

## HKEX GUIDANCE LETTER

HKEX-GL53-13 (April 2013) (Updated in July 2013 and August 2020) - effective for applications submitted on or after 1 October 2013

Subject	Liquidity arrangements for issuers seeking to list by introduction where the securities to be listed are already listed on another stock exchange
Listing Rules	Main Board <del>Rule</del> <u>Rules</u> 2.03 <u>and 7.15</u> ; GEM <del>Rule</del> <u>Rules</u> 2.06 <u>and 10.19</u>
Related Publications	HKEX News Releases regarding precautionary measures by issuers listed by introduction dated 31 March 2010 and 18 May 2010  <a href="http://www.hkex.com.hk/eng/newsconsul/hkexnews/2010/1003312news.htm">http://www.hkex.com.hk/eng/newsconsul/hkexnews/2010/1003312news.htm</a>  <a href="http://www.hkex.com.hk/eng/newsconsul/hkexnews/2010/100518news.htm">http://www.hkex.com.hk/eng/newsconsul/hkexnews/2010/100518news.htm</a>  HKEX-GL57-13 on Guidance on Logistical Arrangements for Publication of Application Proofs, Post Hearing Information Packs (“PHIPs”) and related materials on the Exchange’s Website for Listing Applicants
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**Important note:** *This letter does not override the Listing Rules and is not a substitute for advice from qualified professional advisers. If there is any conflict or inconsistency between this letter and the Listing Rules, the Listing Rules prevail. You may consult the Listing Division on a confidential basis for an interpretation of the Listing Rules, or this letter.*

### 1. Purpose and Application

- 1.1 This letter seeks to (a) provide issuers seeking to list by introduction guidance on arrangements to facilitate liquidity of their securities to meet demand on the Hong Kong market during the initial period of listing and to ensure that trading of these securities are conducted in a fair and orderly manner (Main Board Rule 2.03 and GEM Rule 2.06); and (b) ensure that the issuers’ securities in Hong Kong will not be illiquid after listing on the Exchange (Updated in August 2020).
- 1.2 The liquidity arrangements outlined in this letter apply to listings by introduction where the securities (including shares, depositary receipts and units under collective investment schemes) sought to be listed are already listed on another stock exchange, and the securities held by the existing holders need to be transferred to the issuer’s Hong Kong register before they can be traded in Hong Kong. For the avoidance of doubt, this letter does not apply to a PRC company seeking to list H-shares on the Exchange by way of introduction upon converting its B shares into H shares.

- 1.3 The liquidity arrangements in this letter are for reference only. The applicability of these arrangements will be based, among other things, on an issuer's circumstances, its capital holding structure, availability of arbitrage opportunities between Hong Kong and the other market(s). Where appropriate, we may add to or modify the liquidity arrangements proposed. If there are no adequate and effective liquidity arrangements, listing applicants would need to re-consider whether listing by way of introduction is appropriate and whether other method of listing such as offer for subscription or offer for sale should be adopted instead. We encourage listing applicants to consult us early if they envisage any difficulties (Updated in August 2020).

## 2. Background

- 2.1 To avoid a disorderly market developing from significant unfulfilled demand for an issuer's securities in Hong Kong upon and during the initial period after a listing by introduction, the Exchange, after consultation with the Securities and Futures Commission ("SFC"), issued two news releases on 31 March 2010 and 18 May 2010 highlighting liquidity arrangements that the Exchange considered acceptable for the cases concerned.

### ~~2.1.2~~ [Deleted in August 2020].

- ~~2.2~~ Since then, other issuers have adopted a variety of liquidity arrangements acceptable to the Exchange.

## 3. Liquidity Arrangements

- 3.1 When assessing the effectiveness of the liquidity arrangements proposed by a listing applicant seeking to conduct a listing by introduction, the Exchange will assess the liquidity of that listing applicant's securities in the overseas market, as well as other quantitative and qualitative factors. An issuer whose securities are not actively traded in the overseas market would not usually be regarded as appropriate to list by way of introduction (Added in August 2020).

- ~~3.1.2~~ An issuer and its sponsor should satisfy the Exchange that there are adequate and effective precautionary measures in place to facilitate that the securities can be traded on an orderly, informed and fair basis and must submit its proposed liquidity arrangements for vetting when it submits its listing application form (i.e. Form A1 or Form 5A) (Updated in August 2020).

- ~~3.2.3~~ An issuer and its sponsor should reasonably estimate the potential Hong Kong demand for the issuer's securities when designing its liquidity arrangements and demonstrate how the demand can be satisfied by adopting its proposed liquidity arrangements. The estimate may be based on the historical trading statistics of an issuer's securities in its overseas market and the expected increase in trading upon listing in Hong Kong.

- ~~3.3.4~~ A suitable designated period ("Designated Period") during which an issuer will facilitate liquidity for its securities in the Hong Kong market must be proposed. A Designated Period of ~~one to~~ three to six months commencing from the beginning of the pre-opening session (9:00 a.m.) on the first day of the introduction is usually

accepted. The Exchange would also require a longer Designated Period where there are concerns that there might not be sufficient shareholders in the Hong Kong market, within a short period of time after the issuer's listing, to ensure an orderly market in Hong Kong after the Designated Period (Updated in August 2020).

3.43.5 An issuer's liquidity measures are to ensure an adequate supply of securities in the Hong Kong market during the Designated Period. and to enhance post-listing liquidity of the securities (Updated in August 2020). An issuer and its sponsor should take into consideration the following:

- (a) **Batch removal services** - These refer to services to transfer existing securities from the overseas securities registers to their Hong Kong registers in pre-specified batch(es) before and during the Designated Period to satisfy the expected demand in Hong Kong.
- (b) **Expedited removal services** - These refer to services to expedite transfer of existing securities from the overseas securities registers to their Hong Kong registers before and during the Designated Period at no or reduced cost to the overseas securities holders. If an issuer does not consider The Exchange has seen expedited removal/transfer services effectively which allow transfers between Hong Kong and the overseas market within 2 business days, and such a short timeframe would facilitate (due to minimal savings in time and/or cost) an adequate supply cross-market trading and settlement of an issuer's securities in Hong Kong during the Designated Period, these services may be dispensed with provided that, such as arbitrage activities, and enhance liquidity in the other measures adopted are sufficient Hong Kong market (Updated in August 2020).
- (c) **Appointment of designated securities dealers ("Designated Dealers") to provide liquidity** - Appointment of Designated Dealers acceptable to the Exchange to undertake arbitrage, bridging and/or other trading activities to provide liquidity of the securities during the Designated Period. More than one Designated Dealer may be appointed. Where only one Designated Dealer is appointed, an alternate should be appointed. The details of the Designated Dealers' specific obligations, including any pre-determined quantitative parameters in the dealing arrangements, should be provided to the Exchange for its review prior to their appointment (Updated in August 2020).
- (d) **Investor education and announcements** - There should be adequate arrangements to inform the investing community in the Hong Kong and overseas markets of the securities transfer processes and the liquidity arrangements available in Hong Kong.
- (e) **Features similar to certain market making arrangements** - The Exchange introduced new market making arrangements for Exchange Traded Products in 2020, and listing applicants are encouraged to consider incorporating the features in such arrangements when designing their liquidity arrangements (Added in August 2020).

#### *Appointment and Functions of Designated Dealer*

3.53.6 Each Designated Dealer (including any alternate) must be a regulated entity

acceptable to the Exchange. The Exchange will consider the dealer's experience in carrying out the functions mentioned below in Hong Kong and overseas when assessing suitability.

3.63.7 A Designated Dealer is ~~expected to conduct~~ responsible for conducting ~~on a voluntary basis~~ arbitrage, bridging and other trading arrangements in good faith and on arm's length terms with a view to contributing towards liquidity to meet demand for the issuer's securities in Hong Kong. ~~A Designated Dealer is not required to act as a Market Maker or Securities Market Maker (as defined in the Rules of the Exchange) and does not need to undertake to create or make a market in the securities on the Hong Kong and maintain an orderly market~~ (Updated in August 2020).

3.73.8 All arbitrage, bridging and trading activities conducted during the Designated Period must comply with all applicable laws and regulations, and reasons provided for the exemptions sought. For this purpose, a Designated Dealer must ensure:

- (a) the arbitrage, bridging and/or trading arrangements are within the circumstances under paragraph 2.3 of the SFC's Guidance Note on Short Selling Reporting and Stock Lending Record Keeping Requirements and are not regarded as short selling in breach of section 170 of the Securities and Futures Ordinance; or
- (b) specific short-selling regulation exemptions from the Exchange (under the Rules of the Exchange, including but not limited to Rule 563D and the Eleventh Schedule of the Rules of the Exchange) have been obtained to permit it to conduct covered short selling, input short selling orders that may be below the best current ask price during the pre-opening and continuous trading sessions, and execute short sales of the securities when the opportunity arises during the Designated Period. A Designated Dealer is required to satisfy the conditions for short-selling imposed.

3.83.9 To facilitate liquidity of an issuer's securities during the Designated Period, a Designated Dealer should be prepared to place orders to meet the demand for the securities in Hong Kong swiftly in order to maintain an orderly market. This is even when there are no arbitrage trades conducted in real time in the overseas market. The Designated Dealer should consider the following (Updated in August 2020):

- (a) conduct arbitrage, bridging trades in line with market practice in the context of dual listed stocks during the Designated Period ~~when~~:
  - (i) when there is a concurrent availability of the securities on both the overseas and Hong Kong stock exchanges; ~~and~~
  - (ii) when there is a meaningful price differential (as pre-determined by the Designated Dealer and provided to the Exchange) to contribute towards trading liquidity (Updated in August 2020); and
  - (iii) where there is no trading in the overseas market because the overseas stock exchange is not open, alternative measures must be put in place to enable the Designated Dealer to meet the demand for the securities in Hong Kong (Added in August 2020).
- (b) build a sufficient inventory of securities in Hong Kong to enable it to carry out

arbitrage, bridging and/or trading activities during the Designated Period. This can be achieved through:

- (i) entering into stock borrowing arrangements with an existing holder(s) of the securities to borrow the securities listed on the overseas exchange and remove the borrowed securities to the Hong Kong register before the commencement of trading and during the Designated Period. This will require the Designated Dealer to close out its borrowed positions by purchasing securities from the overseas exchange or in the Hong Kong market or remove back to the overseas register any unutilised securities and transfer those securities back to the lender of the securities; and/or
- (ii) entering into a sale and repurchase agreement with an existing holder/s of the securities to build up ~~a small~~**sufficient** inventory of the securities before the commencement of trading and during the Designated Period. In the precedents, we have seen agreements enabling the Designated Dealer to sell back or have a right to sell back to the selling holder at the same price as the securities were sold shortly after the Designated Period **(Updated in August 2020)**.

**3.93.10** A Designated Dealer may need to continue to replenish its inventory when there is a demand during the Designated Period.

**3.103.11** Administrative arrangements - The following is required prior to execution of any arbitrage, bridging and trading activities by a Designated Dealer:

- (a) set up designated broker identity number(s) for the sole purpose of conducting arbitrage trades, covered short-sale and other trades in Hong Kong during the Designated Period; and
- (b) conduct testing with the Exchange to confirm readiness for the Designated Dealer's activities.

#### *Investor education*

**3.113.12** An issuer and its sponsor must ensure there is sufficient investor education in both the overseas and Hong Kong markets to provide details of the liquidity arrangements available in Hong Kong.

**3.123.13** The investor education materials include:

- (a) analyst briefings at applicable local brokerage/research institutions;
- (b) ***[deleted in July 2013];***
- (c) public announcements in the overseas and Hong Kong market (see paragraph 3.165); and
- (d) an issuer's Application Proof <sup>1</sup>, Post Hearing Information Pack ("PHIP") <sup>2</sup> and

<sup>1</sup> Defined in Rule 1.01 of the Main Board Rules and Rule 1.01 of the GEM Rules

<sup>2</sup> Defined in Rule 1.01 of the Main Board Rules and Rule 1.01 of the GEM Rules

listing document (see paragraph 3.154).

~~3.13~~3.14 An issuer and its sponsor must ensure compliance with Main Board Rule 9.08 (GEM Rule 12.10) and the codes of conduct<sup>3</sup> issued by the SFC when conducting investor education activities in relation to liquidity arrangements.

*Disclosure in Application Proofs, PHIPs and Listing Documents (Updated in July 2013)*

~~3.15~~ 3.14—A dedicated section of the Application Proof, PHIP and listing document should contain updated details of:

- (a) the removal process of securities from the overseas register to the Hong Kong register and vice versa including the time and costs involved during and after the Designated Period;
- (b) special arrangements for batch and/or expedited removal services provided by the issuer during the Designated Period. These should include period of availability, time and cost saved compared to the normal process;
- (c) arbitrage, bridging and/or trading arrangements provided by the Designated Dealers and their related benefits; and
- (d) investor education to be performed by the issuer and the sponsor.

~~3.16~~ 3.15—Contents, timing of publication and publication method of public announcements:

In the issuer's overseas market(s)

- (a) **Contents** - Details of the removal services (and related costs) provided by the issuer to facilitate the removal of securities from the issuer's overseas register(s) of the securities to the Hong Kong register.

**Timing of Publication** - As soon as practicable after the finalisation of the liquidity arrangements, but no later than the publication of the listing document in Hong Kong.

**Publication Method** - (i) publication on the overseas regulatory website or other media permitted by the relevant regulators in the overseas market(s); and/or (ii) publication on the issuer's website; and/or (iii) through corporate communication to the securities holders.

In Hong Kong

- (b) **Contents** – An Application Proof and a PHIP. *(Updated in July 2013)*

**Timing of Publication** – See paragraph 9 of Practice Note 22 of the Main Board Rules and paragraph 8 of Practice Note 5 of the GEM Rules on the prescribed time for publication as supplemented in paragraphs ~~A.15~~ to ~~A.19~~7 of HKEX-GL57-13 *(Updated in August 2020)*.

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<sup>3</sup> For example the Code of Conduct for Persons Licenced by or Registered with the Securities and Future Commission and the Corporate Finance Adviser Code of Conduct.

**Publication Method** - Publication on the Exchange's website.

- (c) **Contents** - Details of the available pool of securities at the time of listing to meet demand on the Hong Kong market. The pool should aggregate the number of transfers under the batch removal services and the inventory held by the Designated Dealers, and the designated broker identity number(s) for carrying out liquidity activities for the issuer.

**Timing of Publication** - As soon as practicable and in any event not later than one business day before the commencement of trading of the securities.

**Publication Method** - Publication on the Exchange's website and the issuer's website.

- (d) **Contents** - The closing price, trading volume and relevant historical trading data of the issuer's securities in the overseas market(s).

**Timing of Publication** - On each of the three business days before the commencement of trading of the securities.

**Publication Method** - Publication on the Exchange's website and the issuer's website.

- (e) **Contents** - Relevant developments and updates on the liquidity arrangements, e.g. update on the available pool of securities transferred to Hong Kong register under a staged removal process.

**Timing of Publication** - As soon as practicable after the completion of each stage of the share removal process after trading has commenced.

**Publication Method** - Publication on the Exchange's website and the issuer's website.

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