



HKE_x
香港交易所

RMB Equity Trading Support Facility (TSF)

TSF



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What is the TSF?

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It is a back-up facility to enable investors to buy RMB-traded shares in the secondary market with Hong Kong dollars (HKD).

Why is the TSF needed?

RMB-traded shares are important to the further development of the offshore RMB market in Hong Kong, but the long-term growth and stability of a RMB stock market segment at HKEx is subject to the challenge of whether there is sufficient and reliable RMB liquidity in Hong Kong. That is why the TSF is introduced, which aims to help overcome this possible hindrance.

Who operates the TSF?

The TSF is operated by Hong Kong Securities Clearing Company Limited or HKSCC, a wholly-owned subsidiary of HKEx.

Who funds the TSF?

The TSF will source RMB funding from one or more banks in Hong Kong, which are called the “TSF Partner Banks”.

Who are the direct users of the TSF?

Brokers who are participants of the Exchange and custodians who are participants of HKSCC can join the TSF. Investors can use the TSF through brokers and custodians who have participated in the TSF.

Will it support activities other than trading?

At the initial stage, the TSF is mainly for the trading of RMB-traded shares on the secondary market and will not support other activities such as fund raising activities including IPOs, preferential offers and rights subscriptions.

Core Principle – HKD in, HKD out

The core principle of the TSF is **“HKD in, HKD out”**.

Under this principle, when investors buy RMB-traded shares with the support of the TSF, the investors will pay HKD to the TSF (i.e. “HKD in”) and the TSF converts the received HKD into RMB for them to settle trades. The shares bought with the support of the TSF will then be earmarked in the Central Clearing and Settlement System (CCASS).

When investors sell the RMB-traded shares previously bought under the support of the TSF, they have to return the RMB sale proceeds to the TSF for the equivalent amount of HKD. The TSF will pay the sale proceeds in HKD to the investors (i.e. “HKD out”).

This “HKD in, HKD out” mechanism aims to ensure the RMB supplied by the TSF stays and is re-cycled in the secondary market.

How can investors use the TSF?

TSF order flow

Diagram 1: Investor instructs Broker to indicate in the buy/sell order to use the TSF

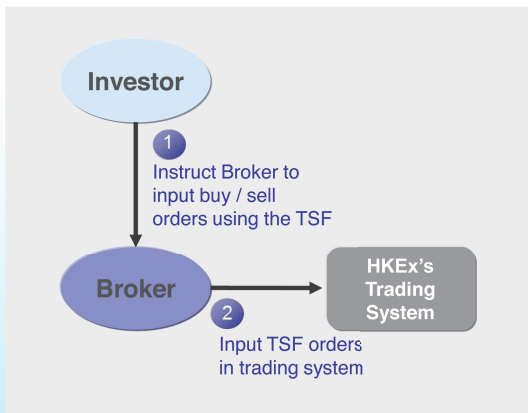


Diagram 1 shows a TSF order flow. Investors who intend to use the TSF would instruct their Brokers to indicate in the buy or sell order to use the TSF. With the instructions of the Investors, the Brokers then input TSF orders in HKEx's trading system.

Points to note in placing TSF orders

■ **Is the stock supported by the TSF? Is your broker a participant of the TSF?**

Only TSF Stocks and TSF Participants are eligible for using the TSF.

Before placing TSF orders, you should ensure the RMB stock that you want to trade is on the “List of TSF Stocks” and your broker is on the “List of TSF Participants”. Both lists are available on the HKEx website. You should also check with your broker the terms and fees, operation flows, agreement to be signed etc for using the TSF.

■ **Check the TSF RMB FX Rates**

Moreover, you should check the TSF RMB FX Rates at the appropriate times. The TSF publishes RMB Indicative FX Rates and RMB Final FX Rates on the HKEx website on each trading day for TSF trades executed in the morning and afternoon trading sessions respectively. The RMB Indicative FX Rates are available on the HKEx website at around **9:30 am** and **1:00 pm** for the two sessions respectively and are for reference only.

The RMB Final FX Rates are available after the close of the respective sessions for settlement between the TSF and the brokers. The RMB Final FX Rates will be equal to or better than the relevant Indicative FX Rates.

■ Instruct your broker to use the TSF when placing orders

You should note that you can choose to use the TSF to buy RMB stocks with HKD, but you must use the TSF to sell your RMB stocks if the stocks were previously bought through the use of the TSF.

In addition, when you instruct your broker to place TSF orders (i.e. **TSF Buy Order** & **TSF Sell Order**), you should be aware of the order types that are allowed:

- **TSF Buy Order:** Only accept **at-auction order** (during pre-opening session); or **special limit order, odd lot order and special lot order** (during continuous trading sessions)
- **TSF Sell Order:** Accept **all order types**

■ Commitment to settle FX transaction once TSF orders are matched

Furthermore, your broker is obliged to settle FX transactions with the TSF once a TSF order is matched. You may be required to make the same commitment to your broker; you should check with your broker for the arrangements.

Settlement of TSF trades

Diagram 2: TSF trades are settled in HKEx's clearing system (CCASS) on T+2

Diagram 2a: TSF Buy Trades

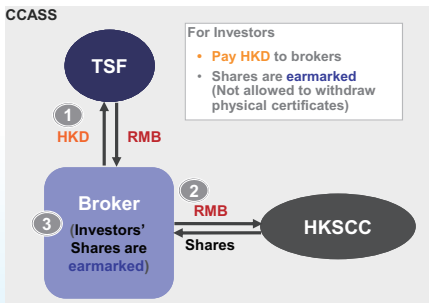
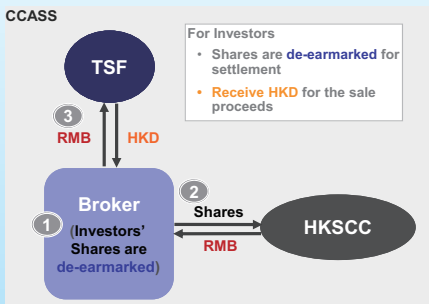


Diagram 2b: TSF Sell Trades



CCASS = Central Clearing & Settlement System operated by HKSCC
HKSCC = Hong Kong Securities Clearing Company Limited

The diagrams show how TSF trades are settled in CCASS, HKEx's clearing system, on the second settlement day after trade execution, also known as T+2.

Diagram 2a shows the settlement flow for buy trades.

1. An Investor pays HKD to a Broker. The Broker will convert the HKD into RMB through the TSF;
2. The Broker will use the RMB from the TSF for settlement and get shares from HKSCC.
3. The shares bought will be earmarked. Physical certificates of the shares are not allowed to be withdrawn unless the shares are de-earmarked.

Diagram 2b shows the settlement flow for sell trades.

1. The Investor should have sufficient earmarked shares. The shares will be de-earmarked for settlement.
2. The Broker will deliver the de-earmarked shares for settlement and receive RMB from HKSCC.
3. The Broker will return the sales proceeds in RMB to the TSF who will convert them into HKD. The Investor will get sale proceeds in HKD.

Points to note on TSF trade settlement

■ Check the RMB Final FX Rates

You should check the RMB Final FX Rates which is applicable to the settlement of TSF trades between your broker and CCASS. The Final FX Rates are available on the HKEx website at around 12:45 pm and 4:45 pm for TSF trades matched during the morning and afternoon trading sessions respectively.

- **Check the settlement amount in HKD**

You should also check the settlement amount in HKD, for example, in contract notes provided by your brokers.

- **Check the settlement timing of the FX amount for your TSF trades**

As your broker will need to settle FX transaction with the TSF on T+2, the settlement time of the FX amount for the TSF trades on T+2 may be different from the settlement time of trades not using the TSF. You should check with your broker the settlement time of the FX amount for your TSF trades.

- **TSF FX services for trade consideration only**

Moreover, you should be aware that the TSF FX services are only applicable to the consideration of trades (which is the trade price times the trade quantity), but not applicable to the related levies, fees and charges, commission, etc.

Is the TSF always available? How to find out about its availability?

Check TSF fund balances on the HKEx website

You can check the TSF fund balances on the HKEx website. Normally, the available fund balances are updated before commencement of each trading day, before commencement of the Afternoon Session, and after market close.

TSF may suspend its FX services

Under a rare situation, the TSF may suspend its FX services due to shortage of RMB funding or other reasons. If the TSF FX services are to be suspended, announcement will be made via the HKEx website.

The TSF may suspend its FX services for buy orders and/or sell orders.

If the TSF is **suspended for buy orders only**, it will not provide FX services for buy orders; you will have to arrange RMB funding by yourself for trade settlement if you want to buy RMB stocks. However, you may continue to sell your earmarked shares and receive the sale proceeds in HKD.

If the TSF is **suspended for sell orders only**, you may continue to sell your earmarked shares but you will receive the sale proceeds in RMB and are not required to return the sale proceeds to the TSF in exchange for HKD. However, you may still use the TSF FX services to buy RMB-traded shares with HKD.

The TSF may retire

The TSF is a backup facility to enable investors to buy RMB-traded shares in the secondary market with HKD and thus may retire when there is sufficient RMB liquidity in the market. After the TSF ceases operations, the earmarked TSF shares will be de-earmarked and subsequent trades will be settled in RMB.

Other than checking on the HKEx website, you can also consult your brokers and custodians for the information of the TSF.

To know more about the TSF

To know more about the TSF, you can visit the TSF web corner on the HKEx website at www.hkex.com.hk/eng/market/sec_tradinfra/TSF/TSF.htm.

In this web corner, you can find the “List of TSF Participants” and the “List of TSF Stocks”. You can also find the TSF information paper and a list of frequently asked questions. In addition, you can consult brokers and custodians for further information.