Project FINI Update

HKAB webinar

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IPO Process Management | Innovation and Data Lab

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HKEX
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Summary

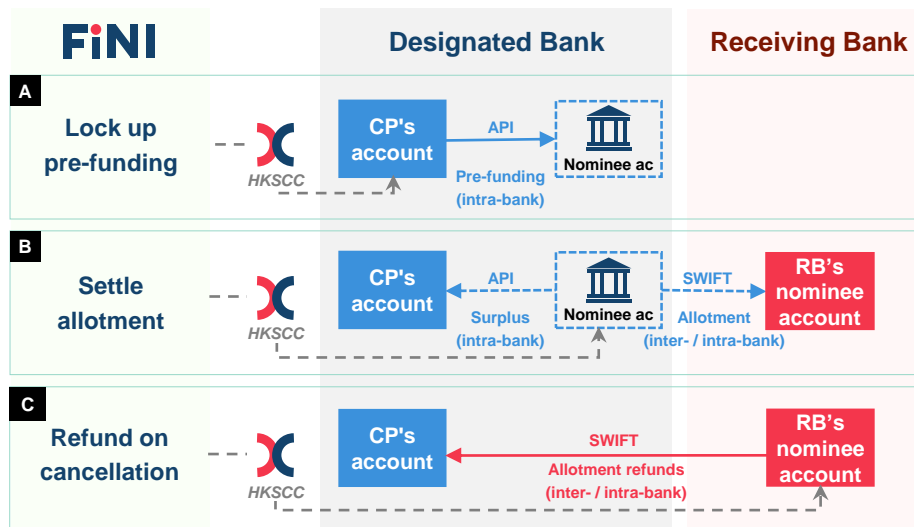|	
Project updates	▪ Published FINI Conclusions Paper and Information Pack **[6 July 2021]** ▪ Held HKAB session on FINI's pre-funding model on **[26 July 2021]** ▪ Held HKMA Banking Supervision / Banking Policy briefing on pre-funding workflows **[18 August 2021]**
EIPO funding model	▪ Confirmed: will use nominee account structure to validate and on-hold subscription money **[Slide 4]** ▪ Revised money settlement workflows following market / legal feedback **[Slide 5]**
On-boarding & governance	▪ Defined required on-boarding procedures and ongoing governance on FINI IPO-related activities **[Slide 7]** ▪ Defined legal roles and responsibilities of banks under FINI EIPO **[Slide 8]**
Next steps [Slide 10]	▪ Publish user on-boarding materials and application procedures ▪ Publish payment-related API and SWIFT MT specifications

EIPO funding model

EIPO funding model
Use of Nominee Account Structure

Legal title	DB, or its nominee company
# of nominee account(s)	One per DB, across all CPs / IPOs

Interest-bearing	DB's discretion
Money recycling	No restriction from HKEX, subject to HKMA guidelines

	FiNI	Designated Bank	Receiving Bank

A — Lock up pre-funding

HKSCC — CP's account → (API, Pre-funding (intra-bank)) → Nominee ac

A After Public Offer close: DB to transfer pre-funding from CP's account to nominee account, then provide confirmation to HKSCC

B — Settle allotment

HKSCC — CP's account ← (API, Surplus (intra-bank)) — Nominee ac → (SWIFT, Allotment (inter- / intra-bank)) → RB's nominee account
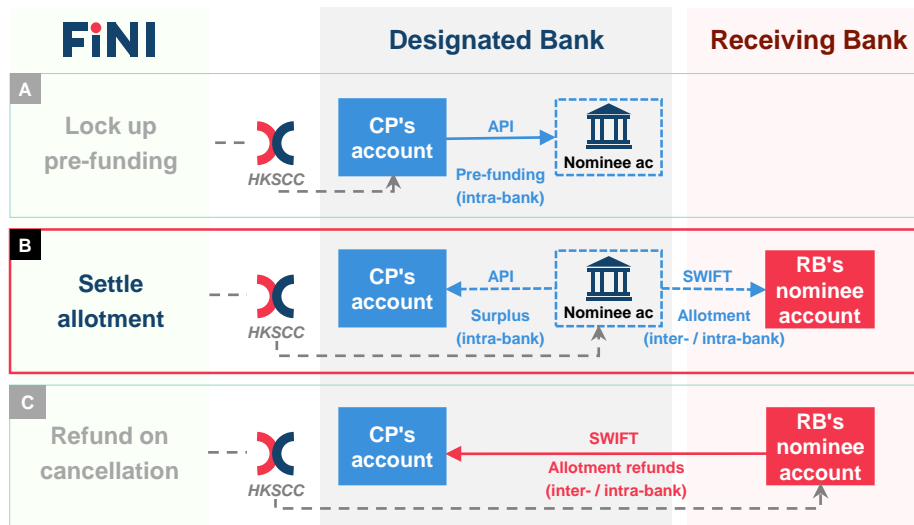
B After pricing / ballot: DB to transfer from DB's nominee account: (i) allotment to RB's nominee account; and (ii) surplus to CP's account

C — Refund on cancellation

HKSCC — CP's account ← (SWIFT, Allotment refunds (inter- / intra-bank)) — RB's nominee account

C IPO cancellation after settlement (extreme case): RB to transfer allotment refunds from RB's nominee account to CP's account

EIPO funding model
Revised money settlement workflows

FiNI | **Designated Bank** | **Receiving Bank**

A — Lock up pre-funding
- HKSCC → CP's account → API → Nominee ac
- Pre-funding (intra-bank)

B — Settle allotment
- HKSCC → CP's account ← API ← Nominee ac → SWIFT → RB's nominee account
- Surplus (intra-bank)
- Allotment (inter- / intra-bank)

C — Refund on cancellation
- HKSCC ← CP's account ← SWIFT ← RB's nominee account
- Allotment refunds (inter- / intra-bank)

Previous proposal

- HKSCC → Nominee ac → API → CP's account + HKSCC → CP's account → SWIFT → RB's nominee account
- Pre-funding (intra-bank)
- Allotment (inter- / intra-bank)

Concerns raised over using the CP's account to settle allotment
- CP's account may have been suspended overnight, creating ambiguity over procedure
- Possible (albeit improbable) time gap between refund and settlement would allow CP to redirect funds for other purposes
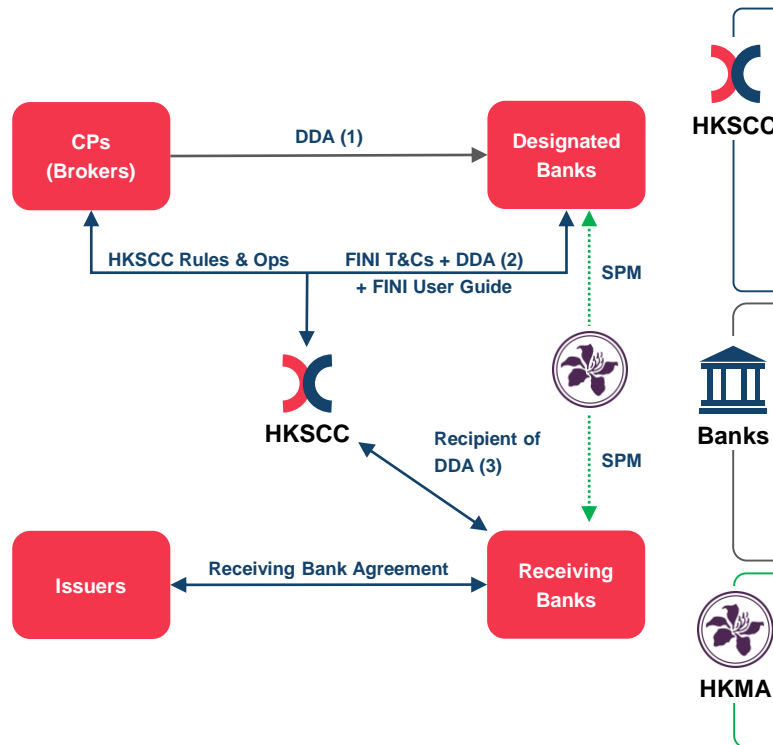
Revisions
- HKEX will issue two separate instructions to the DB's nominee account to: (i) transfer allotment to RB's nominee account; and (ii) refund surplus to the CP's account

On-boarding & governance

On-boarding & governance

HKSCC

- **HKSCC Rules & Ops**: Defines the duties, roles, obligations and liabilities of CPs (inclusive of those who are also DBs)

- **FINI T&Cs**: Defines the rights, duties, roles and responsibilities of FINI users, including *DBs* and their specific IPO-functions

- **DB Supplement:** DBs' roles and responsibilities in respect of prefunding confirmation and allotment money settlement

- **FINI User Guide:** Sets out the operational details and system functions of FINI

Banks

- **DBs** – standing direct debit authorisations (DDAs) to:

  DDA (1) Move pre-funding from the CP's account to the DB's nominee account

  DDA (2) Move allotment from the DB's nominee account to the RB's nominee account

  DDA (2) Move surplus refunds from the DB's nominee account to the CP's account

- **Receiving Banks (RBs)** – DDA (3) set up per IPO to:

  o Move allotment refunds from the RB's nominee account to the CP's account

HKMA

- **Supervisory Policy Manual (SPM)**

  o Outline banking risk management standards associated with IPO financing

  o Define best practices on RB's liquidity management

DB's legal responsibilities

The DBs should ensure that they have adequate arrangements to track and to protect application monies until instructed by HKSCC to transfer funds to the RB(s).

This means that the application monies are to be held in a nominee account opened in the name of the DB or its nominee company, to separate CPs' pre-funding monies from the CP's account, by the DB as **a nominee**. The DBs will manage the CPs' monies in this nominee account only in accordance and upon the instruction and direction of the CPs (functionally to be instructed by HKSCC via FINI with relevant DDAs in-place).

The DBs will be responsible for holding application monies until allotment, after which the allotment funds are transferred to the RB(s) and any surplus application monies are refunded to the CPs' accounts. The RB(s) will then be responsible for holding the funds until the offering becomes unconditional, when the allotment funds are transferred to the issuer's designated bank account.

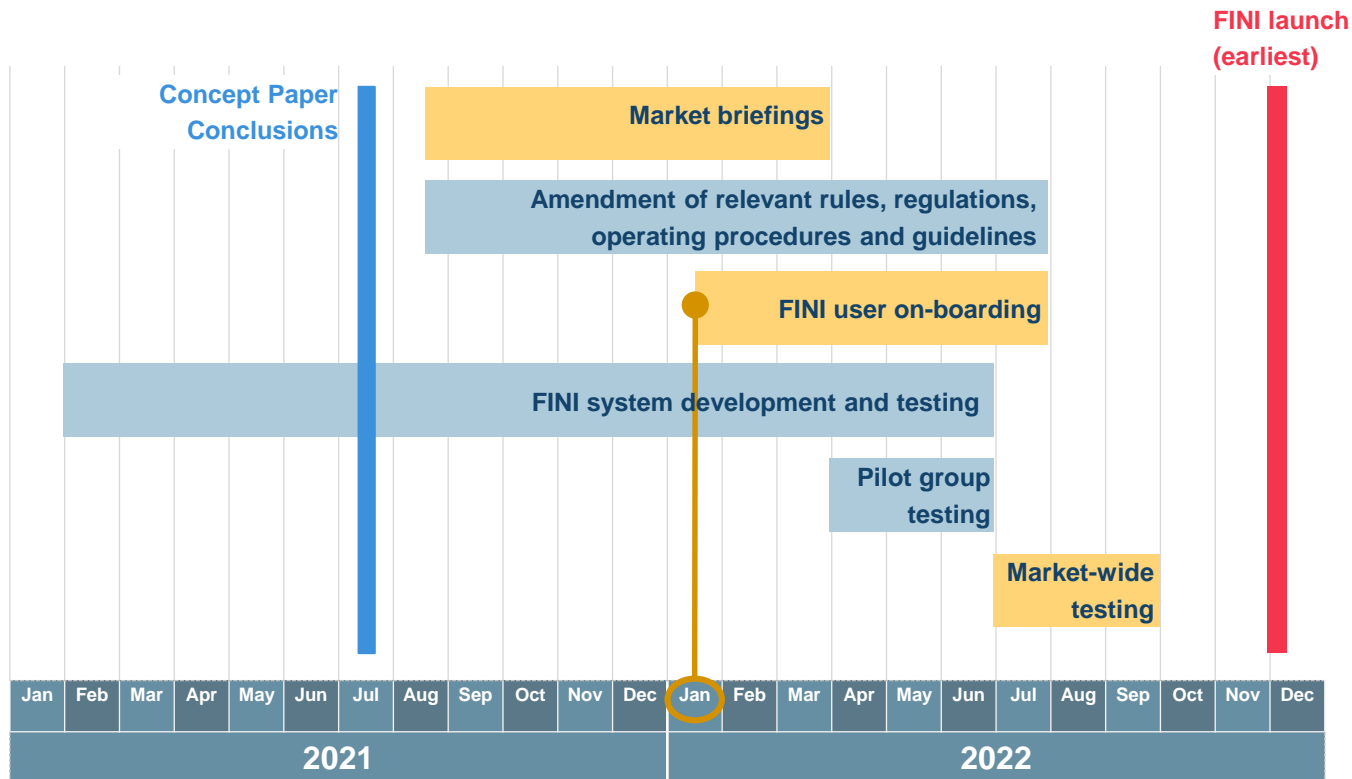# Next Steps

Next steps [Q4 2021]

1 **User on-boarding**

▪ HKEX expects to publish on-boarding materials and updated Information Pack on https://www.hkex.com.hk/fini.

  o **EIPO DBs who <u>are not</u> existing users of HKEX Client Connect should:**

  • Submit HKEX Systems Registration Form for on-boarding onto HKEX Client Connect and agreeing to the FINI T&Cs (inclusive of new direct debit authorisations).

  o **EIPO DBs who <u>are</u> existing users of HKEX Client Connect should:**

  • Submit a HKEX Client Connect Form for agreeing to the FINI T&Cs (inclusive of new direct debit authorisations).

▪ Market participants may also contact the FINI project team via email (projectfini@hkex.com.hk) or telephone (+852 2211 5888).

2 **System development**

▪ HKEX has finalised the payment workflow and will publish the payment-related specifications on https://www.hkex.com.hk/fini

  o **The RESTful API Gateway** will include two DB-related functions: Enquire EIPO Funding (GET) and Confirm EIPO Funding (POST).

  o **The SWIFT MT interface** will include three SWIFT MT message types, including (i) MT 101 (Payment Instruction); (ii) MT 900 (Confirmation of Debit); and (iii) MT 195 (Payment Rejection).

FINI target roll out no earlier than Q4 2022

Concept Paper Conclusions

FINI launch (earliest)

Market briefings

Amendment of relevant rules, regulations, operating procedures and guidelines

FINI user on-boarding

FINI system development and testing

Pilot group testing

Market-wide testing

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

2021   2022

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