

HONG KONG EXCHANGES AND CLEARING LIMITED

GUIDE ON PRODUCT REVIEW AND APPROVAL PROCESS FOR LISTED STRUCTURED PRODUCTS

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I. Purpose of this Guide

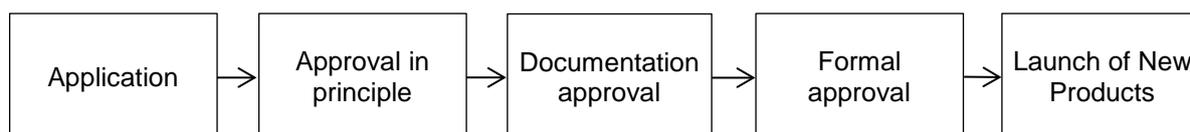
1. The purpose of this Guide is to provide guidance to structured products issuers (**issuers**) on the process in relation to obtaining approval for new products listed under Chapter 15A of the Mainboard Listing Rules (**Listing Rules**). This Guide intends to facilitate an understanding of product review and approval framework such that new products can be introduced to the market more efficiently and within a clear time frame.
2. This Guide builds on the Exchange's existing practice in reviewing and approving new products. It covers the following areas:
 - Products subject to the review and approval process (**New Products**)
 - Product review and approval process
 - Documents required to support the approval application
 - Factors under consideration in approving New Products
3. This Guide does not form part of the Listing Rules, nor does it override, amend or vary any Listing Rule requirements.

II. New Products

4. New Products are:
 - (a) new underlying assets that are not listed on the Exchange¹ but within existing type of structured products (**new underlying**); or
 - (b) new product feature(s) (**new feature**) within existing type of structured products, or completely new type of structured product not previously listed on the Exchange (**new product type**).

III. Product review and approval process

5. The product review and approval process consists of the following phases:



¹ The product review and approval process described in this Guide does not apply to issuing existing structured products involving stocks (including exchange-traded funds) listed on the Exchange (**local stocks**) as the underlying asset. For issuance of structured products with local stocks as the underlying asset, issuers should refer to the list of eligible local stocks published on the HKEX website quarterly.

6. The Exchange will review each New Products proposal to assess its business, market and operational feasibility and whether the New Products are suitable for listing and comply with Listing Rules requirements². The Exchange will also seek comments from the SFC on each New Products proposal.
7. Approval for New Products will be given in different phases, namely approval in principle, documentation approval and formal approval. Issuers will be notified of the approval or refusal in writing in each of the phases.
8. The application may be returned if the completeness or sufficiency of the information submitted in the relevant phase is not satisfactory.
9. The approval in each phase may lapse where there is any material change to the information provided to the Exchange or in market circumstances.
10. The timeframe for the product review and approval process may vary depending on factors such as:-
 - (a) quality of information provided;
 - (b) complexity of the New Products (for example, the processing time for new product type will generally be longer than a new underlying); and
 - (c) the time taken for the issuers to respond to comments to the satisfaction of the Exchange and/or the SFC, as the case may be.

Please refer to the section on processing time below for further details.

Application

11. Prior to initiating the product review and approval process, issuers should have assessed the product's risks and features in order to be satisfied with the fairness of the product and the appropriateness for trading on the Exchange.
12. The review and approval process commences when issuers submit the application with the supporting information set out in Appendix 1. Information submitted should contain sufficient details for the Exchange to consider the application. The Exchange will notify the SFC as soon as practicable upon receipt of an application.
13. Within three business days after submitting the application, issuers will receive from the Exchange an acknowledgment of application by email. The Exchange will also provide issuers with the contact details of responsible officers handling the application (**Responsible Officers**).
14. A meeting may be arranged, where necessary for issuers to explain the New Products proposal and answer any questions concerning the New Products. Further meeting(s) may be necessary if so requested by the SFC.

² See Listing Rules 15A.27 to 15A.51.

Approval in principle

15. Based on information submitted, the Exchange will determine whether to grant the approval in principle for the New Products. For this purpose, the Exchange will assess the viability of New Products proposals from the business, market, operational and Listing Rules perspectives.
16. Please refer to Appendix 2 for details of consideration by the Exchange in reviewing New Products proposals.
17. The Exchange will seek comments from the SFC on New Products proposals and would only grant the approval in principle after the SFC has confirmed that it has no further comments on the New Products proposals.
18. Where an approval in principle is granted, issuers may proceed to the documentation process.

Documentation approval

19. After obtaining the approval in principle, issuers may proceed to the next phase by submitting the listing document in final form, together with other information set out in Appendix 3.
20. The Exchange shall grant the documentation approval where it is satisfied with the information submitted and has no further comments on the listing document.

Formal approval

21. After obtaining the documentation approval, issuers may proceed to the next phase by addressing any remaining outstanding issues including those raised by the Exchange and/or the SFC and providing a written confirmation that the information submitted for obtaining approval in principle and documentation approval is still valid and up-to-date. The Exchange shall grant formal approval upon receiving such confirmation and when all outstanding issues have been addressed to its satisfaction.
22. Where there is a change in information, issuers should highlight the impact for the Exchange's consideration. Where such change is considered material by the Exchange, the Exchange will assess whether the approval in principle and/or documentation approval are still valid and inform issuers accordingly.
23. In the event of a material change in market circumstances before the launch of New Products, the Exchange may require additional information or impose conditions notwithstanding that formal approval has been given.

Launch of New Products

24. After obtaining the formal approval, issuers may proceed with the launch of New Products upon system and operational readiness of the HKEX and market participants, including issuers and Exchange Participants.

Processing time

25. Each phase of the product review and approval process will commence upon receipt of all relevant information and documents. The Exchange will generally pass comments within ten business days after the first submission and within five business days for each subsequent submission. However, longer time may be required for New Products which are complex in nature.
26. The Exchange will seek comments from the SFC upon being satisfied with the completeness or sufficiency of the information submitted to support the application for the approval in principle. This process involves the SFC's consideration of the Exchange's assessment of the New Product proposals made after having reviewed the information submitted by the issuers. The approval in principle will formally be granted after the SFC has confirmed that it has no further comments on the New Products proposals.
27. The Exchange will generally grant the documentation approval and formal approval within two business days after being satisfied with the completeness or sufficiency of the information submitted and that relevant issues are addressed.
28. New Products requiring rule change or waiver from existing Listing Rules requirements may need to undergo further process such as Listing Committee's approval and if necessary, market consultation. In that case, the approval process will take longer and the Exchange will inform issuers of the approximate time required for the additional process.

IV. Contacts

29. New Products applications should be submitted to the Exchange by email to SP_NewProducts@hkex.com.hk. During the product review and approval process, issuers may contact the Responsible Officers for any enquiries regarding New Products proposals.
30. For any questions concerning this Guide, please send your enquiries to SP_NewProducts@hkex.com.hk.

Supporting information for approval in principle

General information

1. Supporting information for applying for the approval in principle should include a draft term sheet annotated to confirm compliance with the Listing Rules relating to terms and conditions of the New Products. Where a waiver of compliance with the Listing Rules is required, the basis for applying for such waiver and the potential implications to investors should be submitted.
2. Where the underlying asset is not listed on the Exchange, issuers should propose operational arrangements for notifying the Exchange of the suspension and resumption of trading in the underlying asset so that the Exchange could arrange for timely trading suspension or resumption of the relevant structured products in the same manner during its trading hours.
3. For New Products with knock out features (such as CBBCs) and underlying assets not traded on the Exchange, issuers should provide feasible operational arrangements enabling timely trading suspension of the relevant structured products upon occurrence of knock out events.
4. Issuers may be required to provide additional information relating to relevant laws and regulations applicable to the underlying assets (such as the U.S. Foreign Account Tax Compliance Act).

Specific information

5. Additional information should also be provided depending on the type of New Products as set out below.

A. New underlying

Overseas stock

6. The following information should be submitted:
 - (a) a description of the overseas stock and where it is listed;
 - (b) a description of the overseas stock exchange and its relevant rules on trading and disclosure requirements³;
 - (c) price and volume, market capitalization of the overseas stock (where available, public market capitalization) in the last three months;
 - (d) details of where price and volume information, financial information and inside information regarding the overseas stock may be obtained by investors in Hong Kong; and

³ The information should include requirements concerning (i) trading hours; (ii) dissemination of price and volume; (iii) publication of inside information and financial statements; (iv) trading suspension and resumption; and (v) the minimum number or percentage of shares in the hands of the public.

- (e) where applicable, details of any restrictions in the overseas market for trading of securities and remittance of proceeds by foreign investors and the impact of such restrictions on issuers.

Index

- 7. The following information should be submitted:
 - (a) a description of the index and its constituent components and relative weightings;
 - (b) the identity of the index publisher (and index compiler if it is a different entity) and a description of its experience;
 - (c) a description of the index calculation method;
 - (d) a description of the circumstances in which the index could be modified or discontinued;
 - (e) frequency of the update and publication of the index level;
 - (f) where the determination of settlement amount is by reference to a futures contract, the price and volume of such contract in the last three months;
 - (g) details of where the index level and the information mentioned in (a) to (f) above may be obtained by investors in Hong Kong; and
 - (h) where issuers and the index publisher/compiler are within the same group, describe the measures to address potential conflicts of interests between them and to ensure that investors' interests are sufficiently protected.

Commodity

- 8. The following information should be submitted:
 - (a) a description of the commodity and the exchange on which it is listed or traded;
 - (b) a description of the commodity exchange regarding its trading hours, dissemination of price and volume, and rules on trading suspension and resumption;
 - (c) where the commodity is not traded on any exchange, the background of such organization that publishes the price and volume; method of dissemination and frequency of publication;
 - (d) price and volume of the commodity in the last three months. Where the determination of settlement amount is by reference to a futures contract, the price and volume of such contract in the last three months; and
 - (e) details of where the price and volume of the commodity or the futures contract, where applicable may be obtained by investors in Hong Kong.

Currency

9. The following information should be submitted:

- (a) the reference source where the currency rate is published for settlement purpose and frequency of such publication;
- (b) whether the reference source has been used for settlement of other financial products in Hong Kong or overseas; and
- (c) details of where the currency rate may be obtained by investors in Hong Kong.

Futures contract

10. The following information should be submitted:

- (a) a description of the futures contract (including assets underlying such contract) and the exchange on which it is listed or traded;
- (b) a description of the futures exchange regarding its trading hours, dissemination of price and volume, and rules on trading suspension and resumption;
- (c) price and volume of the futures contract in the last three months; and
- (d) details of where the price and volume of the futures contract may be obtained by investors in Hong Kong.

Other assets

11. The following information should be submitted:

- (a) a description of the assets;
- (b) details of where the price, value or performance of the assets may be obtained by investors in Hong Kong, including the background of the organization that publishes the information, method of dissemination and frequency of publication;
- (c) the reference source for determining settlement amount and whether such source has been used for settlement of other financial products in Hong Kong or overseas; and
- (d) other information as required by the Exchange depending on the nature of the assets.

B. New feature or new product type

12. The following information should be submitted:

- (a) a description of the new features and structures and how they work by providing appropriate hypothetical examples and graphical illustrations;
- (b) pricing factors and payout with appropriate and clear illustration;
- (c) a description of the new or unique trading features, if any;

- (d) a description of product risks;
- (e) a comparison of product features and risks between the New Products and those structured products that are currently listed on the Exchange;
- (f) scenario analysis based on historical trading data (including both best and worst scenarios);
- (g) proposed underlying assets, issuance size and turnover estimate;
- (h) issuers' risk management proposal on the New Products (such as hedging tools and hedging strategies) and potential market impact on the underlying asset arising from the associated hedging activities;
- (i) where applicable, alternative proposal on liquidity provision where the current requirements on active quotes and/or quote requests are considered inapplicable and supporting justification;
- (j) where the New Products are offered in overseas markets, overseas market experience in terms of product features, underlying asset, trading volume, relevant rules on liquidity provision, risks and any regulatory concerns;
- (k) an indication on the scale and type of investor education programme; and
- (l) a description of how the pricing calculator of the New Products works.

Factors to consider in reviewing New Products

1. The Exchange will perform a pre-trading assessment on the potential implications of the New Products on the market. Assessment will be made not only on the business viability of the New Products, but also whether it would create undue disruption to market operations, or interfere with fair and orderly trading by market participants. It will also determine if new mechanism / market microstructure should be introduced for trading, error handling and market monitoring purposes for the New Products.
2. The Exchange would consider the following general factors in the product review and approval process:
 - (a) information on the underlying asset, its performance and/or value and any other attribute of such asset relevant to issuers' obligations, shall be transparent and made available to investors in Hong Kong;
 - (b) the price, value or performance or any other relevant attributes of the underlying asset should not be controlled or influenced by one party or a group of parties which may undermine the interests of the investing public; and
 - (c) for New Products with knock out features (such as Callable Bull/Bear Contracts (CBBCs)) and underlying assets not listed on the Exchange, issuers must provide feasible operational arrangements to the satisfaction of the Exchange, enabling timely trading suspension of the relevant products upon occurrence of knock out events.
3. Specific factors for reviewing each type of New Products are set out below.

A. New underlying

4. The underlying asset to which a structured product is linked shall be acceptable to the Exchange. The underlying asset may be an overseas stock, index, currency, commodity, futures contract or other assets. Set out below are factors that the Exchange would consider in relation to different types of underlying assets.

Overseas stock

5. The Listing Rules⁴ set out the requirements and factors that the Exchange will consider in determining the suitability of structured products which relate to shares listed on overseas stock markets. We set out below the expectation in relation to some of these factors.
6. *Liquidity* – The Exchange expects the average daily turnover of the overseas stock to be at least HK\$500 million.
7. *Regulation of the overseas market* – The overseas stock should be listed in a market with clear regulations on trading suspension policies and information dissemination. The Exchange will consider how and to what extent these regulations will impact the trading of the relevant structured products in Hong Kong and the timely dissemination of information to investors in Hong Kong.

⁴ See Listing Rules 15A.30(3) and 15A.31.

8. *Information* – Price and volume information, financial information and inside information of the overseas stock should be accessible to investors in Hong Kong in English or Chinese.
9. *Foreign exchange or ownership restrictions* – Where the overseas stock market imposes foreign exchange controls or foreign ownership restrictions, issuers should explain how they will conduct their hedging activities or remit proceeds from the disposal of the hedged securities from the overseas stock market to meet their payment obligations under the relevant structured products.

Index

10. The Exchange will take into account the experience of the index publisher⁵, how the index is compiled and computed, the frequency of update and publication and the circumstances in which the index could be modified or discontinued.
11. The index level and other pertinent information should be accessible to investors in Hong Kong in English or Chinese. Where the determination of settlement amount is by reference to a futures contract, the price and volume information of such contract should also be accessible to investors in Hong Kong.
12. Where issuers and the index publisher/compiler are in the same group, there should be measures in place to address potential conflicts of interests and to ensure that investors' interests can be sufficiently protected.

Commodity

13. The Exchange will have regard to the commodity exchange or the organization that publishes the price and volume of the commodity and the frequency of publication. The price, volume and other pertinent information should be accessible to investors in Hong Kong in English or Chinese.

Currency

14. The currency should be freely convertible and the currency rate should be accessible to investors in Hong Kong. The Exchange will also take into consideration the source of the reference exchange rate for calculating the settlement amount upon expiry of the structured products.
15. The currency pair of HK\$/US\$ is not considered eligible underlying.

Futures contract

16. The Exchange will have regard to assets underlying the futures contract, the futures exchange and the frequency of publication of price and volume. The price, volume and other pertinent information should be accessible to investors in Hong Kong in English or Chinese.

⁵ Where the index publisher is not the index compiler, the experience of the compiler will also be considered.

Other assets

17. Other assets will be considered on a case by case basis depending on the nature of the assets.

B. New feature or new product type

18. The following factors will be taken into consideration by the Exchange:

- (a) whether the terms and conditions meet the Listing Rule requirements⁶;
- (b) whether the listing documents meet the disclosure requirements set out in the Listing Rules⁷;
- (c) the level of complexity of the New Products and whether it is likely for the retail investors to understand. This includes:
 - the mechanics of the New Products, including expiry period, knock out feature (if any) and determination of the settlement amount;
 - how the New Products are priced; and
 - the risks and returns associated with the New Products in a range of market conditions.
- (d) whether product payout is determined in a clear and transparent manner and that the product risks are generally commensurate with its return;
- (e) issuers' risk management strategy and the potential market impact on the underlying asset arising from the associated hedging activities; and
- (f) whether issuers have devised appropriate investor education plans.

⁶ See Listing Rules 15A.36 to 15A.50.

⁷ See Listing Rule 15A.59 and Appendix 1D to the Listing Rules.

Supporting documents / information for documentation approval

Issuers should provide the following supporting documents and information:

1. Listing document containing detailed terms and conditions in final form;
2. In respect of underlying asset not listed on the Exchange, a confirmation that so long as the structured products which relate to the proposed underlying asset are listed on the Exchange, issuers should:
 - (a) send an email to the Exchange on each trading day before 8:30 a.m. (Hong Kong time) confirming whether there is any trading suspension or resumption of the underlying asset;
 - (b) notify the Exchange of any suspension or resumption of dealings in the underlying asset during trading hours of the Exchange; and
 - (c) for New Products with knock out features, notify the Exchange timely of the occurrence of knock out events.
3. In respect of new feature or new product type:
 - (a) an advanced plan for investor education programme and the relevant materials;
 - (b) a mock-up of issuers' website indicating the manner in which the New Products will be presented; and
 - (c) a mock-up of the pricing calculator of the New Products.