



SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會

Consultation on proposals to (1) implement an investor identification regime at trading level for the securities market in Hong Kong and (2) introduce an over-the-counter securities transactions reporting regime for shares listed on the Stock Exchange of Hong Kong

4 December 2020

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Personal information collection statement

1. This Personal Information Collection Statement is made in accordance with the guidelines issued by the Privacy Commissioner for Personal Data. It sets out the purposes for which your Personal Data¹ will be used following collection, what you are agreeing to with respect to the SFC's use of your Personal Data and your rights under the Personal Data (Privacy) Ordinance (Cap. 486) (**PDPO**).

Purpose of collection

2. The Personal Data provided in your submission to the SFC in response to this consultation paper may be used by the SFC for one or more of the following purposes –
 - (a) to administer the relevant provisions² and codes and guidelines published pursuant to the powers vested in the SFC;
 - (b) in performing the SFC's statutory functions under the relevant provisions;
 - (c) for research and statistical purposes;
 - (d) for other purposes permitted by law.

Transfer of personal data

3. Personal Data may be disclosed by the SFC to members of the public in Hong Kong and elsewhere, as part of the public consultation on this consultation paper. The names of persons who submit comments on this consultation paper together with the whole or part of their submission may be disclosed to members of the public. This will be done by publishing this information on the SFC website and in documents to be published by the SFC during the consultation period or at its conclusion.

Access to data

4. You have the right to request access to and correction of your Personal Data in accordance with the provisions of the PDPO. Your right of access includes the right to obtain a copy of your Personal Data provided in your submissions on this consultation paper. The SFC has the right to charge a reasonable fee for processing any data access request.

Retention

5. Personal Data provided to the SFC in response to this consultation paper will be retained for such period as may be necessary for the proper discharge of the SFC's functions.

¹ Personal data means personal information as defined in the Personal Data (Privacy) Ordinance (Cap. 486).

² The term "relevant provisions" is defined in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (**SFO**) and refers to the provisions of that Ordinance together with certain provisions in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32), the Companies Ordinance (Cap. 622) and the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Cap. 615).

Enquiries

6. Any enquiries regarding the Personal Data provided in your submission on this consultation paper, or requests for access to Personal Data or correction of Personal Data, should be addressed in writing to:

The Data Privacy Officer
Securities and Futures Commission
54/F, One Island East
18 Westlands Road
Quarry Bay
Hong Kong

7. A copy of the Privacy Policy Statement adopted by the SFC is available upon request.

Section A

A proposal to implement an investor identification regime at trading level for the securities market in Hong Kong

Part 1. Overview

1. Hong Kong's securities market has grown significantly over the past two decades. Along with the burgeoning market size and trading volume³, the complexity of the market and corresponding market surveillance challenges have also grown considerably. In particular, market surveillance limitations are apparent from the absence of readily available information about the originators of securities orders.
2. Currently, only the information for an Exchange Participant (**EP**) which inputs a securities order (but not that of its underlying client which instructed the order) is captured by the trading system used by the Stock Exchange of Hong Kong (**SEHK**). When suspicious trading activities arise, two or more rounds of notices may have to be issued by the SFC to the EP or other intermediaries in order to identify the underlying client. Substantial compliance costs are incurred by intermediaries in dealing with such enquiries.
3. In this connection, it is considered desirable to introduce an investor identification regime for the securities market in Hong Kong⁴ at the trading level (**HK Investor ID Regime**)⁵. Specifically, we propose that when an order is submitted or arranged to be submitted to SEHK's trading for execution (**on-exchange order**) or where an off-exchange trade⁶ is reported to SEHK (**OE Trade Reporting**) according to its rules for securities listed and/or traded on SEHK⁷, the SFC-licensed corporation or registered institution⁸ (**Regulated Intermediary**) submitting the order or reporting the trade would be required to include a unique identification code assigned to the relevant client (**Relevant Client**, as discussed below). This would enhance market surveillance by identifying the originators⁹ of the orders and trades.

³ The average daily turnover on the Main Board of SEHK increased by about 11 times from the end of 1999 to the end of 2019 and market capitalisation increased about eight times during that period, per statistics available on the [SFC's website](#).

⁴ For the purpose of the rest of Section A, this refers to the trading of securities which are listed and/or traded on SEHK's trading system, but exclude securities trading conducted on the odd lot and special lot market.

⁵ The "HK Investor ID Regime" in this paper refers to the arrangements, information systems, data, data storage, operator and relevant regulatory requirements collectively involved in achieving the proposed objectives.

⁶ Off-exchange trades in this paper refer to trades conducted outside SEHK's trading system by EPs and reported to SEHK within the timeframe prescribed under the Rules of the Exchange of SEHK. These trades may include those manual trades concluded by EPs or trades matched between clients of the same EPs or two different EPs directly through an alternative liquidity pool or on a pre-IPO trading platform operated by a Regulated Intermediary licensed or registered to conduct Type 7 regulated activity under Part V of the SFO.

⁷ These refer to securities listed and/or traded on the trading system of SEHK but exclude securities trading conducted on the odd lot and special lot market.

⁸ This refers to a licensed corporation or a registered institution as defined under section 1 of Schedule 1 to the SFO. Regulated Intermediaries include both EPs and non-EPs.

⁹ "Originator" here refers to the legal person who has control and responsibility over the issuance of the relevant order. This legal person may not be the ultimate beneficial owner of the trade. Please also refer

4. The HK Investor ID Regime is intended to facilitate more timely and effective market surveillance on the one hand, and reduce ongoing compliance costs in dealing with SFC enquiries about client identities on the other. It would be in line with developments in major jurisdictions, including those in the United States (**US**), Europe, Australia, Singapore and Mainland China. The proposed regime will help ensure market integrity and thus support the continued development of Hong Kong as a premier international financial centre.
5. To implement the HK Investor ID Regime at the trading level (i.e. not at the holdings level), it is proposed that Regulated Intermediaries adopt the following principal measures:
 - (a) ensure that a “Broker-to-Client Assigned Number” (**BCAN**), being a unique identification code, has been assigned to Relevant Clients who have placed or propose to place an on-exchange order or off-exchange order¹⁰ in securities listed and/ or traded on the trading system of SEHK;
 - (b) ensure that up-to-date client identification data (**CID**) has been collected from each Relevant Client and that it is submitted along with the client’s BCAN (by way of putting the BCAN and CID into a **BCAN-CID Mapping File**)¹¹ to a central 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 OE Trade Reporting; and
 - (d) adopt relevant data privacy and security measures to safeguard the data collected, transmitted and stored, including obtaining express consent¹² from clients for the collection and handling of their personal data in compliance with data privacy laws.
6. The Relevant Client of a Regulated Intermediary to be assigned a BCAN, from whom CID is to be collected and for whom the BCAN-CID Mapping File is to be submitted is proposed to be a direct client¹³ of a Regulated Intermediary, subject to certain provisos with regards to (i) a proprietary trade; (ii) an order carried out through an intermediating chain of Regulated Intermediaries; and (iii) an on-exchange order or off-exchange order placed with an affiliate¹⁴ of the EP executing that order or conducting OE Trade Reporting for that order, as further elaborated in paragraphs 30 to 34 below. Please also

to the meaning of “Relevant Clients” to be covered by the proposed regime as discussed in paragraphs 30 to 34.

¹⁰ An off-exchange order means a buy or sell order for a listed security which takes place outside the exchange operated by SEHK and the consummation of which would result in OE Trade Reporting by EPs to SEHK pursuant to its rules.

¹¹ It is expected that the BCAN-CID Mapping File sent by the Regulated Intermediary would contain all of its clients’ BCAN and CID which it should provide to SEHK on the relevant day.

¹² It is proposed that such express consent may be obtained in written and signed hard copy form, electronically (including for example by instant messaging applications) or by phone.

¹³ Direct client refers to the most immediate client for whom the Regulated Intermediary has placed or proposes to place an on-exchange order, or has conducted or proposes to conduct OE Trade Reporting.

¹⁴ A company is considered an affiliate of another company if the two companies belong to the same “group of companies”, as defined under Schedule 1 of the SFO.

refer to [Appendix 1](#) and [Appendix 2](#) which illustrate the BCAN assignment and operational arrangements for BCAN and CID submission.

7. In respect of the scope of “Relevant Client” proposed above, it is noted that the proposed HK Investor ID Regime may not necessarily reach the ultimate investor in cases where a securities order is placed through a long chain of entities (for example overseas entities). In considering the breadth of the regime, we have taken into account both the benefits of obtaining more client information to enhance market surveillance and the potential impact on the industry’s operations. Also, our power to issue a notice under section 181 of the Securities and Futures Ordinance (SFO) (**Section 181 notices**) to enquire of a Regulated Intermediary as to an investor’s identity would remain in place and could be used where an investor falls outside the HK Investor ID Regime and suspected market misconduct is involved. We will keep in view whether the proposed HK Investor ID Regime may need to be further enhanced particularly if we see more cases of the regime being evaded by deliberate means including via order-structuring.
8. Under the proposal, the SFC and SEHK would put a set of privacy protection and security measures in place to safeguard the collected data, including the CID and the mapped BCAN-CID information, to ensure that it is kept in a secured manner and protected against unauthorised access and loss. We appreciate the importance of striking a proper balance between maintaining investors’ data privacy and enhancing market surveillance. The proposed trading information would only be made available to limited, designated staff of the SFC and SEHK.
9. The proposals in Section A of this consultation paper centre on the implementation of the HK Investor ID Regime at the trading level only. We have no plans to extend it to cover investors’ holdings at this stage.
10. Subject to the completion of this consultation, the SFC generally expects to implement the HK Investor ID Regime for the securities market by Q1 of 2022 at the earliest. As the proposals under Sections A and B are separate and distinct, subject to market feedback on the proposal under Section A, the HK Investor ID Regime may be implemented first and on a standalone basis.

Part 2. Background

Current market surveillance practices

11. Under the current market structure, EPs are not required to disclose their clients’ identities when they input orders into, or execute or report trades via, SEHK’s trading system. The trading system only captures order and trade information at the EP level and the SFC can only see the orders placed by the EPs.
12. When irregular trading activities are observed and the need arises to identify orders or trades, the SFC has to issue Section 181 notices to the relevant EPs to obtain information about the order or trade including the identity of the underlying clients.
13. The SFO stipulates that such information should be provided to the SFC by the recipients of Section 181 notices within a reasonable time period specified in the demand for information. We normally require the recipients of Section 181 notices to provide the SFC with the requested information within a few business days.

14. In a typical, simple surveillance inquiry, we generally need to issue two rounds of Section 181 notices. In the first round, we ask relevant EPs for details of the orders or trades relating to a particular stock during a specified period. After obtaining the first round of results, we are better able to identify the suspicious traders and may then issue a second round of notices to obtain further details for certain traders involved in the suspicious activities (orders or trades), including the trading histories of the traders over a longer period.

Problems encountered in market surveillance under the existing framework

15. There are a number of problems encountered in market surveillance under the current framework:
 - (a) *Insufficient transparency* - the current market structure does not allow for sufficient transparency in respect of investors' identities to facilitate the SFC's market surveillance function. An investor can open multiple accounts with different brokers in Hong Kong, and without an expedient measure for the disclosure of investor identities, this makes it difficult for the SFC to establish on a timely basis whether the irregular orders or trades are initiated from the same investor. The lack of investor identity information in the orders and trades submitted to SEHK greatly affects the effectiveness of the SFC's market surveillance function to detect possible market misconduct. For example, a substantial increase in a stock's price might appear to be the result of separate purchases by many different brokers, when in fact the manipulators had deliberately opened multiple trading accounts with different EPs to hide their tracks.
 - (b) *Difficult to identify suspicious trading activities* - currently, as part of our market surveillance to identify potential market misconduct, our preliminary analysis of stock trading activities can only be performed at the EP level. Since there may be a number of investors trading the same stock via the same broker at the same time and no identification information for the investors is available in the orders or trades to effectively isolate the trading activities of some investors from others, we are unable to quickly detect any potential market misconduct. For example, in a suspected insider dealing case, an insider might buy ahead of positive news and sell immediately afterwards. However, innocent traders may also sell through the same EP ahead of the positive news. With no identification information for the underlying clients for orders submitted or trades reported by EPs, we do not know if the buy and sell trades belong to different traders. The overall trading activities through the same EP may exhibit normal buy and sell trading activities without clearly showing any net accumulation of shares ahead of the positive news, and thus not appear to be suspicious.
 - (c) *Costly and time-consuming for both the regulator and the financial industry* - dealing with Section 181 notices is time consuming and involves considerable manpower from both the Regulated Intermediaries and the SFC. The Regulated Intermediaries have to extract trading data from their systems and supply the required information to the SFC within a few business days. Upon receipt, the SFC will have to collate the data from the returns of different Regulated Intermediaries.

16. The table below sets out the number of Section 181 notices issued by the SFC in the previous financial years:

	2019/20	2018/19	2017/18	2016/17
Number of Section 181 notices issued	8,767	9,074	8,461	8,960

Adoption of investor identification measures in major financial markets

17. The introduction of an HK Investor ID Regime in Hong Kong would be in line with international developments. These include, for example, those in the US, Europe, Mainland China, Singapore and Australia. A summary of other major markets' experience with the adoption of investor identification measures is provided in [Appendix 3](#).
18. In the US, a central repository, namely the "consolidated audit trail" commissioned by the US Securities and Exchange Commission (**SEC**), is being put in place. The repository tracks securities orders for equities and equities options throughout their life cycles from generation through routing, modification, cancellation or execution. Self-regulatory organisations have begun reporting data to the repository. Data reporting from the industry to the repository is coming into effect in phases. In Europe, the European Union (**EU**)'s Markets in Financial Instruments Directive II implemented in January 2018 requires that a "national identifier" for investors be included when intermediaries report transactions to regulators.
19. In the Asia-Pacific region, each investor in Mainland China has since 2014 been assigned with a single identification code (**Yimatong**) which links up the securities and futures trading accounts which an investor may have maintained with multiple brokers, and pursuant to which the securities and futures trades by that investor can be readily identified and aggregated. In Singapore, the trading members of Singapore Exchange Limited (**SGX**) are required to maintain a securities trading account for each customer, which must be identified by the customer's name and by a trading account code, both of which must be reported to the exchange before orders are sent in. The trading members are then required to include the trading account code in each order entered into the trading system. In Australia as well, rules have been put in place since 2011 for "origin of order" information for securities trades, including a unique client identifier, to be provided by the intermediary to the market operator and visible to the Australian Securities and Investments Commission (**ASIC**).

Benefits of introducing the proposed HK Investor ID Regime

20. Importantly, the proposed regime would facilitate more effective market surveillance by SEHK and the SFC. This would in turn reinforce the integrity of the Hong Kong market and support the sustainable development of Hong Kong as a world-class international financial centre.
21. The proposed measures for enhancing trading transparency would be consistent with the SFC's objectives of maintaining fair, efficient, competitive and orderly markets. They would also be in line with the International Organization of Securities Commissions (**IOSCO**) objective of ensuring that markets are fair, efficient and transparent, as well as

the IOSCO principles that the regulator should ensure an effective use of investigation and surveillance powers¹⁵.

22. In working out the proposed regime, the SFC is mindful of keeping the operational costs potentially borne by Regulated Intermediaries to a minimum. While the initiative would involve the proposed operational enhancements discussed below, it is also expected to greatly reduce the number of Section 181 notices issued to Regulated Intermediaries for conducting initial investor identity inquiries, thereby resulting in resource-savings for Regulated Intermediaries in the long term.

Part 3. Proposed operational arrangements

Parties and securities for which trade orders and reporting are subject to the proposed regime

23. The regime is proposed to apply to Regulated Intermediaries which submit for execution on-exchange orders, or which carry out off-exchange orders or OE Trade Reporting, for itself or its clients for securities listed and/ or traded on SEHK's trading system, save that trades conducted on the odd lot and special lot market¹⁶ are to be excluded at this stage having regard to their relatively low turnover¹⁷.
24. Under the proposal, the reporting of manual trades conducted by EPs outside SEHK's trading system (including trades crossed in automated alternative liquidity pools or on pre-IPO trading platforms operated by EPs) and share placings¹⁸ will be conducted on a trade-by-trade basis with BCANs of both the buyer and seller included. For the avoidance of doubt, the EPs of the buyer client and the seller client should both report the trade to SEHK, as opposed to the current practice whereby only the selling EP reports the trade to SEHK. We consider that the change would allow better data checks and assist in identifying inaccuracies. The timing of reporting will remain what is specified in the Rules of the Exchange of SEHK.

¹⁵ The Objectives and Principles of Securities Regulation issued by IOSCO in May 2017 includes, amongst other things, the objective of ensuring that markets are fair, efficient and transparent. Its principles also include that the regulator should have comprehensive inspection, investigation and surveillance powers (Principle 10), and the regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and the implementation of an effective compliance program (Principle 12). Further, the principles include that securities settlement systems, central securities depositories, trade repositories and central counterparties should be subject to regulatory and supervisory requirements that are designed to ensure that they are fair, effective and efficient and that they reduce systemic risk (Principle 38).

¹⁶ Securities in odd lots refer to securities that are less than one board lot (the trading unit determined by the relevant issuer), which are not accepted by SEHK's trading system for auto-execution. There is an odd lot and special lot market at SEHK for investors to trade their odd lot securities according to the rules set out under Chapter 5 of the Rules of the Exchange of SEHK. Odd lot securities trading services may also be offered by providers of automated trading services authorised to conduct Type 7 Regulated Activity under Part V of the SFO.

¹⁷ The turnover on SEHK's odd lot market for the years 2017 to 2019 ranged from 0.016% to 0.018% of total turnover, and the turnover on SEHK's special lot market for the same period ranged from 0.069% to 0.090% of total turnover.

¹⁸ This refers to share placings currently reportable as a manual trade under the Rules of the Exchange of SEHK, not primary market share placing activities.

25. We propose to first implement the HK Investor ID Regime on the securities market, while our ultimate aim is for the regime to be extended to the exchange-traded derivatives market¹⁹ as well. This is to allow sufficient time for the market to adapt to the proposed changes and to enable us to take the experience garnered from the first stage into account when designing the appropriate measures for the derivatives market. If we propose to extend the regime to the exchange-traded derivatives market, we will consult the market separately. Our proposals in this Section of the consultation paper centre on the implementation of the HK Investor ID Regime only at the trading level (both on-exchange and off-exchange). We have no plans to cover investors' holdings at this stage.

Q1	Do you have any comments on the coverage of the proposed regime? Apart from the odd lot and special lot market, are there any other types of trades that should be excluded? Please explain your view.
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BCAN and tagging of securities orders

Overview of BCAN

26. The HK Investor ID Regime aims to identify securities orders at the investor level in order to enhance regulatory oversight. To achieve this, Regulated Intermediaries would be required to ensure that a unique identification code (the BCAN) has been assigned to each Relevant Client, included in the order information to be submitted to SEHK for on-exchange orders (including orders received directly through the Regulated Intermediary's online and mobile trading facilities) as well as off-exchange orders for off-exchange trades reportable to SEHK. The BCAN should also be included in all OE Trade Reporting, and submitted to SEHK as part of the BCAN-CID Mapping File.

Generation, assignment and format of BCAN

27. Under the HK Investor ID Regime, the BCAN should be generated by a Regulated Intermediary and assigned to their own Relevant Clients (and to themselves in the case of proprietary trades).
28. Each BCAN should be able to identify a specific client of the Regulated Intermediary. The BCAN should not bear any obvious link to a client's identity and must be kept strictly confidential. SEHK will provide further details on the format of the BCAN in due course. The order of the Relevant Client should be passed along²⁰ the intermediating chain for an on-exchange order or off-exchange order with the BCAN tagged.
29. The proposed HK Investor ID Regime and the investor identification regime launched on 26 September 2018 for northbound trading (**NB Investor ID Regime**) under Stock Connect²¹ are expected to work independently. Therefore, it is proposed that Regulated

¹⁹ This refers to the derivative products traded on the trading system of the Hong Kong Futures Exchange Limited.

²⁰ Only one BCAN shall be tagged to the order and transmitted along the intermediating chain.

²¹ Stock Connect is a mutual market access programme between Hong Kong and the Mainland, which allows investors in each market to participate in the other markets via local intermediaries. It comprises

Intermediaries would have the discretion to assign the same or a different BCAN to a single client under the respective arrangements.

Relevant Clients to whom a BCAN should be assigned

30. The Relevant Client to be assigned a BCAN is proposed to be a direct client of a Regulated Intermediary subject to certain provisos with regards to (i) a proprietary trade; (ii) an order carried out through an intermediating chain of Regulated Intermediaries; and (iii) an order placed with an affiliate of an EP executing that order, as elaborated below.
31. In the case of a proprietary trade, it is recognised that no third party client is involved. Accordingly, the Regulated Intermediary should assign a BCAN to itself (which would be a special code to be prescribed by SEHK) when it conducts a proprietary trade.
32. Where an order is routed through a chain of Regulated Intermediaries, the Relevant Client in this case shall be the first non-Regulated Intermediary²² client in the chain. Each Regulated Intermediary along an intermediating chain has the responsibility to ensure that the order information for each on-exchange order, as well as each off-exchange order, conducted either directly or indirectly through another Regulated Intermediary, includes the BCAN assigned to the Relevant Client, and that a BCAN is included in all OE Trade Reporting.
33. Where an affiliate (or a series of affiliates) of an EP²³ places an order with that EP who executes the order, the Relevant Client shall be the first non-affiliate in the subsequent chain. Where the entire chain consists solely of affiliates of the EP executing the order, the Relevant Client shall be the last affiliate in the chain²⁴ who places the order. This is in line with the existing NB Investor ID Regime and the associated Rules of the Exchange of SEHK, and accordingly it is hoped that it will facilitate the industry's early adaptation of the new regime. Having said that, we will keep in view the need to expand the definition of Relevant Client (e.g. by including affiliates of non-EP Regulated Intermediaries) after the implementation of the regime.
34. Please see [Appendix 1](#) for a diagram showing the types of client proposed to be covered under the HK Investor ID Regime.

BCANs for discretionary accounts, investment funds, joint accounts, multiple accounts and aggregated orders

35. In the case of discretionary accounts, the Relevant Client is proposed to be the legal entity that opens the trading account with the Regulated Intermediary. As for investment funds (collective investment schemes (**CIS**)), the Relevant Client is proposed to be the asset management company or the individual fund²⁵, as appropriate, which has opened the securities trading account with the Regulated Intermediary.

Hong Kong-Shanghai Stock Connect, launched in November 2014, and Hong Kong-Shenzhen Stock Connect, launched in December 2016.

²² This may include, for example, an overseas securities firm.

²³ Where the order is placed by an affiliate of the order-executing EP, the EP should procure that that affiliate (for example, an overseas securities firm) will assign a BCAN to the Relevant Client.

²⁴ Starting with the last EP and working backwards.

²⁵ For the avoidance of doubt, the intention is not to capture the beneficial owners of investment funds/ CIS.

36. Although a single unique BCAN shall be assigned to each Relevant Client, a separate BCAN is to be assigned to identify each joint account. For example, if a client who holds an account in his sole name with a Regulated Intermediary and is assigned a BCAN also has a joint account with another client of the Regulated Intermediary, the Regulated Intermediary should generate and assign another unique BCAN to identify that joint account and that BCAN should be tagged and used in respect of the orders and trades placed from that joint account.
37. In general, if a client has multiple accounts with a Regulated Intermediary, the Regulated Intermediary should assign only one unique BCAN to identify that client, and this BCAN should be tagged in respect of the orders and trades for all of that client's trading accounts with the Regulated Intermediary. Under the proposed regime, it is envisaged that the BCAN assigned to a client shall not be changed, and shall not be reused for other clients once assigned. If the BCAN needs to be revised in exceptional cases, it is proposed that prior approval from SEHK would be required.
38. In the case of an aggregated order²⁶, a Regulated Intermediary shall first assign a specific code to the aggregated order as prescribed by SEHK and tag such code to the order when it is submitted as an on-exchange order or as part of OE Trade Reporting. The Regulated Intermediary shall be required to submit information on each underlying order (including the relevant BCAN for each Relevant Client) of the aggregated order to SEHK subsequently by a prescribed time. This is to enable the tracing of investors' identities within an aggregated order and avoid circumvention of the proposed regime by the use of aggregated orders.

Preparations for operational enhancements and consequences of omitting valid BCANs

39. To ensure smooth trading operations, Regulated Intermediaries are expected to implement effective measures and facilities under the proposed regime, including modifications to their internal client management systems so that unique BCANs can be assigned to and stored for their clients. Regulated Intermediaries would also be expected to put in place automated order management systems to ensure correct and valid BCANs are tagged to their clients' on-exchange orders or off-exchange orders for OE Trade Reporting.
40. SEHK will conduct real-time validation checks of whether a BCAN has been inputted with an order and whether the BCAN is inserted in the correct format. Where a BCAN is not provided or a BCAN in an invalid format is detected, the on-exchange order or OE Trade Reporting will be rejected. Without SEHK's approval, a Regulated Intermediary cannot correct a BCAN which has been already submitted or reported. Please see [Appendix 1](#) for a diagram which illustrates the assignment and submission of BCANs.

Q2	Do you have any comments or suggestions on the proposed operational arrangements for the assignment and submission of the BCAN? Do you have any comments on whether the same or a different BCAN should be assigned to the same client under the NB Investor ID Regime and the proposed HK Investor ID Regime? Please explain your view.
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²⁶ An aggregated order refers to an order which comprises two or more purchase and/or sell orders of the same security placed by different clients by a Regulated Intermediary for an on-exchange order or off-exchange order.

Collection and submission of the CID

Type of information constituting the CID

41. In considering the CID to be collected, we are mindful that the least amount of personally identifiable information should be obtained from investors, while ensuring that the market surveillance needs of the SFC are met. It is proposed that under the HK Investor ID Regime, the Regulated Intermediaries should ensure that the following information has been collected as CID from the Relevant Client, and ensure that up-to-date CID²⁷ is submitted to the central data repository to be maintained by SEHK in respect of an on-exchange order or OE Trade Reporting by a prescribed time as discussed below:

(i) 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 document²⁸; (3) passport); and
- identity document number on the identity document.

(ii) 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) LEI²⁹ registration document; (2) certificate of incorporation; (3) business registration certificate³⁰; (4) other equivalent documents); and
- identity document number on its identity document.

(iii) 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;

²⁷ For the avoidance of doubt, only the specified information and not a copy of the identity document will be required to be submitted to the central data depository.

²⁸ In the case of a client with multiple national identities, under the proposed regime the Regulated Intermediary will have the discretion to select and register any of the client's available national identity information.

²⁹ 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.

³⁰ 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.

- however, in the case of a trust which is an investment fund (CIS), the CID of the asset management company or the individual fund (CIS), as appropriate, that which has opened a trading account with the Regulated Intermediary.

(iv) 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.

Logistics for the collection and submission of CID

42. The Regulated Intermediary which assigns the BCAN to the Relevant Client should also be the Regulated Intermediary which collects the CID from that client. After collection of the CID, the Regulated Intermediary should put the CID and BCAN information of the client into a file, namely "BCAN-CID Mapping File" in a format designated by SEHK. The Regulated Intermediary may submit the BCAN-CID Mapping File to the central data repository maintained by SEHK directly if it is an EP. A non-EP may make a submission directly to SEHK via a designated web portal (**Designated Portal**)³¹. It may also submit the file to SEHK indirectly by providing the file to another Regulated Intermediary in the same way that it routes on-exchange orders or off-exchange orders.
43. Each Regulated Intermediary passing on an on-exchange order, or passing on an off-exchange order or conducting OE Trade Reporting, has to have measures in place to ensure that the client's BCAN-CID Mapping File is submitted to the central data repository maintained by SEHK by a prescribed time as discussed in paragraphs 45 to 47 below.
44. Where on-exchange orders or off-exchange orders will be routed through an affiliate of the EP which executes them, the EP should ensure that the affiliate will collect the CID from the client, prepare the BCAN-CID Mapping File and provide the file to it. Following the receipt of the file, the EP should submit the file to the central data repository maintained by SEHK as discussed above.
45. In view of the significant volume of investors whose CID would have to be submitted under the proposed regime, to prepare for smooth transition, the CID of clients which have already opened an account with a Regulated Intermediary and have conducted trades via that account should generally be submitted 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 day³² (T-1). 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.
46. Following from the above proposed requirement, the vast majority of investors' CID should therefore have been submitted before an investor conducts a trade after the launch of the regime. This would help avoid system overload and related issues. As for

³¹ SEHK and the SFC will establish a designated web portal which will allow non-EP Regulated Intermediaries to directly submit the CID for their Relevant Clients (in the form of a BCAN-CID Mapping File) to the central data repository maintained by SEHK.

³² Trading day in this paper refers to the day on which the client places the on-exchange or off-exchange order or the day on which the off-exchange trade is executed.

CID of (i) new clients who wish to trade on the day of account opening, and (ii) clients whose accounts have remained dormant since account-opening, we welcome views as to whether submission of their CID by T-1 could be problematic, in which case the CID of such clients could instead be submitted on the trading day when the client places an order.

47. Separately, with regards to an aggregated order, in line with the discussions in paragraph 38, it is proposed that a Regulated Intermediary be required to submit the BCAN-CID Mapping File for each Relevant Client of the aggregated order to SEHK subsequent to the trade by a prescribed time.
48. The submission of the BCAN-CID Mapping File is expected to be a one-off exercise and updates will only be necessary where there is change in the Relevant Clients' CID information. In other words, it would not be necessary for the BCAN-CID Mapping File to be submitted each time when an order is placed with a Regulated Intermediary.
49. Failure to submit the BCAN-CID Mapping File to SEHK by the prescribed time will not invalidate the order or trade but may constitute a breach of the requirements in the SFC Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (**SFC Code of Conduct**) and may contravene the relevant Rules of the Exchange of SEHK.
50. As it is recognised that the CID of a client may change over time, it is also expected that Regulated Intermediaries will submit a CID file when they are aware of any change to any of the information in their Relevant Clients' CID. Where the order is placed by an affiliate of the EP which executes that order, the EP should ensure that the affiliate provides it with updated CID information in respect of the Relevant Client (i.e. the non-affiliate further down the order chain).
51. As Relevant Clients who are Hong Kong residents would need to provide their HKID card details, Regulated Intermediaries may need to contact the Relevant Clients (for example those who opened accounts previously with their passports) and ask them to provide HKID card information for the purpose of meeting the CID requirements.
52. For the purpose of ensuring smooth operation of the proposed HK Investor ID Regime following its implementation, under the proposal Regulated Intermediaries would also be required to enhance their systems correspondingly to ensure that (a) the CID in the form of a BCAN-CID Mapping File would be duly submitted to the central data repository as required, (b) the CID of the clients to whom they have assigned the BCAN would be kept up-to-date, and (c) any changes to their clients' CID would be reflected in the central data repository as soon as possible. A diagram providing an overview of the proposed operational arrangements for the submission of CID and trading is shown in [Appendix 2](#).

Q3	Do you have any comments on the proposed data collection and submission of CID and the proposed requirement to keep the central data repository updated? Please explain your view.
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Data privacy laws and consent from investors

Review of measures in place to ensure compliance

53. Currently, in compliance with applicable privacy laws and conduct requirements, Regulated Intermediaries should already have established measures for ensuring data privacy and security for the client data they receive and maintain as part of their operations. Regulated Intermediaries are expected to extend such measures to the personal data collected and used under the proposed HK Investor ID Regime.
54. As the CID and BCANs of individual clients are likely to constitute personal data³³ under the PDPO, all Regulated Intermediaries should review the adequacy of existing measures to ensure compliance with all applicable requirements under the PDPO and any other applicable data privacy laws³⁴ in relation to the collection, use, storage, disclosure and transfer of CID, BCANs and BCAN-CID Mapping Files. These would include, for example, reviewing the adequacy of existing client documentation such as its personal information collection statement, and revisiting its arrangements in respect of giving notifications to and obtaining consent from its clients on data collection and use.
55. Among other things, it should be noted that pursuant to the PDPO³⁵, a Regulated Intermediary is required to take all practicable steps to notify an individual client of certain matters on or before collecting personal data, including but not limited to, the purpose for which data is to be used.
56. In this connection, 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 PDPO³⁶. Prescribed consent means consent given expressly and voluntarily, which consent may be subsequently withdrawn by notice of the data subject in writing³⁷.
57. As the proposed HK Investor ID Regime will be a new arrangement, the use of personal data already collected by the Regulated Intermediary for transfer and disclosure to SEHK and the SFC and the subsequent use of such personal data by SEHK and the SFC would likely constitute use of personal data for a new purpose, triggering the requirement for a Regulated Intermediary to obtain existing individual clients' prescribed consent under the PDPO.
58. To facilitate investors' awareness of our proposed regulatory regime, in particular the need for their provision of consent to Regulated Intermediaries under our regulatory requirements in order to be permitted to place purchase orders for securities listed and/

³³ "Personal data" is defined under the PDPO as "any data - (a) relating directly or indirectly to an individual; (b) from which it is practicable for the identity of the individual to be directly or indirectly ascertained; and (c) in a form in which access to or processing of the data is practicable".

³⁴ Apart from the PDPO, Regulated Intermediaries should consider if data privacy laws of other jurisdictions may be applicable where relevant (for example depending on the client's place of residence or the Regulated Intermediary's place of business.)

³⁵ Please see Data Protection Principle 1 in Schedule 1 to the PDPO.

³⁶ Please see Data Protection Principle 3 in Schedule 1 to the PDPO.

³⁷ It should be noted however, that subsequent withdrawal of prescribed consent by the client would not affect the continued use, storage, disclosure, transfer or processing of personal data collected before the withdrawal of prescribed consent.

or traded on SEHK, we expect to conduct investor education in conjunction with the Investor and Financial Education Council. This is expected to help investors better understand the background to the consent requirements and aid the consent collection process.

Written or other express consent

59. In order to ensure compliance with the PDPO and that individual clients are fully aware of the purposes for which their personal data is to be used under the HK Investor ID Regime, Regulated Intermediaries should obtain³⁸ written or other express consent from the Relevant Clients for the transfer of their personal data to SEHK and the SFC under the proposed HK Investor ID Regime in form and manner in compliance with the requirements of the SFC to be published by way of guidance.
60. The form of consent would require individual clients to consent to the following purposes of use for personal data submitted under the regime (including their CID and BCANs):
- (i) disclosure and transfer of their personal data (including CID and BCANs) to SEHK and/or the SFC, including but not limited to by way of tagging the BCANs to trade orders submitted to SEHK;
 - (ii) allowing 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 SEHK; and (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
 - (iii) 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.
61. This consent is required to be obtained from both new and existing clients. It is proposed that such consent may be obtained by written and signed acknowledgement on paper, or alternatively by electronic means (which may include, for example, by instant messaging application) or by phone, provided that the relevant requirements are satisfied (for example, in relation to authentication of the client's identity, proper recording of the message, and duration of maintenance of records which are readily accessible for compliance checking and audit purposes)³⁹. The consent should be obtained on or before the collection of CID from or submission of CID for an individual client.

³⁸ 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.

³⁹ We expect to provide further guidance to the industry in due course on the requirements to be observed where client consent is obtained by such alternative means. We may refer to the existing

62. Under the proposed HK Investor ID Regime, Regulated Intermediaries should review their data privacy measures and seek professional advice on the due procedures to be taken to ensure compliance with all applicable data privacy laws and any relevant requirements imposed by SEHK and the SFC. It is proposed that Regulated Intermediaries should: (a) put in place 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; (b) lay down procedures for explaining to its clients the implications of providing such consent; (c) keep an up to date record of whether the client has provided or withdrawn a consent; and (d) 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 SEHK such that a client who fails to provide the required consent will only be allowed to sell existing holdings of securities⁴⁰ but not buy securities by means of either on-exchange or off-exchange orders.

Transmission of data and data protection

63. In terms of data security, 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. Once the systems maintained by SEHK have captured the trade information submitted by Regulated Intermediaries, relevant order and trade information (with BCAN tagged) will be transmitted to the surveillance system of the SFC via a dedicated, secure data line.
64. Under the proposed HK Investor ID Regime, the CID will be kept in a central data repository maintained by SEHK under a secure and safe environment. The SFC and SEHK will work together to establish a mechanism for data sharing or synchronisation. Access to the repository will be restricted to designated staff of SEHK and the SFC with a legitimate need for market surveillance and performance of other regulatory functions only. Approvals to designated staff would be granted by senior executives strictly on an as-needed basis based on job duties. Detailed audit trails will be maintained of any access made and failed login attempts. Unauthorised access will be logged and investigated.
65. SEHK, as the proposed operator of the central data repository, would also be required to put in place adequate resources, including expertise and facilities, to ensure that its data security measures and access controls are kept up-to-date and the relevant policy and procedures are reviewed and updated on a regular basis to reflect the latest technological development. The list of authorised persons from SEHK who may access the data will be recorded and reviewed on a regular basis.

Q4	Do you have any comments or suggestions on the proposed measures for Regulated Intermediaries’ compliance with relevant data privacy laws and in relation to data security, including the proposed arrangements concerning clients’ consent for the handling of their personal data? Please explain your view.
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requirements applicable to the placing of securities orders by telephone recording and instant messaging applications where appropriate when we formulate such guidance.

⁴⁰ This excludes short sales.

Part 4. Proposed amendments to the SFC Code of Conduct

66. The SFC proposes to amend the SFC Code of Conduct to implement the proposed HK Investor ID Regime. The amendments are proposed to be introduced as a new paragraph 5.6 after the existing paragraph 5.5 in the SFC Code of Conduct⁴¹ and intended to set out the obligations of Regulated Intermediaries (including EPs and non-EPs). Failure to comply with the SFC Code of Conduct will affect the SFC’s view of the fitness and properness of a Regulated Intermediary and may lead to disciplinary action.

Corresponding updates to the Rules of the Exchange of SEHK

67. SEHK will also have to amend its rules to implement the HK Investor ID Regime in relation to EPs. Non-EP Regulated Intermediaries assigning BCANs to Relevant Clients and preparing and submitting the BCAN-CID Mapping Files would also be required to follow the rules and procedures⁴² set out in relevant Rules of the Exchange of SEHK. Such requirement is also set out in the proposed amendments to the SFC Code of Conduct.

68. SEHK will issue an information paper to set out the technical details for the operations (including for example the procedural details for the input of BCANs and CID into the relevant systems and submission to the central data repository) after the publication of the conclusions to this consultation paper by the SFC.

Q5	Do you have any comments on the proposed amendments to the SFC Code of Conduct for the purpose of implementing the HK Investor ID Regime? Please explain your view.
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Part 5. Implementation timeline

69. As the proposed HK Investor ID Regime is market-wide, we anticipate various parties will need to do substantial work to prepare for the regime’s implementation. This would include, for example, Regulated Intermediaries’ operational enhancements, obtaining clients’ consent for use of their personal data and preparation of CID for initial submission to SEHK. Preparation time would also be required by SEHK for system-building and by its system vendor for upgrading related surveillance system functions.

70. With regards to the collection of CID, we expect Regulated Intermediaries to prepare for the initial CID submission (i.e. the first batch of clients’ CID to be submitted to SEHK) as

⁴¹ For the avoidance of doubt, the proposed amendments to the SFC Code of Conduct will not alter the existing “client identity rule” in paragraph 5.4 of the SFC Code of Conduct, and both Schedule 2 of the SFC Code of Conduct and the Client Identity Rule Policy (which further elaborates on paragraph 5.4 of the SFC Code of Conduct) will remain in force after the introduction of the proposed amendments.

⁴² Currently, these non-EP Regulated Intermediaries may not have a direct relationship with SEHK and therefore would not have access to the channel or mechanism provided by SEHK to effect the CID submission. Under the proposed regime they may make a submission via the Designated Portal. SEHK will establish a mechanism and rules to facilitate and govern the submission of CID and BCAN-CID Mapping Files by these non-EP Regulated Intermediaries.

early as possible before the launch of the HK Investor ID Regime, so that their clients can conduct trading as normal immediately after the launch. To cater for the volume of CID, the initial submission period is proposed to start immediately after obtaining consent replies from clients. A timeline for the submission of the full and updated CID⁴³ will be announced by SEHK in due course.

71. In view of the required preparations, we propose that a reasonable preparation period of nine months be given to Regulated Intermediaries to complete the preparation process, including obtaining the required consent for personal data collection, and conducting system enhancements before the implementation.
72. Subject to consultation feedback, the due completion of various system tests and market rehearsals, the proposed HK Investor ID Regime is tentatively envisaged to be launched by Q1 of 2022 at the earliest. It is envisaged that the HK Investor ID Regime may proceed first and on a standalone basis from the OTC Securities Transactions Reporting Regime referred to in Section B, having regard to the relative market readiness of the former, as the proposed HK Investor ID Regime is broadly similar to the Stock Connect NB Investor ID Regime already in place.

Q6	Do you have any comments on the proposed implementation timeline for the HK Investor ID Regime? Please explain your view.
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⁴³ This refers to a date which is expected to be specified before the launch of the regime, whereby the Regulated Intermediaries should submit the latest updated versions of their clients' CID. The timeline for the submission of CID of clients would also be subject to the discussions set out in paragraphs 45 to 47 above.

Section B

A proposal to introduce an OTC securities transactions reporting regime for shares listed on SEHK

Part 1. Overview

73. The HK Investor ID Regime explained in Section A of this consultation paper will help to provide a more complete and informative picture of the on-exchange orders and off-exchange trades reported to SEHK. The additional granularity of the information will be useful but will not cover all transactions involving shares listed in Hong Kong. It will still be possible for people to conduct off-exchange transactions that covertly transfer ownership and subsequently manipulate share prices or take advantage of manipulation by others.
74. Transactions which are not recorded by SEHK as on-exchange orders nor required to be reported to SEHK as off-exchange trades (**OTC Securities Transactions**) have been used in many manipulation schemes investigated by the SFC. A transaction reporting regime which reflects only those transactions made on-exchange or reported to SEHK would be a step towards greater oversight of market transactions but still leave the door open to other manipulation schemes which affect investors in Hong Kong and elsewhere. A limited regime would also compare unfavourably with other international financial centres where transaction reporting regimes have greater coverage.
75. Clearly not all of the OTC Securities Transactions in Hong Kong are abusive. But our understanding of what is happening with the shares of listed companies would be a lot clearer if the details of these transactions were also available to the SFC on a timely basis. Therefore, as a complementary initiative to the HK Investor ID Regime, we propose to introduce an “**OTC Securities Transactions Reporting Regime**” for shares⁴⁴ listed on SEHK, 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 an OTC Securities Transaction 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.
76. Unlike the proposed HK Investor ID Regime whereby the BCAN information will be submitted to SEHK at the time of order submission or OE Trade Reporting, we propose that information will be reported to the SFC directly under the OTC Securities Transactions Reporting Regime. We believe that this would make the submission process easier, as well as simplify data privacy issues.

⁴⁴ In relation to the OTC Securities Transactions Reporting Regime, “shares” are defined as the ordinary shares of a company or units of a real estate investment trust (REIT).

77. We propose that only ordinary shares and REITs listed on SEHK be covered by the OTC Securities Transactions Reporting Regime. Other securities, such as preference shares, rights, company warrants, derivative warrants, Callable Bull / Bear Contracts (CBBCs), OTC derivatives, and exchange traded funds (ETFs), would fall outside the scope of the OTC Securities Transactions Reporting Regime.
78. We would like to stress that the underlying OTC Securities Transaction, transfer, deposit, or withdrawal will not be invalidated if any non-compliance of the OTC Securities Transactions Reporting Regime is found.
79. Subject to consultation feedback, the SFC plans to launch the OTC Securities Transactions Reporting Regime by around Q3 of 2022 for the reasons discussed in paragraph 106 below.

Part 2. Background

80. The HK Investor ID Regime explained in Section A of this consultation paper covers on-exchange orders and off-exchange trades which are required to be reported to SEHK by EPs. While this should help provide more information about securities activities, the picture remains incomplete without timely information relating to OTC Securities Transactions.
81. For example, these OTC Securities Transactions include transactions carried out by a Regulated Intermediary which is conducted off-exchange and which is not reportable by an EP under the Rules of the Exchange of SEHK and a transaction which has been arranged between investors who instruct that a share transfer be carried out which is not reportable by EPs. These transactions would not be covered by the HK Investor ID Regime set out in Section A of this consultation paper.
82. These OTC Securities Transactions are not trivial or insignificant. Deducing from the stamp duty collected for share transactions, these OTC Securities Transactions could account for a fair portion of total securities trading. Based on information obtained from our previous enquiries, many of these OTC Securities Transactions would involve changes in beneficial ownership through bought and sold notes. During our supervisory monitoring activities, we noted that some of these transactions in individual stocks are carried out in sizes equivalent to several times the stock's average daily volume or at prices which are far from the prevailing market price.
83. OTC Securities Transactions could be an important part of a market misconduct scheme and not knowing about them could hinder our identification of the ultimate perpetrators. We would only be able to bring the scheme to light by making enquiries with the Regulated Intermediaries concerned. Alternatively, on-exchange transactions might look odd in isolation, but with the benefit of seeing the OTC Securities Transactions the pattern becomes clear and what is happening may not be abusive in any way. Our understanding of the activities in relation to the shares of listed companies would be clearer if information about OTC Securities Transactions were also available to the SFC on a timely basis.

Part 3. OTC Securities Transactions Reporting Regime

Summary of the proposal

84. The table below summarises our proposal for an OTC Securities Transactions Reporting Regime. The reporting obligation will be imposed on Regulated Intermediaries. It is important to note that failure to report will not invalidate the underlying OTC Securities Transaction, transfer, deposit or withdrawal, although it would mean that the Regulated Intermediary would have committed a regulatory breach, which is subject to disciplinary action:

Obligation to report	<ul style="list-style-type: none"> When the Regulated Intermediary, whether as principal or agent, makes a transfer of shares that is effected by an OTC Securities Transaction in respect of which stamp duty is chargeable in Hong Kong When there is a deposit to or withdrawal from the Regulated Intermediary, whether as principal or agent, of physical certificates of shares
Time to report	Transfer/ deposit/ withdrawal day (Hong Kong time) + 1 Hong Kong trading day
Shares subject to the reporting regime	Ordinary shares and REITs listed on SEHK
Reporting parties in relation to transfer of shares	Both the delivering and receiving Regulated Intermediaries need to report

Obligation to report

85. In relation to an OTC Securities Transaction, a Regulated Intermediary could only effect a transfer of shares of Hong Kong stock⁴⁵ for its client on the back of a valid document evidencing the transaction, which includes evidence of payment of the stamp duty chargeable under the Stamp Duty Ordinance. By requiring the reporting of these share transfers by Regulated Intermediaries, the SFC can collect information about the corresponding OTC Securities Transactions.

86. Since an OTC Securities Transaction might have been arranged directly between investors who instruct a Regulated Intermediary to handle only the share transfer, we propose that the reporting of information about transactions would be required even if the only involvement of the Regulated Intermediary is to handle the transfer of shares.

87. Some transactions could reasonably fall outside an OTC Securities Transactions Reporting Regime, such as probate transactions. It is generally the case that this class of transactions is exempt from stamp duty. Therefore, a transfer as effected by a transaction in shares for which stamp duty in Hong Kong is not chargeable would not be reportable under the OTC Securities Transactions Reporting Regime. Other examples would

⁴⁵ As defined under section 2 of the Stamp Duty Ordinance (Cap. 117).

include shares transferred between two EPs for the same individual, and share transfers between two accounts held by the same individual in the same EP.

88. Share transfers which take place without the involvement of Regulated Intermediaries would not be required to be reported under this regime. Many of these transfers would involve physical certificates of shares, and the movement of physical certificates of shares into or out of Regulated Intermediaries could provide an indication of the existence of such transfers. Therefore, we also propose that reporting by the Regulated Intermediary to the SFC would also be required when physical certificates of shares are deposited to or withdrawn from the Regulated Intermediary, whether as principal or agent.

Time to report

89. We propose that the reporting should be done by one Hong Kong trading day after the day (in Hong Kong time) of the share transfer, deposit or withdrawal. While this is more relaxed than the OE Trade Reporting requirement, we consider that allowing an additional Hong Kong trading day strikes a balance between giving Regulated Intermediaries more time and allowing the SFC to obtain timely information under the OTC Securities Transactions Reporting Regime.

Securities subject to the reporting regime

90. Given that our objective is to improve our understanding of the transactions relating to shares of listed companies and in order to ease the reporting load for Regulated Intermediaries, we propose that the OTC Securities Transactions Reporting Regime should only cover ordinary shares and REITs listed on SEHK. Other securities, such as preference shares, rights, company warrants, derivative warrants, CBBCs, OTC derivatives, and ETFs, would not be within scope of the OTC Securities Transactions Reporting Regime.

No additional reporting for on-exchange trades

91. A transfer of shares effected by a transaction which has been conducted on-exchange or is required to be reported to SEHK in accordance with the Rules of the Exchange of SEHK will not be subject to the reporting obligation under the OTC Securities Transactions Reporting Regime. In the latter case, transactions conducted by an EP outside the trading system of SEHK are required to be reported to SEHK within a specified period and such trading information is also available to the SFC in real time. Therefore, we do not consider that such events should be within the scope of the OTC Securities Transactions Reporting Regime.

Reporting parties in relation to transfer of shares between two Regulated Intermediaries

92. In relation to the reporting of shares transfers between two Regulated Intermediaries, we propose that both the delivering Regulated Intermediary and the receiving Regulated Intermediary would need to report the transaction to the SFC. This would not only be in line with the proposed mechanism for trade reporting to SEHK after the implementation of the HK Investor ID Regime (paragraph 24 of this consultation paper), but also provides more complete and accurate OTC Securities Transactions information to the SFC.

93. As mentioned above, the delivering Regulated Intermediary and the receiving Regulated Intermediary would need to report to the SFC separately. In other words, we would receive two reports for a single share transfer.
94. For the avoidance of doubt, if both the delivering Regulated Intermediary and the receiving Regulated Intermediary are the same Regulated Intermediary, the transfer would need to be reported only once.

Q7	Do you have any comments on the proposed OTC Securities Transactions Reporting Regime? Please explain your view.
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OTC Securities Transactions Reporting Regime submission system

95. Under the proposed OTC Securities Transactions Reporting Regime, the SFC will build the system for the submission of information. This has the advantage of enabling us to potentially leverage on our centralised submission portal, therefore minimising the effort needed for intermediaries to design reporting interface. It would also simplify data privacy issues as the SFC hosts the information directly.
96. The following information should be submitted to the SFC for each share transfer. We will provide the format of reporting in due course preceding the implementation of the regime.
- Stock name of the shares transferred
 - Stock code of the shares transferred
 - Transaction price per share
 - Quantity of shares transfer handled by the reporting Regulated Intermediary
 - Quantity of shares of the transaction
 - Share transfer date
 - Transaction date
 - CE number⁴⁶ of reporting Regulated Intermediary and role of the reporting Regulated Intermediary in the transfer (transferee/ transferor/ agent for transferee or transferor or both)
 - CE number of the counterparty corporation to the reporting Regulated Intermediary (if it is another Regulated Intermediary)
 - Full name of the counterparty corporation to the reporting Regulated Intermediary
 - CID of the transferee/ transferor (where the transferee/ transferor is a client of the reporting Regulated Intermediary)

⁴⁶ CE number is the reference number assigned by the SFC to a particular regulated entity.

97. The following information should be submitted to the SFC for a physical share certificate deposit or withdrawal. We will provide the format of reporting in due course preceding the implementation of the regime:

- Stock name of the shares to which the physical share certificates relates
- Stock code of the shares to which the physical share certificates relates
- Quantity of shares referenced in the physical share certificates
- Deposit or withdrawal date
- CE number and role of reporting Regulated Intermediary (share certificate deposit/ share certificate withdrawal/ act as principal or agent)
- CID of the client on whose behalf the physical share certificate(s) are held by the Regulated Intermediary

Q8	Do you have any comments on the proposed OTC Securities Transactions Reporting Regime submission system? Please explain your view.
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Data privacy and consent from investors

98. As the information required to be reported by Regulated Intermediaries to the SFC in relation to a share transfer, deposit or withdrawal under the OTC Securities Transactions Reporting Regime (e.g. CID) is likely to contain personal data of individuals, Regulated Intermediaries should comply with all applicable requirements under the PDPO in relation to the collection, use, storage, disclosure and transfer of such personal data.
99. In order to ensure compliance with the PDPO and that individual clients are fully aware of the purposes for which their personal data is to be used under the OTC Securities Transactions Reporting Regime, Regulated Intermediaries should obtain written or other express consent from their clients for the transfer of their personal data to the SFC under the proposed regime.
100. This consent is required to be obtained from both new and existing clients and should be obtained on or before the collection of CID from or submission of CID for an individual client. The form of consent would require individual clients to consent to the purposes of use of personal data as specified under paragraph 60 in respect of personal data submitted under the OTC Securities Transactions Reporting Regime. It is proposed that such consent may be obtained through various means provided that requisite requirements are satisfied. Please refer to the discussion in paragraph 61 in this regard. A Regulated Intermediary may obtain such client consent together with the client consent required under the HK Investor ID Regime in one go provided that the client consent is broad enough to cover personal data submitted under both regimes.
101. Regulated Intermediaries should seek professional advice where necessary on the appropriate procedures to be taken to ensure compliance with all applicable data privacy laws and any requirements imposed by the SFC, including obtaining written or other express consent from their individual clients for the disclosure of their personal data to

the SFC in form and manner in compliance with the requirements of the SFC to be published by way of guidance.

102. If a client fails to provide the consent required, the Regulated Intermediary must not accept a transfer of shares into the client's account, or a deposit of physical certificates of shares into the client's account. If the Regulated Intermediary accepts 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.

Q9	Do you have any comments on the proposed arrangements concerning clients' consent under OTC Securities Transactions Reporting Regime? Please explain your view.
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Part 4. Proposed amendments to the SFC Code of Conduct

103. The SFC proposes to amend the SFC Code of Conduct to implement the OTC Securities Transactions Reporting Regime.
104. The proposed amendments are intended to be introduced as a new paragraph 5.7 in the SFC Code of Conduct following the proposed paragraph 5.6 for the HK Investor ID Regime. Failure to comply with the SFC Code of Conduct will affect the SFC's view of the fitness and properness of a Regulated Intermediary and may lead to disciplinary actions.
105. Please refer to [Appendix 4](#) for an indicative draft of the proposed amendments.

Q10	Do you have any comments on the proposed amendments to SFC Code of Conduct? Please explain your view.
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Part 5. Implementation timeline

106. Given that the OTC Securities Transactions Reporting Regime will be new to the market, it is important that there is sufficient preparation time for Regulated Intermediaries to implement it. The HK Investor ID Regime explained in Section A is expected to be implemented by Q1 of 2022 at the earliest. The OTC Securities Transactions Reporting Regime is a significant complement to that regime, but does not need to be introduced simultaneously. The SFC anticipates that the OTC Securities Transactions Reporting Regime would be launched approximately 6 months after the HK Investor ID Regime (i.e. around Q3 of 2022 at the earliest). Although this will require firms to update their systems twice, in a relatively short period it is important that the HK Investor ID Regime is introduced as soon as possible.

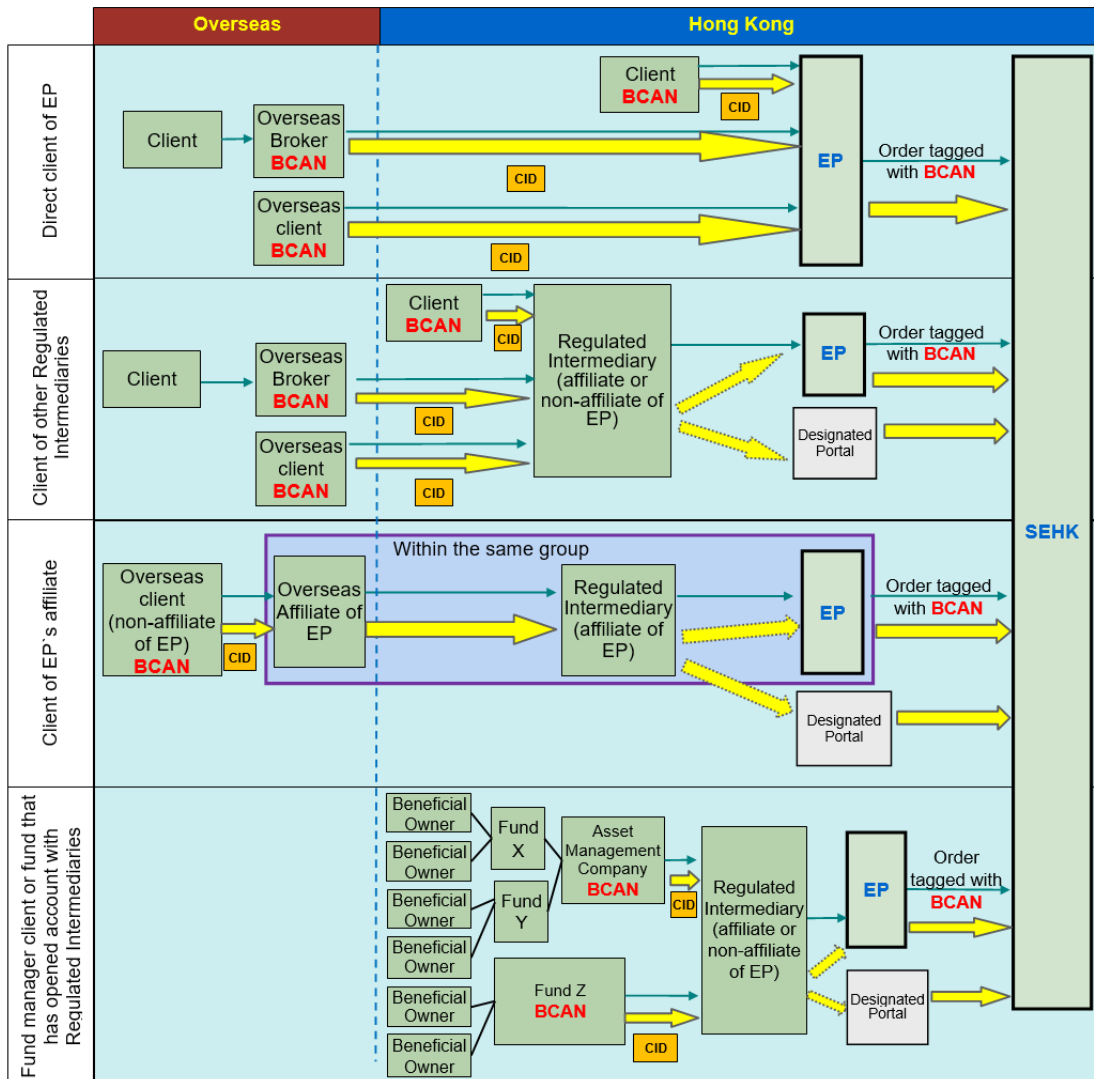
Q11	Do you have any comments on the proposed implementation timeline for the OTC Securities Transactions Reporting Regime? Please explain your view.
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Seeking comments

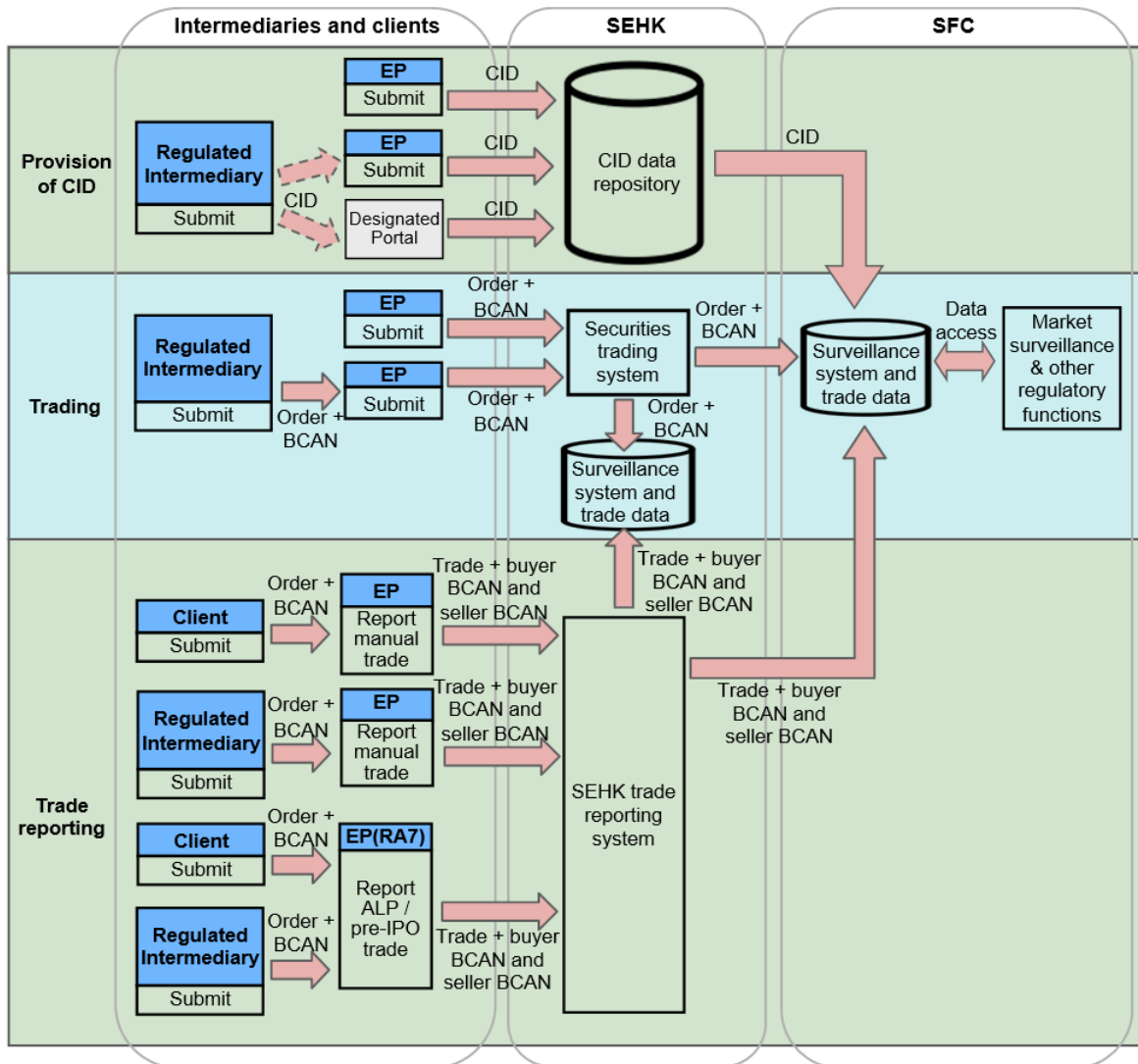
107. The SFC welcomes any comments from the public and the industry on the proposals set out in this consultation paper. Please submit your comments to the SFC in writing no later than 4 March 2021.




Types of client covered by the proposed investor identification regime



- EP** Exchange Participants
- Regulated Intermediary** SFC-licensed corporation or registered institution (for the above purpose, refers to the intermediary which is not the executing EP of the order)
-  Flow of CID file submission
-  Flow of CID file submission either through designated EP or the Designated Portal at the Regulated Intermediary's choice
-  Flow of trading order instruction
- BCAN** Broker-to-Client Assigned Number
- CID** Client Identification Data (stored with associated BCAN for all direct clients in a BCAN-CID Mapping File)
-  Designated Portal A designated portal to be developed for Regulated Intermediaries to submit their CID (in BCAN-CID Mapping File)

Proposed operational arrangements for the submission of CID and tagging of BCAN in orders and trades



- CID** Client Identification Data (stored with associated BCAN for all direct clients in a BCAN-CID Mapping File)
- BCAN** Broker-to-Client Assigned Number
- EP** Exchange Participants
- EP(RA7)** EP authorised under the SFO to conduct Type 7 regulated activity (providing automated trading services)
- Regulated Intermediary** SFC-licensed corporation or registered institution (for the above purpose, refers to the intermediary which is not the executing EP of the order)
-  Flow of information (i.e. order with BCAN, matched trade, or CID as the case may be)
-  Flow of information either through designated EP or Designated Portal at the Regulated Intermediary's choice
-  Designated Portal A designated portal to be developed for Regulated Intermediaries to submit their CID (in BCAN-CID Mapping File)

Appendix 3

Summary of other major markets' experience in the adoption of investor identification measures

U.S.

- In July 2012, the US SEC adopted rule 613 under the Securities Exchange Act of 1934 to create, implement, and maintain a consolidated audit trail (**CAT**) to allow regulators to collect and identify every order and execution for all exchange-listed equities and standardized equity options across all US markets.
- Pursuant to rule 613, self-regulatory organisations including the national securities exchanges and the Financial Industry Regulatory Authority were responsible for developing a National Market System Plan (**CAT NMS Plan**) to create a central repository to perform surveillance of order event data, linked to customer and account information. In brief, each immediate customer of the broker-dealers must be assigned a firm-designated-identifier which is reported to the central repository. Within the central repository, each customer will be assigned a unique customer identifier based on their personal identification information as provided by the brokers as prescribed in the regulations, including their name, address and birth year. Only one identifier is assigned even if the customer has multiple accounts with different brokers.
- The central repository links the customer's firm-designated-identifier, submitted alongside order event data, to the unique customer identifier for mapping orders originated by the customer across all broker-dealers. Broker-dealers are required to provide daily updates to the central repository with any new or revised information.
- Policies and procedures are also required to safeguard security and maintain confidentiality in the CAT, and mitigate unauthorised access to the central repository. Self-regulatory bodies began reporting data to the repository and industry members' reporting to the repository commenced in phases in 2020.

EU

- In 2007, the Markets in Financial Instruments Directive (commonly known as MiFID I) introduced a harmonised transaction reporting regime in the EU for detecting and investigating potential market abuse. From 3 January 2018, MiFID II replaced MiFID I, with client identification as one of the major measures. Identification information is reported on a transaction basis and captured in the order.
- Depending on the nature of a transaction, the ultimate client identification is reported to the relevant regulator by either the client-facing entity or trading venue operator. The identifiers used vary from national identifiers for EU persons to passport numbers for non-EU persons and LEIs for legal entities. For trusts, the reporting entity does not need to obtain information of the beneficiaries of the trust, but only reports the trust's identity, which can be an LEI. Apart from the client's unique national identifier, additional reporting information is required, e.g., first name, surname, date of birth, postal code and country of residence.
- The reporting obligation is imposed not only on investment firms, but also on firms which transmit orders. In addition, trading venue operators must report the details of transactions in financial instruments traded on their platform which are executed by any

firms not subject to the obligation. The reporting entities are responsible for ensuring their clients have provided complete and accurate information in the reporting process. The reportable instruments cover all products traded on European trading venues, including non-EU derivative instruments which relate to an EU security or index.

- Investment firms have to comply with data protection and security requirements including for example the European General Data Protection Regulation, such as obtaining consent from their clients for information collection and transmission.

Australia

- ASIC launched a client identification regime in phases from 2013 to 2014 pursuant to the ASIC Market Integrity Rules released in 2011.
- Under the regime, brokers are required to provide to the exchanges information in orders or transactions to identify the source of the original client instructions. Exchanges will then submit the information to ASIC. The obligation to provide identification information applies to both on-exchange orders and off-exchange transactions. ASIC specified several types of identification codes for investors, for example the Australian Company Number, Australian Registered Business Number, LEI, internal client identifier, internal account identifier and Australia's clearing and settlement system number (commonly known as CHESSE Holder Identification Number).
- ASIC expects that brokers and exchanges build in security controls in relevant internal systems and operational procedures so that identification information will not be released to third parties except for the purposes and reasons required by law.

Mainland China

- On the Mainland China, the China Securities Depository and Clearing Corporation Limited (**CSDC**) conducts securities registration, clearing and settlement for various securities and derivatives. In 2014, it released the revised CSDC Securities Account Management Rules (**SAMR**). Pursuant to the SAMR, to perform securities and futures trading, each investor is required to have an Yimatong account with the CSDC. Investors must provide their personal information to establish an Yimatong account and keep such information updated (including their name, their identity document and identity document number, telephone number, correspondence and residential address). The Yimatong accounts maintain investors' identification information and record their trading activities and securities and futures holding information. Each Yimatong number is mapped with all the securities accounts which the investor opens for trading on the Mainland exchanges. All orders (including securities and futures) submitted to the Mainland exchanges must carry the respective securities account numbers.

NB Investor ID Regime

- The investor identification regime for northbound trading under Stock Connect was launched on 26 September 2018. Under the regime, China Connect Exchange Participants (**CCEPs**) have to assign a unique BCAN (**NB-BCAN**) to each of their northbound trading clients. Each NB-BCAN must be mapped to the client's identification information, known as Client Identification Data (**NB-CID**), including the

client's name, identity document issuing country, identity document type and number. CCEPs have to provide the NB-BCAN and NB-CID mapping files to SEHK which will then send the information to the Mainland exchanges. When trading securities under Stock Connect, CCEPs are required to tag their clients' NB-BCAN to every northbound order when submitting such orders to the Mainland stock exchanges via SEHK.

- Since the NB-BCAN and NB-CID mapping files contain personal data under the PDPO, CCEPs have to obtain investors' consent prior to collecting, using, disclosing or transferring their personal data. If the necessary consent cannot be obtained from a client by the CCEP, the CCEP may only input northbound sell order for the client in respect of the client's existing holdings.

Southbound Investor ID Regime

- The investor identification regime for southbound (**SB**) trading under Stock Connect was implemented on 13 January 2020, whereby the securities account numbers of SB investors are collected. CSDC provides these investors' Yimatong to SEHK after the end of the trade day.

Singapore

- In Singapore, securities and derivatives trading for listed securities takes place on the platform of the SGX. Its subsidiary the Singapore Exchange Securities Trading Limited (SGX-ST) has through the SGX-ST Rules required that its trading members must maintain a securities trading account for each customer. The account must be identified by the full name of the customer and a unique trading account code, both of which must be reported to SGX-ST before the account is used to send in any orders. Trading members are required to include the trading account code in each order entered into the trading system. The SGX-ST Rules also specify that the trading member must obtain the particulars of the customer, including for example the name, address or certificate of incorporation, and that the trading member must make records available to SGX-ST as required. The trading member also has to ensure integrity, security and confidentiality in the transmission and storage of all records.
- The rules and regulatory notice of the Singapore Exchange Derivatives Trading Limited (**SGX-DT**), also a subsidiary of SGX, similarly requires that derivatives trading members obtain customer particulars, each customer account be identified by the full name of the customer and an account code, each customer's designation (which readily identifies the account for which the order was given) be included in the order forms, information be passed to SGX-DT as required, and data security be maintained.

Indicative draft of the proposed amendments to the SFC Code of Conduct

The SFC proposes to introduce the proposals discussed in this paper by adding the following new sub-paragraphs 5.6 and 5.7 at the end of paragraph 5 of the SFC Code of Conduct:

5.6 Investor identification - on-exchange orders and off-exchange trades reportable to the SEHK

- (a) This paragraph applies to a licensed or registered person who submits (or arranges to submit) for execution an on-exchange order or carries out an off-exchange order for a listed security, and a licensed or registered person who conducts OE Trade Reporting. The obligations set out in this paragraph do not apply to an order or trade of odd lots of listed securities traded on the odd lot/special lot market of the SEHK.
- (b) For the purposes of this paragraph:
 - (i) a company is considered an “affiliate” of another company if the two companies belong to the same “group of companies”, as defined under Schedule 1 to the SFO.
 - (ii) “aggregated order” means an order which comprises two or more buy order(s) and/or sell order(s) for the same listed security placed by different clients, which may be executed as an on-exchange order or an off-exchange order.
 - (iii) “BCAN” means a “Broker-to-Client Assigned Number”, being a unique identification code in the format prescribed by the SEHK, generated by a licensed or registered person in accordance with the requirements of the SEHK;
 - (iv) “BCAN-CID Mapping File” means the data file containing a client’s BCAN and CID in the format prescribed by the SEHK from time to time in connection with on-exchange orders and off-exchange trades;
 - (v) “CID” means the client identification data as described in paragraph 5.6(m) below;
 - (vi) “direct client” means 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.
 - (vii) “client” has the meaning as set out in paragraph 5.6(l) below;
 - (viii) “licensed or registered person” means an “intermediary” as defined under section 1 of Part 1 of Schedule 1 to the SFO.
 - (ix) “listed security” means any security listed and/ or traded on the trading system of the SEHK.
 - (x) “odd lot” means the number of shares of a corporation which is less than one board lot as shown on the website of the SEHK.
 - (xi) “odd lot/special lot market” means such market established for the trading of odd lots or special lots as described in and pursuant to the SEHK’s requirements.

- (xii) “OE Trade Reporting”, refers to the reporting of an off-exchange trade directly by an exchange participant to the SEHK according to its rules.
 - (xiii) “on-exchange order” means a buy order or sell order for a listed security which is to be executed on the automatic order matching system operated by the SEHK.
 - (xiv) “off-exchange order” means a buy or sell order for a listed security which is to be executed outside the automatic order matching system operated by the SEHK and the consummation of which would result in an off-exchange trade.
 - (xv) “off-exchange trade” means a trade of a listed security which takes place outside SEHK’s automatic order matching system but which is reportable by exchange participants to the SEHK pursuant to its rules.
 - (xvi) “SEHK” means The Stock Exchange of Hong Kong Limited.
- (c) Subject to sub-paragraphs (d), (e) and (f), a licensed or registered person is required to:
- (i) assign a BCAN to each of its direct clients, such BCAN to be linked permanently and exclusively to that client; and
 - (ii) collect the CID of each direct client to whom it has assigned a BCAN pursuant to paragraph 5.6(c)(i) above and submit it in the form of a BCAN-CID Mapping File to the central data depository maintained by the SEHK.
- (d) Where an on-exchange order or off-exchange order is carried out through a chain of licensed or registered persons, the last licensed or registered person in the chain (starting with the exchange participant executing the order and working backwards) whose direct client is not a licensed or registered person, shall be the party responsible for assigning the BCAN, 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 licensed or registered person.
- (e) Where the direct client of a licensed or registered person who is the exchange participant executing the order is its affiliate, the exchange participant shall not assign a BCAN to such an affiliate but should instead 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 exchange participant. If the intermediating chain consists only of affiliates of that exchange participant, the BCAN should be assigned to, and CID should be collected from, the last affiliate in the chain (starting with the exchange participant and working backwards) which places the on-exchange order or off-exchange order.
- (f) Where an on-exchange order or off-exchange order is placed from a securities account held jointly by two or more persons, a licensed or registered person is required to assign a BCAN to such account and not to the account holders. This BCAN should be distinct from any BCAN assigned to any joint account holder who holds a securities account with the licensed or registered person in his sole name. The CID of all holders of that joint account should be submitted by the licensed or registered person to the SEHK under the BCAN assigned to the joint account.
- (g) A licensed or registered person should ensure that the order information for each on-exchange order which it submits (or arranges to submit) to the SEHK, or off-exchange order it carries out either directly or indirectly through another licensed

or registered person, and each trade when it conducts OE Trade Reporting, includes (i) a BCAN assigned to the relevant client or joint account or (ii) a specific code as prescribed by the SEHK (in the case of an aggregated order), in accordance with this paragraph 5.6. In the case of an aggregated order, a licensed or registered person which submits (or arranges to submit) such order to the SEHK, or carries out such order should also ensure that the BCANs of each relevant client or joint account of the underlying orders are subsequently submitted to the SEHK in accordance with the requirements of the SEHK either directly or through another licensed or registered person. Licensed or registered persons should have automated order management systems in place to ensure that the BCAN of a client, and the specific code prescribed by the SEHK (in case of an aggregated order), tagged to an on-exchange order or off-exchange order is correct and valid.

- (h) A licensed or registered person who is responsible for collecting the CID and submitting the BCAN-CID Mapping File of a client under this paragraph 5.6 should ensure that it makes a submission of the BCAN-CID Mapping File to the SEHK by the prescribed time and in accordance with the requirements stipulated by the SEHK either directly or through another licensed or registered person.
- (i) A licensed or registered person passing on an on-exchange order or off-exchange order, either directly or indirectly through another licensed or registered person, or conducting OE Trade Reporting, should ensure that the BCAN-CID Mapping File of the relevant client is submitted to the SEHK by the prescribed time and in accordance with the requirements stipulated by the SEHK, either by another licensed or registered person or by it (whether for itself or on behalf of another licensed or registered person).
- (j) A licensed or registered person should ensure that the BCAN and CID that it submits to the SEHK are accurate and free of errors and it should notify the SEHK forthwith in accordance with SEHK requirements if any such information is or becomes inaccurate or should otherwise be updated. A licensed or registered person should have in place measures to ensure that the information remains up to date on an ongoing basis. Where an exchange participant passes on on-exchange orders or off-exchange orders received from its affiliate, it should procure that the affiliate performs the same obligations under this paragraph (j) in relation to the clients of the on-exchange orders or off-exchange orders that they pass on to that exchange participant.
- (k) A licensed or registered person should comply with all applicable Rules of the Exchange of the SEHK and other requirements prescribed by the SEHK in relation to the assignment of BCANs and the submission of CID and/or BCAN-CID Mapping Files to the SEHK.
- (l) For the purpose of the obligations to be carried out by a licensed or registered person under this paragraph 5.6, a “client” means the direct client of the licensed or registered person, save that:
 - (i) in the case of proprietary trading by a licensed or registered person, the client refers to the licensed or registered person itself;
 - (ii) in the situations mentioned in paragraph 5.6(d) and paragraph 5.6(e), the client shall be the person to whom the BCAN is assigned for the on-exchange order or off-exchange order; and
 - (iii) in the situation mentioned in paragraph 5.6(f), the client refers to each of the holders of the joint securities account;

- (iv) for the avoidance of doubt, in relation to a discretionary account, the client refers to the legal entity for which the licensed or registered person opens the securities trading account; and
 - (v) in the case of a collective investment scheme, the client refers to the collective investment scheme or the asset management company, as appropriate, that has opened a trading account with the licensed or registered person.
- (m) For the purpose of this paragraph 5.6, CID shall mean the following information in relation to a client to whom a BCAN is assigned:
- (i) the full name of the client as shown in the client's identity document,
 - (ii) the issuing country or jurisdiction of the identity document,
 - (iii) the identity document type, and
 - (iv) the identity document number.
- (n) For the purpose of paragraph 5.6(m), the CID of a client should be collected from the identity document that is first mentioned in the list below save that where the client does not hold such document, the next mentioned document should be used and so forth:
- (i) in the case of a natural person, his or her (1) HKID card; or (2) national identification document; or (3) passport;
 - (ii) in the case of a corporation, its (1) legal entity identifier ("LEI") registration document; or (2) certificate of incorporation; or (3) certificate of business registration; or (4) other equivalent identity document; and
 - (iii) in the case of a trust, the trustee's information as in paragraph 5.6(n)(i) or (ii) above (as the case may be). However in the case of a trust which is an investment fund, the CID of the asset management company or the individual fund, as appropriate, that has opened a trading account with the Regulated Intermediary should be obtained.
- (o) On or before the collection of CID from an individual client or submission of CID for an individual client, a licensed or registered person should obtain from such client written or other express consent in form and manner in compliance with the requirements of the Commission. A licensed or registered person receiving an order from its affiliates should ensure that its affiliates collecting CID from their individual clients have obtained the written or other express consent of those clients in form and manner in compliance with the requirements of the Commission.
- (p) If the consent referred to in paragraph 5.6(o) above cannot be obtained from any client who is a natural person, the licensed or registered person should not submit any BCAN or CID of that client to the SEHK and should only effect sell orders or trades in respect of existing holdings of a listed security (but not buy orders or trades) for such client.

5.7 Reporting of OTC securities transactions

- (a) Expressions appearing in this paragraph 5.7 bear the same meanings as defined in paragraph 5.6(b) above, save for the definition of "client" in paragraph 5.6(l)(ii). For this paragraph 5.7, "shares" are defined as the ordinary shares of a company, or units of a REIT, listed on the SEHK.

- (b) When a licensed or registered person makes, whether as principal or agent, a transfer of shares that is effected by a transaction in respect of which stamp duty is chargeable in Hong Kong (except where such transaction is conducted on the trading system of the SEHK, or is required to be reported to the SEHK as an off-exchange trade), the licensed or registered person is required to report specified particulars of the transaction to the Commission by 1 Hong Kong trading day after the day (in Hong Kong time) of the transfer, such as the following information:
- (i) the CE number and role of the licensed or registered person in the transfer, e.g., whether it is the transferee, transferor, or acting as agent for the transferee or transferor (or both);
 - (ii) a description of the transfer (including the stock name and stock code of the shares transferred, quantity of shares transfer handled by the licensed or registered person in the transfer, quantity of shares of the transaction, share transfer date, transaction price per share and transaction date);
 - (iii) where the transferee is a client of the licensed or registered person, the CID of the transferee;
 - (iv) where the transferor is a client of the licensed or registered person, the CID of the transferor; and
 - (v) the full name of the counterparty corporation to the licensed or registered person in the transfer, together with the CE number of such counterparty if it is also a licensed or registered person.
- (c) When a client of a licensed or registered person deposits or withdraws physical certificate(s) of shares, the licensed or registered person is required to report the following information to the Commission by 1 Hong Kong trading day after the day (in Hong Kong time) of the deposit or withdrawal:
- (i) CE number and whether it is processing a deposit or withdrawal of physical certificate(s) of shares, and whether as principal or agent;
 - (ii) a description of the deposit or withdrawal of share certificate(s) (including the stock name and code of the shares referenced in the physical certificate(s) of shares, quantity of shares, date of the deposit or withdrawal); and
 - (iii) the CID of the client of the licensed or registered person.
- (d) A licensed or registered person who conducts the reporting referred to under paragraph 5.7(b) or 5.7(c) should ensure that, before the reporting is conducted, it has collected the CID from the client.
- (e) Regardless of whether a licensed or registered person has already submitted the CID in respect of the client (in the form of a BCAN-CID Mapping File) pursuant to paragraph 5.6, the licensed or registered person needs to provide the CID of the client in the reporting made pursuant to paragraph 5.7(b) or 5.7(c).
- (f) A licensed or registered person should ensure that all information including CID that it submits to the Commission are accurate and free of errors and it should notify the Commission forthwith if any such information is inaccurate or should otherwise be updated. A licensed or registered person should have in place measures to ensure that CID collected from clients remain up to date on an ongoing basis.
- (g) On or before the reporting of information to the Commission in accordance with paragraph 5.7(b) or 5.7(c) above, and where the information relates to a client who is an individual, the licensed or registered person shall obtain from such client

written or other express consent in form and manner in compliance with the requirements of the Commission.

- (h) If the consent under paragraph 5.7(g) above cannot be obtained from a client, the licensed or registered person should not submit any CID of that client to the SFC and should only effect transfers of shares held out of that client's account, and withdrawals of physical certificate(s) of shares from that client's account (but not transfers of shares into that client's account and deposits of physical certificate(s) of shares into that client's account).