

FREQUENTLY ASKED QUESTIONS

Updated: 16 November 2020

The FAQ will be updated from time to time and is subject to change.

Issuers and syndicate operations

1. What types of listings can FINI handle?

Initially, FINI is designed to handle primary, dual-primary, secondary equity listings, listings by introduction and transfer from GEM to Main Board listings.

HKEX will also consider in due course whether the FINI platform may also be suitable to facilitate secondary offerings, distributions in species or debt offerings.

2. How will FINI handle preferential offerings and employee offerings?

Through conversations with brokers, custodians and banks, HKEX has learned that some market participants usually manage these operations via their secondary market corporate actions teams, along with rights issues and open offers. Some preference has been expressed to maintain these functions within a single system to avoid operational confusion.

If this approach is adopted, then FINI would not handle *subscription*, *allotment* or *settlement* of any preferential offerings or employee offerings; but their *allocation results* would need to be input into FINI by the share registrar during the IPO settlement process. These results would be taken into account in generating allotment results statistics, among other things.

3. How will FINI handle the clawback and reallocation mechanism under PN18?¹

The clawback trigger points and allocations applicable to each offering (those set out in PN18, or otherwise if an issuer has applied for and is granted a clawback waiver by the Listing Division) and reallocation of shares between tranches outside of PN18 (a modified clawback) will be captured at the IPO initiation stage. Based on the results of the public offer, FINI will apply these inputs to automatically calculate any resulting share reallocation between tranches.

Note that the calculation of a public offer's over-subscription level will be based on the number of public offer shares successfully accepted into the ballot, meaning that (i) the subscriptions have been inputted into and accepted by the FINI system, and (ii) the subscriptions are supported by sufficient confirmed pre-funding. The clawback will be calculated shortly after the public offer closes.

Note also that the 'claw-forward' mechanism whereby any shares not subscribed for in the public offer are allocated back to the institutional tranche of the IPO will also remain in place under FINI.

4. How will FINI handle the pricing flexibility mechanism under Guidance Letter GL90-18?²

FINI will support a pricing flexibility mechanism, including the one under GL90-18, i.e. to allow a downward price adjustment of no more than 10% below the indicative offer price or the bottom end of the indicative price range which is within a 30% spread, subject to appropriate disclosure being made

¹ Practice Note 18 of the Listing Rules.

² HKEX Guidance Letter GL90-18: Pricing Flexibility for Initial Public Offerings ("IPO").

in the prospectus, MMO subscription forms (if used; see [FAQ 8](#)), formal notice and the issue of a price reduction announcement.

FINI is able to automatically generate suggested text for a price reduction announcement for the issuer to use. The relevant pricing reduction would also be captured in the text generated for the issuer's allotment results.

5. How will FINI handle over-allotment?

Details of the over-allotment option, if any, will be captured at the IPO initiation stage. Details of any shares over-allotted, the impact on the overall shareholding structure of an issuer and its share concentration analysis would be automatically populated into the allotment results announcement by FINI after the placee lists are cleared.

6. How will FINI handle a delay in an issuer's listing timetable?

Where the listing date is delayed for a short period of time, listing applicants are expected to advise the Listing Division on a new listing timetable as early as possible. Upon the sponsor updating and receiving approval of the revised timetable by the Listing Division, the system will revise the timetable and other reference data of the IPO, such as the date of issue of a supplemental prospectus setting out the revised timetable, arrangements with regard to the public offer, and submitted subscriptions and applicable refund arrangements (if any). The FINI platform will also provide guidance on the required supplemental documents that must be published on HKEXnews.

7. How will FINI handle IPOs that do not proceed?

If a listing applicant decides not to proceed with its IPO after the commencement of the public offer, the procedure will be the same as the existing practice, regardless of whether the public offer has been closed.

The sponsor will be asked to update FINI with the issuer's decision to cancel the IPO at the same time as it notifies the Exchange of its decision. Based on the progress of the IPO at the time, HKSCC will unwind certain completed procedures as necessary.

8. How will FINI handle mixed media offers (MMOs)?³

An MMO requires the issue of a printed subscription form without it being accompanied by a printed form prospectus relating to the offer. As FINI will not support paper-based subscription forms, issuers who wish to adopt an MMO would have to issue their own physical application forms in compliance with guidance letter(s) published by the Listing Division and rely on retail brokers and / or share registrars to input orders from subscribers who use such forms into the FINI platform directly.

9. Why is HKEX not proposing an "on-market bookbuild" at this time?

Some other equity markets (notably, the Australian Stock Exchange) have offered an optional book-building feature in their IPO market for a number of years. This is a mechanism whereby the issuer appoints a "technical lead manager" to conduct a book-building process using a centralised system. The system offers several unique design features, which includes:

- (1) Flexibility for the issuer to set and amend offer terms during the offer period, including allocations between tranches, with no mandatory clawback mechanism or minimum allocation requirements;

³ For issuers who choose to adopt a mixed media offer pursuant to the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L laws of Hong Kong).

- (2) A single, consolidated order book that captures bids from both retail and institutional offers, which may be withdrawn / adjusted any time during the offer period; and
- (3) An algorithm that calculates a live offer price based on committed bids from retail and institutional investors, which helps the issuer determine the final offer price and allocate its securities.

HKEX has studied this model, and similar ones around the world. Our study has shown that such a mechanism has seen very limited uptake in markets where it has been adopted: for example, only 1.5% of the number of IPOs and 0.2% of the total funds raised between 1 January 2014 and 18 September 2020 on the Australian Stock Exchange used the “on-market bookbuild” service.⁴ The applicability of such a mechanism to Hong Kong IPO market practice is debatable, and at the very least may require substantive regulatory changes in order to be adopted.

That said, HKEX remains open to considering suggestions from stakeholders on whether such a mechanism should be explored for Hong Kong, whether as part of the FINI reform or as a separate initiative.

10. Will FINI have an impact on the prospectus registration requirement?

No. Neither FINI nor the shortened IPO settlement process will change the prospectus registration requirements and procedures. HKEX has published a separate consultation paper on introducing a paperless listing and subscription regime, including electronic form prospectuses and subscription by e-channels, which is consistent with the objectives of the changes proposed in this Concept Paper.⁵

11. With the shortened settlement timetable, would the requirements for submission of placee lists and related documents, such as the connected client / existing shareholder consent request change?

Placee lists. FINI would not change the listing requirement for submission of placee lists. FINI will digitalise the placee list submission and review process. The placee list template requirements and data formats will be refreshed, setting out the requisite information to be provided by distributors. FINI will validate incoming placee lists against these requirements, as well as against placee lists submitted by other distributors for duplicated placees, missing information or other issues. This will replace manual checking done by the Listing Division. The Listing Division and the SFC will also receive real-time notifications of any changes made to placee lists on FINI. Per the proposed “T+1” timetable, changes to placee information could be made via FINI no later than 2 pm on “T”.

Connected client and existing shareholder consent requests. FINI does not change the connected client / existing shareholder consent requirement under the Listing Rules and GL85-16. In light of the shortened settlement timetable, relevant parties will be encouraged to commence collecting details of prospective placees and submitting connected client and existing shareholder consent requests to the Exchange early in the settlement process. To the extent information is available, the Listing Division welcomes relevant parties to submit consent requests to us for pre-approval in advance of the settlement process. The Listing Division will consider issuing further guidance on submitting consent requests for pre-approval in advance.

⁴ HKEX data and analysis based on 585 ASX IPOs completed between 1 January 2014 – 18 September 2020.

⁵ HKEX website, “Consultation Paper on Proposals to Introduce a Paperless Listing & Subscription Regime, Online Display of Documents and Reduction of the Types of Documents on Display”, July 2020 (see page 17).

12. Which forms, documents and agreements related to stock admission would FINI replace with the new IPO initiation e-form?

Figure 1. List of forms, documents and agreements to be digitalised on FINI		
Form	Recipient	Timing today
EIPO agreement	HKSCC	1 day before the Listing Committee hearing date
Request for bank account information form	HKSCC	3 days before the public offer open
Direct Debit Authorisation and debtor reference generation form	HKSCC	1 day before the public offer open
Confirmation on placing arrangement through CCASS	HKSCC	1 day before the public offer open
Delivery arrangement of Prospectus and Application Forms	HKSCC	1 day before the public offer open
EIPO details confirmation form	HKSCC	1 day before the public offer open
Certified copy of Certificate of Incorporation/Business License, Certificate of Incorporation on Change of Name of the Company, Certificate of Registration/Change of name of Overseas Company, where applicable	HKSCC	1 day before the public offer open
Certificated copy of the duly adopted constitutional documents of the Company, including the Memorandum of Association (where appropriate) & Articles of Association, etc.	HKSCC	1 day before the public offer open
Certified board resolutions and supporting documents	HKSCC	1 day before the public offer open
Final listing timetable form	HKSCC	1 day before the public offer open
Undertaking by the Share Registrar	HKSCC	1 day before the public offer allotment

13. Which forms required by the Listing Division would be handled via FINI?

HKEX plans for the generation of the following forms to be automated or semi-automated by FINI, based on input provided by the platform's users:

Figure 2. Forms to be automated/semi-automated by FINI		
Main Board form ref.	GEM form ref.	Description
FFD003M	FF017G	Main Board: IPO - Form D - Marketing Statement GEM Board: IPO - Form D - Marketing Statement
CI205M	CI205G	Main Board: IPO - Placee information sheet GEM Board: IPO - Placee information sheet
M401	G401	Main Board: IPO - Form E - Sponsor's Declaration GEM Board: IPO - Form I - Sponsor's declaration of compliance concerning a new applicant
N/A	N/A	Letter of independence
M402	G402	Main Board: IPO - Notification of Submission of Transaction Levy, Trading Fee and Brokerage GEM Board: IPO - Notification of Submission of Transaction Levy, Trading Fee and Brokerage

Interface with pre-populated data fields for confirmation, with the possibility of manual amendment (as required)

The screenshot displays a web interface for 'Regulatory Submissions' for 'Xenergy'. The main content area is titled 'Transaction Levy Form'. It includes a header with the Xenergy logo and a navigation sidebar on the left. The sidebar contains a list of submission steps: Pending, Deal Initiated, Public Offer Closed, Allotment Confirmed, Deal Priced, Placing Approved, and Trading Started. The main form area contains a 'Dear Sirs' salutation, a date of 2020-12-03, and a confirmation statement. Below this is a calculation table for trading fees and transaction levies. The table shows calculations for 420,000,000 shares at HK\$ 0.2, resulting in a trading fee of HK\$ 11,250 and a transaction levy of HK\$ 6,075, with a subtotal of HK\$ 17,325. At the bottom of the form, there are links to 'DOWNLOAD TEMPLATE (.DOCX)' and 'UPLOAD REPLACEMENT (.DOCX)'. The right sidebar contains a 'CONTENTS' section with links to 'Transaction Levy Form' and 'Sponsor's Declaration'.

Regulatory Submissions

Transaction Levy Form

Dear Sirs, 2020-12-03

Applicant : Xenergy Renewables Company Limited
Case Number : 20200619-I69561-0001
Transaction Type : New Listing – Primary Listing on SEHK
Subject : Submission of Transaction Levy/ Trading Fee

We confirm that we have duly submitted the transaction levy/ trading fee under Appendix 8 of the Main Board Listing Rules.

Calculation as follows:

Placing

(1) Trading fee:-	420,000,000 shares	x	HK\$ 0.2	x	0.010%	=	HK\$ 11,250
(2) Transaction levy:-	420,000,000 shares	x	HK\$ 0.2	x	0.054%	=	HK\$ 6,075
					Subtotal	=	HK\$ 17,325

[DOWNLOAD TEMPLATE \(.DOCX\)](#) [UPLOAD REPLACEMENT \(.DOCX\)](#)

CONTENTS

- Transaction Levy Form
- Sponsor's Declaration

DASHBOARD

IPO REFERENCE DATA

REGULATORY SUBMISSIONS

14. Would documents submitted through FINI be received by the Listing Division and the SFC at the same time and covered as part of the dual filing arrangements?

Yes. The Listing Division and the SFC will have the same viewing rights on FINI for regulatory submissions such as Marketing Statements, Sponsor's Declarations and Letters of Independence. Both authorities will receive real-time notifications about documents or updates that are inputted into FINI. The Listing Division will make necessary changes to the Form A1 and the Issuer's undertaking to ensure that documents submitted through FINI will be covered by the dual filing arrangements with the SFC, and that the documents would not have to be resubmitted.

15. For trade booking and pre-matching of the institutional tranche under T+1, how would FINI minimise the fail rate of trades on the listing date?

There will be (i) 45 hours after public offer book-close and (ii) at least 23 hours after the pricing deadline, before the newly listed shares start trading. CPs, in their capacity as placing agents, can book the trades and have the trades pre-matched in CCASS on listing day -1, same as they do today.

The public offer: impact on investors

16. Will all investors remain eligible to subscribe to the public offer?

Yes, this remains unchanged.

17. Will the threshold of HKD 5 million that is used to distinguish subscriptions between 'Pool A' and 'Pool B' under the public offer remain unchanged?

Yes, this remains unchanged.

18. Why are paper-based subscription forms being discontinued?

The use of paper-based subscription forms has been declining over time, recently accounting for only 0.6% of all public offer subscriptions.

The time required to collect the forms from bank and brokerage branches, read subscribers' handwriting, input the relevant details into a computer system, clear the stapled cheques and cashier's orders and so on, is substantial, and contributes to Hong Kong's long overall IPO settlement process.

Some recent issuers in Hong Kong (namely, the secondary listings of Alibaba in November 2019 and NetEase / JD.com in June 2020) chose to forego paper-based public offer subscription forms altogether in their public offers. HKEX did not observe any market opposition or adverse impact of this approach, which leads us to believe that the market is generally ready to go digital.

19. Will HKEX implement a paperless IPO subscription regime before it implements FINI?

In addition to FINI, two other regulatory initiatives are currently considering the discontinuation of paper-based subscription forms in Hong Kong public offers. One is the proposal to introduce a paperless listing and subscription regime in Hong Kong, published by SEHK on 24 July 2020, the feedback period to which ended on 24 September 2020. The other is the joint initiative to introduce a scripless (USM) securities market in Hong Kong, whose conclusions were published in April 2020.

FINI will support these initiatives if and when they come into force.

20. Will IPO subscribers under FINI still be able to obtain share certificates?

Successful IPO subscribers who have been allotted shares to be registered in their own names through the "White eIPO" channel will have their share certificates dispatched by the share registrar or be available for collection in the usual manner. Share registrars will be expected to advise their clients of the revised operational and timetable arrangements in due course.

21. Will HKSCC Investor Participants (IPs) be able to subscribe to IPOs using FINI?

IP participation levels in Hong Kong public offers are very low, representing less than 0.25% of the total number of subscriptions. If FINI is rolled out, the "EIPO" subscription function for IPs will be discontinued. IPs will be asked to subscribe via CPs or share registrars. HKEX will consider waiving transfer charges for IPO shares that IPs acquire through a CP or share registrar, so that they may move the shares into their IP accounts if they wish to.

Going forward, HKEX will consider re-introducing an "EIPO" subscription service for IPs, especially in conjunction with a broader reform of the IP model under the proposed Hong Kong USM regime.

22. Why is FINI changing the applicant ID requirements for subscribing to a public offer?

The introduction of FINI provides an opportunity to harmonise subscribers' identification requirements across all public offer subscription channels to ensure consistency and fairness. The proposed requirements are based on the identity requirements used in the Northbound Stock Connect Investor ID regime introduced in September 2018.

Note that all of the data proposed to be collected from investors by FINI is already mandatory in one or more of the existing public offer subscription channels that operate today (namely, "EIPO", "White eIPO", paper-based "yellow" and paper-based "white" forms).

23. How will the FINI platform help verify subscriptions? How does it avoid duplicate or invalid subscriptions?

All public offer subscriptions received by FINI will be checked for duplicates at the point of submission, using the identifying information (with full ID information) contained in the subscription files. Any placees submitted by distributors in the institutional offer tranche will also be checked against other placees, as well as the list of accepted public offer subscribers, on the same basis. Any suspected duplicate or incomplete entries will be flagged to the submitting broker, share registrar or distributor. This kind of real-time validation is not practicable in the current IPO settlement mechanism.

24. What will HKEX do with IPO investor data? How will its security be guaranteed?

Data privacy is of utmost importance to HKEX. FINI will follow the prevailing data protection practices that HKSCC uses in its capacity as CCASS operator today. End-to-end encryption will be adopted for all incoming and outgoing data in the FINI system. We will also require CPs and share registrars who submit public offer subscriber data to FINI to ensure that they have obtained all necessary consents or authorisations from the underlying investors on the specific purposes for which such data will be used, in full compliance with all applicable laws including the Personal Data (Privacy) Ordinance.

Further details on the personal data policy applicable to FINI will be advised by HKEX in due course.

The public offer: pre-funding and brokerage operations

25. Why change the established pre-funding mechanism that works just fine today?

In the FINI proposal, the *concept* of pre-funding is retained, but the *mechanics* of it are amended.

Namely, sending sums of money equivalent to investors' subscription amounts to the issuer's receiving bank is a safe, but overly time-consuming and liquidity-consuming confirmation mechanism, whose (unintended) impact on the Hong Kong dollar and interbank money markets is perhaps more pronounced than a similar phenomenon might be in other jurisdictions, due in part to the popularity of Hong Kong's IPO market relative to the size of the local currency's Aggregate Balance. This "pre-fund & refund" practice also makes it difficult to achieve a "T+1" IPO settlement outcome.

Instead, HKEX proposes to adopt a confirmation mechanism similar to "fund locking" that is successfully used in certain other popular IPO markets, including India (National Stock Exchange) and the Nordics (Nasdaq OMX). This mechanism provides high levels of pre-funding coverage over settlement obligations, and hence low settlement risk, but does so without the same magnitude of liquidity drawdowns and interbank movements that exist in the "pre-fund & refund" model.

26. Why do we need pre-funding at all? Why not just pay for the shares you get after the ballot?

Pre-funding is a safety mechanism to minimise the incidence of settlement defaults in the public offer. If such a mechanism did not exist at all, it is plausible to envisage "walk away" behaviour where investors subscribe for shares but do not pay if they receive fewer (or more) shares than they want (or can afford). The institutional offer is somewhat different because placees tend to have a credit relationship with the distributors and hence defaults are extremely rare.

Because the size limits of Hong Kong public offer subscriptions are based on IPO size, it is not uncommon to see orders worth HKD 100 million, or sometimes even HKD 1 billion or more, and a default on such a subscription, if fully allotted, may endanger the stability and success of the entire offering. A certain level of pre-funding is therefore considered to be an advisable practice.

27. How much money should CPs collect from investors under the FINI mechanism? Will it still be possible for investors to fully pre-fund their IPO subscriptions?

Yes, that will be possible. Each broker's business and financing model with respect to IPO subscriptions (including the percentage of subscription value that the broker collects from its end-investor subscribers) will remain a business decision for each broker, as long as its services remain in full compliance with the applicable regulatory requirements, as is the case today.

28. Regarding the funding arrangement between CPs and their respective designated banks, will the proposed minimum cash pre-funding threshold of 10% be a universal standard that is applicable to all brokers and in all IPOs?

Yes. HKSCC will reserve the right to adjust this threshold for different IPOs in future.

29. As a CP, how will my pre-funding requirement be calculated?

The below tables illustrate the application of the FINI pre-funding formula. These tables use real subscription and allotment data from four recent Hong Kong public offers, showing calculations for three different CPs (names anonymised) in each case.

Interested CPs are welcome to contact HKSCC to receive a pro forma simulation of what their own pre-funding requirements would have been in previous Hong Kong IPOs, had the FINI methodology applied.

Ping An Gooddoctor (1833)			
Initial public offer allotment	HKD million	570	6.5% of the IPO size
PO _{MAX} Upper allotment limit	HKD million	2,193	25% of the IPO size, assuming largest clawback
Total subscription value	HKD million	372,750	
Oversubscription ratio		654x	
Final share allotment value	HKD million	2,193	25% of the IPO due to >95x oversubscription ratio

Pro forma pre-funding requirements	CP 'A'	CP 'B'	CP 'C'
Number of subscriptions received	30,172	7,109	1,886
D _{CPx} Total subscription value	25,855	17,912	1,180
T _{CPx} Pre-funding required = min (PO _{max} , D _{CPx})	2,193 (PO _{max} < D _{CPx})	2,193 (PO _{max} < D _{CPx})	1,180 (PO _{max} > D _{CPx})
C _{CPx} of which minimum cash = min (PO _{max} , 10% * D _{CPx})	2,193 (PO _{max} < 10% * D _{CPx})	1,791 (PO _{max} > 10% * D _{CPx})	118 (PO _{max} > 10% * D _{CPx})
R _{CPx} of which cash or credit = T _{CPx} – C _{CPx}	0	402	1,062
Final share allotment value	217	94	12

Xiaomi (1810)			
Initial public offer allotment	HKD million	2,398	5% of the IPO size
PO _{MAX} Upper allotment limit	HKD million	4,795	10% of the IPO size, assuming largest clawback
Total subscription value	HKD million	22,770	
Oversubscription ratio		9.5x	
Final share allotment value	HKD million	1,853	5% of the IPO due to <15x oversubscription ratio *

Pro forma pre-funding requirements		CP 'A'	CP 'B'	CP 'C'
Number of subscriptions received		13,008	463	25
D _{CPx} Total subscription value	HKD million	4,257	37.0	1.747
T _{CPx} Pre-funding required = min (PO _{max} ; D _{CPx})	HKD million	4,257 (PO _{max} > D _{CPx})	37.0 (PO _{max} > D _{CPx})	1.747 (PO _{max} > D _{CPx})
C _{CPx} of which minimum cash = min (PO _{max} ; 10% * D _{CPx})	HKD million	426 (PO _{max} > 10% * D _{CPx})	3.7 (PO _{max} > 10% * D _{CPx})	0.175 (PO _{max} > 10% * D _{CPx})
R _{CPx} of which cash or credit = T _{CPx} - C _{CPx}	HKD million	3,831	33.3	1.572
Final share allotment value	HKD million	325	3.3	0.173

* Final share allotment value < initial public offer allotment due to final offer price < max offer price.

China Tower (788)			
Initial public offer allotment	HKD million	3,406	5% of the IPO size
PO _{MAX} Upper allotment limit	HKD million	13,624	20% of the IPO size, assuming largest clawback
Total subscription value	HKD million	4,626	
Oversubscription ratio		1.36x	
Final share allotment value	HKD million	2,716	5% of the IPO due to <15x oversubscription ratio *

Pro forma pre-funding requirements		CP 'A'	CP 'B'	CP 'C'
Number of subscriptions received		478	387	8
D _{CPx} Total subscription value	HKD million	33.5	23.7	0.155
T _{CPx} Pre-funding required = min (PO _{max} ; D _{CPx})	HKD million	33.5 (PO _{max} > D _{CPx})	23.7 (PO _{max} > D _{CPx})	0.155 (PO _{max} > D _{CPx})
C _{CPx} of which minimum cash = min (PO _{max} ; 10% * D _{CPx})	HKD million	3.3 (PO _{max} > 10% * D _{CPx})	2.4 (PO _{max} > 10% * D _{CPx})	0.015 (PO _{max} > 10% * D _{CPx})
R _{CPx} of which cash or credit = T _{CPx} - C _{CPx}	HKD million	30.1	21.3	0.140
Final share allotment value	HKD million	17.0	12.1	0.091

* Final share allotment value < initial public offer allotment due to final offer price < max offer price.

China Bohai Bank (9668)				
Initial public offer allotment	HKD million	717	5% of the IPO size	
PO _{MAX} Upper allotment limit	HKD million	2,869	20% of the IPO size, assuming largest clawback	
Total subscription value	HKD million	422		
Oversubscription ratio		0.59x		
Final share allotment value	HKD million	407	3% of the IPO due to <1x oversubscription ratio	

Pro forma pre-funding requirements		CP 'A'	CP 'B'	CP 'C'
Number of subscriptions received		2,016	17	8
D _{CPx} Total subscription value HKD million		26.0	1.63	0.41
T _{CPx} Pre-funding required HKD million = min (PO _{max} ; D _{CPx})		26.0 (PO _{max} > D _{CPx})	1.63 (PO _{max} > D _{CPx})	0.41 (PO _{max} > D _{CPx})
C _{CPx} of which minimum cash HKD million = min (PO _{max} ; 10% * D _{CPx})		2.6 (PO _{max} > 10% * D _{CPx})	0.16 (PO _{max} > 10% * D _{CPx})	0.04 (PO _{max} > 10% * D _{CPx})
R _{CPx} of which cash or credit HKD million = T _{CPx} – C _{CPx}		23.4	1.47	0.37
Final share allotment value HKD million		25.0	1.57	0.40

Note that in all possible scenarios, the total pre-funding required from each CP (T_{CPx}) will never be lower than the maximum possible share allotment of that CP in the ballot.

30. What is the logic behind introducing PO_{MAX}?

PO_{MAX} is a liquidity relief measure for extreme situations, when a particular CP's subscription value D_{CPx} is so large (due to the popularity of a particular offer) that it exceeds the entire number of shares that an issuer is willing to allocate to the Hong Kong public as a whole, accounting for the triggering of the highest available clawback level disclosed in the issuer's prospectus. HKEX finds no credible justification for why any CP should be asked to confirm funds above this threshold for the purposes of pre-funding validation in the FINI model.

Based on a pro forma simulation of the proposed FINI pre-funding validation formula on historic Hong Kong IPOs, HKEX expects PO_{MAX} to be triggered relatively rarely: around 2.2% of the time.

It is worth noting that the triggering of PO_{MAX} does **not** pro-rate a CP's minimum cash requirement downwards: to use our notation, it reduces R_{CPx} before it reduces C_{CPx}. This is deliberate. As the worked examples in [FAQ 29](#) show, any CP that triggers PO_{MAX} will need to meet their pre-funding requirement with a relatively higher portion of cash to credit compared with other CPs.

31. How will pre-funding validation happen in practice?

The below workflow is proposed by HKEX, and we will look forward to working with CPs and banks to validate and finalise it, pending feedback on the Concept Paper.

#	Party	Action	Timing on "T-1"	Method
1	CPs	Cut-off time for CPs to enter their public offer subscriptions into FINI.	9.30 am or earlier	CP inputs EIPO subscriptions to FINI via web interface, file upload or API.

2	HKSCC (FINI)	Calculate CPs' pre-funding requirements by applying pre-funding formula to each CP's subscription list.	Real-time	Pre-funding requirement is displayed on the FINI web interface of the CP.
3	CPs	Cut-off time for CPs to confirm their subscription list and the availability of corresponding funding.	9.30 am or earlier	CP clicks "CONFIRM" button on its FINI interface, signifying (i) no further additions to its public offer subscription list, <i>and</i> (ii) confirmation of sufficient funding available to meet its pre-funding requirement as calculated in (2).
4	HKSCC (FINI)	Broadcast funding report to each CP's designated bank.	After (3)	Alert via FINI.
5	Designated banks	Confirm CPs' funding reports.	After (4) and no later than 12 noon	Designated banks click "CONFIRM" button on its FINI interface.
6	CPs and designated banks	<p>If designated bank unable to confirm funding, or only able to confirm partial funding:</p> <ul style="list-style-type: none"> - bank to contact CP directly to discuss - CP may <i>reduce</i> its subscription size by downsizing or removing individual entries from its subscription list on FINI. If a CP <i>reduces</i> its subscription size, FINI instantly re-initiates (2) and (4), and requires (5) to be completed by the CP's designated bank by 12:00 - CP may <i>withdraw</i> its subscription list entirely via FINI. If a CP <i>withdraws</i>, FINI alerts the designated bank, with no further action required 	By 12 noon	<p>If CP <i>reduces</i> subscription size, the same workflow as (2), (4) and (5) applies.</p> <p>If CP <i>withdraws</i> subscription list, same workflow as (4) applies. The designated bank would then receive an empty funding report.</p>
7	HKSCC (FINI)	FINI generates a list of all valid subscriptions for which (5) has been completed. This is the basis for allotment sent to the issuer's share registrar.	After (5) and 12 noon	HKSCC sends basis for allotment to the issuer's share registrar using an existing secure file transfer mechanism (automated via FINI).

32. Could a CP settle only part of its allotted shares?

If a settlement failure occurs due to a minor money settlement difference, HKSCC would consider under exceptional circumstances to reissue a new payment instruction to the CP and allow a partial settlement of the CP's allotted shares.

33. Could the proposed changes to the public offer pre-funding mechanism lead to inflated subscriptions from investors?

The proposed changes are intended to provide liquidity relief at the interbank level. CPs and share registrars must still ensure that their clients have sufficient funds (cash or credit) to be able to support the settlement of their respective public offer subscriptions in full, when accepting their orders. CPs' handling of clients' subscriptions and financing arrangements will remain subject to prevailing SFC regulations in this regard. The proposed changes in the arrangement between intermediaries, their

designated banks and HKSCC does not equate to an opportunity for end-investors to “inflate” their orders or “apply for free”.

Note also that high over-subscription levels for particularly popular IPOs (which could be construed as evidence of “inflated” subscriptions) are already very common today. This phenomenon is likely to continue even with FINI, but it would no longer drive the market’s pre-funding lock-up or ultimate interbank settlement volume in a linear manner.

34. Did HKEX consider other approaches to pre-funding validation?

Yes. HKEX explored and simulated numerous alternatives that included:

- calculating every CP’s prefunding requirements dynamically based on its market share of overall public offer demand as it is recorded in FINI
- adopting a first-come-first-serve share allotment model in the public offer, with instant settlement, akin to how concert tickets are typically sold
- limiting individual subscriptions to a modest “retail” amount, such that an individual’s payment default does not endanger the offering as a whole, and thus pre-funding may not be required
- setting an arbitrary pre-funding requirement based on the size of each IPO, so that (for example), large-cap IPOs require 20% down-payment from all subscribers while GEM IPOs require 60%
- allowing investors to subscribe to public offers without an intermediary, using a credit card or other online payment mechanism such as FPS
- adapting the public offer balloting mechanism to remove uncertainty in each subscriber’s potential allotment of shares

In considering these alternatives, HKEX held extensive discussions with the SFC and HKMA, in recognition of the need to balance legal and regulatory principles, fairness to investors, financial stability, risk management measures, market expectations and difficulty of adoption. Many of these approaches were also tested with the FINI “study group” that has advised HKEX on this project.

While nothing is ruled out in perpetuity, the proposed model represents a balance of these principles that HKEX believes can be acceptable to all parties and help Hong Kong achieve the outcome that we believe would benefit everybody: a shorter IPO settlement process.

Miscellaneous

35. Does FINI use distributed ledger (blockchain) technology?

No. The functionality and technical requirements of the platform can be effectively addressed with a centralised ledger design and a mature enterprise-grade technology stack. This does not mean, however, that HKEX would rule out adopting blockchain for certain components of FINI in the future.

36. Who will have the intellectual property rights to data and information on the FINI platform?

HKSCC as the operator of the FINI platform would own the intellectual property rights to data and information compiled or generated by FINI.