

COMPLIANCE POINTS TO NOTE FOR ISSUERS OF HONG KONG LISTED STRUCTURED PRODUCTS UNDER THE HONG KONG'S LISTING RULES (CHAPTER 15A)

(MAY 2024)





KEY COMPLIANCE CONCERNS AND REQUIREMENTS TO ISSUERS OF HONG KONG'S LISTED STRUCTURED PRODUCTS

The following table summarizing the Listing Rules of the Hong Kong Stock Exchange ("HKEX") of Chapter 15A and the liquidity provision obligations applicable to issuers of listed structured products in Hong Kong:

Issuer's Eligibility Requirement	<p>Issuers (guarantor in the case of a guaranteed structure) of non-collateralised structured products :</p> <ul style="list-style-type: none"> • NAV not less than HK\$2 billion • Must also (1) have a credit rating which is one of the top three investment grades awarded by a credit rating agency or (2) a regulated entity • must be duly incorporated • must not be a private company
Liquidity Provision	<ul style="list-style-type: none"> • Active Quotes ("AQ") / Quote Requests ("QR")
	<ul style="list-style-type: none"> • AQ applies when it falls under the following circumstances : <ul style="list-style-type: none"> ▪ An active underlying (i.e. any local index or any stocks eligible for the issuance of CBBC Eligible Single Hong Kong Stocks for CBBCs Issuance in Current Quarter (hkex.com.hk)) ▪ 50% or less of total issue size outstanding in the market; ▪ For warrants, time to maturity is 30 calendar days or more ▪ For warrants "moneyness" is between 20% in-the-money and 20% out-of-the-money ▪ For CBBC, when the underlying price of the stock falls outside 2% of the call price or the level of the underlying index falls outside 1% of the call level ▪ Active quotes should be provided for at least 90% of the time of a trading day for structured products that meet the criteria for active quotes and each pause should not exceed 10 minutes. • QR should be available for all Listed Structured Products regardless of the underlying.



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Liquidity Provision Obligations	<p>Minimum service levels for Active Quotes</p> <ul style="list-style-type: none"> • Maximum bid-ask spread under Active Quotes <ul style="list-style-type: none"> ▪ 5 spreads for standard warrants with local index underlying ▪ 10 spreads for standard warrants with an Actively Traded Stock ▪ 10 spreads for CBBCs with local index underlying ▪ 15 spreads for CBBCs with an Actively Traded Stock • The minimum quote size for Active Quotes is 20 board lots <p>Minimum service levels for Quote Request</p> <ul style="list-style-type: none"> • Maximum quote response time : 10 minutes • Maximum bid-ask spread for standard warrants and CBBCs : 20 spreads • Minimum quote size : 20 board lots • Minimum holding time : 5 minutes
Exemptions for QR and AQ	<p>QR and AQ are not required in the following circumstances:</p> <ul style="list-style-type: none"> • During the first 5 minutes after trading commences • Pre-opening • When the underlying share are suspended • When there are no warrants available for market making activities. In such event, the Liquidity Provider ("LP") shall continue to provide bid prices • When there are operational and technical problems beyond the control of the LP hindering the ability of the Liquidity Provider to provide liquidity • Underlying Share or the stock market experiences exceptional price movement and high volatility over a short period of time which materially affects the LP's ability to source a hedge or unwind • Theoretical value is less than HK\$0.01. If the LP chooses to provide liquidity under this circumstance, both bid and ask prices will be made available. • CBBC, upon the occurrence of a Mandatory Call Event;
Listing cycle of structured products	<ul style="list-style-type: none"> • Launch Date +3 trading days
Listing Document	<ul style="list-style-type: none"> • Submit Launch announcement and Supplemental Listing Document no later than noon on the business day following the launch date
Reporting	<ul style="list-style-type: none"> • Daily trading report • QR monthly report • Manual Transaction Report (if applicable) • Pre-Listing Trading Summary (if applicable)



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Compliance with continuing obligations

Deliver to the Exchange, in electronic form of the following documents/reports:-

- not later than four months after the date to which they relate, one copy of the issuer's and, where appropriate, the guarantor's annual report including its annual accounts and, where group accounts are prepared, its group accounts, together with the auditor's report thereon
- not later than four months after the period to which it relates one copy of its interim financial report in respect of the first six months of its financial year,
- where published, as soon as practicable after the date of its publication one copy of its quarterly interim financial report, and
- publish the financial information above on the Exchange's website and the issuer's own website
- Annual Base Listing Document
- Addendum to Base Listing Document
- Templates of Launch Announcement and Supplemental Listing Documents
- Annual Assessment Form
- Auditor's consent letter



Compliance Points to note in preparing marketing materials for Structured Products in Hong Kong

Marketing materials include but are not limited to brochures, correspondence, newsletters, circulars, flyers, leaflets, posters, mail shots or promotional features in newspapers, magazines, television, radio, print media, electronic media and any spoken presentation at a seminar or lecture, etc. The information in the marketing materials must be true, fair, accurate and not misleading or deceptive. All marketing materials must adhere to the SFC's Code of Conduct and Guidelines on Marketing Materials for Listed Structured Products.

Contents

- Any trading recommendation should be based on factual analysis
- Any statement of opinion must be reasonable
- Any comparison of performance figures should be fair, accurate and relevant and compare "like with like".
- Provide a balanced view of the potential gains and losses and the risks involved
- should not directly or indirectly imply that investing in structured products is safe or not risky
- should not contain language, artwork or graphics that are inaccurate or inconsistent with the listing documents for the structured products.
- Do not make own recommendations / guarantees / promises or spread market rumour
- Disclose source of data / information

Risk Statements

- Include appropriate risk warnings and proper disclaimers
- Prominent, clear, legible, audible
- Should contain an appropriate explanation of the risks associated and advise investors to make their own risk assessment and seek professional advice, where necessary
 - that prices may fluctuate
 - that they may lose some or all their investments
 - that investors should read the full details of the structured products set out in the listing documents
 - that at times there may not be any counterparty or that the structured products issuer may be the only person quoting prices on the Exchange

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We have been providing real time compliance support and proactive recommendations to start-up hedge funds, fund of hedge funds, multi-strategies hedge funds and various types of financial institutions with our solid compliance knowledge.

By partnering with CompliancePlus, our clients gain access to compliance solutions that they can trust and the latest knowledge of regulatory policies and procedures. Through building up strong relationships with our clients and by ensuring our availability to them, we are trusted advisors helping clients to navigate a challenging and changing regulatory environment.

Contact:

Josephine Chung is Director of CompliancePlus Consulting Limited specializing in compliance matters for asset management companies and financial institutions with over 20 years of industry experience. Before joining CompliancePlus Consulting, she was the Head of Legal and Compliance for a major asset management company in Hong Kong. Josephine can be contacted at +852-3487 6903 (email: jchung@complianceplus.hk) and WeChat: CompliancePlus2020

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906, Wing On Centre, 111 Connaught Road Central, Hong Kong

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