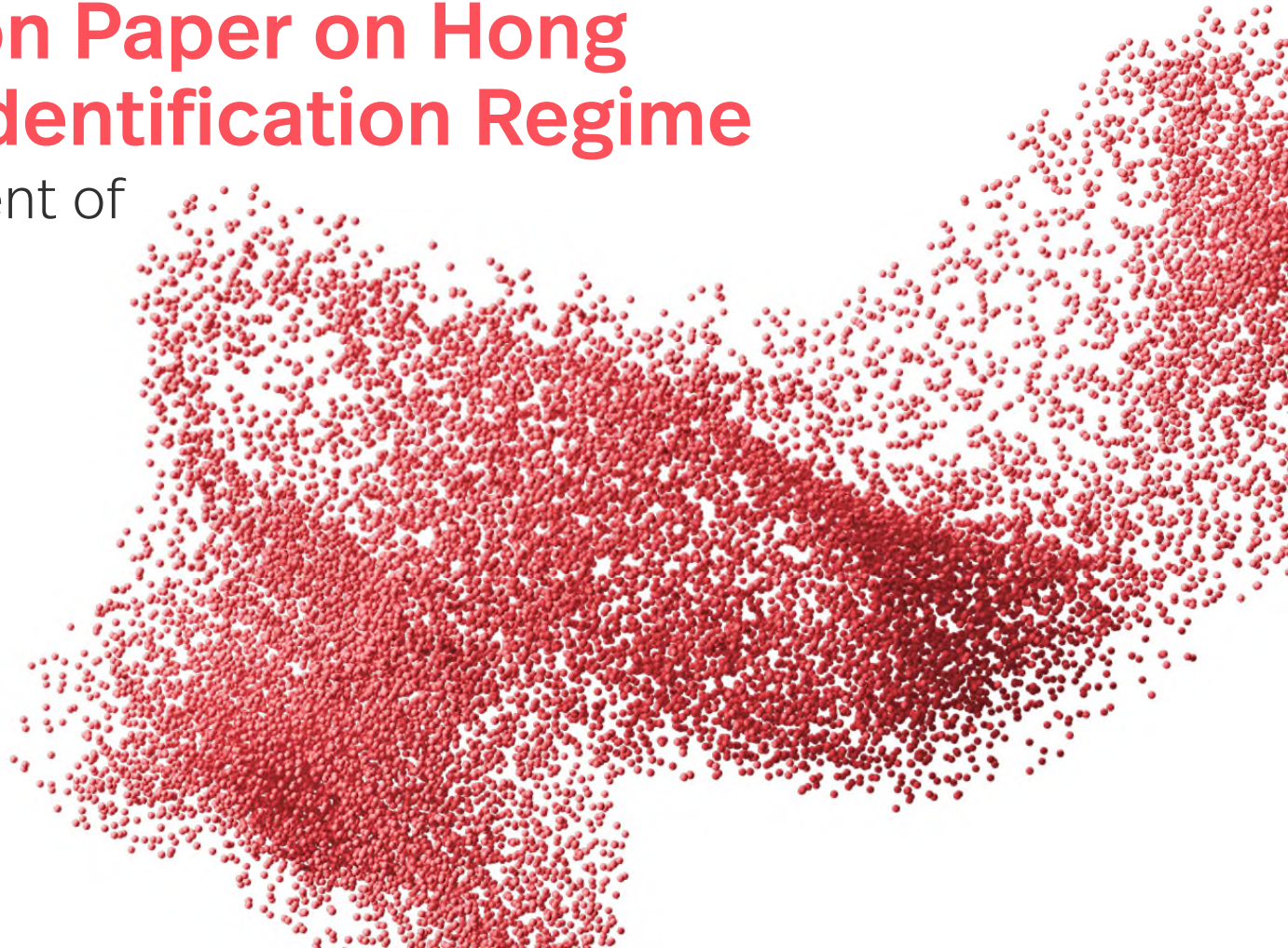


# SFC Consultation Paper on Hong Kong Investor Identification Regime

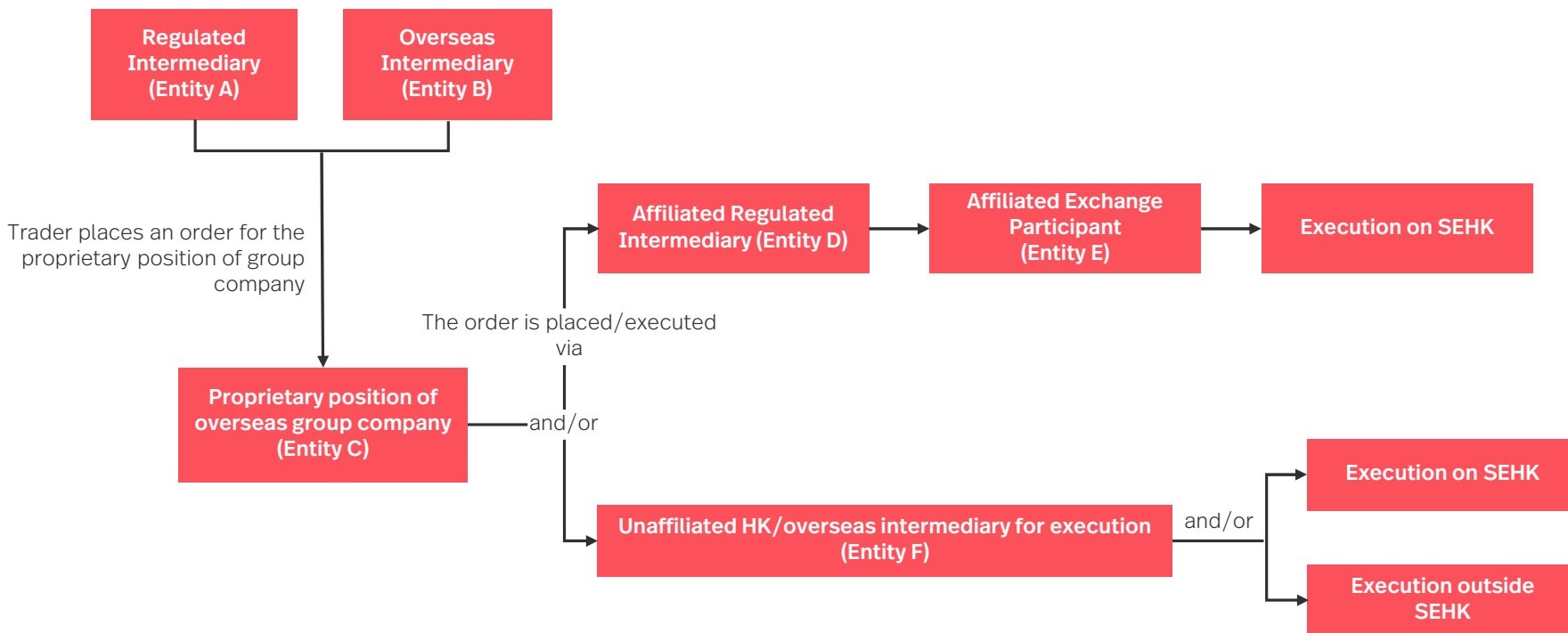
Scenarios on assignment of BCANs

**ASIFMA/Simmons & Simmons**  
12 March 2021



# Scenario 1

Intermediary initiating the proprietary/third party transactions with positions booked into overseas affiliate



- From the perspective of Entity D / Entity F, Entity C is the account holder. Traders who are stationed in Hong Kong (Entity A) or overseas (Entity B) are authorised to place orders on behalf of Entity C.

# Scenario 1

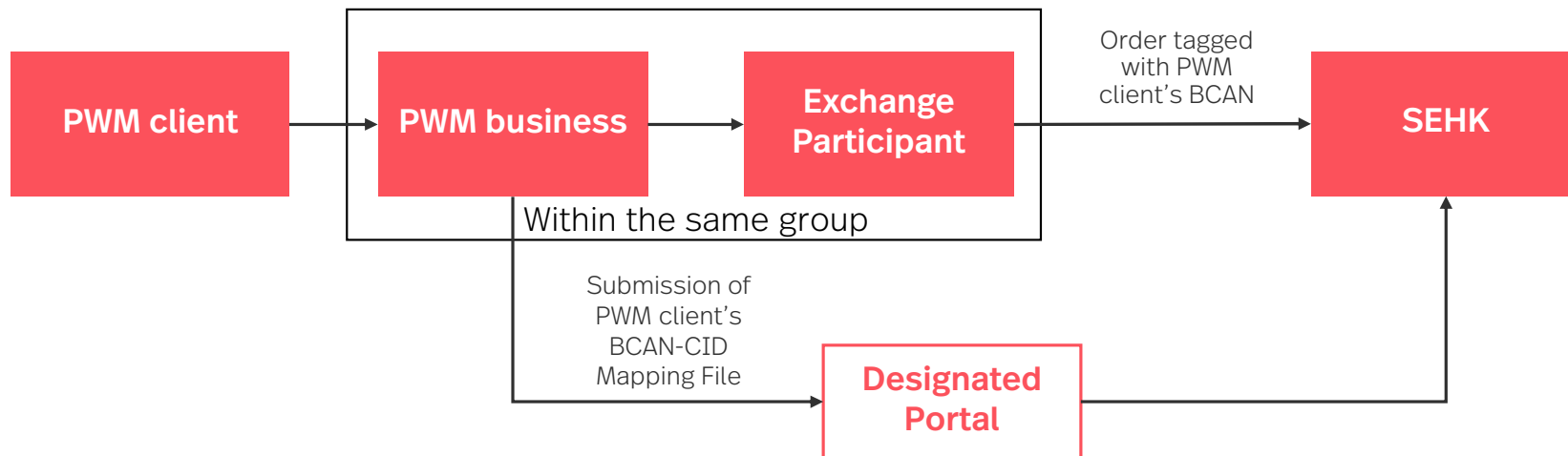
Intermediary initiating the proprietary/third party transactions with positions booked into overseas affiliate

## Questions:

- For the affiliated exchange participant of SEHK, it is sufficient to assign BCAN and collect CID from Entity C. Please confirm.
- For Entity F, it is sufficient to assign BCAN and collect CID from Entity C. Please confirm.

## Scenario 2

Global financial institutions with private wealth management ("PWM") business line



- An exchange participant receives orders from its affiliate which houses PWM business, which originate from the underlying PWM client.
- The exchange participant does not have visibility on the ultimate clients of the PWM business.

# Scenario 2

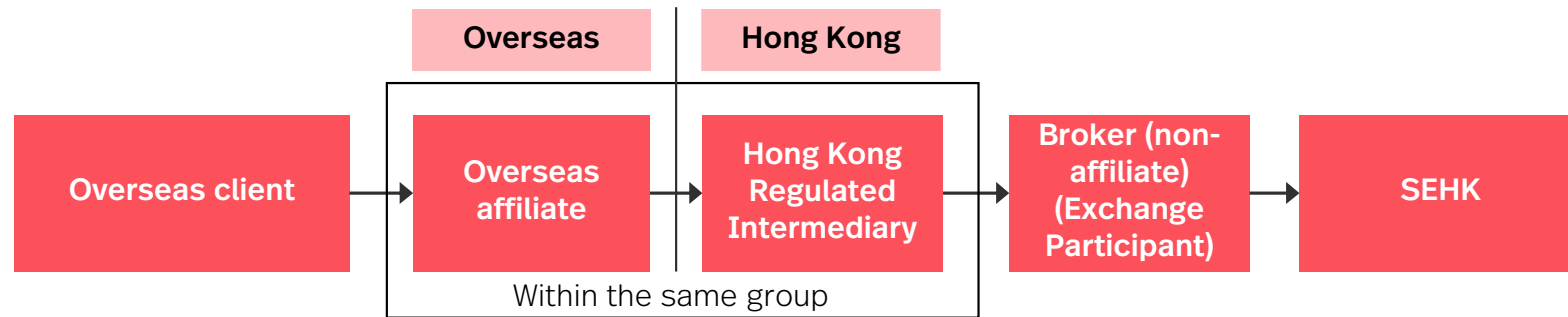
## Global financial institutions with PWM business line

### Submissions:

- For global financial institutions with PWM business line and one or more exchange participants, we request the SFC to permit PWM business to submit orders with BCANs to the exchange participants, and separately report the BCAN-CID Mapping File directly to the designated portal, as indicated in the diagram.
- This is because from a commercial standpoint, PWM clients are particularly sensitive to the transfer of their personal data. It will greatly facilitate the implementation of the Hong Kong Investor Identification Regime if PWM business units can reassure PWM clients that only they, but not entities of other business lines, will submit their CID directly to the SEHK designated portal. This will also not compromise SFC's primary goals of introducing the Hong Kong Investor Identification Regime.

## Scenario 3

Orders from overseas regulated affiliate but executed by unaffiliated exchange participant



- An exchange participant receives orders from a "non-affiliated" Hong Kong Regulated Intermediary, which originate from the overseas client of the overseas affiliate of the Hong Kong Regulated Intermediary. The exchange participant is not an affiliate of the Hong Kong Regulated Intermediary.

## Scenario 3

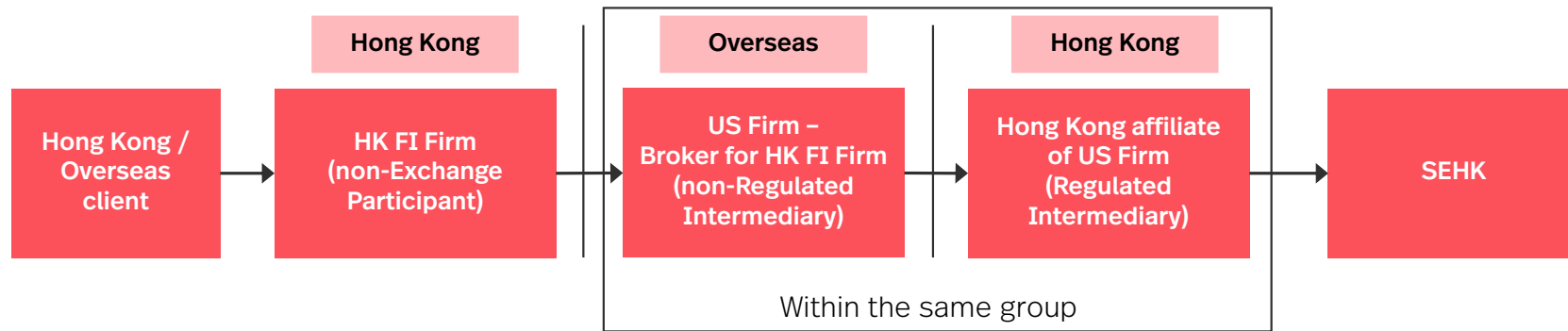
Orders from overseas regulated affiliate but executed by unaffiliated exchange participant

### Submissions:

- Given that the exchange participant is not an affiliate of the Hong Kong Regulated Intermediary, please confirm that the BCAN tagged to the order should be that of the Hong Kong Regulated Intermediary.
- If the SFC required BCAN to be tagged to the overseas client instead, it would mean that the Hong Kong Regulated Intermediary would need to pass the BCAN of the overseas client to another unaffiliated intermediary (in this case, the exchange participant) and there would be concerns that such transfer of BCAN would provide the unaffiliated exchange participant with more visibility on the underlying client's activities, for example, the trading pattern. Whilst the unaffiliated exchange participant would not be aware of the identity of the underlying client, it would eventually be able to gather trading information for analytic purposes, even though this does not necessary constitute market misconduct.

# Scenario 4

Orders involving a mixture of entities





# Scenario 4

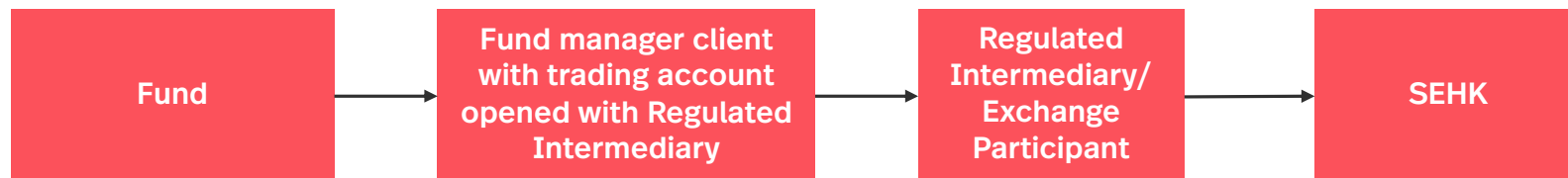
## Orders involving a mixture of entities

### Question:

- We would be grateful if the SFC could confirm the BCAN should be assigned to the HK FI Firm, and the Hong Kong affiliate of US Firm will collect CID from the HK FI Firm.

## Scenario 5

Assigning BCAN to individual fund / discretionary portfolio while trading account is opened at fund manager level



- The fund manager client requests for the BCAN to be assigned to the individual fund / discretionary portfolio it manages where the trading account is opened at the fund manager level.

# Scenario 5

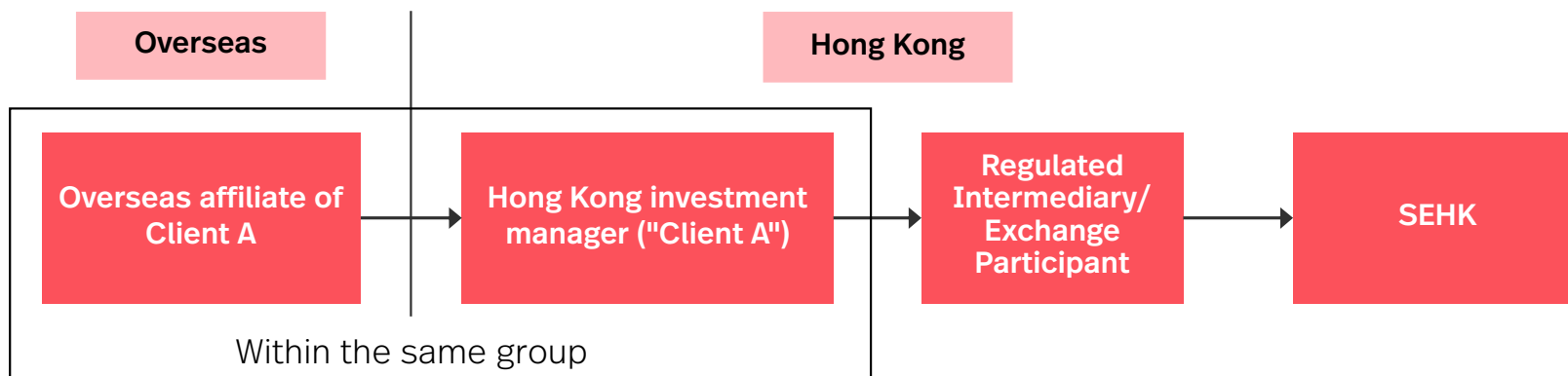
Assigning BCAN to individual fund / discretionary portfolio while trading account is opened at fund manager level

## Questions:

- Can the Regulated Intermediary be given the flexibility to assign BCAN to the individual fund/ discretionary portfolio where the trading account is opened at fund manager level? This is because some fund managers may specify how orders should be allocated amongst different collective investment schemes/ discretionary portfolios under their management and permitting intermediaries to retain the flexibility as mentioned above will promote operational efficiency.
- Please also provide guidance on whether there is any priority or preference as to the entity (fund manager vs fund) to which the Regulated Intermediary should assign BCAN.

## Scenario 6

Hong Kong investment manager routing orders placed by overseas affiliate to SEHK (through exchange participant)



- Hong Kong investment management entity (Client A) has an internal arrangement whereby its overseas affiliate will place an order after Hong Kong market hours and leave it in their internal order management system. Client A will pick up such order the next morning and route it to the SEHK (through exchange participant) for execution.

# Scenario 6

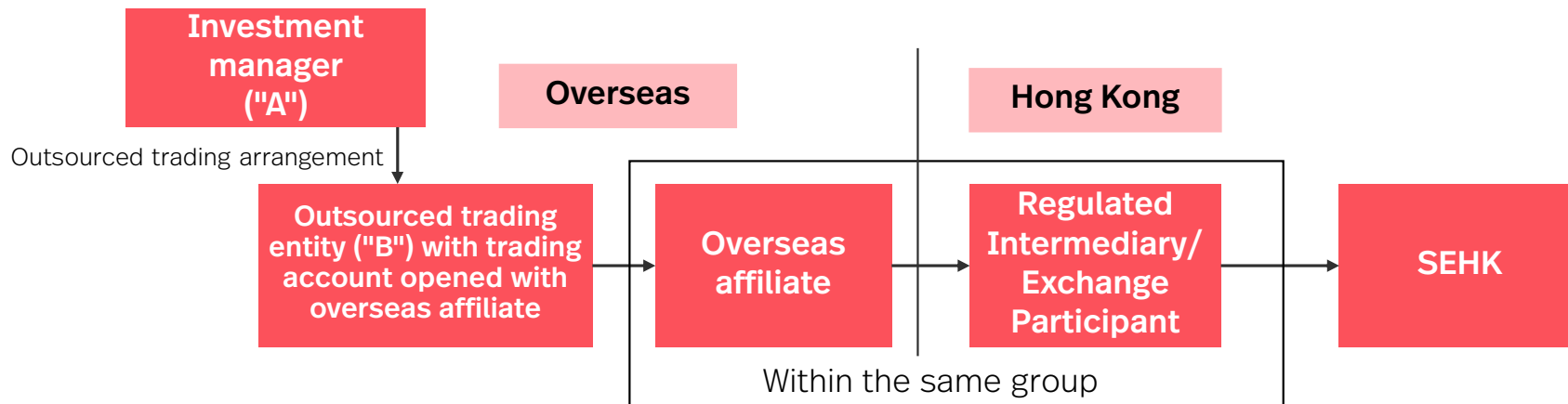
Hong Kong investment manager routing orders placed by overseas affiliate to SEHK (through exchange participant)

## Question:

- Which entity's BCAN ID should be tagged to such an order in this scenario assuming both the Hong Kong Client A and the overseas affiliate of Client A are "direct clients"?

# Scenario 7

## Outsourced trading arrangement



- Investment manager A engages an outsourced trading entity B (which is usually a broker dealer) to place orders on its behalf. Such an arrangement will involve A authorising B to submit all A's orders to the Regulated Intermediary/exchange participant.
- The day-to-day dealing will be conducted between the employees of B and those of the Regulated Intermediary or its overseas affiliates. B is considered as the "regulated client" for conduct of business purposes and will have a trading account set up. A may or may not have trading account opened with the Regulated Intermediary or its overseas affiliates.

# Scenario 7

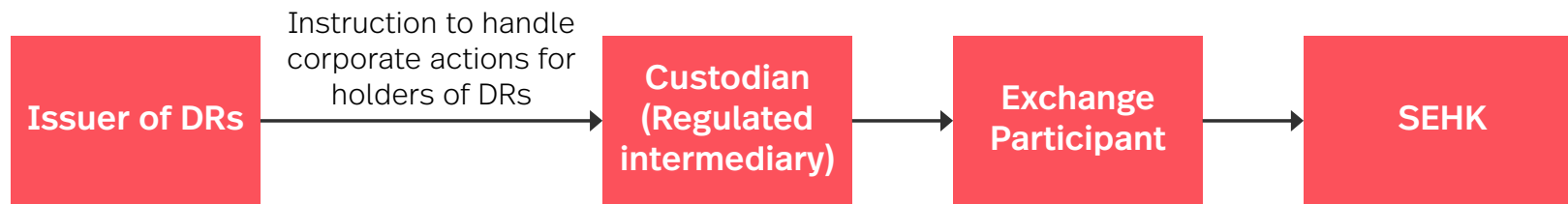
## Outsourced trading arrangement

### Question:

- We understand the intention of the proposal is to identify the "originator" of the orders or trades. In this outsourced trading scenario, please provide guidance whether it should be the investment manager A or the outsourced trading entity B to be treated as "direct client" and assigned a BCAN.

# Scenario 8

Orders at instruction of issuers of depository receipts ("DRs") for corporate actions



- Custodians will receive instructions from issuers of DRs to handle corporate actions for large pools of holders of the DRs. From time to time, the issuers will instruct intermediaries to sell shares and allocate cash to the holders of the DRs.



# Scenario 8

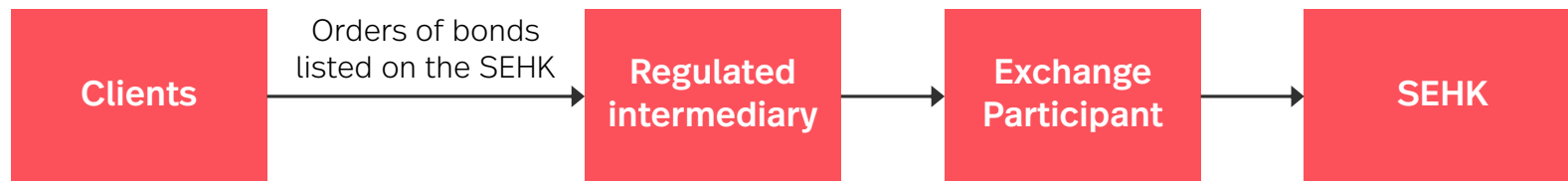
Orders at instruction of issuers of depository receipts ("DRs") for corporate actions

## Question:

- In this scenario, we would be grateful if the SFC could clarify whether it is sufficient to assign BCAN to the issuers when they place orders to the executing brokers.

# Scenario 9

## Orders of bonds listed on the SEHK



- Some of the bonds are listed on the SEHK (e.g. bonds listed pursuant to Chapter 37 of the HKEx's listing rules).

# Scenario 9

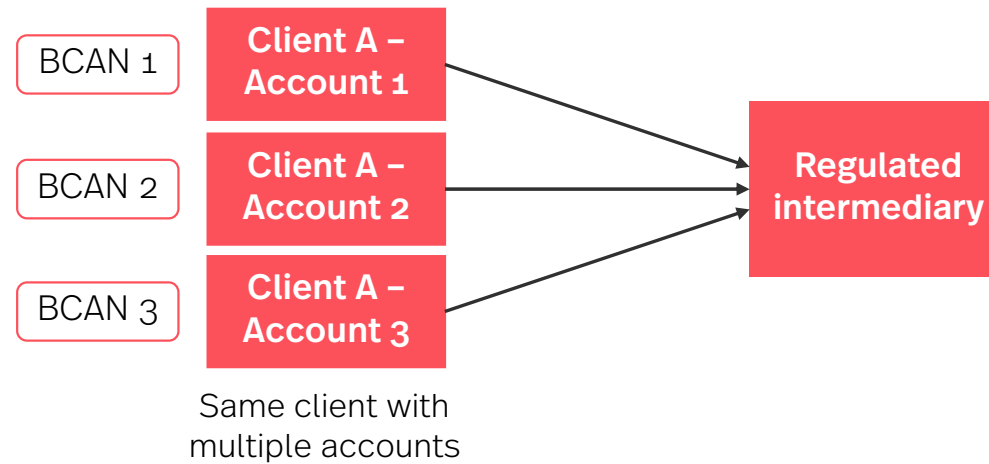
## Orders of bonds listed on the SEHK

### Question:

- We would be grateful if the SFC could confirm whether intermediaries which execute transactions for underlying clients over these bonds will also need to allocate BCANs, collect CID, prepare the BCAN-CID Mapping File and submit the CID to the central data repository accordingly. We think this is the case, but please confirm.

# Scenario 10

Same client opening multiple accounts with the same intermediary



- The same client has opened multiple accounts with the same Regulated Intermediary.

# Scenario 10

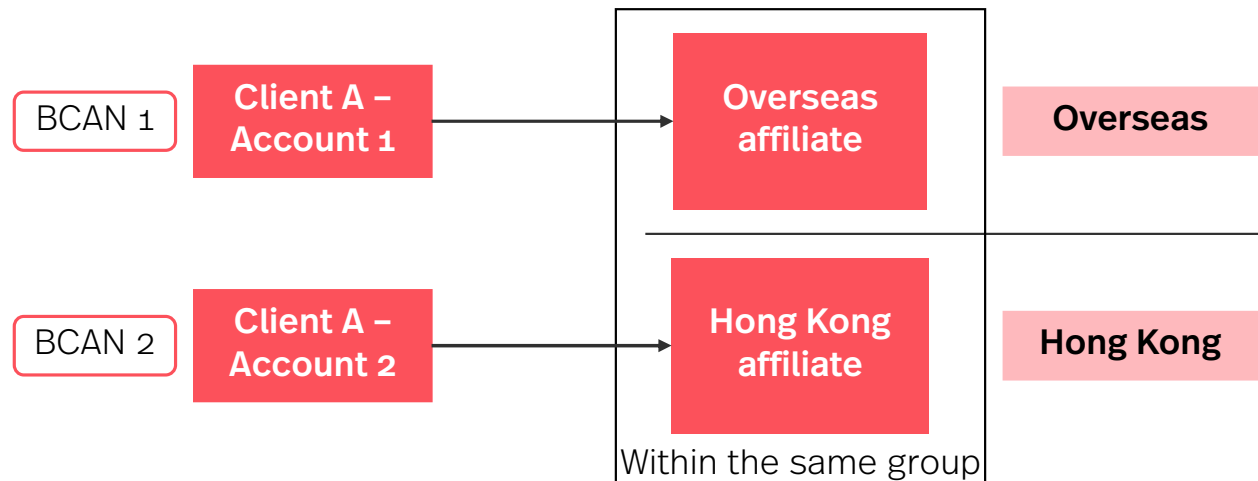
Same client opening multiple accounts with the same intermediary

## Submissions:

- If clients have opened multiple accounts with the same intermediaries, we propose the SFC to give intermediaries the flexibility to assign multiple BCANs to the same clients in order to reflect, amongst others, the account structures/order flows of the clients in the operational systems of the intermediaries (e.g. clients may open brokerage accounts and advisory accounts with the same intermediaries and the intermediaries may handle the order flows in different manners, depending on the intermediaries' operational set up).
- We respectfully submit that this will not undermine the objective of the Hong Kong Investor Identification Regime as the underlying clients will still need to submit the relevant CID information and the SFC will be able to identify these clients accordingly.

# Scenario 11

Same client opening accounts with multiple client facing entities within same global institution



- The same client has opened accounts with multiple client facing entities within the same global financial institution (e.g. U.S. and UK).

# Scenario 11

Same client opening accounts with multiple client facing entities within same global institution

## Submission:

- If clients have opened accounts with multiple client facing entities within the same global financial institution (e.g. U.S. and UK), we would be grateful if the SFC could consider giving intermediaries the flexibility to either assign the same BCAN to these clients or different BCANs depending on, amongst others, the operational set up of the global financial institutions.