

Concept Paper

# Modernising Hong Kong's IPO Settlement Process



## Foreword

### Modernising Hong Kong's IPO settlement process for greater speed and efficiency

Hong Kong is home to one of the world's most popular and robust markets for initial public offerings (IPOs). Maintaining our leadership as a compelling and competitive fundraising destination requires constant investment in our listing regime and market infrastructure.

Listing shares in Hong Kong currently entails a lengthy waiting time between the moment of pricing and the start of formal on-market trading: a process known as "T+5" IPO settlement. In the HKEX Group Strategic Plan 2019-2021, we made clear our aspiration to reform this process, and in this Concept Paper we have set out how we plan to achieve this goal.

At the core of our proposal is **FINI** (Fast Interface for New Issuance): a new software platform designed for Hong Kong market participants and authorities to interact digitally and seamlessly on the many important steps that comprise the end-to-end IPO settlement process. As a modern and user-friendly platform with common workflow logic and data standards, FINI will allow new shares to start trading as soon as "T+1", the day after pricing. This shortened settlement timeline will give investors quicker access, reduce market risk and improve efficiency for all involved.

### A foundation for the future

A single Hong Kong IPO can create opportunities for millions of investors and involve hundreds of market participants. Refreshing the technology behind this process also gives us an opportunity to improve its robustness, ensuring high standards of risk control, compliance and fairness to investors. We believe that the introduction of FINI will elevate the value proposition of Hong Kong as a fundraising venue and ensure our continued growth and success for years to come.

We welcome all stakeholders to offer their feedback on our proposal over the coming two months. Our sincere thanks go to those of you who have already helped us on this important journey with your tireless advice and support.



**Calvin Tai**  
Co-President and Group COO  
HKEX



**Bonnie Y. Chan**  
Head of Listing  
HKEX

**16 November 2020**



## Contents

<b>1. Executive summary .....</b>	<b>2</b>
<b>2. Background and rationale for reform.....</b>	<b>6</b>
<b>3. The FINI platform .....</b>	<b>9</b>
3.1 Overview, scope and design .....	9
3.2 Step-by-step workflow .....	12
3.3 Target IPO settlement timetable .....	25
3.4 Connecting to FINI .....	28
<b>4. Impact of the proposed reform.....</b>	<b>30</b>
4.1 Benefits for Hong Kong .....	30
4.2 Impact on market participants .....	33
<b>5. Implementation timeline.....</b>	<b>35</b>
<b>6. Providing feedback .....</b>	<b>38</b>

## Appendices

<b>A. Notes for practitioners .....</b>	<b>39</b>
<b>B. Supporting data .....</b>	<b>51</b>
<b>C. Glossary of terms .....</b>	<b>56</b>
<b>D. Privacy Policy Statement .....</b>	<b>57</b>

# 1. Executive summary

## Background and rationale for reform

see Section 2

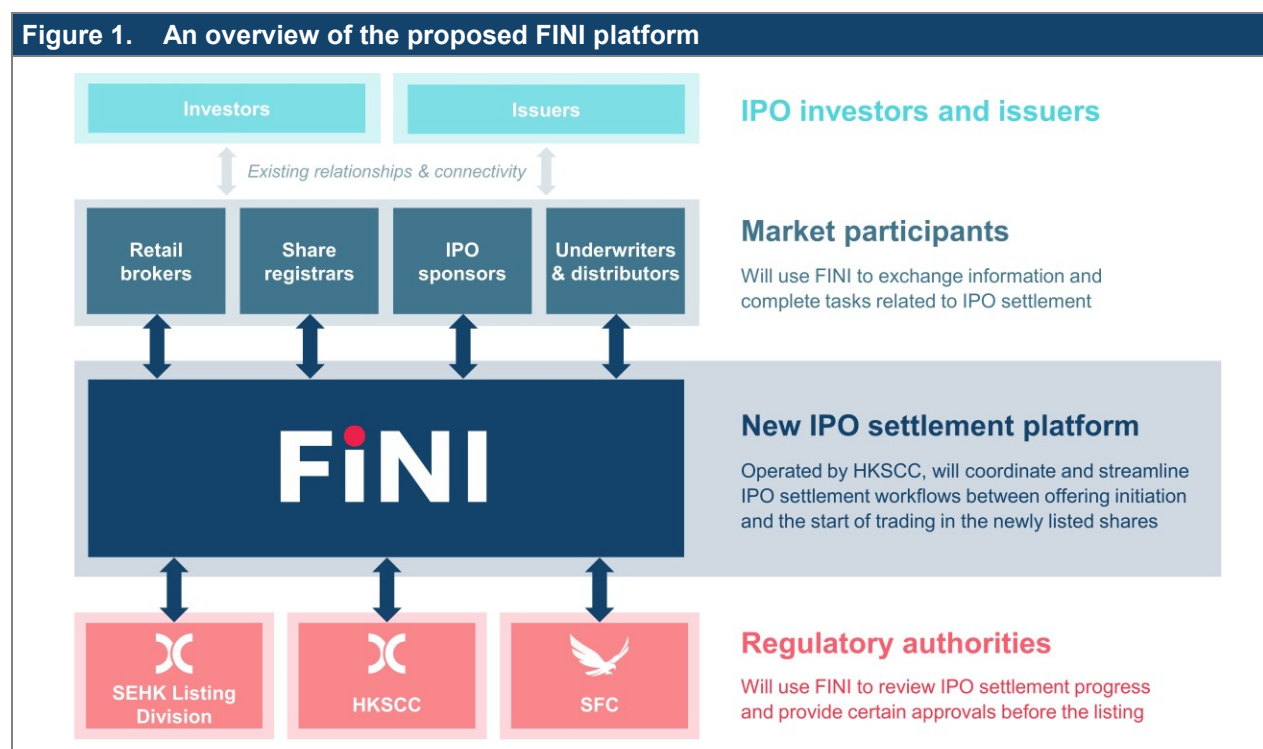
1. The size and maturity of Hong Kong's IPO market have evolved significantly over time, propelling it among the global leaders in equity fundraising. However, the logistics of how equity offerings are conducted in our market have not fundamentally changed in more than two decades.
2. After an IPO is priced, five business days are required, on average, for the new shares to be allocated, settled and admitted to trading on the Exchange. In other words, issuers and investors must wait an average of "T+5" days before "the gong is struck" and the shares become transactable in the secondary market.
3. This lengthy settlement process exposes both investors and issuers to market risk that may, in turn, influence the pricing of the IPO. When compared with other major listing venues that allow newly listed shares to trade on "T+1", this is an uncompetitive feature of the Hong Kong market. A faster IPO settlement cycle would enable quicker access for investors, reduce market risk and improve efficiency for all involved.
4. Shortening this process also presents an opportunity to modernise its logic and mechanics. In particular, we seek to reduce the market's reliance on manual processing and analogue interactions, which are prone to operational error and difficult to scale as the market grows. We also consider ways to alleviate the short-term liquidity lock-up associated with the prevailing IPO subscription mechanism for public investors.

## The FINI platform

see Section 3

5. **HKEX is seeking feedback on a proposal to modernise Hong Kong's IPO settlement process with a new, purpose-built platform that we have named "FINI": *Fast Interface for New Issuance*.**

Figure 1. An overview of the proposed FINI platform



6. The purpose of FINI is to provide a common venue for market participants and regulatory authorities who are involved in Hong Kong's IPO settlement process to interact with each other. It is essentially a secure, web-based portal that allows all parties to collaborate based on shared data and workflows (*Figure 2*).
7. FINI has been designed specifically to fit Hong Kong's unique listing regime and market structure. The design of the platform carefully balances digital modernisation and improved efficiency with regulatory, legal and commercial continuity, while also ensuring information security, ease of adoption and accessibility:

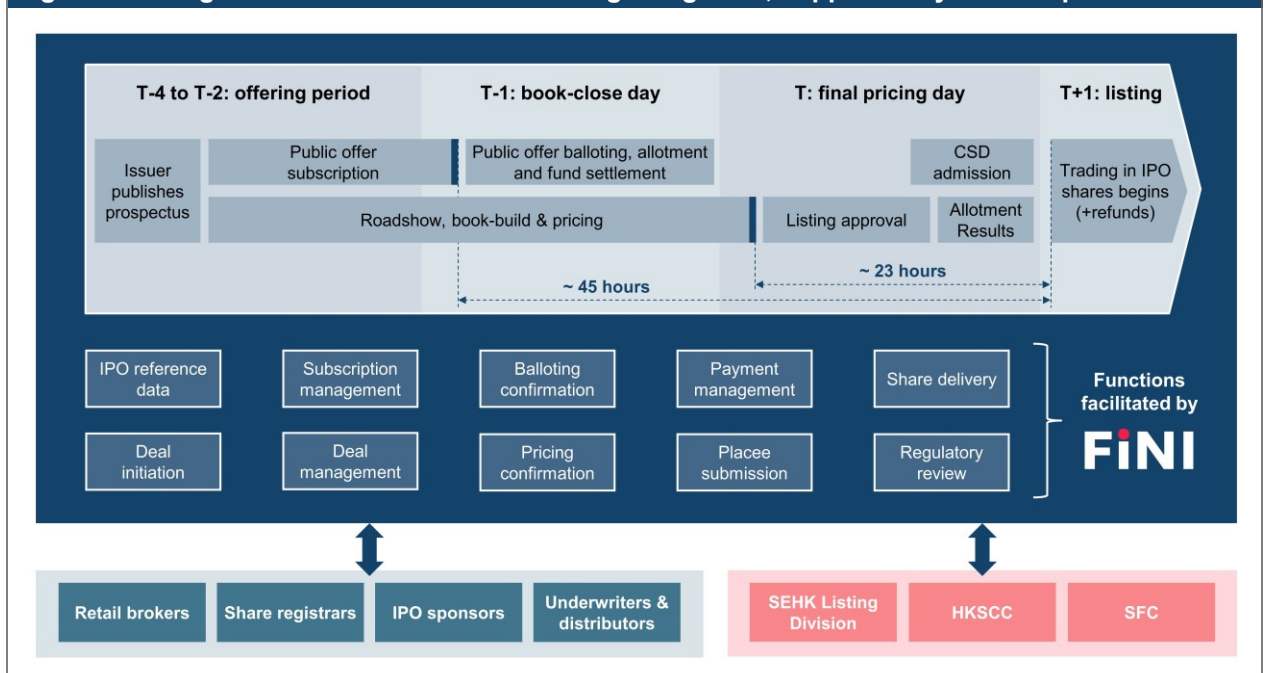
<b>Moving the market forward:</b> <i>what changes with FINI</i>	<b>Preserving our strengths:</b> <i>what remains the same as today</i>
<ul style="list-style-type: none"> <li> <b>End-to-end IPO settlement, in one place</b> <p>Market participants and regulatory authorities will be able to rely on a common and consistent view of active IPO data in real-time, all the way from the initiation of a new offering to the “striking of the gong” on the first trading day.</p> <p>This will largely eliminate the need for bilateral reconciliation and long wait times.</p> </li> <li> <b>Improved workflows and interactions</b> <p>FINI will facilitate and in some cases entirely automate various tasks for market participants by helping with data aggregation, validation, processing, analytics and reporting.</p> <p>Where certain key tasks happen “off-platform” (such as IPO roadshows, book-building, price determination and balloting), FINI will capture the outcomes of these steps and apply them to facilitate downstream processing.</p> </li> <li> <b>Going paperless but staying inclusive</b> <p>With FINI, we propose to embrace fully digital interactions in our IPO market.</p> <p>While support for paper-based subscription forms, faxes and cheques will be discontinued, FINI will support online data entry by brokers on investors' behalf, alongside traditional file uploads and API messaging, thus ensuring continued inclusiveness for all investors.</p> </li> <li> <b>Liquidity relief for the market</b> <p>In the FINI proposal, funds supporting public offer subscriptions will be validated at each broker's designated bank, with only the <i>actual</i> share allotment value of each broker to be collected by the issuer after balloting.</p> <p>This is intended as a relief measure to alleviate the distortive impact that popular IPOs tend to have on the Hong Kong dollar money markets.</p> </li> </ul>	<ul style="list-style-type: none"> <li> <b>Unchanged roles and responsibilities</b> <p>FINI is designed to be used by the various intermediaries and advisers that play important roles in Hong Kong IPO settlement (i.e. retail brokers, share registrars, IPO sponsors, underwriters, distributors and legal counsel).</p> <p>The roles and client relationships of these parties will not change in any fundamental way following the introduction of FINI. Their access and permissions as FINI users will faithfully reflect their “real life” roles and responsibilities.</p> <p>Note that IPO issuers and end-investors will <u>not</u> be required to access or use the FINI platform.</p> </li> <li> <b>Legal framework and listing regime</b> <p>FINI is designed to be compatible with the current legal framework governing Hong Kong's securities market, and no legislative changes are contemplated to allow for its introduction.</p> <p>No material changes to the Hong Kong listing regime or to existing regulations governing the IPO subscription, allotment and approval process are proposed either. The FINI proposal is independent of and, agnostic to, any other regulatory reforms to the listing regime.</p> <p>Accordingly, pending the introduction of an uncertificated securities market (USM) regime in Hong Kong, the option of obtaining share certificates in respect of shareholdings in newly listed companies will remain available to investors who prefer this way of holding shares.</p> </li> <li> <b>Underlying securities market infrastructure</b> <p>HKSCC, a subsidiary of HKEX, will operate the FINI platform alongside the established CCASS system. FINI will handle the admission of IPO shares into CCASS without affecting the latter's function as a central securities depository (CSD) for the Hong Kong securities market, or the rights and obligations of its CPs.</p> </li> </ul>

**Figure 2. Illustrative FINI dashboard for an active IPO, viewed by a broker (mock data)**



8. **The introduction of FINI is expected to reduce Hong Kong IPO settlement times by 70-80%.** HKEX proposes a 45-hour timetable between book-close and trading as the standard outcome for Hong Kong IPOs, meaning that newly listed shares could begin trading on the Exchange the next business day after pricing (*Figure 3*). Each individual step in this proposed timetable is further described in *Section 3.2*.

**Figure 3. Target settlement timetable for Hong Kong IPOs, supported by the FINI platform**



9. If implemented, the FINI platform will be a key pillar of Hong Kong's next generation of market infrastructure. It is expected to strengthen our position as a world-leading equity fundraising venue in three main ways:

More competitive	More digitally advanced	More robust for the future
<ul style="list-style-type: none"> <li>• Materially reduce market risk during equity offerings</li> <li>• Facilitate more timely and accurate deal pricing</li> <li>• Reduce IPOs' unintended HKD liquidity-draining effect</li> </ul>	<ul style="list-style-type: none"> <li>• Align data standards and tooling for the whole market</li> <li>• Improve end-to-end risk detection and management</li> <li>• Provide opportunities for operational savings by users</li> </ul>	<ul style="list-style-type: none"> <li>• Make it easier to deploy future market-wide enhancements</li> <li>• Provide a scalable platform for similar market applications</li> <li>• Support environmentally sustainable market evolution</li> </ul>

10. In order to realise these benefits, a one-time adoption effort to successfully roll out FINI will be required of Hong Kong's IPO market participants. They may be asked to adjust some of their IPO-related procedures, timetables, client service offerings and compliance controls to support the proposed new settlement infrastructure and timetable. [Section 4](#) describes the main changes that each group of Hong Kong IPO market participants should anticipate, and how HKEX proposes to keep these changes manageable.

11. **If this proposal is supported by the market, HKEX will build and deploy FINI as a mandatory platform for handling all future Hong Kong IPOs, replacing the incumbent IPO settlement process.**
12. The rationale for recommending mandatory market-wide adoption of FINI over alternative adoption mechanisms (e.g. opt-in or parallel-track adoption) is based on considerations of simplicity, risk and cost. If the "old T+5" and "new T+1" IPO settlement regimes were both concurrently operational, this may lead to sub-optimal outcomes through market bifurcation, confusion for investors and issuers, and potentially duplicated support costs for numerous intermediaries.
13. Based on the proposal in this Concept Paper, and respondents' feedback, HKEX intends to publish a timetable for the market's transition to FINI. This will include stakeholder briefings, training sessions, technical connectivity readiness, user on-boarding, system testing and market rehearsals.
14. While largely administrative, certain changes to the Listing Rules, General Rules of CCASS and CCASS Operational Procedures are also anticipated to give effect to the proposed reform. A separate consultation on rule changes, as necessary, will be conducted in due course prior to the launch of the FINI platform.
15. Given the time required to build out the FINI system, ensure market readiness, on-board users and effect the associated rule changes, **the launch of FINI is expected no earlier than the second quarter of 2022.**

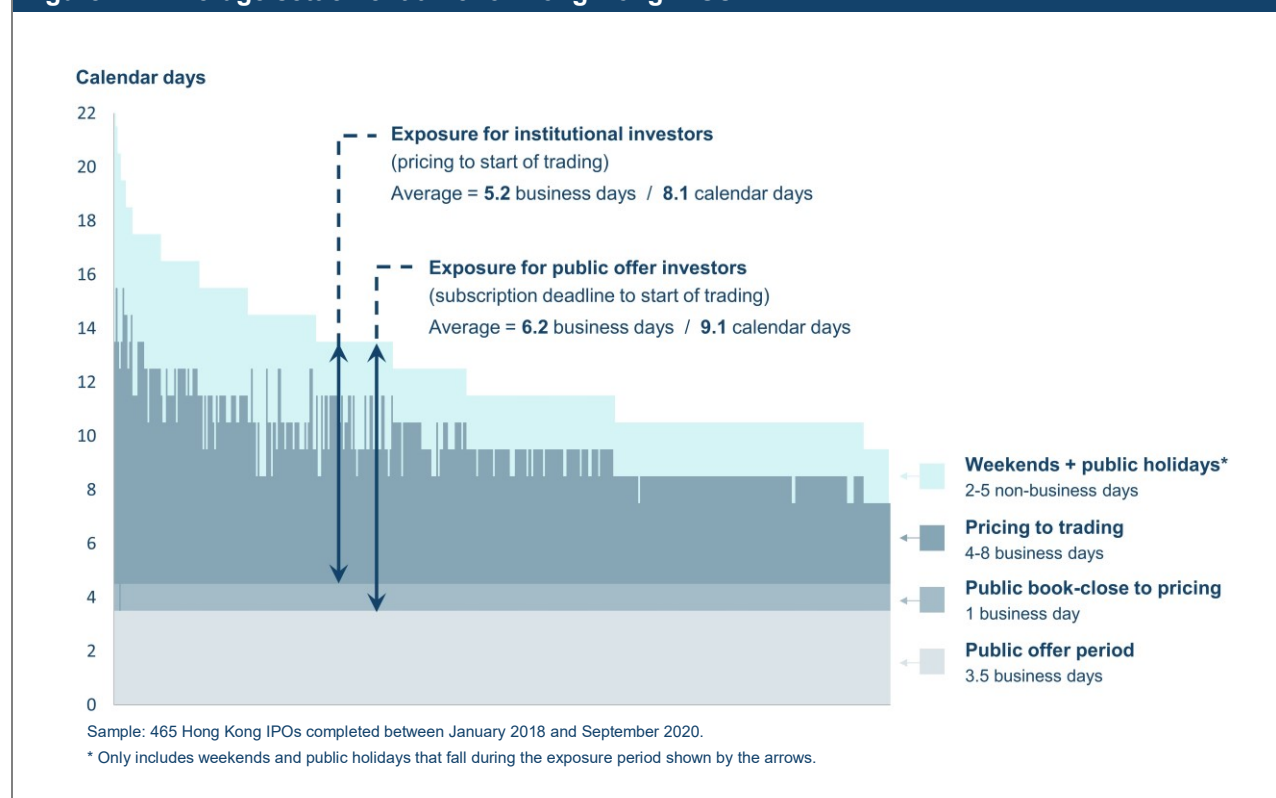
16. HKEX welcomes feedback on this Concept Paper until **6 pm on Friday, 15 January 2021.**

## 2. Background and rationale for reform

### *Hong Kong's IPO settlement process*

17. Hong Kong has a robust IPO regime that has helped issuers of all sizes successfully raise funds for many years. With HKD 2.4 trillion of funds raised in 2010-2019, Hong Kong finished the last decade ranked as the largest primary fundraising venue by proceeds in the world.<sup>1</sup> The IPO market remains vitally important to our present and future as an international financial centre.
18. While the size and maturity of Hong Kong's primary market have evolved significantly over time, the logistics of how new shares start trading here have not fundamentally changed in more than two decades. The usual time gap between an offering being priced and the newly listed company "striking the gong" to formally begin trading its shares on the Exchange currently takes around five business days – hence the "T+5" label.
19. As *Figure 4* shows, IPO settlement times are often even longer in practice. Some issuers opt to add several days to their deal timetables to provide an extra buffer. If we also count the involvement of public offer investors, who normally commit to their subscriptions at least one day earlier than institutional investors, as well as weekends and public holidays, **settling a Hong Kong IPO takes, on average, nine calendar days.**

**Figure 4. Average settlement time for Hong Kong IPOs<sup>2</sup>**



20. Such a long settlement period creates prolonged **market risk**. The investors who have committed to buy shares in the IPO – and the issuers, shareholders or underwriters who have committed to sell them – are not yet able to discover the price of these shares or to formally trade them in the secondary market, leaving them exposed to potential fluctuations in the value of their positions while the offering is “being settled”. In the case of dual-primary or secondary listings, when the issuer already has a live share price on another stock exchange, this period of market risk is even more tangible to observe.



21. This situation compares unfavourably with other leading equity fundraising venues, the most competitive of which, such as New York and London, are able to allow IPO trading on the “T+1” day after pricing (see [Appendix B1](#) for a wider international comparison). As the Hong Kong Financial Services Development Council noted in its 2014 review of Hong Kong’s IPO regime:

*“<Hong Kong’s> comparatively long exposure to the listing applicant as well as the underwriters <...> can be very significant in a volatile market and will be factored into the pricing <of the IPO>, most likely by way of downward adjustments. This is rather unsatisfactory compared to other markets where the price discovery process is less affected by extraneous circumstances and more truthfully reflects the company’s valuation.”<sup>3</sup>*

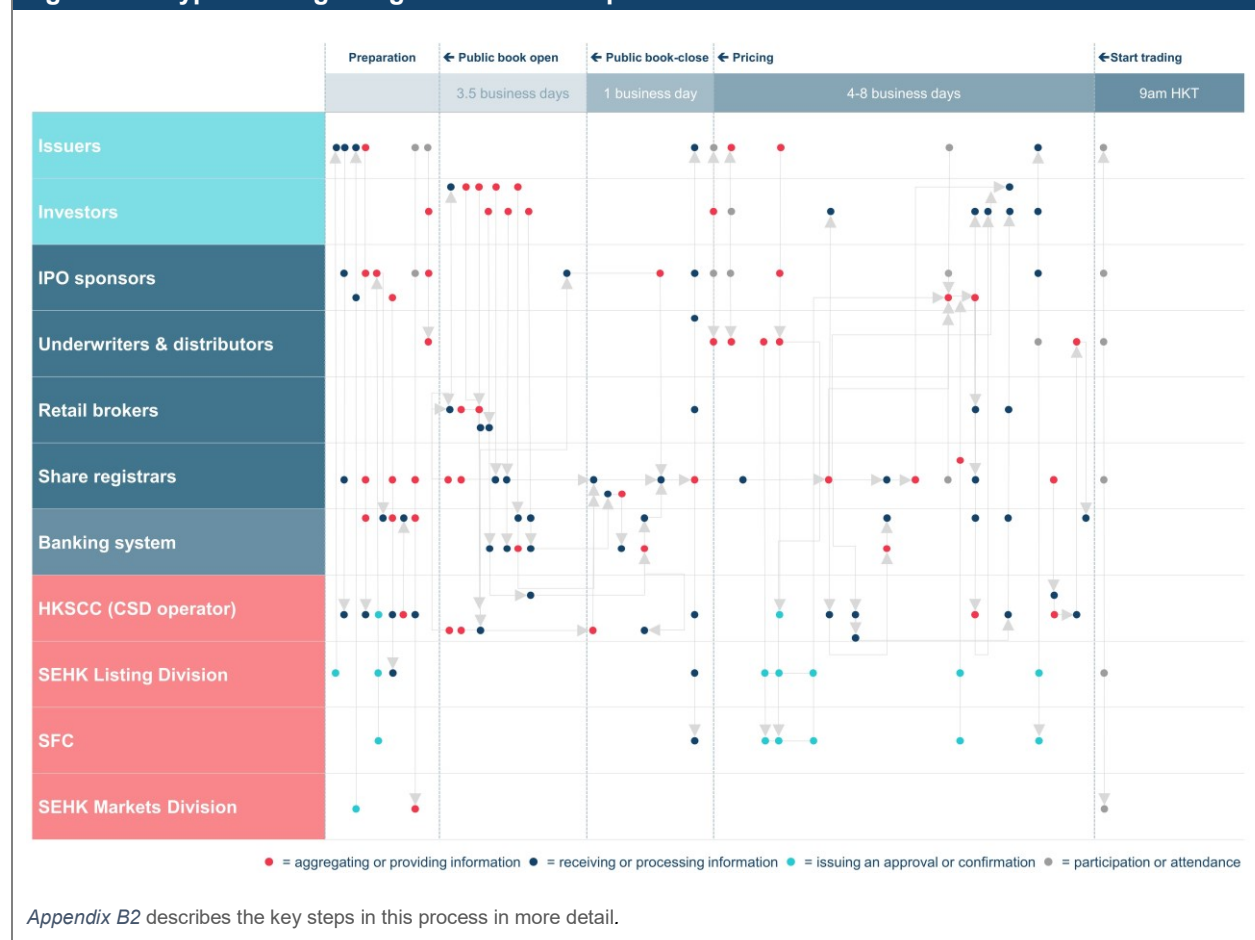
22. Besides its lengthy duration, Hong Kong’s IPO settlement process also poses other challenges to our market. One challenge is the impact it has on **Hong Kong dollar liquidity**. Intermediaries participating in the public offer tranche are asked to commit and transfer full IPO subscription funds to the issuer on behalf of their subscribing clients up front, and are subsequently refunded based on their ultimate allotment of shares and the final offer price. This movement of money can entail significant interbank cash flows during the IPO settlement period, leading to short-term liquidity challenges in the Hong Kong dollar interbank market and raising the cost of borrowing, especially in relation to particularly large or unexpectedly popular public offerings.<sup>4</sup>
23. Another challenge is **operational risk**. The IPO settlement process still relies heavily on human intervention and manual operations at various points. A large number of concurrent IPOs can therefore put significant pressure on the operations of market participants. For example, on 29 June 2018, no less than 33 Hong Kong IPOs were at various stages of settlement at the same time.<sup>5</sup> This kind of strain is a risk to the smooth functioning of the market, and lacks the technological scalability to meet the long-term growth aspirations of Hong Kong as a global listing venue.
24. To tackle these issues, HKEX set out the goal of reforming and shortening Hong Kong’s IPO settlement process in its Strategic Plan 2019-21, as part of a broader range of market microstructure improvements. Given the regulatory considerations involved, this initiative has also been highlighted in the 2020 priorities of the SEHK Listing Committee.<sup>6</sup>

### *Why does it take so long?*

25. Hong Kong’s listing regime prescribes two unique practices that effectively define the broad boundaries of how quickly an IPO can settle in our market. Firstly, issuers must (in almost all instances) offer some of their shares to the Hong Kong public, and evaluate the scale of public demand before determining the final allocation – and, usually, the final price – of their offering.<sup>7</sup> Secondly, issuers must receive regulatory approval for the placees they are proposing to allot shares to, before trading in the shares can formally begin on the Exchange.<sup>8</sup>
26. While these regulatory requirements entail a certain *sequence* to Hong Kong’s IPO settlement process, the lengthy *duration* of the process is overwhelmingly caused *not* by the regulations themselves, but rather by the complex logistics that have, over the years, developed around them.
27. As [Figure 5](#) shows, Hong Kong IPO settlement in its current form features a large number of interactions that take place between multiple parties representing the issuer, the investors and the relevant market authorities, which include the Listing Division and the SFC as regulators, as well as HKSCC as the operator of stock admissions for trading on the Exchange.
28. While guidelines, principles and systems exist for many of these interactions individually, there is little shared infrastructure and no clear “conductor” for the settlement process as a whole. In effect, it is a sequence of bilateral communications, each influenced by its own systems, point-to-point dependencies

and operational bottlenecks. The professionals involved tend to rely on long-established conventions and past experience regarding how much time should be allowed for each step. Hong Kong IPO settlement timetables are generally fixed around these conventions, resulting in long overall settlement times having become accepted as market practice.

**Figure 5. Typical Hong Kong IPO settlement process<sup>9</sup>**



29. Because of this rigidity, it is difficult for issuers to materially accelerate their own IPO settlement, even if they want to. In November 2019, the advisers involved in Alibaba's secondary listing in Hong Kong made a concerted effort to reduce the offering's settlement time by opting for digital-only retail subscriptions and moving some processing work into a weekend.<sup>10</sup> Alibaba's newly issued shares were ultimately able to start trading on the Exchange on "T+4", thus saving just one day versus the usual standard timetable. A similar effort led to an identical result in the secondary listing of NetEase in Hong Kong in June 2020.
30. In other words, the incumbent framework has effectively reached its lower limit in terms of how quickly it can realistically operate. While this is a challenge for our market, we also see it as an opportunity for holistic reform. Hong Kong's rising popularity as a listing venue, the advent of digital transformation in financial services, and the growing voices of market practitioners seeking a long-term solution all lead us to believe that this is the right time to pursue this reform.

### 3. The FINI platform

#### 3.1 Overview, scope and design

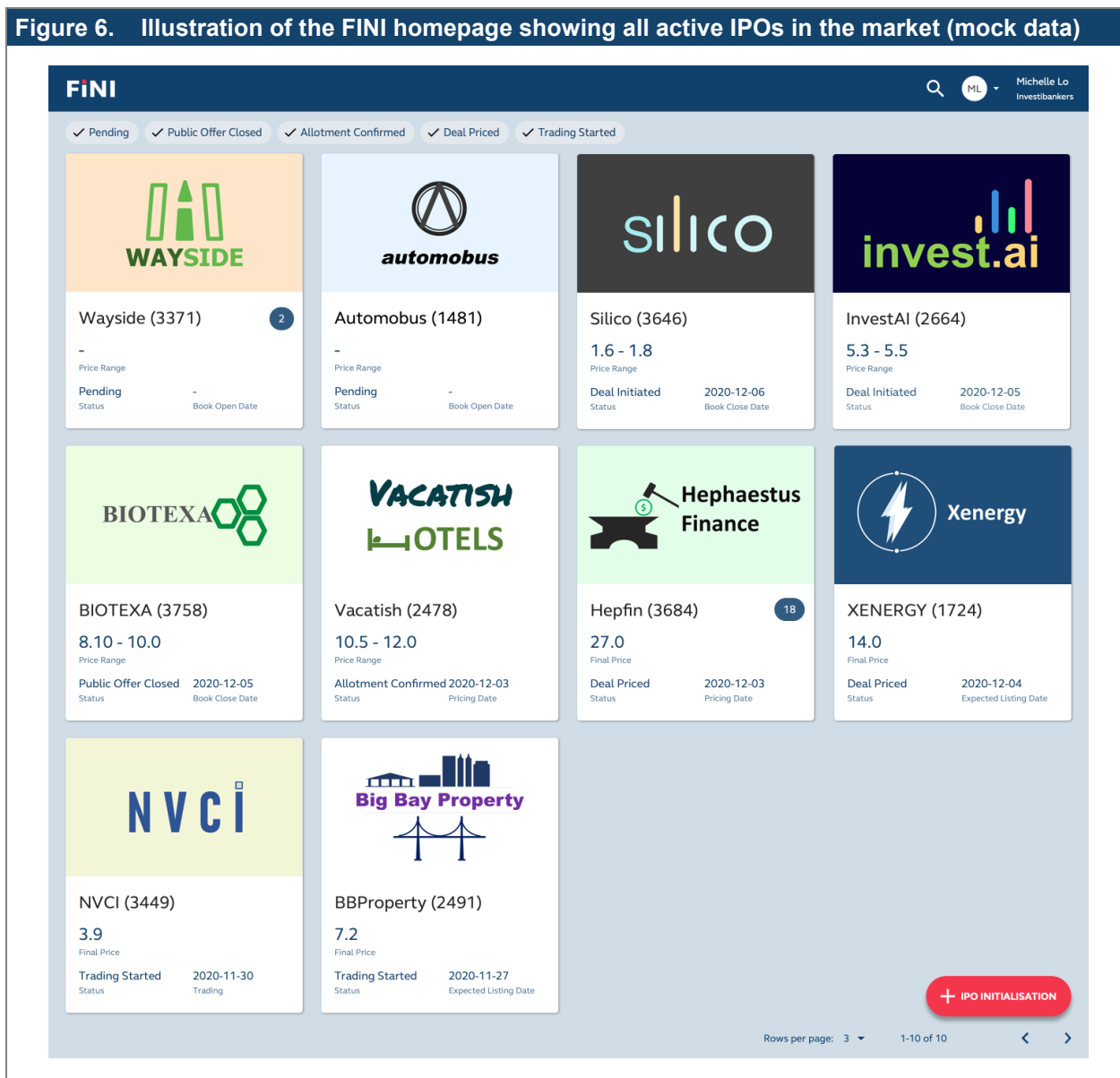
31. The FINI platform seeks to address what HKEX believes to be the main cause of Hong Kong's lengthy IPO settlement process: namely, its complicated logistics, underlined by a lack of shared standards, data models, infrastructure and coordination among the many market participants involved.
32. FINI solves these issues by providing a common, web-based platform for IPO market participants and regulatory authorities to interact in a secure, modern and digital-first environment based on common data and workflows, allowing everyone to perform their duties and achieve faster end-to-end IPO settlement.
33. **The core design principle of FINI is to strike a balance between modernisation and continuity.** On the one hand, this reform provides a rare opportunity to materially improve Hong Kong's IPO settlement mechanism through a one-time reform that covers its logic, conventions and technology in a comprehensive manner. A well-designed solution could serve our market for an entire generation of issuers spanning decades. On the other hand, we must be careful not to inadvertently upend the strengths that have made Hong Kong so successful as an IPO venue through many market cycles: this includes an established and transparent listing regime and securities laws; a deep and competitive supporting ecosystem of financial institutions engaged in IPO activities; and a local public that participates actively in the capital markets.
34. To ensure that the proposed reform can achieve this balance, HKEX sought the views of market practitioners. In July 2019, we formed an advisory "study group" on shortening Hong Kong's IPO settlement cycle, inviting views from brokers, banks, share registrars, bookrunners, sponsors and legal advisers who are active in this market. Alongside regular input from the SFC and HKMA, this group was instrumental in helping us formulate the scope and core design principles of the FINI platform, which are described below.

#### *Principle #1. Embrace technology to thoroughly modernise primary market interactions*

35. **End-to-end IPO settlement, in one place.** The term "IPO settlement" in the context of FINI is not limited to the "T+5" period of market risk described in [Section 2](#), but also includes key preparatory activities in the days leading up to it. Specifically, FINI will support activities that happen between a new issuer receiving its post-hearing letter and (assuming that it goes ahead with its IPO) the official start of trading in its newly listed shares on the Exchange.
36. Throughout this period, FINI will act as a central repository for data pertaining to *both* the institutional and retail tranches of each Hong Kong IPO, capturing and processing information dynamically as it is submitted to the platform by its users. Centralising data capture in this way allows for the introduction of harmonised Hong Kong IPO data standards where these do not exist today: for example, IPO reference data, subscriber identity requirements, placee lists, allotment results announcements, and various other "standard-form" communications necessary for IPO settlement will be asked to follow a common format.
37. As a result, FINI will be able to provide market participants and regulatory authorities with a real-time view of every active Hong Kong IPO in one convenient place, in accordance with their roles and permissions. The dashboards of FINI users will continuously update with new information in real time, synced with each IPO's official timetable as it progresses towards the "striking of the gong".
38. **Improved workflows and interactions.** By "clicking into" individual deals, permissioned users will be able to securely upload instructions, analyse and download information, monitor deal progress, receive alerts and notifications, and fulfil other functional responsibilities in a way that is more collaborative and efficient than is possible today. If a FINI user is working on multiple IPOs concurrently, they will all show up on its FINI interface, and the user may navigate between them without leaving the platform ([Figure 6](#)).

39. These online interactions will modernise or replace a large number of legacy bilateral workflows throughout the settlement process. In particular, document and spreadsheet templates, paper forms, faxes and emails currently used by the market will be digitalised, streamlined, and in some cases entirely automated via FINI. This will make multi-party interactions faster, less prone to error, and more easily auditable. The specifics of how each step of IPO settlement will be affected are described in [Section 3.2](#).
40. **Going paperless but staying inclusive.** The introduction of FINI provides an opportunity to move beyond certain “pre-digital” interactions that are sometimes still used in Hong Kong’s primary market, where better alternatives already exist and are widely accepted. Specifically, FINI will no longer formally support the use of paper-based IPO subscription forms, cheques or faxed communications, which will save time and align the market to a single digital operating standard. As described in [Section 3.2, Step 3\(a\)](#), this does not mean that investors who prefer in-person interactions will be disadvantaged. Rather, FINI will provide a convenient way for brokers and share registrars to continue to serve their clients in the manner they prefer, as long as the necessary data ultimately reaches FINI in the prescribed digital format.

**Figure 6. Illustration of the FINI homepage showing all active IPOs in the market (mock data)**





## **Principle #2. Unchanged roles and responsibilities of IPO market participants**

41. The introduction of FINI does not change the existing roles and responsibilities of the various intermediaries, advisers and regulatory authorities involved in the Hong Kong IPO settlement process. The seven intended FINI user groups shown below will all continue performing their main functions largely as they do today.
42. One key set of decisions in the design of FINI has been to delineate which tasks should be performed “using the new platform” (i.e. routine tasks that can benefit from standardisation and digital efficiency), and which tasks should remain “off-platform” (i.e. things that require bespoke external interactions, systems or decision-making).
43. **From the outset, FINI will not replace critical “off-platform” processes such as roadshows, book-building, IPO pricing and balloting.** It will, however, help to capture the *results* of these tasks from the responsible parties and apply those results to facilitate downstream settlement.

	Will use FINI to...	Tasks performed outside of FINI
<b>Retail brokers (CPs)</b>	<ul style="list-style-type: none"> <li>Submit public offer subscriptions</li> <li>Confirm pre-funding</li> </ul>	<ul style="list-style-type: none"> <li>Serve “EIPO channel” investors</li> <li>Arrange subscription funding</li> </ul>
<b>Share registrars</b>	<ul style="list-style-type: none"> <li>Submit public offer subscriptions</li> <li>Confirm balloting results</li> </ul>	<ul style="list-style-type: none"> <li>Serve “White eIPO channel” investors</li> <li>Conduct balloting</li> <li>Manage issuance of share certificates</li> <li>Manage issuer’s Register of Members</li> </ul>
<b>IPO sponsors</b>	<ul style="list-style-type: none"> <li>Validate IPO reference data &amp; timings</li> <li>Confirm the IPO price range / final price</li> </ul>	<ul style="list-style-type: none"> <li>Arrange publication of IPO prospectus</li> <li>Arrange publication of announcements</li> </ul>
<b>Underwriters &amp; distributors</b>	<ul style="list-style-type: none"> <li>Submit placee lists for clearance</li> <li>Submit supporting documents</li> </ul>	<ul style="list-style-type: none"> <li>Conduct roadshow &amp; book-building</li> <li>Determine IPO price range / final price</li> </ul>
<b>SEHK Listing Division</b>	<ul style="list-style-type: none"> <li>Review allotment results and placee lists</li> </ul>	<ul style="list-style-type: none"> <li>Vet issuers’ listing applications</li> <li>Other regulatory functions</li> </ul>
<b>HKSCC</b>	<ul style="list-style-type: none"> <li>Operate the FINI platform</li> <li>Manage public offer operations</li> </ul>	<ul style="list-style-type: none"> <li>Admit shares into CSD for trading</li> </ul>
<b>SFC</b>	<ul style="list-style-type: none"> <li>Review allotment results &amp; placee lists</li> </ul>	<ul style="list-style-type: none"> <li>Vet issuers’ listing applications</li> <li>Other regulatory functions</li> </ul>

44. FINI is a role-based, permissioned system. Each authorised user may use FINI to conduct only those tasks that are specific to its role in each particular IPO, as stated in the issuer’s prospectus or otherwise agreed with the user. Users of FINI will therefore only see information about IPOs that they are actually involved with, and will only have access to certain data and tasks that are within their remit, mirroring their “real life” responsibilities.
45. **IPO issuers and end-investors will not be required to use FINI.** Issuers will continue to be served by their IPO sponsor, legal counsel, underwriters and share registrar, who will interact with FINI on their behalf. End-investors subscribing for IPO shares will continue to be served by CPs, share registrars or distributors, who will interact with FINI on their behalf.
46. In most respects, issuers’ and investors’ experience of the IPO settlement process should not materially change, other than a much shorter wait time between committing to offer / acquire shares and the start of trading.

### ***Principle #3. No material change to the legal and regulatory framework governing listings***

47. The regulatory regime governing Hong Kong equity listings has evolved considerably over the years, and has proven its ability to adapt successfully to a changing economic backdrop. The proposed introduction of FINI does not change any material aspect of this regime. The FINI platform does not change the way that issuers apply for listing in Hong Kong, or how their applications are reviewed.
48. It is nonetheless expected that FINI will necessitate some logistical and administrative changes to the Listing Rules, including certain undertakings and authorisations, as well as revised timetables for certain communications between market participants and SEHK that will occur through FINI in the future. The market will be consulted on such rule changes separately, if the proposed reform proceeds. More details are provided in [Section 5](#).
49. FINI is also designed by HKEX to be compatible with the current legal framework governing Hong Kong's securities market, and no legislative change is contemplated for the implementation of FINI. Stakeholders will be required to comply with all applicable requirements under existing laws and regulations concerning the listing process.
50. The proposals described in this Concept Paper are independent of any other potential reforms to Hong Kong's listing regime that may be proposed by SEHK from time to time under separate market consultations. The FINI platform is designed to accommodate the prevailing rules governing IPO share allotment, approval and admission to trading, and will adapt to support any future changes in this regard.

### ***Principle #4. Full integration with Hong Kong's existing securities market infrastructure***

51. HKSCC, a recognized clearing house under the Securities and Futures Ordinance and wholly-owned subsidiary of HKEX, is responsible for stock admission into its CSD for all Hong Kong-listed securities that are deposited into CCASS by its CPs.
52. The CSD role of CCASS will not change. HKSCC will operate the FINI platform alongside CCASS, with FINI effectively taking on and modernising the stock admission workflows currently performed in CCASS and serving as a de facto "on-ramp" for newly issued shares into the CSD.
53. This means that FINI will be fully integrated with the existing securities market infrastructure of Hong Kong, ensuring continuity and certainty for its CPs and the wider market. Indeed, CPs will be able to connect to FINI using existing infrastructure of the HKEX Client Connect portal (see [Section 5](#)).
54. Given the proposed operational changes to the IPO settlement process, amendments to the General Rules of CCASS and CCASS Operational Procedures, which govern the admission of eligible securities into CCASS are expected as a result of this reform, and will be advised to the market in due course, if this reform proceeds.

## **3.2 Step-by-step workflow**

55. This Section explains the step-by-step workflow for IPO settlement under the proposed FINI model, highlighting the roles of each user of the platform and the main differences from today's market practice.
56. The timing of each step is shown in accordance with a target "T+1" settlement timetable, where "T" represents the IPO pricing day (i.e. the business day on which the latest possible time for an offering to be priced in order to begin trading on "T+1" falls).<sup>11</sup> The end-to-end timetable showing all the steps together can be found in [Section 3.3](#).

## Step 1. Offer initiation

by “T-5”, 2 pm

57. In FINI, the “initiation” of a new IPO would happen after a post-hearing letter has been sent to the IPO sponsor, signalling that the issuer may proceed with its IPO if it is ready to do so.
58. To initiate the offering, the issuer’s **IPO sponsor** will be invited to access FINI via the internet, using a unique key code issued by the Listing Division. Once logged in, the sponsor will be asked to complete an e-form that captures all relevant information about the new offering in one place (*Figure 7*).

**Figure 7. FINI offer initiation e-form (extract)**

The screenshot shows the 'FINI offer initiation e-form (extract)'. The form is titled 'IPO Reference Data' and has 'SAVE' and 'SUBMIT' buttons at the top right. On the left, there is a sidebar with a 'DASHBOARD' button and an 'IPO REFERENCE DATA' button. The main content area is divided into several sections. The 'Company Information' section includes fields for 'Company Name (English Full)' (Automobus Company Limited), 'Company Name (English Short)', 'Company Name (Chinese Full)', 'Company Name (Chinese Short)', 'Stock Code', 'ISIN', 'Place of Incorporation', 'Principal Place of Business in Hong Kong', and 'Company's Full Name'. The 'Initial Information' section includes a 'Price Range' field and a 'Book Open Date' field. The 'Listing' section includes a 'Pending' status indicator and a list of events: 'Deal Initiated', 'Public Offer Closed', 'Allotment Confirmed', 'Deal Priced', 'Placing Approved', and 'Trading Started'. The 'Offering' section includes a 'No Chinese Company Name' checkbox. The 'Advisers' section includes a 'DASHBOARD' button and an 'IPO REFERENCE DATA' button. The 'Timetable' section includes a 'DASHBOARD' button and an 'IPO REFERENCE DATA' button. The 'Preferential Offers' section includes a 'DASHBOARD' button and an 'IPO REFERENCE DATA' button. The 'Documents' section includes a 'DASHBOARD' button and an 'IPO REFERENCE DATA' button. The 'Transaction Costs' section includes a 'DASHBOARD' button and an 'IPO REFERENCE DATA' button.

59. This FINI e-form will replace eleven different PDF / physical forms that currently need to be completed and submitted to HKSCC by the issuer’s IPO sponsors (see [FAQ A12](#) for the full list). Details collected will include:
- i. *Information about the issuer*, such as full and short names, assigned stock code and type of offering. Some of this will be pre-populated automatically by FINI.
  - ii. *Details of the offering*, such as number of offer shares, initial allocation to different tranches, the offer price or range, applicable clawback ratchets, deal timetable, details of any preferential offers, the issuer’s receiving bank details and other particulars relevant to the IPO settlement process.
  - iii. *Details of the advisers on the offering*, including the issuer’s syndicate (lead broker, underwriters), legal counsel and share registrar. The parties selected here will automatically be granted certain permissions to view, submit or download information pertaining to that particular IPO via FINI.
60. The sponsor, who is accountable for the accuracy of the information inputted, may save its progress and complete the e-form in phases. The sponsor will also be able to use the same mechanism to amend or update the membership of the syndicate and control their access permissions at any time during the offering.
61. Once the e-form is submitted, HKSCC, as the operator of FINI, will perform a final consistency check before putting the IPO under “pending” status. FINI will then schedule the IPO to go “active” and start the public offer period on “T-4”, 9 am HKT. Other users of FINI who have been granted the requisite permissions will then see the IPO on their dashboards and will be able to access certain tasks and data, depending on their exact role and permissions in that particular IPO.

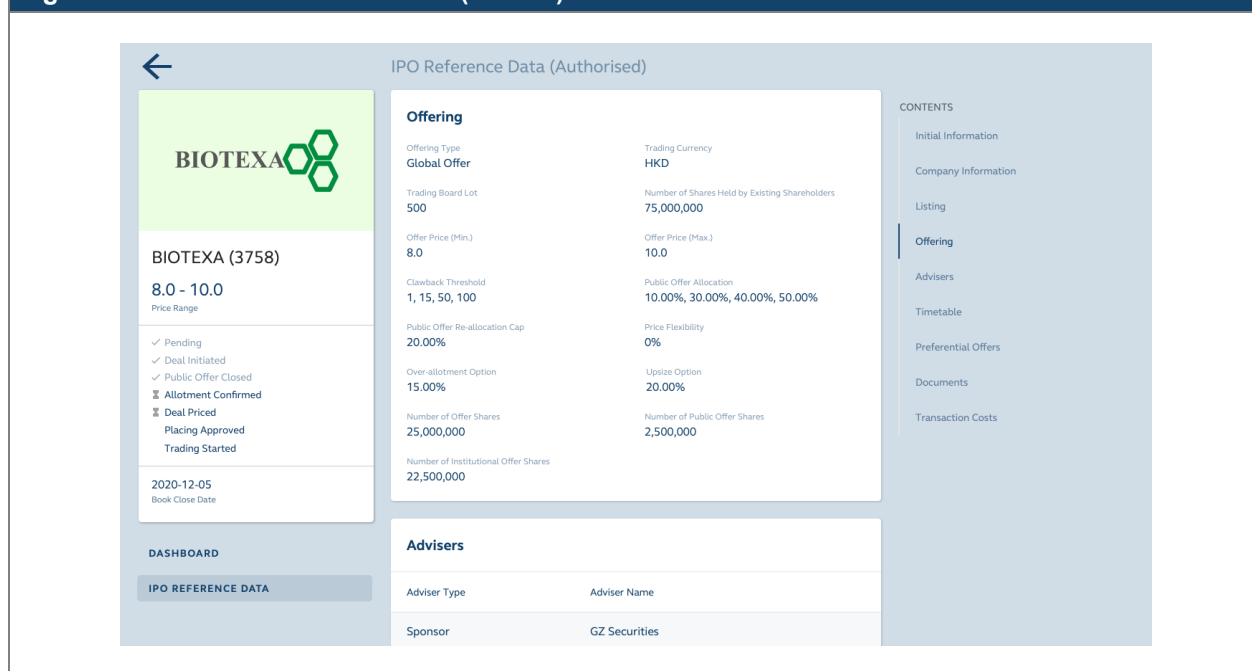
62. Publication of listing documents on HKEXnews by the issuer and its IPO sponsor(s) will continue to occur through the HKEXnews e-Submission System on the morning of “T-4”, in accordance with the Listing Rules.<sup>12</sup> If there is a substantial delay to the publication of the listing documents, HKSCC will reserve the right to withhold the IPO’s “active” status and defer the start of the public offer period.

## Step 2. IPO reference data live

from “T-4”, 9 am

63. The data collected in [Step 1](#) is known as IPO reference data: a “golden source” that FINI will use in downstream workflows.
64. This IPO reference data will be used to pre-populate certain forms, automate calculations, validate incoming submissions from market participants, generate timetable alerts, and help the issuer’s advisers populate its allotment results announcement, among various other downstream tasks.
65. The absence of standard-form Hong Kong IPO reference data in the public domain has long been noted by market practitioners. To address this, HKEX intends to make a subset of the FINI IPO reference data (its non-confidential elements) available to the general public in a standardised application programming interface (API) format. Once an IPO has become “active”, a *Hong Kong IPO reference data API* will serve as a reliable, sponsor-vetted source of structured, real-time information about every IPO in our market.
66. We believe that this API service will provide a practical alternative to market participants who are otherwise required to refer to issuers’ prospectus documents or third-party information providers’ websites to find out which Hong Kong IPOs are in the market and the details of each offering.
67. During the course of an offering, some reference data will be updated: for example, the status of the deal and the final price. FINI will serve as the primary control point and source-of-truth for capturing such information in an official capacity. When information is updated, the *Hong Kong IPO reference data API* will also be updated, as will the web version of the FINI platform that is visible to its users ([Figure 8](#)).

**Figure 8. FINI IPO reference data (extract)**





### Step 3. Public offer management

“T-4” to “T-1”

68. Hong Kong’s listing regime requires equity issuers (in almost all instances) to offer a certain percentage of their IPO shares to the local investing public. Known as the “public offer”, this provides a chance for retail investors to participate in Hong Kong share offerings on similar terms as institutional investors. For issuers, the public offer can sometimes serve as a temperature check on demand, a momentum builder in the order book, or a way to diversify their new shareholders as a listed company.
69. Statistics indicate just how influential public offers have become. Between January 2018 and September 2020, Hong Kong IPOs attracted over 13 million public offer subscriptions through brokers, share registrars and receiving banks, totalling nearly **HKD 6 trillion** in value: enough to cover the *total* fundraising proceeds of these IPOs eight times over (*Appendix B3*).
70. Notwithstanding its enduring popularity, the mechanics of the public offer have not materially changed in over two decades. There are currently four official channels to subscribe for public offer shares, all of which differ in when they are open; who handles the subscriptions; what data is collected from subscribers; how payment is arranged; how subscribers discover their allotments; and how shares are delivered (*Appendix B4*). A typical Hong Kong IPO prospectus dedicates some 24 pages just to explain these alternatives.<sup>13</sup>
71. The proposed migration to a “T+1” settlement timetable provides an opportunity – indeed, a necessity – to streamline some aspects of the public offer mechanism, while preserving the important role that it plays.

#### (3a) Input investors’ subscriptions

by “T-1”, 9.30 am

72. **Retail brokers and share registrars who offer a public offer share subscription service to investors will be asked to input their clients’ subscription details into FINI in order for them to be accepted.**
  - i. For **retail brokers**, this simply means that FINI will replace the “EIPO” functions of the CCASS interface, which CPs use to submit their subscription lists today.
  - ii. For **share registrars**, this will help aggregate their “White eIPO” subscriptions with all other public offer subscriptions in one place, thus facilitating much faster downstream processing.
73. To harmonise incoming data, FINI will require the same identity information from subscribers regardless of which channel they use (*Figure 9*). Retail brokers and share registrars may, of course, collect other information from their clients for their own purposes, without needing to submit such additional information to FINI when inputting subscriptions. HKEX will publish more detailed identity requirement specifications after the Concept Paper feedback period.

**Figure 9. FINI identification requirements for Hong Kong public offer subscribers**

	Individual applicants	Corporate applicants
English Name <sup>1</sup>	Yes	Yes
(or) Chinese Name <sup>2</sup>	Yes	Yes
Personal identification document number <sup>3</sup>	Yes	n/a
Corporate identification document number <sup>4</sup>	n/a	Yes
Joint account applicant details (up to four)	Yes	Yes
Broker identifier (for the “EIPO” channel only)	SEHK Participant ID	SEHK Participant ID

<sup>(1)</sup> If the subscriber is applying as a nominee, the names of any beneficial owner(s) of the subscription should also be provided.  
<sup>(2)</sup> Either Traditional or Simplified Chinese, based on the format of the subscriber’s identity document.  
<sup>(3)</sup> Hong Kong ID / National Identify Document / Passport number, in that hierarchy of preference.  
<sup>(4)</sup> Certificate of Incorporation / Hong Kong Business Registration / Legal Entity Identifier, in that hierarchy of preference.

74. FINI will automatically check incoming subscriptions for data completeness, while also verifying that the same subscriber has not already applied for shares in the same IPO. The submitting CP or share registrar will be notified of the status of each client's subscription (accepted, more information needed, rejected) within moments of uploading it to the FINI platform.
75. For convenience, FINI will support “traditional format” subscription file uploads that are in use today (revised to reflect the new identification standard), while also allowing direct editing via (i) its web interface, or (ii) a dedicated FINI API. CPs and share registrars will be able to create, amend or withdraw any number of clients' subscriptions during the offer period without having to re-upload a whole file each time (*Figure 10*).
76. Subscriptions will be accepted by FINI continuously during each IPO's public offer period, which lasts for at least three business days as prescribed by Hong Kong law.<sup>14</sup> A latest cut-off time of 9.30 am on “T-1” (the public offer book-close day) will be set for submitting subscriptions.
77. The issuer's IPO sponsors will be able to view the aggregated public offer subscription data in real-time on FINI. In this way, synchronised information about all offering tranches of a Hong Kong IPO will be available under one centralised digital platform for the first time. This is expected to help issuers anticipate the impact of their public offer, if any, on their ultimate share allocation, potential clawback triggers and deal pricing in a timelier manner than is possible today.
78. **As a result of the above changes, formal support for paper-based subscription forms for public offers (both yellow and white) will be discontinued upon the adoption of FINI.** The acceptance of cheques and cashier's orders, stapled to these paper-based forms as payment to the issuer, will also be discontinued. As discussed in *FAQ A18*, this reflects declining overall usage of paper forms, a number of successful recent high-profile “paperless” Hong Kong public offers (e.g. Alibaba, NetEase, JD.com), and regulatory proposals (USM, paperless listing and subscription regime) that also contemplate the discontinuation of these paper forms.
79. Members of the public who prefer an offline interaction will not be disadvantaged by this change, as intermediaries will still be able to enter subscriptions directly into the FINI system on such clients' behalf. FINI's web-based interface has been designed to accommodate precisely this kind of use. If they wish to, brokers and share registrars may continue to offer their own paper subscription forms and payment methods to clients, as long as the relevant data is ultimately input into FINI.

**Figure 10. FINI public offer subscription interface for CPs and share registrars**

*Editing function for individual subscriber entries is shown. Batch file uploads and API messages will also be supported.*

**Dashboard:**

InvestAI (2664)  
5.3 - 5.5  
Price Range

✓ Pending  
✓ Deal Initiated  
✗ Public Offer Closed  
Allotment Confirmed  
Deal Priced  
Placing Approved  
Trading Started

2020-12-05  
Book Close Date

**DASHBOARD**

**Edit**

Application Name  
Ashley Liang

ID Type  
HKID

ID Number  
Z9934841

No. of Shares	Max Amount Payable (\$)
500	2,777.71
1,000	5,555.43
1,500	8,333.13
2,000	11,110.85
2,500	13,888.56

**AUTHORISED**

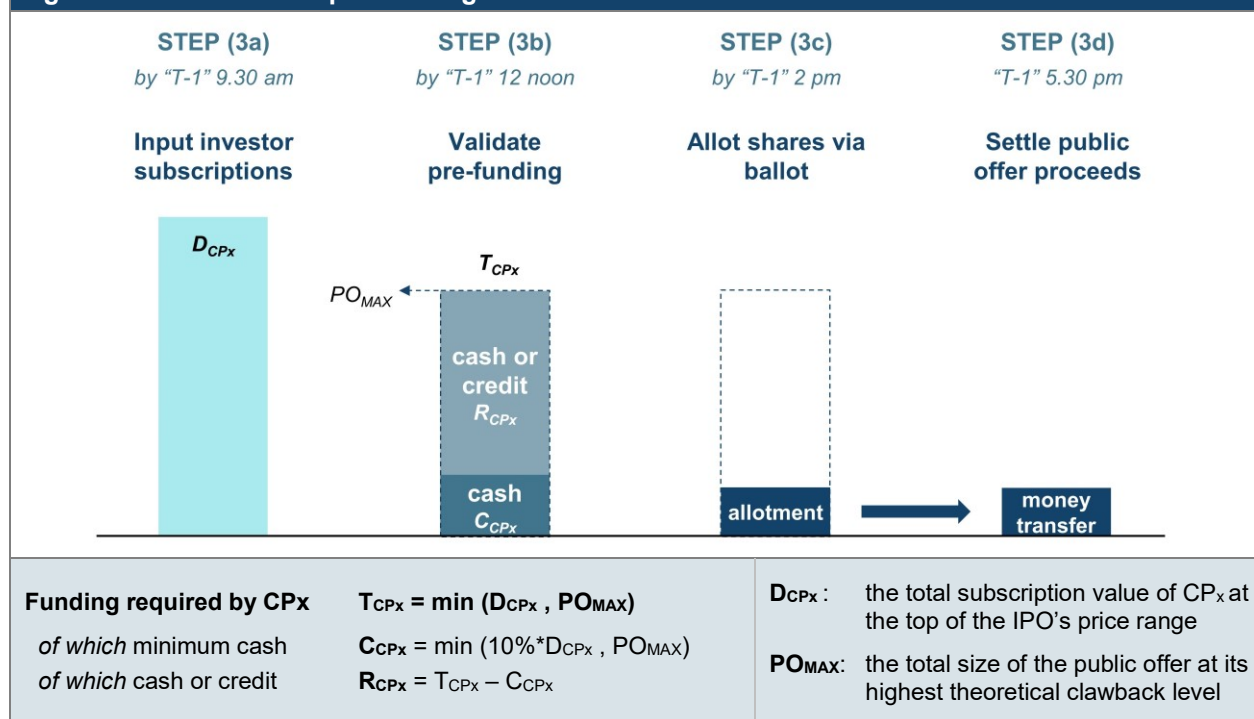
quantity	Application Amount		
10,000	40,000	VIEW	EDIT
10,000	50,000	VIEW	EDIT
10,000	70,000	VIEW	EDIT
10,000	50,000	VIEW	EDIT
10,000	300,000	VIEW	EDIT
10,000	100,000	VIEW	EDIT
10,000	150,000	VIEW	EDIT
10,000	200,000	VIEW	EDIT

©2017-20 Hong Kong Exchanges and Clearing Limited. All rights reserved.

80. HKEX proposes to amend the public offer pre-funding validation mechanism, such that:
- i. Funds in respect of an intermediary’s aggregate client *subscription value* for a particular IPO will need to be confirmed by the intermediary and its designated bank before the ballot. At least 10% of subscription value must be pre-funded in cash by the intermediary, while the remainder may be supported by either cash or committed credit facilities.
  - ii. After the ballot, only the portion of these funds corresponding to the intermediary’s *actual allotment* of shares in the IPO will be collected by the issuer’s bank as settlement.
81. This change is intended to provide liquidity relief compared to the existing public offer pre-funding arrangement, whereby CPs and share registrars are asked to transfer full subscription amounts on behalf of their end-investor clients, in cash, to the issuer’s bank *before* the ballot, and subsequently receive a refund in respect of any subscriptions that did not receive a share allotment several business days later.
82. This “pre-fund & refund” practice can entail unnecessarily large interbank movements of money that are often far in excess of what is required to safely settle investors’ share allotments, and has been known to create short-term liquidity issues and borrowing rate spikes in the HKD money markets (see [Appendix B5](#)).<sup>15</sup> These large fund movements often necessitate overnight treasury operations by the banks involved, making the practice effectively incompatible with achieving a “T+1” IPO listing timetable.
83. [Figure 11](#) illustrates how the proposed new pre-funding validation model would work in practice, using the example of a CP that represents one or more retail brokers in subscribing for public offer shares:
- i. **During the subscription input period (Step 3a)**, each CP’s total pre-funding requirement ( $T_{CPx}$ ) will be calculated and displayed on FINI in real-time, as follows:
    - A minimum of 10% of the CP’s share subscription value submitted to FINI ( $D_{CPx}$ ) must be available in cash deposited with the CP’s designated bank ( $C_{CPx}$ );
    - The CP’s remaining share subscription value may be supported by either cash *or* committed credit facilities available to the CP for drawdown effective on the book-close day ( $R_{CPx}$ );
    - If the CP’s share subscription value  $D_{CPx}$  exceeds the total number of shares available in the entire public offer at its highest theoretical clawback level ( $PO_{MAX}$ ), the CP will *not* be required to confirm funding above this level. In other words, no CP will be asked to confirm funding for more shares than the issuer could possibly allot to them. This is intended to alleviate the market-wide liquidity pressure created by the most extremely over-subscribed public offers.
  - ii. **“T-1”, 9.30 am: subscription deadline.** By this time, CPs must confirm (i) no further additions to their subscription list, *and* (ii) that sufficient funding is available to meet their pre-funding requirement  $T_{CPx}$  corresponding to their subscription list. Once this confirmation is received, each CP’s designated bank will be automatically notified by FINI and asked to confirm the availability of  $T_{CPx}$  for that CP.
  - iii. **By “T-1”, 12 noon: public offer close.** Deadline for designated banks to provide the confirmation of  $T_{CPx}$  to HKSCC via FINI. If the bank is unable to confirm a CP’s pre-funding position, that CP will be permitted to either downsize or withdraw (but *not* to upsize or add) any entry in their subscription list via FINI. Any such changes by the CP would trigger a new notification from FINI to their designated bank, whose confirmation must be received by 12 noon.

- iv. **At “T-1”, 12 noon** CPs’ subscriptions with positive bank confirmations will become irrevocable and will be submitted into the ballot by HKSCC on the CPs’ behalf. If no confirmation arrives by this deadline, the CP’s subscription list will not be included in the ballot.

**Figure 11. Public offer pre-funding validation with FINI**



84. In effect, the proposed arrangement ensures that any shares allotted by IPO issuers to the Hong Kong public are always sufficiently supported by available settlement funds, but does so in a way that is less liquidity-consuming and less time-consuming than the existing “pre-fund & refund” arrangement. [FAQs A25 to A34](#) provide further elaboration and worked examples of the proposed mechanism and its practical implementation.
85. Had the proposed new methodology been applied to every Hong Kong public offer that completed between January 2018 and September 2020, total pre-funding required by the whole market would have been **71.5% lower**, while the value of interbank money movement would have been **98.3% lower** than it actually was. In other words, the same ultimate settlement outcome is achieved with substantially less liquidity usage. [Appendix B6](#) contains a more detailed breakdown of this pro forma analysis.
86. With over 600 CPs active in the Hong Kong IPO market, there is understandably a wide range of operational and commercial practices between brokers, their designated banks, and their investor clients with respect to public offer subscription, financing and money settlement. It is therefore important to note that the proposed change to the validation mechanism **will not alter the contractual responsibilities of any party**:
- Subscriptions for securities under the public offer will continue to be governed by the terms and conditions set out in the issuer’s offering document, which each subscriber is bound by.
  - CPs who submit subscriptions under the public offer via FINI will continue to be bound by the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. As is the case today, CPs will instruct and authorise HKSCC to arrange payment in respect of their public offer subscriptions and allotments, and will be obligated to ensure the availability of funds for this



purpose.<sup>16</sup> Only HKSCC's methodology regarding how these payment requirements are calculated, confirmed and collected will change, as described above.

- iii. Arrangements between retail brokers and their clients will continue to be subject to their bilateral brokerage agreements, as well as to the SFC's regulations for licenced corporations that provide public offer subscription services.<sup>17</sup> Brokers will retain discretion over their own client subscription cut-off times, financing and other commercial and operational arrangements, and may adjust these arrangements as required to meet the deadlines set by HKSCC in the FINI model.

- 87. For share registrars who submit "White eIPO" public offer subscriptions to FINI, the mechanism for pre-funding validation will, in principle, be the same as that for CPs: evidence of the required funds to support a share registrar's confirmed subscription value must be provided to FINI by "T-1", 12 noon.
- 88. Given structural differences in business models between share registrars and retail brokers with regard to public offer subscription services, HKEX anticipates some logistical differences between the pre-funding validation workflow that will be used for share registrars, when compared with CPs. We have received some encouraging feedback from members of the FINI "study group", and look forward to further discussing the specifics of the optimal arrangement with the Federation of Share Registrars and its members.

### *(3c) Allot shares via ballot*

*by "T-1", 2 pm*

- 89. **The public offer will formally close on "T-1", at 12 noon.** All public offer subscriptions with validated pre-funding will become irrevocable, and FINI will generate the "basis for allotment" to be used for balloting.
- 90. If an issuer has provided for a clawback to the public offer tranche, the over-subscription level will be used to determine the basis for allotment. At around "T-1" 12 noon, the issuer's advisers will be notified of any clawback triggered, and the resulting reallocation of offering shares by tranche will be shown on FINI.
- 91. The issuer's share registrar will be responsible for allotting shares to public offer subscribers on the issuer's behalf, as it does today. The timing for balloting will be as follows:
  - i. **"T-1", 12 noon:** FINI transmits the basis for allotment to the issuer's share registrar.
  - ii. **By "T-1", 2 pm:** the share registrar conducts the ballot and prepares an allotment results file, which it transmits back to FINI.
  - iii. **"T-1", 2 pm** (or shortly thereafter): FINI broadcasts the public offer allocations to CPs. The share registrar may also publish the public offer allotments via its own channels.
- 92. In addition to sending each CP its detailed allocations, HKSCC plans to introduce a mini-website for public offer subscribers to directly check their allocations using the ID that they used during their subscription. This will remove the need for the voluminous PDF files listing thousands of HKIDs and passport numbers that are currently appended to every Hong Kong IPO's allotment results announcement.<sup>18</sup> Investors may also find out their allotment through the usual channels offered by their intermediary.

*(3d) Settle public offer proceeds*

*by “T-1”, 5.30 pm*

93. Following the broadcast of the public offer allocations to CPs, HKSCC via FINI will generate SWIFT messages instructing each CP’s designated bank to send funds in respect of that CP’s share allotment via RTGS CHATS to the issuer’s receiving bank(s) at around 2 pm on “T-1”.
94. Money settlement will be conducted within the “T-1” **2.30 pm-5.30 pm** RTGS CHATS operational window, with the settlement outcome notified to HKSCC after 5.30pm. To effect successful settlement, banks may use the on-held cash pre-funded in each CP’s account ( $C_{CPx}$ ), or, if needed, draw down any standby credit facilities that have been extended to the CP for same-day availability ( $R_{CPx}$ ).
95. Based on the money settlement outcome, FINI will facilitate the deposit of successfully settled share allotments to each CP’s CCASS account in the usual manner by 5.30 pm on the following business day (“T”).
96. It is expected that the risk of failed money settlement will be extremely low when it comes to collecting share allotment payments from CPs’ designated banks. This is because:
- i. Sufficient settlement funds for this exact purpose ( $T_{CPx}$ ) would have been arranged in advance, and validated just a few hours earlier. Due to the formula for calculating  $T_{CPx}$ , a CP’s allotment value cannot mathematically exceed the amount of pre-funding that it has been asked to prepare.
  - ii. Unlike today’s “pre-fund & refund” requirement, the amounts involved are generally not large: the average / median allotment value per CP is just HKD 1.6 million / 0.02 million per IPO. In aggregate, public offer allotment values have historically amounted to less than  $1/58^{th}$  of the cash sums that these same financial institutions successfully arrange for every Hong Kong IPO under the “pre-fund & refund” mechanism today (for a more detailed pro forma comparison, see [Appendix B6](#)).
  - iii. To ensure sound operational discipline, HKSCC will consider taking disciplinary action against CPs who fail money settlement in respect of their public offer allotment, as this would constitute a breach of the General Rules of CCASS and CCASS Operational Procedures. For example, a CP that fails money settlement may be barred from participating in Hong Kong IPOs for a certain period of time.
97. Nonetheless, in the very unlikely case of a money settlement failure at this stage of the process, the following remedial measures will be adopted:
- i. If a settlement failure occurs due to a minor money settlement difference, HKSCC would consider under exceptional circumstances to reissue a new payment instruction to the CP and allow a partial settlement of the CP’s allotted shares.
  - ii. If a settlement failure occurs due to factors unrelated to a CP’s funding position or otherwise beyond its control (e.g. a technical outage or bank operator’s error), HKSCC would consider providing additional time for a second settlement window on “T-day” morning – similar to the contingency arrangements used for CCASS settlement bulk runs. This would not affect the issuer’s listing timetable.
  - iii. If the settlement failure is not resolvable (e.g. a CP’s insolvency or designated bank failure), HKSCC will notify the issuer’s sponsor of the number of public offer shares allotted to that CP that have failed settlement shortly after “T-1” 5.30 pm. **The issuer’s underwriters will be asked to re-allocate these shares to the institutional tranche**, including them in their placee lists when submitting these to the Listing Division and the SFC on “T-day” (see [Step 5](#)).
98. Should such a “backstop by reallocation” scenario eventuate, it is not expected to be commercially material for the issuer’s underwriters, nor incremental to the existing risk of an under-subscribed public offer that they already face in every Hong Kong IPO today. De facto, this backstop mechanism is analogous to the

well-established “claw-forward” arrangement whereby shares not taken up in the public offer are automatically re-allocated to the institutional tranche. The “claw-forward” has historically been triggered in approximately one in every ten Hong Kong IPOs.<sup>19</sup> Any changes to the Listing Rules to cover such a backstop may require a separate market consultation, and sufficient time will be provided for this to take place ahead of the roll-out of FINI.

#### **Step 4. Confirm pricing**

**by “T”, 10 am**

99. While the final IPO price can be confirmed at any time during or even before the offer period, the issuer’s sponsor will be asked to input it into the FINI system at the latest **by 10 am on “T”: the pricing day**. FINI will validate that the final price is within the range at which the IPO was marketed to investors, and will update the IPO’s status, reference data and downstream workflows accordingly.
100. Under specific exceptional circumstances, such as offering delays or cancellations, a clear workflow will be triggered for the scenario in question, incorporating both the regulatory and operational implications of the event. FINI will assist sponsors with the necessary steps, such as advising other market participants of the event and initiating the required actions under the requirements of the Listing Rules. For example, if an issuer delays its listing timetable due to market volatility, FINI will:
- i. Provide a pre-populated draft postponement of global offer announcement for the issuer;
  - ii. Remind the IPO sponsor via on-system and email notifications that the announcement should be published on HKEXnews as soon as practicable;
  - iii. Prompt the IPO sponsor to update the IPO reference data, such as the listing timetable and offer price; and
  - iv. Notify the Listing Division and the SFC that there has been a change in the issuer’s listing timetable.
101. **Note that the introduction of FINI does not change any major aspect of the existing Hong Kong IPO roadshow, book-building or pricing process.**
102. By and large, Hong Kong’s IPO book-building and pricing processes are similar to those used in most other established IPO markets, and little changed over the years. The ultimate allocation and pricing of IPO shares is determined by the issuer, in consultation with its underwriting syndicate. Subject to market conditions and investors’ feedback, this invariably requires a degree of flexibility and discretion.
103. The regulatory approach in Hong Kong in this regard is to provide such flexibility to issuers, subject to full disclosure of their offering’s price range in the prospectus so that all investors are making decisions on an equally informed basis. Any material change in the price of the offering or the circumstances of the issuer may require additional disclosures and adjustments to the listing timetable, or a cancellation or deferral of the listing outright.
104. Whether this mechanism, which has generally worked well for the Hong Kong market, is the best long-term approach to IPO book-building and pricing is a frequent topic of debate among professional investors, issuers, academics, regulators and other interested stakeholders. Innovations such as on-market bookbuild platforms and Dutch auctions have been trialled in markets around the world to mixed reaction and impact.
105. HKEX is open to ideas for improving this aspect of our IPO market, should there be general agreement among market participants on the solution that they would like to see. During soft consultations for the FINI reform, however, we found there to be little appetite for changing the existing market practice in the immediate future. In particular, the following points were noted:

- i. Overseas listing venues that have introduced the option of an algorithm-driven IPO book-building and pricing mechanism have generally seen very limited take-up by issuers (see [FAQ A9](#)).
  - ii. The manner in which the IPO price is determined is not directly linked to the subsequent “T+5” settlement process that the FINI platform is attempting to address, and could therefore be evaluated under a separate market consultation at a different time, if deemed appropriate.
106. Due to these considerations, and taking into account the design principles of the FINI system (see [Section 3.1, Principle #3](#)) HKEX is not proposing any reforms to Hong Kong IPO book-building or pricing practices in conjunction with FINI. We do, however, welcome respondents’ views on this matter.

### **Step 5. Submit placee information**

**by “T”, 2 pm**

107. Distributors will use FINI to submit their placee lists to the Listing Division and the SFC for review.
108. The Hong Kong IPO placee list template is currently an Excel file that is submitted separately by each distributor in accordance with a control list provided in advance to the Listing Division. This format is prone to being modified by each distributor, and has no in-built controls as to the completeness or sufficiency of the data provided, nor its conformity with the control list. The Listing Division must review each placee list, check it for completeness, identify duplicate entries, conduct analysis on a consolidated basis, and raise questions or comments, all of which consumes considerable time.
109. [Figure 12](#) shows the modernised placee submission function on the FINI platform, which has been designed to alleviate all of these pain points. Specifically, underwriters and distributors will be able to:
- i. **Manage an online control list** directly on FINI. The system will help track sub-placing arrangements across the syndicate and verify them against the proposed share allocations being submitted in each distributor’s placee list, as well as against the overall size of the institutional tranche. This will help alleviate the need for manual reconciliation across multiple submissions.
  - ii. **Upload placee list files** to FINI instead of sending emails to the Listing Division. In addition to file uploads, a placee may be added, edited or withdrawn directly via the FINI web interface, so that a submission may be corrected without re-uploading an entire file every time.
  - iii. **Validate placee information** for completeness. In addition to checking for potential duplication of placees against the submissions of other distributors, FINI will also check them against the list of public offer subscriptions already accepted for that IPO. Any duplicates who are believed to have applied in the same tranche or in both tranches will be flagged to the submitting distributor.
  - iv. **Enrich placee lists** by “tagging” certain categories of placee directly in the lists, for example connected clients / connected persons of the issuer, or placees that are non-SFC authorised funds. Supporting information for the Listing Division’s and SFC’s further handling can be uploaded through FINI where necessary. The relevant IPO vetting team of the Listing Division and the SFC will review submissions and may provide comments via the FINI interface.
  - v. **Submit distributors’ declarations.** The relevant Appendix 5 / placement forms will be generated and, where possible, pre-populated automatically by FINI, based on the information each distributor has submitted to FINI for each IPO, thus reducing effort and errors in regulatory declarations. Electronic signatures will also be appended to digitised forms and submissions (where possible), thus reducing the need for wet signatures and mailing of physical documents (see [FAQ A13](#)).
110. In accordance with current practice, each distributor will only be able to see only their own placee entries and sub-placing arrangements.



**Figure 12. FINI placee submission interface for distributors (extract)**

Placee List							
TEMPORARY				PENDING		AUTHORISED	
+ Add   + Upload				Name <input type="text"/>			
<input type="checkbox"/>	No.	Type	Placee ID	Name	No. of Shares Placed	Checker	Status
<input type="checkbox"/>	1	Individual	Z888936(1)	Eric Shen	40,000	DonaldLee1	Valid <a href="#">EDIT</a>
<input type="checkbox"/>	2	Individual	N742351(8)	Jonathan Zeng	50,000	DonaldLee1	Valid <a href="#">EDIT</a>
<input type="checkbox"/>	3	Individual	W163934(7)	Alexander Ball	70,000	DonaldLee1	Valid <a href="#">EDIT</a>
<input type="checkbox"/>	4	Individual	H723434(4)	鄧大偉	50,000	DonaldLee1	Valid <a href="#">EDIT</a>
<input type="checkbox"/>	5	Individual	H831536(6)	Joseph Bennet	300,000	DonaldLee1	Valid <a href="#">EDIT</a>
<input type="checkbox"/>	6	Individual	E468532(1)	李蘭	100,000	DonaldLee1	Valid <a href="#">EDIT</a>
<input type="checkbox"/>	7	Individual	X533632(4)	Anna Thompson	150,000	DonaldLee1	Valid <a href="#">EDIT</a>
<input type="checkbox"/>	8	Individual	Y781836(3)	Samuel Xiao	200,000	DonaldLee1	Valid <a href="#">EDIT</a>
<input type="checkbox"/>	9	Corporate	22265418-497-39-82-A New Securities Fund IV		1,000,000	DonaldLee1	Valid <a href="#">EDIT</a>
<input type="checkbox"/>	10	Corporate	14153011-306-68-58-S High Growth Capital Fund II		2,000,000	DonaldLee1	Valid <a href="#">EDIT</a>

Rows per page: 10   1-10 of 100

©2017-20 Hong Kong Exchanges and Clearing Limited. All rights reserved.

### Step 6. Obtain regulatory clearance

by “T”, 5 pm

111. The Listing Division and SFC will be able to raise questions and provide comments on the submitted placee information via FINI (in addition to a phone call or other customary methods), referring directly to a particular row, entry or attached document in a distributor’s submission, if needed.
112. If all placee information is submitted on time, the regulators’ target timetable for providing clearance to the placee allocations will be by 5 pm on “T”. The Listing Division will communicate the clearance using the FINI interface, which will notify the issuer’s sponsor accordingly.

### Step 7. Announce allotment results

by “T”, 11 pm

113. Once the placee allocations have been cleared, FINI will automatically generate a draft allotment results announcement. The issuer’s counsel will be able to download the document and refine it as required, before seeking clearance from the Listing Division and publishing it on HKEXnews.
114. To be clear, 11 pm is the *latest permissible time* for announcement publication based on the operating hours of the e-Submission system. HKEX expects issuers to publish the allotment results announcement as soon as practicable after obtaining regulatory clearance.

### Step 8. Start of trading

“T+1”, 9 am

115. The start of trading of the new IPO shares on the Exchange will occur in the usual way the morning after the announcement of the allotment results, with a physical or virtual listing ceremony taking place.

**Step 9. Settle public offer price difference refunds (if any)**

**from “T+1”, 9 am onwards**

116. Because public offer subscription and allotment values are normally calculated based on the number of shares subscribed / allotted multiplied by the *top* of the IPO's marketed price range (i.e. before the final price has been determined), HKSCC via FINI will generate SWIFT messages instructing the issuer's receiving bank(s) to refund any remaining price difference to CPs between the top and final IPO price in respect of all allotted shares after commencement of trading. CPs are expected to inform their clients on the precise timings of their own client refunding arrangements.<sup>20</sup>

### 3.3 Target IPO settlement timetable

117. **With the new FINI infrastructure, HKEX believes that Hong Kong IPOs can achieve settlement times that are 70-80% shorter than what is possible with existing market infrastructure.**
118. This section shows the complete timetable based on the step-by-step workflow described in [Section 3.2](#).

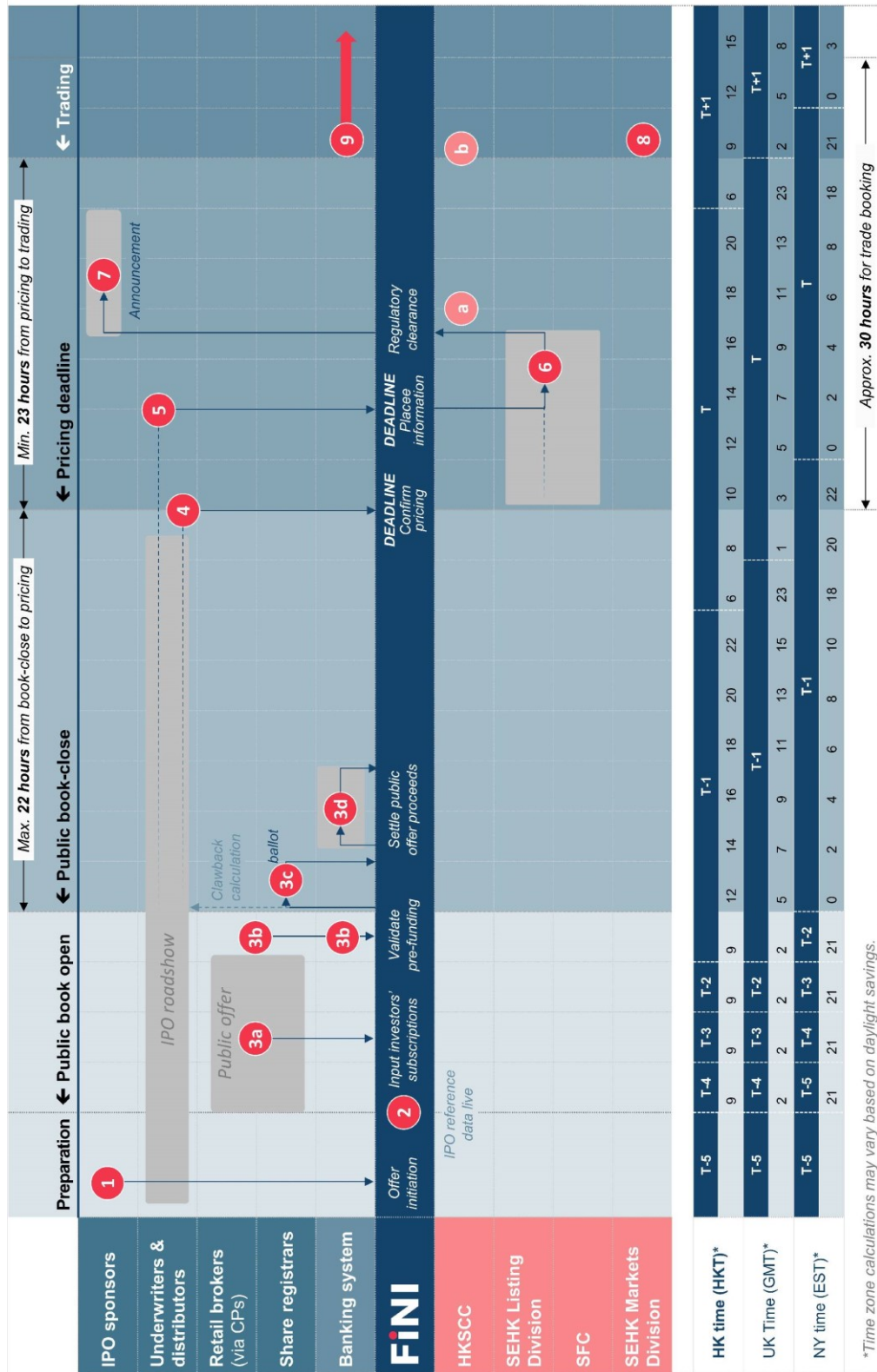
#### *Explanation of timings*

119. As mentioned in [Section 2](#), Hong Kong's listing regime prescribes two unique practices for IPO issuers before trading in their shares can begin: to take into account demand for their shares from the Hong Kong public, and to receive regulatory approval for the placees they are proposing to allot shares to.
120. The proposed FINI settlement timetable is intended to provide enough time for issuers to complete both of these regulatory requirements, such that they effectively occur in a 45-hour window over two consecutive Hong Kong business days (all times are HKT):
- i. **At “T-1”, 12 noon**, the public offer closes. This is the point at which pre-funding validation in respect of public offer subscribers has been completed and the clawback level, if any, is determined.
  - ii. **By “T”, 10 am** (22 hours after public offer book-close), issuers must confirm the final IPO price.
  - iii. **At “T+1”, 9 am** (45 hours after public offer book-close, and 23 hours after the pricing deadline) the newly listed shares will start trading on the Exchange.
121. This means that the *absolute shortest* possible time between pricing and trading for an issuer would be 23 hours, which is intended to ensure that issuers always have a certain minimum of Hong Kong daylight hours to seek and obtain regulatory clearance of their allotment results and placee lists, once the offering has been priced. For comparison, the historic average between pricing and trading in Hong Kong IPOs is around 125 hours, not including weekends or public holidays (see [Figure 16](#)).
122. In practice, this timetable gives issuers flexibility on when to price. HKEX would expect most issuers to price their offerings early in the 45-hour window and well before the “T” 10 am deadline, as this would leave more time for them to prepare the relevant placee information, as well as any offering-related consents (e.g. connected clients) for timely regulatory review by the Listing Division and the SFC.
123. As shown in [Figure 13a](#), various supporting activities are arranged around these key milestones, with the FINI platform providing a central reference point, timetable coordination and workflow management.

#### *Aligning to a market standard*

124. HKEX recognises the importance of setting out a “standard” baseline timetable for the market to follow, which can be reflected in prospectuses and aligned with market participants’ operations and systems.
125. The “T+1” timetable shown here is deemed to be achievable, and is therefore the recommended baseline that the FINI platform, from the outset, would support for Hong Kong IPOs.
126. This does not preclude the option for some issuers to choose a longer, “T+2” process, or one with weekends or public holidays falling in between. Subject to market feedback to this Concept Paper, HKEX expects to issue detailed guidance for issuers and intermediaries regarding feasible IPO timetable variants and planning in due course.

Figure 13a. T+1 IPO settlement timetable with FINI



**Figure 13b. T+1 IPO settlement timetable with FINI**

Step (as per Section 3.2)	Start (HKT)	End by (HKT)	Duration	Key dependencies
<b>1</b>	<b>Offer initiation</b>	Anytime	T-5 2 pm	Post-hearing letter issued
<b>2</b>	<b>IPO reference data live</b>	T-4 9 am	After listing	(1) completed
	<b>IPO roadshow</b>	Anytime	Before T day	Post-hearing information pack (PHIP) uploaded
<b>3a</b>	<b>Public offer open Input investors' subscriptions</b>	<b>T-4 9 am</b>	<b>T-1 9.30 am</b>	3 business days for public offer (1) completed
<b>3b</b>	<b>Validate pre-funding Public offer close</b>		<b>T-1 12 noon</b>	(3a) completed
<b>3c</b>	<b>Allot shares via ballot Release allotment results</b>	T-1 12 noon	T-1 2 pm	2 hours (3b) completed
<b>3d</b>	<b>Settle public offer proceeds</b>	T-1 2.30 pm	T-1 5.30 pm	3 hours (3c) completed
<b>4</b>	<b>Confirm pricing</b>	<b>Anytime</b>	<b>T 10 am</b>	<b>Max. 22 hours after public offer close</b>
<b>5</b>	<b>Submit placee information</b>	Anytime	T 2 pm	(3d) and (4) completed
<b>6</b>	<b>Obtain regulatory clearance</b>	Anytime	T 5 pm	3 hours (5) completed
<b>7</b>	<b>Announce allotment results</b>	T 5 pm	T 11 pm	6 hours (6) completed
<b>8</b>	<b>Start of trading</b>	<b>T+1 9 am</b>		<b>Min. 23 hours after pricing deadline</b> (6) and (7) completed & deal becomes unconditional
<b>9</b>	<b>Settle public offer price difference refunds (if any)</b>	T+1 9 am onwards		(3d) and (4) completed

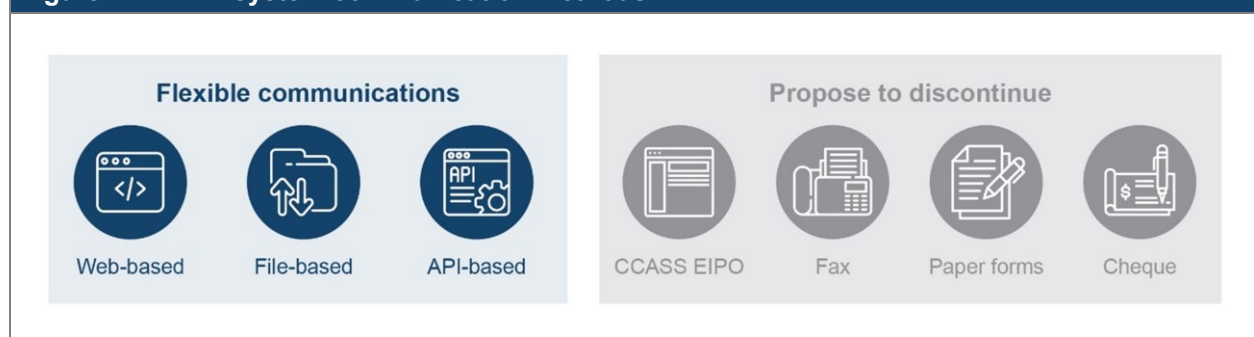
<b>a</b>	Deposit public offer shares	T 5:30 pm	1 business day	(3d) and (6) completed
<b>b</b>	Deposit institutional offer shares	T+1 9 am	Instant	(6) completed & deal becomes unconditional



### 3.4 Connecting to FINI

127. FINI will support a large and diverse user base that includes retail brokers, share registrars, sponsors, underwriters, distributors, regulatory authorities and legal counsel. This requires a resilient, secure and flexible system with a wide range of communication capabilities that are aligned with the functions it will perform and the access preferences of market participants.
128. FINI will adopt predominantly an internet-based approach for access. Users will be able to interact with the system through three main methods:
- Web interface** for information inputs and edits, status checks, analytics, and various notifications. This is the interface shown in illustrations throughout this Concept Paper. The design is built to be responsive on desktop, smartphone and tablet devices.
  - File-based transmission** for bulk data uploads and downloads. In particular, CPs (“EIPO” files), share registrars (basis for allotment / allotment results files), and underwriters / distributors (placee lists) will have access to this function, so as to provide convenience and backward compatibility to those users of FINI whose systems are designed to support these file exchanges with HKEX.
  - API-based** for machine-to-machine communication, which will allow the upload and download of information from the system in a programmatic format. Restful APIs will initially be made available for (i) Hong Kong IPO reference data retrieval and (ii) submitting, modifying or withdrawing public offer subscriptions. The relevant API specifications will be released by HKEX in due course.
129. These three communication methods (Web, File, API) are complementary such that data consistency remains regardless of which one is used.
130. A number of legacy communication methods, including the CCASS “EIPO” interface, faxes, certain interactive voice response solutions (IVRS), various paper-based forms and cheque / cashier’s order payments will no longer be supported by HKEX under the FINI platform, although this does not preclude market participants from using non-digital interactions with their own clients, so long as the output is ultimately entered digitally into FINI. HKEX believes that this transition to fully digital operations is consistent with a more environmentally sustainable future for Hong Kong’s capital markets (*Figure 14*).

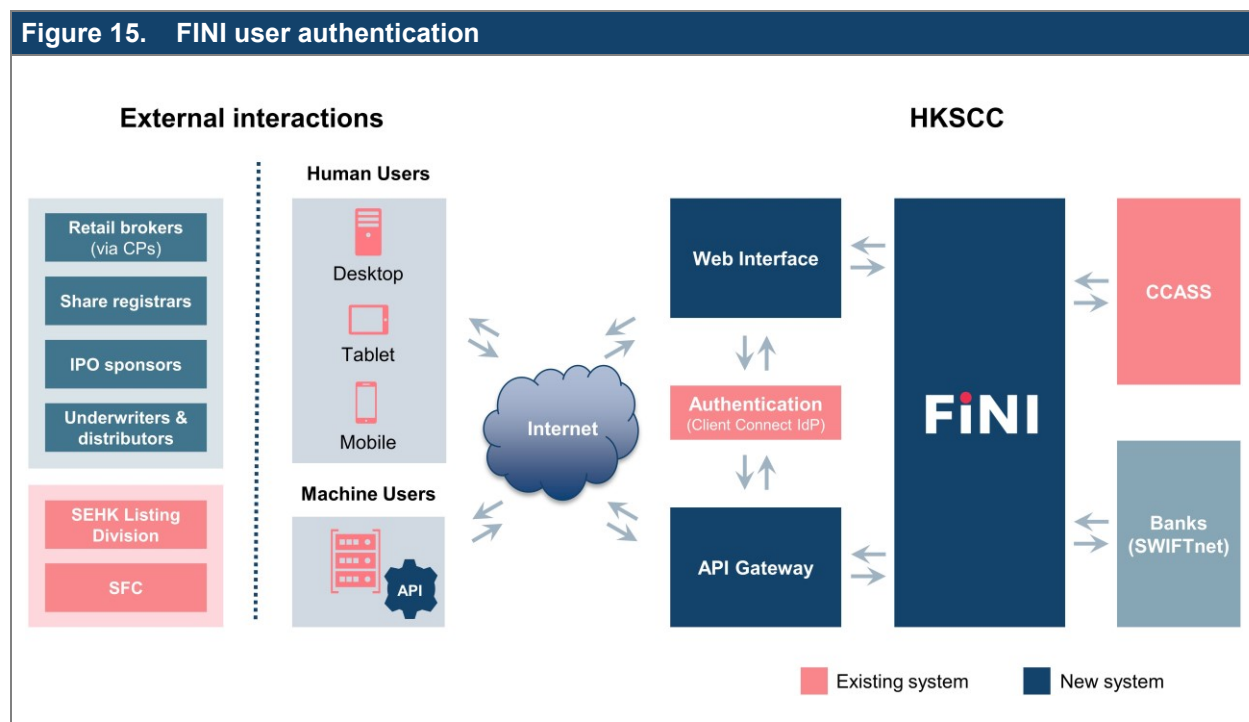
**Figure 14. FINI system communication methods**



131. On-boarding and day-to-day access to FINI for both human and machine-profile users will be managed through the authentication and user management mechanism of the existing **HKEX Client Connect** system (*Figure 15*). This means that CPs will be able to use their existing HKEX Client Connect credentials to access FINI, while new users will be issued such login credentials during on-boarding.<sup>21</sup>
132. For human users, multi-factor authentication (MFA) login with an email or mobile application will be used for access, consistent with the current arrangement for HKEX Client Connect. For machine users, an MFA

on the API request will be validated by the HKEX Client Connect identity provider (IdP) before an access token is granted to the user to then make an IPO reference data enquiry or a public offer subscription / modification request. The on-boarding process for machine-profile users will bear similarities to the on-boarding e-forms for human users.

**Figure 15. FINI user authentication**



133. HKSCC will consider making a dedicated lease line available for batch file transmission for backward compatibility in certain cases, based on agreement with the relevant users of the platform.
134. To provide superior scalability, FINI will be hosted on cloud infrastructure, with access and authentication for users via a secure on-premise HKEX gateway. The system will be available with auto-scaling to support increased throughput at busy times.
135. Additional details about the technical specifications of FINI will be provided to market participants in due course.

## 4. Impact of the proposed reform

136. **With a shorter and more modern IPO settlement process, Hong Kong’s securities market will become more competitive, more digitally advanced and more robust for the future – fortifying our status as a leading international fundraising venue.**
137. The introduction of new, shared infrastructure as a tool to achieve this important reform plays directly to the strength of Hong Kong as a capital market: the ability of our vibrant and diverse financial services “value chain” to deliver impactful changes by working together. A collaborative approach unlocks new growth opportunities, efficiencies and technological alignment that would be unimaginable if such an important reform was pursued in a piecemeal, or fragmented manner.
138. This section details the expected benefits and impact of the proposals contained in this Concept Paper.

### 4.1 Benefits for Hong Kong

#### More competitive

139. The target “T+1” IPO settlement timetable represents a **significant reduction in the market risk period** faced by investors, issuers, underwriters and selling shareholders in a Hong Kong IPO.
140. Depending on the exact time of pricing (using this as a proxy for the moment that institutional investors commit to the deal) the period of market risk could be reduced to as little as 23 hours for institutional investors and 47.5 hours for public offer investors, which is 70-80% lower than today (*Figure 16*):

**Figure 16. Faster IPO settlement means lower market risk**

	IPO A	IPO B	IPO C	IPO D
Public offer subscription deadline (i)	9.30 am HKT (T-1)	9.30 am HKT (T-1)	9.30 am HKT (T-1)	9.30 am HKT (T-1)
IPO price confirmation (ii)	12 am HKT (T)	5 am HKT (T)	8 am HKT (T)	10 am HKT (T)
Start of trading on the Exchange (iii)	9 am HKT (T+1)	9 am HKT (T+1)	9 am HKT (T+1)	9 am HKT (T+1)
Institutional investor risk = (iii)-(ii)	<b>33 hours</b>	<b>28 hours</b>	<b>25 hours</b>	<b>23 hours</b>
Historic average*	125 hours	125 hours	125 hours	125 hours
<b>Potential reduction</b>	<b>-74%</b>	<b>-78%</b>	<b>-80%</b>	<b>-82%</b>
Retail investor risk = (iii)-(i)	<b>47.5 hours</b>			
Historic average*	149 hours			
<b>Potential reduction</b>	<b>-68%</b>			

\* Not including weekends and public holidays that fall in the middle of the market risk period (see *Figure 4*). If (i), (ii) and (iii) happen on consecutive calendar days under the FINI timetable, then the market risk period would be **80-90% lower** than the current equivalent.

141. The shorter time between risk commitment and the start of trading would bring Hong Kong in line with the top tier of international IPO venues that already offer “T+1” trading of IPO shares (see *Appendix B1*). This is despite Hong Kong’s unique regulatory features (public offer clawbacks and placee vetting before trading), which these other markets do not have.

142. Faster time-to-trading is also expected to help reduce the degree of influence that the lengthy settlement period might otherwise have on the **pricing of the IPO**. While this is beneficial for all issuers, it is of particular relevance to those undertaking a dual-primary or secondary listing, as they already have a live share price on another stock exchange that may be open during their Hong Kong settlement period.

Lastly, as described in [Section 3.2](#), the proposed reform **addresses the unique liquidity lock-up issue** that extremely large or unexpectedly popular IPOs can create for the Hong Kong dollar money market, which is susceptible to strong capital flows driven in part by public offer pre-funding. The proposed migration to a “pre-funding validation” model is expected to free up significant liquidity that is otherwise unnecessarily locked up in the banking system.

### *More digitally empowered*

143. The FINI platform will enable significant process rationalisation, operational efficiencies, cost savings and commercial opportunities for participants in Hong Kong’s IPO market. These include:

- i. **Digitalisation.** Converting the vast majority of paper forms, faxes, emails and other “wet signature” documents into standardised online forms will allow for more flexibility in submission times, more responsive receipt acknowledgements, multi-author collaboration and direct online editing. This can release valuable operational processing time for market participants.
- ii. **Coordination.** All permissioned users of FINI will be working on a consistent view of data pertaining to an IPO. Whether it’s the final offer price or the over-subscription ratio, everyone with the requisite permissions will have the same information at the same time. This will considerably reduce dependencies on today’s batch-based communications and time spent waiting for updates.
- iii. **Intelligence.** FINI automates numerous workflows, such as placee concentration analysis, placee list aggregation, clawback calculations, duplicate subscription flagging, announcement data generation, report creation, record retention and deal analytics, among others. This will speed up workflows and decision-making.
- iv. **Accuracy.** Real-time data validation against transparent common data standards will help detect omissions, inconsistencies or errors in data on the spot. This makes data on FINI more reliable, and reduces time that needs to be spent on error-checking, reconciliation and follow-ups.
- v. **User experience.** The FINI web interface and dashboard are designed to be intuitive, and finding information is straightforward. Market participants can work on every IPO that they are involved with on the same interface, without logging on and off. This will help reduce the time needed to train operations staff and boost operational flexibility.
- vi. **Convenience.** FINI can be accessed securely from anywhere at any time through the internet. This removes a bottleneck for users who are on the road, working from home, or simply wish for greater convenience in performing their day-to-day tasks.
- vii. **Straight-through integration.** By offering multiple ways to communicate with the system, FINI allows for easier integration with its users’ data management, workflow or analytics systems, if users wish to do so. This type of holistic integration is not achievable today due to the different closed systems and analogue practices used during IPO settlement.
- viii. **Scalability.** A high number of concurrent IPOs in our market (as has been the case through much of 2019 and 2020 to date) can create unforeseen operational risks even for the most sophisticated market participants. FINI provides a scalable infrastructure to help market participants navigate even heightened periods of primary market activity.

- ix. **Environmental sustainability.** The reduced use of paper throughout the IPO settlement process is an important consideration. This will help stakeholders meet their environmental commitments and improve Hong Kong's standing as a more sustainable and environmentally friendly marketplace.
- 144. Based on HKEX's practical experience with IPO settlement and our conversations with market participants, we believe that these improvements will help save hundreds of labour-hours of manual processing and wait time in each Hong Kong IPO, equating to tens of thousands of hours for our market every year.
- 145. The migration to a digitally native operating model will also help to **strengthen the robustness of Hong Kong's listing regime** and market participants' compliance with it. Examples include:
  - i. **Quality of submissions.** FINI will help to reduce the incidence of duplicate or incomplete IPO subscriptions both within and across each tranche of a Hong Kong IPO, while facilitating the detection of potentially suspicious subscription patterns.
  - ii. **Regulatory focus.** By automating certain common tasks, FINI will allow the regulatory review of IPO share allotments to dedicate more focus to the substance of the review, rather than spending time handling logistics and reconciling data.
  - iii. **Audit trail.** With permissioned access, maker-checker workflow controls, file version controls, time-stamping and platform access logs, FINI has a number of risk controls and an audit trail for interactions on the platform. In case of any potential need to verify information or resolve a dispute, this can provide a reliable source of clarity.
- 146. The benefits of digital transformation extend beyond FINI's direct users. The platform will also provide reliable, instant and programmatically accessible **Hong Kong IPO reference data**. We expect this service, which does not currently exist, to encourage more third-party applications and use cases that will help to increase the transparency and visibility of Hong Kong's IPO market.

### *More robust for the future*

- 147. If implemented, FINI will provide a foundational pillar of Hong Kong's next generation of **securities market infrastructure**.
- 148. FINI creates a much-needed forum for all stakeholders to discuss the structure and mechanics of our IPO market, which have remained unchanged for many years. It creates a platform to agree on the infrastructure to implement **future reforms and new features** that may arise in the course of Hong Kong's evolution as a capital raising centre in the years to come.
- 149. For example, a hypothetical future regulatory change to the standard IPO placee list template would be rolled out via the FINI platform, ensuring that the whole market is using the right one at the same time. More minor changes – say, the enhancement of a statistical disclosure in issuers' IPO allotment results announcements – could be deployed via FINI without significantly troubling market participants.
- 150. The FINI platform also brings together an important group of market participants that extends beyond HKSCC's existing participants to include underwriters, IPO sponsors and legal counsel. FINI allows these user groups to follow a **common model for user authentication** (as first introduced in HKEX Client Connect), connectivity to the Exchange, and workflow coordination.
- 151. It is therefore plausible that the FINI infrastructure may be re-used to facilitate other common, non-latency-critical workflows in Hong Kong's capital markets that involve the same (or similar) group of participants. Examples could include admitting follow-on placements; admitting retail bonds to the Exchange; or even



proxy voting. Each of these additional use cases would be subject to market demand and separate stakeholder consultations.

152. Lastly, HKEX believes that the proposed changes will encourage the continuation of safe and informed retail investor participation in our IPO market. The reform benefits the investing public by reducing the market risk period faced by investors, and providing a convenient way to discover allotment results as soon as these are known.

## 4.2 Impact on market participants

153. Digital transformation invariably has an impact on any industry, and Hong Kong's securities market is no exception. Below, we recap the main areas of expected impact on each group of market participants that will be affected by the introduction of FINI, as described in this Concept Paper.
154. It is HKEX's intention to make the impact of FINI as manageable for the market as possible. Feedback and suggestions from each stakeholder group are therefore important and welcomed (see [Section 6](#) for how to provide feedback). Where the views of different groups are in contradiction, HKEX will seek a balanced and transparent way to resolve them, in consultation with the SFC, the HKMA, and relevant industry bodies.
155. Additional operational details about FINI that may be of interest to market practitioners can be found in the frequently asked questions in [Appendix A](#).

### Retail brokers

*Around 600 retail brokers are active in Hong Kong's IPO market.*

156. **"EIPO" subscriptions.** Moving to the FINI interface for public offer subscription input will necessitate some adjustment by brokers. To help, FINI will support the file format of the existing CCASS "EIPO" files, albeit with field length changes to reflect the subscriber identity standards shown in [Figure 9](#). FINI offers a significant improvement in convenience and flexibility over the existing "EIPO" interface, including timely IPO reference data, real-time data validation, a more responsive experience and automation opportunities.
157. **Pre-funding validation.** The proposed change to the public offer pre-funding validation mechanism is likely to entail some changes to operational arrangements between brokers, their CPs and their banks, especially in respect of the pre-funding validation checks required by HKSCC platform in lieu of interbank transfers. HKEX will work closely with the market to confirm a feasible workflow, as further discussed in [FAQ A31](#).
158. **Margin lending.** In the proposed FINI model, brokers who wish to offer financing to support their clients' IPO subscriptions will continue to be able to do so. Given the proposed changes to the length of the settlement cycle and the mechanics of pre-funding, the duration and draw-down usage of such margin lending may be affected. The impact on brokers will largely depend on their own business model and operational arrangements with clients and banks regarding IPO margin lending.
159. **Payment instructions.** FINI intends to use RTGS CHATS rather than EPI infrastructure for the money settlement of each CP's EIPO allotment. The purpose is to offer greater operational flexibility to the CPs' designated banks, who may settle money obligations anytime within a settlement window, as opposed to a designated time akin to other bulk runs. HKEX will coordinate the change with CPs and their designated banks in advance, including new direct debit authorisation agreements.

## Share registrars

*A relatively small number of share registrars cater for Hong Kong IPOs.*

160. **Continuity of roles.** Share registrars will continue to manage the issuer's register of members, the "White eIPO" subscription channel, balloting and the despatch of share certificates to on-register shareholders. HKEX expects that the money settlement of "White eIPO" allotments will also continue to be arranged separately by the issuer's share registrar.
161. **Interactions with HKSCC.** Certain key interactions between share registrars and HKSCC in respect of the public offer will be modernised with the help of the FINI platform:
- i. Share registrars will be asked to upload their "White eIPO" subscription lists to FINI, conforming to the subscriber identity standard shown in [Figure 9](#).
  - ii. HKSCC will provide the issuer's share registrar with a consolidated, cleansed and structured "basis for allotment" file shortly after the close of the public offer.
  - iii. The share registrar will submit the allotment results file to HKSCC via FINI for onward handling.

## IPO sponsors

*FINI will facilitate interaction with the Listing Division and the SFC on regulatory and logistical matters during IPO settlement.*

162. **IPO initiation and deal management.** As described in [Section 3.2](#), the issuer's sponsor will be asked to confirm details of the offering and its reference data on the FINI platform. Any changes to IPO particulars – such as final pricing – would also be confirmed by the sponsor via FINI. This will effectively digitalise and streamline various interactions that are currently done by email, hard copy or fax.
163. **Allotment results and statistics.** As allotment results are approved, FINI will automatically generate relevant statistical summaries (subscriptions, allocations, placee concentration) that may be used by the issuer's advisers in preparing the allotment results announcement. Compliance checks in respect of the relevant Listing Rules requirements can be included in these calculations.

## Underwriters & distributors

*FINI will improve the submission of allotment and placee details for review by the Listing Division and the SFC.*

164. **IPO timetable.** The "T+1" target settlement timetable outlined in [Figure 13](#) entails a tighter operational schedule than is the case for Hong Kong IPOs today, and may accordingly require some adjustments to syndicates' operating practices, such as roadshow timing, travel arrangements, placee information collection, and the sub-allocation and trade booking processes.
165. HKEX's discussions with equity capital markets practitioners indicate that such changes should generally be achievable if the whole market moves together, as professionals adjust to the new rhythm of Hong Kong IPO settlement. A similar shift in operational practices has been observed in response to COVID-19, which has prompted almost all IPO roadshows to move to a virtual format.
166. **Allotment control and placee lists.** With control lists and placee submission functionality moving online on FINI, the lead broker and distributors will be able to dynamically manage and validate sub-distributions, keep track of incoming allotments, upload and edit placee lists and supporting information, interact with feedback from the Listing Division or SFC in real-time, and complete regulatory declarations. These workflow improvements will require some user training to become accustomed to.

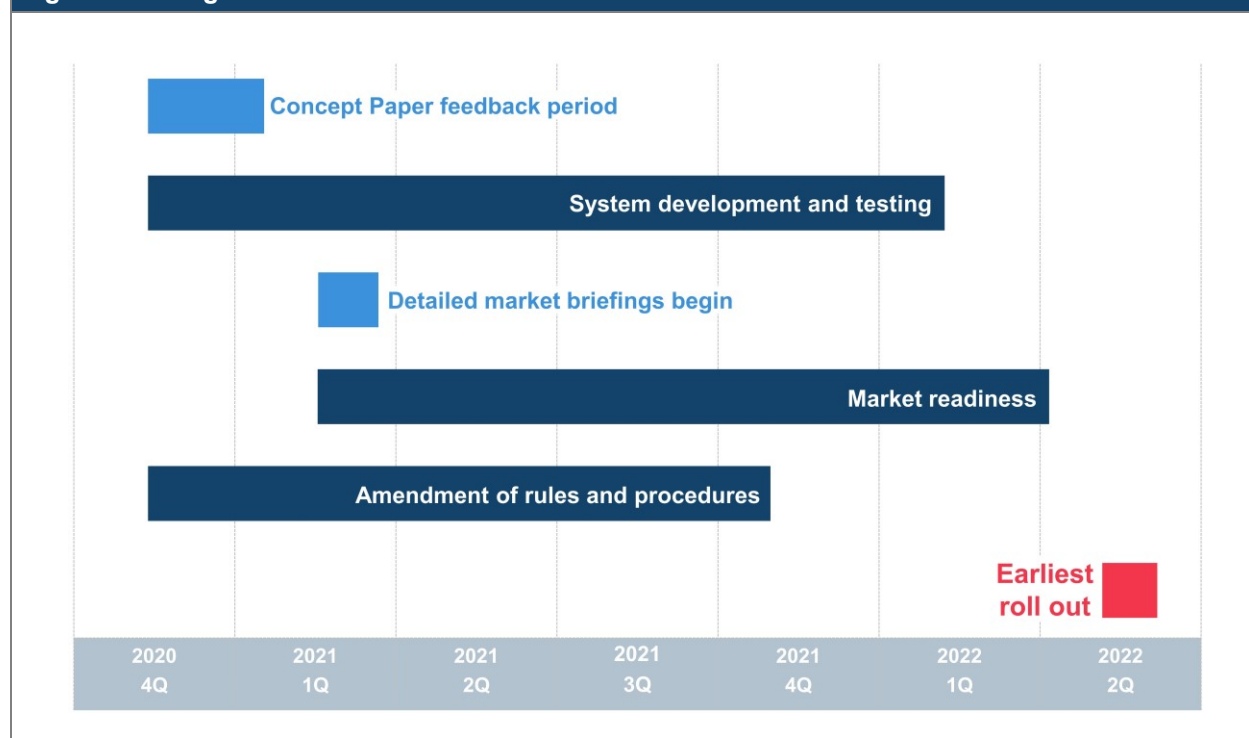
## 5. Implementation timeline

### *Mandatory adoption of FINI*

167. **If this proposal is supported by the market, HKEX will build and deploy FINI as a mandatory platform for handling all future Hong Kong IPOs, replacing the incumbent IPO settlement process.**
168. HKEX intends for the market to switch over to FINI through a one-time cut-over. This means that the existing “T+5” settlement process would be discontinued at the same time that FINI is introduced. This is similar to the historic roll-out approach for certain other core HKEX market systems in recent years, such as *OTP-C* (cash market trading) and *Genium-4* (derivatives market trading).
169. While alternative “opt in” and “parallel run” adoption models have been considered (e.g. only a small number of selected IPOs using FINI to begin with), this approach is considered unsuitable because:
- i. It may unfairly constrain IPO issuers’ ability to choose their underwriters, legal counsel, share registrar, and so on, based on who has adopted the FINI system, versus who has not.
  - ii. It may impose duplicate costs on market participants in terms of system connectivity, operational and commercial support for both the “new T+1” and “old T+5” models.
  - iii. It may create significant confusion for issuers, investors, market participants and regulatory authorities, potentially leading to a material risk of operational errors: for example, two IPOs listing on the same day but using different settlement models could be difficult to handle in practice.

### *High-level timetable*

**Figure 17. High-level timetable for the introduction of FINI**



170. **The roll-out of FINI is expected to occur no earlier than the second quarter of 2022.** This timeline will depend on the level of market support for the proposed reform; feedback on specific elements of FINI; smooth platform development and testing progress; the implementation of certain regulatory rule changes described below; and market readiness and user on-boarding (*Figure 17*).
171. Following the feedback period for this Concept Paper, HKEX expects to publish a more detailed timetable for the transition to FINI that takes into account stakeholders' feedback, and is likely to include:
- i. **Details of the FINI target operating model.** HKEX will refine the high-level concept set out in this Concept Paper into a detailed operating model. It is important for the FINI platform to anticipate and cater for even the most complex IPO scenarios, and we will be working to ensure that the design of the system is robust and comprehensive, with the input of future users and stakeholders.
  - ii. **Technical details of the FINI system.** HKEX has already built a working prototype of FINI, containing simplified aspects of its core functionality. This prototype will be turned into a production system during the next 12 months by adding functional features, building the underlying network infrastructure, and setting up various integration points and security features. Market users will be advised of connectivity requirements, on-boarding, testing and market rehearsal plans.
- In general, HKEX expects the technical adoption costs of FINI to be moderate for its users, given that the system is primarily web-based and requires only registration and authentication to begin using. FINI has been designed to offer backward compatibility to certain existing file and message formats commonly used in Hong Kong IPO settlement today, so as to reduce the impact on market participants' systems.
- iii. **Market readiness.** To help with a smooth transition to FINI, a programme of expert focus groups, platform workshops and user training for each FINI user group will be kicked off during 2021. HKEX expects to begin market briefings after the Concept Paper feedback period.
172. HKEX has created a dedicated email address to receive questions related to FINI (see *Section 6*). We encourage market participants to reach out to us to clarify your queries before you provide feedback to this Concept Paper.

### *Regulatory impact: listing regime*

173. The FINI platform has been designed to be compatible with the current legal framework governing Hong Kong's securities market. No legislative change is therefore contemplated for the implementation of FINI. Stakeholders will be required to comply with all applicable requirements under existing laws and regulations concerning the listing process.
174. In view of the new operational flow under the shortened IPO settlement process, certain changes to the Listing Rules are anticipated:
- i. Specifying the mandatory nature of FINI and that it be the only settlement mechanism available to IPO issuers, once it is formally rolled out.
  - ii. Changes to undertakings and issuer's authorisations to cover that all documents / forms submitted through FINI will also be subject to the dual filing regime with the SFC.
  - iii. Consequential changes as a result of the shortened settlement process, e.g. deadlines for certain document submissions, communication through FINI, and other logistical matters.

175. Changes to the Listing Rules may require a separate market consultation, and sufficient time will be provided for this to take place ahead of the roll-out of FINI.

*Regulatory impact: HKSCC rules and procedures*

176. It is expected that the General Rules of CCASS and CCASS Operational Procedures will be amended in view of the new IPO settlement process. Amendments should also be expected to the terms and conditions governing the admission of eligible securities into CCASS and the operating procedures associated with the admission process.
177. Users of the FINI platform, including sponsors, CPs and share registrars, will be required to submit an application to HKSCC and agree to the Terms and Conditions of FINI in order to use the platform. To be published in due course, these will cover, inter alia, the handling of investors' personal data by FINI (for example, data in "eIPO" and "White eIPO" subscriptions submitted by CPs and share registrars to HKSCC via FINI, respectively), and other settlement obligations (such as the share registrars' undertaking to deliver share certificates to HKSCC for stock admission and trading by a certain time).
178. HKSCC will evaluate whether any adjustment to HKSCC stock admission fees will be made as a result of FINI, and inform the market in due course.
179. Users of FINI will need to evaluate in their own cases as to whether any change to their contractual terms with subscribers, finance providers or other third parties may be required as a result of their adoption of the FINI platform.
180. Given the regulatory implications and market impact of this reform to the IPO settlement process, the SFC and HKMA have been closely consulted by HKEX throughout the preparation of this Concept Paper.



## 6. Providing feedback

181. The feedback form to this Concept Paper and instructions for its submission are available at <https://www.hkex.com.hk/fini>, or using the QR code below:



182. The feedback form consists of three questions:

- 1) Do you support the overall proposal outlined in this Concept Paper?
- 2) Do you have any comments or suggestions regarding specific aspects of the proposed reform or the functionality of the proposed FINI platform?
- 3) Are there any other aspects of Hong Kong's IPO process that are not featured in this Concept Paper, but which you would like to see included as part of this proposed reform?

183. In addition to specifying the nature of their interest in the subject (e.g. broker, retail investor, legal practitioner, etc.), please note that respondents will be expected to:

- Have read this Concept Paper, including [Appendix A \(Notes for Practitioners\)](#), which covers many of the frequently asked questions that we expect to receive from readers.
- Endeavour to provide alternative suggestions and counter-proposals, with arguments, where they disagree with the proposals and/or views expressed in the Concept Paper. Higher priority will be given to considering responses with a reasoned basis.
- Unless otherwise requested, agree to be contacted by HKEX to discuss their responses.
- Unless otherwise requested, agree to have their responses (or excerpts thereof) published by HKEX after the Concept Paper feedback period.

184. A dedicated email address, [projectfini@hkex.com.hk](mailto:projectfini@hkex.com.hk), has been set up as a channel for readers to contact HKEX about any aspect of this project. **HKEX warmly encourages readers to reach out to us for a discussion, and to answer your questions, before making a written submission.**

185. Note that hand-delivered, mailed or faxed submissions will not be read by HKEX.

186. **THE DEADLINE FOR SUBMITTING RESPONSES TO THIS CONCEPT PAPER IS 6 PM ON FRIDAY, 15 JANUARY 2021.**

## Appendices

### A. Notes for practitioners

#### *Issuers and syndicate operations*

##### **A1. What types of listings can FINI handle?**

Initially, FINI is designed to handle primary, dual-primary, secondary equity listings, listings by introduction and transfer from GEM to Main Board listings.

HKEX will also consider in due course whether the FINI platform may also be suitable to facilitate secondary offerings, distributions in species or debt offerings.

##### **A2. How will FINI handle preferential offerings and employee offerings?**

Through conversations with brokers, custodians and banks, HKEX has learned that some market participants usually manage these operations via their secondary market corporate actions teams, along with rights issues and open offers. Some preference has been expressed to maintain these functions within a single system to avoid operational confusion.

If this approach is adopted, then FINI would not handle *subscription*, *allotment* or *settlement* of any preferential offerings or employee offerings; but their *allocation results* would need to be input into FINI by the share registrar during the IPO settlement process. These results would be taken into account in generating allotment results statistics, among other things.

##### **A3. How will FINI handle the clawback and reallocation mechanism under PN18? <sup>22</sup>**

The clawback trigger points and allocations applicable to each offering (those set out in PN18, or otherwise if an issuer has applied for and is granted a clawback waiver by the Listing Division) and reallocation of shares between tranches outside of PN18 (a modified clawback) will be captured at the IPO initiation stage (see [Section 3.2, Step 1](#)). Based on the results of the public offer, FINI will apply these inputs to automatically calculate any resulting share reallocation between tranches.

Note that the calculation of a public offer's over-subscription level will be based on the number of public offer shares successfully accepted into the ballot, meaning that (i) the subscriptions have been inputted into and accepted by the FINI system, and (ii) the subscriptions are supported by sufficient confirmed pre-funding as described in [Section 3.2, Steps 3a / 3b](#). The clawback will be calculated shortly after the public offer closes.

Note also that the 'claw-forward' mechanism whereby any shares not subscribed for in the public offer are allocated back to the institutional tranche of the IPO will also remain in place under FINI.

##### **A4. How will FINI handle the pricing flexibility mechanism under Guidance Letter GL90-18? <sup>23</sup>**

FINI will support a pricing flexibility mechanism, including the one under GL90-18, i.e. to allow a downward price adjustment of no more than 10% below the indicative offer price or the bottom end of the indicative price range which is within a 30% spread, subject to appropriate disclosure being made in the prospectus, MMO subscription forms (if used; see [FAQ A8](#)), formal notice and the issue of a price reduction announcement.

FINI is able to automatically generate suggested text for a price reduction announcement for the issuer to use. The relevant pricing reduction would also be captured in the text generated for the issuer's allotment results (see [Section 3.2, Step 7](#)).

**A5. How will FINI handle over-allotment?**

Details of the over-allotment option, if any, will be captured at the IPO initiation stage (see [Section 3.2, Step 1](#)). Details of any shares over-allotted, the impact on the overall shareholding structure of an issuer and its share concentration analysis would be automatically populated into the allotment results announcement by FINI after the placee lists are cleared (see [Section 3.2, Step 6](#)).

**A6. How will FINI handle a delay in an issuer's listing timetable?**

Where the listing date is delayed for a short period of time, listing applicants are expected to advise the Listing Division on a new listing timetable as early as possible. Upon the sponsor updating and receiving approval of the revised timetable by the Listing Division, the system will revise the timetable and other reference data of the IPO, such as the date of issue of a supplemental prospectus setting out the revised timetable, arrangements with regard to the public offer, and submitted subscriptions and applicable refund arrangements (if any). The FINI platform will also provide guidance on the required supplemental documents that must be published on HKEXnews.

**A7. How will FINI handle IPOs that do not proceed?**

If a listing applicant decides not to proceed with its IPO after the commencement of the public offer, the procedure will be the same as the existing practice, regardless of whether the public offer has been closed.

The sponsor will be asked to update FINI with the issuer's decision to cancel the IPO at the same time as it notifies the Exchange of its decision. Based on the progress of the IPO at the time, HKSCC will unwind certain completed procedures as necessary.

**A8. How will FINI handle mixed media offers (MMOs)? <sup>24</sup>**

An MMO requires the issue of a printed subscription form without it being accompanied by a printed form prospectus relating to the offer. As FINI will not support paper-based subscription forms, issuers who wish to adopt an MMO would have to issue their own physical application forms in compliance with guidance letter(s) published by the Listing Division and rely on retail brokers and / or share registrars to input orders from subscribers who use such forms into the FINI platform directly.

**A9. Why is HKEX not proposing an “on-market bookbuild” at this time?**

Some other equity markets (notably, the Australian Stock Exchange) have offered an optional book-building feature in their IPO market for a number of years. This is a mechanism whereby the issuer appoints a “technical lead manager” to conduct a book-building process using a centralised system. The system offers several unique design features, which includes:

- (1) Flexibility for the issuer to set and amend offer terms during the offer period, including allocations between tranches, with no mandatory clawback mechanism or minimum allocation requirements;
- (2) A single, consolidated order book that captures bids from both retail and institutional offers, which may be withdrawn / adjusted any time during the offer period; and
- (3) An algorithm that calculates a live offer price based on committed bids from retail and institutional investors, which helps the issuer determine the final offer price and allocate its securities.

HKEX has studied this model, and similar ones around the world. Our study has shown that such a mechanism has seen very limited uptake in markets where it has been adopted: for example, only 1.5% of the number of IPOs and 0.2% of the total funds raised between 1 January 2014 and 18 September 2020 on the Australian Stock Exchange used the “on-market bookbuild” service.<sup>25</sup> The applicability of such a mechanism to Hong Kong IPO market practice is debatable, and at the very least may require substantive regulatory changes in order to be adopted.

That said, HKEX remains open to considering suggestions from stakeholders on whether such a mechanism should be explored for Hong Kong, whether as part of the FINI reform or as a separate initiative.

**A10. Will FINI have an impact on the prospectus registration requirement?**

No. Neither FINI nor the shortened IPO settlement process will change the prospectus registration requirements and procedures. HKEX has published a separate consultation paper on introducing a paperless listing and subscription regime, including electronic form prospectuses and subscription by e-channels, which is consistent with the objectives of the changes proposed in this Concept Paper.<sup>26</sup>

**A11. With the shortened settlement timetable, would the requirements for submission of placee lists and related documents, such as the connected client / existing shareholder consent request change?**

*Placee lists.* FINI would not change the listing requirement for submission of placee lists. As described in [Section 3.2, Step 5](#), FINI will digitalise the placee list submission and review process. The placee list template requirements and data formats will be refreshed, setting out the requisite information to be provided by distributors. FINI will validate incoming placee lists against these requirements, as well as against placee lists submitted by other distributors for duplicated placees, missing information or other issues. This will replace manual checking done by the Listing Division. The Listing Division and the SFC will also receive real-time notifications of any changes made to placee lists on FINI. Per the proposed “T+1” timetable, changes to placee information could be made via FINI no later than 2 pm on “T”.

*Connected client and existing shareholder consent requests.* FINI does not change the connected client / existing shareholder consent requirement under the Listing Rules and GL85-16. In light of the shortened settlement timetable, relevant parties will be encouraged to commence collecting details of prospective placees and submitting connected client and existing shareholder consent requests to the Exchange early in the settlement process. To the extent information is available, the Listing Division welcomes relevant parties to submit consent requests to us for pre-approval in advance of the settlement process. The Listing Division will consider issuing further guidance on submitting consent requests for pre-approval in advance.

**A12. Which forms, documents and agreements related to stock admission would FINI replace with the new IPO initiation e-form ([Section 3.2, Step 1](#))?**

Figure 18. List of forms, documents and agreements to be digitalised on FINI		
Form	Recipient	Timing today
EIPO agreement	HKSCC	1 day before the Listing Committee hearing date
Request for bank account information form	HKSCC	3 days before the public offer open
Direct Debit Authorisation and debtor reference generation form	HKSCC	1 day before the public offer open
Confirmation on placing arrangement through CCASS	HKSCC	1 day before the public offer open
Delivery arrangement of Prospectus and Application Forms	HKSCC	1 day before the public offer open
EIPO details confirmation form	HKSCC	1 day before the public offer open

Certified copy of Certificate of Incorporation/Business License, Certificate of Incorporation on Change of Name of the Company, Certificate of Registration/Change of name of Overseas Company, where applicable	HKSCC	1 day before the public offer open
Certificated copy of the duly adopted constitutional documents of the Company, including the Memorandum of Association (where appropriate) & Articles of Association, etc.	HKSCC	1 day before the public offer open
Certified board resolutions and supporting documents	HKSCC	1 day before the public offer open
Final listing timetable form	HKSCC	1 day before the public offer open
Undertaking by the Share Registrar	HKSCC	1 day before the public offer allotment

### A13. Which forms required by the Listing Division would be handled via FINI?

HKEX plans for the generation of the following forms to be automated or semi-automated by FINI, based on input provided by the platform's users:

**Figure 19. Forms to be automated/semi-automated by FINI**

Main Board form ref.	GEM form ref.	Description
FFD003M	FF017G	Main Board: IPO - Form D - Marketing Statement GEM Board: IPO - Form D - Marketing Statement
CI205M	CI205G	Main Board: IPO - Placee information sheet GEM Board: IPO - Placee information sheet
M401	G401	Main Board: IPO - Form E - Sponsor's Declaration GEM Board: IPO - Form I - Sponsor's declaration of compliance concerning a new applicant
N/A	N/A	Letter of independence
M402	G402	Main Board: IPO - Notification of Submission of Transaction Levy, Trading Fee and Brokerage GEM Board: IPO - Notification of Submission of Transaction Levy, Trading Fee and Brokerage

*Interface with pre-populated data fields for confirmation, with the possibility of manual amendment (as required)*

The screenshot displays the 'Regulatory Submissions' interface for Xenergy. The main content area shows the 'Transaction Levy Form' with the following details:

- Dear Sirs,** 2020-12-03
- Applicant:** Xenergy Renewables Company Limited
- Case Number:** 20200619-I69561-0001
- Transaction Type:** New Listing - Primary Listing on SEHK
- Subject:** Submission of Transaction Levy/ Trading Fee

We confirm that we have duly submitted the transaction levy/ trading fee under Appendix 8 of the Main Board Listing Rules.

**Calculation as follows:**

**Placing**

<b>(1) Trading fee:-</b>					
420,000,000 shares	x	HK\$ 0.2	x	0.010%	= HK\$ 11,250
<b>(2) Transaction levy:-</b>					
420,000,000 shares	x	HK\$ 0.2	x	0.054%	= HK\$ 6,075
<b>Subtotal</b>					<b>= HK\$ 17,325</b>

Buttons: [VIEW COMMENTS](#) [GENERATE PDFs](#)

**CONTENTS**

- Transaction Levy Form
- Sponsor's Declaration

[DOWNLOAD TEMPLATE \(.DOCX\)](#) [UPLOAD REPLACEMENT \(.DOCX\)](#)



**A14. Would documents submitted through FINI be received by the Listing Division and the SFC at the same time and covered as part of the dual filing arrangements?**

Yes. The Listing Division and the SFC will have the same viewing rights on FINI for regulatory submissions such as Marketing Statements, Sponsor's Declarations and Letters of Independence. Both authorities will receive real-time notifications about documents or updates that are inputted into FINI. The Listing Division will make necessary changes to the Form A1 and the Issuer's undertaking to ensure that documents submitted through FINI will be covered by the dual filing arrangements with the SFC, and that the documents would not have to be resubmitted.

**A15. For trade booking and pre-matching of the institutional tranche under T+1, how would FINI minimise the fail rate of trades on the listing date?**

There will be (i) 45 hours after public offer book-close and (ii) at least 23 hours after the pricing deadline, before the newly listed shares start trading. CPs, in their capacity as placing agents, can book the trades and have the trades pre-matched in CCASS on listing day -1, same as they do today.

***The public offer: impact on investors***

**A16. Will all investors remain eligible to subscribe to the public offer?**

Yes, this remains unchanged.

**A17. Will the threshold of HKD 5 million that is used to distinguish subscriptions between 'Pool A' and 'Pool B' under the public offer remain unchanged?**

Yes, this remains unchanged.

**A18. Why are paper-based subscription forms being discontinued?**

The use of paper-based subscription forms has been declining over time, recently accounting for only 0.6% of all public offer subscriptions, per the data shown in [Appendix B4](#).

The time required to collect the forms from bank and brokerage branches, read subscribers' handwriting, input the relevant details into a computer system, clear the stapled cheques and cashier's orders and so on, is substantial, and contributes to Hong Kong's long overall IPO settlement process.

Some recent issuers in Hong Kong (namely, the secondary listings of Alibaba in November 2019 and NetEase / JD.com in June 2020) chose to forego paper-based public offer subscription forms altogether in their public offers. HKEX did not observe any market opposition or adverse impact of this approach, which leads us to believe that the market is generally ready to go digital.

**A19. Will HKEX implement a paperless IPO subscription regime before it implements FINI?**

In addition to FINI, two other regulatory initiatives are currently considering the discontinuation of paper-based subscription forms in Hong Kong public offers. One is the proposal to introduce a paperless listing and subscription regime in Hong Kong, published by SEHK on 24 July 2020, the feedback period to which ended on 24 September 2020. The other is the joint initiative to introduce a scripless (USM) securities market in Hong Kong, whose conclusions were published in April 2020.

FINI will support these initiatives if and when they come into force.

**A20. Will IPO subscribers under FINI still be able to obtain share certificates?**

Successful IPO subscribers who have been allotted shares to be registered in their own names through the “White eIPO” channel will have their share certificates dispatched by the share registrar or be available for collection in the usual manner. Share registrars will be expected to advise their clients of the revised operational and timetable arrangements in due course.

**A21. Will HKSCC Investor Participants (IPs) be able to subscribe to IPOs using FINI?**

IP participation levels in Hong Kong public offers are very low, representing less than 0.25% of the total number of subscriptions. If FINI is rolled out, the “EIPO” subscription function for IPs will be discontinued. IPs will be asked to subscribe via CPs or share registrars. HKEX will consider waiving transfer charges for IPO shares that IPs acquire through a CP or share registrar, so that they may move the shares into their IP accounts if they wish to.

Going forward, HKEX will consider re-introducing an “EIPO” subscription service for IPs, especially in conjunction with a broader reform of the IP model under the proposed Hong Kong USM regime.

**A22. Why is FINI changing the applicant ID requirements for subscribing to a public offer?**

The introduction of FINI provides an opportunity to harmonise subscribers’ identification requirements across all public offer subscription channels to ensure consistency and fairness. The proposed requirements (see [Figure 9](#)) are based on the identity requirements used in the Northbound Stock Connect Investor ID regime introduced in September 2018.

Note that all of the data proposed to be collected from investors by FINI is already mandatory in one or more of the existing public offer subscription channels that operate today (namely, “EIPO”, “White eIPO”, paper-based “yellow” and paper-based “white” forms).

**A23. How will the FINI platform help verify subscriptions? How does it avoid duplicate or invalid subscriptions?**

All public offer subscriptions received by FINI will be checked for duplicates at the point of submission, using the identifying information (with full ID information) contained in the subscription files. Any placees submitted by distributors in the institutional offer tranche will also be checked against other placees, as well as the list of accepted public offer subscribers, on the same basis. Any suspected duplicate or incomplete entries will be flagged to the submitting broker, share registrar or distributor. This kind of real-time validation is not practicable in the current IPO settlement mechanism.

**A24. What will HKEX do with IPO investor data? How will its security be guaranteed?**

Data privacy is of utmost importance to HKEX. FINI will follow the prevailing data protection practices that HKSCC uses in its capacity as CCASS operator today. End-to-end encryption will be adopted for all incoming and outgoing data in the FINI system. We will also require CPs and share registrars who submit public offer subscriber data to FINI to ensure that they have obtained all necessary consents or authorisations from the underlying investors on the specific purposes for which such data will be used, in full compliance with all applicable laws including the Personal Data (Privacy) Ordinance.

Further details on the personal data policy applicable to FINI will be advised by HKEX in due course.

## ***The public offer: pre-funding and brokerage operations***

### **A25. Why change the established pre-funding mechanism that works just fine today?**

In the FINI proposal, the *concept* of pre-funding is retained, but the *mechanics* of it are amended.

Namely, sending sums of money equivalent to investors' subscription amounts to the issuer's receiving bank is a safe, but overly time-consuming and liquidity-consuming confirmation mechanism, whose (unintended) impact on the Hong Kong dollar and interbank money markets is perhaps more pronounced than a similar phenomenon might be in other jurisdictions, due in part to the popularity of Hong Kong's IPO market relative to the size of the local currency's Aggregate Balance. This "pre-fund & refund" practice also makes it difficult to achieve a "T+1" IPO settlement outcome.

Instead, HKEX proposes to adopt a confirmation mechanism similar to "fund locking" that is successfully used in certain other popular IPO markets, including India (National Stock Exchange) and the Nordics (Nasdaq OMX). This mechanism provides high levels of pre-funding coverage over settlement obligations, and hence low settlement risk, but does so without the same magnitude of liquidity drawdowns and interbank movements that exist in the "pre-fund & refund" model.

### **A26. Why do we need pre-funding at all? Why not just pay for the shares you get after the ballot?**

Pre-funding is a safety mechanism to minimise the incidence of settlement defaults in the public offer. If such a mechanism did not exist at all, it is plausible to envisage "walk away" behaviour where investors subscribe for shares but do not pay if they receive fewer (or more) shares than they want (or can afford). The institutional offer is somewhat different because placees tend to have a credit relationship with the distributors and hence defaults are extremely rare.

Because the size limits of Hong Kong public offer subscriptions are based on IPO size, it is not uncommon to see orders worth HKD 100 million, or sometimes even HKD 1 billion or more, and a default on such a subscription, if fully allotted, may endanger the stability and success of the entire offering. A certain level of pre-funding is therefore considered to be an advisable practice.

### **A27. How much money should CPs collect from investors under the FINI mechanism? Will it still be possible for investors to fully pre-fund their IPO subscriptions?**

Yes, that will be possible. Each broker's business and financing model with respect to IPO subscriptions (including the percentage of subscription value that the broker collects from its end-investor subscribers) will remain a business decision for each broker, as long as its services remain in full compliance with the applicable regulatory requirements, as is the case today.

### **A28. Regarding the funding arrangement between CPs and their respective designated banks, will the proposed minimum cash pre-funding threshold of 10% be a universal standard that is applicable to all brokers and in all IPOs?**

Yes. HKSCC will reserve the right to adjust this threshold for different IPOs in future.

### **A29. As a CP, how will my pre-funding requirement be calculated?**

The below tables illustrate the application of the FINI pre-funding formula shown in [Figure 11](#). These tables use real subscription and allotment data from four recent Hong Kong public offers, showing calculations for three different CPs (names anonymised) in each case.

*Interested CPs are welcome to contact HKSCC to receive a pro forma simulation of what their own pre-funding requirements would have been in previous Hong Kong IPOs, had the FINI methodology applied.*

Ping An Gooddoctor (1833)				
Initial public offer allotment	HKD million	570	6.5% of the IPO size	
PO <sub>MAX</sub>   Upper allotment limit	HKD million	2,193	25% of the IPO size, assuming largest clawback	
Total subscription value	HKD million	372,750		
Oversubscription ratio		654x		
Final share allotment value	HKD million	2,193	25% of the IPO due to >95x oversubscription ratio	
Pro forma pre-funding requirements		CP ‘A’	CP ‘B’	CP ‘C’
Number of subscriptions received		30,172	7,109	1,886
D <sub>CPx</sub>   Total subscription value	HKD million	25,855	17,912	1,180
T <sub>CPx</sub>   Pre-funding required = min (PO <sub>max</sub> ; D <sub>CPx</sub> )	HKD million	2,193 (PO <sub>max</sub> < D <sub>CPx</sub> )	2,193 (PO <sub>max</sub> < D <sub>CPx</sub> )	1,180 (PO <sub>max</sub> > D <sub>CPx</sub> )
C <sub>CPx</sub>   of which minimum cash = min (PO <sub>max</sub> ; 10% * D <sub>CPx</sub> )	HKD million	2,193 (PO <sub>max</sub> < 10% * D <sub>CPx</sub> )	1,791 (PO <sub>max</sub> > 10% * D <sub>CPx</sub> )	118 (PO <sub>max</sub> > 10% * D <sub>CPx</sub> )
R <sub>CPx</sub>   of which cash or credit = T <sub>CPx</sub> – C <sub>CPx</sub>	HKD million	0	402	1,062
Final share allotment value	HKD million	217	94	12

Xiaomi (1810)				
Initial public offer allotment	HKD million	2,398	5% of the IPO size	
PO <sub>MAX</sub>   Upper allotment limit	HKD million	4,795	10% of the IPO size, assuming largest clawback	
Total subscription value	HKD million	22,770		
Oversubscription ratio		9.5x		
Final share allotment value	HKD million	1,853	5% of the IPO due to <15x oversubscription ratio *	
Pro forma pre-funding requirements		CP 'A'	CP 'B'	CP 'C'
Number of subscriptions received		13,008	463	25
D <sub>CPx</sub>   Total subscription value	HKD million	4,257	37.0	1.747
T <sub>CPx</sub>   Pre-funding required = min (PO <sub>max</sub> ; D <sub>CPx</sub> )	HKD million	4,257 (PO <sub>max</sub> > D <sub>CPx</sub> )	37.0 (PO <sub>max</sub> > D <sub>CPx</sub> )	1.747 (PO <sub>max</sub> > D <sub>CPx</sub> )
C <sub>CPx</sub>   of which minimum cash = min (PO <sub>max</sub> ; 10% * D <sub>CPx</sub> )	HKD million	426 (PO <sub>max</sub> > 10% * D <sub>CPx</sub> )	3.7 (PO <sub>max</sub> > 10% * D <sub>CPx</sub> )	0.175 (PO <sub>max</sub> > 10% * D <sub>CPx</sub> )
R <sub>CPx</sub>   of which cash or credit = T <sub>CPx</sub> – C <sub>CPx</sub>	HKD million	3,831	33.3	1.572
Final share allotment value	HKD million	325	3.3	0.173

\* Final share allotment value < initial public offer allotment due to final offer price < max offer price.

China Tower (788)				
Initial public offer allotment	HKD million	3,406	5% of the IPO size	
PO <sub>MAX</sub>   Upper allotment limit	HKD million	13,624	20% of the IPO size, assuming largest clawback	
Total subscription value	HKD million	4,626		
Oversubscription ratio		1.36x		
Final share allotment value	HKD million	2,716	5% of the IPO due to <15x oversubscription ratio *	
Pro forma pre-funding requirements		CP ‘A’	CP ‘B’	CP ‘C’
Number of subscriptions received		478	387	8
D <sub>CPx</sub>   Total subscription value	HKD million	33.5	23.7	0.155
T <sub>CPx</sub>   Pre-funding required = min (PO <sub>max</sub> ; D <sub>CPx</sub> )	HKD million	33.5 (PO <sub>max</sub> > D <sub>CPx</sub> )	23.7 (PO <sub>max</sub> > D <sub>CPx</sub> )	0.155 (PO <sub>max</sub> > D <sub>CPx</sub> )
C <sub>CPx</sub>   of which minimum cash = min (PO <sub>max</sub> ; 10% * D <sub>CPx</sub> )	HKD million	3.3 (PO <sub>max</sub> > 10% * D <sub>CPx</sub> )	2.4 (PO <sub>max</sub> > 10% * D <sub>CPx</sub> )	0.015 (PO <sub>max</sub> > 10% * D <sub>CPx</sub> )
R <sub>CPx</sub>   of which cash or credit = T <sub>CPx</sub> – C <sub>CPx</sub>	HKD million	30.1	21.3	0.140
Final share allotment value	HKD million	17.0	12.1	0.091

\* Final share allotment value < initial public offer allotment due to final offer price < max offer price.

China Bohai Bank (9668)				
Initial public offer allotment	HKD million	717	5% of the IPO size	
PO <sub>MAX</sub>   Upper allotment limit	HKD million	2,869	20% of the IPO size, assuming largest clawback	
Total subscription value	HKD million	422		
Oversubscription ratio		0.59x		
Final share allotment value	HKD million	407	3% of the IPO due to <1x oversubscription ratio	
Pro forma pre-funding requirements		CP 'A'	CP 'B'	CP 'C'
Number of subscriptions received		2,016	17	8
D <sub>CPx</sub>   Total subscription value    HKD million		26.0	1.63	0.41
T <sub>CPx</sub>   Pre-funding required = min (PO <sub>max</sub> ; D <sub>CPx</sub> )	HKD million	26.0 (PO <sub>max</sub> > D <sub>CPx</sub> )	1.63 (PO <sub>max</sub> > D <sub>CPx</sub> )	0.41 (PO <sub>max</sub> > D <sub>CPx</sub> )
C <sub>CPx</sub>   of which minimum cash = min (PO <sub>max</sub> ; 10% * D <sub>CPx</sub> )	HKD million	2.6 (PO <sub>max</sub> > 10% * D <sub>CPx</sub> )	0.16 (PO <sub>max</sub> > 10% * D <sub>CPx</sub> )	0.04 (PO <sub>max</sub> > 10% * D <sub>CPx</sub> )
R <sub>CPx</sub>   of which cash or credit = T <sub>CPx</sub> – C <sub>CPx</sub>	HKD million	23.4	1.47	0.37
Final share allotment value	HKD million	25.0	1.57	0.40

Note that in all possible scenarios, the total pre-funding required from each CP (T<sub>CPx</sub>) will never be lower than the maximum possible share allotment of that CP in the ballot.

### A30. What is the logic behind introducing $PO_{MAX}$ ?

$PO_{MAX}$  is a liquidity relief measure for extreme situations, when a particular CP's subscription value  $D_{CPx}$  is so large (due to the popularity of a particular offer) that it exceeds the entire number of shares that an issuer is willing to allocate to the Hong Kong public as a whole, accounting for the triggering of the highest available clawback level disclosed in the issuer's prospectus. HKEX finds no credible justification for why any CP should be asked to confirm funds above this threshold for the purposes of pre-funding validation in the FINI model.

Based on a pro forma simulation of the proposed FINI pre-funding validation formula on historic Hong Kong IPOs, HKEX expects  $PO_{MAX}$  to be triggered relatively rarely: around 2.2% of the time (see [Appendix B6](#)).

It is worth noting that the triggering of  $PO_{MAX}$  does **not** pro-rate a CP's minimum cash requirement downwards: to use our notation, it reduces  $R_{CPx}$  before it reduces  $C_{CPx}$ . This is deliberate. As the worked examples in [FAQ A29](#) show, any CP that triggers  $PO_{MAX}$  will need to meet their pre-funding requirement with a relatively higher portion of cash to credit compared with other CPs.

### A31. How will pre-funding validation happen in practice ([Section 3.2, Step 3b](#))?

The below workflow is proposed by HKEX, and we will look forward to working with CPs and banks to validate and finalise it, pending feedback on the Concept Paper.

#	Party	Action	Timing on "T-1"	Method
1	CPs	Cut-off time for CPs to enter their public offer subscriptions into FINI.	9.30 am or earlier	CP inputs EIPO subscriptions to FINI via web interface, file upload or API.
2	HKSCC (FINI)	Calculate CPs' pre-funding requirements by applying pre-funding formula to each CP's subscription list.	Real-time	Pre-funding requirement is displayed on the FINI web interface of the CP.
3	CPs	Cut-off time for CPs to confirm their subscription list and the availability of corresponding funding.	9.30 am or earlier	CP clicks "CONFIRM" button on its FINI interface, signifying (i) no further additions to its public offer subscription list, <i>and</i> (ii) confirmation of sufficient funding available to meet its pre-funding requirement as calculated in (2).
4	HKSCC (FINI)	Broadcast funding report to each CP's designated bank.	After (3)	Alert via FINI.
5	Designated banks	Confirm CPs' funding reports.	After (4) and no later than 12 noon	Designated banks click "CONFIRM" button on its FINI interface.
6	CPs and designated banks	If designated bank unable to confirm funding, or only able to confirm partial funding:  - bank to contact CP directly to discuss  - CP may <i>reduce</i> its subscription size by downsizing or removing individual entries from its subscription list on FINI. If a CP <i>reduces</i> its subscription size, FINI instantly re-initiates (2) and (4), and	By 12 noon	If CP <i>reduces</i> subscription size, the same workflow as (2), (4) and (5) applies.  If CP <i>withdraws</i> subscription list, same workflow as (4) applies. The designated bank would then receive an empty funding report.



		<p>requires (5) to be completed by the CP's designated bank by 12:00</p> <p>- CP may <i>withdraw</i> its subscription list entirely via FINI. If a CP <i>withdraws</i>, FINI alerts the designated bank, with no further action required</p>		
7	HKSCC (FINI)	FINI generates a list of all valid subscriptions for which (5) has been completed. This is the basis for allotment sent to the issuer's share registrar.	After (5) and 12 noon	HKSCC sends basis for allotment to the issuer's share registrar using an existing secure file transfer mechanism (automated via FINI).

**A32. Could a CP settle only part of its allotted shares (*Section 3.2, Step 3d*)?**

If a settlement failure occurs due to a minor money settlement difference, HKSCC would consider under exceptional circumstances to reissue a new payment instruction to the CP and allow a partial settlement of the CP's allotted shares.

**A33. Could the proposed changes to the public offer pre-funding mechanism lead to inflated subscriptions from investors?**

The proposed changes are intended to provide liquidity relief at the interbank level. CPs and share registrars must still ensure that their clients have sufficient funds (cash or credit) to be able to support the settlement of their respective public offer subscriptions in full, when accepting their orders. CPs' handling of clients' subscriptions and financing arrangements will remain subject to prevailing SFC regulations in this regard. The proposed changes in the arrangement between intermediaries, their designated banks and HKSCC does not equate to an opportunity for end-investors to "inflate" their orders or "apply for free".

Note also that high over-subscription levels for particularly popular IPOs (which could be construed as evidence of "inflated" subscriptions) are already very common today. This phenomenon is likely to continue even with FINI, but it would no longer drive the market's pre-funding lock-up or ultimate interbank settlement volume in a linear manner.

**A34. Did HKEX consider other approaches to pre-funding validation?**

Yes. HKEX explored and simulated numerous alternatives that included:

- calculating every CP's prefunding requirements dynamically based on its market share of overall public offer demand as it is recorded in FINI
- adopting a first-come-first-serve share allotment model in the public offer, with instant settlement, akin to how concert tickets are typically sold
- limiting individual subscriptions to a modest "retail" amount, such that an individual's payment default does not endanger the offering as a whole, and thus pre-funding may not be required
- setting an arbitrary pre-funding requirement based on the size of each IPO, so that (for example), large-cap IPOs require 20% down-payment from all subscribers while GEM IPOs require 60%
- allowing investors to subscribe to public offers without an intermediary, using a credit card or other online payment mechanism such as FPS

- adapting the public offer balloting mechanism to remove uncertainty in each subscriber's potential allotment of shares

In considering these alternatives, HKEX held extensive discussions with the SFC and HKMA, in recognition of the need to balance legal and regulatory principles, fairness to investors, financial stability, risk management measures, market expectations and difficulty of adoption. Many of these approaches were also tested with the FINI "study group" that has advised HKEX on this project.

While nothing is ruled out in perpetuity, the proposed model represents a balance of these principles that HKEX believes can be acceptable to all parties and help Hong Kong achieve the outcome that we believe would benefit everybody: a shorter IPO settlement process.

### ***Miscellaneous***

#### **A35. Does FINI use distributed ledger (blockchain) technology?**

No. The functionality and technical requirements of the platform can be effectively addressed with a centralised ledger design and a mature enterprise-grade technology stack. This does not mean, however, that HKEX would rule out adopting blockchain for certain components of FINI in the future.

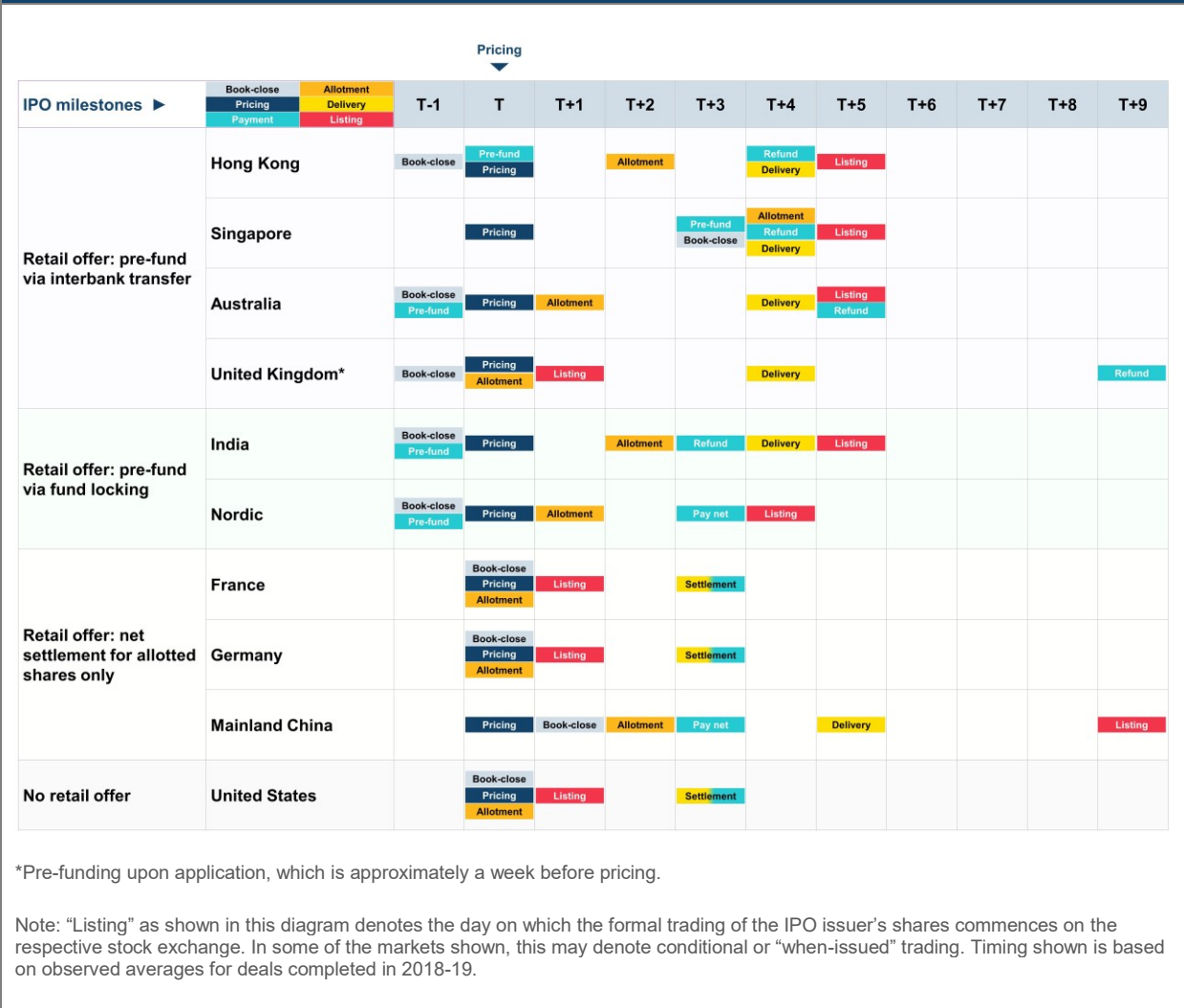
#### **A36. Who will have the intellectual property rights to data and information on the FINI platform?**

HKSCC as the operator of the FINI platform would own the intellectual property rights to data and information compiled or generated by FINI.

## B. Supporting data

### B1. Hong Kong IPO settlement duration vs. other listing venues

**Figure 20. Business days between IPO pricing and the start of trading**



## B2. Key activities conducted during the current Hong Kong IPO settlement process

Day	#	Activity	ISS	SPO	SPC	LBK	DIST	INV	CP	SR	DB	RB	LD	SFC	HKX
T-X	1	Issue Post-Hearing Letter	●										●		
T-X	2	Pass board resolutions	●	●	●					●					●
T-X	3	Allocate stock code	●	●	●										●
T-X	4	Sign IPO agreements	●	●	●					●					●
T-5	5	Register prospectus for HKPO			●								●	●	●
T-5	6	Finalise and submit IPO details to HKEX	●	●	●	●	●	●	●	●			●		●
T-5	7	Set up IPO on systems/bank branches	●		●					●		●			●
T-5	8	Start global roadshow/book-build	●			●	●	●	●	●					
T-4	9	Open public offer						●	●	●		●			●
T-2	10	Submit public offer subscriptions						●	●	●					●
T-2	11	Consolidate public offer subscriptions								●					●
T-1	12	Pre-fund EIPO channel subscriptions						●	●	●	●	●			●
T-1	13	Remove invalid subscriptions								●	●	●			
T-1	14	Finalise clawback	●	●	●	●	●			●			●	●	●
T	15	Price IPO/allocate to institutional offer	●	●	●	●	●	●							
T	16	Sign underwriting agreement	●	●	●	●	●	●							
T+1	17	Ballot public offer subscriptions								●					
T+1	18	Submit placee lists				●	●						●	●	
T+1	19	Submit forms and supporting docs	●	●	●	●	●						●	●	
T+2	20	Allot public offer shares						●		●					●
T+3	21	Deposit public offer shares into CCASS													●
T+3	22	Refund public offer over-subscriptions						●	●	●	●	●			●
T+3	23	Submit draft allotment results announcement	●	●	●					●			●	●	
T+4	24	Approve to commence trading	●	●	●	●	●						●	●	●
T+4	25	Settlement instructions for institutional offer										●			
T+5	26	Deposit institutional offer shares into CCASS								●					
T+5	27	Listing ceremony: start of trading	●	●	●	●	●			●			●		

**ISS** = Issuer  
**SPO** = Sponsor  
**SPC** = Sponsor's counsel  
**LBK** = Lead Broker  
**DIST** = Sub-distributors  
**INV** = Investors

**CP** = CPs  
**SR** = Share registrar  
**DB** = Designated banks  
**RB** = Issuer's receiving bank  
**LD** = Listing Division  
**SFC** = Securities and Futures Commission  
**HKX** = HKEX Post Trade / Markets teams

● = aggregating or providing information  
 ● = receiving or processing information  
 ● = issuing an approval or confirmation  
 ● = participation or attendance

### B3. Subscriptions and pre-funding in Hong Kong public offers completed between January 2018 and September 2020

**Figure 22. CCASS EIPO subscriptions and allotments, broken down by balloting pool** <sup>27</sup>

<i>Applications submitted through CCASS "EIPO" during the period</i>	"Pool A"	"Pool B"	Total
# of subscriptions received	12,793,892	257,878	<b>13,051,770</b>
# of "successful" subscriptions (allotment >0)	5,201,562	257,739	<b>5,459,301</b>
% of subscriptions that are "successful" (allotment >0)	40.66%	99.95%	<b>41.83%</b>
Value of subscriptions received (HKDm)	1,638,347	4,215,012	<b>5,853,359</b>
Average subscription size (HKD)	128,057	16,344,985	<b>448,472</b>
Value of allotted shares, pre clawback (HKDm)	30,281	30,281	<b>60,562</b>
Value of allotted shares, post clawback (HKDm)	52,167	48,598	<b>100,765</b>
Average allotment per "successful" subscriber (HKD)	10,029	188,555	<b>18,458</b>
Investor fill rate (allotment post clawback ÷ subscription value)	3.18%	1.15%	<b>1.72%</b>
Over-subscription (subscription value ÷ allotment pre clawback)	54.1x	139.2x	<b>96.7x</b>
Refunds paid in respect of unsuccessful subscriptions (HKDm)	1,586,180	4,166,414	<b>5,752,594</b>

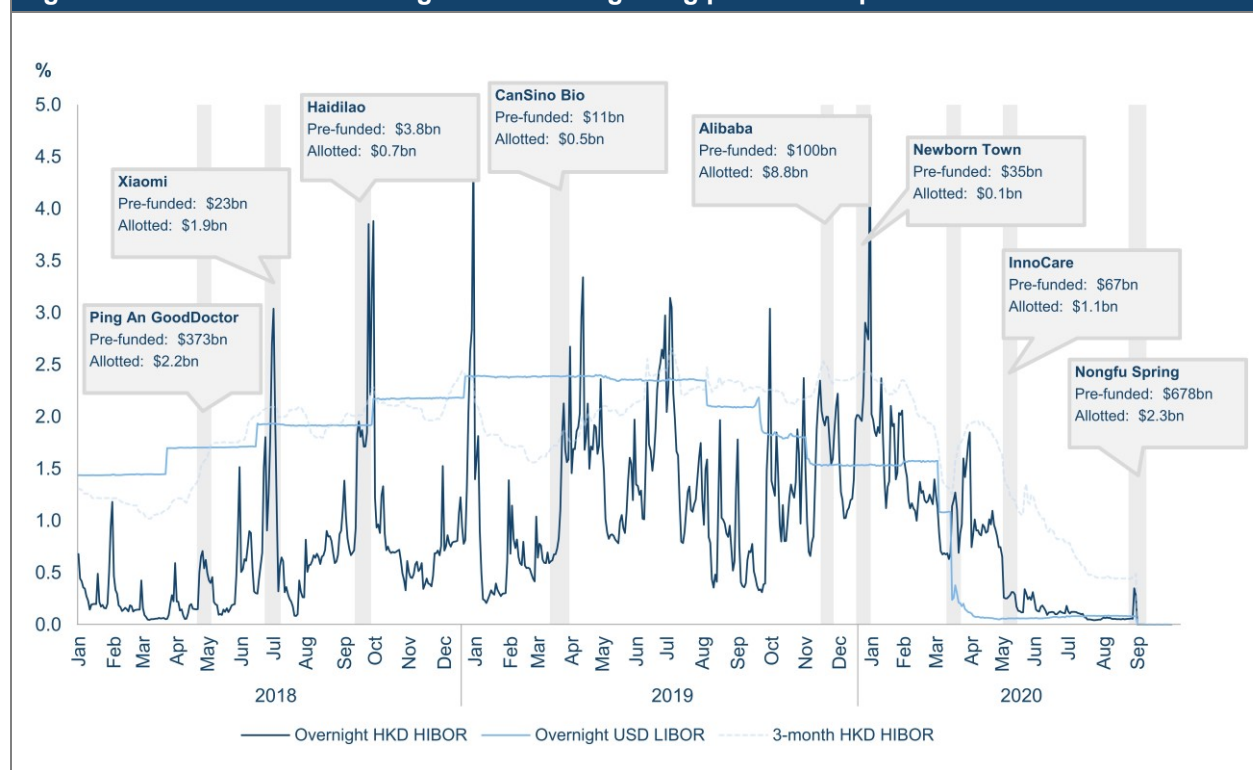
### B4. Hong Kong public offer subscription channels (current)

**Figure 23. Hong Kong public offer subscription channels** <sup>28</sup>

Channel	% use	Managed by	How to apply	How to pay	Results discovery	Shares held in
<b>"EIPO"</b> (CCASS)	<b>99.30%</b>	Retail brokers & custodians (CPs)	CPs' platforms CPs → CCASS	Cash or margin loan with CP	CPs' platforms and statements Issuer's announcement IPO results website	HKSCC Nominees
		HKSCC Investor Participants (IPs)	IP Internet IP phone system HKSCC counter	Cash with IP's designated bank	Issuer's announcement IPO results website IP Internet IP phone system IP statements	
<b>"White eIPO"</b>	<b>0.23%</b>	Issuer's share registrar	Share registrar's website	PPS Internet banking Cheque	Share registrar's website and hotline Issuer's announcement IPO results website	Shareholder's name
<b>White form</b> (paper)	<b>0.32%</b>	Issuer's receiving bank	Branch of receiving bank	Cheque Cashier's order	Share registrar's website and hotline Issuer's announcement IPO results website	Shareholder's name
<b>Yellow form</b> (paper)	<b>0.15%</b>	Issuer's receiving bank	Branch of receiving bank Branch of a brokerage firm	Cheque Cashier's order	CPs' platforms and statements Issuer's announcement IPO results website	HKSCC Nominees

**B5. Interbank borrowing rates vs. Hong Kong public offer period for certain popular IPOs completed between January 2018 and September 2020** <sup>29</sup>

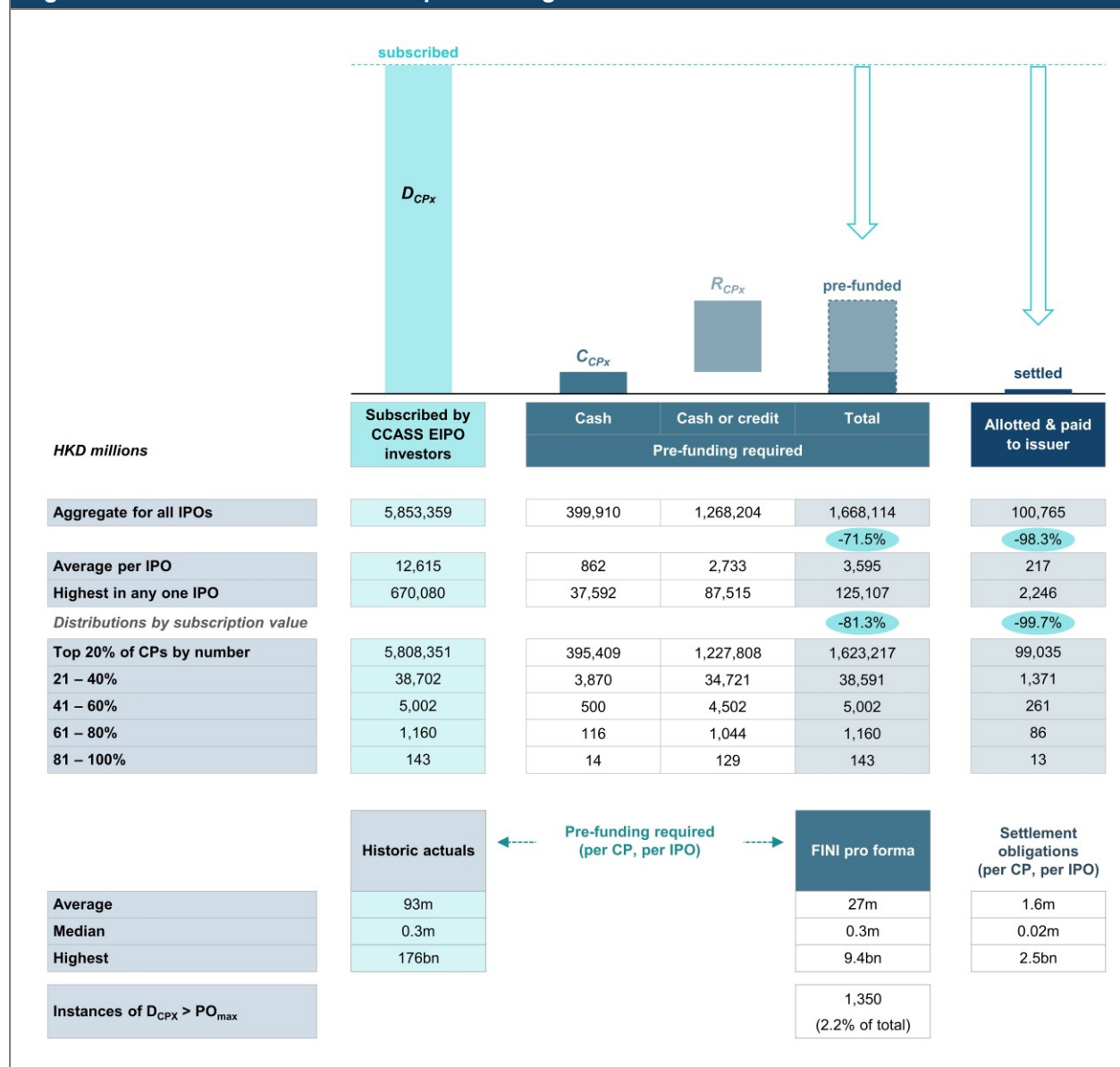
**Figure 24. Interbank borrowing rates vs. Hong Kong public offer periods**





**B6. Pre-funding validation under FINI: pro forma simulation for Hong Kong IPOs completed between January 2018 and September 2020**

**Figure 25. Pro forma reduction in pre-funding and interbank settlement amounts** <sup>30</sup>



## C. Glossary of terms

<b>Aggregate Balance</b>	The sum of the balances in the clearing accounts maintained by commercial banks with the HKMA for settling interbank payments and payments between banks and the HKMA
<b>API</b>	Application Programming Interface
<b>CCASS</b>	The Central Clearing and Settlement System operated by HKSCC
<b>COO</b>	Chief Operating Officer
<b>CP</b>	CCASS Participant of HKSCC (for the purposes of this Concept Paper)
<b>CSD</b>	Central Securities Depository
<b>e-Submission System</b>	A dedicated website operated by HKEX for listed issuers, listing applicants and sponsors to submit announcements or other documents for publication on HKEXnews
<b>EPI</b>	Electronic Payment Instruction
<b>EST</b>	Eastern Standard Time
<b>Exchange</b>	SEHK
<b>FINI</b>	Fast Interface for New Issuance: the IPO settlement platform proposed in this Concept Paper
<b>FPS</b>	Faster Payments System
<b>FRR</b>	The SFC's Financial Resources Rules
<b>FSDC</b>	Hong Kong Financial Services Development Council
<b>GEM</b>	The Growth Enterprise Market of SEHK
<b>Genium-4</b>	HKEX's derivatives market trading system
<b>GMT</b>	Greenwich Mean Time
<b>HIBOR</b>	Hong Kong Interbank Offered Rate
<b>HKEX</b>	Hong Kong Exchanges and Clearing Limited
<b>HKEXnews</b>	A website operated by HKEX for the dissemination of information by issuers.
<b>HKEX Client Connect</b>	A web-based services portal provided by HKEX to CPs
<b>HKICL</b>	Hong Kong Interbank Clearing Limited
<b>HKMA</b>	Hong Kong Monetary Authority
<b>HKSCC</b>	Hong Kong Securities Clearing Company Limited, a fully-owned subsidiary of HKEX
<b>General Rules of CCASS and CCASS Operational Procedures</b>	The Clearing House Rules and Operating Procedures administered by HKSCC
<b>HKT</b>	Hong Kong Time
<b>IdP</b>	Identity provider
<b>Institutional offer / placing</b>	The portion of a Hong Kong IPO that is initially offered to institutional and professional investors
<b>IP</b>	Investor Participant of HKSCC
<b>IPO</b>	Initial Public Offering
<b>IVRS</b>	Interactive Voice Response Solutions
<b>LIBOR</b>	London Interbank Offered Rate
<b>Listing Division</b>	The Listing Division of SEHK
<b>Listing Rules</b>	The Main Board Listing Rules and GEM Listing Rules of SEHK, as the case may be
<b>Main Board</b>	Main Board of SEHK
<b>MFA</b>	Multi-Factor Authentication
<b>MMO</b>	Mixed Media Offering, an offer process whereby an issuer can distribute paper application forms for public offers of certain securities without a printed prospectus
<b>OTP-C</b>	Orion Trading Platform – Securities Market, HKEX's cash market trading system
<b>PHIP</b>	Post-Hearing Information Pack
<b>Public offer</b>	The portion of a Hong Kong IPO that is initially offered to members of the Hong Kong public
<b>RTGS CHATS</b>	Clearing House Automated Transfer System, a HKD Real Time Gross Settlement system operated by HKICL for interbank payments
<b>Securities and Futures Ordinance</b>	The primary piece of legislation regulating Hong Kong's securities and futures markets.
<b>SEHK</b>	The Stock Exchange of Hong Kong Limited, a fully-owned subsidiary of HKEX
<b>SFC</b>	Securities and Futures Commission
<b>SWIFT</b>	Society for Worldwide Interbank Financial Telecommunication
<b>Terms and Conditions</b>	Terms and conditions that will govern the use of the FINI platform by market participants
<b>USM</b>	The initiative for implementing an uncertificated securities market in Hong Kong

## D. Privacy Policy Statement

Hong Kong Exchanges and Clearing Limited, and from time to time, its subsidiaries (together the "**Group**") (and each being "**HKEX**", "**we**", "**us**" or "**member of the Group**" for the purposes of this Privacy Policy Statement as appropriate) recognise their responsibilities in relation to the collection, holding, processing, use and/or transfer of personal data under the Personal Data (Privacy) Ordinance (Cap. 486) ("**PDPO**"). Personal data will be collected only for lawful and relevant purposes and all practicable steps will be taken to ensure that personal data held by us is accurate. We will use your personal data which we may from time to time collect in accordance with this Privacy Policy Statement.

We regularly review this Privacy Policy Statement and may from time to time revise it or add specific instructions, policies and terms. Where any changes to this Privacy Policy Statement are material, we will notify you using the contact details you have provided us with and, where required by the PDPO, give you the opportunity to opt out of these changes by means notified to you at that time. Otherwise, in relation to personal data supplied to us through the HKEX website or otherwise, continued use by you of the HKEX website or your continued relationship with us shall be deemed to be your acceptance of and consent to this Privacy Policy Statement, as amended from time to time.

If you have any questions about this Privacy Policy Statement or how we use your personal data, please contact us through one of the communication channels set out in the "Contact Us" section below.

We will take all practicable steps to ensure the security of the personal data and to avoid unauthorised or accidental access, erasure or other use. This includes physical, technical and procedural security methods, where appropriate, to ensure that the personal data may only be accessed by authorised personnel.

Please note that if you do not provide us with your personal data (or relevant personal data relating to persons appointed by you to act on your behalf) we may not be able to provide the information, products or services you have asked for or process your requests, applications, subscriptions or registrations, and may not be able to perform or discharge the Regulatory Functions (defined below).

### Purpose

From time to time we may collect your personal data including but not limited to your name, mailing address, telephone number, email address, date of birth and login name for the following purposes:

1. to process your applications, subscriptions and registration for our products and services;
2. to perform or discharge the functions of HKEX and any company of which HKEX is the recognised exchange controller (as defined in the Securities and Futures Ordinance (Cap. 571)) ("**Regulatory Functions**");
3. to provide you with our products and services and administer your account in relation to such products and services;
4. to conduct research and statistical analysis;
5. to process your application for employment or engagement within HKEX to assess your suitability as a candidate for such position and to conduct reference checks with your previous employers; and
6. other purposes directly relating to any of the above.

### Direct marketing

Where you have given your consent and have not subsequently opted out, we may also use your name, mailing address, telephone number and email address to send promotional materials to you and conduct direct marketing activities in relation to HKEX financial services and information services, and financial services and information services offered by other members of the Group.

If you do not wish to receive any promotional and direct marketing materials from us or do not wish to receive particular types of promotional and direct marketing materials or do not wish to receive such materials through any particular means of communication, please contact us through one of the communication channels set out in the "Contact Us" section below. To ensure that your request can be processed quickly please provide your full name, email address, log in name and details of the product and/or service you have subscribed.

### Identity Card Number

We may also collect your identity card number and process this as required under applicable law or regulation, as required by any regulator having authority over us and, subject to the PDPO, for the purpose of identifying you where it is reasonable for your identity card number to be used for this purpose.

### Transfers of personal data for direct marketing purposes

Except to the extent you have already opted out we may transfer your name, mailing address, telephone number and email address to other members of the Group for the purpose of enabling those members of the Group to send promotional materials to you and conduct direct marketing activities in relation to their financial services and information services.

### Other transfers of your personal data

For one or more of the purposes specified above, your personal data may be:

1. transferred to other members of the Group and made available to appropriate persons in the Group, in Hong Kong or elsewhere and in this regard you consent to the transfer of your data outside of Hong Kong;
2. supplied to any agent, contractor or third party who provides administrative, telecommunications, computer, payment, debt collection, data processing or other services to HKEX and/or any of other member of the Group in Hong Kong or elsewhere; and

3. other parties as notified to you at the time of collection.

#### **How we use cookies**

If you access our information or services through the HKEX website, you should be aware that cookies are used. Cookies are data files stored on your browser. The HKEX website automatically installs and uses cookies on your browser when you access it. Two kinds of cookies are used on the HKEX website:

**Session Cookies:** temporary cookies that only remain in your browser until the time you leave the HKEX website, which are used to obtain and store configuration information and administer the HKEX website, including carrying information from one page to another as you browse the site so as to, for example, avoid you having to re-enter information on each page that you visit. Session cookies are also used to compile anonymous statistics about the use of the HKEX website.

**Persistent Cookies:** cookies that remain in your browser for a longer period of time for the purpose of compiling anonymous statistics about the use of the HKEX website or to track and record user preferences.

The cookies used in connection with the HKEX website do not contain personal data. You may refuse to accept cookies on your browser by modifying the settings in your browser or internet security software. However, if you do so you may not be able to utilise or activate certain functions available on the HKEX website.

#### **Compliance with laws and regulations**

HKEX and other members of the Group may be required to retain, process and/or disclose your personal data in order to comply with applicable laws and regulations or in order to comply with a court order, subpoena or other legal process (whether in Hong Kong or elsewhere), or to comply with a request by a government authority, law enforcement agency or similar body (whether situated in Hong Kong or elsewhere) or to perform or discharge the Regulatory Functions. HKEX and other members of the Group may need to disclose your personal data in order to enforce any agreement with you, protect our rights, property or safety, or the rights, property or safety of our employees, or to perform or discharge the Regulatory Functions.

#### **Corporate reorganisation**

As we continue to develop our business, we may reorganise our group structure, undergo a change of control or business combination. In these circumstances it may be the case that your personal data is transferred to a third party who will continue to operate our business or a similar service under either this Privacy Policy Statement or a different privacy policy statement which will be notified to you. Such a third party may be located, and use of your personal data may be made, outside of Hong Kong in connection with such acquisition or reorganisation.

#### **Access and correction of personal data**

Under the PDPO, you have the right to ascertain whether we hold your personal data, to obtain a copy of the data, and to correct any data that is inaccurate. You may also request us to inform you of the type of personal data held by us. All data access requests shall be made using the form prescribed by the Privacy Commissioner for Personal Data ("**Privacy Commissioner**") which may be found on the official website of the Office of the Privacy Commissioner or via this link

<https://www.pcpd.org.hk/english/publications/files/Dforme.pdf>

Requests for access and correction of personal data or for information regarding policies and practices and kinds of data held by us should be addressed in writing and sent by post to us (see the "Contact Us" section below).

A reasonable fee may be charged to offset our administrative and actual costs incurred in complying with your data access requests.

#### **Termination or cancellation**

Should your account or relationship with us be cancelled or terminated at any time, we shall cease processing your personal data as soon as reasonably practicable following such cancellation or termination, provided that we may keep copies of your data as is reasonably required for archival purposes, for use in relation to any actual or potential dispute, for the purpose of compliance with applicable laws and regulations and for the purpose of enforcing any agreement we have with you, for protecting our rights, property or safety, or the rights, property or safety of our employees, and for performing or discharging our functions, obligations and responsibilities.

#### **General**

If there is any inconsistency or conflict between the English and Chinese versions of this Privacy Policy Statement, the English version shall prevail.

#### **Contact us**

By Post:

Personal Data Privacy Officer  
Hong Kong Exchanges and Clearing Limited  
8/F, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

By Email:

[DataPrivacy@HKEX.COM.HK](mailto:DataPrivacy@HKEX.COM.HK)

- 
- <sup>1</sup> Dealogic and HKEX data.
- <sup>2</sup> HKEX analysis based on timetable disclosures in Hong Kong IPO prospectus filings.
- <sup>3</sup> Hong Kong FSDC website: “*FSDC Paper No. 09: Positioning Hong Kong as an International IPO Centre of Choice*”, June 2014.
- <sup>4</sup> HKMA website: “*Impact of IPO Activities on the Hong Kong Dollar Interbank Market*”, 29 July 2008.
- <sup>5</sup> HKEX analysis based on timetable disclosures in Hong Kong IPO prospectus filings and CCASS data.
- <sup>6</sup> HKEX website: “*Listing Committee Report 2019*”, 16 March 2020.
- <sup>7</sup> Other than listings by introduction, transfers from GEM to the Main Board and Chapter 21 Main Board listings, issuers must (in most instances) offer some of their shares to the Hong Kong public when conducting a listing.
- <sup>8</sup> Listing Rule: Appendix 6, paragraph 11; GEM Listing Rule: 10.12(5).
- <sup>9</sup> HKEX analysis.
- <sup>10</sup> Reuters website: “*Alibaba to pioneer paperless listing in break with Hong Kong norm*”, 14 November 2019.
- <sup>11</sup> Note that the notation “T+X” in the primary market conventionally denotes the time elapsed between pricing and the start of on-exchange trading of an offering. This is not the same as the usual secondary market notation, where “T+X” denotes the time elapsed between trade execution and settlement finality. The same notation therefore measures different things in these two contexts.
- <sup>12</sup> Listing Rule: 2.07C(1); GEM Listing Rule: 16.17(1).
- <sup>13</sup> Based on a sample of 2019 IPO prospectuses reviewed by HKEX, the average is 24 pages of application instructions.
- <sup>14</sup> Section 44A(1) of Cap. 32 Companies (Winding Up and Miscellaneous Provisions) Ordinance.
- <sup>15</sup> HKMA website: “*Half-Yearly Monetary and Financial Stability Report*”, March 2020 (see pages 51-55).
- <sup>16</sup> CCASS Operating Procedures 8.18.2; CCASS Rules 1101 (vi) & 1203 (viii).
- <sup>17</sup> For example, see SFC website: “*SFC’s Advice to Brokers Offering IPO Financing*”, 29 November 2004.
- <sup>18</sup> For example, the allotment results announcement of Nongfu Spring Co Ltd (9633), which listed on SEHK on 8 September 2020, includes 242 pages of ID information: <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0907/2020090700016.htm>
- <sup>19</sup> HKEX data and analysis based on all 465 SEHK IPOs completed between January 2018 and September 2020 that had a public offer.
- <sup>20</sup> The average refund value in respect of this price difference would historically have been HKD 17m per public offer, equating to 8% of the associated public offer proceeds, based on HKEX data and analysis of all 465 SEHK IPOs completed between January 2018 and September 2020 that had a public offer. For comparison, the actual historical refund per public offer was HKD 13bn based on the existing “pre-fund and refund” arrangement, equating to 5,828% of the associated public offer proceeds.
- <sup>21</sup> HKEX Client Connect can be accessed via <https://connect.hkex.com.hk/>.
- <sup>22</sup> Practice Note 18 of the Listing Rules.
- <sup>23</sup> HKEX Guidance Letter GL90-18: Pricing Flexibility for Initial Public Offerings (“IPO”).
- <sup>24</sup> For issuers who choose to adopt a mixed media offer pursuant to the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L laws of Hong Kong).
- <sup>25</sup> HKEX data and analysis based on 585 ASX IPOs completed between 1 January 2014 – 18 September 2020.
- <sup>26</sup> HKEX website, “*Consultation Paper on Proposals to Introduce a Paperless Listing & Subscription Regime, Online Display of Documents and Reduction of the Types of Documents on Display*”, July 2020 (see page 17).
- <sup>27</sup> HKEX data and analysis based on all 465 SEHK IPOs completed between January 2018 and September 2020 that had a public offer.
- <sup>28</sup> HKEX analysis, by number of public offer applications in a sample of 262 Hong Kong IPOs completed between January 2019 and September 2020.
- <sup>29</sup> The Hong Kong Association of Banks data and HKEX analysis.
- <sup>30</sup> HKEX data and analysis based on all 465 SEHK IPOs completed between January 2018 and September 2020 that had a public offer. The highest single IPO was Nongfu Spring (9633).

## **Hong Kong Exchanges and Clearing Limited**

---

8/F, Two Exchange Square,  
8 Connaught Place,  
Central, Hong Kong

**[hkexgroup.com](http://hkexgroup.com) | [hkex.com.hk](http://hkex.com.hk)**

**[info@hkex.com.hk](mailto:info@hkex.com.hk)**  
**T +852 2522 1122**  
**F +852 2295 3106**