

**By Email**

15 July 2020

**Hong Kong Monetary Authority (HKMA)**

**Attention:**

Mr. Gordon Wong, Senior Manager (Banking Supervision) (Market Risk)<sup>1</sup>, HKMA

Mr. Argus Leung, Manager (Banking Supervision) (Market Risk)<sup>1</sup>, HKMA

**ASFIMA Letter Seeking Clarification on HKMA Circular “Sound Risk Management Practices for Algorithmic Trading”**

Dear Mr. Wong and Mr. Leung,

We refer to the circular “Sound risk management practices for algorithmic trading” issued by HKMA on 6 March 2020 (the “**Circular**”), in relation to some sound practices to manage the risks associated with algorithmic trading (“algo-trading”) based on HKMA’s survey results of a round of thematic on-site examinations conducted in 2019.

The Asia Securities Industry & Financial Markets Association (“**ASIFMA**<sup>1</sup>”) and its member generally welcome the guidance provided in the Circular. However, notwithstanding our general support for this measure, ASIFMA members are mindful that there are some uncertainties and challenges facing the industry regarding the real-time post trade monitoring. We would like to take this opportunity to seek clarification from HKMA by listing the questions and feedback made by the industry as follows:

1. Based on the feedback received from the industry, most banks would have real-time monitoring and kill switch activation in front office, which either built in the trading system or run by control team independent from the trading desk. It is noted that the Compliance surveillance team usually focus on the market conduct risk and monitoring is generally run at T+1 basis, instead of on a real-time basis. Is this in line with HKMA’s expectation?

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<sup>1</sup> ASIFMA is an independent, regional trade association with over 135 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, professional and consulting firms, and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region’s economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

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2. The industry views that the real-time monitoring should focus on risks which need to be dealt on real-time basis including exceeding market risk limit, credit risk limit and algo malfunction (e.g. sending too many orders, sending orders with price far away from prevailing price, etc.). Other types of market conduct risks such as wash trade, marking the close might be conducted at T+1 basis, instead of on a real-time basis. Is it in line with HKMA's expectation?
3. In addition to the surveillance team run by Compliance, most banks would also have first line control team for real-time monitoring which is independent from trading desk. This kind of in-business risk control team is treated as independent control function in general. Is it in line with the HKMA circular's expectation on independence?

ASIFMA would welcome an opportunity to discuss this further with HKMA, or to receive any comments HKMA might have on the matters set out above. If you have any follow up comments or require further clarification on any of the matters discussed in this letter, please do not hesitate to contact Patrick Pang ([ppang@asifma.org](mailto:ppang@asifma.org)).

Yours sincerely,



Patrick Pang  
Managing Director and Head of Compliance and Tax, ASIFMA