

## SFC statement on HKMEX

21 May 2013

The Securities and Futures Commission (SFC) issues the following statement in relation to the withdrawal of the authorization of Hong Kong Mercantile Exchange Limited (HKMEX) as an automated trading services (ATS) provider (Note 1).

- As a result of the recent deterioration in HKMEX's financial position, the SFC notified HKMEX of its intention to withdraw its ATS authorization.
- The Securities and Futures Ordinance (SFO) requires the SFC to give HKMEX an opportunity to respond to the SFC's concerns before a withdrawal decision may be made (Note 2). In accordance with this statutory obligation, the SFC provided HKMEX with time to respond to its concerns. Giving a party procedural fairness is a legal obligation. It is not a sign of any special treatment nor does it mean the SFC was applying a flexible approach in ensuring HKMEX complied with all relevant obligations.
- At the end of this process, HKMEX was unable to satisfy the SFC that it had complied or could comply with the financial condition attached to its authorization (Note 3).
- The SFC proceeded to withdraw the authorization with immediate effect after HKMEX decided not to contest the SFC's decision and agreed to surrender its authorization. This allowed HKMEX to prepare for an orderly wind down of open positions (Note 4).
- The process for winding down HKMEX's trading operations is entirely different from the process that might apply to a troubled broker. HKMEX did not hold client assets so no circularisation was necessary.
- The closing of open positions has been smooth and is now complete. The independent clearing house used by the HKMEX, LCH.Clearnet, has commenced the process of returning collateral relating to HKMEX's market back to clearing members.
- Last Wednesday, the SFC initiated an investigation into suspected irregularities in the financial affairs of HKMEX. In light of the evidence obtained, the SFC referred certain matters to the Commercial Crime Bureau (CCB) as the suspected irregularities are serious ones. For obvious reasons, it was not appropriate to disclose these matters to HKMEX or to the public pending further steps in the investigation. Those steps were taken earlier today. The SFC will continue its investigation and will cooperate fully with the CCB.

The SFC will not make further comment while investigation continues.

End

Notes:

1. The withdrawal was made under section 98 of the Securities and Futures Ordinance.
2. Please see section 98(4) of the SFO.
3. The Notice of Authorization for HKMEX to provide ATS is available on the SFC's website, and sets out the conditions imposed.
4. Please see the SFC's press release dated [18 May 2013](#).

Page last updated : 21 May 2013