

Expected standards of conduct and internal controls for implementing severe weather trading¹ (SWT)

1. SWT and related remote working arrangements²

1.1 Intermediaries should put in place effective and adequate arrangements to maintain business operations on an SWT Day³. In formulating such arrangements, intermediaries should:

- (a) identify functions that are critical to the continued performance of their services and operations and the protection of clients' interests during an SWT Day (critical functions), particularly those performed or supported by a single or small group of staff, or third-party service providers or vendors; and
- (b) assess the impact of SWT⁴ arrangements on their resources, systems and processes for performing these critical functions and any associated vulnerabilities, and implement appropriate measures to mitigate these vulnerabilities, which should at a minimum include the measures set out in paragraphs 1.2 to 1.5 below.

1.2 Intermediaries should adopt, so far as reasonably practicable, remote operations (ie, staff working from home) to perform critical functions on an SWT Day⁵. To ensure the effectiveness of remote operations, intermediaries should:

- (a) arrange for staff who perform critical functions (core staff) to have remote system access. For example, when conducting off-premises trading activities⁶, dealers or account executives (where applicable) should be able to remotely access trading and information systems such that they could manage the order execution process and determine the execution strategy and parameters to execute client orders promptly and on the best available terms;

¹ For the purposes of this annex, severe weather trading refers to the maintenance of normal operations of the Hong Kong securities and derivatives markets during severe weather conditions; and severe weather refers to the scenario where a typhoon signal No. 8 or above or a black rainstorm warning is issued by the Hong Kong Observatory, or an "extreme conditions" announcement is made by the HKSAR Government.

² Under General Principle 3 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct), intermediaries should have and employ effectively the resources and procedures which are needed for the proper performance of their business activities.

³ An SWT Day refers to any day from Monday to Friday except a Hong Kong public holiday on which severe weather falls. In addition, it would be considered an SWT Day for the derivatives market if severe weather falls on a Hong Kong public holiday which is a holiday trading day for selected derivatives products.

⁴ For details of the SWT arrangements, intermediaries should refer to the Consultation Conclusions on Severe Weather Trading of Hong Kong Securities and Derivatives Markets published by HKEX.

⁵ Where intermediaries need certain core staff to work in office during an SWT Day, they should have regard to the Code of Practice in Times of Adverse Weather and "Extreme Conditions" published by the Labour Department as well as the recommended approach and suggested preparations set out in Chapter 3 of the Consultation Conclusions on Severe Weather Trading of Hong Kong Securities and Derivatives Markets published by HKEX, and make necessary arrangements accordingly, including formulating the work arrangements under severe weather, and ensuring core staff are aware of and have agreed to such arrangements.

⁶ In addition to remote access to order management systems which are capable of centralised order recording for orders placed from a remote location, intermediaries may adopt alternative order receiving and recording options as appropriate to comply with regulatory requirements and meet the needs of their specific circumstances. For detailed guidance about recording client orders placed from a remote location, please refer to the SFC's [Circular](#) dated 31 March 2020.

- (b) assess whether their existing IT infrastructure (including but not limited to software, hardware, networks and data storage) is adequate and appropriate to support remote operations, make necessary enhancements and arrange for backup systems and facilities as appropriate. For example, where intermediaries are unable to execute client orders remotely under their existing infrastructure, they should consider arranging with third-party execution brokers to provide such support, thus enabling continued services for clients. Intermediaries should exercise due care and diligence in the selection and appointment of third-party execution brokers and take all reasonable steps to ensure that such brokers are suitably qualified and competent to facilitate intermediaries in providing continued services to clients; and
 - (c) implement appropriate measures to mitigate and manage cybersecurity and information security risks associated with remote working arrangements⁷.
- 1.3 To ensure their business operations continue uninterrupted under severe weather, intermediaries should:
 - (a) put in place contingency measures (eg, maintaining adequate staffing resources to support remote operations, and arranging backup staff) to cope with core staff's unavailability to work remotely due to disruptive events arising from severe weather; and
 - (b) evaluate the compatibility of intermediaries' own SWT arrangements with those of third-party service providers or vendors who support the critical functions, and have in place backup arrangements as necessary.
- 1.4 To ensure intermediaries' capability to fulfil money settlement or risk obligations (eg, initial and variation margins), intermediaries should review their operational arrangements for fund transfers to determine whether they are appropriate and adequate under SWT. Specifically, intermediaries should:
 - (a) use electronic means for fund transfers on an SWT Day as they would not be able to transfer funds via physical means (eg, paper cheques or bank counters) under severe weather; and
 - (b) evaluate whether adjustments to electronic fund transfer limits are necessary to allow greater flexibility in support of SWT, and engage their banks to adjust the limits or make alternative arrangements where necessary.
- 1.5 Intermediaries should put in place adequate and effective internal control procedures for dealing, clearing and settlement as well as client communication, risk management, client asset protection and notifications to the SFC during an SWT Day. For example, intermediaries should continue to conduct trade matching and take appropriate follow-up action on any discrepancies or irregularities noted.
- 1.6 Intermediaries should also have regard to the operational resilience standards and required implementation measures as well as the regulatory standards for managing

⁷ See also the SFC's [Circular on management of cybersecurity risks associated with remote office arrangements](#) dated 29 April 2020.

and mitigating the risks associated with remote working, as set out in the SFC's [Report on Operational Resilience and Remote Working Arrangements](#). All necessary steps should be taken to ensure operational resilience and effective remote operations under severe weather.

- 1.7 Intermediaries should maintain sufficient records and documents to demonstrate adherence to the internal control procedures referred to in paragraph 1.5 above. In particular:
 - (a) the activities conducted by staff remotely on intermediaries' systems should be effectively captured in the records and documents generated by these systems; and
 - (b) any requisite records and documents that are kept by staff at home should be sent to premises for keeping records or documents approved under section 130 of the Securities and Futures Ordinance (SFO) as soon as practicable.
- 1.8 Intermediaries should communicate their SWT and related remote working arrangements with their staff, conduct trial runs to ascertain the effectiveness and adequacy of such arrangements⁸, and remediate any inadequacies identified from the trials.
- 1.9 Intermediaries should periodically test their SWT and related remote working arrangements to ensure their effectiveness and adequacy. Intermediaries should remediate any issues identified from the tests.
- 1.10 Intermediaries should also review their SWT and related remote working arrangements whenever necessary and at least annually by assessing whether their operational capabilities and internal control procedures remain adequate and appropriate to ensure operational resilience and effective remote operations during an SWT Day, and enhance the arrangements when necessary.
2. Client agreements and communication⁹
 - 2.1 Intermediaries should review and, where necessary, amend the terms and provisions in client agreements to ensure they remain applicable and appropriate having regard to SWT. For example, intermediaries should give due consideration to any limitations on providing services, meeting settlement or margin requirements by clients, and triggering forced liquidation on an SWT Day.
 - 2.2 Intermediaries should also review references to "business day"¹⁰ in the client agreements, which may not be defined to include an SWT Day, and assess the implications for their business operations.

⁸ Exchange participants should consider joining the testing session to be arranged by HKEX to validate their own readiness.

⁹ Intermediaries should comply with the requirements relating to client agreements, including paragraphs 6.2 and 6.3 of the Code of Conduct, and make adequate disclosure of relevant material information in their dealings with clients under General Principle 5 of the Code of Conduct.

¹⁰ For the avoidance of doubt, "business day" is defined under section 1 of Part 1 of Schedule 1 to the SFO as any day other than a public holiday, a Saturday, and a gale warning day or a black rainstorm warning day as defined in section 71(2) of the Interpretation and General Clauses Ordinance (Cap. 1).

- 2.3 Intermediaries should promptly notify clients of any changes to the terms and provisions in the client agreements as a result of such assessment. Intermediaries should notify clients in writing in advance of any unavailability or limitation of services¹¹ on an SWT Day, and draw their attention to any related changes to the client agreements so as to reduce potential disputes.
- 2.4 Intermediaries should promptly inform clients of their policies and arrangements for handling orders, trade settlement, margin call and forced liquidation during an SWT Day (eg, changing order placing channels as part of the SWT arrangements, and requiring clients to pre-fund their payment obligations or imposing additional collateralisation to mitigate the risk of settlement failures or unfulfilled margin calls on an SWT Day). Intermediaries should proactively handle clients' enquiries and clearly explain to them to address any concerns.
- 2.5 Intermediaries should encourage clients to transfer funds electronically on an SWT Day (eg, Clearing House Automated Transfer System (CHATS), Faster Payment System (FPS), electronic Direct Debit Authorisation (eDDA), and bill payment services) to meet clients' trading needs and settlement or margin obligations in a timely manner.
- 2.6 Where intermediaries are required to provide trade documents (eg, contract notes and statements of account) to clients no later than the end of the second business day after entering into relevant contracts¹² pursuant to the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules, they do not need to count an SWT Day in determining the deadline by which the trade documents have to be provided to clients. This is because an SWT Day is not considered a "business day" under the SFO. Nevertheless, intermediaries should, as far as practicable, provide clients with trade documents on an SWT Day as scheduled if the documents are provided via electronic means (eg, email or intermediaries' websites) so that clients can continue to receive timely information about transactions conducted with them or on their behalf¹³.
- 2.7 Intermediaries should notify relevant clients of capital adjustments upon any announcements by SEOCH¹⁴ or notifications from an Options Exchange Participant^{15,16} on an SWT Day as scheduled.
3. Risk management¹⁷
- 3.1 Intermediaries should evaluate and address potential liquidity needs to meet their payment obligations under any circumstances. For example, where clients have not

¹¹ Exchange participants should refer to Chapter 3 of the Consultation Conclusions on Severe Weather Trading of Hong Kong Securities and Derivatives Markets published by HKEX, which mentions that it is considered acceptable for qualified participants to adjust the level of services provided to their clients upon implementation of SWT and until 31 December 2024, provided that these adjustments are communicated by the participants to their clients clearly in advance. After 31 December 2024, trading and clearing operations on an SWT Day should proceed as business-as-usual and all participants are expected to be operationally ready.

¹² Or after the occurrence of events specified under sections 8 and 9 of the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

¹³ For the avoidance of doubt, for contracts entered into or specified events occurring on SWT Day, intermediaries should provide trade documents to clients by SWT Day plus two business days.

¹⁴ The SEHK Options Clearing House Limited (SEOCH).

¹⁵ As defined under the Options Trading Rules of the SEHK.

¹⁶ Paragraphs 7 and 8 of Schedule 3 to the Code of Conduct.

¹⁷ Under Part VIII of the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission, intermediaries should establish and maintain effective policies and procedures to ensure the proper management of risks to which they are exposed.

adopted electronic fund transfers to meet payment obligations on an SWT Day, intermediaries should consider requiring pre-funding or additional collateralisation; or where clients fail to fulfil settlement or margin obligations under exceptional circumstances during an SWT Day, intermediaries should develop robust arrangements allowing timely and reliable access to funding, in order to meet intermediaries' obligations to clearing houses.

3.2 Intermediaries should be vigilant in monitoring prudential risks (including market, credit and liquidity risks), and exercise prudent risk management to ensure their financial resilience on an SWT Day. Specifically, intermediaries should:

- (a) ensure their market risk and credit risk exposures arising from securities margin financing, futures and options dealing and proprietary trading are properly quantified, monitored and controlled throughout an SWT Day; and
- (b) closely monitor liquidity risks resulting from failures to meet settlement or margin requirements by clients and the adequacy of liquid capital¹⁸ during an SWT Day, and have in place robust funding arrangements.

4. Client asset protection¹⁹

4.1 Intermediaries should continue to perform cash and stock reconciliations and take appropriate follow-up action on any discrepancies or irregularities noted on an SWT Day.

4.2 Where licensed corporations are required to transfer client money to a segregated account within one business day after receipt under the Securities and Futures (Client Money) Rules, they do not need to count an SWT Day in determining the deadline by which client money should be segregated as an SWT Day is not considered a "business day" under the SFO. Nevertheless, for better protection of client assets, licensed corporations are urged to transfer funds electronically and employ adequate resources and control procedures enabling the segregation of client money²⁰ to be performed as far as practicable on an SWT Day.

4.3 Intermediaries should segregate client securities or securities collateral²¹ as far as practicable on an SWT Day. Intermediaries who repledge securities collateral received or held on behalf of clients should also monitor if the securities collateral repledging limit²² is exceeded on each trading day (including an SWT Day), and rectify any limit excess by the close of business on the next trading day.

¹⁸ Under section 6(1) of the Securities and Futures (Financial Resources) Rules, licensed corporations must at all times maintain liquid capital which is not less than their required liquid capital.

¹⁹ Under General Principle 8 and paragraph 11.1(a) of the Code of Conduct, intermediaries should ensure that client assets are promptly and properly accounted for and adequately safeguarded.

²⁰ Segregation of client money generally refers to the separation of client money from a licensed corporation's own money and deposit of client money into, or withdrawal of its own money out of, a segregated account maintained at an authorized financial institution.

²¹ Segregation of client securities or securities collateral generally refers to the transfer of client securities or securities collateral in the intermediary's clearing account at CCASS that are not required for settlement into an appropriate segregated account at CCASS.

²² Under section 8A(3) of the Securities and Futures (Client Securities) Rules, the securities collateral repledging limit is exceeded when the aggregate market value of the repledged securities collateral calculated pursuant to subsection (2) exceeds 140% of the intermediary's aggregate margin loans on the same day.



5. Notifications to the SFC²³

- 5.1 Intermediaries should notify the SFC of any incidents, which may materially affect clients' interests or intermediaries' ability to maintain business operations, upon identification on an SWT Day, in accordance with relevant notification requirements under the Code of Conduct and the SFO. These incidents include, for example, a breach of the minimum liquid capital requirement under the Securities and Futures (Financial Resources) Rules²⁴, misappropriation of client assets, and outage or material failure of systems.

²³ Under paragraph 12.5 of the Code of Conduct, intermediaries should report to the SFC immediately upon the happening of, among other things, any material breach, infringement of or non-compliance with any law, rules, regulations and codes administered by the SFC or any such suspected breach, infringement or non-compliance and any material failure, error or defect in the operation or functioning of their trading, accounting, clearing or settlement systems or equipment.

²⁴ Under section 146(1) of the SFO, licensed corporations shall as soon as reasonably practicable notify the SFC if they become aware of their inability to maintain, or to ascertain whether they maintain, liquid capital not less than their required liquid capital and immediately cease carrying on any regulated activity for which they are licensed.