

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against HSBC Securities Brokers (Asia) Limited

The Disciplinary Action

1. The Stock Exchange of Hong Kong Limited (**the Exchange**) has taken disciplinary action against HSBC Securities Brokers (Asia) Limited (**HSBC Securities**) over breaches of various BCAN¹ requirements under the Rules of the Exchange. HSBC Securities was reprimanded and fined \$1 million.
2. HSBC Securities is a registered Exchange Participant and China Connect Exchange Participant (**CCEP**), and is bound by the Rules of the Exchange.

Summary of facts

HSBC Securities self-report

3. Between January 2020 and October 2021, HSBC Securities self-reported multiple incidents of errors in relation to their assignment of BCANs to clients (collectively, **BCAN errors**).
4. When reporting the BCAN errors to the Exchange, HSBC Securities had already identified specific internal control deficiencies in relation to their assignment of BCAN-CIDs² for clients using the China Connect Service. These deficiencies included:
 - Process-related deficiencies (e.g. processes which are highly manual and fragmented between multiple support functions)
 - People-related deficiencies (e.g. inadequate awareness around the impact of changes in client static data on compliance with BCAN related requirements)
 - System-related deficiencies (e.g. system bug not being discovered in time)

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¹ "BCAN" means Broker-to-Client Assigned Number

² "CID" means Client Identification Data, which refers to the name, identity document type, identity document issuing country or jurisdiction and identity document number in relation to a client to whom a BCAN is assigned

5. In light of the BCAN errors reported by HSBC Securities, the Exchange commenced an investigation under Rule 569(1) of the Rules of the Exchange.

Regulatory requirements

6. Rule 1425A(3) of the Rules of the Exchange requires a CCEP to “ensure that the CID in the BCAN-CID Mapping File is accurate and up to date”.
7. Rule 1425A(1)(e) of the Rules of the Exchange requires a CCEP to “ensure that the BCAN assigned to a client will not be changed or re-used for another client unless such modification is necessary due to system upgrades or other exceptional cases and the Exchange’s prior written approval is obtained”.
8. Rule 1425A(1)(b) of the Rules of the Exchange states that, if “a client holds multiple accounts with a CCEP, a single BCAN shall be assigned to identify such client, unless the other account(s) of the CCEP are held jointly with any other person in which case a separate BCAN in respect of the China Connect order for such joint account shall be assigned”.
9. Rule 1425A(4) of the Rules of the Exchange requires a CCEP to include the corresponding BCAN when inputting a China Connect order in the CSC.

The Exchange’s investigation findings

10. Following the Exchange’s investigation, it was revealed that between 26 September 2018 and 17 September 2021, HSBC Securities had breached the following Rules of the Exchange as summarized below:

Rule breach	No. of BCAN records involved	No. of orders involved	Duration of breach
1425A(3) – inaccurate BCAN-CID Mapping File	22	2,510,988	26 Sep 2018 to 3 Sep 2021
1425A(1)(e) – change of assigned BCAN, re-use of a BCAN without obtaining the Exchange’s prior approval	2	100,013	16 Apr 2020 to 17 Sep 2021
1425A(1)(b) – more than 1 BCAN assigned to the same client	1	6,630	18 Feb 2019 to 25 Aug 2020
1425A(4) – order tagged with incorrect BCAN	67	760,320	26 Sep 2018 to 6 May 2020
Total	92	3,377,951	N/A

Conclusion

11. In deciding the disciplinary sanctions against HSBC Securities, the Exchange took into account all relevant circumstances, including:

- HSBC Securities self-reported the breaches;
- HSBC Securities' timely remedial measures, including engaging external consultants to review its internal controls of BCAN related matters to expedite completion of remediation work;
- HSBC Securities' cooperation with the Exchange in addressing the Exchange's concerns, accepting the Exchange's findings in full and resolving the disciplinary proceedings in an expedited manner;
- the clients affected by HSBC Securities' failures had not suffered any financial loss; and
- HSBC Securities' otherwise clean disciplinary record with the Exchange.

Hong Kong, 3 March 2022