



# Clearing Related Issues for RQFII ETFs

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## RQFII ETFs - Admission as Eligible Securities

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- Fund Manager / Trustee has to apply to HKSCC for admission of the ETF units as eligible securities for deposit, clearance and settlement in CCASS.
- Application for admission has to be submitted at least seven business days before the listing date.
- Fund Manager needs to submit draft trust deed and prospectus to HKSCC for review.
- The ETF units must be freely transferable or deliverable and can be issued in scripless form. ETF units will be registered in the name of HKSCC Nominees Limited on the Register of Unitholders.

## RQFII ETFs – Clearing & settlement

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- Same as other eligible securities, exchange trades in ETF units are subject to the T+2 settlement cycle.
- The dual counter operational model also applies to ETFs. (Note: Individual ETF application still subject to SFC review and authorisation)
- Under the dual counter model, CCASS on-line functions allow participants to transfer ETF units from one counter to another counter.

## RQFII ETFs – ETF Services

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### I. Conversion Agent (ETFs with HK stocks as underlying assets)

- HKSCC, through its wholly-owned subsidiary, HK Conversion Agency Services Ltd (“HKCAS”), provides services in relation to unit creation and redemption request raised by participating dealers (“PDs”)

### II. Service Agent (ETFs with non-HK stocks as underlying assets)

- HKCAS facilitates the book-entry deposit / withdrawal into / from CCASS for units successfully created or redeemed through PDs’ stock accounts in CCASS (i.e. a PD must be a CCASS participant)
- Unit creation and redemption are done outside CCASS.
- Daily reconciliation with Unit Registrar on unit balance.

## RQFII ETFs – ETF Services (cont'd)

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### Service Agreement

- Before listing, a Service Agreement has to be signed amongst the Fund Manager, Trustee, Registrar, HKSCC, HKCAS and each of the participating dealer.
- The agreement specifies the obligations and liabilities of the signing parties and the relevant operational procedures.

## Operational Procedures – Work flow for book-entry deposit of ETF units created

Trade day

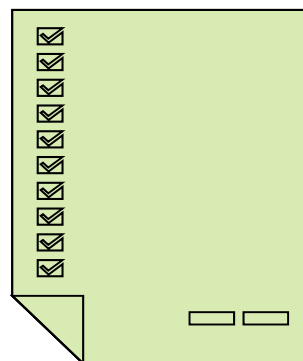


1) PD makes creation application to the Fund Manager or Trustee.

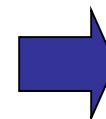
Settlement day (decided by Fund Manager, normally T+2)



2) Upon notification by Trustee, the Registrar issues unit creation confirmation to HKSCC/HKCAS.



3) PD submits credit authorization form to HKSCC/HKCAS.



4) After verification, HKSCC credits the units created to the PD's stock account in CCASS in accordance with the credit authorization form.

5) Upon completion, HKSCC notifies the Manager, the Registrar and the PD.

6) HKCAS reconciles the CCASS record with that of the Registrar daily.

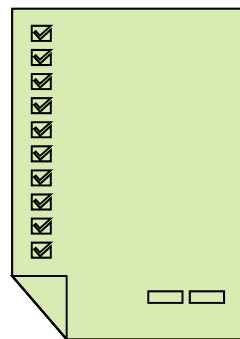
## Operational Procedures – Work flow for book-entry withdrawal of ETF units redeemed

Trade day

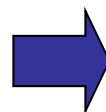


1) PD makes redemption application to the Fund Manager or Trustee.

Settlement day (to be determined by Fund Manager but normally on T+2)



2) PD submits duly completed and signed debit authorization form to HKSCC/HKCAS.



3) After verification, HKSCC debits the units from the PD's account in CCASS in accordance with the debit authorization form.

4) Upon completion, HKSCC notifies the Manager, the Registrar and the PD.



5) The Registrar cancels the units redeemed. Upon completion, the Registrar issues Confirmation of Cancellation to HKSCC/HKCAS.

6) HKCAS reconciles the CCASS record with that of the Registrar daily.

## RQFII ETF – Initial Unit Creation (Before Listing)

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- PDs can apply to the Fund Manager or Trustee for creation of units (to be available for trading on the listing date) before the listing date.
- HKSCC can arrange for the deposit into CCASS of the units created one day before the listing date. Same procedures for book-entry deposit aforesaid will apply.
- Units created will be issued in the name of the PD and deposited into its stock account in CCASS, which will then re-registered in the name of HKSCC Nominees Limited.



## RQFII ETFs – Fees

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- HKCAS will charge the following fees:
  - Book-entry deposit / withdrawal of units created / redeemed
    - HK\$1,000 payable by PD for each book-entry deposit or withdrawal transaction
  - Daily reconciliation
    - HK\$5,000 per month payable by the Fund Manager for daily reconciliation of units between HKCAS and Registrar



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**Thank You**