

13 September 2021

## Circular to Intermediaries

### Roadmap for Implementing the Hong Kong Investor Identification Regime and the Over-the-counter Securities Transactions Reporting Regime

1. The Securities and Futures Commission (**SFC**) issued the [Consultation Conclusions Paper \(Conclusions\)](#) on proposals to (1) implement an investor identification regime at trading level for the securities market in Hong Kong (**HKIDR**) and (2) introduce an over-the-counter securities transactions reporting regime for shares listed on the Stock Exchange of Hong Kong (**OTCR**) on 10 August 2021. Pursuant to the Conclusions, relevant licensed corporations (**LCs**) and registered institutions (**RIs**) will be subject to the HKIDR and/or the OTCR upon implementation of the regimes.
2. This Circular aims to provide guidance to LCs and RIs subject to the HKIDR and OTCR (being “**Relevant Regulated Intermediaries**” as referred to in the Conclusions) on their main obligations under the HKIDR and the OTCR, and a roadmap and timeline for the implementation of the HKIDR and the OTCR.

#### Relevant Regulated Intermediaries’ main obligations under the HKIDR:

3. Under the HKIDR, Relevant Regulated Intermediaries would have to:
  - (a) ensure that a unique identification code, namely the “Broker-to-Client Assigned Number” (**BCAN**), be assigned to “Relevant Clients”<sup>1</sup> who have placed or propose to place (i) an on-exchange order or (ii) an off-exchange trade reportable to the Stock Exchange of Hong Kong (**SEHK**) under its rules, in securities listed or traded on SEHK’s trading system (except for odd lots traded on SEHK’s odd lot/special lot market);
  - (b) ensure that up-to-date client identification data (**CID**) has been collected from each Relevant Client and is submitted along with the client’s BCAN (by way of putting the BCAN and CID into a “**BCAN-CID Mapping File**”) to a data repository to be maintained by SEHK by a prescribed time;
  - (c) ensure that the Relevant Client’s BCAN has been included in the order information for each on-exchange order as well as each off-exchange order and included in all reporting of off-exchange trades to SEHK, and report any BCAN error of a matched and executed trade as soon as possible to SEHK by submitting a prescribed error notification form; and

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<sup>1</sup> For details and examples of the meaning of “Relevant Client”, please refer to the Conclusions.

- (d) adopt relevant data privacy and security measures to safeguard the data collected, transmitted and stored, including obtaining express consent from clients for the collection and handling of their personal data in compliance with data privacy laws.
4. For details of the Relevant Regulated Intermediaries' obligations under the HKIDR, please refer to the Conclusions and the draft copy of the new paragraph 5.6 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (**Code of Conduct**) in the **Annex** to this circular.

#### Relevant Regulated Intermediaries' main obligations under the OTCR:

5. Under the OTCR, Relevant Regulated Intermediaries would be required to report to the SFC the following activities relating to ordinary shares and real estate investment trusts (collectively referred to as "shares" for the purpose of the OTCR) listed on SEHK:
- (a) when a Relevant Regulated Intermediary, whether as principal or agent, makes a transfer of shares in connection with a transaction not recorded by SEHK as an on-exchange order or required to be reported to SEHK as an off-exchange trade in respect of which stamp duty is chargeable in Hong Kong, except where (i) the transaction is granted stamp duty relief (whether in full or in part) from the Inland Revenue Department, or (ii) the transfer of shares is made in accordance with the terms of a structured product or a derivative, or for the conversion of a depository receipt into shares or vice versa; or
- (b) when there is a deposit to or withdrawal from the Relevant Regulated Intermediary, whether as principal or agent, of physical share certificates.
6. For details of the Relevant Regulated Intermediaries' obligations under the OTCR, please refer to the Conclusions and the draft copy of the new paragraph 5.7 of the Code of Conduct in the Annex.

#### Implementation roadmap and indicative timeline of the HKIDR:

7. Subject to the market readiness, the HKIDR will be implemented tentatively during the second half of 2022 at the earliest. Before the regime commences, there are a number of tasks that Relevant Regulated Intermediaries are expected to complete as part of their preparation for the implementation:

	Tasks to be completed	Timeline
1	Seeking appropriate client consent	Q3 2021 – Q2 2022
2	Updating individual and corporate clients' CID	Q3 2021 – Q2 2022

	Tasks to be completed	Timeline
3	Enhancing the order management system in tandem with phase 2 of SEHK's Cash Market Gateway ( <b>CMG</b> ) upgrade <sup>2</sup>	Q3 2021 – Q1 2022
4	Assigning BCANs to Relevant Clients	Q1 – Q2 2022
5	Preparation of BCAN-CID Mapping Files	Q1 – Q2 2022
6	Participating in end-to-end test and market rehearsals of Electronic Communication Platform ( <b>ECP</b> <sup>3</sup> ) 2.0 and CMG phase 2	ECP: Q2 – Q3 2022 CMG: Q2 – Q3 2022
7	Submission of BCAN-CID Mapping Files to SEHK's data repository	Q3 – Q4 2022
8	Launch of the HKIDR	Q3 – Q4 2022

Seeking appropriate client consent:

8. Relevant Regulated Intermediaries subject to the HKIDR and the OTCR would need to obtain written or other express consent from Relevant Clients who are individuals (i.e. natural persons) for the transfer of their personal data to SEHK (in the case of the HKIDR) and the SFC (in both cases of the HKIDR and the OTCR) and the consent should include the purposes of use specified in the [Consent Circular](#) published by the SFC on 13 September 2021.
9. Alternatively, Relevant Regulated Intermediaries would not have to obtain new consent from individual clients if both the following criteria are met:
  - (a) client consent on the use of personal data has already been obtained from these clients; and
  - (b) the consent expressly<sup>4</sup> includes the purposes of use<sup>5</sup> specified by the SFC in the Consent Circular.
10. In general, consent may be obtained by written and signed acknowledgment on paper, or by electronic means including by email or instant messaging applications provided that the measures set out in the Consent Circular are observed. For details of how consent may be obtained and requirements to observe, such as client identity authentication, proper recording of consent and maintenance of records, please refer to the Consent Circular.
11. To facilitate Relevant Regulated Intermediaries' processes in obtaining client consent, the SFC will work with the Investor and Financial Education Council and the Hong Kong

<sup>2</sup> CMG update will impact participants of SEHK only.

<sup>3</sup> ECP provides a paperless channel for stakeholders of HKEX and its subsidiaries to submit and download files, returns or any such other documents.

<sup>4</sup> The requirement to obtain consent will not be complied with where the specified purposes of uses may only be implied or inferred from the client documentation.

<sup>5</sup> The client consent needs not include the purposes of use as specified in the Consent Circular in a verbatim manner, provided that all the purposes are covered.

Exchanges and Clearing Limited (**HKEX**) to promote investors' understanding of the need for clients to provide consent under the HKIDR and the OTCR.

Updating individual and corporate clients' CID:

12. Relevant Regulated Intermediaries should ensure that the following information has been collected as CID from the Relevant Clients:

(a) For an individual client, his or her:

- full name as shown on his or her identity document;
- identity document's issuing country or jurisdiction;
- identity document type (order of priority: (1) HKID card; (2) national identification document<sup>6</sup>; (3) passport); and
- identity document number on the identity document.

(b) For a corporate client, its:

- full name as shown on its identity document;
- identity document's issuing country or jurisdiction;
- identity document type (order of priority: (1) LEI<sup>7</sup> registration document; (2) certificate of incorporation; (3) business registration certificate<sup>8</sup>; (4) other equivalent documents); and
- identity document number on its identity document.

(c) For a client that is a trust:

- the CID of the trustee, which should be the same as that of a corporate or individual client as set out above;
- however, in the case of a trust which is an investment fund (i.e. collective investment schemes), the CID of the asset management company or the individual fund, as appropriate, which has opened a trading account with the Relevant Regulated Intermediary.

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<sup>6</sup> In the case of a client with multiple national identities, the Relevant Regulated Intermediary will have the discretion to select and register any of the client's available national identity information.

<sup>7</sup> LEI refers to the Legal Entity Identifier which is a 20-character alpha-numeric code under the Global LEI System adopted by the Financial Stability Board to uniquely identify distinct legal entities which participate in financial transactions.

<sup>8</sup> In the case of Hong Kong incorporated companies, it is noted that a company with branches may have different business registration numbers. However, according to the website of the Inland Revenue Department, company business registration numbers consist of eight numbers, and in the case of the branch this is followed by a three-digit branch number. Accordingly, the company to which the branch is attached can be uniquely identified using only the first eight digits of the business registration number.

(d) For clients of a joint account:

- the CID for all clients (in line with the above proposed requirements, depending on the nature of the client) named for a joint account should be provided under the same BCAN assigned to that account.

13. As such, Relevant Regulated Intermediaries should issue a notification to their existing securities trading account holders (regardless of nationality) to inform them of the waterfall of the identity documents and request an identity document required under the waterfall (if not already obtained) or updated identity document information, as appropriate, before the launch of the HKIDR.

#### Enhancing order management systems:

14. Upon the implementation of the HKIDR, SEHK's Exchange Participants (**EPs**) will need to submit a BCAN along with an order via the CMG. The HKEX has published an information paper (**HKEX Information Paper**) on the operational logistics of the HKIDR. Please refer to the [HKEX Information Paper](#) for the technical setup. The related [interface specifications](#) of the proposed model was also published by SEHK in August 2021.

15. Relevant Regulated Intermediaries are also required to enhance their internal systems between the third quarter of 2021 and the first quarter of 2022 for submission of BCANs along with orders via CMG and BCAN-CID Mapping Files via ECP.

#### Assigning BCANs to clients:

16. Each Relevant Regulated Intermediary is responsible for assigning a unique set of BCANs to its Relevant Clients (including to Relevant Regulated Intermediaries themselves in the case of proprietary trades). Relevant Regulated Intermediaries do not have to check with one another to determine if a single BCAN has been applied to a client.

17. The BCAN consists of a number not exceeding 10 digits in a standard format as set out in Appendix 2 to the HKEX Information Paper. To distinguish between BCANs assigned by different Relevant Regulated Intermediaries, the six alphanumeric CE Number (i.e. Central Entity Number) assigned by the SFC and a separator dot "." have to be inserted as a prefix before the BCAN when the BCAN field is populated in the trading system. A BCAN in the HKIDR may adopt the same BCAN used in the investor identification regime for northbound trading under Mainland-Hong Kong Stock Connect, or include reference to a Relevant Regulated Intermediary's internal client number or account number, provided that the BCAN remains compliant with the requirements as set out in the HKEX Information Paper. For further details about the generation, assignment and format of BCAN, please refer to the HKEX Information Paper.

18. For detailed requirements of BCAN assignment, BCAN tagging and order transmission where a Relevant Regulated Intermediary passes an order to other Relevant Regulated Intermediaries (i.e. in a chain of Relevant Regulated Intermediaries), please refer to

the new paragraphs 5.6(d) and (g) of the Code of Conduct in the Annex and paragraphs 107-111 of the Conclusions.

19. For detailed requirements of BCAN assignment, BCAN tagging and order transmission where a Relevant Regulated Intermediary books an order with an overseas broker, please refer to paragraphs 59-65 and paragraphs 142-143 of the Conclusions.
20. For detailed requirements of BCAN assignment in the cases of investment funds managed by a fund manager and discretionary account management, please refer to paragraphs 66-68 and paragraphs 69-73 of the Conclusions respectively.
21. For detailed requirements of BCAN assignment in the case where an investor hold different types of accounts in a Relevant Regulated Intermediary, please refer to paragraphs 74-79 of the Conclusions.

Preparation and submission of BCAN-CID Mapping File:

22. The BCAN-CID Mapping File is a file containing the BCAN and CID of all the Relevant Clients<sup>9</sup> of a Relevant Regulated Intermediary, in a designated format as set out in the HKEX Information Paper. Before the implementation of the HKIDR, each Relevant Regulated Intermediary is required to prepare a BCAN-CID Mapping File and submit it to SEHK's data repository on or before a designated date to be announced by SEHK. The Relevant Regulated Intermediary which assigns the BCAN to the Relevant Client should also be the one which collects the CID from the Relevant Clients and prepares the BCAN-CID Mapping File.
23. Where there is an update to the BCAN-CID Mapping File, be it due to on-boarding of new clients, the closure of a client account or a change in CID information for existing clients, a complete file with the CID of all Relevant Clients should be uploaded to SEHK's data repository on the day an update has been made (even where the update is in relation to only one or some of the Relevant Clients). If there has been no update to the CID, the Relevant Regulated Intermediary does not have to submit the BCAN-CID Mapping File again after the initial submission.
24. After completion of the BCAN-CID Mapping File, the Relevant Regulated Intermediary should submit it to SEHK's data repository in the following manner:
  - (a) an EP can submit the BCAN-CID Mapping File to SEHK via a designated web portal, the ECP;
  - (b) a non-EP Relevant Regulated Intermediary can submit the BCAN-CID Mapping File to SEHK via ECP (subject to the relevant requirements); or
  - (c) a Relevant Regulated Intermediary (whether an EP or a non-EP Relevant Regulated Intermediary) can choose to submit its clients' BCAN-CID Mapping File to SEHK via another LC or RI through SFC WINGS platform, in which case

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<sup>9</sup> For submission of BCAN-CID Mapping File for newly on-boarded clients and dormant clients, please refer to paragraphs 126-130 of the Conclusions.

it should encrypt such data in accordance with SEHK's requirements as set out in the HKEX Information Paper.

25. For further details about the preparation, submission and validation of the BCAN-CID Mapping File, please refer to the HKEX Information Paper.
26. Relevant Regulated Intermediaries should take all reasonable steps to ensure that the individual client information (including the data constituting the CID) they collect and submit to SEHK's data repository is accurate and kept up-to-date, and to also promptly update SEHK of any changes via the BCAN-CID Mapping File submission. Relevant Regulated Intermediaries should also put in place measures to require clients to notify them of any updates to the CIDs. These may include obtaining representations and warranties from their clients as they consider appropriate to assist their verification and maintenance of CID. Relevant Regulated Intermediaries are also free to conduct a refresher of the CID exercise in the timeframe prescribed by the Guidelines on Anti-Money Laundering and Counter-Financing of Terrorism.

**Participating in system test and market rehearsals:**

27. Relevant Regulated Intermediaries are expected to participate in the end-to-end test and market rehearsals for submission of BCAN-CID mapping files via ECP and submission of BCAN along with orders via CMG prior to the launch of the HKIDR. The SFC and the HKEX will arrange for such testing and market rehearsals and the dates and details will be announced in due course.
28. Subject to market readiness, the HKIDR is expected to launch during the second half of 2022 at the earliest.

**Implementation roadmap and indicative timeline of the OTCR:**

29. Subject to the market readiness, the OTCR will be implemented tentatively during the first half of 2023. Before the regime commences, there are a number of tasks that Relevant Regulated Intermediaries are expected to complete as part of their preparation for the implementation:

	<b>Tasks to be completed</b>	<b>Timeline</b>
1	Seeking appropriate client consent	Q3 2021 – Q2 2022
2	Updating individual and corporate clients' CID	Q3 2021 – Q2 2022
3	Enhancing internal system for OTCR	Q4 2021 – Q3 2022
4	Participating in system test in connection with the OTCR	Q3 2022 – Q1 2023
5	Launch of the OTCR	Q1-Q2 2023

Seeking appropriate client consent:

30. For detailed requirements of obtaining client consent, please refer to paragraphs 8-11 of this Circular. Relevant Regulated Intermediaries may consider obtaining client consent for both the HKIDR and the OTCR in the same exercise.

Updating individual and corporate clients' CID:

31. For detailed requirements of updating clients' CID, please refer to paragraphs 12-13 of this Circular. Relevant Regulated Intermediaries may consider updating clients' CID for both the HKIDR and the OTCR in the same exercise.

Enhancing internal system for OTCR:

32. Reporting under the OTCR will be made to the OTCR submission portal to be developed by the SFC.
33. Relevant Regulated Intermediaries are required to enhance their internal systems for the implementation of the OTCR. To facilitate system development by Relevant Regulated Intermediaries, the SFC will issue an information paper to provide technical details including file specifications, templates and submission channels for the OTCR submission portal by the fourth quarter of 2021.

Participating in system test in connection with the OTCR:

34. Relevant Regulated Intermediaries are expected to participate in the test of connectivity with the OTCR submission portal which will tentatively be conducted from the third quarter of 2022, when the OTCR submission portal is released for trial. Details of the arrangements will be announced in due course.
35. Subject to market readiness, the OTCR is expected to launch during the first half of 2023.

**Further training and communication:**

36. Further to this Circular, relevant briefing sessions will be organised in the fourth quarter of 2021 to familiarise market participants with the HKIDR and the OTCR. Market participants are strongly encouraged to participate in these sessions to better prepare for the implementation of the regimes.
37. Tasks and requirements set out in this Circular are not meant to be exhaustive. Relevant Regulated Intermediaries are advised to refer to the relevant regulatory requirements/documents published by the SFC and HKEX for the HKIDR and the OTCR at the [SFC webpage](#) and [HKEX HKIDR Web Corner](#).





38. The SFC will publish frequently asked questions about the HKIDR and OTCR. Please address questions about the HKIDR and OTCR to [HKIDR\\_faq@sfc.hk](mailto:HKIDR_faq@sfc.hk) and [OTCR\\_faq@sfc.hk](mailto:OTCR_faq@sfc.hk) respectively.
39. For the following questions under the HKIDR, please contact HKEX by email to [HKIDR@hkex.com.hk](mailto:HKIDR@hkex.com.hk):
- system login, file submissions, technical support, usage and operation of ECP;
  - usage and submission of BCAN-CID Mapping Files and other reporting templates; and
  - testing arrangement, market rehearsals arrangement and training sessions.

**Supervision of Markets Division,  
Enforcement Division,  
Intermediaries Supervision Department, Intermediaries Division  
Securities and Futures Commission**