hkaob
The HK Association of Online Brokers
香 港 網 上 經 紀 協 會

March 4, 2021

To Securities and Futures Commission
Re: Market Consultation on investor identification and transaction reporting

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

In principle, we support the proposal to introduce an investor identification regime for the securities market in Hong Kong at the trading level as we agree it would bring higher transparency and facilitate more effective market surveillance. However, we disagree the proposed regime would reduce operational costs for the Regulated Intermediaries. The only cost saving that we can see resides with SFC. For Regulated Intermediaries, the expected cost savings from reduced number of Section 181 inquiries would be offset by the additional cost from creation of database, implementation of program and on-going maintenance. In fact, we would argue that with higher transparency, there is a possibility of higher number of Section 181 inquiries than previously which would likely lead to higher investigation cost for Regulated Intermediaries.
In our response to your questions below, we offer some comments to ease the transition and implementation process. **In addition, since SFC will realize cost savings, we feel SFC should subsidize the small and medium size Brokers on the system enhancements and integration costs for implementing investor identification regime.**

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.

- None

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.

- None

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.

- None

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.

- None

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.

- According to the draft of the proposed amendments to the SFC Code of Conduct, for the CID to be collected from the identity document, Regulated Intermediaries are required to ask for 1) HKID Card; if client has none, then 2) national identification document is asked, if none, then 3) Passport is asked.
- At issue is that existing clients have provided acceptable identity document at account opening. To fulfill our duty on compliance with HK Investor ID Regime, any client that setup account using national identification document or passport, we have to ask whether the client has a HKID Card. If he has, we need to make a change and use the HKID Card instead.
- We need to understand the reason for having HKID Card as the preferred document for collecting client data.
- Ideally, we should stay with the status quo which is not to prescribe any particular identification document.

Q6 Do you have any comments on the proposed implementation timeline for the HK Investor ID Regime? Please explain your view.

- We feel strongly that more time is needed for implementation. The industry needs more than 9 months in order to gather client consent, create database and complete mapping.
- The reasons more time is needed:
  - Each Regulated Intermediary has acquired lots of clients from past years therefore getting consent from all clients is difficult especially if Covid-19 persist.
  - With nearly 1,000 Regulated Intermediaries seeking Vendors to provide solution and support at the same time, it is questionable whether there are sufficient technical. experts to meet the demand. Also, this surge in demand for solution is likely to push up project cost as Vendors will likely charge a higher price.
  - Each Regulated Intermediary has to introduce and modify existing workflow and procedure which takes time to implement.
  - Some Regulated Intermediaries have been operating for over 30 years. Due to large number of clients are acquired over the years, more time is needed in order to contact the inactive clients to seek their consent.
- We feel strongly that Regulated Intermediaries should be given at least 18 months to launch.

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For Section B Proposal to introduce an OTC securities transactions reporting regime for shares listed on SEHK

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

- We suggest to extend time to report to T+2 or T+3. The longer time is to cater to overseas clients in different time zone. Given that failure to report is considered a regulatory breach, Regulated Intermediaries should be allowed some leeway as there are time and circumstance beyond their control, ie Covid-19.

Q8 Do you have any comments on the proposed OTC Securities Transactions Reporting Regime submission system? Please explain your view.

- None

Q9 Do you have any comments on the proposed arrangements concerning clients' consent under OTC Securities Transactions Reporting Regime? Please explain your view.

- None

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

- Please refer to Q5.

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

- We suggest to moving backward to Q2 of 2023 to align with our suggestion to extend the launch under Section A above by 9 months.

Regards

Oliver Ng
Chairman