

**Follow-up actions arising from the meeting of
the Legislative Council Panel on Financial Affairs on 9 June 2014**

**Agenda Item V –
Establishment of Shanghai-Hong Kong Stock Connect**

**New Electronic Trading Regulation for
the Trading of Securities and Futures Contracts**

Purpose

At the Panel meeting held on 9 June 2014, Members requested for information on the new electronic trading regulation for the trading of securities and futures contracts. This paper sets out the Securities and Futures Commission (“SFC”)’s response.

**New Electronic Trading Regulation for the Trading of Securities and
Futures Contracts**

2. Since 1 January 2014, the SFC has implemented the new electronic trading regulation for the trading of securities and futures contracts. The new electronic trading regulation covers internet trading, direct market access and algorithmic trading which are relevant to high-frequency trading.

3. The regulatory requirements for electronic trading are set out in Schedules 6 and 7 and paragraph 18 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (“Code of Conduct”), and Part IV of the Fund Manager Code of Conduct.¹ Key aspects of the new electronic trading regulation include regulatory requirements in relation to: i) management and supervision of the electronic trading system; ii) adequacy of the system including its reliability, security and capacity; iii) record keeping; and iv) risk management.

¹ Under section 169 of the Securities and Futures Ordinance (Cap. 571), the SFC has specific power to publish codes of conduct for the purpose of giving guidance relating to the practices and standards with which intermediaries and their representatives are expected to comply.

4. For conducting electronic trading, brokerage firms in Hong Kong are required under the Code of Conduct to have in place risk management and supervisory controls to monitor orders and trades, such as automated pre-trade controls and regular post-trade monitoring. Moreover, a brokerage firm should also promptly report to the SFC any material service interruption or other significant issues related to the electronic trading system it provides to clients for use.

5. In addition, the Stock Exchange of Hong Kong, as the market operator, is also responsible for monitoring market activities to identify irregularities and to take immediate action if necessary, e.g. by restricting the access of concerned participants to the market.

Securities and Futures Commission
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