



FINI: Concept Paper Conclusions

HKAB Briefing Session

July 2021

HKEX
香港交易所

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Agenda

01 | FINI reform: key highlights ~ 15 minutes

02 | Main changes for banks ~ 40 minutes

- CCASS EIPO settlement banks
- Lending banks
- Receiving banks

03 | Timetable and next steps ~ 5 minutes

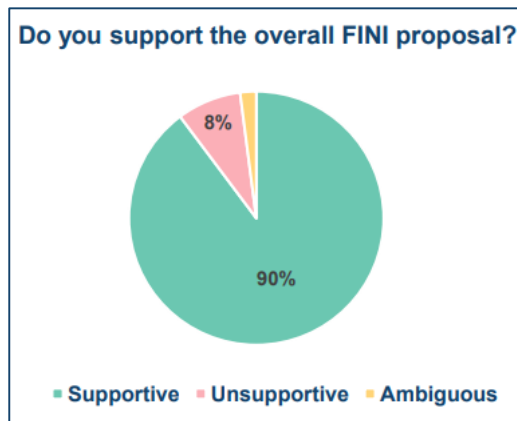
Q&A



FINI reform: key highlights



HKEX recently concluded the FINI market consultation



Professional bodies / associations
Brokers and investment banks
Commercial banks
Asset managers
Legal, accounting and service firms
Private individuals

FINI Concept Paper Conclusions (6 July 2021):

- 90% market support from broad stakeholder group; clear mandate for HKEX to proceed with implementing FINI.
- Some adjustments made to the target IPO settlement timetable and FINI operating model to reflect market participants' most frequent feedback and preferences.
- Roll-out is now targeted for Q4 2022 at the earliest, with active programme of user readiness throughout 2022.

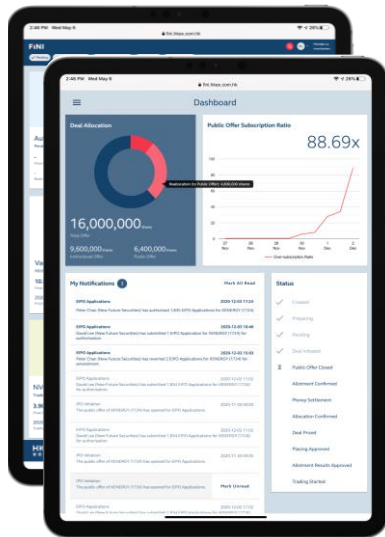
1 Standard HK IPO timetable will shorten from 'T+5' to '**T+2**'



2 New web-based platform “FINI” will organise market participant interactions, workflows & data. Replaces CCASS EIPO function.

FiNI

- HK IPO reference data
- Workflow for IPO subscriptions, price confirmation, allotments and required regulatory approvals
- Real time alerts for users
- Automation of forms & filings
- Web API connectivity
- Operated by HKSCC



RETAIL

CCASS CPs

CCASS CPs' EIPO designated settlement banks

Issuer's share registrar

INSTITUTIONAL

IPO sponsors

Underwriters & Distributors

Legal counsel to the issuer & the IPO sponsors

REGULATORS

SEHK Listing Division

SFC Corporate Finance Division

3 FINI's design reflects strong market preferences & feedback

New public offer pre-funding & money settlement mechanism

- Money settlement between CCASS CPs and IPO issuer for allocated shares only, at the final IPO price (no refund run)
- Pre-funding to be held with each CP's settlement bank
- Pre-funding amount compression available to CPs in certain circumstances
- Migrate from EPI to RTGS CHATS for money settlement

Harmonised ID requirement for all IPO subscribers

- Same ID standard for all applicants regardless of the application channel they use
- FINI will validate EIPO application files (retail) or placee lists (institutional) for ID completeness on submission
- Support for Broker-to-Client Assigned Numbers ('BCAN') to preserve client anonymity in subscriptions made via brokers' lending banks is being explored by HKEX and the SFC

Secure web-based access for maximum convenience

- FINI users include traditional CCASS users and regulators, lawyers, sponsors, etc.
- Web-based access via HKEX's *Client Connect* portal provides an easy channel for all users, can re-use existing credentials
- Optional API will be provided for certain high-volume services (IPO reference data, EIPO application, CPs' pre-funding confirmations)



Main changes for banks



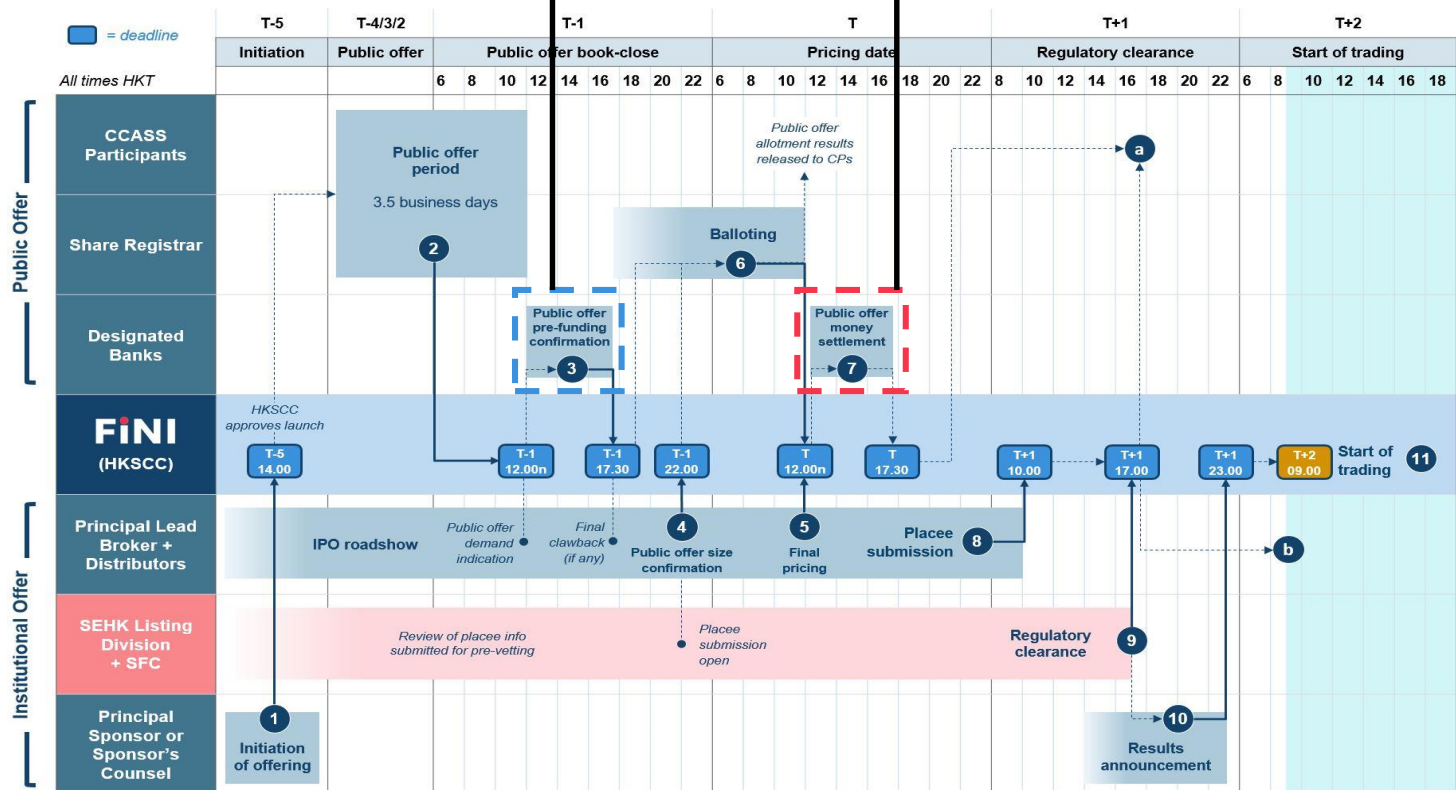
Designated banks for CCASS EIPO settlement (“DBs”)



- The legal relationship and obligations between DBs and brokers (CCASS CPs) will remain the same as today. Each CP appoints one DB for HKD EIPO settlement purposes.
- Key changes with FINI:
 - HKSCC will inform DBs of each CP's **pre-funding requirement** for each IPO on the public offer book-close date **T-1 ~12.30pm**
Some CPs may be eligible for 'compressed pre-funding that is lower than their gross subscription value under certain circumstances.
 - DBs will **confirm** that they have set aside each CP's pre-funding requirement (via FINI's web portal or API) **by T-1 ~5.30pm**
Fund locking mechanism to be agreed pending HKAB feedback and alignment with SFC's regulatory expectations.
 - HKSCC will inform each DB of their CPs' **final settlement obligation** for each IPO on the pricing date **T ~12.30pm**
Final settlement is after balloting and pricing, i.e. settle money for each CP's actual share allotment at the final IPO price (no refunds).
 - DBs will **transfer** CPs' final settlement obligation to the issuer's receiving bank account via RTGS CHATS on **T by ~5.30pm**
RTGS CHATS will be used instead of EPI, with HKSCC issuing the transfer instructions.
- Intention of these changes: shorter lock-up period / faster recycling / more efficient use of funds vs. current market practice.

**Pre-funding requirement
confirmation window on T-1**

**Final settlement obligation transfer
to issuer's receiving bank on T**



Pre-funding requirement confirmation

Pre-funding requirement for
CP A for IPO X = \$Ym

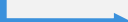
FiNI



HKSCC CP



**Bank
Account**



Designated Bank

Public offer book-close

FUNDS LOCKED

- The pre-funding requirement will be calculated by the FINI system, and set out by CP, by IPO
- Broadcast to DBs as a report (or API call) at T-1 ~12.30, shortly after the public offer book-close
- DBs must confirm sufficiency of funds by CP, by IPO and 'lock' those funds by T-1 ~5.30pm. Need to notify FINI via web portal or API once done
- If a CP has insufficient funds: a withdrawal window for downsizing their EIPO orders via FINI will be available, as long as this is done before ~5.30pm
- Acceptable fund locking mechanism to be agreed following HKAB feedback after this seminar



Pre-funding compression in certain circumstances

- Mechanism aims to reduce excessive levels of liquidity 'lock-up' in EIPO pre-funding
- If a CP's demand for shares (D_{CP}) exceeds the public offer size determined by the issuer (PO_{max}), HKSCC will not require that CP to put up the excess amount in liquid funds with their DB
- CPs must opt-in to use the compressed pre-funding calculation, i.e. manage credit risk against their own clients. Opt-in applies to all IPOs.

Calculation

Opt-in:

$$PFR_{CP} = \min(D_{CP}, PO_{MAX})$$

Opt-out:

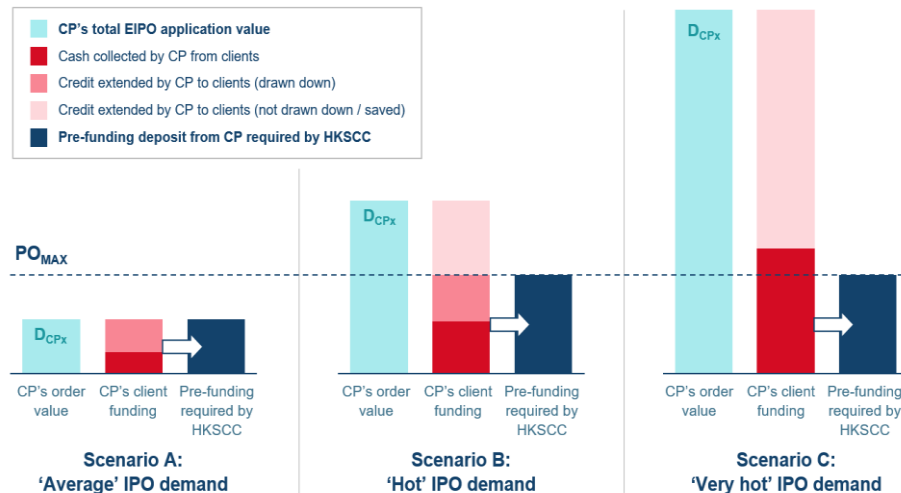
$$PFR_{CP} = D_{CP}$$

PFR_{CP} = Pre-funding requirement for a CP in a particular IPO

D_{CP} = Total subscription value of CP_x at the top of the IPO price range

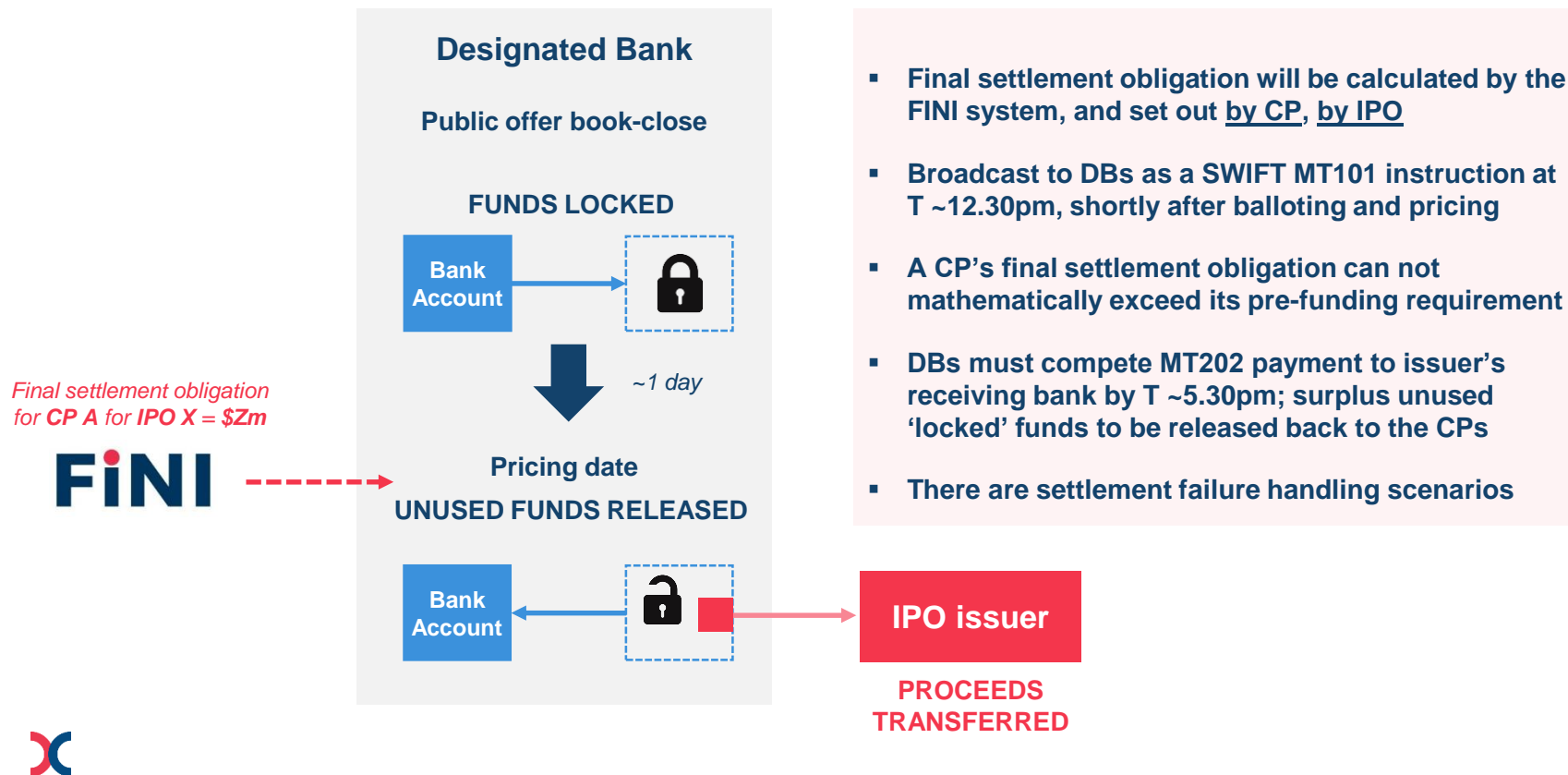
PO_{MAX} = Size of public offer at its highest theoretical clawback level

Liquidity saving through compressed PFR

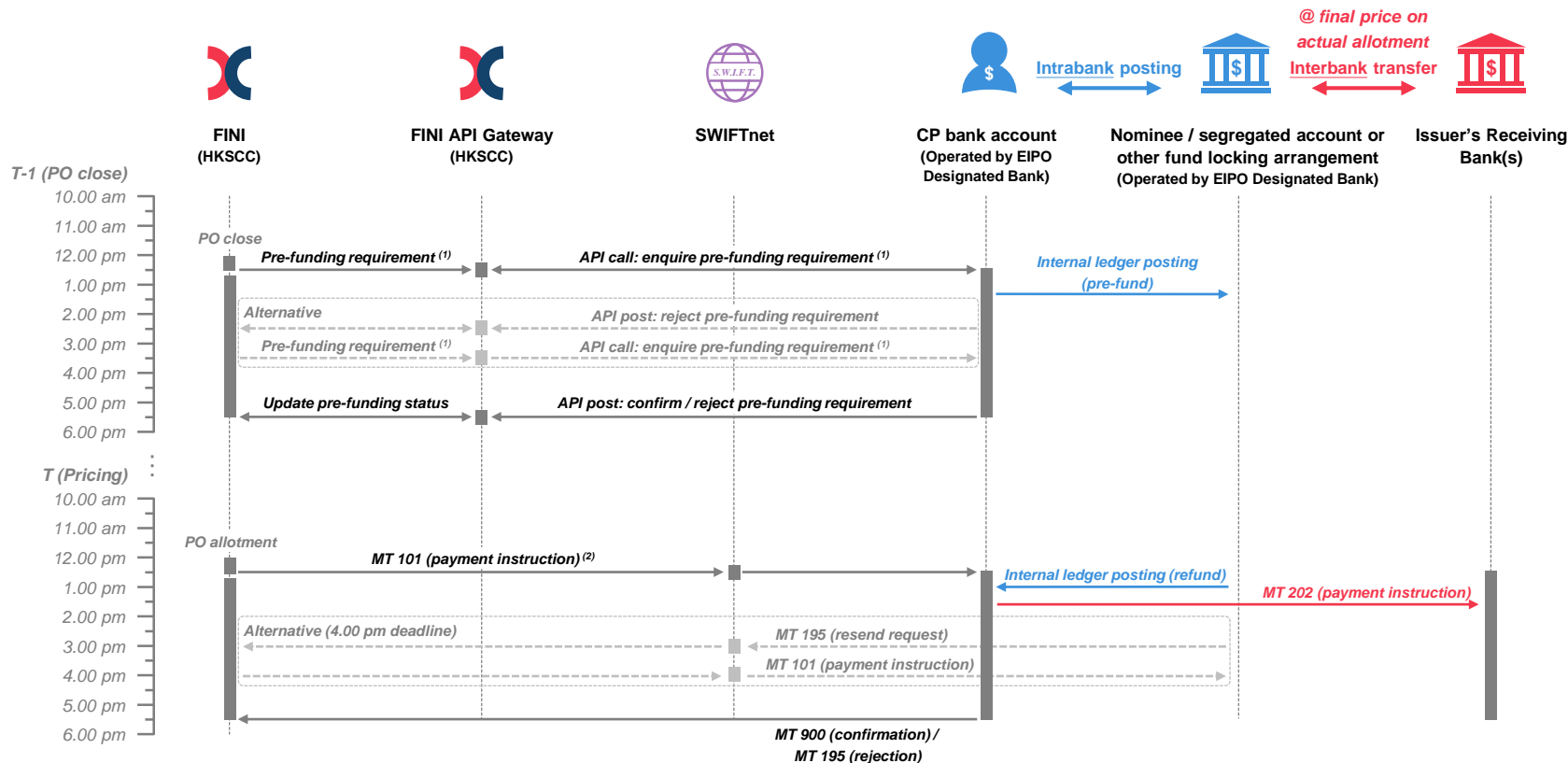


DBs will be notified by FINI which of their CPs have opted in for compressed EIPO pre-funding calculations.

Final settlement obligation



Designated bank workflows overview with FINI



- (1) Calculated based on applied quantity * max offer price, inclusive of fees. If CP is opted in to pre-funding compression, the calculation is capped at PO_{max} .
- (2) Calculated based on allotted quantity * the final offer price, exclusive of fees. Fees would be covered under separate payment instructions.

Implications of FINI for banks playing other roles in an IPO



Lending banks

- Expected to submit margin-backed EIPO applications on behalf of the borrowing broker / person
- Margin-backed EIPO applications will count towards the bank's own CP's pre-funding requirement
- Follow HKMA's manual on new share subscription and share margin financing (CR-S-4)



Receiving banks

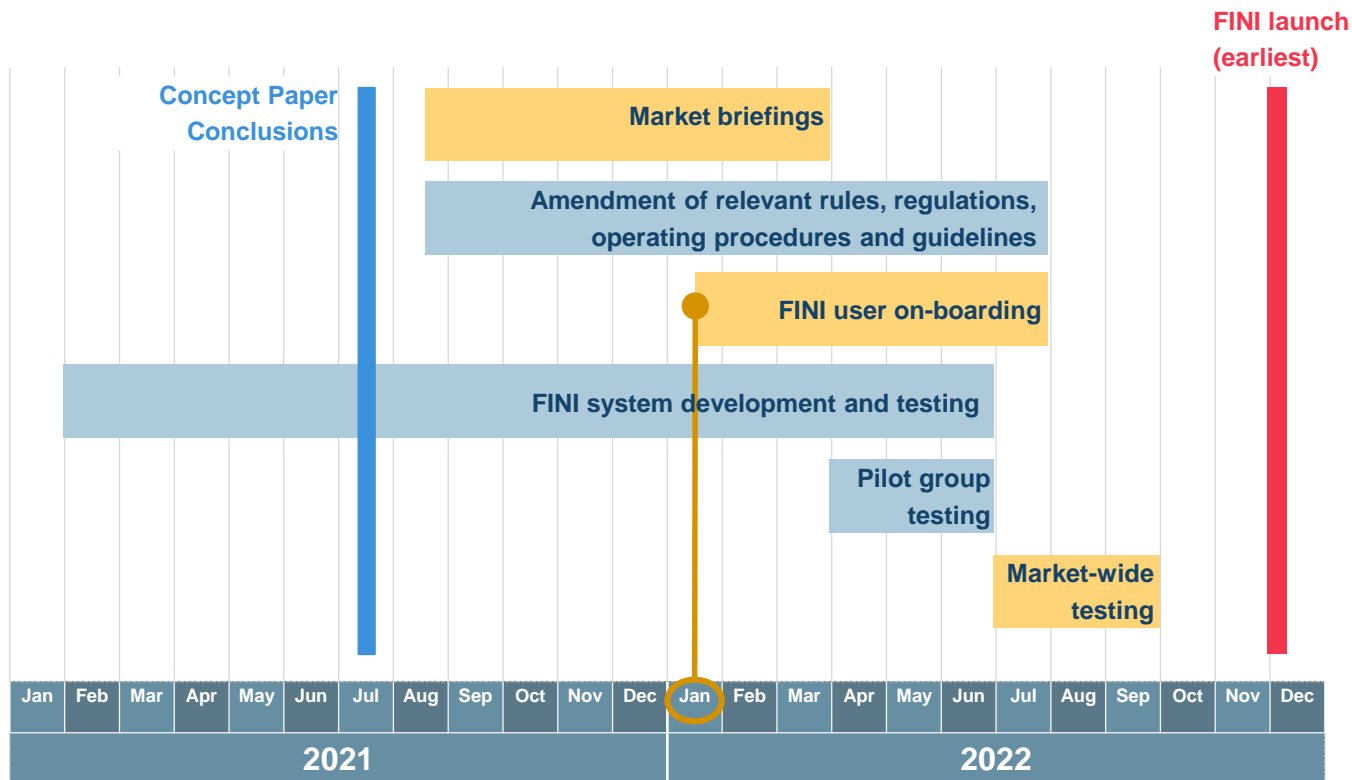
Appointed by the IPO issuer to collect and hold IPO funds. Role continues in principle, but:

- Will receive net proceeds of EIPO tranche rather than gross pre-funding.
- No more obligation to track subscription levels, pre-funding money settlement or generate reports for the share registrar etc. – this will be automated in the FINI system.
- No more need to provide paper forms or handle cheque payments (separate reform from FINI)
- Unchanged handling of institutional tranche money settlement
- Handling of e-White prefunding subject to final decision by Federation of Share Registrars

Timetable and next steps



HKEX will roll out FINI no earlier than Q4 2022



Project references

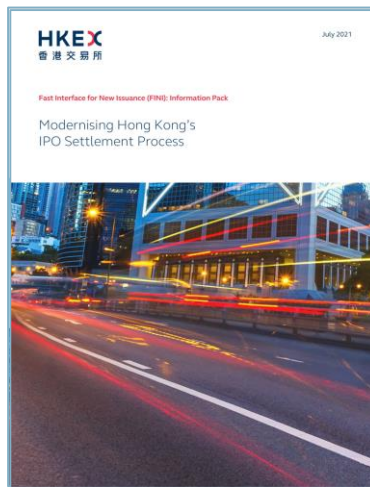
FINI Conclusions Paper

Recap of market feedback and adjustments to the original FINI model



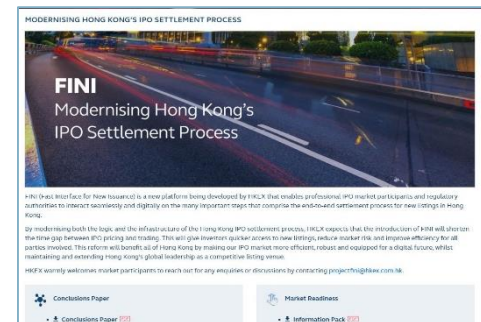
FINI Information Pack & FAQs

Operational walk-through + Frequently Asked Questions (FAQs) about FINI



FINI Website

One venue for all FINI materials
www.hkex.com.hk/fini



Will be regularly updated by HKEX

For questions & suggestions

ProjectFini@HKEX.com.hk



A nighttime photograph of a city street with light trails from cars, overlaid with a semi-transparent dark blue rectangle containing text. The background shows modern skyscrapers and a highway interchange.

Thank you

For further information on HKEX, please go to
hkexgroup.com and **hkexnews.hk**

For further information on FINI, please go to
hkex.com.hk/fini

