



FSDC's Response to HKEX's Concept Paper on Modernising Hong Kong's IPO Settlement Process

The Financial Services Development Council ("FSDC") is pleased to note Hong Kong Exchanges and Clearing Limited (HKEX)'s publication of the Concept Paper on Modernising Hong Kong's IPO Settlement Process ("Concept Paper") in November 2020. On the whole, the FSDC expresses support for the proposed web-based service FINI (Fast Interface for New Issuance) as it can give investors significantly quicker access to new listings and, at the same time, reduce market risk during equity offerings.

Comments on the Concept Paper

In general, the FSDC is in support of the direction laid out in the Concept Paper for that FINI can bring Hong Kong – the premier IPO fundraising destination – to an additionally competitive level. As highlighted in our paper No. 09 "Positioning Hong Kong as an International IPO Centre of Choice" of June 2014, Hong Kong's relatively long exposure to the listing applicant as well as the underwriters can be very significant in a volatile market and will likely have adverse impacts on IPO pricing. This situation has placed Hong Kong less favorable than other leading IPO fundraising venues such as London and New York. With the proposed FINI being a potential solution, the time gap between IPO pricing and trading would be shortened from five business days to one. In turn, the price discovery process would be less impacted by extraneous circumstances and could more truthfully reflect the listing applicant's valuation. Given such reduced market risk, investors will likely be more willing to commit to an equity offering. Hong Kong's settlement cycle would become more on par with that of other major financial centres in the world.

The liquidity relief that the FINI proposal could offer to the Hong Kong market is another noteworthy merit. For years, intermediaries participating in the public offer tranche have been asked to commit and transfer full IPO subscription funds to the issuer on behalf of their subscribing clients at the outset. The intermediaries are not refunded until the ultimate allotment of shares and the final offer price are set. Such long days of funding lock-up can put pressure on the overall Hong Kong dollar liquidity, especially for sizeable IPOs or when extremely popular IPOs are launched close to each other. In some cases, investors borrow margin loans to over-subscribe an IPO, distorting the true picture of the retail demand. Now that with the FINI proposal, only the actual share allotment value of each broker would need to be collected by the issuer after balloting; and the brokers' funding could be used for some other meaningful purposes.

Maintaining funding liquidity is considered increasingly crucial as the appeal of Hong Kong as a destination of sizeable and popular IPOs continues to rise. Given the various enhancements introduced to the Hong Kong capital market over the years (for example, the amended listing rules which now allow listing of new economy issuers), the city is seeing a strong pipeline of large IPOs, which may arrive at various stages of settlement at the same time. To capture these opportunities in the next decade and beyond, it is necessary for Hong Kong to advance its capital market infrastructures – through technological innovation and precision – towards a scripless securities market.

Notwithstanding the advantages of a more digitalised IPO settlement process, one should be mindful of the transition pace so that the interest of investors who prefer the traditional way will not be compromised. Although paper-based (both yellow and white forms) subscription channel is no longer prevalent, Hong Kong as an inclusive capital market has a role to play in placing different types of investors on a level playing field. In this context, the FSDC is pleased to note that the proposed FINI will support brokers' online



data entry on investors' behalf, alongside 'traditional format' subscription file uploads that are in use today. It is hoped that this supporting function of FINI will continue to be available until it is proven to be obsolete.

Conclusion

The FSDC welcomes HKEX's endeavour in modernising the IPO settlement process of Hong Kong; and the FINI proposal is anticipated to further enhance the city's attractiveness and competitiveness as the global listing market of choice.

**Financial Services Development Council
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