



Hong Kong

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FINI - HKEX'S NEW IPO SETTLEMENT PLATFORM TO IMPLEMENT T+2 IPO SETTLEMENT TIMETABLE

On 6 July 2021, the Stock Exchange of Hong Kong (“HKEX”) published its Fast Interface for New Issuance (FINI): Concept Paper Conclusions¹ (“Conclusions”) in response to its Concept Paper² dated 16 November 2020 outlining proposals to modernise Hong Kong’s IPO settlement process (“Concept Paper”) through the introduction of a new IPO settlement platform - Fast Interface for New Issuance (“FINI”). For a detailed summary of the Concept Paper, please see our newsletter “HKEx Consults on Proposal to Streamline IPO Settlement Process”.³ FINI aims to enable a faster IPO settlement to decrease market risk exposure for all parties by utilising efficient digital collaboration tools. FINI is expected to be launched no earlier than the fourth quarter of 2022 and will become a mandatory platform for the handling of future Hong Kong IPOs.

HKEX received an overwhelmingly positive response to FINI with 90% of the respondents expressing support for its introduction. The vast majority of the respondents agreed that FINI would benefit Hong Kong’s IPO market by reducing market risk, increasing efficiency, modernising participants’ interactions, and laying a competitive digital foundation for Hong Kong’s primary market infrastructure.

In addition, the Conclusions laid down some revisions and

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implementation of FINI. The key revisions to four aspects of FINI proposed in the Concept Paper are discussed below.

1. T+2 IPO settlement timetable for all Hong Kong IPOs

The Concept Paper proposed to reduce the current T+5 settlement cycle to “T+1”. However, concerns were raised that “T+1” would be too tight a schedule and would be risky given regulatory requirements and operational realities. Respondents’ main concern was that there would be no operational buffer to leave room for any contingency management. Other commonly highlighted challenges included pricing, tranche sizing, finalising allocations, pre-matching, placee submission, confirmation of placees’ independence, regulatory review, settlement, and pricing supplement. In addition, a tight “T+1” timetable might create a higher incidence of settlement failure with trades not booked in a timely manner, placee information not being readily available for submission, or that funding cannot be arranged in time. These delays may create reputational damage for Hong Kong’s IPO market.

HKEX therefore revised the timetable to “T+2” in the Conclusions. The extension is considered feasible and would be broadly welcomed. It should resolve the challenges identified with the “T+1” timetable in most circumstances while still representing a significant improvement over what can be achieved with the existing settlement infrastructure. This timetable also aligns primary and secondary market equity settlement from the buy-side perspective: allowing asset managers to raise funds on

the day that allocations/trades are made, and settle them on the value/share delivery date with minimum disruption. This is also consistent with the IPO markets in New York and most of Europe.

HKEX will require all IPO issuers to follow the “T+2” timetable to ensure consistency and clarity in market practice. Nonetheless, HKEX recognises circumstances in which a “T+3” or a longer IPO settlement period may be necessary due to the particular circumstances of the IPO issuer. The FINI platform will allow for IPOs to have a longer settlement period upon advance request with the HKEX’s consent. Circumstances in which a prolonged settlement period may be justified could include: the timing of Hong Kong or overseas public holidays; upon a regulator’s request; or other reasons that will be assessed by the regulators on a case-by-case basis.

The start of trading under the new “T+2” timetable will occur 24 hours later than was proposed in the FINI Concept Paper. Accordingly, an IPO with a public offer book-close on Monday noon (“T-1” day) would be expected to price by Tuesday noon (“T” day) in order to commence trading on the HKEX on Thursday morning (“T+2” day).

The revised FINI “T+2” IPO settlement timetable is set out in the table below. Times stated are Hong Kong times.

Step	Activity	Start Time	Deadline	Pre-conditions
1	Initiation of offering	Post-hearing letter	T-5 14:00	The principal sponsor or sponsor counsel has been on-boarded onto FINI
2	Public offer subscription period	T-4 09:00	T-1 12.00 noon	Step 1 completed
3	Public offer funding confirmation	T-1 12.00 noon	T-1 17.30	Step 2 completed
4	Allocation adjustments	After Step 3	T 00.00	Step 3 completed
5	Pricing deadline	During or after Step 1	T 12.00 noon	-
6	Balloting	After Step 4	T 12.00 noon	Steps 3 + 4 completed
7	Public offer money settlement	T 12.00 noon	T 17.30	Steps 5 + 6 completed
8	Placee list submission deadline	After Step 4	T+1 10.10	Step 4 completed
9	Regulatory clearance	After Step 8	T+1 17.00	Step 8 completed

Step	Activity	Start Time	Deadline	Pre-conditions
10	Allotment results announcement	After Step 9	T+1 23.00	Step 9 completed
11	Start of trading	T+2 09.00	-	Step 10 completed

Source: *Fast Interface for New Issuance (FINI): Concept Paper Conclusions*⁴

2. Public offer pre-funding mechanism in Hong Kong IPOs

To alleviate the economic cost caused by the large liquidity “lock-up” due to heavily oversubscribed Hong Kong public offers, the Concept Paper proposed two methods: (i) confirming Electronic Initial Public Offering (“EIPO”) pre-funding without interbank transfers and (ii) capping Central Clearing and Settlement System (“CCASS”) Participant of Hong Kong Securities Clearing Company Limited (“HKSCC”) (“CPs”) pre-funding requirements at their maximum allotment exposure. The proposal, however, raised certain concerns.

Regarding proposal (i), respondents raised concerns as to how CPs will be expected to prove that they are holding sufficient funds to support their applications; whether these funds need to be held in an escrow arrangement, and whether their Designated EIPO Bank under CCASS (“DB”) would take on new operational and legal responsibilities in verifying each CP’s funding position to HKSCC.

Regarding proposal (ii), respondents raised concerns as to the potential for increased credit exposures between CPs and their clients in a “compressed” pre-funding arrangement, with much debate regarding how the proposed mechanism might affect commercial dynamics between various cash-funded and margin-funded public offer subscription channels available to investors.

In response, HKEX has set out amendments and clarifications in respect of (i) pre-funding confirmation and (ii) pre-funding compression.

(i) Pre-funding confirmation

HKEX reaffirms in its Conclusions that from a regulatory and contractual point of view, the introduction of FINI will not materially change the existing responsibilities of licensed corporations (“LCs”) / registered institutions (“RIs”), CPs, and DBs

⁴ [https://www.hkex.com.hk/-/media/HKEX-Market/Services/Next-Generation-Post-Trade-Programme/Fini/FINI-Conclusions-Paper-EN-\(Publication\).pdf?la=en](https://www.hkex.com.hk/-/media/HKEX-Market/Services/Next-Generation-Post-Trade-Programme/Fini/FINI-Conclusions-Paper-EN-(Publication).pdf?la=en)

in the EIPO process. However, FINI does change the operational workflow regarding the confirmation of CPs' pre-funding.

Under the new arrangements, EIPO application funds will be "locked" with each CP's DB until the portion of those funds that is necessary for settling the CP's allotted public offer shares is ultimately collected. This will enable faster release of unused pre-funding by DBs back to CPs, allow for more orderly management of EIPO pre-funding among CPs and DBs and reduce the systemic concentration of EIPO-related liquidity in a single receiving bank compared to the current practice.

Following the publication of the Conclusions, HKEX will engage further with the DB community to refine operational practices and expectations in respect of the new FINI pre-funding arrangement and update the agreed details in the FINI Information Pack⁵ in due course.

(ii) Pre-funding compression

The motive for introducing a pre-funding compression mechanism in FINI is to reduce extreme levels of liquidity "lock-up" in the largest and most popular Hong Kong IPOs. It is unnecessary for HKSCC to require a CP with \$3 billion of EIPO applications to pre-fund all of that money, if the public offer size in question is only \$100 million, and the CP's allocation within that public offer is almost certain to be even lower.

HKEX clarifies in its Conclusions that pre-funding compression will be optional for CPs and is ultimately a commercial choice. Only CPs who are able and willing to assume and manage their counterparty exposure to their own clients should consider whether they wish to avail themselves of this mechanism.

To effect this arrangement, every CP will be offered the option by HKSCC to opt in to using the compressed Pre-Funding Requirement ("PFR") calculation for all of its EIPO application lists at the point of on-boarding to FINI. Once opted in, the opt-in will cover all IPOs, without the CP needing to make an election every time. CPs who do not opt in during on-boarding to FINI may do so at any time thereafter, in which case their PFR calculation methodology will be revised in respect of all future IPOs, except those whose public offer period has already started at the time of the opt-in request. CPs may opt out at any time.

Under FINI, the management of clients' money and the conduct of IPO lending activities will continue to be governed by existing regulations and guidelines under the auspices of the Securities

and Futures Commission ("SFC") (in respect of LCs and RIs) and the Hong Kong Monetary Authority ("HKMA") (in respect of RIs). Meanwhile, HKSCC's PFR for each CP in respect of its public offer applications will be a cash requirement, and this requirement may be fulfilled only by way of a confirmation from the CP's DB.

With these clarifications, HKEX aims to enable both cash-funded and credit-funded IPO subscription models to successfully co-exist following the introduction of FINI, serving the needs of different groups of investors and the different business models of various brokers and CPs.

HKEX is also formulating principles to further clarify the detailed operational arrangements for managing payment rejections and partial settlement workflows under FINI, and expects to release these details during FINI's development phase. HKEX will also conduct extensive market education with investors, brokers, CPs and DBs as part of the FINI market readiness and on-boarding programme throughout 2021 and 2022 given the novelty of the FINI public offer pre-funding arrangement and the operational practice changes involved.

3. HKEX IPO investor identification

With a view to meeting the regulatory requirement of ensuring consistency and fairness to all investors, in the Concept Paper, HKEX proposed to harmonise the identity information that is collected from investors subscribing for shares in the public offer tranche of a Hong Kong IPO, regardless of whether they apply via a CP or via a share registrar. The proposal is aimed at facilitating the identification and invalidation of multiple subscriptions by the same investor.

In the Conclusions, HKEX clarifies that for the convenience of market participants, it intends to closely align the investor identification requirements for all IPO subscribers under FINI with the *Investor Identification Regime at trading level for the securities market in Hong Kong* ("HKIDR") announced for market consultation by the SFC on 4 December 2020, subject to HKIDR's finalisation.

To fulfil the requirement, investors who subscribe for shares in either the public offer tranche (EIPO or "e-White" channels) or the international offer tranche of a Hong Kong IPO via FINI will be required to submit the information in the below table. IPO subscribers in either tranche may further be required to provide certain additional details that may be prescribed and / or announced to the market by the regulators from time to time.

⁵ [https://www.hkex.com.hk/-/media/HKEX-Market/Services/Next-Generation-Post-Trade-Programme/Fini/FINI-Information-Pack-EN-\(Publication\).pdf?la=en](https://www.hkex.com.hk/-/media/HKEX-Market/Services/Next-Generation-Post-Trade-Programme/Fini/FINI-Information-Pack-EN-(Publication).pdf?la=en)

For individual subscribers	For corporate subscribers
<ul style="list-style-type: none"> • Full name as shown in their identity document • Identity document's issuing country or jurisdiction • Identity document type, with order of priority: <ol style="list-style-type: none"> i. HKID card; ii. National identification document; iii. Passport; and • Identity document number 	<ul style="list-style-type: none"> • Full name as shown on its identity document • Identity document's issuing country or jurisdiction • Identity document type, with order of priority: <ol style="list-style-type: none"> i. LEI registration document; ii. Certificate of incorporation; iii. Other equivalent documents; and • Identity document number
<p>Also note:</p> <ul style="list-style-type: none"> • The subscriber's primary name as shown on their identity document should be used. Either English or Chinese names (or both, if available) will be accepted by the FINI system. • If the subscriber is a trust, the client identification data of the trustee, as set out above, will be required. • If the trust is an investment fund (i.e. a collective investment scheme, or CIS), the client identification data of the asset management company or the individual fund which has opened a trading account with the broker will be required, as above. • In a joint account application, the above details for up to four joint holders of that account will be required. 	

Source: *Fast Interface for New Issuance (FINI): Concept Paper Conclusions*⁶

Regarding the meaning of an "order of priority" or "hierarchy" of identity document types, HKEX explains in the Conclusions that in the case of individual subscribers, "order of priority" will mean that investors who hold a valid HKID must use the HKID number (rather than, say, a passport number) when subscribing for shares. In the case of corporate subscribers, the company's Legal Entity Identifier ("LEI") number must be used if it has one. If an intermediary's clients elect to use a non-HKID identity document to make an application for public offer shares, the intermediary should seek client confirmations that they do not possess a valid HKID as part of their initial know-your-client checks and ongoing monitoring.

In addition, in response to some respondents' concerns, HKEX clarifies that the FINI system will not carry out checks or impose restrictions on investors who are eligible to apply for shares based on the issuing country or jurisdiction of their identity document.

Anonymisation of HKEX IPO investors' identity

The Concept Paper mandates the declaration of Client Identification Data ("CID") through the public offer subscription value chain. This raised concerns for some market participants as it could involve serious commercial sensitivities for some intermediaries. In view of this, to preserve confidentiality between intermediaries, HKEX may allow SFC-licensed corporations and registered institutions who submit public offer applications through third-party CPs to identify their end-investors with a Broker-to-Client Assigned Number ("BCAN"), instead of enclosing the investors' full CID details in their application.

Meanwhile, HKEX will further study the feasibility of adopting the use of BCANs in FINI and update the market in due course with a view to align the relevant BCAN-CID mapping file specifications and submission mechanism to reduce the operational, technological and legal readiness efforts of market participants.

Treatment of actual and suspected HKEX IPO multiple applications

Regarding the treatment of actual and suspected multiple applications, multiple applications by the same subscriber in the public offer tranche are prohibited under Main Board Listing Rule 10.09 (or GEM Listing Rules 13.21 to 13.24). However, HKEX has noted many incidents of multiple applications for shares in IPOs despite this regulatory restriction. In view of this, in the Conclusions, HKEX elaborates on the role FINI will play in tackling this conduct.

For the public offer tranche, FINI will run an algorithm after the public offer book-close to detect any instances of multiple applications in the EIPO application list. If any actual or suspected multiple applications are found, the affected applications will be removed from further processing and flagged to the IPO issuer's share registrar by HKSCC in the EIPO application file. The share registrar will then perform an analogous process within the e-White application list, and between the EIPO and e-White application lists using the same algorithm to identify and remove all actual or suspected multiple applications in the public offer tranche before balloting.

For the international tranche, HKEX identifies three scenarios:

- i. If FINI finds that individual placees (or beneficial owners of corporate placees) have already been submitted by the same distributor in the same IPO, these will be flagged by the system to the submitting distributor, principal lead broker and the regulators. The distributor will be permitted to amend

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the relevant placee entries in FINI. If no amendment is made and the relevant placee submissions are considered by the regulators to represent the same investor, these placees will be treated as being one placee when determining whether the IPO issuer meets the requirements under the Listing Rules relating to an adequate spread of shareholders, and the minimum number of placees and shareholders, among others;

- ii. If FINI finds that individual placees (or beneficial owners of corporate placees) have already been submitted by a different distributor in the same IPO, these will be flagged by the system to the relevant submitting distributors, principal lead broker and the regulators. The procedure in (i) above will then be followed;
- iii. If FINI finds that individual placees (or beneficial owners of corporate placees) have already been allotted shares in the public offer tranche of the same IPO, then the affected subscribers' allotment in the public offer tranche will take precedence and remain valid, while their placee list submission will be invalidated and the relevant distributor and principal lead broker will be notified. This is to avoid having to re-ballot the public offer tranche, which would cause a delay to the IPO issuer's listing timetable. The syndicate will be responsible for re-allocating any shares that have been provisionally allocated to a placee that has been invalidated in this manner.

Use of HKEX IPO investor data submitted to FINI

HKEX addresses concerns as to the use of investor data submitted to FINI in its Conclusions. HKEX explains that HKSCC, as the operator of the FINI system, will use IPO subscribers' data to facilitate IPO settlement. This data may also be provided to the Exchange, the SFC, the IPO issuer and its advisers/agents for purposes of regulation and IPO settlement. This practice is also consistent with current market practice. HKEX confirms that no personal information will be made available online unless otherwise required by the applicable rules and regulations and in full compliance with the Personal Data (Privacy) Ordinance (Cap. 486). FINI will also set out Terms and Conditions regarding the data privacy and usage policy applicable to market participants.

HKEX also clarifies that the responsibility to publish an announcement of the results of an IPO will remain with the sponsors and that this will continue to be a regulatory requirement. The FINI system will however generate the relevant data table to assist the IPO issuer and its advisers and agents to prepare such an announcement.

4. Placee vetting on FINI

HKEX stresses that the roles, responsibilities and obligations of the parties involved in an IPO will not change in any fundamental way following the introduction of FINI. Their access and permissions as FINI users will reflect their existing roles and responsibilities. Parties that wish to participate in the placing process as a distributor will be required to register as a FINI user and will be subject to the on-boarding requirements.

In response to concerns regarding the ability of distributors to prepare placee lists in the shortened time period envisaged by FINI, HKEX notes that FINI will have some new workflow features to reduce the need for manual reconciliation and to further facilitate and streamline the process.

HKEX also introduces deadline extensions where time extensions may be granted on a case-by-case basis to the extent that the overall "T+2" IPO settlement timetable is not affected.

Pursuant to HKEX-GL110-21 "Pre- vetting for placing to connected clients in an initial public offering" published by the Listing Division on 5 March 2021, lead brokers and distributors are encouraged to submit, in advance, applications for prior written consent for placings to connected clients. In the Conclusions, HKEX encourages distributors to submit applications seeking prior written consent for placings to their connected clients for pre-vetting as soon as the IPO issuer publishes its post-hearing information pack on HKEXnews. This will enable the Listing Division to review these applications before the relevant placees are formally submitted for approval. This pre-vetting measure is currently available and may be used before the introduction of FINI.

More details of the placee vetting workflow are set out in the FINI Information Pack.⁷ Further clarifications on miscellaneous topics regarding FINI are also covered in the FINI Information Pack.⁸

5. HKEX to Implement FINI in Q4 2022

Due to the strong market support, HKEX will proceed with the implementation of FINI, with the amendments and clarifications set out in the Conclusions. The implementation process for FINI is divided into phases, which broadly include system development and testing, as well as market readiness arrangements. The market readiness work can be further broken down into pilot group testing, market-wide testing, user on-boarding and market

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⁸ [https://www.hkex.com.hk/-/media/HKEX-Market/Services/Next-Generation-Post-Trade-Programme/Fini/FINI-Information-Pack-EN-\(Publication\).pdf?la=en](https://www.hkex.com.hk/-/media/HKEX-Market/Services/Next-Generation-Post-Trade-Programme/Fini/FINI-Information-Pack-EN-(Publication).pdf?la=en)

rehearsals. The development of the FINI platform has already started and will continue throughout 2021. Internal testing will be performed during the first half of 2022.

Legal framework and rule changes for FINI

HKEX will prepare the necessary amendments to the Listing Rules (which may require a separate market consultation) and existing guidance, and will publish new guidance to facilitate the implementation of the FINI platform. Pending further legal advice, the HKEX will publish the specific signature requirements applicable under the Electronic Transactions Ordinance. In respect of CPs, it is expected that the General Rules of CCASS and CCASS Operational Procedures will be amended in view of the new IPO settlement process.

For IPO issuers, amendments will be made to the terms and conditions governing the admission of eligible securities into

CCASS and the operating procedures associated with the admission process.

For other FINI users (including sponsors, share registrars, principal lead brokers, distributors and legal counsels), they will be required to submit an application form to HKSCC to subscribe for the access and use of FINI and agree to the Terms and Conditions of FINI.

HKEX expects that with the breadth and depth of market support for the FINI reform, FINI will boost the structural competitiveness of Hong Kong's capital markets by shortening of the overall IPO settlement cycle. With FINI, the lower exposure to market risk, faster recycling of "locked-up" funding, a reduction in borrowing costs for brokers and end-investors alike in the largest "mega" IPOs, and better real-time information may all encourage investors to participate in a more active and informed way in the IPO market.

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