



NOTICE OF AUTHORIZATION TO PROVIDE AUTOMATED TRADING SERVICES
ISSUED TO SHANGHAI CLEARING HOUSE (銀行間市場清算所股份有限公司)
UNDER SECTION 95 OF THE SECURITIES AND FUTURES ORDINANCE

INTRODUCTION

Background

1. On 4 July 2022, the People's Bank of China (**PBoC**), the Securities and Futures Commission (**SFC**) and the Hong Kong Monetary Authority (**HKMA**) issued a joint announcement noting that they had agreed that China Foreign Exchange Trade System (National Interbank Funding Center) (**CFETS**) and Shanghai Clearing House (**SHCH**) (collectively "Mainland Infrastructure Institutions"), together with OTC Clearing Hong Kong Limited (**OTC Clear**) ("Hong Kong Infrastructure Institution"), will collaborate to develop mutual access between the Hong Kong and Mainland interest rate swap markets (**Swap Connect**).
2. Among other things, the joint announcement states:
 - (1) Swap Connect refers to an arrangement which will enable investors to participate in the financial derivatives markets in the Mainland and Hong Kong through a connection between Infrastructure Institutions in both places. At the initial stage, Northbound Trading will commence first, allowing investors from Hong Kong and other countries and regions (Overseas Investors) to participate in the Mainland interbank financial derivatives market through mutual access between Hong Kong and Mainland Infrastructure Institutions in respect of trading, clearing and settlement. Southbound Trading, which allows Mainland investors to access the Hong Kong financial derivatives market through mutual access between Infrastructure Institutions in both places, will be explored in due course. Initially, interest rate swaps (IRS) will be eligible with other products to be included in due course depending on market conditions.
 - (2) Swap Connect will abide by the relevant laws and regulations of both markets. Northbound Trading will follow the existing policy framework for the opening-up of the Mainland interbank financial derivatives market and take into account international practices. This will facilitate Overseas Investors to trade in the Mainland interbank financial derivatives market and hedge their risks.

Application submitted

3. The clearing and settlement services to be provided by SHCH in connection with Swap Connect constitute the provision of automated trading services (as defined in the SFO, **ATS**). SHCH has accordingly applied, under section 95(2) of the SFO, to be authorized to provide ATS.

AUTHORIZATION

4. In view of the matters described in paragraphs 1 and 2, and pursuant to section 95(2) of the SFO, the SFC hereby authorizes SHCH to provide ATS for the purposes of facilitating the clearing and settlement under Swap Connect, and subject to the conditions set out in paragraphs 5 to 10.



CONDITIONS

General

5. In providing ATS, SHCH must conduct its business, operations and affairs in a manner that is honest, fair and consistent with the principles, procedures and core standards reflected in the SFC's Guidelines on the Regulation of Automated Trading Services.

Operations

6. SHCH shall only provide ATS for the purposes of facilitating the conduct of clearing and settlement under Swap Connect.

Reporting and disclosure requirements

7. SHCH must inform the SFC of the following as soon as practicable after becoming aware of the same –
 - (1) any material changes to information provided in connection with its ATS application,
 - (2) any failures or defects arising in connection with the provision of clearing and settlement services or facilities under Swap Connect, and remedial steps taken, and
 - (3) any breach, or potential breach, of any of the conditions of SHCH's authorization to provide ATS.
8. SHCH must provide to the SFC **monthly** reports relating to its business and operations, and to any clearing and settlement conducted through Swap Connect. Such reports should be provided within two weeks after the end of the relevant month, and should include such information as the SFC may from time to time specify.
9. SHCH must provide to the SFC, within the time and in the manner specified, such information and documents relating to its business and operations, or to any clearing and settlement conducted through Swap Connect, as the SFC may at any time, and from time to time, reasonably request.

Service

10. Any notice or other document issued or served by the SFC on SHCH in connection with this authorization shall be regarded as duly served in any of the following ways –
 - (1) delivered by hand to, and sent by post to, SHCH's last known address as notified to the SFC in writing,
 - (2) sent by facsimile transmissions to its last known facsimile number as notified to the SFC in writing, or
 - (3) sent by electronic mail transmission to its last known electronic mail address as notified to the SFC in writing.