



Regulatory Update – SFC fines Credit Suisse Securities \$2.1 million over Breaches of Electronic Trading Requirements – November 2020

On 9 November 2020, the Securities and Futures Commission (“SFC”) announced that it had reprimanded and fined Credit Suisse Securities (Hong Kong) Limited (“CSSHK”) for regulatory breaches relating to failures in its electronic trading systems.

Investigation

During its investigation the SFC discovered that on 28 February 2019 between 09:39 and 09:47am CSSHK mistakenly submitted 16,935 market making quotes to market resulting in 8,042 stock option trades being executed at a price different to the prevailing market price.

The breach was deemed a result of a logic error in the symbol mapping program used at CSSHK. The logic error resulted in the program incorrectly mapping the March 2019 option series code to the Hong Kong Exchange March 2020 option series code.

CSSHK’s pre-trade controls that were applied to the breached trades were based on the fair prices of options which actually expired in March 2019, and therefore no errors were flagged in the system. To compound the issue, the impacted trades were not detected during the post trade control stage. Error messages were written into the error logs but did not generate alerts to the traders for their review. The regular testing of the programming system did not flag this logic error.

In the end 7,837 of the 8,042 impacted trades were cancelled, while the other 205 were honoured by CSSHK resulting in a total financial loss of US\$307,000.

Conclusion

Under the SFC’s Code of Conduct, all licensed person are required to ensure the integrity of any electronic trading system used. This includes the reliability, security and capacity of the system and ensuring that contingency measures are in place.

The SFC expects all internal controls applicable to electronic trading systems to be appropriately implemented and regularly tested in order to provide additional comfort that the systems in place can identify and flag such errors and ideally prevent errors from occurring. CSSHK failures therefore constitute a breach of the electronic trading requirements under the Code of Conduct.

As always, when deciding on appropriate disciplinary action, the SFC took into account the prompt remediation actions taken by CSSHK following the identification of the incident and CSSHK’s continual cooperation with the SFC throughout the remediation process.

How we can help

ComplianceAsia’s dedicated projects team provide compliance healthchecks for financial industry firms across Asia Pacific to ensure your Electronic Trading Systems’ internal controls which includes reviewing that all policies and procedures are compliant with all regulatory and industry best practice requirements.





CA | ComplianceAsia

About ComplianceAsia

ComplianceAsia is the longest established compliance consulting firm in Asia Pacific established in 2003 with key offices in Hong Kong, Shanghai, Singapore, Tokyo and London. We have an unmatched track record of completing complex compliance consulting projects for financial firms in the APAC region.

With over 70 staff, including compliance experts with experience in dealing with the SFC, HKMA, MAS, CSRC, JFSA and Asian exchanges, we provide independent, unbiased advice on Asian financial industry legislation and regulations. Our international client base consists of asset managers, hedge funds, private equity funds, family offices, broker-dealers, insurers, wealth managers and investment banks.

Contact Us Today

HONG KONG

Suite 1102
ChinaChem Tower
34 – 37 Connaught Road
Central

T: +852 2868 9070

SINGAPORE

137 Telok Ayer Street
#03-06
Singapore 068602

T: +65 6533 8834

MAINLAND CHINA

Room 4205-4207 42/F, Shanghai
Tower
No.479 Lujiazui Ring Road
Pudong New Area Shanghai

T: +86 147 1431 1859

JAPAN

Level 2
Marunouchijubashi Building
3-2-2 Marunouchi Chiyoda-ku
Tokyo 100-0005

T: +81 3 6837 5483

LONDON

1 St. Andrew's Hill
London
EC4V 5BY

T: +44 (0) 20 7213 0300



ComplianceAsia

W: www.complianceasia.com

Philippa Allen

CEO
E: philippa.allen@complianceasia.com

Alex Duperouzel

Managing Director
E: alex.duperouzel@complianceasia.com

Gerallt Owen

Regional Head of Client Relations
E: gerallt.owen@complianceasia.com

Lachlan Chubb

Regional Head of Regulatory Advisory and Projects
E: lachlan.chubb@complianceasia.com

Hanae Kuroda

Compliance Consultant
E: hanae.kuroda@complianceasia.com

Rachel Wu

Head of Mainland China Client Engagements
E: rachel.wu@complianceasia.com

Lucia Liao

Head of Shanghai Office
E: lucia.liao@complianceasia.com

