

# Dual Counter Model for RQFII A-share ETFs

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## **Part 1. Introduction to Dual Counter model for RQFII ETFs**

### **1.1 What is Dual Counter model for RQFII ETFs?**

Units of RQFII ETFs are denominated in RMB. Creation and redemption of new units for RQFII ETFs in the primary market are in RMB only with or without the Dual Counter. An RQFII ETF with Dual Counter offers two trading counters on the Exchange (i.e. RMB counter and HKD counter) to investors for secondary trading purposes. Units traded in RMB counter will be settled in RMB and units traded in HKD counter will be settled in HKD. Apart from settlement in different currencies, the trading prices of units of the same RQFII ETF in the two counters may be different as the RMB counter and HKD counter are two distinct and separate markets.

Units traded on both counters are of the same class and all unit holders of both counters are treated equally. The two counters will have different stock codes, different stock short names and different ISIN numbers.

Normally, investors can buy and sell units traded in the same counter or alternatively buy in one counter and sell in the other counter provided their brokers provide both HKD and RMB trading services at the same time and offer inter-counter transfer services to support Dual Counter trading. Inter-counter buy and sell is permissible even if the trades take places within the same trading day. However, investors should note that the trading price of units traded in the RMB counter and that of HKD counter may be different and may not always maintain a close relationship depending on factors such as market demand and supply and liquidity in each counter.

### **1.2 What is the difference between the Dual Counter model and the Dual Tranche Dual Counter model?**

The Dual Counter model refers to secondary trading arrangement on the Exchange whereby securities are traded in both RMB and HKD. The Dual Tranche Dual Counter (DTDC) model refers to initial public offerings or follow-on offerings on the Exchange by an issuer of securities in both RMB and HKD, followed by secondary trading in both currencies. In the case of RQFII ETFs, since units are issued in RMB only, an RQFII ETF may only adopt a Dual Counter model for secondary trading purposes. For information on DTDC model, please refer to Exchange's [FAQs](#).

### **1.3 Must RMB counter be used for purpose of creation in the primary market? Can newly issued units from creation in the primary market be designated in the HKD counter immediately upon issuance?**

For RQFII ETFs, creation and redemption are carried out only in RMB. Subject to the agreed operating arrangement between an RQFII ETF manager and its Participating Dealer, newly issued units from creation in the primary market can be designated in the RMB counter and/or HKD counter immediately upon issuance. Investors should consult the Participating Dealers for more details including any fees and other conditions involved.

## **Part 2. General Questions on Dual Counter for RQFII ETFs**

### **Information dissemination**

#### **2.1 How will the last closing net asset value (NAV) per unit and near real time estimated NAV (iNAV) per unit of the RQFII ETF be calculated?**

The official NAV per unit of an RQFII ETF will be calculated and published in RMB. The NAV per unit will also be available in HKD on the website of the relevant RQFII ETF for reference purpose. The NAV per unit in HKD is calculated by converting the NAV per unit in RMB into HKD using the foreign exchange rate as specified by the RQFII ETF manager or its agent and disclosed on the ETF's website.

iNAV per unit for RMB counter and HKD counter will be calculated and published in RMB and HKD respectively. The iNAV per unit in HKD is for reference purpose and is calculated by converting the iNAV per unit in RMB into HKD using the foreign exchange rate as specified by the RQFII ETF manager or its agent and disclosed on the ETF's website.

## Inter-counter transfer

### 2.2 How can an investor transfer units from one counter to another counter?

First of all, you need to find out from your broker to see whether it provides both HKD and RMB trading services at the same time and offers inter-counter transfer services to support Dual Counter trading. You also need to understand from it the related fees and terms and conditions of Dual Counter trading. Please note that some brokers may only provide HKD trading services but not RMB trading services. If you trade units of a Dual Counter RQFII ETF through such brokers, you can only trade in the HKD counter but not the RMB counter.

Provided that your broker provides both HKD and RMB trading services at the same time and offers inter-counter transfer services to support Dual Counter trading, you can buy units traded in one counter and sell them in the other counter because units traded in both counters are inter-transferable. Units traded in RMB counter can be transferred to HKD counter by way of an inter-counter transfer and vice versa on a one to one basis. In general, for the purpose of effecting an inter-counter transfer, you would have to instruct your broker to submit, either by itself or through its agents, an executed "Multi-counter Transfer Instruction" to HKSCC. HKSCC will charge HKD5 for each effected Multi-counter Transfer Instruction.

You should pay attention to, and consult your broker about, the administrative process and procedures including the time required to effect the inter-counter transfer to meet your trading needs.

### 2.3 Can an investor buy units of a Dual Counter RQFII ETF in one counter and sell them in the other counter on the same trading day?

Yes but investors who engage in inter-counter day trades (i.e. buying units traded in one counter and selling them in the other counter on the same trading day) should note that there is no inter-counter netting as the RQFII ETF units traded under the two counters are cleared and settled separately under CCASS, HKEx's Central Clearing and Settlement System. This means that investors have to transfer units bought in one counter to the other counter to settle the sell orders in the other counter on a T+2 basis. In general, your broker needs to submit, either by itself or through its agent, an executed "Multi-counter Transfer Instruction" to HKSCC before [3:45]pm on the second business day following the day on which your broker places the sell orders for you. HKSCC will charge HKD5 for each effected Multi-counter Transfer Instruction.

Investors should note that some brokers may not provide inter-counter day trade services due to various reasons including operation, system limitations, associated settlement risks and other business consideration. Even if your broker is able to provide such service, it may impose an earlier cut-off time, other procedures and fees. Investor who wishes to conduct inter-counter transfer is advised to consult your broker and fully understand the services that your broker may provide in this regard and the associated risks and fees.

### 2.4 Since the Dual Counter RQFII ETFs involve one RMB counter, will transferability breach the RMB20K conversion limit for banks with individual customers?

No. Under the Dual Counter model with transferability, where an investor buys units via HKD counter and subsequently transfers the units into RMB counter and sells the units in the RMB counter, the transactions do not actually involve a net increase of RMB funds in the offshore market. They only entail the transfer of RMB funds in the offshore market from one investor to another. Furthermore, the daily conversion limit only applies to banks' RMB currency exchange business with personal customers.

## Corporate Actions

### 2.5 Will holders of the RMB counter and the HKD counter be treated differently?

Under the constitutive documents of the RQFII ETF, the units traded in the two counters are of the same class, holders of the two counters shall be entitled to identical rights and therefore treated equally.

### 2.6 How will the market cap of the Dual Counter RQFII ETFs be calculated?

HKEx will calculate the market cap of a Dual Counter by multiplying the total number of issued units of both counters with the price of the HKD counter. HKEx will continuously review this calculation method, taking into account the development of market practice for the Dual Counter model, relative liquidity of the two counters and market feedback.

### 2.7 Will the Dual Counter RQFII ETFs pay dividends in HKD or in RMB or both?

Dividends of a Dual Counter RQFII ETF are declared in RMB but may be paid in RMB only or, where so

Dividends of a Dual Counter RQFII ETF are declared in RMB but may be paid in RMB only or, where so offered by the Manager, in RMB as well as HKD depending on an investor's election. Investors should refer to the prospectus in relation to details of dividend payment and if in doubt, consult the RQFII ETF manager or your brokers.

Depending on the distribution policy of individual Dual Counter RQFII ETF, an investor of units traded in the HKD counter may receive dividend in RMB only. In such circumstances, if such investor does not have an RMB account, the investor may have to bear the fees and charges associated with the conversion of such dividend from RMB into HKD or any other currency.

### **Part 3 Trading Arrangement for Dual Counter RQFII ETFs**

#### **3.1 How can investors distinguish between the RMB counter and HKD counter of a Dual Counter RQFII ETF? Will there be any identification in their stock codes and stock short names?**

An investor can distinguish between the two trading counters of a Dual Counter ETF by their stock codes and their stock short names.

Separate and unique stock codes will be assigned to the HKD and RMB counters respectively. The last four digits of the stock codes for the two counters will be the same, while the stock code for RMB counter will be a 5-digit number starting with an "8", in line with the existing allocation arrangement.

- HKD counter - XXXX
- RMB counter - 8XXXX

The stock short names for the two counters will also be different. For the RMB counter, the stock short name will end with -R to indicate that the ETF is traded in RMB. There will be no specific marking in the stock short name of the HKD counter.

The following is an illustrative example of the stock short names:

- HKD counter – "XYZ ETF"
- RMB counter – "XYZ ETF-R"

#### **3.2 Will the two counters have a single International Securities Identification Number (ISIN) or two separate ISINs?**

The ISO 6166 standard - ISIN (International Securities Identification Number) -uniquely identifies a security. It is a 12-character alpha-numerical code that does not contain information characterizing financial instruments but serves for uniform identification of a security at trading and settlement.

The [list of ISINs](#) is published on the HKEx website.

ISINs are issued by the identified, responsible National Numbering Agency based upon a set of guidelines that have been established amongst all National Numbering Agencies. The Association of National Numbering Agencies (ANNA) has updated its ISIN Guidelines document to reflect this principle.

According to the assessment and agreement made with ANNA and similar to the local code arrangement, two separate and unique ISINs shall be assigned to the RMB counter and HKD counter respectively, to allow for clear identification between the two counters in the post-trade settlement and position management.

#### **3.3 If an RQFII ETF with the RMB counter is already a Designated Security eligible for short selling, will the corresponding HKD counter be eligible for short selling too? What about holding/borrowing of units in one counter followed by selling in the other counter? Will these transactions be treated as a normal sale/covered short sale?**

In principle, if the RMB counter is already a Designated Security eligible for short selling, the HKD counter is expected to be eligible for short selling subject to the approval of the SFC.

For holding/borrowing of units in one counter followed by selling in the other counter, the transactions would normally be treated as a normal sale/covered short sale.

#### **3.4 Would the buying of units in one counter followed by the selling of units in the other counter within the same trading day be permissible?**

Yes, this would be permissible under the existing rules. However, in order to meet the settlement obligation, brokers should alert their clients the time and fees required to transfer the units from one

counter to the other. Brokers should also require and facilitate their clients to do the transfer for timely settlement of transactions on T+2 basis.

**3.5 How will the individual turnover of the two counters be calculated and displayed in the Automatic Order Matching and Execution System (AMS)? How about the overall market turnover?**

The turnover of individual counters will be calculated and displayed in their trading currency in AMS.

For calculation and display of overall market turnover, turnover of trades conducted in RMB will be converted into the HKD equivalent, aggregated and displayed in AMS.

**3.6 Currently AMS performs different checks before an order can be accepted to the central order book (e.g. the order price cannot deviate for more than 9 times from the current nominal price). How will such checking be performed for the RMB counter?**

AMS will apply checking on the trade prices denominated in RMB at the order level, irrespective of the stock counter.

**3.7 Do brokers need to enhance their systems or processes to support the dual counter trading model?**

Single-counter trading

There are no additional requirements to brokers for trading within the HKD counter. For trading within the RMB counter, brokers must ensure their own readiness for trading and settlement of RMB securities.

Inter-counter trading

Brokers should review and ensure that their front and back office systems as well as operations are ready to support such client trading activities.

Broker may consider if there is a need to automate their systems such that inter-counter selling as well as transfer of securities between the two counters can be done automatically.

In any case, if brokers' systems cannot handle automatic inter-counter trading and transfer, brokers should have a set of guidelines advising their clients how inter-counter trading could be processed manually and clearly communicate to their clients how these trading activities could be supported and if any additional charges are imposed.

While from a regulatory standpoint, an investor may buy from one counter and sell the other counter in the same day, he/she should bear in mind that:

- Such inter-counter day trades might lead to settlement failure of the sale trades at the CCASS on T+2 if the stocks of the buy trades are only delivered by CCASS at the last settlement run on T+2, leaving not enough time to transfer the stocks to the other counter to settle the sales trades on the same day. Although under the circumstances and provided that the concerned CCASS Participants (CP) could provide necessary documentary evidence to HKSCC, HKSCC may grant T+3 buy-in exemption, the investor may still be subject to other handling fees imposed by his/her brokers, and the consideration of the sale trades may not be available to the investor from his/her broker until T+3 or even later;
- Some brokers and CPs may not provide inter-counter day trade services initially due to various reasons including operation, system limitations, associated settlement risks (as noted above) and other business consideration.

Therefore, an investor who wishes to conduct inter-counter day trades should consult his/her broker and fully understand the services that his/her broker may provide in this regard and the associated risks and fees.

**3.8 Will the Trading Support Facility (TSF) support the trading of the RMB counter for RQFII ETFs?**

Yes, the TSF will support the trading of the RMB counter if the particular ETF is eligible for the TSF. For details about the TSF, please refer to the [RMB Equity Trading Support Facility](#) page on the HKEx website. The "List of TSF Stocks" will be updated on the HKEx website upon admission of any RMB stocks eligible for the TSF.

## **Part 4. Market Making Arrangements for Dual Counter RQFII ETFs**

### **4.1 Must there be a Securities Market Maker (SMM) for each ETF counter?**

Same for all ETFs, each ETF counter must generally have at least one SMM.

## **Part 5. Clearing Arrangements for Dual Counter RQFII ETFs**

### **5.1 How does the clearing and settlement of Dual Counter RQFII ETFs work? Are there any differences to the existing settlement mechanism?**

Exchange trades executed under the respective counters will be cleared and settled in CCASS as two individual stocks. There is *no inter-counter netting* for Dual Counter trading. After netting under the CNS System, one CNS stock position will be netted for each counter, i.e. RMB counter and/or HKD counter.

CCASS Participants ("CPs") should settle their CNS stock position on the basis of T+2 per stock, i.e. per counter basis, which is in line with the existing settlement mechanism.

### **5.2 How are "inter-counter" day trades settled?**

As always, CPs should ensure they have sufficient units available to fulfill their CNS short positions on T+2. For inter-counter day trades, if a CP relies on units received from a long position in one counter to settle its short position in another counter, CPs should submit a "Multi-counter Transfer Instruction" to HKSCC through CCASS Terminals before 3:45 p.m. to transfer the units from one counter to another counter. In case that the units received from the long position are subject to the on-hold mechanism, CPs should effect cash prepayment to release the CNS allocated units before effecting the inter-counter transfer. All activities related to "Multi-counter Transfer Instructions" are recorded in a CCASS report which is available to CPs for reconciliation purpose.

Likewise, investors need to instruct their brokers to execute inter-counter transfer of their units on T+2 in order to settle their "inter-counter" day trades described above.

### **5.3 Will buy-in exemptions be granted for the settlement of "inter-counter" day trade?**

Buy-in exemption will be considered for applications that satisfied the defined conditions. Where the CP has an unsettled short position in one counter and has sufficient units and/or long position in the other counter, following transfer of which are sufficient to settle the relevant short position on T+2, CP can submit an "Application Form for Exemption of Buy-in" to HKSCC not later than 8:00 p.m. on T+2. CP is required to provide HKSCC a copy of the relevant CCASS report evidencing that the units and/or long position are available to cover the relevant short position on T+2; evidence that the CP has submitted a "Multi-counter Transfer Instruction" which is either cancelled by the system after the batch transfer run and/or a system message is returned as there are insufficient stock balance upon input of "Multi-counter Transfer Instruction" after the batch transfer run; and effected cash prepayment, if applicable.

### **5.4 How will marks be calculated for Dual Counter RQFII ETFs?**

Marks calculation for Dual Counter ETFs will be on a per counter basis. Marks will be collected in HKD, which is in line with the current arrangements.

### **5.5 How a "Multi-counter Transfer Instruction" for Dual Counter RQFII ETFs is effected in CCASS?**

CPs should submit their "Multi-counter Transfer Instruction" electronically via CCASS on-line. After a CP inputs a "Multi-counter Transfer Instruction", the instruction will be effected immediately if the relevant number of units to be transferred is available in the CP's delivering stock account in CCASS. Otherwise, the instruction will be processed in the next batch transfer run. If the relevant number of units to be transferred is subsequently available at or before the commencement of batch transfer run, the instruction will be effected during the batch transfer run. Any outstanding instruction will be automatically cancelled by the system after the last batch transfer run on the same day.

### **5.6 After a "Multi-counter Transfer Instruction" is effected in CCASS, will the transferred units be subject to any on-hold / earmark mechanism?**

No, inter-counter transfers are not subject to any on-hold / earmark mechanism. Units are freely transferable after they are "transferred" from one counter into its opposite counter.

However, for clients who have bought units of RQFII ETFs using the TSF and wish to transfer or redeem

such units, ISF CCASS Participants should, on behalf of their clients, arrange a ISF stock release (via the Stock Release Function in CCASS) before proceeding with the transfer or redemption through the Participating Dealer. Clients are advised to consult their brokers about its service schedule to effect a TSF stock release although the specified TSF shares can be released in CCASS immediately upon the submission of the TSF stock release request in CCASS by the TSF CCASS Participant (assuming there are sufficient earmarked shares in the TSF account).

**5.7 Can inter-counter transfer of units be effected in CCASS during suspension of creation/redemption or secondary trading of a Dual Counter RQFII ETF?**

Yes, the inter-counter transfer service in CCASS is still available to CPs during suspension of creation/redemption or secondary trading of a Dual Counter RQFII ETF.

**5.8 What is the cost of effecting a “Multi-counter Transfer Instruction” in CCASS?**

HKSCC will charge HKD5 for each effected Multi-counter Transfer Instruction.

**5.9 For Dual Counter RQFII ETFs, what is the cost of CCASS nominee service?**

CCASS fees for nominee services of Dual Counter ETFs are the same as that for other CCASS stocks, including the maximum cash dividend collection fee of HKD10,000 per currency.

**Part 6 Additional FAQs for ETF Market Participants**

**6.1 How can the RQFII ETF managers launch Dual Counter?**

An RQFII ETF manager may adopt a Dual Counter model for its RQFII ETF upon its initial listing or introduce a HKD counter at a later date after its initial listing.

An RQFII ETF manager managing an RQFII ETF with a RMB counter wishing to launch a HKD counter should contact the SFC and the Exchange. The manager would be required to revise the offering documents and Product Key Facts Statement (KFS) to incorporate the additional arrangements, issue an announcement and give a reasonable period of notice to investors.

**6.2 Guidance to RQFII ETF managers on daily dissemination of closing net asset value (NAV) related information through HKExnews website**

For the daily submission of the end of day NAVs and related information to the market through HKEx's electronic submission for dissemination to the market, the RQFII ETF manager must submit the information for both counters separately although they may use the same Excel template.

**6.3 Guidance to RQFII ETF managers on payment of dividends**

Any dividend policy (and for that matter other corporate actions) will have to be consistent with the fact that units traded on the two counters are of the same class and unitholders of both counters must be treated equally. Given that the base currency and the underlying assets of RQFII ETFs are in RMB, an RQFII manager may decide to pay dividend in RMB only for both counters. Alternatively, if an RQFII manager chooses to set a different default currency for dividend payment (ie pay dividend in RMB for RMB counter and HKD for HKD counter in the absence of an election by the unitholders), the RQFII manager must offer an election to investors in both counters to choose the currency in which they would like to receive the dividend. This means that both investors in RMB counter and HKD counter can elect to receive dividend in RMB or HKD. There should be adequate disclosure in relation to dividend payment and currency options (if any) in the prospectus.

**6.4 Can an RQFII ETF manager remove one of the counters?**

While it will be the RQFII ETF manager's decision as to whether and when a particular counter should be removed, an RQFII ETF manager who wishes to remove such counter is advised to consult the SFC and the Exchange as soon as practicable. In addition, the Exchange may introduce criteria for such removal.

**6.5 Can a broker apply to be a SMM for either the HKD or the RMB counter only?**

Yes, a broker can apply to make markets in one counter only.

**6.6 For Dual Counter RQFII ETFs, should a prospective SMM apply through one or two application forms?**

An applicant can use one application form if it were to apply for the market making permits for both

counters at the same time. However, if it were to apply for the permits for the two counters at different times, then it should apply for the permits for each counter separately.

#### **6.7 Are there any special requirements for the SMM for RMB counter?**

The procedures for applying for the SMM permit for ETFs traded in HKD and RMB are the same. The applicants need to undertake that they shall inform the Exchange immediately if any of the firm's market making activities is affected by any kind of disruptions. For example, for ETFs traded in RMB, the applicants shall inform the Exchange if they do not have sufficient RMB to settle RMB products. In addition, the applicants need to ascertain their readiness for conducting market making activities for securities traded and settled in RMB by providing the following information:

- confirmation of the applicant's readiness for trading and/or clearing in RMB counter by referencing to the Checklist to facilitate Participants' review of readiness for Listed Renminbi ("RMB") Securities Business issued by the Securities and Futures Commission on 17 March 2011 (Checklist); and
- arrangements and/or controls to source sufficient RMB to meet the settlement obligation towards the clearing houses (where the applicant is a Non Clearing Participant, the applicant should also provide confirmation by its General Clearing Participant (GCP) of the readiness of the GCP for clearing securities in RMB listed on the Exchange by reference to the Checklist)

For details of ETFs and SMM application procedures, please refer [here](#). For the Checklist, please refer [here](#).

#### **6.8 As the inter-counter transfer of units is done in CCASS only, how can an ETF manager know the final unitholding under each counter in CCASS on each day?**

Units of RQFII ETFs are normally issued in scripless form and the inter-counter transfer of units is done in CCASS only. If so required by the ETF manager, HKSCC can provide the net transfer quantity of units or the day end balances of units in each counter in CCASS to the share registrar.

#### **6.9 If the HKD counter is introduced after the listing of the RQFII ETF in RMB, will the ETF manager be required to sign new documents with HKSCC?**

The existing signed documents will have to be revised. The ETF manager and other relevant parties (e.g. trustee, participating dealers) will need to sign amendment agreements and the trustee will need to sign a new CCASS application form.

**Note: The above information may be updated from time to time.**