

Master SPSA Service Briefing Session

Global Client Development
Project Management Office
Post-Trade Operations
Cash Trading



Tae Yoo
Managing Director,
Global Client Development,
HKEX



Farica Lam
Vice President,
Project Management Office,
HKEX



Joy Wong
Assistant Vice President
Global Client Development,
HKEX

DISCLAIMER

The information contained in this document is for general informational purposes only and does not constitute an offer, solicitation or recommendation to buy or sell any securities, futures contracts or to provide any investment advice or service of any kind. This document is not directed at, and is not intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hong Kong Exchanges and Clearing Limited (“**HKEX**”), The Stock Exchange of Hong Kong Limited (“**SEHK**”), Hong Kong Futures Exchange Limited (“**HKFE**”), HKFE Clearing Corporation Limited (“**HKCC**”), Hong Kong Securities Clearing Company Limited (“**HKSCC**”), Shenzhen Stock Exchange (“**SZSE**”), Shanghai Stock Exchange (“**SSE**”) and China Securities Depository and Clearing Corporation Limited (“**ChinaClear**”) (together, the “**Entities**”, each an “**Entity**”), or any of their affiliates, or any of the companies that they operate, to any registration requirement within such jurisdiction or country.

No section or clause in this document may be regarded as creating any obligation on the part of any of the Entities. Rights and obligations with regard to the trading, clearing and settlement of any securities or futures contracts effected on the SZSE, SSE, SEHK or HKFE, including through the Shenzhen-Hong Kong Stock Connect or the Shanghai-Hong Kong Stock Connect (together “**Stock Connect**”), shall depend solely on the applicable rules of the relevant exchanges and clearing houses, as well as the applicable laws, rules and regulations of Mainland China and Hong Kong. Where this document refers to the trading of securities through the Stock Connect, the applicable SEHK rules and Hong Kong and Mainland China regulations shall apply. Currently, access to northbound trading is only available to intermediaries licensed or regulated in Hong Kong; southbound trading is only available to intermediaries licensed or regulated in Mainland China. Direct access to the Stock Connect is not available outside Hong Kong and Mainland China.

Although the information contained in this document is obtained or compiled from sources believed to be reliable, none of the Entities guarantee the accuracy, validity, timeliness or completeness of the information or data for any particular purpose, and the Entities and the companies that they operate shall not accept any responsibility for, or be liable for, errors, omissions or other inaccuracies in the information or for the consequences thereof. The information set out in this document is provided on an “as is” and “as available” basis and may be amended or changed in the course of implementation of Stock Connect. It is not a substitute for professional advice which takes account of your specific circumstances and nothing in this document constitutes legal advice. None of the Entities shall be responsible or liable for any loss or damage, directly or indirectly, arising from the use of or reliance upon any information provided in this document or the presentation given.

Agenda

1 Master SPSA Overview

2 Master SPSA Service

3 Application

4 Launch Plan

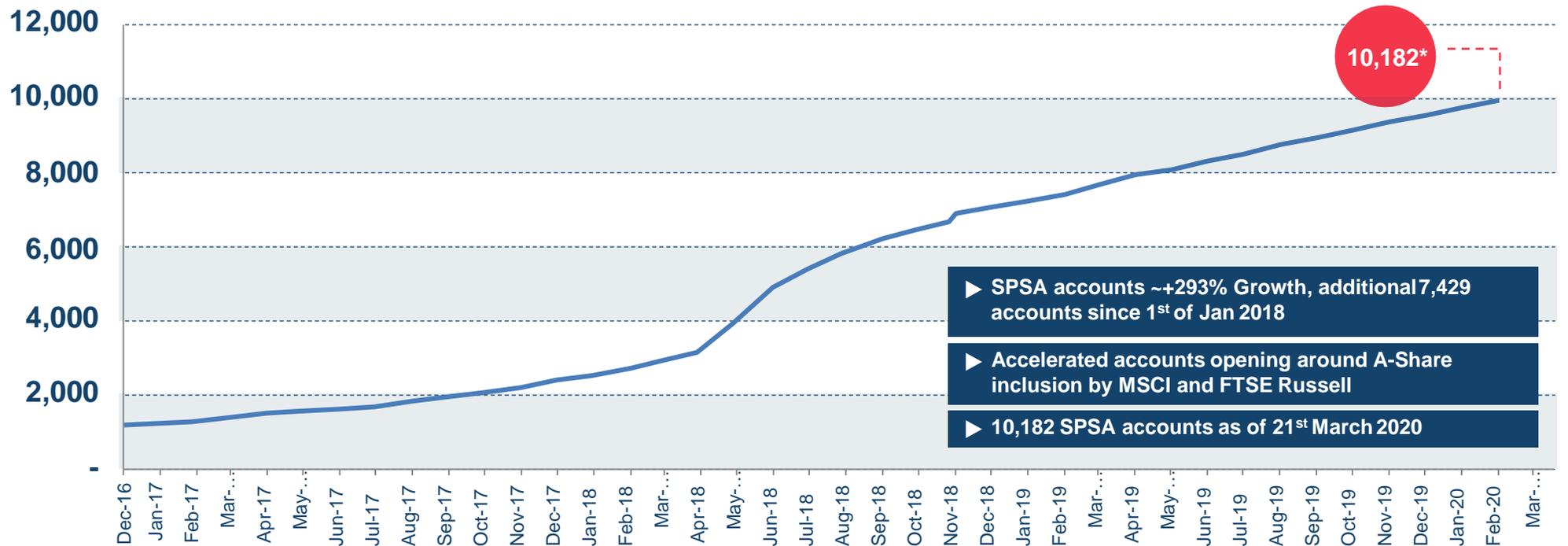
5 Appendix

Master SPSA Overview

Where are we now on Special Segregated Account (SPSA)?

<p>SPSA</p>	<p>Introduced in 2015, SPSA brings “best execution” and tighter risk-control into Stock Connect</p>	<p>✓ Pre-trade checks designed to prevent overselling positions (China is a “no-fail” market)</p>
<p>Removing the need to transfer shares to executing brokers prior to a sale</p>		<p>72 Brokers Eligible 20 Sub-custodian Banks</p>

TOTAL NUMBER OF SPSA OPENED IN CCASS



- ▶ SPSA accounts ~+293% Growth, additional 7,429 accounts since 1st of Jan 2018
- ▶ Accelerated accounts opening around A-Share inclusion by MSCI and FTSE Russell
- ▶ 10,182 SPSA accounts as of 21st March 2020

Source: HKEX
* Data as of 27 March 2020

Master SPSA Overview

Why is it being offered?

Today's SPSA set-up

Fund manager with multiple SPSAs set-up at fund level

Fund manager's trade allocation at each SPSA across multiple brokers

Broker provided solution of aggregate order entry for average pricing execution

Challenges

- ▶ Potential fund manager's conflict of interest across multiple levels of SPSA working trade orders on best execution
- ▶ Lacks efficient aggregate trade order allocation at fund manager level
- ▶ Fiduciary responsibility clarity and limited order management operation scalability

Master SPSA Overview

What are key benefits?

Master SPSA

- ▶ **Enhanced optional mechanism** under the existing stock connect framework to allow pre-trade checking of sell orders **for fund managers at an aggregate level** for operational efficiencies
- ▶ Maintain the **same post-trade settlement processes** at the individual SPSA level for consistency
- ▶ **Solution to challenges in handling average price executions** - a key requirement for best execution - and the need to split one aggregate sell order into multiple sell orders at the individual fund level

Master SPSA service allows aggregation of orders for optimum average pricing execution operation

Master SPSA Overview

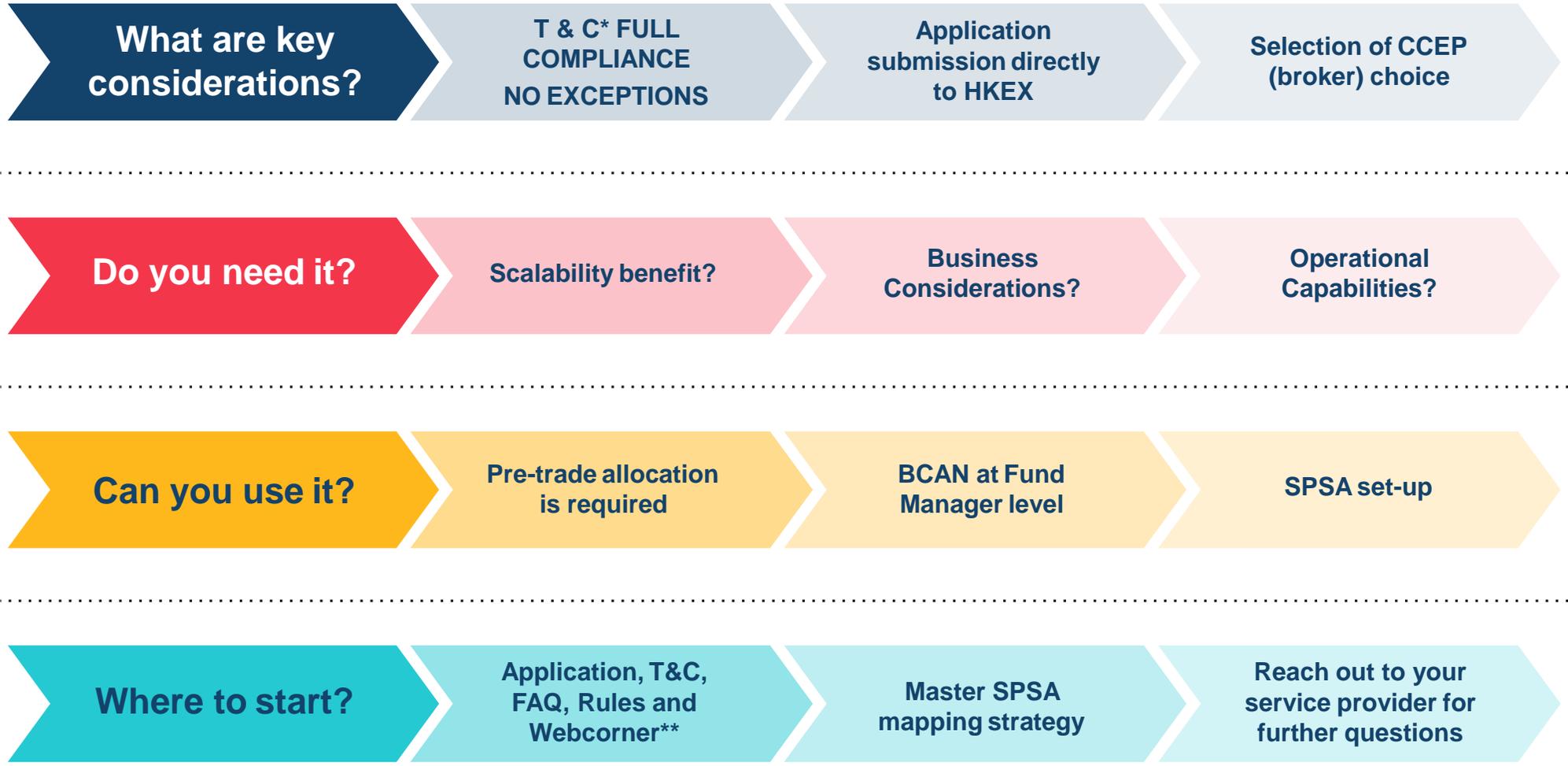
What are key points for applicants?

- ✓ Application **must be submitted directly** to HKEX
- ✓ Master SPSA Holder **must abide by the Terms and Conditions** of the Services
- ✓ **Pre-trade checking** at aggregate level on sell orders*
- ✓ **Leverages** existing system / infrastructure
- ✓ **Same post-trade processes** with HKSCC on SPSA
- ✓ **Shareholdings remain in mapped SPSA** until settlement processes initiate under settlement instruction (SI)

Master SPSA Holders needs to coordinate through their network of market participants including custodians and/or CCEPs

Master SPSA Overview

What are considerations for applicants?

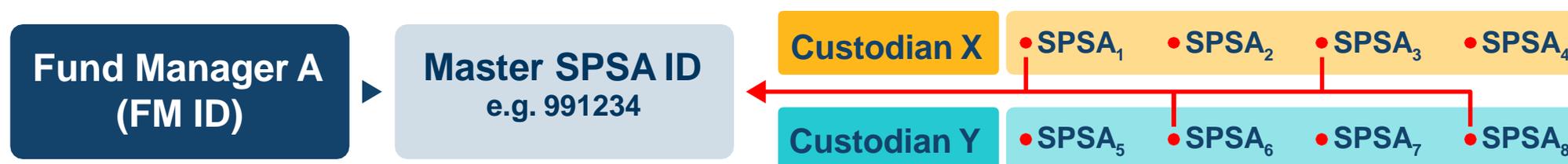


Source: HKEX / to be launched in 1H 2020 subject to SFC regulatory approval
* T&C: Terms and Conditions for Master SPSA Application
** HKEX Master SPSA Webcorner: ([Click Here](#))

Master SPSA Service

Eligibility and SPSA Mapping

- ▶ Fund managers to submit application to be a Master SPSA Holder
- ▶ **Eligibility** of an eligible Master SPSA Holder:
 - ✓ Shall abide by the Terms and Conditions of the Services for Master SPSA Holder
 - ✓ Has at least 2 or more SPSAs set-up already
 - ✓ Has already had CCEP has set-up fund manager level BCAN (Broker-to-Client Assigned Number)
- ▶ A **Master SPSA ID¹ (6-digit ID)** will be assigned to a **Master SPSA Holder** after successful application
- ▶ **Master SPSA ID – SPSA Mapping:**
 - ✓ Master SPSA Holder must map at least 2 or more SPSAs (under different custodians) to the 1 assigned Master SPSA ID
 - ✓ Each SPSA can only be mapped to 1 Master SPSA ID
 - ✓ No maximum of SPSAs mapping to a Master SPSA ID

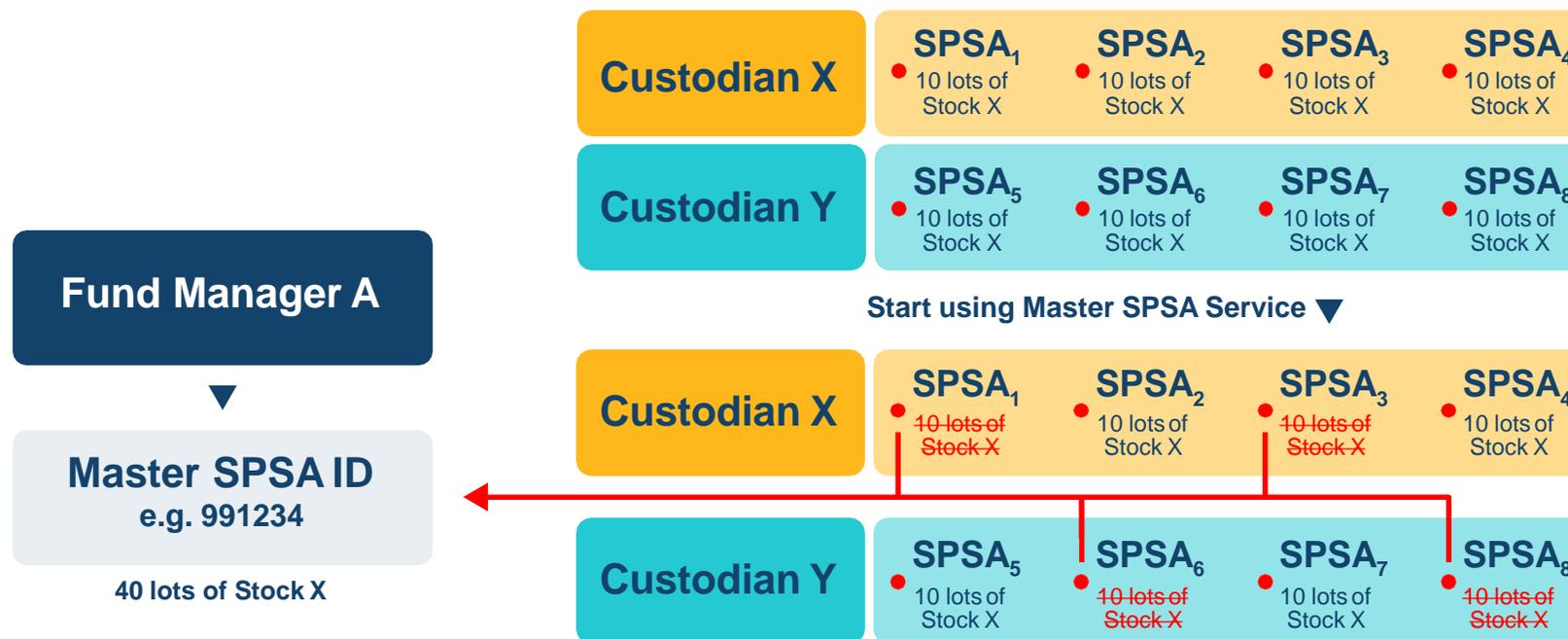


1- Same format as the unique 6-digit SPSA ID assigned by CCASS for each SPSA

Master SPSA Service

Sellable Balance for Pre-Trade Checking

- ▶ Fund managers A has 8 SPSAs with 2 custodians
- ▶ Fund manager maps 4 of the SPSAs (1,3,6,8) to the Master SPSA ID 991234
- ▶ Upon initiation of Master SPSA service, the sellable balance for pre-trade checking at the SPSA ID becomes ZERO and no sell orders allowed using the SPSA ID anymore



The aggregation of sellable balance is for pre-trade checking of sell orders only
Actual stockholdings remain in SPSA IN CCASS

Master SPSA Service

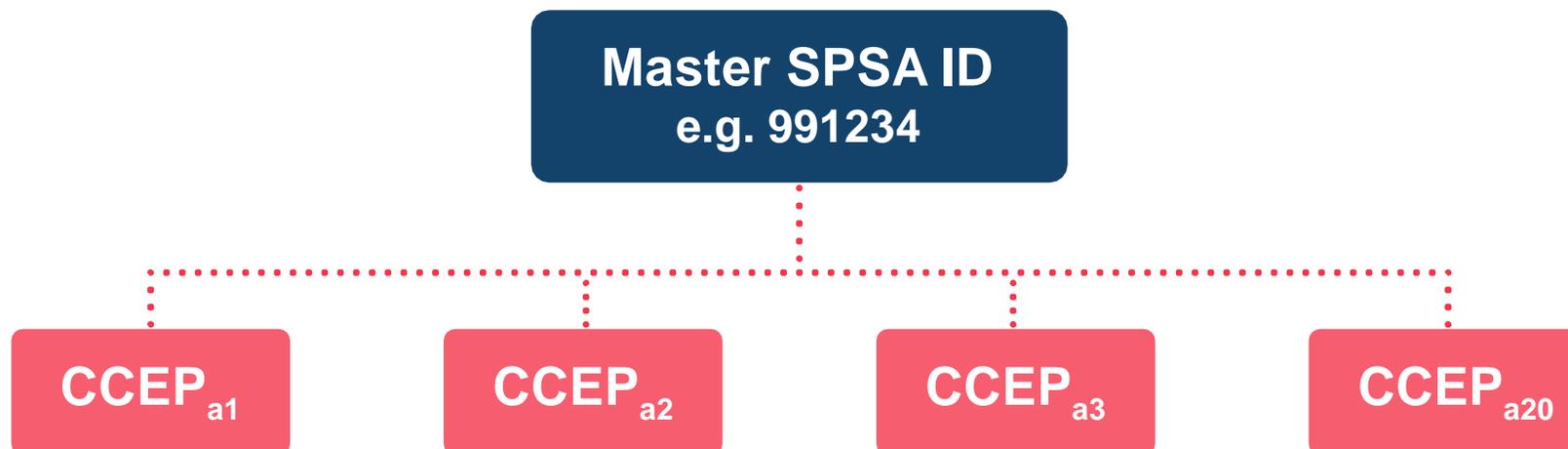
CCEP Mapping

▶ Master SPSA – CCEP Mapping:

- ✓ For each Master SPSA, a maximum of 20 CCEPs can be assigned as designated executing brokers
- ✓ Master SPSA Holder must ensure that only those CCEPs who have set-up fund manager level BCAN can be designated

▶ Note:

- ✓ Master SPSA ID's designated CCEPs can be different from the underlying SPSA's designated CCEPs
- ✓ If no CCEPs being designated to the Master SPSA ID, there will be no aggregation of sellable balance, i.e. the sellable balances remain at the SPSA level



Master SPSA Service

Day-begin Sellable Balance Report

- ▶ Day-Begin Sellable Balance Report for Master SPSA Holders only
- ▶ Available on every CSC trading day at 9:15am
- ▶ Report will be kept in the server for 10 calendar days after generation (no regeneration request will be accepted)

	A	B	C	D	E	F	G
1	Master SPSA ID	Market Code	CSC Stock Code	CCASS Stock Code	Master SPSA Sellable Balance	SPSA ID	SPSA Sellable Balance
2	299514	ASHR	600000	90000	3000000	202461	1000000
3	299514	ASHR	600000	90000	3000000	302427	1000000
4	299514	ASHR	600000	90000	3000000	502695	1000000
5	299514	ASHR	600002	90002	2000000	202461	2000000
6	299514	ASHR	600005	90005	2045000	202461	995000
7	299514	ASHR	600005	90005	2045000	502695	1050000
8	299514	ASHR	600006	90006	3035000	202461	1000000
9	299514	ASHR	600006	90006	3035000	302427	1000000
10	299514	ASHR	600006	90006	3035000	502695	1035000
11	299514	ASHR	600008	90008	65000	202461	30000
12	299514	ASHR	600008	90008	65000	502695	35000
13	299514	ASHR	688010	30010	3000000	202461	1000000
14	299514	ASHR	688010	30010	3000000	302427	1000000
15	299514	ASHR	688010	30010	3000000	502695	1000000
16	299514	ASZR	8	70008	65000	202461	30000
17	299514	ASZR	8	70008	65000	502695	35000
18	299514	ASZR	12	70012	2045000	202461	995000
19	299514	ASZR	12	70012	2045000	502695	1050000
20	299514	ASZR	46	70046	3000000	202461	1000000
21	299514	ASZR	46	70046	3000000	302427	1000000
22	299514	ASZR	46	70046	3000000	502695	1000000
23	299514	ASZR	400	70400	3000000	202461	1000000
24	299514	ASZR	400	70400	3000000	302427	1000000
25	299514	ASZR	400	70400	3000000	502695	1000000
26	299514	ASZR	402	70402	3000000	202461	1000000



Field Name	Remarks
Master SPSA ID	6 digit unique identification number of the Master SPSA
Market Code	“ASHR” for Shanghai or “ASZR” for Shenzhen
CSC Stock Code	Respective stock codes in system
CCASS Stock Code	Respective stock codes in system
Master SPSA ID Sellable Balance	Aggregated sellable balance of all SPSAs
SPSA ID	6 digit unique identification number of the SPSA
SPSA ID Sellable Balance	Sellable balance of each SPSA

Master SPSA Service

Pre-trade Allocation

- ▶ A breakdown of the sell quantity per SPSA provided by the Master SPSA Holder to CCEPs prior to trade
- ▶ Should a sell trade of a Master SPSA Holder fail to be settled and where the short CCCP does not possess other source of information to identify the relevant SPSAs, pre-trade allocation information can be used as a reference to determine which SPSA(s) should be used for the sellable balance adjustment

CCEPs should note that there may be infrastructure/network capacity impact in order to receive the pre-allocation information from their clients

Master SPSA Service

SPSA Delivery Failure

- ▶ In cases of SPSA Delivery Failure, CCCP(s) are required to perform sellable balance adjustments
- ▶ This is the SAME as the existing process (to submit the Sellable Balance Adjustment Request)
- ▶ However, in cases of SPSA Delivery Failure and where the Master SPSA Holder fails to instruct the CCCP regarding which SPSA to perform the sellable balance adjustment on, then:

HKSCC has the discretion to reduce the sellable balance of a stock respect to the SPSA delivery failure, or all stocks under a Master SPSA ID to ZERO, for next trading day

Master SPSA Application

Eligibility and Process



Eligibility

▶ **Master SPSA Service is provided to an entity which is a fund manager, asset manager, investment manager and the like (“FM”):**

- ✓ FM will be required to agree on the terms and conditions¹ as set by HKEX for using the Master SPSA service
- ✓ FM must maintain at least 2 SPSAs with one or multiple custodians
- ✓ Has already had CCEP has set-up fund manager level BCAN (Broker-to-Client Assigned Number)



Application Fee

▶ **A one-time application fee of HK\$50,000 per Master SPSA ID**

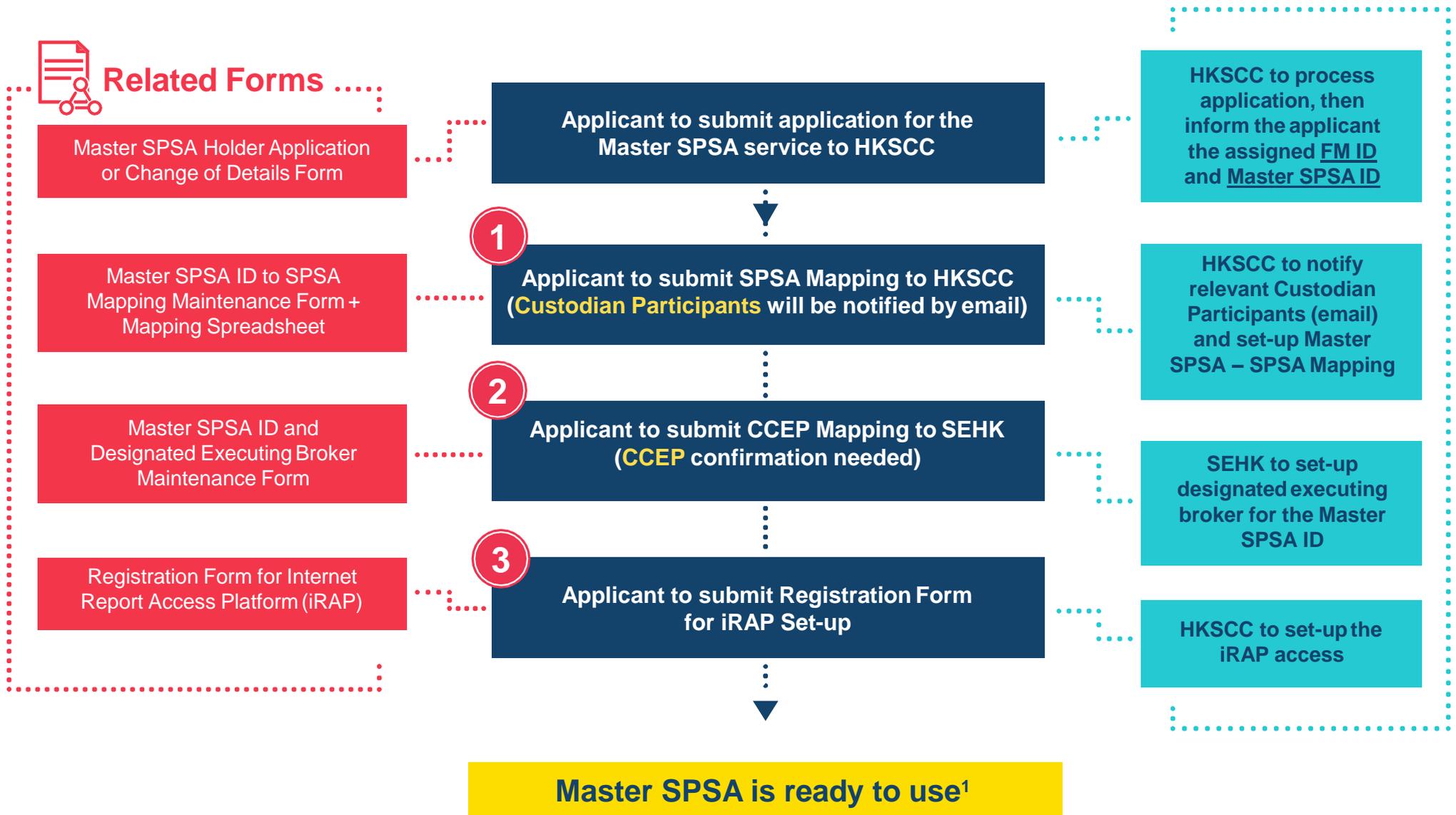


To Submit Application

1. Application form
2. Certified true copy of the Business Registration or equivalent
3. Board Resolution for authorised signature
4. Signature specimen
5. Crossed cheque payable to “Hong Kong Exchanges and Clearing Limited”

Master SPSA Application

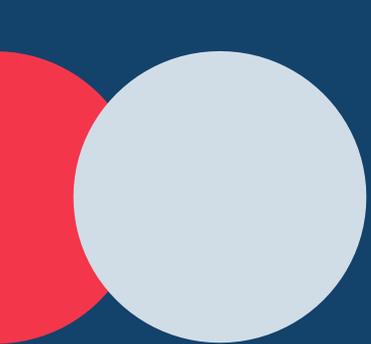
Application and Required Set-up



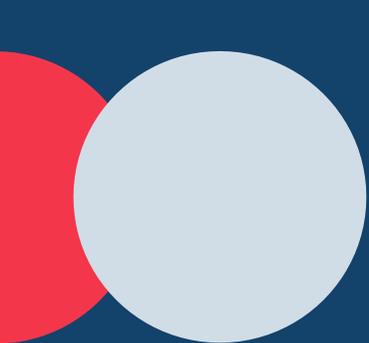
1. Make sure all set-up are ready on the same effective date

Master SPSA Launch Plan

- ▶ HKEX will announce the date for accepting application and the launch date of the service in due course
- ▶ Application form, Terms and Conditions of the Services for Master SPSA Holder and other forms for the required set-up are available on the [Master SPSA Service page](#)
- ▶ Take a total 10 business days for processing the application (5 business days) and mapping + iRAP set-up (5 business days), provided all required documentations and correct information are submitted



Q&A



Q1

How long does it take to process the application? When do I need to submit the Master SPSA ID mapping and can I change it afterwards?

Samuel Ng – Vice President, Clearing Operations Team, HKEX

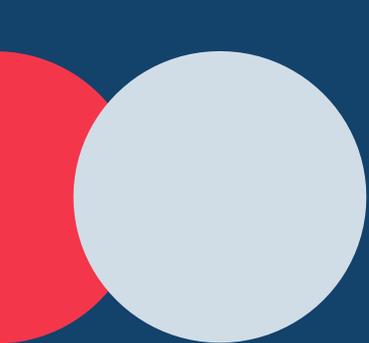


Q2

Once a Master SPSA ID is being set-up, if a CCEP is an originally a designated executing broker of an SPSA ID which is mapped that this CCEP can automatically submit order for this Master SPSA ID?

Jacqueline Ting – Vice President, Cash Trading Team, HKEX



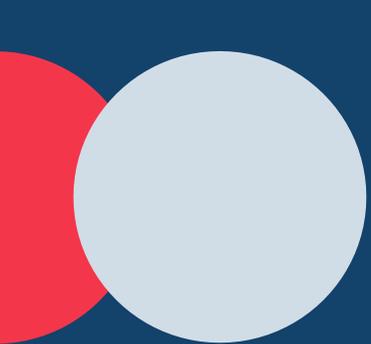


Q3

What should CCCP do in case of SPSA Delivery Failure? Any difference from the existing procedures?

Kalvin Chao – Vice President, Clearing Operations Team, HKEX





APPENDIX

Appendix: Master SPSA Application

SPSA Mapping

Master SPSA ID to SPSA
Mapping Maintenance Form +
Mapping Spreadsheet

Applicant to submit SPSA Mapping to HKSCC
(**Custodian Participants** will be notified by email)

HKSCC to notify relevant Custodian
Participants (email) and set-up Master
SPSA – SPSA Mapping

- ▶ No maximum number of SPSA IDs that can be mapped to one Master SPSA ID
- ▶ SPSAs held with multiple custodians may be mapped to the same Master SPSA ID
- ▶ One SPSA ID can only be mapped to one Master SPSA ID
- ▶ Fill in the “Master SPSA ID to SPSA Mapping Maintenance Form” and Mapping Spreadsheet
- ▶ Information needed:
 - Master SPSA ID
 - Details and authorised signature of Master SPSA Holder
 - SPSA ID (6-digit number as assigned by CCASS upon set-up of SPSA by Custodian Participant)
 - SPSA No. (8-digit number as assigned by Custodian Participants upon set-up of SPSA)
 - Proposed effective date
 - Name of CCASS Participant (Custodian Participant)
 - CCASS Participant ID
 - Email address of CCASS Participant (for sending email notification)

Appendix: Master SPSA Application

CCEP Mapping

Master SPSA ID and
Designated Executing Broker
Maintenance Form

Applicant to submit CCEP Mapping to SEHK
(CCEP confirmation needed)

SEHK to set-up designated executing
broker for the Master SPSA ID

- ▶ Similar to the Designation of Executing Brokers for SPSA
- ▶ Max of 20 CCEPs can be assigned to each Master SPSA ID
- ▶ Fill in the “Master SPSA ID and Designated Executing Broker Maintenance Form” for each CCEP (multiple Master SPSA ID can assign the same CCEP as designated executing broker)
- ▶ Master SPSA ID’s designated CCEPs can be different from the underlying SPSA’s designated CCEPs
- ▶ Information needed:
 - Master SPSA ID(s)
 - CCEP ID
 - Proposed effective date
 - Details and authorised signature of Master SPSA Holder
 - Details and signature of Responsible Officer of Executing Exchange Participant
- ▶ N.B.
 - If no CCEP is mapped to a Master SPSA ID, no aggregation of sellable balance at Master SPSA ID
 - Once a Master SPSA ID is effective and with CCEP designated, no more sell orders are allowed for the underlying SPSA IDs

Appendix: Required Set-up – CCEP Mapping (Cont'd)

Master SPSA ID and Designated Executing Broker Maintenance Form

Applicant to submit CCEP Mapping to SEHK (CCEP confirmation needed)

SEHK to set-up designated executing broker for the Master SPSA ID

Section I Maintenance Request

Please perform maintenance for the below Master SPSA ID and Exchange Participant ID:

Proposed Effective Date	Exchange Participant ID																														
<table border="1"> <tr> <td> </td><td> </td><td> </td> / <td> </td><td> </td><td> </td> / <td> </td><td> </td><td> </td><td> </td><td> </td><td> </td> </tr> <tr> <td>D</td><td>D</td><td></td> / <td>M</td><td>M</td><td></td> / <td>Y</td><td>Y</td><td>Y</td><td>Y</td><td></td><td></td> </tr> </table>													D	D		M	M		Y	Y	Y	Y			<table border="1"> <tr> <td>0</td><td> </td><td> </td><td> </td><td> </td><td> </td> </tr> </table>	0					
D	D		M	M		Y	Y	Y	Y																						
0																															

	Master SPSA ID	Maintenance Request <i>(please tick the appropriate box)</i>							
1.	<table border="1"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>							<input type="checkbox"/> Add	<input type="checkbox"/> Delete
2.	<table border="1"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>							<input type="checkbox"/> Add	<input type="checkbox"/> Delete
3.	<table border="1"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>							<input type="checkbox"/> Add	<input type="checkbox"/> Delete
4.	<table border="1"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>							<input type="checkbox"/> Add	<input type="checkbox"/> Delete
5.	<table border="1"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>							<input type="checkbox"/> Add	<input type="checkbox"/> Delete
6.	<table border="1"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>							<input type="checkbox"/> Add	<input type="checkbox"/> Delete
7.	<table border="1"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>							<input type="checkbox"/> Add	<input type="checkbox"/> Delete
8.	<table border="1"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>							<input type="checkbox"/> Add	<input type="checkbox"/> Delete

Section II Confirmation by Master SPSA Holder

Full Name of Master SPSA Holder		Master SPSA Holder ID
		F
Contact Person	Business Phone No.	Business Email Address

We confirm that the information provided in Section I is correct. We consent to the processing of personal data in accordance with the Privacy Policy Statement appended to this form.

Authorized Signature(s) of Master SPSA Holder <i>(with Company Chop, only applicable if it forms part of your signing instruction)</i>	Click or tap to enter a date. Date Signed
[Name of Signatory(ies) : _____]	

Section III Confirmation by Executing Exchange Participant

Full Name of Exchange Participant		Exchange Participant ID
		0
Contact Person	Business Phone No.	Business Email Address

We consent to the processing of personal data in accordance with the Privacy Policy Statement appended to this form.

Signature(s) of Responsible Officer with Company Chop	Click or tap to enter a date. Date Signed
[Name of Responsible Officer : _____]	

Appendix: Required Set-up – SPSA Mapping Form (sample)

Master SPSA ID to SPSA Mapping Maintenance Form + Mapping Spreadsheet

Applicant to submit SPSA Mapping to HKSCC
(**Custodian Participants** will be notified by email)

HKSCC to notify relevant Custodian Participants (email) and set-up Master SPSA – SPSA Mapping

HKSCC-CCASS Master SPSA to SPSA Mapping

Full Name of Master SPSA Holder	Master SPSA Holder ID	MAINTENANCE REQUEST (ADD/DELETE)	No. of SPSAs to be mapped with Master SPSA ID

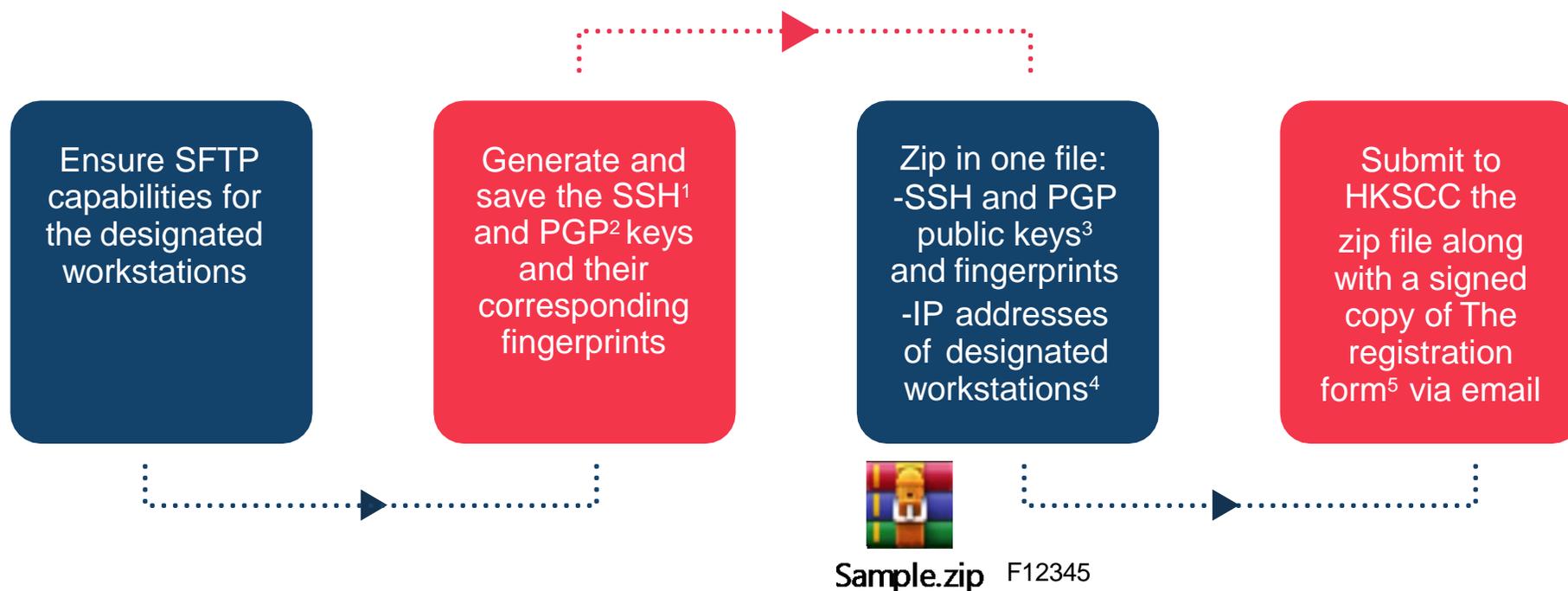
No.	Master SPSA ID	SPSA ID <small>*SPSA ID is the 6-digit investor identification number assigned to the SPSA.</small>	SPSA No. <small>*SPSA No. must be started with "800" followed by 5 digits ("800XXXXX").</small>	Proposed Effective Date (YYYY/MM/DD)
1				
2				
3				
4				
5				
6				
7				
8				

***Please provide ALL email address(es) of CCASS Participant(s) who maintain your SPSA(s) listed on mapping request**

No.	Name of CCASS Participant	CCASS Participant ID	Email Address <small>*Please use comma to separate when inputting multiple email address(es) for one custodian</small>
1			
2			
3			

Appendix: Required Set-up – Internet Report Access Platform (iRAP)

- ▶ For Master SPSA holders to retrieve the **day-begin sellable balance report**
- ▶ **Requires involvement of Master SPSA Holder’s IT/technical staffs for account set-up**
- ▶ Each Master SPSA Holder will be issued with two iRAP SFTP user accounts by HKSCC



- ▶ Full details available here → [HKSCC Internet Report Access Platform \(iRAP\) Technical Guide on the Master SPSA Service page](#)

1- Secure Shell (SSH) Public and Private Keys for the purpose of user authentication (One pair for each iRAP user account, i.e. two pairs in total)

2- Pretty Good Privacy (PGP) Public Key and Private Key for the purpose of report decryption (Only one pair is needed)

3- The private keys are for users to keep themselves – do not submit to HKSCC

4- By filling in the Excel template in Sample.zip

5- "Registration Form for Internet Report Access Platform (iRAP)"

Appendix: Required Set-up – iRAP FolderAccess and Structure

- ▶ All Master SPSA Holders are required to ensure that the SFTP client (in-house developed or third-party software) installed in their iRAP client workstations for report / file retrieval adhere to the below standard:

Protocol	RFC	Remarks
SFTP	RFC 4251-4254	Secure Shell File Transfer Protocol
SSH Public Key File Format	RFC4716	SSH2 Public Key File Format Fingerprint: MD5 message digest

- ▶ Once set-up is complete, four folders will be accessible via SFTP:

Folder	Usage
COMMON	Reports/ files applicable to all Master SPSA Holders
INBOX	Reports/ files applicable to designated Master SPSA Holder <Fxxxx> ¹ only
KEY_MANAGEMENT	For submission of SSH public keys for renewal by Master SPSA Holder per iRAP SFTP user account, e.g.<Fxxxx001> *Required to renew once every 2 years
PGP_KEY_MANAGEMENT	For submission of PGP public keys for renewal by Master SPSA Holder per Master SPSA Holder ID <Fxxxx> *Advised to renew once every 2 years

Appendix: Master SPSA Model – What do Custodian Participants need to do?

- ▶ To complete the Master SPSA to SPSA Mapping, fund managers, after deciding which SPSAs to be mapped to the Master SPSA, will work closely with their GCs who need to provide the following to the fund manager (a) SPSA No. (8 digit number “800XXXXX” assigned by Custodian Participant at SPSA opening) and (b) SPSA ID (6-digit number assigned by HKSCC)
- ▶ Custodian Participants may be requested by GC to provide them the relevant SPSA information

Note: Fund managers are responsible for the correctness of the set up of Master SPSA



Thank you!

<http://www.hkex.com.hk>

Visit Master SPSA Service Webcorner:

English: ([Click Here](#)) Chinese: ([Click Here](#))