

Oversight

SFC consults on investor identification regime

January 2021

Introduction

On 4 December 2020, the Hong Kong Securities and Futures Commission (SFC) published a consultation paper (Consultation Paper) on proposals to:

- implement an investor identification regime for the securities market in Hong Kong at the trading level (HK Investor ID Regime) for any securities listed and/or traded on the Stock Exchange of Hong Kong Limited (SEHK)'s trading system, except securities traded on the odd lot and special lot markets (In-Scope Securities); and
- introduce an over-the-counter securities transactions reporting regime for ordinary shares and units in real estate investment trusts (REITs) listed on the SEHK (OTC Securities Transactions Reporting Regime).

The SFC defined “the HK Investor ID Regime” in the Consultation Paper as “the arrangements, information systems, data, data storage, operator and relevant regulatory requirements collectively involved in achieving the proposed objectives”. The SFC invited the public to submit comments on the Consultation Paper by 4 March 2021.

The SFC proposes to introduce the HK Investor ID Regime by the first quarter of 2022 at the earliest and the OTC Securities Transactions Reporting Regime by the third quarter of 2022 at the earliest. The SFC further proposes to reflect the proposals in the Consultation Paper by adding new paragraphs 5.6 and 5.7 to the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct) respectively. The SFC has included an indicative draft of the new paragraphs 5.6 and 5.7 to the Code of Conduct in Appendix 4 of the Consultation Paper.

The purposes of this **Oversight** are to: (i) provide an overview of the SFC's proposals relating to the HK Investor ID Regime and the OTC Securities Transactions Reporting Regime; (ii) outline the steps which licensed corporations and registered institutions (collectively Regulated Intermediaries) need to take in order to implement the HK Investor ID Regime and the OTC Securities Transactions Reporting Regime; and (iii) highlight some practical considerations for the Regulated Intermediaries to consider.

Current Market Infrastructure and Drivers of SFC's Proposals

The existing market infrastructure and the drivers behind the SFC's proposals are as follows.

With the exception of the investor identification model for trading of eligible shares listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange under the Northbound Stock Connect (NB Investor ID Regime), Regulated Intermediaries may execute securities transactions:

- on-exchange through the SEHK's automatic order matching system (On-Exchange Orders);
- off-exchange outside the SEHK's automatic order matching system (Off-Exchange Trades) where such transactions are required to be reported to the SEHK within the timeframe prescribed under the Rules of the Exchange of the SEHK (OE Trade Reporting); and
- off-exchange outside SEHK's automatic order matching system and the consummation of which would result in off-exchange trades (Off-Exchange Orders)

without the need to disclose the identities of their clients.

Reportable Off-Exchange Trades may include those manual trades concluded by participants of the SEHK (EPs) or trades matched between clients of platforms operated by Regulated Intermediaries licensed by or registered with the SFC to conduct the regulated activity of providing "automated trading services" (Type 7).

The Consultation Paper's proposals capture On-Exchange Orders, Off-Exchange Trades and Off-Exchange Orders. (However, in the drafting of the amendments to paragraphs 5.6 and 5.7 of the Code of Conduct, somewhat confusingly, the SFC defines reportable off-exchange transactions as "Off-Exchange Trades" which are subject to the OE Trade Reporting requirements and the non-reportable off-exchange transactions as "Off-Exchange Orders" which are subject to the new OTC Securities Transactions Reporting Regime (see paragraph 5.6(b)(xv) of the draft amendment to the Code of Conduct). Amendments to the definitions of these terms – for example "Reportable Off-Exchange Trades" and "Non-Reportable Off-Exchange Trades", would make the new requirements easier to follow.)

The Regulated Intermediaries may execute the on-exchange and off-exchange transactions by themselves (whether as agents for their underlying clients or as principals) if they are EPs or through other Regulated Intermediaries that are EPs.

If the SFC detects unusual trading patterns and needs to obtain specific information relating to certain transactions (e.g. if the SFC has identified unusual trading patterns), it will need to issue notices to the EPs under Section 181 of the Securities and Futures Ordinance (SFO). This is commonly known in the market as "Section 181 Notice".

The SFC, on average, gives EPs a few business days to respond to its request for information. The SFC points out in the Consultation Paper that it typically takes "two or more rounds" of Section 181 Notices before the SFC is able to obtain the information it needs.

SFC's Key Proposals in the Consultation Paper

With the objectives to:

- improve transparency in respect of investors' identities to facilitate the SFC's market surveillance function;
- enhance the SFC's ability to identify suspicious trading activities;
- reduce compliance costs for both the SFC and the Regulated Intermediaries; and

- bring Hong Kong in line with a growing trend among regulators globally to develop investor identification requirements to facilitate more effective market surveillance capability (the European Securities and Markets Authority and the U.S. Securities and Exchange Commission have both implemented investor identification regime as part of the Markets in Financial Instruments Directive II and Consolidated Audit Trail Plans respectively. Appendix 3 of the Consultation Paper sets out further information on the investor identification regime in overseas markets),

the SFC proposes to introduce: (i) an investor identification system for any transactions relating to In-Scope Securities; (ii) an OE Trade Reporting requirement for Off-Exchange Trades relating to In-Scope Securities; and (iii) an OTC Securities Transactions Reporting Regime for shares listed on SEHK (i.e. ordinary shares of a company or units of REITs listed on the SEHK). ((i) and (ii) are collectively known as the HK Investor ID Regime).

The SFC proposes to first implement the HK Investor ID Regime with the ultimate aim to extend the regime to exchange-traded derivatives market.

HK Investor ID Regime

To implement the HK Investor ID Regime at the trading level, the SFC has proposed that Regulated Intermediaries must adopt at least the following measures:

- assign a “Broker-to-Client Assigned Number” (BCAN), a unique identification code, to each direct client. The term “direct client” is defined in draft paragraph 5.6(b)(vi) of the Code of Conduct as the “most immediate client of a licensed or registered person which has placed or proposes to place an on-exchange order or off-exchange order with that person”. Each BCAN should be able to identify a specific client of the Regulated Intermediaries, but it should not bear any obvious link to any of their identities. All Regulated Intermediaries must keep all BCANs confidential. The SEHK will provide more information on the format of the BCAN in due course;
- collect up-to-date client identification data (CID) from each direct client to whom the Regulated Intermediaries have assigned a BCAN and submit the direct client’s CID and BCAN by way of a “BCAN-CID Mapping File” to a central data repository to be maintained by the SEHK by a prescribed time;
- include all direct clients’ BCANs in the order information for all On-Exchange Orders, OE Trade Reporting and all Off-Exchange Orders; and
- adopt relevant data privacy and security measures to safeguard the personal data collected, transmitted and stored and obtain all direct clients’ express consent on, amongst others, purposes of which their personal data may be used and transferred. The SFC proposes that Regulated Intermediaries may obtain express consent in written and signed hard copy form, through electronic means (e.g. by instant messaging applications) or by phone, provided that the relevant requirements are satisfied. The consent should be obtained on or before the collection of CID from or submission of CID for an individual client. The SFC proposes to issue further guidance on the requirements which Regulated Intermediaries need to observe if they propose to obtain consent by alternative means. The SFC may refer to the existing requirements applicable to the placing of securities orders by telephone record and instant messaging applications when the SFC formulates the guidance.

Implementing the HK Investor ID Regime Step 1: Identify Direct Clients

Applying the above, the first step which all Regulated Intermediaries will need to carry out is to identify each direct client and assign a BCAN accordingly.

Types of Transactions	Direct Clients
Proprietary Traders	As no third party client is involved, the proprietary traders should assign BCANs to themselves when they conduct proprietary trading.
Transactions routed through a chain of Regulated Intermediaries	<p>If the orders are routed through a chain of Regulated Intermediaries, the direct clients are the first non-Hong Kong regulated entities (e.g. overseas securities firms).</p> <p>The last Regulated Intermediary in the chain (starting with the EPs executing the orders and working backwards) whose direct clients are not Regulated Intermediaries shall be the party responsible for assigning the BCANs, collecting the CID, preparing the BCAN-CID Mapping File and arranging for submission of the BCAN-CID Mapping File to the SEHK directly or indirectly through another Regulated Intermediaries.</p> <p>Each Regulated Intermediary along an intermediating chain has the responsibility to ensure that the order information for each On-Exchange Order and Off-Exchange Trade, conducted directly or indirectly through another Regulated Intermediary, includes the BCAN assigned to the direct client, and that a BCAN is included in all OE Trade Reporting.</p>
On-Exchange Orders and Off-Exchange Trades which the Regulated Intermediaries place with their affiliates	<p>Where an EP's affiliate places (or a series of affiliates place) On-Exchange Orders or Off-Exchange Trades with the EP, the EP shall not assign a BCAN to such affiliate, but should procure such affiliate to (i) assign the BCAN to the first person who is not an affiliate further down the intermediating chain; (ii) collect the CID from the person to whom the BCAN is assigned; (iii) prepare the BCAN-CID Mapping File in respect of such person; and (iv) provide such file to the EP. In other words, in such scenario, the direct client should not be any of the affiliates. It should be the first person who is not the affiliate within the intermediating chain.</p> <p>Where the entire chain consists solely of EP's affiliates, the direct client shall be the last affiliate in the chain which executes the On-Exchange Orders or Off-Exchange Trades with the EP (starting with the last EP and working backwards). This is in line with the NB Investor ID Regime. The SFC acknowledges that it will need to keep in view the need to expand the definition of direct client (e.g. by including affiliates of non-EP Regulated Intermediaries) after the implementation of the regime.</p> <p>A company is considered to be an affiliate of another company if the two companies belong to the same "group of companies". "Group of companies" is defined under the SFO as "any two or more corporations one of which is the holding company of the other or others (as the case may be).</p>
Discretionary Accounts	The direct clients are the legal entities that have opened trading accounts with the Regulated Intermediaries and they should be assigned with BCANs.
Collective Investment Schemes	<p>The direct clients are either the asset management companies or the collective investment schemes, as appropriate, that have opened trading accounts with the Regulated Intermediaries.</p> <p>The Regulated Intermediaries should assign BCANs to either the asset management companies or the collective investment schemes. The SFC does not propose to capture the beneficial owners of investment funds/collective investment schemes.</p>
Joint Accounts	Generally speaking, Regulated Intermediaries should only assign a BCAN to each direct client (i.e. assign a BCAN to each joint account). However, if the direct clients have also opened joint accounts with other clients of the Regulated Intermediaries, the Regulated Intermediaries should generate and assign another unique BCAN to identify those joint accounts.
Aggregated Orders	Aggregated orders are orders which comprise of two or more purchase and/or sell orders of the same security placed by different clients of a Regulated Intermediary for On-Exchange Orders or Off-Exchange Orders. Regulated Intermediaries should first assign a specific code to the aggregated orders as prescribed by the SEHK and tag such code to the orders when they submit such orders to the SEHK for execution. Regulated Intermediaries will be required to submit information on each underlying order (including the BCAN for each direct client) of the aggregated orders to the SEHK within the specified timeframe. This is to enable the tracing of investors' identities within aggregated orders and avoid circumvention of the proposed regime by the use of aggregated orders.

Implementing the HK Investor ID Regime Step 2: Assign BCAN to Direct Clients, Tagging of Securities Orders, Accuracy and Timeliness of Information

Under paragraphs 5.6(g) to (j) of the SFC's proposed amendments to the Code of Conduct to implement the HK Investor ID Regime, a number of obligations on Regulated Intermediaries will be imposed, including:

- Regulated Intermediaries must implement automated order management systems to ensure correct and valid BCANs are assigned to direct clients and are tagged to clients' On-Exchange Orders, Off-Exchange Trades and OE Trade Reporting. The same applies to any specific code assigned by SEHK (e.g. for aggregated orders);
- Regulated Intermediaries which are responsible for collecting and/or submitting CID and the BCAN-CID Mapping File must ensure they are able to do so within the prescribed timeframes and comply with the requirements stipulated by the SEHK (whether they are submitting such information by themselves or through other Regulated Intermediaries); and
- Regulated Intermediaries must ensure the BCANs and the CID they submit to SEHK are accurate and free of errors and they must notify the SEHK if any such information is or becomes inaccurate or needs to be updated. Regulated Intermediaries must put in place procedures to ensure the information remains up-to-date on an ongoing basis. For submission of BCANs, CID and BCAN-CID Mapping File which involves chains of intermediaries, please refer to the section "On-Exchange Orders and Off-Exchange Trades which the Regulated Intermediaries place with their affiliates".

The SEHK will conduct real-time validation checks of whether a BCAN has been inputted with an order and whether the BCAN is in the correct format. Where a BCAN is not provided or a BCAN in an invalid format, the On-Exchange Orders or the reporting of Off-Exchange Orders will be rejected. Without SEHK's approval, a Regulated Intermediary cannot correct a BCAN which has been already submitted or reported.

Implementing the HK Investor ID Regime Step 2: Practical Considerations

In our view, one of the first and foremost practical considerations which Regulated Intermediaries need to consider is to what extent they would like to – or are able to leverage – the infrastructure of their existing NB Investor ID Regime and replicate such infrastructure to the HK Investor ID Regime. The SFC states in the Consultation Paper that it expects the HK Investor ID Regime and the NB Investor ID Regime to work independently. According to the SFC, Regulated Intermediaries will have the discretion to assign the same or a different BCAN to a single client under the respective arrangements.

Whilst there are some similarities between the HK Investor ID Regime and the NB Investor ID Regime, there are a few crucial differences, including:

- the "in-scope securities" between the two investor identification regimes are completely different and so does the possibility of combination of different direct clients within the same accounts, different BCAN and CID and different BCAN-CID Mapping Files as persons may control different accounts through different structures in order to pursue different investment objectives and strategies;
- it is not clear, at least at this stage, the differences between the cut-off times between the submission of the BCAN-CID Mapping Files under the existing NB Investor ID Regime and the new HK Investor ID Regime. What should the Regulated Intermediaries do when the two cut-off times do not "sync" – for example, under the NB Investor ID Regime, the SEHK must receive the BCAN-CID files before the prescribed T-1 day cut-off time in light of the pre-trade checking procedures for Northbound trading;

- for the HK Investor ID Regime, the SFC has reflected some of the requirements it proposes to impose on Regulated Intermediaries in the Code of Conduct (see Step 2 in the paragraph above), but this is not the case for NB Investor ID Regime. It is not clear the rationale for imposing a more stringent standard on Regulated Intermediaries (e.g. a series of repeated breaches may potentially call the fitness and properness of the Regulated Intermediaries into question and it is necessary for a Regulated Intermediary to report material breaches to the SFC under Chapter 12.5 of the Code of Conduct). In our view, a number of the SFC's proposals are operational in nature and as with all operational set up, it will take time for the financial institutions to upgrade its systems as a whole; and
- paragraph 5.6(j) of the draft Code of Conduct requires Regulated Intermediaries to submit accurate BCANs and CID which are free of errors and they are required to monitor such information on a regular basis. Given the number of investors who have opened trading accounts with Regulated Intermediaries in Hong Kong, we query whether the SFC should consider implementing the HK Investor ID Regime in stages and at least during the initial stage, limit the number of accounts which Regulated Intermediaries need to actively monitor to ensure accuracy of the information provided by those that trade "frequently" (the industry can possibly engage with the SFC to discuss what constitutes trading "frequently").

Implementing the HK Investor ID Regime Step 3: CID

Paragraph 41 of the Consultation Paper and draft paragraphs 5.6(m) and (n) of the Code of Conduct set out the specified information relating to CID which Regulated Intermediaries will need to obtain from direct clients.

Regulated Intermediaries will also be required to ensure they submit up-to-date CID from direct clients to the central data repository maintained by the SEHK in respect of On-Exchange Orders or Off-Exchange Trades.

Regulated Intermediaries which assign the BCANs to direct clients should also be the Regulated Intermediaries which collect the CID from these direct clients. After collecting the CID, the Regulated Intermediaries should put the CID and BCAN information of the direct clients into files, namely the "BCAN-CID Mapping File", to the central data repository maintained by the SEHK directly if they are EPs. Non-EPs may make a submission directly to the SEHK through a designated web portal.

Regulated Intermediaries must ensure that the CID of direct clients are submitted within the designated timeframe, as follows:

Client Types	Timeframes
Direct Clients that have opened accounts with Regulated Intermediaries and have conducted trades through such accounts	<p>These clients should generally be able to submit information within a specified period before the implementation date of the HK Investor ID Regime and in any event at the latest by the day before the trading day.</p> <p>A period of at least nine months is expected to be provided to the industry for submission of the clients' CID prior to the launch of the regime.</p>
New clients who wish to open accounts to trade and clients whose accounts have remained dormant since account opening	The SFC is seeking views on whether submission of their CID by T-1 will be problematic.

The SFC expects the submission of BCAN-CID Mapping File to the SEHK to be a one-off exercise and updates will only be necessary where the direct clients change their information.

Failure to submit the BCAN-CID Mapping File to the SEHK by the prescribed time will not invalidate the orders or trades but may breach the Code of Conduct or contravene the SEHK's Rules of the Exchange.

For the purpose of ensuring smooth operation of the proposed HK Investor ID Regime the SFC has specified in the Consultation Paper that Regulated Intermediaries will also be required to enhance their systems correspondingly to ensure that:

- the CID in the form of a BCAN-CID Mapping File would be duly submitted to the central data repository as required;
- the CID of the clients to whom they have assigned the BCAN would be kept up-to-date; and
- any changes to their clients' CID would be reflected in the central data repository as soon as possible.

Implementing the HK Investor ID Regime Step 4: Obtaining Clients' Consent (Personal Data)

The SFC mentions in the Consultation Paper that CIDs and BCANs of individual clients are likely to constitute personal data, as such term is defined under the Personal Data (Privacy) Ordinance (PDPO). As a result, all Regulated Intermediaries must review the adequacy of their data privacy measures to ensure compliance with the PDPO and the data privacy laws of any other jurisdictions (if relevant) in relation to the collection, use, storage, disclosure and transfer of CID, BCANs and BCAN-CID Mapping Files. The SFC has specified that the scope of review should include: (i) scope of Regulated Intermediaries' existing client documentation such as the personal information collection statements; and (ii) arrangements in respect of giving notifications to and obtaining consent from clients on the purposes for which their personal data will be used.

The SFC has emphasised that under the PDPO, Regulated Intermediaries must take all practicable steps to notify an individual client of certain matters on or before collecting personal data.

The Consultation Paper further clarifies that where a Regulated Intermediary intends to use a client's personal data which it has already collected for a new purpose not notified to such client at or before the time of collection, the Regulated Intermediary is required to obtain the client's prescribed consent under the PDPO. Prescribed consent means consent given expressly and voluntarily, which consent may be subsequently withdrawn by notice of the data subject in writing.

As the HK Investor ID Regime will be a new arrangement, the use of personal data already collected by a Regulated Intermediary for transfer and disclosure to SEHK and the SFC and the subsequent use of such personal data by the SEHK and the SFC would likely constitute use of personal data for a new purpose, triggering the requirement for the Regulated Intermediary to obtain existing individual client's prescribed consent under the PDPO.

Express Consent from Investors

The Consultation Paper proposes Regulated Intermediaries should obtain written or other express consent from direct clients for the transfer of their personal data to the SEHK and the SFC under the proposed HK Investor ID Regime. In the case where the order is routed through an affiliate of an EP which executes that order, the EP should procure its affiliate to obtain the client consent.

The SFC further proposes that the form of consent should require individual clients to consent to the following usages of their personal data submitted under the HK Investor ID Regime:

- disclosure and transfer of their personal data (including CID and BCANs) to the SEHK and/or the SFC, including but not limited to by way of tagging the BCANs to trade orders submitted to the SEHK;

- allowing the SEHK to (i) collect, store, process and use their personal data (including CID and BCANs) for market surveillance and monitoring purposes and enforcement of the Rules of the Exchange of the SEHK; (ii) disclose and transfer such information to the relevant regulators and law enforcement agencies in Hong Kong (including, but not limited to, the SFC) so as to facilitate the performance of their statutory functions with respect to the Hong Kong financial markets; and (iii) use such information for conducting analysis for the purposes of market oversight; and
- allowing the SFC to: (i) collect, store, process and use their personal data (including CID and BCANs) for the performance of its statutory functions including monitoring, surveillance and enforcement functions with respect to the Hong Kong financial markets; and (ii) disclose and transfer such information to relevant regulators and law enforcement agencies in Hong Kong in accordance with applicable laws or regulatory requirements.

It should be noted that Regulated Intermediaries will need to obtain consent from both new and existing clients.

Other New Data Privacy Related Requirements

In addition to reviewing the adequacy of existing data privacy protection measures, the SFC also proposes Regulated Intermediaries to put in place the following: (i) arrangements in respect of the collection of CID and ensure that all required consent is obtained from both prospective and existing clients in respect of the collection, use, storage, disclosure and transfer of personal data under the HK Investor ID Regime; (ii) procedures for explaining to their clients the implications of providing such consent; and (iii) up-to-date records of whether the client has provided or withdrawn a consent.

The SFC expects that Regulated Intermediaries make the provision of consent a condition for the client's continued use of the Regulated Intermediary's trading services for making purchases of securities listed and/or traded on the SEHK such that a client who fails to provide the required consent will only be allowed to sell existing holdings of securities (excluding short sales) but not buy securities by means of either on-exchange or off-exchange orders.

OTC Securities Transactions Reporting Regime

The SFC proposes to introduce the OE Trade Reporting regime for Off-Exchange Trades under which a Regulated Intermediary will have the following reporting obligations to the SFC:

- when the Regulated Intermediary, whether as principal or agent, makes a transfer of shares that is effected by Off-Exchange Trades in respect of which stamp duty is chargeable in Hong Kong; or
- when there is a deposit to or withdrawal from the Regulated Intermediary, whether as principal or agent, of physical certificates of shares.

Unlike the proposed HK Investor ID Regime, whereby the BCAN information will be submitted to the SEHK at the time of order submission or OE Trade Reporting, information will be reported to the SFC directly under the OTC Securities Transactions Reporting Regime on the transfer/deposit/withdrawal day (Hong Kong time) + 1 Hong Kong trading day, which will avoid the need for Regulated Intermediaries to assign BCANs to, and collect CIDs from direct clients.

The SFC proposes that the OTC Securities Transactions Reporting Regime will only cover ordinary shares and units in REITs.

Both the delivering and the receiving Regulated Intermediaries need to report about the in-scope transactions (i.e. the SFC anticipates it will receive two reports for a single share transfer, unless both the delivering Regulated Intermediary and the receiving Regulated Intermediary are the same Regulated Intermediary, in which case the Regulated Intermediary will only need to report once). Even if the OTC securities transactions are arranged directly between the buyers and the sellers, the SFC proposes that the Regulated Intermediaries will still need to report the transaction even if their only involvement is to handle the transfer of shares.

The SFC proposes that Regulated Intermediaries will also need to report any deposit or withdrawal of physical certificates from the Regulated Intermediaries.

Paragraphs 97 and 98 of the Consultation Paper set out the information which the SFC expects to receive from the buyers' and sellers' Regulated Intermediaries after the OTC Securities Transactions Reporting Regime has come into the effect. The SFC requests Regulated Intermediaries to obtain the client consent together with the requisite client consent for the HK Investor ID Regime "at one go" so that the Regulated Intermediaries will be in a position to ensure that the client consent it has will be broad enough to cover personal data submitted to the SEHK, the SFC and other relevant regulators under the HK Investor ID Regime and the OTC Securities Transactions Reporting Regime.

The SFC further proposes that if the client fails to provide the consent required, Regulated Intermediaries must not accept a transfer of shares into such client's account or a deposit of physical certificates of shares into the client's account. If the Regulated Intermediaries accept a transfer of shares or a deposit of physical certificates of shares into the client's account, the Regulated Intermediary will commit a regulatory breach, which is subject to disciplinary action, though the underlying OTC securities transaction, transfer or deposit will not be invalidated. However, the client will still be able to transfer shares out of the client's account with this Regulated Intermediary, or withdraw physical certificates of shares out of the client's account with this Regulated Intermediary.

Conclusion

We support the development and implementation of the HK Investor ID Regime and the OTC Securities Transactions Reporting Regime as we believe that, if successfully designed and implemented, the above regimes will be one of the critical tools for the SFC to enhance its market surveillance capability. It is also in line with the global regulatory development which demands investors to provide more transparency.

With that said, there are some critical implementation issues that need to be addressed – in particular, protection of sensitive information and data security and implementation timeline.

When the HK Investor ID Regime and the OTC Securities Transactions Reporting Regime are fully operational, the SEHK and the SFC will capture an unprecedented amount of sensitive information (including personal identifiable information of individual investors and identifiable proprietary transaction data). The amount of data will only increase through the passage of time. If the SEHK and SFC propose to hold highly sensitive information for potentially an indefinite period, then they will need to provide much better assurance on cyber security than they have so far. At the moment, the SFC said in the Consultation Paper, amongst other things, that the "submission of CID by Regulated Intermediaries to SEHK will be conducted through SEHK's closed network which is protected by secure file transfer protocol. In addition, all CID kept in the central data repository will be encrypted using up-to-date encryption technology according to international best practices and standards". However, as market participants will recall, hackers attacked and blocked Hong Kong Exchanges and Clearing Limited's corporate announcement website which also forced the suspension in trading of seven companies and other financial instruments linked to these companies in 2019. The SFC and the SEHK will therefore need to provide much more details on how it manages cyber and data security. If needed, the SFC and the SEHK should also leverage the industry's expertise in this regard.

In respect of implementation timeline, whilst the industry has already implemented the investor identification system for the NB Investor ID Regime, the scale of the HK Investor ID Regime and the OTC Securities Transactions Reporting Regime is much more substantial. Financial institutions need a more realistic timeline to establish or significantly upgrade its trading and reporting systems, hire more technical expertise, conduct robust testing and obtain investors' consent to changes to existing contractual arrangements. We would therefore propose the SFC to consider a phased implementation.

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