



CONCEPT PAPER

MODERNISING HONG KONG'S IPO SETTLEMENT PROCESS

The Law Society's Submissions

The Stock Exchange of Hong Kong Limited (“HKEX”) issued a concept paper on 16 November 2020 on modernising Hong Kong’s IPO settlement process (“Concept Paper”). In response thereto, the Law Society provides the following submissions on the questions posed.

The same abbreviations and definitions appearing in the Concept Paper are used in the submission below.

Question 1. Do you support the overall proposal outlined in this Concept Paper?

Law Society's response:

We support the proposal outlined in the Concept Paper – namely, the prospective roll-out of the Fast Interface for New Issuance (“FINI”) platform and the HKEX’s objective of centralising the various IPO settlement work streams via the platform, with the aim of allowing settlement and trading of new share issuances on the Exchange the day after IPO pricing (i.e. T+1).

By allowing the myriad of professional parties and regulatory bodies involved in a typical IPO to work off of a common platform and providing them access to standardised real-time data, we believe FINI has the potential to improve the overall efficiency of the IPO process and help maintain Hong Kong’s competitiveness as a venue for companies looking to list. The use of a standardised electronic system will also likely reduce the chance of human error and further streamline the process for regulatory review. FINI would also be an appropriate “home-grown” improvement capable of accommodating Hong Kong’s unique placee vetting process.

Question 2. Do you have any comments or suggestions regarding specific aspects of the proposed reform or the functionality of the proposed FINI platform?

Law Society's response:

1) Market Readiness and Education

FINI and the HKEX's proposed paperless listing and subscription regime are complementary initiatives. Although FINI will be used primarily by market participants, the proposal, once implemented, will result in an accelerated book-close-to-settlement timetable. We believe that the market, particularly retail investors, should be educated on the new timing and the initiatives in general prior to their respective roll-out, with a view to encouraging investors to embrace the new digital processes.

As a general point, since the adoption of FINI will result in changes to the IPO process and will probably affect the current workflows and internal processes of at least some of the market participants, we trust that the HKEX has consulted the relevant market participants and will conduct trial runs to ensure a smooth transition.

2) Data Security

While we note that FINI is expected to implement prevailing data protection practices consistent with those used by HKSCC¹ in its operation of CCASS², FINI will be accessible by many market participants that may have different data security practices. There is a potential risk that market participants may be targeted for their access to the FINI system (for example via social engineering or hacking), particularly given the centralised nature of FINI. Market practitioners should ensure that their internal processes and systems are secure and that they follow applicable industry guidelines and standards imposed by the relevant regulators. Market participants should also ensure that access to FINI is limited only to those who need to use it. This should probably be merely a matter of reminding market participants of their existing information security obligations and the importance of complying with those obligations in this new digital process.

3) Contingency in the Event of Downtime

Any glitches or unforeseen downtime experienced by FINI, particularly during the period from when book-building closes to announcement of allotment results, could impact an issuer's listing timetable. This concern is more pronounced given

¹ Hong Kong Securities Clearing Company Limited

² Central Clearing and Settlement System

the accelerated timeline that will be made possible by FINI. We ask the HKEX to provide guidance on how issuers should proceed in the event of any unexpected downtime, what contingencies are expected to be in place, and how HKSCC will communicate the information and work with market participants in such a scenario.

Question 3. Are there any other aspects of Hong Kong's IPO process that are not featured in this Concept Paper, but which you would like to see included as part of this proposed reform?

Law Society's response:

None save for the above.

**The Law Society of Hong Kong
22 December 2020**

