

## **Press Release**

### **LCQ12: Real-time investor identification system for northbound cross-boundary stock trading**

Wednesday, November 29, 2017

Following is a question by the Hon Kenneth Leung and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (November 29):

Question:

At present, investors can engage in cross-boundary stock trading through Shanghai-Hong Kong Stock Connect (SH-HK Stock Connect) and Shenzhen-Hong Kong Stock Connect (SZ-HK Stock Connect). It has been reported that the Hong Kong Exchanges and Clearing Limited will implement next year a real-time investor identification system for northbound trading under SH-HK Stock Connect and SZ-HK Stock Connect (real-name registration system), and such an arrangement will give both the Mainland and Hong Kong regulators direct access to the data of traders' identities. The Chairman of the Securities and Futures Commission (SFC) has indicated that public consultation is unnecessary as the proposed real-name registration system does not involve any revision to the Listing Rules. In this connection, will the Government inform this Council, whether it knows if SFC:

(1) has assessed (i) the views of different stakeholders on the implementation of the real-name registration system, (ii) the difficulties that may arise in the implementation of the system and (iii) whether there are loopholes in the system to ensure that the implementation of the system will not affect the stability of the Hong Kong stock market; if SFC has assessed, of the outcome; if not, the reasons for that;

(2) has consulted the Office of the Privacy Commissioner for Personal Data on the arrangements for cross-boundary transfer of personal data involved in the proposed real-name registration system, including issues on the holding, processing or use of the personal data transferred to places outside Hong Kong by a person authorised by the data subject to make the transfer to ensure that the arrangements do not contravene the provisions of the Personal Data (Privacy) Ordinance (Cap. 486); if so, of the details; if not, the reasons for that;

and

(3) has made reference to the experience of the stock markets in other places on the implementation of real-name registration systems; if so, of the places the experience of which reference has been made to and the conclusions drawn; if not, the reasons for that?

Reply:

President,

Our reply to the three parts of the question is as follows:

(1) Globally, there is a trend to impose investor identification requirements to enhance market surveillance (please see part (3) of our response for details). In view of the significant growth in and the increasing complexity of markets in Hong Kong, the Securities and Futures Commission (SFC) has for some time been examining whether, and if so, possible options for introducing an investor identification model to improve its capability to conduct effective surveillance of the Hong Kong markets. It will take time to reach a view on the way forward and, where necessary, work out details of a comprehensive model for the Hong Kong markets.

Separately, the SFC is also considering an investor identification model for northbound trading activities under Stock Connect which will facilitate the China Securities Regulatory Commission (CSRC) to perform its regulatory functions in the Mainland stock markets. As stated in the Agreement on Economic and Technical Cooperation under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement signed on June 28, 2017 by the Ministry of Commerce of the Central People's Government and the Hong Kong Special Administrative Region Government, a timetable would be set for the establishment of an investor identification mechanism under Stock Connect. The implementation of an investor identification regime will facilitate the further development of Stock Connect, including the expansion of the scope of eligible securities under Stock Connect.

The SFC has been working closely with Hong Kong Exchanges and Clearing Limited (HKEX) in the development of an investor identification

regime taking into account market practices in Hong Kong. They have considered operational issues and concerns raised by market participants when developing the regime and also made reference to the experience in overseas markets. The proposed investor identification regime will not affect the functioning of the Hong Kong stock market or its stability. The HKEX will soon publish an information paper on the investor identification model for northbound trading under Stock Connect.

The SFC will also work with the CSRC on a similar investor identification information system in respect of southbound trading.

(2) During the course of exploring an investor identification model, the SFC consulted the Office of the Privacy Commissioner for Personal Data to understand relevant requirements in the Personal Data (Privacy) Ordinance.

The SFC has been working closely with the HKEX to come up with an investor identification model that will comply with the applicable data privacy laws in the collection, use and transfer of relevant personal data.

(3) In light of the growing size and complexity of the securities market, a number of overseas regulatory authorities have started to implement or impose investor identification requirements, to improve the effectiveness of market supervision activities. For instance, the European Securities and Market Authority and the US Securities and Exchange Commission are preparing for the implementation of investor identification regimes as parts of the European Market in Financial Instruments Directive II and the US Consolidated Audit Trail plan respectively. In Asia-Pacific region, the Australian Securities and Investments Commission has also introduced relevant clauses in its rules since March 2014 to require market participants to provide investor identification data for the purpose of placing buy and sell orders, trading and trade reporting.

During the course of exploring and introducing an investor identification model, the SFC and the HKEX have considered factors including (i) the "see-through" trading and settlement model in the Mainland market; (ii) the trading practices and measures in the Hong Kong market and the feasibility of the implementation of the model; and (iii) the investor identification models adopted or to be adopted in the above-mentioned overseas regions.

Taking into consideration the above-mentioned factors, the SFC believes that the introduction of an investor identification regime under Stock Connect is aligned with the global approach to market supervision and facilitates the further development of Stock Connect.

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