

香港中央結算有限公司
(香港交易及結算所有限公司全資附屬公司)

HONG KONG SECURITIES CLEARING COMPANY LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

Subject: **Introduction of Master SPSA Service for Northbound Stock Connect**
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Hong Kong Securities Clearing Company Limited (HKSCC) is pleased to announce an enhancement of the existing Special Segregated Account (SPSA) service by introducing an optional Master Special Segregated Account (Master SPSA) Service (Service) for fund managers, asset managers or investment managers (hereafter collectively referred to as “fund managers”)¹ tentatively in the first half of 2020, subject to the Securities and Futures Commission’s (SFC’s) approval and market readiness.

This circular provides an overview of Master SPSA Service.

1. Currently, HKSCC provides SPSA service to the market to facilitate investors who maintain China Connect Securities with custodians but want to sell their China Connect Securities through Northbound (NB) Stock Connect without pre-delivering these securities to their executing brokers. The details of the SPSA service are available [here](#).
2. To facilitate the trading efficiency of Shanghai and Shenzhen Connect, an optional Service will be provided to fund managers, which have either opened and/or manage multiple SPSAs with one/multiple custodians. Fund managers can apply for one or multiple Master SPSA IDs according to their business needs and shall abide by the Terms and Conditions of the Services for Master SPSA Holder. A one-time application fee of HK\$50,000 per Master SPSA ID will be charged. Any material breach of these Terms and Conditions may result in HKSCC terminating the Service for the defaulting Master SPSA Holder. This Service offers pre-trade checking for sale transactions at the Master SPSA level, with the aggregation of sellable balances of individual SPSA IDs mapped to a Master SPSA ID while maintaining the same post-trade workflow and risk management measures at the individual SPSA ID level including, but not limited to, sellable balance adjustment after failed settlement.
3. After successful application for the Service, a Master SPSA ID (a unique 6-digit number similar to an SPSA ID) will be assigned to the relevant fund manager (i.e. Master SPSA Holder) which can map individual SPSA IDs to the Master SPSA ID, and can designate at most 20 China Connect Exchange Participants (CCEPs) as executing brokers for the Master SPSA ID. CCEPs

¹ Clearing Participants which are interested in using the Service may apply to be Master SPSA Holders. Their use of the Service will be governed by the Terms and Conditions of the Services for Master SPSA Holder.

should note that the same endorsement by a CCEP is required for a Master SPSA ID as that for designations to an SPSA ID.

4. Master SPSA IDs share the same format as the existing SPSA IDs and should be input in the same field in a NB sell order. Once a Master SPSA ID becomes effective, a CCEP which is successfully designated as its executing broker should start using the Master SPSA ID when placing sell orders for the relevant Master SPSA Holder, instead of SPSA IDs.
5. Master SPSA Holders will be required to indicate their intended allocations prior to trading by providing a breakdown of the sell quantity per SPSA (i.e. the so-called “pre-allocation”) such that CCEPs and hence China Connect Clearing Participants (CCCPs) will have visibility on the potential allocations at SPSA level to address the sellable balance adjustment process in the event of failed settlement. As such, CCEPs are advised to work closely with their respective NB clients to identify any potential procedural or technical changes required in their operations and systems prior to accepting any Master SPSA orders for Master SPSA Holders.
6. Same as for SPSA orders, CCEPs must also tag a Broker-to-Client Assigned Number (BCAN) corresponding to each order-placing investor on the investor’s Master SPSA buy/sell orders in addition to the corresponding Master SPSA ID (for sell orders only). It should be noted that the adoption of the Service should not affect the existing BCANs that have been in use. Once a BCAN is set up for an investor at a CCEP, the CCEP is required to comply with Chapters 14, 14A and 14B of the Rules of the Exchange (collectively “China Connect rules”) and tag orders from that investor using the BCAN in a consistent manner. Under the Terms and Conditions of the Services for Master SPSA Holder, a fund manager may only designate those CCEPs which have set up its BCAN at the fund manager level (and not those CCEPs which have set up BCANs at the fund level) so that an aggregate order (for and on behalf of the funds it manages) can be placed. As such, if a CCEP has assigned BCANs to the individual funds managed by a fund manager, the CCEP shall not endorse the relevant CCEP mapping or input a Master SPSA order on behalf of such fund manager.

Prior to using Master SPSA Service

As mentioned above, fund managers would need to provide the mapping of Master SPSA to SPSA to HKSCC for set-up after deciding which SPSAs are to be mapped to the Master SPSA. In order to complete the mapping information, the SPSA No. (an 8-digit number “800XXXXX” assigned by the relevant Custodian Participant) and SPSA ID (a 6-digit number assigned by HKSCC) of each SPSA which is to be mapped are needed. Custodian Participants may be requested by global custodians to provide such information to the fund manager applying for the Service.

Daily Post Trade Operational Processes

Since the Service is introduced for the sole purpose of facilitating pre-trade checking, Custodian Participants and non-EP GCPs (Custodians) and CCCPs, should note that the actual shareholdings of China Connect Securities will remain in the individual SPSAs, even if these SPSAs are mapped under a Master SPSA ID. Therefore, there will be no change to any existing post-trade related procedures. China Connect Securities Trades executed via Master SPSA ID will be settled per

current individual SPSA post-trade settlement procedure. Custodians will still need to arrange settlement instructions with the corresponding CCCPs to transfer the China Connect Securities between the relevant SPSAs and the relevant CCCPs for CCASS Continuous Net Settlement (CNS). CCCPs will need to have the underlying SPSA ID, stock code and quantity for adjustment to adjust the sellable balance in the event of SPSA Delivery Failure under a Master SPSA ID. In case a Master SPSA Holder fails to identify or correctly instruct the responsible SPSA ID for settling short stock positions, HKSCC has the sole discretion to reduce the sellable balance of the one stock or multiple stocks of the relevant Master SPSA ID to zero on the next CSC trading day.

Post Trade Enhancement

To support the Service, HKSCC will enhance the “Trade File of SPSA (CCLTA01)”. Custodians should note that the relevant China Connect Securities Trades with Master SPSA IDs will not be captured in this Trade File. Participants may refer to the updated file specification and sample files in the CCASS Terminal User Guide on HKEX’s website (click [here](#)) for details. Participants are advised to adopt suitable operational changes and consult their internal IT support units or system vendors about this enhancement for necessary preparation.

A dedicated “Master SPSA Service” section has been established on HKEX’s website under the Mutual Market website (click [here](#)), including [FAQs](#) to facilitate market participants’ business and technical preparation for the introduction of the Service. Briefing sessions for the Service will be arranged for the market and further market communications will be provided in due course.

Hector Lau
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This circular has been issued in the English language with a separate Chinese language translation. If there is any conflict in the circulars between the meaning of Chinese words or terms in the Chinese language version and English words in the English language version, the meaning of the English words shall prevail.