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Trading in the rain: The new HKEX's severe weather trading mechanism

Introduction

On 18 June 2024, Hong Kong Exchanges and Clearing Limited ("**HKEX**") published the conclusions (the "**Consultation Conclusions**") from a consultation paper on the Proposal on Severe Weather Trading of Hong Kong Securities and Derivatives Markets (the "**Consultation Paper**"). The operational model and arrangements are now finalised to allow Hong Kong's securities and derivatives markets to remain open during severe weather conditions.

HKEX plans to implement Severe Weather Trading ("**SWT**") from 23 September 2024, subject to regulatory approval. To prepare for the implementation of SWT, it is strongly recommended that (i) clearing participants of Hong Kong Securities Clearing Company Limited ("**HKSCC**"), HKFE Clearing Corporation Limited and The SEHK Options Clearing House Limited, as well as exchange participants of SEHK and HKFE (collectively, the "**Participants**"), (ii) relevant parties involved in the processes and (iii) the investing public to start preparations as soon as practicable. Participants will be required to declare system and operational readiness before the launch of SWT.

Background

Under the existing arrangement, an issuance of Typhoon Signal No.8 ("**T8**") or above, or a black rainstorm warning by the Hong Kong Observatory, or an announcement of "Extreme Conditions" by the HKSAR Government (the "**Government**"), could lead to delayed market opening or suspension of trading, clearing and settlement services.

Modernising Hong Kong's securities market and enhancing its competitiveness remain an overriding priority for HKEX. Therefore, on 30 November 2023, HKEX published the Consultation Paper to propose new operational arrangements to maintain uninterrupted trading, clearing, and settlement during SWT.

Key amendments

HKEX confirmed that it planned to implement SWT from 23 September 2024, subject to regulatory approval.

The SWT arrangements would be applicable to T8 or above, black rainstorm warning signal and "Extreme Conditions" issued by the Government ("**SW conditions**"). Under SW conditions, Hong Kong's securities and derivatives markets, including Stock Connect Northbound and Southbound trading, will maintain normal operations. However, HKEX will assess specific circumstances in consultation with the Government and the relevant regulators to decide whether there is an exceptional situation that warrants the markets to remain closed. HKEX will make announcements as required, to provide the market with advance notice and updates.

In relation to personnel safety and other operational difficulties, HKEX has made the following recommendations:

- **remote digital operations:** adopting fully remote digital operations during SWT days to the furthest extent possible;
- **alternative approaches:** suggesting Participants and relevant parties to contemplate and adopt alternative approaches in accordance with the Code of Practice in Times of Adverse Weather and "Extreme Conditions" promulgated by the Government if there is still a need to require personnel to report duty to their workplaces during SWT.
- **support for Participants:** providing assistance to qualified Participants for around three months after implementation. The qualified Participants will be exempted from the additional financial cost and disciplinary action even if they fail to fulfil the delivery or payment obligations on a SWT day, provided that they have applied for the assistance and that the relevant criteria are met.

Practical implications

(i) **Date for determining the eligibility of entitlement**

HKSCC proposes that the date for determining eligibility of corporate actions in CCASS will remain unchanged on a SWT day, instead of following the postponed last registration date as originally proposed for corporate action without ex-entitlement arrangements. This means that the date for determining eligibility of corporate actions in CCASS will remain unchanged for all corporate actions under SWT.

HKSCC will refer to the original last registration date (i.e. the SWT day) as the date for determining eligibility of corporate actions in CCASS for clearing participants, even though the last registration date announced by listed issuers will be deferred pursuant to Practice Note 8 to the Main Board Listing Rules to give these holders sufficient time to complete registration.

To cater for the potential physical deposit and withdrawal on the postponed last registration date, the relevant entitlements in CCASS will be adjusted accordingly to reflect such deposit and withdrawal with CCASS.

(ii) **Delisting and spin-off event**

For delisting, when the effective date, the date for determining eligibility of entitlement or payment date of such events falls on a SWT day, it will be carried out on a SWT day as scheduled. For spin-offs, the date for determining eligibility of entitlement in CCASS will not be changed, even if the date falls on a SWT day.

(iii) **Cash dividend**

HKSCC will notify clearing participants on the payment status of dividends on the SWT day by CCASS broadcast messages as soon as practicable. HKEX will explore electronic channels for dividend payments with market stakeholders.

(iv) **Physical instructions**

Unless otherwise required by the issuers or relevant rules, all corporate action instruction forms can be submitted to HKSCC via electronic means. In the rare event that physical documents are required, clearing participants can submit the materials to HKSCC electronically followed by the submission of the original copies after the SWT day.

Practical tips

Some practical tips on the preparations are set out below:

Parties	Key changes
Participants and related services providers	**Work arrangements** • conducting an assessment on what essential services are required and what infrastructure is needed to enable employees to work remotely (e.g. work from home) in order to provide relevant essential services; and • assessing the assignment of the designated staff, having regard to manpower requirements, staff establishment and actual circumstances of individual employees, such as maintaining a regular roster on a rotation basis. **System or operational capability** • reviewing operational flow and remote access infrastructure to see if any change or upgrade is necessary to support implementation. If full remote solutions are not available under the current setup, Participants should seek solutions as soon as practicable to prepare for SWT implementation; and • engaging service providers and related stakeholders to ensure service continuity during a SWT day.

Parties	Key changes
Employees of Participants and/or other financial institutions	• checking with employer on their remote access policy and infrastructure, and ensure remote access to company systems and HKEX systems (where necessary) are in place to perform necessary duties before the rollout of SWT; and • familiarising with remote access to company systems and HKEX systems (where necessary).
Investing public	• adopting electronic trading and money transfers, and ensure sufficient electronic transfer limits are proportionate to needs. Investors can request their banks to raise the limits if necessary; and • checking with their Participants as to the services they provide on a SWT day.

Next steps

SWT will take effect from 23 September 2024, with certain special arrangements to be offered to Participants requiring assistance, until the end of 2024. This initiative ensures that Hong Kong’s markets will continue to operate during severe weather events, thereby maintaining uninterrupted access for both regional and international investors.

Upon agreement with the SFC, HKEX will in due course publish relevant rule changes in separate circulars, other guidances and Frequently Asked Questions to reflect the detailed arrangements mentioned in the Consultation Conclusions and guide stakeholders on individual issues.

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