



By email (response@hkex.com.hk)

26 January 2024

Our Ref.: C/CFC, M139081

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

Dear Sirs,

Re: Consultation Paper on Proposals on Severe Weather Trading of Hong Kong Securities and Derivatives Markets

The Corporate Finance Committee (“CFC”) of the Hong Kong Institute of Certified Public Accountants has considered the Consultation Paper on Proposals on Severe Weather Trading of Hong Kong Securities and Derivatives Markets (“CP”).

In principle, CFC members support Hong Kong Exchange and Clearing Limited (“HKEX”)’s proposals to maintain normal operations of the Hong Kong (“HK”) securities and derivatives markets during severe weather (“SW”) conditions, i.e. to revise existing SW arrangements so that trading, clearing and settlement services, and other operations can continue in both the securities and derivatives markets.

In particular, as mentioned in paragraph 17 of the CP, most major markets, including those in Mainland China, can maintain market trading during SW conditions. CFC members are also aware that overseas stock exchanges, like NYSE and NASDAQ, maintain market trading during SW conditions.

As such, CFC members agree that there is a clear need to consider a change to the existing SW arrangements in HK to enhance HK’s competitiveness, as a best-in-class trading and risk management venue, and leading international financial centre, and to help reinforce the attraction of HK’s markets to domestic and foreign investors.

At the same time, it is also agreed that the proposals require considerations that extend beyond trading arrangements, with personnel and investor safety remaining the main concern.

It is suggested that HKEX consult the market on the detailed Listing Rule (“LR”) changes once they have been formulated and, furthermore, that adequate consideration be given to whether the proposals could have any repercussions on other relevant legislation that references to “business days” or has a bearing on the operation of securities or derivatives markets. In addition, given the increasing prevalence around the world of very extreme weather events, and HK is not immune from these (e.g., the severe flooding that hit HK in September 2023), any arrangements should provide for contingencies when business cannot be conducted



on a SW Trading Day (“SWT Day”), because e.g., key systems are down as result of SW.

CFC members also have some comments on specific questions of the CP as outlined below.

Q1 - Do you have any comments or concerns on the proposed arrangements for the HK securities market?

CFC members generally support the proposed arrangements. As a separate matter, as stated in paragraph 30.1 of the CP, it is envisaged that all operations are to be performed in a fully digital and remote manner during SW conditions. In addition, as mentioned in paragraph 98 of the CP, HKEX has made enhancements to its infrastructure to reduce the need for physical access to offices by Participants’ employees. We would like to clarify whether HKEX’s Listing Division would continue its operations as usual and provide support to issuers on SWT Days; for example, would issuers be able to reach a case officer to discuss applying for a trading halt via a phone call or an online meeting directly, or would staff be contactable by email only, during SWT Days?

Q2 - Do you have any comments or concerns on the proposed arrangements for Northbound Trading under Stock Connect?

Q3 - Do you have any comments or concerns on the proposed arrangements for Hong Kong derivatives market?

Under HKEX’s proposed arrangements, clearing participants located in HK would be expected to have well-established procedures for staff to be able to work remotely and perform any required tasks when their offices are closed due to SW conditions.

CFC members generally consider that this should not be a significant issue as such procedures should have been established by market participants during the pandemic, and already be in place.

Q4 - Do you have any comments or concerns on the proposed arrangements for new listings and new products?

Generally, CFC members do not have any comments or concerns on the proposed arrangements for new listings and new products. It is also noted that the Companies Registry (“CR”) has issued the *Circular No.7 / 2023 – Submission of Prospectus Documents in Electronic Form for Registration* on 22 December 2023, which should facilitate submission of prospectus documents to the CR in electronic form on SWT Days. At the same time, as noted in the introduction above, the possible repercussions of the proposals on other legislation need to be considered and made clear; for example, on a SWT Day, how would confirmation of receipt of a prospectus for registration be dealt with by the CR?

Q5 - Do you have any comments or concerns on the proposed money transfer arrangements:

- (i) Cheque clearing***
- (ii) Banking services***



CFC members agree with the proposed money transfer arrangements as these payment methods are common nowadays and should not be disrupted by SW events in HK. Further, it is suggested that HKEX should keep encouraging and promoting the use of these settlement methods to market participants. If market participants have any issues with their banks providing the necessary services, HKEX should consider possible additional support, e.g., making available a list of banks that have indicated that they can provide services to support SWT. In this regard, we note from paragraph 82 of the CP that designated/settlement banks have agreed to review and consider adjustments to their banking services and approval processes, as well as their electronic transfer limits. While this is a positive sign, more definite commitments will need to be obtained before implementing SWT. Presumably, the relevant banks will want to consider various issues, including the adequacy of cybersecurity systems, and sufficient time should be allowed for this.

Q6 - Do you agree with the proposed arrangements for listing applicants and listed issuers as set out in paragraphs 90 – 91 above, where (a) no change should be made to the existing definition of “business day” under the LRs; and (b) consequential amendments (where necessary) should be made to the LRs to remove any current time extension? Please provide reasons for your view.

Q7 - Do you agree with the proposed arrangements for listing applicants and listed issuers as set out in paragraphs 92 – 94 above, and that consequential amendments (where necessary) should be made to the LRs to accommodate situations where there are practical difficulties in complying with a LR obligation on a SWT Day? Please provide reasons for your view.

While the relevant proposals seem reasonable, given various LR changes that may be required, as indicated in the introduction to this submission, we would suggest that further consultation be conducted with the market on the detailed LR changes. We also have reservations about the proposal, in paragraph 84 of the CP, not to change the Securities and Futures Ordinance (“SFO”) before the implementation of SWT, even though the SFO’s definition of “business day” excludes a gale warning day or black rainstorm warning day. This could create unnecessary confusion. Prima facie, it would be better to amend the SFO as the same time as implementing the SWT arrangements, even though it is appreciated that amending legislation takes more time than amending the LRs. This may be one reason to defer the implementation of the SWT arrangements until after July 2024 (see our response to Q11, below).

Q8 - Do you envisage there being any material practical difficulty in complying with any particular LR requirements (e.g. those identified in paragraph 93) if a SW Trading Day (“SWT Day”) is counted as a “business day”? If so, please explain the practical difficulty with reference to the relevant LRs.

Q9 - Do you agree that consequential amendments to the LRs should be made to reflect any arrangements proposed under this chapter and the relevant trading and clearing arrangements proposed under Chapter 2?

In general, CFC members do not expect that there would be any material practical difficulties in complying with any particular LR requirements, if a SWT Day is counted as a “business day”. Even though their offices may be closed due to SW conditions, listed issuers should have developed their internal procedures and measures to



ensure that their staff are able to prepare and upload the relevant announcements and documents onto HKEX's platform. CFC members believe that consequential amendments to the LRs should reflect this and should accommodate any practical difficulties faced by market participants after implementation of the proposals.

Q11 - Would there be adequate time to prepare for SWT to come effective in July 2024 under the proposed model? If not, what would be a reasonable length and why?

While, in principle, it should not be a significant issue for market participants to maintain business operations on a SWT Day, some CFC members noted from market participants that a six-month lead time to prepare for implementation of SWT arrangements could still be quite short and that a longer preparation period would be preferable. This would allow all market participants to understand the new SWT Day arrangements, and ensure that their internal systems can accommodate the new arrangements as smoothly and seamlessly as possible. A longer lead time would be preferable, particularly if further consultation is to be conducted on the detailed LR changes, and if amendments to the SFO and/or other legislation is considered desirable, as suggested above.

As regards a specific timeframe, we leave it to HKEX and other market participants to consider what would be a reasonable period, depending upon the additional steps that need to be taken by way of preparation.

If you have any questions on this submission, please feel free to contact me at the Institute by telephone on 2287 7084 or email <peter@hkiipa.org.hk>.

Yours faithfully,

Peter Tisman
Director, Advocacy & Practice Development

PMT/NCL/pk