

Fast Interface for New Issuance (FINI) for Hong Kong IPO settlement

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19 December 2022

Currently, in a typical Hong Kong IPO, five business days (commonly known as “T+5”) are required on average from pricing (“T” day) to settlement of new shares for trading on the Stock Exchange of Hong Kong (Exchange).

Background

Compared with other major listing venues that allow newly listed shares to trade on “T+1”, this is uncompetitive. The existing lengthy settlement process exposes both investors and issuers to market risk that might influence the pricing of the IPO. Further, in a mega IPO, the accumulation of subscription monies with the receiving banks may even result in short-term liquidity shortage or interbank borrowing rate rises during the settlement period.

Features of FINI

The Exchange is shortening this process to “T+2” by adopting the platform of Fast Interface for New Issuance (FINI) as the mandatory settlement mechanism of all future Hong Kong IPOs. After FINI is adopted, a typical Hong Kong IPO timetable will carry the following key dates:

- T-5: initiation of offering
- T-4 to T-1 12:00: public offer subscription period
- T-1 by 17:30: public offer funding confirmation
- T 00:00: allocation adjustments
- T: pricing
- T by 17:30: public offer money settlement
- T+1 by 10:00: submission of place list for the placing tranche to regulators (fully digitalized with introduction of FINI)
- T+1 by 17:00: regulatory clearance by the Securities and Futures Commission and the Exchange

- T+1 by 23:00: allotment results announcement to be made by the issuer
- T+2 09:00: trading commences

In terms of timing, market-wide testing will be conducted from February to June 2023, with the view to launching FINI in June 2023.¹

For the convenience of market participants and the alignment of primary and secondary market standards, the Exchange will align the investor identification requirements for all IPO subscribers with those set out in the new investor identification regime at the trading level for the securities market in Hong Kong (please refer to our prior article for more details on such regime²).

Through FINI, IPO sponsors, underwriters, brokers, distributors, share registrars as well as regulators will use the new digital platform to perform their IPO settlement duties during the offer initiation, share subscription,

pricing, allotment, payment, regulatory approval and stock admission processes.

Public comments

Interestingly, several brokers' associations indicated that FINI may reduce affect their revenues, especially those related to interest income on IPO margin lending, resulting from the shorter settlement cycle for both the public and placing tranches. This phenomenon is acknowledged by the Exchange.³

However, practitioners recognize that FINI may offer larger benefits to the market as a whole due to the less exposure to market risk, faster recycling of "locked-up" IPO subscription monies, reduction in borrowing costs to investors and better real-time information. Thus, FINI has earned wide support.

¹ https://www.hkex.com.hk/Services/Platform-Services/Project-Fini?sc_lang=en

² https://www.eylaw.com.hk/en_hk/publications/our-latest-thinking/2022/september/sfc-investor-idn-regime

³ [https://www.hkex.com.hk/-/media/HKEX-Market/Services/Next-Generation-Post-Trade-Programme/Fini/FINI-Conclusions-Paper-EN-\(6-July-2021\).pdf](https://www.hkex.com.hk/-/media/HKEX-Market/Services/Next-Generation-Post-Trade-Programme/Fini/FINI-Conclusions-Paper-EN-(6-July-2021).pdf) - page 6

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