

Corporate Finance

Roll-out of the FINI platform for IPO settlement

Introduction

In November 2020, the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) issued a concept paper entitled “Modernising Hong Kong’s IPO Settlement Process” (the “**Concept Paper**”). The Concept Paper introduces a new, purpose-built platform named FINI, which stands for Fast Interface for New Issuance, to modernise the settlement process of initial public offerings (“**IPO(s)**”) in Hong Kong. FINI, if rolled out, is about to shorten the time required for the settlement process, which will in turn reduce the time between the close of offer and the listing of the securities, the transaction costs involved in IPO subscription and the related market risk.

Under the proposal, the new practice of pre-fund of 10% of the subscription money may address the large interbank movements of money during and after the offer period of popular IOPs that are usually in excess of the size of the offer, which has been known to create short-term liquidity shortage and borrowing rate spikes in the Hong Kong dollar money market.

The current timetable of settlement process

The current IPO settlement process on average takes five business days for the new shares to be allocated, settled and admitted to trading on the Stock Exchange after the price determination day (“**T+5 days**”), and that may expose investors and issuers to market risks as they are unable to trade the allotted shares in the secondary market and may be subject to market volatility during the period of T+5 days. The current IPO settlement process also causes a lock-up of subscription money after the investors making the subscription application.

FINI entails the digitalisation of IPO settlement process and it will enable market participants and regulatory authorities to interact with each other through a secure, web-based portal. By streamlining the logistics, it is expected that FINI can reduce the time for IPO settlement by 70-80%. Upon the introduction of FINI, shares can be first traded on the Stock Exchange one business day (“**T+1 day**”) after the price determination date and the proposed standard timetable is summarised as follows:

From	To	Steps
After hearing of the Listing Committee of the Stock Exchange	At 2:00 p.m., five business days before the price determination date (T-5)	1. Offer initiation <ul style="list-style-type: none"> Initiation of a new IPO will happen after a post-hearing letter is sent to the sponsor, and the sponsor will be invited to access FINI to initiate the offering by completing an e-form Once the e-form is submitted and checked, FINI will schedule the IPO to go active and start the public offer period
At 9:00 a.m., four business days before the price determination date (T-4)	After listing	2. IPO reference data live <ul style="list-style-type: none"> A standardised set of FINI IPO reference data will be available to the general public in the application programming interface (“API”) format The API format IPO reference data will serve as reliable, sponsor vetted source of structured, real-time information about every IPO
		3. Public offer management
At 9:00 a.m., four business days before the price determination date (T-4)	At 9:30 a.m., one business day before the price determination date (T-1)	3a. Open of public offer and input of investors’ subscriptions <ul style="list-style-type: none"> Retail brokers and share registrars who offer a public offer shares subscription service to investors are asked to input their clients’ subscription details into FINI in order for them to be accepted FINI will replace “EIPO” functions of the CCASS interface Paper applications (e.g. the yellow and white paper-based subscription forms) will be discontinued However, if the ultimate subscribers opt for offline applications, brokers and share registrars may still be able to enter subscriptions directly into the FINI system on their clients’ behalf as the brokers and share registrars may continue to offer their own paper subscription forms and payment methods to their clients
	At 9:30 a.m. (for close of subscription) and at 12:00	3b. Validation of pre-funding <ul style="list-style-type: none"> At least 10% of subscription value must be pre-funded in cash by intermediary and the remainder may be supported by either cash or committed credit

From	To	Steps
	noon (for close of public offer), one business day before the price determination date (T-1)	<p>facilities, and after the ballot, only the portion of the funds corresponding to the intermediary's actual allotment of the shares in the IPO will be collected by the issuer's bank as settlement</p> <p>Close of public offer</p> <ul style="list-style-type: none"> All public offer subscriptions with validated pre-funding will become irrevocable, and FINI will generate the basis for allotment to be used for balloting
At 12:00 noon, one business day before the price determination date (T-1)	At 2:00 p.m., one business day before the price determination date (T-1)	<p>3c. Allotment of shares via ballot</p> <ul style="list-style-type: none"> The share registrar will conduct the ballot for public offer and prepare an allotment results file, which it transmits back to FINI FINI will broadcast the public offer allocations and the share registrar may publish the public offer allotments via its own channels The Hong Kong Securities Clearing Company Limited (the "HKSCC") proposes to introduce a website for public offer subscribers to directly check their allocations by using their identity card numbers
At 2:30 p.m., one business day before the price determination date (T-1)	At 5:30 p.m., one business day before the price determination date (T-1)	<p>3d. Settlement of public offer proceeds</p> <ul style="list-style-type: none"> The HKSCC will via FINI generate instructions to the designated banks of the participants of the Central Clearing and Settlement System to send funds to the issuer's receiving bank Money settlement will be conducted through the Clearing House Automated Transfer System operational window, and the settlement outcome will be notified to HKSCC after 5:30 pm FINI will facilitate the deposit of successfully settled share allotments
	At 10:00 a.m. on the price determination date	<p>4. Confirmation of pricing</p> <ul style="list-style-type: none"> The sponsor will have to input the final IPO price into the FINI system, which will validate if the final price is within the range at which the IPO was marketed to investors and update the IPO's status, reference data and downstream workflows
	At 2:00 p.m. on the price	<p>5. Submission of placee information</p> <ul style="list-style-type: none"> Underwriters and distributors will use FINI to submit

From	To	Steps
	determination date	<p>their placee lists to the Listing Division of the Stock Exchange and the Securities and Futures Commission (the “SFC”) for review, instead of each of the underwriters and distributors sending their own IPO placee list in Excel file format separately to the Listing Division of the Stock Exchange</p> <ul style="list-style-type: none"> • The FINI platform can perform functions such as validation of the placee information for completeness. Any duplicates who are believed to have applied in the same offer will be flagged • Certain categories of placee directly in the lists, for example, connected clients or connected persons of the issuer, or placees that are non-SFC authorised funds will be flagged by the FINI platform
	At 5:00 p.m. on the price determination date	<p>6. Obtaining of regulatory clearance</p> <ul style="list-style-type: none"> • The Listing Division of the Stock Exchange and the SFC can raise questions and provide comments on the placee information via FINI, phone call or other customary methods, and their target timetable for providing clearance will be by 5:00 p.m. • The Listing Division of Stock Exchange will communicate the clearance through FINI
	At 11:00 p.m. on the price determination date	<p>7. Announcement of allotment results</p> <ul style="list-style-type: none"> • Once the placee allocations have been cleared, FINI will automatically generate a draft allotment results announcement, and 11:00 p.m. is the latest permissible time for publication of the announcement
At 9:00 a.m., one business day after the price determination date		<p>8. Commencement of trading</p> <ul style="list-style-type: none"> • Trading of the new IPO shares will start on the Stock Exchange the morning after the announcement of the allotment results
At 9:00 a.m., one business day after the price determination date		<p>9. Settlement of public offer price difference refunds</p> <ul style="list-style-type: none"> • HKSCC will generate instructions via FINI to the issuer’s receiving bank to refund any remaining price difference between the top and final IPO price in respect of all allotted shares after start of trading

Way forward

While FINI will be a central repository for data relating to the institutional and retail tranches of each IPO in Hong Kong and digitalise and streamline the current paper-based system, it will not take over the roles of the intermediaries, advisers and regulatory authorities or other off-platform process e.g. roadshows, book-building, IPO pricing and balloting.

New York and London, which are the other popular listing venues in the world, are able to allow IPO trading on the T+1 day after pricing. Stock Exchange proposes to make FINI as a mandatory platform for handling all future IPOs in Hong Kong, but the roll-out of FINI is expected to occur no earlier than the second quarter of 2022 and the timeline depends on the market's response to the FINI proposal.

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Important: The law and procedure on this subject are very specialised and complicated. This article is just a very general outline for reference and cannot be relied upon as legal advice in any individual case. If any advice or assistance is needed, please contact our solicitors.

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