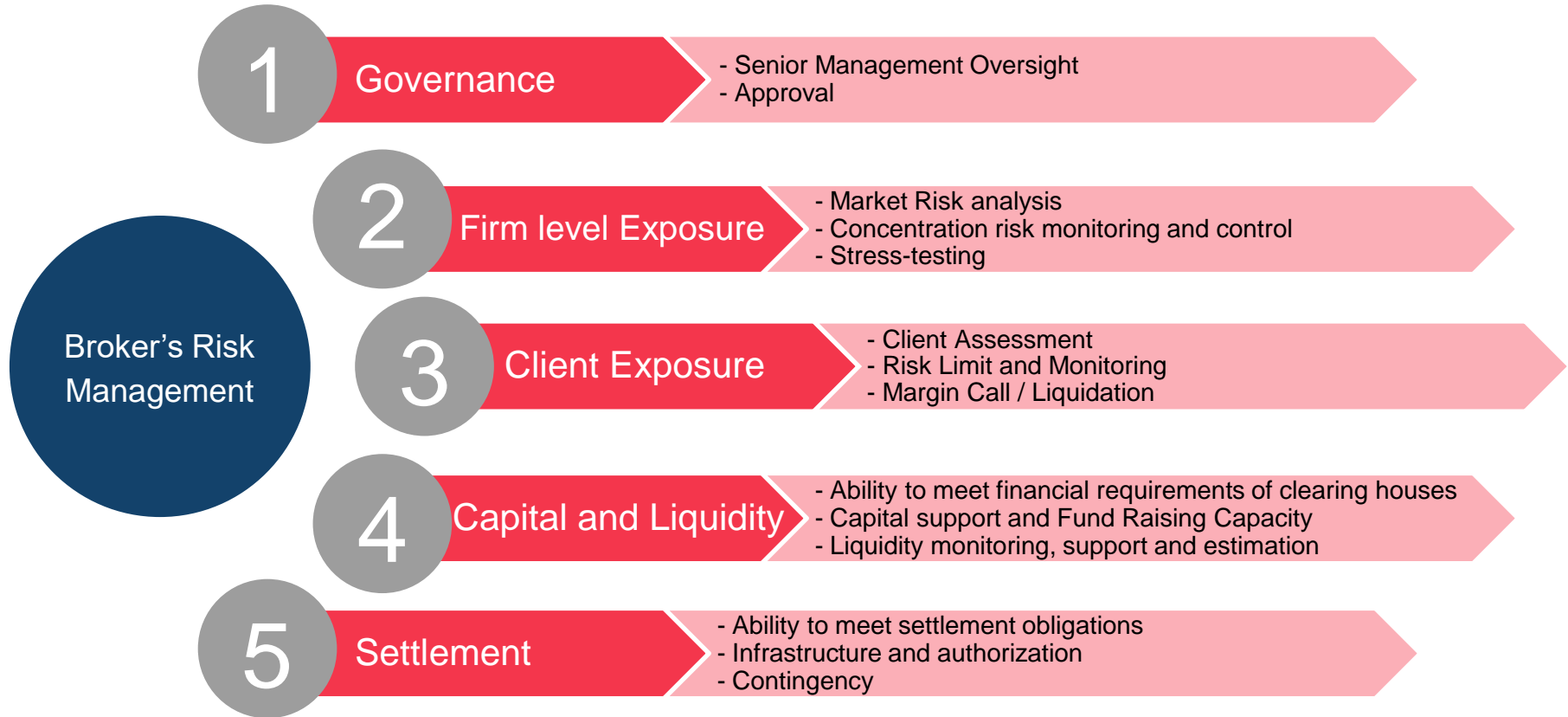


2025 Priority Areas

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 **Business Continuity and Contingency Arrangements (including e-banking authorisation)**
- 5 **Notification and Update**

Risk Management

1. Stress Testing

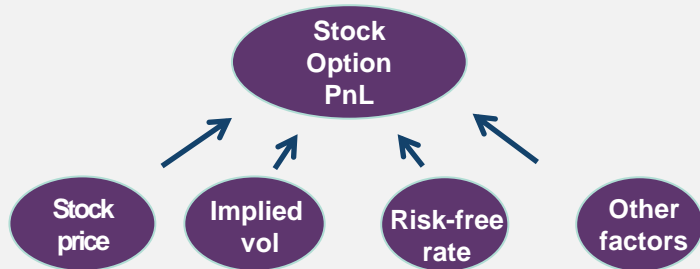
Key Information

Stress Testing of **derivatives products** (futures and options) is crucial since the losses of derivatives products might 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 margin requirement.

* Please refer to the CCMS Terminal User Guide 7.1.3 and 7.1.12 (which is available on client connect). CPs should check and ensure they have the correct user access level for submitting SCC/SSC instructions in the CCASS Terminal.

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 (For Holiday Trading Clearing Participants)

Contingency plan in case of late payment (e.g. insufficient funding 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 of default and could have serious consequence on your firm



Risk Management

4.1 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

4.2 E-banking Authorization and Back up Broker Arrangements

E-banking	
Key Information	Compliance Reminder
<p>CPs should arrange electronic/phone banking channel to ensure timely transfer of funding between house accounts and to HKEX's bank account.</p> <ul style="list-style-type: none">✓ Maker and checker mechanism✓ Limit of transfer fund is set above liquidity needed	<p>Inadequate controls in relation to e-banking</p> <p>Common deficiencies</p> <ul style="list-style-type: none">✗ CPs do not have e-banking set up.
Back up Broker(s)	
Key Information	Compliance Reminder
<p>CPs should have a back up broker arranged, so client order can be routed to a peer broker in case of disruptions.</p>	<p>Inadequate arrangement in place to cover contingency handling of trades leading to CPs unable to meet settlement obligations.</p>

Risk Management

4.3 Business Continuity and Contingency Arrangements

Contingency Handling of Forthcoming Trades

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**.

For CP appointed as a backup broker by a client which is a SEHK and/or HKFE Exchange Participant, CP should put in place appropriate and effective measures, and take reasonable steps to ensure that the EP Client they deal with are not in suspension status, unless prior approval has been obtained from the relevant Exchange(s).

Compliance Reminder

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

Examples of contingency handling of forthcoming trades includes:-

1. routing to a peer broker,
2. putting timely stop to client orders and
3. promptly notifying clients about the order handling approaches

Regarding SEHK Rule 541 and/or HKFE Rule 522C compliance, backup broker should be able to timely identify whether its EP client is in trading suspension status and upon identification, to obtain waiver for SEHK/HKFE.



Risk Management

5. Notification and Updates – Risk and 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/002/2025](#) issued on 31 March 2025 for details.

Compliance Reminder

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

Risk Management

5. Notification and Updates – Risk and Control Plan

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% or 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

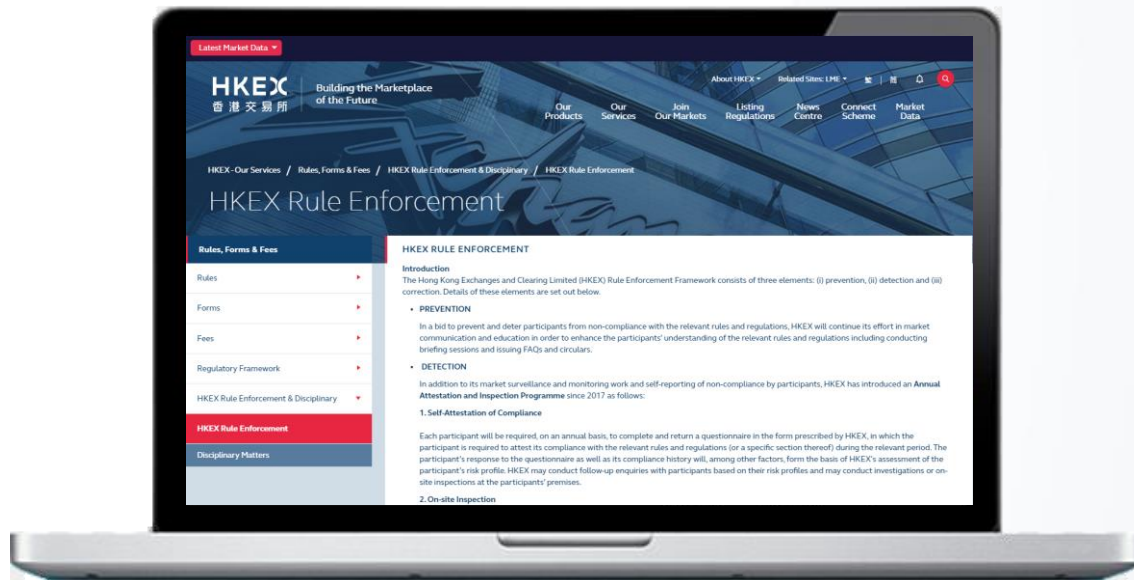
Q & A Session



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 China Connect Rules

2025

- [Compliance Bulletin \(Issue No. 13\) – \(1\) Investor Eligibility Requirement for Trading of ChiNext Shares, and \(2\) Large Open Positions \(“LOP”\) Reporting Requirements during Holiday Trading Days \(Ref. No. MSM/001/2025\)](#)
- [2024 Compliance Reminder on China Connect Rules](#)

2024

- [Compliance Bulletin \(Issue No. 12\) – Payment Obligations towards Hong Kong Securities Clearing Company Limited, HKFE Clearing Corporation Limited, The SEHK Options Clearing House Limited \(collectively as “Clearing Houses”\) in volatile markets \(Ref. No. MSM/013/2024\)](#)
- [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 \(“EPs”\) \(Ref. No. MSM/005/2024\)](#)
- [2023 Compliance Reminder on China Connect Rules](#)

Appendix I

Past publications 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](#)