

香港聯合交易所有限公司

(香港交易及結算所有限公司全資附屬公司)

THE STOCK EXCHANGE OF HONG KONG LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

Subject: **INTRODUCTION OF THE DUAL COUNTER MODEL ELIGIBLE FOR MARKET MAKING IN HONG KONG SECURITIES MARKET**

Enquiry: **Participant General Enquiry Hotline¹ (Tel : 2840 3626 E-mail : trd@hkex.com.hk)**

With reference to the [press release](#) on 18 November 2022 by the Government of the Hong Kong Special Administrative Region regarding the legislative amendments to effect the proposal of exempting the stamp duty payable for eligible transactions of dual counter securities conducted by market makers, The Stock Exchange of Hong Kong Limited (the “Exchange”) is pleased to announce the upcoming introduction of the HKD-RMB Dual Counter Model (“Dual Counter Model”) to further support RMB development in the Hong Kong securities market.

Currently, the Exchange supports the listing, trading and settling of securities in multiple counters with different currencies (HKD, RMB, and USD). The securities are traded in counters with different currencies but are generally of the same class, with the same holders’ rights and entitlements, and fully interchangeable between counters.

Dual Counter Model and Dual Counter Market Making (“DCMM”) Programme

Subject to regulatory approval and market readiness, the Dual Counter Model will further enhance the trading and settlement model for certain securities with both HKD and RMB counters, and such securities would be designated as the HKD-RMB Dual Counters and be published by the Exchange from time to time after the rollout of the Dual Counter Model. An inaugural DCMM programme would be introduced to support HKD-RMB Dual Counters trading, in order to provide liquidity and minimize price discrepancies between the two counters. Furthermore, CCASS will also introduce a new optional function to facilitate intra-day interchange for holdings in Stock Clearing Account (“A/C 01”) between HKD and RMB counters for settlement (“the Interchange Function”). The details of the DCMM programme and the Interchange Function are expected to be announced in the first half of 2023.

¹ All calls to and from the Participant General Enquiry Hotline may be recorded. HKEX Privacy Policy Statement is available [here](#).

Eligible Securities

The Dual Counter Model is expected to cover equity securities listed in both HKD and RMB counters only. Dual Counter Market Makers supporting HKD-RMB Dual Counters may be qualified for stamp duty exemption for their eligible transactions, if the relevant legislative amendments are passed by the Legislative Council. Exchange Traded Products (“ETPs”) would be excluded from the DCMM programme as they are already exempted from stamp duty payment today.

Identification and Trading Arrangements of HKD-RMB Dual Counters

HKEX will publish a list of HKD-RMB Dual Counters designated by the Exchange which are eligible for DCMM programme. The file will contain other information including the mapping of HKD and RMB counters. The format of such file on HKEX website would be provided to the market in due course.

Trading arrangements of HKD-RMB Dual Counters will mostly follow the existing arrangements for a security trading in both HKD and RMB counters:

1. Stock Code, Stock Short Name and International Securities Identification Number (“ISIN”) Arrangement for the HKD-RMB Dual Counters

The existing stock code allocation plan would be followed, i.e. the stock code of the HKD counter would be a 5-digit number starting with “0” whereas that of the RMB counter would be 5-digit number starting with “8”. The last four digits of the two stock codes will be identical except for six counters². The stock short names of RMB counters would end with “-R”.

Depending on the different circumstances relating to the two counters, it is our understanding that a single ISIN or two different ISINs may be issued for the two counters. In the event that only one ISIN is issued (i.e. the two counters share the same ISIN), the stock code will continue to be the unique identifier of the two counters.

2. General Trading Arrangements

Trading arrangements of RMB counters under the Dual Counter Model will mostly follow the existing arrangements for equity securities denominated in RMB (e.g. price validations, spread table, order types, trading sessions, etc.). As a reminder, the following are notable features:

Designated Securities Eligible for Short Selling

On the basis that the securities of the RMB and HKD counters of an issuer are of the same class

² The six stock counters to be excluded from this stock code mapping arrangement are 86610, 86611, 86639, 86660, 86661 and 86663, as they have been allocated for bonds of Ministry of the Finance of the People's Republic of China.

and are interchangeable from one counter to another, if one counter (e.g. HKD counter) is a Designated Security eligible for short selling, the other counter (e.g. RMB counter) will also be accepted as a Designated Security eligible for short selling under the Rules of the Exchange after consultation with the Securities and Futures Commission (“SFC”). Accordingly, both counters would be in the list of Designated Securities eligible for short selling published by the Exchange from time to time.

Inter-counter Trading between HKD and RMB Counters

In view of the fact that the securities in the two counters are the same class and interchangeable between the two counters, the buying or holding of HKD counters followed by the selling of RMB counters and vice versa, would be regarded as a long sale. Exchange Participants (“EPs”) should alert their clients of the time and fees (if any) required to transfer any securities from one counter to the other. EPs should also require and facilitate their clients to do the transfer for timely settlement on T+2.

For Designated Securities eligible for short selling, the borrowing of securities under the HKD counters, followed by the selling of securities in the RMB counters and vice versa, would be regarded as a covered short sale. The covered short sale will as usual be subject to the relevant short selling regulations stipulated in the Eleventh Schedule of the Rules of the Exchange and the relevant provisions in the Securities and Futures Ordinance³.

Applicability of Volatility Control Mechanism (“VCM”) to the Two Counters of a Security under the Dual Counter Model

If one of the two counters is a VCM security based on the existing eligibility criteria, the other counter would also become VCM eligible with the same VCM triggering threshold applied. However, VCM may be triggered independently at the counter level as their price discovery and trade matching process would not be entirely dependent.

Trading-related Fees

For the avoidance of doubt, for secondary market trading in the RMB counters, trading-related fees and levies (including but not limited to Trading Fee, SFC Transaction Levy and FRC Transaction Levy) and stamp duty would be paid in HKD, similar to all other equity securities at the moment.

3. DCMM Programme

Subject to regulatory approval, the Exchange intends to introduce a new DCMM programme, to enhance liquidity and minimize price discrepancies between RMB counters and HKD counters of the HKD-RMB Dual Counters. Similar to other existing market making programmes of the Exchange,

³ Under the tick rule, a short sale should not be made on the Exchange below the best current ask price. The tick rule will apply to the securities under the HKD counters and the RMB counters separately.

the Dual Counter Market Makers will be required to satisfy the registration criteria and comply with the applicable requirements and obligations. To allow smooth onboarding and market operations, the new DCMM programme is expected to largely follow the existing Securities Market Makers programme for ETPs. The registration criteria and relevant details will be announced tentatively in the first quarter of 2023 before prospective market makers may submit their applications.

Clearing, Settlement and Depository Arrangements

Clearing, settlement and depository arrangements of RMB counters under the Dual Counter Model will largely follow the existing arrangements for RMB denominated securities. Clearing Participants (“CPs”) are requested to note the following key arrangements:

1. Intra-day Counter Interchange for Settlement Request (“ICI”)

ICI is a new optional service in CCASS to facilitate interchange of holdings between HKD counter and RMB counter of the same stocks within A/C 01 for settlement purpose. The interchange can be from the RMB counter to the HKD counter, and vice versa.

At 3:00 p.m. on a Settlement Day, CCASS will compare the outstanding short position of each RMB counter and HKD counter of the same stocks against their A/C 01 holdings. For example, if the A/C 01 holding for a RMB counter is insufficient to settle the outstanding short position of the RMB counter, CCASS will check if its corresponding HKD counter has more than enough holdings to settle the outstanding short position of the HKD counter and if so, any remaining holdings of the HKD counter will be interchanged to the RMB counter to cover the outstanding short position of the RMB counter as much as possible and vice versa. ICI service can be instructed online from 2:00 p.m. to 3:00 p.m. on a Settlement Day or via setting up a standing instruction from 8:00 a.m. to 2:00 p.m. on a CCASS Day to invoke ICI service on each of the following Settlement Day until the standing instruction is revoked.

This optional service is free of charge and is expected to cover not only the Dual Counter Model but also all Multi-counter Eligible Securities. CPs are reminded to review their internal controls for compliance with applicable client assets rules. In order to avoid misappropriation of client assets, CPs shall ensure that a client’s holdings in one counter will not be used to settle transactions conducted by another client as a result of this intra-day interchange service. Further details of ICI will be announced in due course.

2. Inter-counter Transfer of Multi-counter Eligible Securities within CCASS

Same as the existing arrangement, CPs will be able to effect inter-counter transfer of the Eligible Securities between the HKD counter and the RMB counter on a one-to-one basis within CCASS by either inputting "Multi-counter Transfer Instructions" before 3:45 p.m. or uploading the transfer instructions to CCASS before 2:30 p.m. through CCASS Terminals.

For detailed operational procedures, please refer to sections 5.17 and 8.2.13 of CCASS Terminal User Guide - For Participants. CPs are required to log on to [Client Connect](#) to access the CCASS Terminal User Guide. This transfer instruction will cover all Multi-counter Eligible Securities.

3. Custodian Services in relation to the RMB Traded Securities

Under the Dual Counter Model, as the RMB counter is offered for secondary market trading and settlement purposes only, no physical certificate deposit or withdrawal service will be provided for the RMB counter and the provisions under the General Rules of CCASS (“CCASS Rules”) relating to physical deposit and withdrawal of securities will not be applicable. Physical certificates can only be deposited into the HKD counter and then transfer to the RMB counter. Likewise, securities in the RMB counter must be transferred to the HKD counter before they can be withdrawn from CCASS. All activities under CCASS are subject to the CCASS Rules and CCASS Operational Procedures in effect from time to time.

4. Clearing and Settlement Related Fees

All Hong Kong Securities Clearing Company Limited (“HKSCC”) fees, except dividend collection fees and interest collection fees, are calculated and collected in HKD. Dividend collection fee and interest collection fees will be collected by HKSCC in the currency in which the relevant securities are denominated.

Risk Management Arrangements of HKD-RMB Dual Counters

Marks and margin for the positions in HKD-RMB Dual Counters will be calculated, together with other applicable positions, on a portfolio basis according to the margin model in the HKSCC, i.e. marks and margin offset is allowed between the HKD counters and the RMB counters⁴. All marks and margin obligations will be calculated in HKD and CPs could opt to settle their marks and margin by HKD, RMB or USD as usual. Details of margin calculation will be provided in due course.

Participant Readiness to Facilitate Inter-counter Trading and Settlement

Inter-counter transactions of the same securities involve two independent transactions with different stock codes and stock short names, ***EPs are advised to review their systems and operations to ensure smooth trading in facilitating inter-counter transactions and prevent failed settlement.***

Practice sessions and/or market rehearsals will also be arranged and details will be announced tentatively in the first quarter of 2023.

Participant Webinars

To facilitate EPs to prepare the review for their systems and operations in trading RMB counters, the Exchange and HKSCC will jointly arrange three briefing sessions to provide an overview of the trading and settlement arrangements of the Dual Counter Model for participants. Details of the webinar are as follows:

Date	Mode of Briefing	Time	Language	Registration Deadline
5 January 2023 (Thursday)	Webinar video conferencing	17:00-18:00	Cantonese	29 December 2022 (Thursday)
6 January 2023 (Friday)			English	

⁴ For securities classified under Tier P margining, please refer to the Initial Margin Calculation Guide for details.

9 January 2023 (Monday)			Cantonese	
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Participation is **optional** and interested EPs should nominate no more than 2 representatives to attend across the three briefing sessions and register by completing and returning the [registration form](#) to HKEX on or before 29 December 2022 (Thursday). Confirmation will be sent to the successful registrants only. For those who do not attend any of the webinars, they can still access to the full details of the webinars via the designated web corner after the webinars have been completed.

Web Corner and Frequently Asked Questions (“FAQ”)

Please note that a [web corner](#) has been established as a centralized point of information on the details of the Dual Counter Model for market participants’ reference. For general market enquiries on the Dual Counter Model and to address some of the frequently asked questions raised, we will prepare a set of FAQs pertaining to the Dual Counter Model and related arrangements. The FAQ document will be available on the web corner tentatively in the second week of January 2023 and will be further updated from time to time.

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