HKD-RMB Dual Counter Model

Frequently Asked Questions on Issuer, Trading, Clearing and Settlement, and Risk Management Arrangements

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Note: The design and implementation of the HKD-RMB Dual Counter Model ("Dual Counter Model") are still under discussion between the relevant parties and the final Dual Counter Model will be subject to regulatory approvals. This document will be updated from time to time to reflect the latest development and market participants are reminded to refer to the latest version for further details.

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Overall

1. What are Dual Counter Securities, Dual Counter Market Making ("DCMM") programme and Dual Counter Model and how they are related?

Dual Counter Securities refer to securities with HKD and RMB counters ("HKD-RMB Dual Counters") designated by HKEX and are eligible for DCMM programme. The list of Dual Counter Securities would be published by HKEX from time to time, and only equity securities (excluding Exchange Traded Products ("ETPs")) listed in both HKD and RMB counters would be considered for designation.

Subject to regulatory approval, the Dual Counter Model will further enhance the trading and settlement model for Dual Counter Securities, and such securities would be designated and published by HKEX from time to time at and after the rollout of the Dual Counter Model. The new DCMM programme is a new market making programme to be introduced under the Rules of the Exchange to support inter-counter Dual Counter Securities trading, in order to provide liquidity and minimize price discrepancies between the two counters.

Furthermore, a new optional function under Central Clearing and Settlement System ("CCASS") would be introduced to facilitate intra-day interchange for holdings in Stock Clearing Account ("A/C 01") between HKD-RMB Dual Counters for settlement (the "Interchange Function"), which would streamline the settlement process of the Clearing Participants.

The overall trading, market making and settlement model (including the Interchange Function) of HKD-RMB Dual Counters is referred to as the "Dual Counter Model" and its implementation would be subject to regulatory approvals. The Dual Counter Model is expected to commence in the first half of 2023.

Issuer Related Matters for Dual Counter Securities

2. **What would be the benefit for an issuer to list both HKD and RMB counters and then be designated as a Dual Counter Security?**

   The issuer with dual counter arrangement including a RMB counter under the Dual Counter Model can offer investors choices of trading currency and potentially tap into new RMB liquidity. Further, a Dual Counter Security designated by HKEX may have market makers which would provide liquidity and narrow the price discrepancies between its HKD-RMB Dual Counters.

3. **What would be the application process or requirements, processing time and cost required for a listed issuer to launch a RMB counter?**

   As the Dual Counter Model affects the trading arrangements, a listed issuer is advised to agree with HKEX the proposed timetable and trading arrangements with HKEX, make an application with Hong Kong Securities Clearing Company Limited ("HKSCC") for the listed securities to be accepted as multi-counter eligible securities as defined under the General Rules of CCASS ("CCASS Rules"), and issue an announcement to inform the market of the arrangements.

   Listed issuers are suggested to check with their legal advisers if any shareholder meeting or Board approval would be required for launching a RMB counter.

   There is no specific mandated timetable for the application of a RMB counter.

   There would be no fee payable to HKEX to launch an additional RMB counter. Listed issuers are advised to check if any other fees or charges (such as fees required for new International Securities Identification Number ("ISIN") registration, fees required for share registrar, etc. if applicable) would be required to launch a RMB counter.

4. **Are holders of securities under the RMB counter and the HKD counter under the Dual Counter Model treated differently?**

   Securities under the two counters are of the same class and holders of these securities shall be entitled to identical rights under the issuer's constitutional documents. The HKD-RMB Dual Counter arrangement is for trading and settlement purposes only. Please refer to Question 33 for physical certificate deposit details.

5. **How is the market capitalization of a Dual Counter Security calculated?**

HKEX calculates the market capitalization of a Dual Counter Security by multiplying the total number of issued securities with the closing price of the HKD counter. HKEX will continuously review this calculation method, taking into account the development of market practice for the Dual Counter Model, relative liquidity of the Dual Counter Securities and market feedback.

6. **Will there be any change in the calculation of (i) the public float; (ii) the size limits on general mandate for issuance/repurchase of securities; or (iii) size limits on grants of share awards or options under share schemes under the Listing Rules, after a listed issuer adopts the Dual Counter Model? How will the benchmarked price be determined if the listed issuer proposes a general mandate placing? (applicable to equities)**

   There will not be a change in the calculation of the public float and size limits. They are calculated with reference to the total issued securities of the listed issuer. The benchmarked price will be calculated with reference to the closing price of the listed issuer’s securities traded under the HKD counter.

7. **Can a listed issuer repurchase securities from RMB counter and/or HKD counter or both under a repurchase mandate? (applicable to equities)**

   It will be the issuer's option to decide.

8. **Can a listed issuer remove one of the counters?**

   It will be the issuer's option to decide.

9. **Will a security automatically become a Dual Counter Security if it has two stock counters denominated in HKD and RMB for trading and settlement?**

   Certain securities with both HKD counter and RMB counter would be designated and published by HKEX from time to time after the rollout of the Dual Counter Model.

Trading

10. Can a Dual Counter Security be transferred between the two counters??

Securities under the two counters are of the same class, holdings of securities in the two counters can be interchanged without change of beneficial ownership. Please refer to Question 26 for details of the transfer between the two counters.

11. How may a Dual Counter Security under the Dual Counter Model be identified? How can investors distinguish between the two counters of a Dual Counter Security? Are there any identification in their stock codes and stock short names?

The list of Dual Counter Securities would be designated and published by HKEX from time to time at and after the rollout of the Dual Counter Model.

An investor can distinguish between the two counters by their stock codes and their stock short names.

The general principle is that separate and unique stock codes are assigned to the HKD and RMB counters respectively. For an equity, the stock code for RMB counter will be a 5-digit number starting with an "8", while a 5-digit number starting with a "0" would be assigned for the HKD counter.

The last four digits of the stock codes for the two counters will normally be the same[1], in line with the existing allocation arrangement.

- HKD counter - 0XXXX
- RMB counter - 8XXXX

The stock short names for the two counters will also be different. For the RMB counter, the stock short name will end with -R to indicate that the securities are traded in RMB. There will be no specific marking in the stock short name of the HKD counter.

The following is an illustrative example of the stock short names:

- HKD counter – "XYZ"
- RMB counter – "XYZ -R"

Depending on the different circumstances relating to the two counters, it is our understanding that an 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), Exchange

[1] The last four digits of the stock codes for the two counters will be identical except for six counters. 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.

Participant ("EPs") and Clearing Participants ("CPs") may consider using the unique identifier, i.e. the stock code, to identify the two counters.

12. For stamp duty, exchanges fees and levies, what currency/currencies will investors/brokers use to pay for trades?

For secondary market trading in the RMB counters, trading related fees and levies (such as the SFC Transaction Levy, FRC Transaction Levy, etc.) and stamp duty should be paid in HKD. Brokers may provide currency conversion services to collect corresponding RMB amount of trading related fee and levies from investors and convert it into HKD for payment. Investors should consult their brokers on the trading related fee and levies collection offering.

13. How do single-counter and inter-counter trading work?

<u>Single-counter trading</u>

Single-counter trading is equivalent to trading HKD-denominated securities or RMB-denominated securities and there are no additional requirements for brokers as compared to today. As usual, for trading under the RMB counters, brokers should ensure their own readiness for trading and settlement of securities in the RMB counters.

<u>Inter-counter trading and settlement</u>

Inter-counter trading means buying in one counter and selling in another counter as two independent transactions, even though both transactions involve the same security. However, brokers and their clients should ensure that necessary actions are taken (e.g. interchanging securities from one counter to another) to prevent failed settlement.

Brokers should review and ensure that their front and back office systems, as well as operations are ready to support such client trading activities.

If a broker's systems cannot handle automatic inter-counter trading and transfer, the broker should have a set of guidelines advising their clients on how inter-counter trading can be processed manually and communicate with its clients clearly on how these trading activities can be supported and if any additional charges will be imposed.

From a regulatory standpoint, subject to compliance with the market misconduct provisions under the Securities and Futures Ordinance and other related rules and regulations (e.g. short selling), investors may buy securities from one counter first and then sell the same quantity on the other counter on the same day. Investors should be reminded that:

- such inter-counter day trades may lead to settlement failure of the sale trades in CCASS on T+2 if the securities of the buy trades are only delivered at the last settlement run on

T+2, leaving not enough time to transfer the securities to the other counter to settle the sale trades on the same day. Although HKSCC may grant the concerned CPs T+3 buy-in exemption under certain circumstances and with the provision of necessary documentary evidence, investors may still be subject to additional handling fees imposed by his/her broker, and may not have the sale trades available from his/her broker until T+3 or even later; and

- it is optional for EPs and CPs to provide inter-counter day trade services according to their operational capability, system limitations, settlement risks (as noted above) and any other business consideration.

Investors should consult his/her broker and understand the inter-counter day trade services, including the associated risks and fees, before engaging in any inter-counter day trades.

14. Do brokers need to enhance their systems or processes to support the Dual Counter Model?

The Dual Counter Model largely follows the existing trading arrangements for securities denominated in RMB (price validations, order types, trading sessions, etc.). For inter-counter transactions of the same securities, it involves 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.

15. Currently OTP-C performs different checks before an order can be accepted to the central order book (e.g. the order price cannot deviate for more than 9 times from the current nominal price). How will such checking be performed for RMB counters?

OTP-C applies checking at the order level against the parameters of the specific counter, irrespective of the counter's trading currency.

16. Would the buying/holding of one counter followed by the selling in the other counter be regarded as a long sale or a short sale?

As the securities in the two counters are of the same class and interchangeable, the sale would normally be regarded as a long sale.

17. Would the buying of securities in one counter followed by the selling in the other counter within the same trading day be permissible?

Yes, subject to compliance with the market misconduct provisions under the Securities and Futures Ordinance and other related rules and regulations. This would be permissible under the existing Rules of the Exchange. However, in order to meet the settlement obligation, brokers should alert their clients the time and fees (if any) required to transfer securities from one counter to the other. EPs should also require and facilitate their clients to do the transfer for timely settlement of transactions on T+2.

18. For Designated Securities eligible for short selling, would borrowing of securities in one counter followed by selling in the other counter be regarded as a covered short sale?

Yes, as the securities in the two counters are of the same class and interchangeable, the sale would normally be regarded as a covered short sale and thus subject to the relevant short selling regulations as stipulated in the Eleventh Schedule of the Rules of the Exchange and the Securities and Futures Ordinance.

19. If the HKD counter is already a Designated Security eligible for short selling, will the RMB counter become a Designated Security too?

The list of Designated Securities eligible for short selling is published on the HKEX website.

In principle, if the HKD counter (or the RMB counter) is already a Designated Security eligible for short selling, HKEX will designate the RMB counter (or the HKD counter) as a Designated Security eligible for short selling after consulting the Securities and Futures Commission.

20. Where is the first sell order in RMB counters coming from in the secondary market? Is the price in the RMB counter based on supply and demand or pegged to share price of the HKD counter? Any price difference between the HKD-RMB Dual Counters?

As securities are interchangeable between the HKD-RMB Dual Counters, the first sell order in the RMB counters would be securities that will be converted from the respective HKD counter. There will be no price pegging between the two counters and the price of the RMB counter will be decided by supply and demand. There may be a price difference, adjusted by exchange rate, between the HKD-RMB Dual Counters and a DCMM programme will be in place to minimize the price difference and provide liquidity.

Clearing and Settlement

21. How does the clearing and settlement of the HKD-RMB Dual Counters work? Are there any differences to the existing settlement mechanism?

Exchange trades executed under the two counters will be cleared and settled in CCASS as if they are two individual and independent stocks. After netting under the CNS System, one CNS stock position will be netted for each counter, i.e. RMB counter and/or HKD counter. CPs should settle their CNS stock position on the basis of T+2 per counter basis, which is in line with the existing settlement mechanism.

22. How are "inter-counter" day trades settled?

As always, CPs should ensure that they have sufficient securities available to fulfill their CNS short positions on T+2. For "inter-counter" day trades, if a CP relies on securities received from a long position in one counter to settle its short position in another counter, CPs should submit a "Multi-counter Transfer Instruction" ("MCTI") to HKSCC through CCASS Terminals before 3:45 p.m. or opt for the new optional service "Intra-day Counter Interchange for Settlement" ("ICI") (see Question 26 below). In case the securities received from the long position are subject to the on-hold mechanism, CPs should effect cash prepayment to release the CNS allocated securities before effecting the inter-counter transfer. All activities related to MCTI and ICI are recorded in a CCASS report which is available to CPs for reconciliation purpose.

23. Will buy-in exemptions be granted for the settlement of "inter-counter" day trade?

Buy-in exemption will be considered for applications that satisfy the prescribed conditions under the applicable rules and regulations. Where the CP has an unsettled short position in one counter and has sufficient securities and/or long position in the other counter following the transfer of which are sufficient to settle the relevant short position on T+2, the CP can submit an "Application Form for Exemption of Buy-in" to HKSCC no later than 8:00 p.m. on T+2. The CP is required to provide HKSCC with a copy of the relevant CCASS report evidencing the securities and/or long position are available to cover the relevant short position on T+2; and all overdue short positions shall be settled by day-end of T+3 if the exemption is granted.

24. How to effect the inter-counter transfer in CCASS?

In order to trigger the inter-counter transfer, CPs can make use of:

1. MCTI via online maintenance or batch upload; or
2. ICI via online maintenance or standing instruction.

25. How to effect a MCTI in CCASS? What is the timing to effect a MCTI?

CPs should submit their MCTI electronically via CCASS online maintenance available from 8:00 a.m. to 3:45 p.m., or via batch upload function available from 8:00 a.m. to 2:00 p.m.

26. What is ICI? How can it help the settlement for a Dual Counter Security?

ICI is a new optional service in CCASS to facilitate the interchange of holdings between HKD counter and RMB counter of same stocks in a CP's Stock Clearing Account for settlement purpose. The interchange can be from the RMB counter to the HKD counter, and vice versa.

To opt for ICI services, CPs can either provide ICI standing instructions (each an "ICI Standing Instruction") or input ICI requests online. CCASS will compare the CP's outstanding position against its A/C 01 holdings at around 3 p.m. on each Settlement Day. If the A/C 01 holdings for a particular counter is insufficient to settle the outstanding short position, CCASS will interchange the available quantities in the A/C 01 of the opposite counter with ICI.

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 the Interchange Function.

27. How to effect an ICI in CCASS? What will be the timing to effect an ICI and how does it work?

To effect an ICI, CPs can either provide ICI Standing Instructions or input an ICI request online.

For online input, CPs can select any Dual Counter Securities or Multi-counter Eligible Securities with outstanding positions to trigger an one-off ICI request on each Settlement Day.

For setting up an ICI Standing Instruction, CPs can choose to cover all Multi-counter Eligible Securities or only Dual Counter Securities. The authorized ICI Standing Instruction will be effected in the next ICI batch run at 3:00 p.m. on each Settlement Day going forward until the ICI Standing Instruction is revoked. 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 holdings for RMB counter is insufficient to settle its own outstanding short position, CCASS will check if its corresponding HKD counter has more than enough holdings to settle its own outstanding short position and if so, the extra holdings of the HKD counter will be interchanged to the RMB counter to cover as many of its outstanding short positions as possible.

28. Can CPs reverse an ICI request or further transfer quantities between HKD counter and RMB counter?

CPs can make use of MCTI to reverse or adjust the quantities between the two counters before 3:45 p.m.

29. What are the differences between MCTI and ICI?

	MCTI	ICI
Scope of eligible securities	All Multi-counter Eligible Securities, applicable for all currencies including HKD/RMB/USD	All Multi-counter Eligible Securities, applicable for HKD counter and RMB counter only
Eligible users	All CPs	Direct Clearing Participants, General Clearing Participants and Clearing Agency Participants
Maintenance window	Batch upload: 8:00 a.m. – 2:30 p.m. Online input: 8:00 a.m. – 3:45 p.m.	Standing Instruction: 8:00 a.m. – 2:00 p.m. Online input: 2:00 p.m. – 3:00 p.m.
Features	• CPs need to specify the transfer quantity in their transfer instructions • Can be used for holdings in all of the CP's stock accounts (except Stock Collateral Control Account and SSA with Statement Service) • No limitation on the number of MCTI inputs for each pair of securities of the same issuer.	• CPs are not required to input the transfer quantity. Instead, HKSCC will determine the transfer quantity during ICI Batch Run at around 3:00 p.m. on each Settlement Day • Only holdings in A/C 01 can be interchanged • Only one ICI will be generated for each pair of securities of the same issuer
Timing	Can be triggered on any CCASS day	Can only be triggered on Settlement Day

More information on ICI and revised CCASS Terminal User Guides will be provided in due course.

30. HKEX also has a Dual Tranche and Dual Counter (DTDC) model. What are the differences between the existing DTDC model and the Dual Counter Model from a clearing and settlement perspective?

There is not much difference between DTDC and the Dual Counter Model except that normal deposit and withdrawal services will not be available for the RMB counter under the Dual Counter Model. Market participants should note that the trading arrangements under the DTDC model and the Dual Counter Model are different, please refer to the FAQ of the respective model for details.

31. Will dividends be paid in HKD or RMB?

Any dividend policy (and for that matter other corporate actions) will have to be consistent with the fact that the securities of the two counters are the same class of securities. Hence, all shareholders of Dual Counter Securities under HKD-RMB Dual Counters should be treated equally since the two counters are of the same share class.

Subject to the above and insofar as dividend payment is concerned, an issuer may offer an option to all the holders of the securities to elect to take a dividend in the currency in which the dividend is declared or in an alternative currency or currencies, and set a different default currency for the respective counters in the absence of an election by the holders of the securities. Therefore, the dividend option available should be consistent across all shareholders no matter they are holders of securities under the RMB or HKD counter.

In the case where the issuer offers to pay a dividend in RMB (as an option), it will have to consider its access to RMB for dividend payment and its obligation in that respect in relation to the availability of RMB. There should be adequate disclosure in relation to dividend payment and currency options (if any) in the relevant offering document or announcement.

32. Will bonus or scrip shares be issued in the form of RMB counter securities or HKD counter securities? (applicable to equities)

All CPs will receive securities in RMB counter or HKD counter based on the shareholding under the respective RMB or HKD counters as of the relevant shareholding record date in CCASS.

33. Can physical certificates of one counter be deposited into CCASS to be booked under its opposite counter?

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 CCASS Rules relating to physical deposit and withdrawal of securities will not be applicable. In order to book the holdings into RMB counter, CPs will need to deposit the share certificates into CCASS, and then effect a Multi-counter Transfer Instruction to transfer the holdings from HKD counter to RMB counter. Likewise, for withdrawal in RMB counter, a CP will need to effect a Multi-counter

Transfer Instruction to transfer the holdings from RMB counter to HKD counter, and then submit a withdrawal order in accordance with the applicable rules and procedures.

Thus, it is not possible to deposit physical certificates of one counter for booking under the opposite counter. Investor should refer to issuer's prospectus or listing documents for more information.

Risk Management

34. How will marks and margin be calculated for Dual Counter Securities?

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 HKSCC, i.e. Marks and margin offset is allowed between the HKD-RMB Dual Counters[2]. 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.

35. After a MTCI or an ICI for Settlement Request is effected in CCASS, will the interchanged securities be subject to any on-hold / earmark mechanism?

No, inter-counter transfers/ interchanges are not subject to any on-hold / earmark mechanism. Securities are freely transferable after they are interchanged from one counter to the other counter.

36. Can CPs conduct margin and/or stress test simulation for RMB counter securities?

Yes, CPs can conduct margin and/or stress test simulation for RMB counter securities. For more details, please refer to Margin and Stress Test Simulation.

37. Can CPs use its holdings in one Stock Collateral Control Account to cover the position in another counter?

No, the specific stock collateral should be from the same counter as the original CNS position. CPs should effect a MCTI to transfer the shareholdings from one counter to the other counter as necessary.

[2] For stocks classified under Tier P margining, please refer to the Initial Margin Calculation Guide for details.