

# Northbound Investor ID Model

## FAQ

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**1. What is the international trend in Investor ID regime? (ref: Information Paper para. 1)**

As the securities markets today are becoming larger and more complex, there is a growing trend among regulators globally to develop an Investor ID requirement to facilitate more effective market surveillance capability. Both the European Securities and Markets Authority and the US Securities and Exchange Commission have been in the process of implementing Investor ID regimes, as part of their Markets in Financial Instruments Directive II (“MiFID II”) and Consolidated Audit Trail plans respectively. In the Asia-Pacific region, the Australian Securities and Investments Commission has since March 2014 also introduced in its rules obligations of market participants to provide investor identification data in orders, transactions and trade reports. The above-mentioned international trend is also in line with the three objectives of securities regulation of the International Organization of Securities Commissions (IOSCO) on protecting investors, ensuring that markets are fair, efficient and transparent, and reducing systemic risks.

**2. How is the current Investor ID arrangement under NB trading different from its home market practice? (ref: Information Paper para. 3-4)**

Currently, the Mainland securities markets adopt a trading and clearing see-through model, where all orders must bear the respective securities account numbers linking to the corresponding investors, which will be further carried to the clearing end. For NB trading, such investor see-through arrangement is not in place and regulators have to enquire via brokers for investor surveillance. Such arrangement does not meet the Mainland securities markets’ need for the real-time and all-encompassing surveillance. The introduction of the NB Investor ID Model is a further progression of Stock Connect to enable more efficient Hong Kong-Mainland cross-border market surveillance.

**3. What are the major features of the NB Investor ID model? (ref: Information Paper para. 6, 9-10)**

Under the NB Investor ID model, brokers including China Connect Exchange Participants (“CCEPs”) and Trade-through Exchange Participants (“TTEPs”) will be required to assign a unique number to each of their NB trading clients (i.e. a “Broker-to-Client Assigned Number” or “BCAN”), provide the corresponding investor identification information (i.e. “Client Identification Data” or “CID”) to SEHK before they send their client orders for NB trading, and tag the BCAN to every NB order on a real-time basis.

The NB Investor ID model is only for market monitoring and surveillance purpose. It also has no impact on the existing Special Segregated Account (“SPSA”) model introduced in March 2015 which is used to facilitate pre-trade checking.

#### **4. What is BCAN?** *(ref: Information Paper para. 11-14)*

BCAN means Broker-to-Client Assigned Number, which is a unique number assigned by CCEPs or TTEPs to each of their NB clients, following a standard format prescribed by SEHK. Each BCAN should be unique to, and be able to identify, a specific client of a CCEP/TTEP and it should be different from the CCEP's or TTEP's existing internal client account numbers assigned to that client. The BCAN shall be prepared in such a way not to bear any obvious link to a client's identity and must be kept strictly confidential.

The BCAN assigned to a client shall not be changed, and shall not be reused for other clients once assigned. If the CCEP or TTEP needs to change the BCAN in exceptional cases, it must obtain the approval from SEHK in advance.

#### **5. What is CID?** *(ref: Information Paper para. 15-16)*

CID means Client Identification Data, which is the identification information of the clients collected by CCEPs or TTEPs through pre-existing Know-Your-Client procedures during account opening. For individual clients, CID shall include name in English and Chinese (if applicable and available), ID issuing country, ID type and ID number. For institutional or corporate clients, CID shall include entity name, place of incorporation, ID type and ID number. Legal Entity Identifier ("LEI")<sup>1</sup> and certificate of incorporation are acceptable ID types.

The BCAN-CID Mapping File will be sent to the Mainland exchanges for their market surveillance of NB trading activities.

#### **6. What if the client of the CCEP/TTEP is one of its affiliates?** *(ref: Information Paper para. 23)*

If a CCEP's or TTEP's direct client is an affiliate, the BCAN at the next level or further levels down is required until the client is not an affiliate. The BCAN of the non-affiliate client and the corresponding CID should be included in the BCAN-CID Mapping File. A company is considered an affiliate of another company if the two companies belong to the same "group of companies", as defined under section 1 of Part 1 of Schedule 1 of the Securities and Futures Ordinance ("SFO").

#### **7. When do CCEPs and TTEPs need to submit the BCAN-CID Mapping File?** *(ref: Information Paper para. 19)*

Each CCEP or TTEP is required to submit the BCAN-CID mappings of all its NB trading clients in one file (i.e. "BCAN-CID Mapping File") to SEHK before implementation of the NB Investor ID model.

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<sup>1</sup> The Legal Entity Identifier (LEI) is a 20-character, alpha-numeric code, to uniquely identify legally distinct entities that engage in financial transactions issued by "Local Operating Units" of the Global LEI System endorsed by its Regulatory Oversight Committee.

If there is no update to the data in a submitted BCAN-CID Mapping File, the CCEP or TTEP is not required to submit the BCAN-CID Mapping File again. If the CCEP or TTEP did not submit any BCAN-CID Mapping File by the prescribed cut-off time on T-1 day<sup>2</sup>, the last BCAN-CID Mapping File received by SEHK before the prescribed cut-off time will be processed. “T day” and “T-1 day” refer to NB trading days under the current NB trading calendar.

If there is any update (e.g. new client, change of investor information, deletion of account, etc.), a full BCAN-CID Mapping File of all the CCEP’s or TTEP’s NB trading clients shall be submitted to SEHK, including those clients whose BCAN-CID mapping data has not changed.

**8. Is provision of client’s BCAN-CID mapping information a pre-requisite for trading NB? (ref: Information Paper para. 19&29)**

If a client of CCEP/TTEP would like to trade NB, the client’s BCAN-CID mapping information must be received by the SEHK and confirmed to be valid by the Mainland exchanges via ChinaClear in advance. For trading on T-day, the latest submission time for the client’s BCAN-CID mapping information to the SEHK would be the prescribed T-1 day cut-off time.

Notwithstanding this restriction, in the case where the CCEP/TTEP fails to obtain the necessary client consent to submit the BCAN-CID mapping to SEHK at or before the prescribed T-1 day cut-off time, the CCEP/TTEP may nevertheless input NB sell orders for such client in the circumstances as set out in the information paper.

**9. Will the BCAN-CID Mapping Files be sent to the Mainland exchanges? (ref: Information Paper para. 21)**

Yes. SEHK will send the BCAN-CID Mapping Files received from all CCEPs/TTEPs to the Mainland exchanges (directly or through ChinaClear). The Mainland exchanges or ChinaClear will consolidate and validate the BCANs and CID received. If any issue arises, the Mainland exchanges or ChinaClear will inform SEHK and SEHK will inform the relevant CCEP/TTEP accordingly. The corresponding BCANs (not yet confirmed to be valid by the Mainland exchanges via ChinaClear) may not be used for trading on T day and the orders will be rejected by the Mainland exchanges.

**10. What if the NB order is submitted without BCAN, or with a BCAN which is not included in the BCAN-CID Mapping File? (ref: Information Paper para. 21)**

SEHK will implement pre-trade checking on NB trading such that NB orders without BCAN or with BCANs which are not correctly formatted will be rejected.

The Mainland exchanges will also conduct pre-trade checking on NB orders

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<sup>2</sup> The tentative cut-off time is 3 pm on T-1 day, or as otherwise prescribed by SEHK from time to time.

such that NB buy orders with invalid BCANs and those NB orders the BCANs of which are not within the reserved values or do not match the BCANs maintained by ChinaClear will be rejected.

**11. What is the BCAN tagging requirement for fund managers? (ref: Information Paper para. 23&32)**

For orders from fund managers<sup>3</sup> managing multiple funds or discretionary accounts (generally referred to as “funds”), a CCEP or TTEP should include the BCAN of the legal entity for which it opens the NB trading account (i.e. BCAN can be assigned to the fund manager or to the individual funds depending on the account opening arrangement), regardless of whether it is affiliated to the CCEP/TTEP or not. The Mainland exchanges will conduct market surveillance based on BCANs.

**12. When will the NB Investor ID model be implemented? (ref: Information Paper para 34)**

The NB Investor ID model was launched on 26 September 2018.

**13. [Repealed]**

**14. What is the Personal Data (Privacy) Ordinance (“PDPO”) implication of NB Investor ID model? (ref: Information Paper para. 27-28)**

The BCAN-CID Mapping Files comprising individual clients’ names and identity document details will be personal data as defined under the PDPO. As BCANs are assigned by CCEPs/TTEPs to uniquely identify their clients, and clients of CCEPs/TTEPs may include individuals, BCANs can also constitute personal data in the hands of CCEPs/TTEPs. Depending on the nationality or place of business or residence of the CCEPs, TTEPs and/or their clients, or place of data collection, data protection laws of other jurisdictions may also apply. CCEPs and TTEPs shall comply with all applicable requirements under the PDPO and data protection laws of other applicable jurisdictions when collecting, storing, using, disclosing and transferring personal data under the NB Investor ID model.

Pursuant to Rules 14A10 and 14B10 of the Rules of the Exchange, CCEPs and TTEPs are required to make appropriate arrangements (including obtaining the relevant consents) to ensure that information and personal data concerning their clients and the underlying beneficial owners may be disclosed, transferred and provided by SEHK to the relevant Mainland exchanges or ChinaClear for the purposes currently set out in such Rules in compliance with applicable laws including the PDPO.

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<sup>3</sup> The fund manager shall be an asset management company licensed by or registered with the SFC for Type 9 regulated activity, or a corporation which is licensed, registered or exempt in a place outside Hong Kong recognized by the SFC for an activity which is equivalent to Type 9 regulated activity, and is authorized to manage investments in securities for another person under a written agreement.

**15. What if client consent is not obtained for disclosure of CID and BCAN submission along with orders?** *(ref: Information Paper para. 29) (Updated as of 26 January 2018)*

If the necessary authorizations and consents (both written and prescribed) from an individual client in relation to the collection, storage, use, disclosure and transfer of his/her CID and/or BCAN cannot be obtained by a CCEP or TTEP, or the client's BCAN or BCAN-CID mapping are otherwise invalid or deficient, then, the CCEP or TTEP may only input NB sell order (but not any NB buy order) for such client.

The BCAN to be tagged for such NB sell order without the necessary authorizations or consents shall be specific reserved values prescribed by SEHK, respectively assigned for individual clients and institutional clients. Details of such reserved value will be set out in the related interface specifications.

The CCEP/TTEP should confirm with its client who refuses to provide the necessary consent that he/she has not otherwise provided such consent to other CCEPs/TTEPs for NB trading. If the CCEP/TTEP reasonably believes that its client may have provided such consent to other CCEPs/TTEPs (e.g. the shares to be sold are acquired after the implementation of NB investor ID model), it should conduct appropriate due diligence to ascertain why a different approach is taken by the client to ensure that he/she is not abusing this NB sell order exception. If the CCEP/TTEP is aware that the client has indeed provided a subsisting consent to the other CCEPs/TTEPs but fails to give a satisfactory explanation for the refusal with the CCEP/TTEP, the CCEP/TTEP should insist obtaining the necessary consent from such client before placing any further NB orders for him/her.

**16. Will there be a similar Investor ID regime implemented for the Hong Kong securities market and what will be timeline of implementation?** *(ref: Information Paper para. 2)*

We note that the SFC is looking into how best to implement an investor identification regime in Hong Kong. Market consultation will be conducted in due course.

**17. Will there be any reciprocal Southbound investor ID regime for Mainland investors?** *(ref: Information Paper para. 8)*

In order to address similar market monitoring and surveillance issues which the SFC and HKEX face in respect of Southbound ("SB") trading under Stock Connect, and in line with the principles of mutual regulatory cooperation, fairness and reciprocity, the CSRC has agreed to provide similar Investor ID information in respect of SB trading to the SFC and to implement this as soon as possible after the implementation of the Investor ID model for NB trading.

HKEX will work closely with the SFC and the Mainland exchanges separately on the implementation of the Investor ID regime for SB trading.

**18. What if the client has both individual and joint account with a CCEP/TTEP?** (ref: Information Paper para. 11) (Updated as of 26 January 2018)

Although a single unique BCAN shall be assigned by the CCEP/TTEP to identify each client, a separate BCAN shall be used to identify any joint account held by such client. For example, if client X has maintained a joint account with client Y of the CCEP/TTEP, then the CCEP/TTEP should generate and assign another unique BCAN to identify that joint account and such BCAN (instead of the BCAN assigned to client X only) should be tagged in respect of NB trading orders for that joint account. The CID of both client X and client Y should be provided under the same BCAN for the joint account.

**19. What should be the BCAN and CID arrangement when CCEP/TTEP (and/or its affiliates) conducts proprietary trading?** (ref: Information Paper para. 17) (Updated as of 26 January 2018)

For proprietary trading<sup>4</sup> by a CCEP/TTEP or its affiliates, the CCEP or TTEP should assign a BCAN for itself and different BCANs for each of its affiliates as if they were its clients, and in the BCAN-CID Mapping File indicate the client type to be “proprietary or principal trading” and fill in the respective CID of each CCEP or TTEP or affiliate thereof which conducts such proprietary trading. For avoidance of doubt, proprietary trading also includes principal trading by the CCEP/TTEP.

The BCANs of a TTEP and its affiliates for proprietary trading should be within the same BCAN range designated by its executing CCEP for assigning to its clients.

**20. Do CCEPs/TTEPs need to submit client consents to HKEX?** (Updated as of 26 January 2018)

CCEPs/TTEPs do not need to submit client consents to HKEX. However, they should keep appropriate records of the client consents and other relevant documents in accordance with the Rules of the Exchange.

**21. As the BCAN is generated by each broker individually, does it mean a client is expected to have multiple BCANs across different brokers?** (Updated as of 26 January 2018)

BCAN is unique for each client within each CCEP/TTEP, except in the cases of joint accounts. Since BCAN is assigned by the broker on its own, it is envisaged that the same investor trading NB with multiple NB brokers will have different BCANs with their brokers.

CCEPs and TTEPs are reminded that the BCAN shall be prepared in such a

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<sup>4</sup> CCEPs and TTEPs should refer to the *Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission* to determine whether the relevant order is a proprietary trade.

way not to bear any obvious link to a client's identity and must be kept strictly confidential. In particular, the BCAN should not be shown on any general enquiry screens, reports or statements (including statements issued to the relevant client), and its use and accessibility (even within the CCEP or the TTEP) should be strictly restricted to a need-to-know basis.

**22. Do CCEPs/TTEPs need to obtain the PDPO prescribed consent from both individual and institutional clients?** *(ref: Information Paper para. 28)*  
*(Updated as of 26 January 2018)*

Only individuals' personal data are regulated by the PDPO. The PDPO prescribed consent will therefore be required only from CCEPs'/TTEPs' individual clients but not their institutional clients. For institutional clients, CCEPs/TTEPs should have their own internal policies and procedures on obtaining the necessary client approval/consent to allow them to lawfully handle and transfer clients' confidential information as contemplated under the NB Investor ID Model.

**23. Do CCEPs/TTEPs need to install a new SDNet/HSN line for Mapping File submission?** *(Updated as of 26 January 2018)*

CCEPs and TTEPs can use existing SDNet/HSN line for Mapping File submission, including shared SDNet/HSN line under the ASP model.

**24. Can CCEPs/TTEPs use ShortCode under MiFID II as the BCANs for institutional clients?** *(Updated as of 26 January 2018)*

As a solution towards MiFID II compliance, a ShortCode is assigned to an investing client by a broker for trading in Europe, where the corresponding LongCode could be an LEI (for corporate clients) or National ID (for individual clients). Whether CCEP or TTEP can reuse ShortCodes their European affiliates assigned to their clients for the use of European trading depends on whether the ShortCode meets specifications for the NB Investor ID model. Key considerations may include different reserved ranges for the two schemes (e.g. reserved range of 0-99 for the NB Investor ID model).

**25. What is the arrangement for submission of Mapping Files on T-1 day under severe weather conditions?** *(Updated as of 26 January 2018)*

The SFTP server will be opened for Mapping File submission from 7am to 3pm on each NB trading day, even under severe weather conditions.

**26. If an intermediary other than CCEP/TTEP is trading through a CCEP/TTEP, can the intermediary assign and submit BCANs for their clients?** *(Updated as of 26 January 2018)*

Under the current NB Investor ID model, a CCEP/TTEP should assign BCANs to its clients who are non-affiliates. In line with the transparency principle, a CCEP/TTEP may assign BCANs to clients beyond the non-affiliate level.



While BCAN can be assigned to clients under a non-affiliate intermediary account of a CCEP/TTEP, the BCAN-CID mappings should be submitted through corresponding CCEPs/TTEPs following the current arrangements.

**27. How can a CCEP ensure BCAN-CID Mapping Files submitted by TTEPs utilizing its BCAN ranges are from authorised TTEPs and within the designated range(s)?** *(Updated as of 26 January 2018)*

If a CCEP executes NB orders for TTEPs, it must provide a list of authorised TTEPs called “Authorised TTEP Firm List” through a designated file to SEHK. SEHK will only accept BCAN-CID mappings from those TTEPs who have been authorised by the executing CCEP.

CCEPs and TTEPs are reminded to check the BCAN records in the BCAN Full Image File provided by SEHK to ensure that they are accurate, including that the TTEPs are using the correct reserved ranges assigned by their CCEPs.

Please refer to the technical specifications posted under the dedicated “[Northbound Investor ID Model](#)” section of HKEX website for details.

**28. What is the BCAN tagging requirements for fund managers who open separate SPSAs for funds or sub-funds under its management? Can these fund managers continue to treat separate SPSAs orders as part of a single aggregated order such that each SPSA order is in fact intended to be for the benefit of all the relevant SPSAs, but not just the SPSA identified for that order?** *(Updated as of 11 September 2018)*

As mentioned in Question 3 above, the NB Investor ID model is for market monitoring and surveillance purpose and has no impact on the existing SPSA model which is used to facilitate pre-trade checking, i.e. the assignment of BCAN for a fund manager’s NB orders would depend on its account opening arrangement with the CCEP or TTEP (please refer to Question 11) and how the fund manager’s SPSAs are set up is totally irrelevant. Notwithstanding that a fund manager may have opened SPSAs for funds or sub-funds under its management, a CCEP or TTEP will be required to include the BCAN of the fund manager to the relevant NB orders if the fund manager is the legal entity for which the CCEP or TTEP opens the NB trading account.

There will be no change to the SPSA model such that fund managers may continue to treat separate SPSAs orders as part of a single aggregate order provided that the conditions prescribed by SEHK are met (please refer to [Question 1.48.1 of the Stock Connect FAQ](#)). In other words, if the client of a CCEP is a fund manager who wishes to treat the separate SPSA orders as part of a single aggregated sell order for the purposes of handling the settlement of such orders, the CCEP shall have a prior arrangement in place with the fund manager client to confirm that (A) the fund manager client has authority to aggregate SPSA orders across the relevant SPSAs and to decide the appropriate allocation of trades to funds or sub-funds in those SPSAs; and (B) doing so complies with applicable laws, rules and regulations and does not

involve any misappropriation of client assets.

After the implementation of the NB Investor ID model, post-trade allocation of China Connect Securities to funds or sub-funds in different accounts by fund managers will continue to be permitted under Rule 14A12(2) provided that the BCAN(s) tagged to the relevant NB order(s) remains unchanged (e.g. if a BCAN is assigned to the fund manager). Under the NB Investor ID model, every NB order will need to be tagged with a BCAN on a real-time basis and the Mainland exchanges will conduct market surveillance based on BCANs.

**29. If an individual client has provided client consent to CCEP/TTEP but the BCAN assigned to such client is not yet successfully validated, can such client dispose of its China Connect Securities? (Updated as of 15 October 2018)**

As mentioned in Question 8 above and pursuant to Rule 1425A(2), the CCEP/TTEP is required to submit its client's BCAN-CID mapping information at or before the prescribed T-1 day cut-off time for validation before such client can trade NB on T-day. CCEPs and TTEPs should arrange for submission of their clients' BCAN-CID mapping information as soon as possible after obtaining the necessary authorizations and consents to facilitate their clients' NB trading in accordance with the Trading Rules.

Notwithstanding this restriction, there may be circumstances where a BCAN is not successfully validated even the relevant BCAN-CID mapping information is timely submitted to the SEHK. In the case where the CCEP/TTEP has duly provided the relevant BCAN-CID mapping information at or before the prescribed deadline on T-1 day to the SEHK in good faith but the BCAN is not validated on the same day, the CCEP/TTEP may nevertheless input NB sell orders (but not NB buy orders) for such client on T-day and the BCAN to be tagged for such NB sell order shall be specific reserved values prescribed by the SEHK in the related interface specifications.