



By email (projectfini@hkex.com.hk)

15 January 2021

Our Ref.: C/CFAP, M128711

Hong Kong Exchanges and Clearing Limited
8th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

Re: Concept Paper – Modernising Hong Kong’s IPO Settlement Process

The Hong Kong Institute of Certified Public Accountants (“Institute”)’s Corporate Finance Advisory Panel has reviewed the *Concept Paper – Modernising Hong Kong’s IPO Settlement Process*, issued by Hong Kong Exchanges and Clearing Ltd (“the Exchange”) and the Institute’s comments on it are outlined below and in the attached questionnaire response.

In our view, the objective of the proposals, to modernise Hong Kong’s initial public offering (“IPO”) settlement system, is laudable and necessary, given Hong Kong’s status and as an international financial centre. Therefore, in principle, we support the Exchange’s overall proposal outlined in this Concept Paper to introduce FINI (Fast Interface for New Issuance), a new purpose-built software platform to co-ordinate, streamline and improve workflows, and thus shorten the IPO process. If implemented as envisaged, it will facilitate collaboration, help remove bottlenecks and enable Hong Kong to move to “T+1” from the present “T+5” settlement timetable. As such, this will bring significant improvements to the overall efficiency of the IPO process, and help to maintain the competitiveness of the Hong Kong stock market.

However, the complexity of the operational aspects of FINI, including some quite challenging procedural timelines, the need to protect the security and integrity of the system, and the data in it, to segregate access, to provide for contingencies and system glitches, as well as to accommodate further market developments, as far possible, cannot be underestimated. We hope that the Exchange will continue to communicate and work with market participants and regulators, to be assured of the feasibility and practicality of the new system. Raising awareness and training for different stakeholders, and adequate pilot testing of the system, will all be needed to ensure a smooth rollout and work on these aspects should start early, once it is decided to proceed with the project as proposed.

The Institute’s detailed responses to the specific questions are provided in the questionnaire attached to this letter.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Should you have any questions on this submission, please feel free to contact me at the Institute.

Yours faithfully,

Peter Tisman
Director, Advocacy & Practice Development

PMT/NCL/pk
Encl.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

QUESTIONNAIRE ON MODERNISING HONG KONG'S IPO SETTLEMENT PROCESS

1. We invite interested parties to respond to the Concept Paper on Modernising Hong Kong's IPO Settlement Process ("**Concept Paper**"), which can be downloaded from the HKEX website at: <https://www.hkex.com.hk/fini>, or using the QR code below:



This Questionnaire contains the Privacy Policy Statement; Part A: General Information of the Respondent; and Part B: Questions Feedback.

All responses should be made in writing by completing and returning to HKEX both Part A and Part B of this Questionnaire no later than **6 PM on Friday, 15 January 2021** by email to projectfini@hkex.com.hk, with the subject line "**Re: Concept Paper – Modernising Hong Kong's IPO Settlement Process**".

The names of persons who submit comments together with the whole or part of their submissions may be disclosed to members of the public. If you do not wish your name to be published please indicate so in Part A.

Definitions

The terms used in Part B of this questionnaire are defined in the Concept Paper.

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 reorganization

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

Part A General Information of the Respondent

(1) Please state whether your response represents your personal or your company/entity's view by checking () the boxes below and filling in the information as appropriate:

Company/Entity view

Company/Entity name*:	Hong Kong Institute of Certified Public Accountants		
Company/Entity type*:	<input type="checkbox"/> HKEX Participant	<input type="checkbox"/> Accounting Firm	
	<input type="checkbox"/> Corporate Finance Firm/ Bank	<input type="checkbox"/> Investment Manager	
	<input type="checkbox"/> Law Firm	<input checked="" type="checkbox"/> Professional body / Industry association	
	<input type="checkbox"/> Listed Company	<input type="checkbox"/> Other	
Contact person*:	Mr	Peter TISMAN	
Title:	Director, Advocacy and Practice Development		
Phone no.*:	2287 7084	Email address*:	peter@hkcipa.org.hk

Personal view

Respondent's full name*:	Mr/Ms/Mrs	
Phone no.*:		Email address*:
Among the following, please select the one best describing your position*:		
<input type="checkbox"/> Listed Company staff	<input type="checkbox"/> HKEX Participant staff	<input type="checkbox"/> Retail Investor
<input type="checkbox"/> Institutional Investor	<input type="checkbox"/> Other	

Important note: All fields marked with an asterisk (*) are mandatory. HKEX may use the contact information above to verify the identity of the respondent. Responses without valid contact details may be treated as invalid.

(2) Disclosure of identity

HKEX may publish the identity of the respondent together with Part B of this response to the members of public. Respondents who do not wish their identities to be published should tick the box below:

I/We do not wish to disclose my/our identity to the members of the public.

Signature (with Company/Entity Chop if the response represents the company's view)

Part B Feedback Questions

Please reply to the questions below that are raised in the Concept Paper downloadable from the HKEX website at: <https://www.hkex.com.hk/fini>, or using the QR code below:



Please indicate your preference by ticking the appropriate boxes.

Where there is insufficient space provided for your comments, please attach additional pages.

We encourage you to read through the Concept Paper, including Appendix A (Notes for Practitioners) before responding.

1. Do you support the overall proposal outlined in this Concept Paper?

Yes

No

If your answer to the above question is “no”, please provide reasons for your views.

The objective of the proposals, to modernise Hong Kong’s initial public offering (“IPO”) settlement system, is laudable and necessary, given Hong Kong’s status and as an international financial centre. In principle, therefore, we support the Exchange’s overall proposal outlined in this Concept Paper (“CP”), to introduce FINI (Fast Interface for New Issuance), a new purpose-built software platform to co-ordinate, streamline and improve workflows, and thus shorten the IPO process. If implemented as outlined in the CP, this will allow all the main professional parties and regulatory agencies involved in a typical IPO, to work together via a common platform and be provided with standardised real-time information. It will also remove bottlenecks and enable Hong Kong to move to “T+1” (from the present “T+5”) settlement timetable. As such, this should bring significant improvements to the overall efficiency of the IPO process, and help to maintain competitiveness of the Hong Kong stock market.

2. Do you have any comments or suggestions regarding specific aspects of the proposed reform or the functionality of the proposed FINI platform?

Yes

No

If your answer to the above question is “yes”, please provide reasons for your views.

We would like to raise a few points for consideration, as outlined below.

Education and training for different stakeholders

In view of the complexity of the operational aspects of FINI, we suggest that a campaign to raise awareness and, for some parties, extensive training, should be organised by the Exchange. These should be targeted at different professional parties, regulatory agencies and others, such as investors, including retail investors, brokerage firms and issuers, to ensure that they are well prepared ahead of time for the new system and procedures, to the extent that they will be affected by these changes. Information will need to be made available beyond the immediate circle of parties that will be working directly with FINI, because its impact will extend beyond that circle.

It goes without saying that information technology system requirements and specifications for those who need to interface electronically with FINI will need to be clearly set out and made known early. Obviously, extensive trials and testing of FINI must be carried out before it is formally launched, and sufficient lead time should be allowed for this, to ensure a smooth implementation from the start of operations.

It is mentioned in *Notes for practitioners - A19*, in Appendix A of the CP, that FINI will support the initiatives of (i) introducing a paperless listing and subscription regime in Hong Kong; and (ii) introducing a scripless securities market in Hong Kong. It would be helpful if the Exchange could provide more details regarding how FINI would support these initiatives.

Security of information in FINI

The data security and integrity of FINI will be of paramount importance. However, it is expected that a significant number of market participants, who may have different levels of data security practices, will access FINI at the same time. This could give rise to concerns about the security of the information contained in the system, especially if the security practices of certain market participants are inadequate and their systems are vulnerable to hacking, etc. This suggests that a high level of security must be prescribed for any interface between market participants' systems and FINI.

Notes for practitioners – A24 mentions that measures such as end-to-end encryption for incoming and outgoing data in the system will be implemented for data protection. It will be essential that the architecture and protocols of the system should ensure that participants who access the system can only access the information that is relevant to them to discharge their responsibilities and that there is no scope for data leakage.

There will also need to be contingency planning for system breakdowns.

Logistics and workflows

There will be some logistical challenges under the proposed workflows, as described. For example, under FINI, sponsors should submit IPO placees' information to the Exchange on "T", and the Exchange can raise questions only on the same day, and final approval must be obtained at 5:00 p.m. on "T". Trading will then start from 9:00 a.m. on "T+1". This could present a significant challenge to regulators and sponsors and it emphasises the need to consider all the practicalities and contingencies, and to ensure proper pilot testing of the system at an early stage.

System capacity

FINI will result in a substantial change in terms of processes and the digitalisation of procedures, which could create some disruption for market participants, as they are likely to have to modify their own internal processes and procedures, to differing degrees. This being the case, it will be important for the system to be "built to last",

as far as practicable, and to incorporate sufficient flexibility to be able to accommodate possible future developments, both quantitative (e.g. a larger number of IPOs of different types) and qualitative (e.g. additional/ modified processes and procedures). In this regard, we note that, in *Notes for practitioners – A1*, it is indicated that the Exchange will also consider in due course whether the FINI platform may be suitable to facilitate secondary offerings, distributions in species or debt offerings.

Other issues

Other comments for the consideration:

(i) With reference to step (3b) outlined in the CP, will FINI also allow public tranche investors to withdraw applications, before the close of public offer, where an order is applied for by an individual directly in FINI, similar to individuals with an account in CCASS system under the new paperless securities system?

(ii) The CP (paragraph 65) indicates that the Exchange intends to make a subset of FINI IPO reference data (its non-confidential elements) available to the general public in a standardised application programming interface (“API”) format.

We suggest that the public should also be able to generate a report, through API, with, as a minimum, similar information to a New Listing Report prepared by the Exchange monthly, together with some additional information like the parties, directors and company secretaries etc. involved in each IPO. This could allow information on new listings, such as the frequency of involvement of a particular independent non-executive director, over a certain period, to be analysed more automatically. Other useful data that could be made publicly available include some live statistical data.

(iii) With reference to paragraph 97 of the CP, we would like to seek clarification on the rationale for requiring underwriters, in case of an unresolvable settlement failure, to reallocate such shares to the institutional tranche, rather than asking the public offering underwriter, and/ or its syndicate, as a whole, to take up the shares based on their underwriting obligation. Practically speaking, it is very likely that, in the end, these shares would be sold to institutional investors by the underwriters. However, in principle, such shares should not be required by the Exchange to be reallocated as part of the FINI procedures and, if they wish to do so, the underwriters should have the right to keep the shares themselves.

(iv) We would like to seek clarification regarding the statement that the Exchange will consider whether FINI might be “suitable for distributions in species”, in *Notes for practitioners - A1*. Is this referring listing by introduction, such as spin offs with no additional funds raised? If this is the case, it would be helpful if the Exchange could elaborate on the role of FINI where no fund raising is required.

(v) With reference to *Notes for practitioners – A27*, it is indicated that brokers’ financing models with respect to IPO subscriptions will remain a business decision for each broker. However, if a large proportion of brokers seek to collect the full subscription value from clients, in principle at least, this could result in liquidity issues similar to those that occur sometimes under the current arrangements, even though potential short-term liquidity issues and borrowing spikes are among the problems that FINI aims to address. While, in practice, competitive pressures may make this scenario unlikely, it may need to be monitored.

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?

Yes

No

If your answer to the above question is "yes", please provide reasons for your views.

With reference to Principle #2, it is understandable that the Exchange wishes to focus first and foremost on streamlining and improving the logistics of the existing IPO system by converting as much as possible to a shared e-platform and, clearly, if Hong Kong can move to T+1 settlement, this would represent a major gain in efficiency and competitiveness. Nevertheless, this conceptual exercise does also beg the question of whether the opportunity should be taken to look afresh at the overall structure of the IPO process, its functions and workflows, to see whether there is additional scope for improving efficiencies generally, while still building on Hong Kong's "home-grown" system.

- End -