



Guidance to the ETF Industry

15 December 2020



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1

Suspension of Primary Market Dealing



Factors to Consider

- Suspension of primary market dealing (i.e. subscriptions and/or redemptions of ETF shares/units) may be decided by ETF¹ manager in consultation with the trustee/custodian, having regard to the best interests of holders. [UT Code 10.6]
- Circumstances that may require suspension are set out in the offering documents and constitutive documents of an ETF e.g.
 - suspension of underlying markets (please see “5. Unanticipated suspension or closure of underlying markets”);
 - disruption in access to underlying markets;
 - mandatory risk management measures imposed by relevant parties (e.g. execution/clearing brokers);
 - underlying index is not compiled or published; and
 - valuation of underlying assets cannot be fairly ascertained.
- ETF manager must regularly review any prolonged suspension and take all necessary steps to resume normal operations as soon as practicable, having regard to the interests of holders and when the reasons for the suspension no longer apply. [UT Code 10.6]

Impacts on Secondary Market Trading

- ETF manager should consider whether the secondary market trading should be suspended in view of the suspension of primary market dealing. Please see “2. Trading halt/suspension of secondary market trading”.

¹ The term “ETF” used in this Guidance shall cover SFC-authorized passive ETF, active ETF, listed unit/share class of unlisted SFC-authorized fund, and leveraged and inverse product.

Communication with SFC

- ETF manager or the HK representative must immediately notify the SFC if primary market dealing (whether subscriptions and/or redemptions of ETF shares/units) ceases or is suspended and is encouraged to give the SFC any early alert. [UT Code 10.7]

Informing Investors

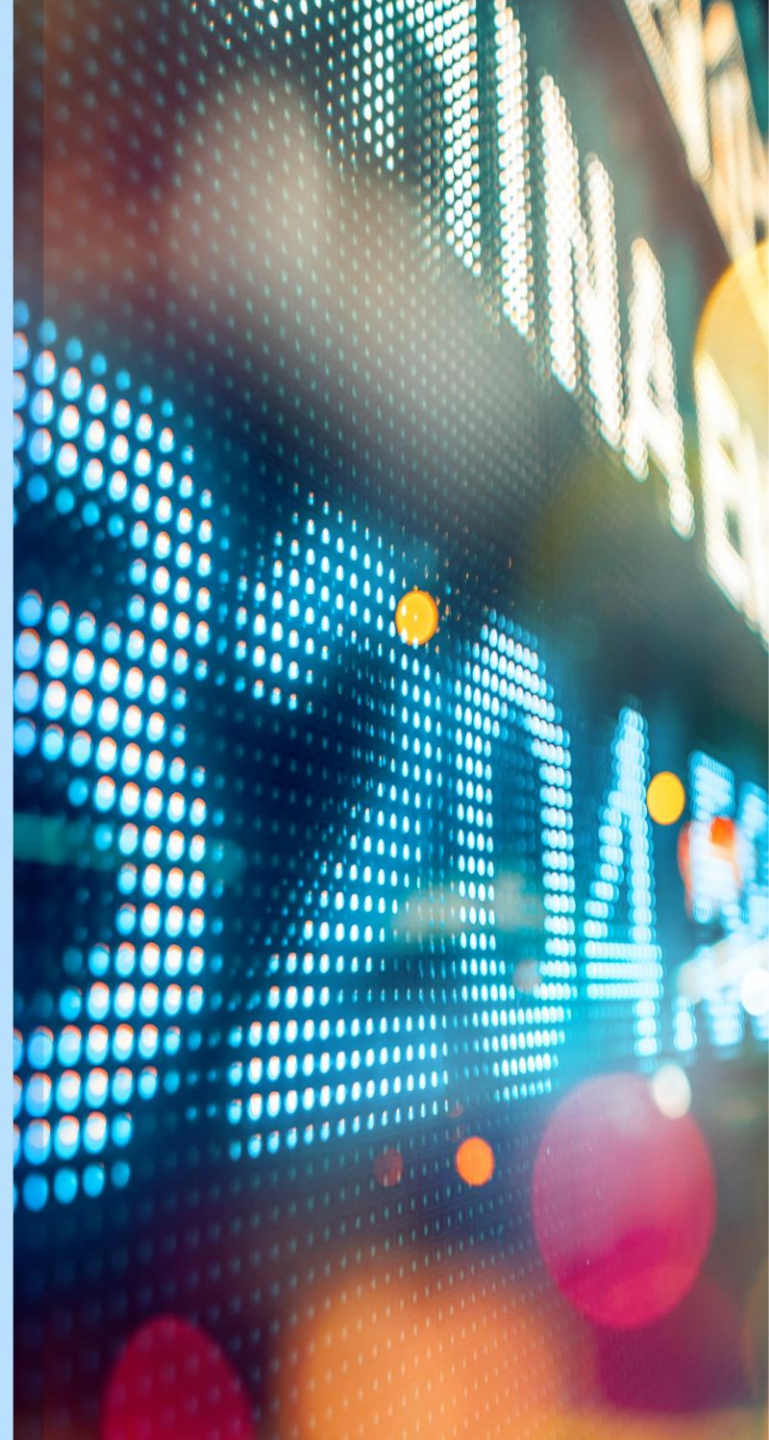
- The fact that dealing is suspended must be published immediately following such decision and at least once a month during the period of suspension. [UT Code 10.7]
- The suspension announcement to investors does not require the SFC's prior approval. However, it should be filed with the SFC immediately after its issuance. [FAQ 3A1 of Section 2 of FAQs on Post Authorization Compliance Issues of SFC-authorized Unit Trusts and Mutual Funds]
- The SFC may also request submission of records of the deliberations, justification and decision of the suspension. [FAQ 3A1 of Section 2 of FAQs on Post Authorization Compliance Issues of SFC-authorized Unit Trusts and Mutual Funds]

Informing Investors (continued)

- Announcement should contain at a minimum [FAQ 3A2 of Section 2 of FAQs on Post Authorization Compliance Issues of SFC-authorized Unit Trusts and Mutual Funds]:
 - The legal basis for suspension, i.e. reference to the provisions in the constitutive documents;
 - Reasons for suspension;
 - A statement that the trustee/custodian has been consulted and where relevant, consent/no objection has been obtained;
 - Effective date and where appropriate, the duration of suspension;
 - The arrangement in handling the subscription and redemption requests submitted before and after the cut-off date applicable to the suspension;
 - Potential impacts on the ETF and its investors e.g. secondary market trading with a larger bid-ask spread and/or at a larger premium/discount compared to the normal situation due to the disruptions to creations and redemptions;
 - Details of a Hong Kong contact for enquiries; and
 - Date of publication of the announcement.
- Announcement must be published on HKEXnews website and the ETF website at the same time. [Listing Rules 2.07C(6)(a)] ETF manager should take note of the discussions in “7. Procedures for publication of announcements on HKEXnews website”.

2

Trading Halt / Suspension of Secondary Market Trading



Factors to Consider

- Trading halt/suspension of secondary market trading² may be requested/decided by ETF manager in consultation with the trustee/custodian, having regard to the best interests of holders. [UT Code 10.6]

General factors

- ETF manager may consider the following factors to determine whether to halt/suspend secondary market trading³:
 - Whether the ETF may continue to trade in a fair and orderly manner, in particular, whether investors can trade the ETF on an informed basis;
 - Unanticipated suspension of primary market dealing for an extended period;
 - Unanticipated suspension or closure of underlying markets;
 - Cessation, disruption or suspension of market making by the last market maker;
 - Whether the above incidents could adversely affect the interests of investors and have an adverse impact on (i) efficiency of arbitrage mechanism (potential premium/discount); (ii) bid/ask spread; and (iii) liquidity
 - Whether there are other exit channels available for retail investors;
 - Whether the ETF is in the process of termination;
 - Whether there are difficulties in valuation of underlying assets; and
 - Whether there is any information asymmetry or other untoward circumstances.
- ETF manager must initiate trading suspension as soon as practicable if the ETF has, or the ETF manager reasonably foresees that the ETF would have, an end-of-day zero/negative NAV. The ETF manager should discuss with HKEX and SFC the continual viability of the ETF and the possible next steps (including where applicable, deauthorization and delisting of the ETF).

² Trading halt is defined in the Listing Rules as an interruption of trading in an issuer's securities and extending for no more than two trading days. Where a trading halt exceeds two trading days, it will automatically become a trading suspension.

³ For further details of trading halt or suspension, please refer to Listing Rule 6.01-6.10A and Practice Note 11.

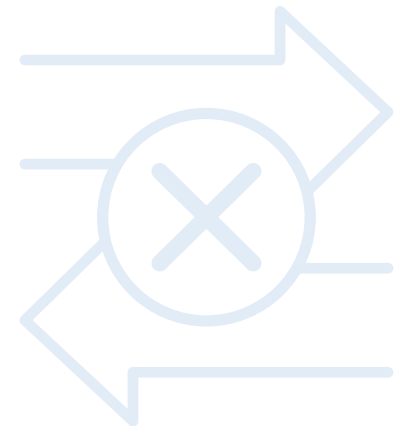
Factors to Consider (continued)

Ground for approving request for trading halt/suspension

- A request for a trading halt/suspension by ETF manager will normally only be acceded by HKEX when the ETF manager has information which is necessary to be disclosed to (a) enable the holders of interests to appraise the position of the ETF; and (b) avoid the establishment of a false market⁴. HKEX will discuss with the SFC in considering any trading halt/suspension request.

Duration of trading halt/suspension

- In the interests of promoting a continuous market, HKEX would expect ETF managers to keep the duration of any trading halt/suspension for the shortest possible period. [Listing Rules 6.05]
- ETF manager must regularly review any prolonged suspension and take all necessary steps to resume trading as soon as practicable, having regard to the interests of holders and when the reasons for the trading halt/suspension no longer apply. [UT Code 10.6]



⁴ See FAQ1 Series 22 published by HKEX.

Communication with HKEX and SFC

- Any request⁵ for a trading halt/suspension must be made to the relevant listing team⁶ at HKEX and must be supported by the specific reasons which the ETF manager wishes HKEX to take into account in HKEX's determination of its request. [Listing Rule 6.02]
- Due to time factors, such request should first be made to the listing team of HKEX via email (with the SFC case team copied in) as soon as possible and followed by a call.

⁵ Such request will only be considered when it is received directly from the ETF manager's authorised representative or some other responsible officer, or from a recognised and authorised merchant bank, financial advisor or sponsor, or a member firm acting in either of those capacities. The Listing Division may request confirmation of the authority of the person requesting the trading halt / suspension. [Paragraph 2 of Practice Note 11]

⁶ Responsible listing team of each ETF:

<https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Other-Resources/Listed-Issuers/Contact-Persons-in-HKEX-Listing-Department-for-Listed-Companies/listingone.xls?la=en>

Contact Persons with each listing team:

https://www.hkex.com.hk/Listing/Rules-and-Guidance/Other-Resources/Listed-Issuers/Contact-Persons-in-HKEX-Listing-Department-for-Listed-Companies/Contact-Persons-in-the-Listing-Department-of-HKEX-for-Listed-Companies?sc_lang=en

Informing Investors

- The fact that secondary market trading is halted/suspended must be published immediately following such decision and at least once a month during the period of suspension. [UT Code 10.7]
- Upon acceptance of the request for a secondary market trading halt/suspension by HKEX, the ETF manager should submit through the e-submission system (ESS) to HKEX for publication on the HKEXnews website a ready-to-publish electronic copy of an announcement informing that trading in the ETFs has been halted or suspended and setting out briefly the reason for the trading halt or suspension. [Listing Rule 2.07C]
- Announcement should contain at a minimum [FAQ 3A2 of Section 2 of FAQs on Post Authorization Compliance Issues of SFC-authorized Unit Trusts and Mutual Funds]:
 - The legal basis for trading halt/suspension;
 - Reasons for trading halt/suspension;
 - A statement that the trustee/custodian has been consulted and where relevant, consent/no objection has been obtained;
 - Effective date and where appropriate, the expected duration of trading suspension;
 - Details of a Hong Kong contact for enquiries; and
 - Date of publication of the announcement.
- The announcement does not require the SFC's prior approval. However, it should be filed with the SFC immediately after its issuance.
- Such announcement should be published as soon as possible and could be published anytime during the trading session (regardless of the publication windows). It must also be published on HKEXnews website and the ETF website at the same time. [Listing Rules 2.07C(6)(a)]

3

Resumption of Primary Market Dealing/ Secondary Market Trading



General

- The duration of any trading halt/suspension should be for the shortest possible period. [Listing Rules 6.05]
- Resumption of primary market dealing/secondary market trading should take place as soon as practicable, having regard to the interests of holders and when the reasons for the suspension of primary market dealing/secondary market trading no longer apply. [UT Code 10.6]

Communication with HKEX and SFC

- A decision to lift the primary market dealing and/or secondary market trading suspension should be notified to the SFC immediately. [FAQ 3A3 of Section 2 of FAQs on Post Authorization Compliance Issues of SFC-authorized Unit Trusts and Mutual Funds]
- To resume secondary market trading on HKEX, ETF managers should make a written application to the relevant listing team by email and publish a resumption announcement (reviewed by the SFC and with no comment from HKEX on the resumption time) containing information addressing the reasons leading to the trading halt/suspension and the resumption date on the HKEXnews website. [HKEx-GL83-15]
- The resumption announcement should be filed with the SFC immediately after its issuance. [FAQ 3A3 of Section 2 of FAQs on Post Authorization Compliance Issues of SFC-authorized Unit Trusts and Mutual Funds]

Informing Investors

- Before resumption of primary market dealing, a resumption announcement should be published by the ETF manager where the suspension announcement does not specify the duration of suspension. At a minimum, a resumption announcement should contain the effective date of the lifting of suspension, information addressing the reasons leading to the suspension of primary market dealing and details of a Hong Kong contact for enquiries.
- Before resumption of secondary market trading, a resumption announcement must be published by the ETF manager. At a minimum, a resumption announcement should contain the effective date of the lifting of suspension, information addressing the reasons leading to the trading halt/suspension and details of a Hong Kong contact for enquiries.
- Announcement must be published on HKEXnews website and the ETF website at the same time. [Listing Rules 2.07C(6)(a)] ETF manager should take note of the discussions in “7. Procedures for publication of announcements on HKEXnews website”.



4

Cessation, Disruption or Suspension of Market Making by the Last Market Maker



General

- ETF manager should consider and take note of the matters set out in SFC Circular to management companies and market makers of SFC-authorized exchange traded funds - ETF market making dated 17 April 2020.
- ETF manager should properly manage the risk of reliance on a single market maker to provide secondary market liquidity for an ETF. This may include, for example, procuring more than one market maker for an ETF or securing appropriate arrangement for an alternative market maker/unofficial liquidity provider to readily step in at short notice in the event of cessation, disruption or suspension of market making activities of the last market maker.

Impacts on Secondary Market Trading

- ETF manager should consider whether the secondary market trading should be suspended in view of the cessation, disruption or suspension of market making by the last market maker. Please see “2. Trading halt/suspension of secondary market trading”.

Communication with SFC and HKEX

- ETF manager should:
 - report to the SFC and HKEX the cessation, disruption or suspension of market making activities as soon as possible upon notice of the same or early alert received from the market maker; and
 - provide a plan to the SFC setting out the steps that the ETF manager plans to take to ensure that investors are able to purchase or dispose of the ETF units in a fair and orderly manner, and that investors’ interests are safeguarded. [FAQ 12 of FAQs on Exchange Traded Funds and Listed Funds]

Informing Investors

- Where required under 8.6(q) of the UT Code, ETF manager should keep investors informed and highlight the risks to investors (such as the risk of secondary market trading with a larger bid-ask spread and/or at a larger premium/discount compared to the normal situation).
- The announcement does not require the SFC's prior approval. However, it should be filed with the SFC immediately after its issuance.
- Announcement must be published on HKEXnews website and the ETF website at the same time. [Listing Rules 2.07C(6)(a)] ETF manager should take note of the discussions in "7. Procedures for publication of announcements on HKEXnews website".

Managing Relationships with Market Maker(s) and Participating Dealer(s)

- To ensure the trading of ETFs is conducted in a fair and orderly manner, ETF managers are reminded to:
 - conduct due diligence on and regular monitoring of market maker(s) and participating dealer(s);
 - closely monitor the secondary market trading and liquidity of the ETFs, including the premium/discount, spreads, market making activities and performance of the market maker(s); and
 - maintain a close dialogue with each market maker and participating dealer with whom the ETF managers have engaged.

5

Unanticipated Suspension or Closure of Underlying Markets



General

- ETF manager should critically assess the potential impact of an unanticipated suspension or closure of underlying markets on the ETF and its investors.
- It should ensure that it has in place appropriate policies and procedures (including contingency plans) to address such event.

Matters to Consider

- ETF manager should critically assess the potential impact of such suspension. In particular, the issues that a ETF manager should consider include, without limitation [FAQ 3B of Section 2 of FAQs on Post Authorization Compliance Issues of SFC-authorized Unit Trusts and Mutual Funds]:
 - how the NAV and iNAV of the ETF should be calculated;
 - if/how any fair valuation adjustments should be made;
 - how to ensure:
 - strict compliance with the principle of forward pricing;
 - all investors are treated fairly and that existing investors' interests are protected; and
 - the policies and procedures to be put in place (and any revisions thereto) are done in the best interests of the ETF;

Matters to Consider (continued)

- how the dealing and settlement arrangements will be affected, such as:
 - whether the day on which suspension occurs is still a dealing day for the ETF according to the constitutive documents and offering documents;
 - if so, whether the ETF manager will suspend dealing on that day or make any changes to the cut-off time for accepting subscription and redemption orders; and if it is the latter case,
 - whether the subscription and redemption orders received after the cut-off time on that day will be carried forward to the next dealing day; and
 - whether the subscription and redemption orders received after the cut-off time on that day can be cancelled; and
 - the arrangement for partially filled orders;
- if any revisions should be made to the existing dealing and settlement procedures and operational guidelines of the ETF after considering the above; and
- in the case of leveraged and inverse product, how the daily rebalancing activities will be affected.
- ETF manager should consult the trustee/custodian to address these issues where appropriate.

Impacts on Primary Market Dealing

- ETF manager should consider the impact of unanticipated suspension or closure of underlying markets on primary market dealing. Please see “1. Suspension of primary market dealing”.

Impacts on Secondary Market Trading

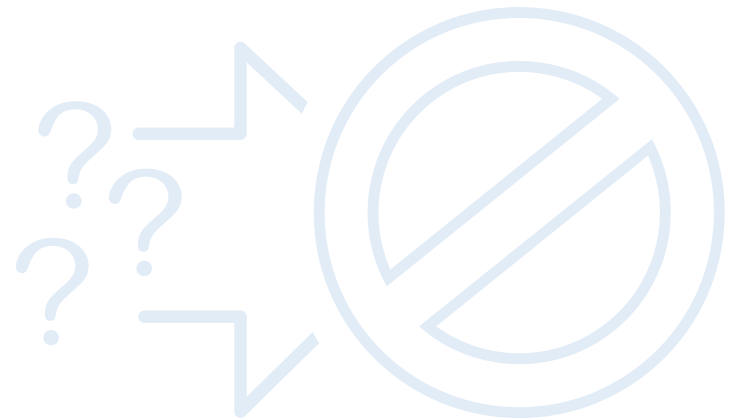
- ETF manager should consider whether the secondary market trading should be suspended in view of the potential impact of unanticipated suspension or closure of underlying markets. Please see “2. Trading halt/suspension of secondary market trading”.

Communication with SFC

- ETF manager should report to the SFC immediately if there is an unanticipated suspension or closure of underlying markets of an ETF.

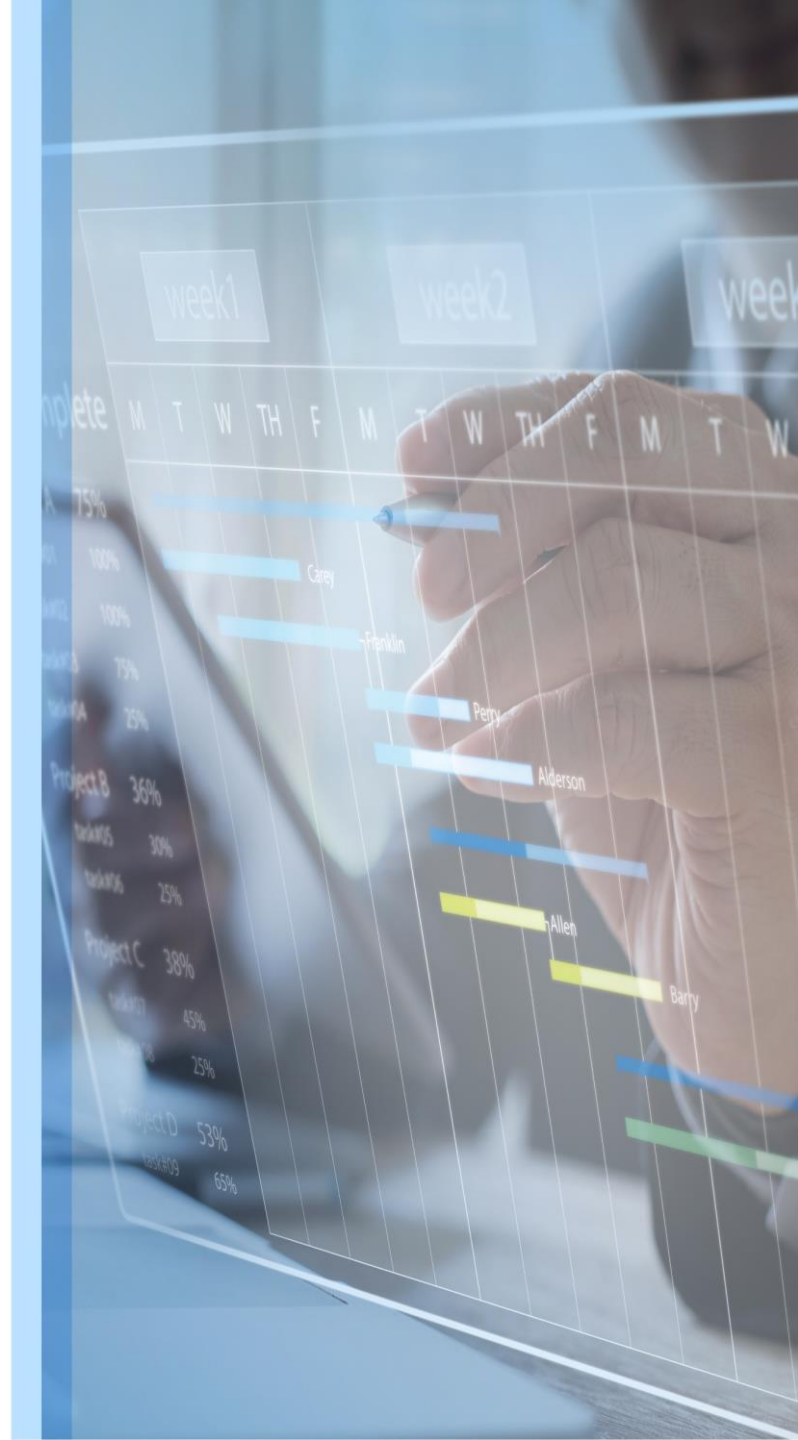
Informing Investors

- The announcement should cover at a minimum the information as set out in “Matters to consider”, “Impacts on primary market dealing” and “Impacts on secondary market trading” sections above and highlight the risks to investors (such as secondary market trading with a larger bid-ask spread and/or at a larger premium/discount compared to the normal situation).
- The resumption announcement should be filed with the SFC immediately after its issuance. Please see “3. Resumption of primary market dealing/secondary market trading”.
- Announcement must be published on HKEXnews website and the ETF website at the same time. [Listing Rules 2.07C(6)(a)] ETF manager should take note of the discussions in “7. Procedures for publication of announcements on HKEXnews website”.



6

Listing Application Timeline and NAV Publication Requirements for New ETF/Trading Counter(s)



Timeline

- An listing application should be made to SEHK with a proposed listing timetable after SFC's conditional authorization letter is obtained on the new ETF.
- Normally, a listing application is required to be made at least 3 weeks prior to the proposed listing date to allow adequate time for SEHK to review the application and for SFC to designate the ETF for securities market making, short selling and tick rule exemption, subject to the exceptions mentioned below.
- Upon receipt of the listing application, SEHK will liaise with the ETF manager and market makers on the proposed market making obligations for the new ETF until an agreement is reached upon.

Exceptions Handling

- Should any ETF manager wish to list an ETF shorter than 3 weeks from the listing application, the ETF manager should notify SEHK of such plan at ETFs@hkex.com.hk as early as possible and obtain prior approval. In the email, the intended listing timetable and the list of the confirmed market makers for the new ETF should also be included.
- In any event, the listing date must be no earlier than 10 clear working days⁷ counting from the latter of the below two dates:
 - 1) The date where the listing application is formally made to and accepted by SEHK;
 - 2) The date where at least one market maker confirms to SEHK to be a market maker from the day of listing and both the ETF manager and the relevant market maker provide a written confirmation to SEHK on the compliance with the proposed market making obligations.

⁷ 10 clear working days do not include the day where requirements in 1) and 2) are first fulfilled and the listing date.

Requirements on NAV Publication for New ETF/Trading Counter(s)

- Effective on 19 October 2020, all ETF managers are required to publish an announcement on HKEXnews website to inform investors the latest or indicative net asset value by 5:00 p.m. on the trading day prior to the listing date of the new ETF or the launch date of the new trading counter(s) of an existing ETF.
- Any failure to fulfil this requirement may lead to the postponement of the listing date of the new ETF or the launch date of the new trading counter(s) of an existing ETF.
- Announcement must be published on HKEXnews website and the ETF website at the same time. [Listing Rules 2.07C(6)(a)] ETF manager should take note of the discussions in “7. Procedures for publication of announcements on HKEXnews website”.

7

Procedures for Publication of Announcements on HKEXnews Website



Announcements must be Published on HKEXnews Website and the ETF Website at the Same Time [Listing Rules 2.07C(6)(a)]

Operational hours of ESS

- Normal business day: 6:00 a.m. to 11:00 p.m.
- Non-business day preceding a business day: 6:00 p.m. to 8:00 p.m.

Allowed time windows for announcement publication

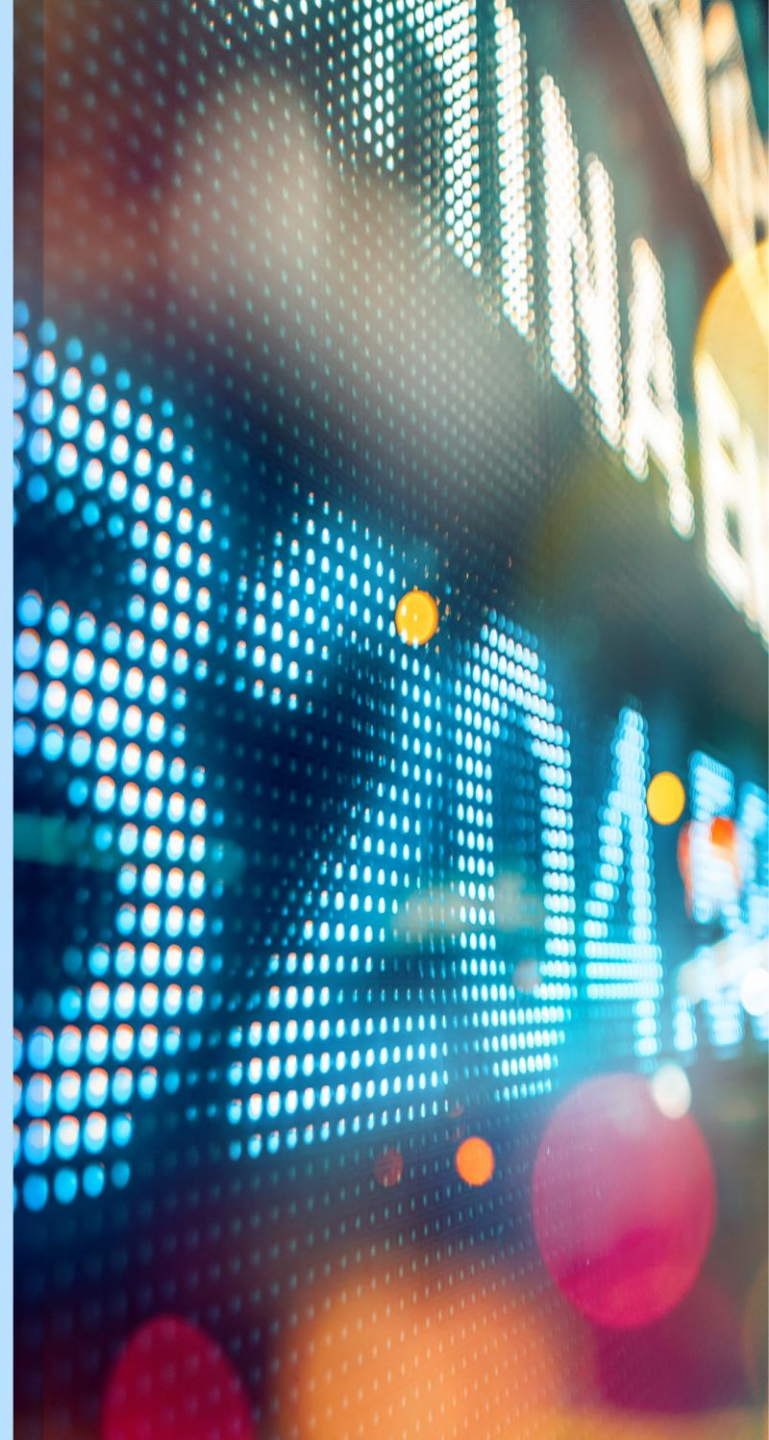
- Normal business day:
 - 6:00 a.m. to 8:30 a.m. (for announcement before market opens)
 - 12:00 noon to 12:30 p.m. (for announcement before afternoon trading session)
 - 4:30 p.m. to 11:00 p.m. (for announcement before market opens on the next trading day)
- On the eves of Christmas, New Year and Lunar New Year when there is no afternoon trading session:
 - 6:00 a.m. to 8:30 a.m. (for announcement before market opens)
 - 12:30 p.m. to 11:00 p.m. (for announcement before market opens on the next trading day)
- Non-business day preceding a business day:
 - 6:00 p.m. to 8:00 p.m. (for announcement before market opens on the next trading day)

Allowed time window for publication of trading halt/suspension announcements and other announcements as set out in Listing rule 2.07C(4)(a)

- Anytime during the trading session (regardless of the publication windows) after the relevant ETF has been halted or suspended.

8

Illustrative Example



Hypothetical Incident

- Product A is a SEHK-listed, futures-based leveraged product which provides twice (2x) the daily performance of Index A. The constituent stocks of Index A are listed on Exchange S (stock exchange). Product A invests directly in Index A futures contracts, which are traded on Exchange F (futures exchange). The SEHK, Exchange S and Exchange F operate in the same time zone.
- On Day 1, it was announced at 8:00a.m. (before trading hours of the SEHK) that trading of Index A futures contracts on Exchange F will be suspended until further notice due to certain issue. On Day 2, it was announced at 8:00a.m. that trading of Index A futures contracts on Exchange F will be resumed.
- According to the constitutive documents and/or offering documents of Product A, Business Day⁸ means a day on which Exchange S and Exchange F are open for normal trading.
- The impacts to Product A due to the suspension of trading on (i) Exchange S, (ii) Exchange F and (iii) both Exchange S and Exchange F are shown below:

	(i) Suspension of trading on Exchange S	(ii) Suspension of trading on Exchange F	(iii) Suspension of trading on both Exchange S and Exchange F
Portfolio Rebalancing	Not required as such day is not regarded as a Business Day		
Primary market dealing	Not opened as such day is not regarded as a Business Day		
Secondary market trading	ETF manager will have to decide if trading halt/suspension is necessary, taking into account if there is any adverse impact on (i) efficiency of arbitrage mechanism (potential premium/discount); (ii) bid/ask spread; and (iii) liquidity		
Calculation of NAV	Not required as such day is not regarded as a Business Day		
Calculation of iNAV	Calculated as usual	Use proxy (e.g. making reference to Index A)	ETF manager to consider if there is appropriate proxy

⁸ Definition of Business Day varies for different ETFs. Managers are reminded to make reference to the constitutive documents and offering documents of the ETFs under their management for their particular circumstances.

Actions Taken on Day 1

- After noting the suspension of trading of Index A futures contracts on Exchange F until further notice at 8:00a.m. on Day 1, the ETF manager, based on its professional judgement, decided to continue the secondary market trading of Product A on the SEHK.
- The ETF manager issued an announcement before 8:30a.m. (before trading hours of the SEHK) on HKEXnews website and the ETF website containing the following information:
 - It was announced at 8:00a.m. on Day 1 that trading of Index A futures contracts on Exchange F will be suspended until further notice (with the reason(s) for such suspension);
 - Day 1 will not be regarded as a Business Day pursuant to the constitutive documents and/or offering documents of Product A;
 - Product A will not be opened for primary market dealing on Day 1;
 - No valuation/calculation of the NAV and portfolio rebalancing will be conducted on Day 1;
 - In case the suspension of trading on Exchange F continues on Day 2, Day 2 will not be regarded as a Business Day, and therefore Product A will not be opened for primary market dealing, and valuation/calculation of the NAV and portfolio rebalancing for Product A will not be conducted on Day 2;
 - Secondary market trading of Product A will continue on the SEHK;
 - Investors should pay attention to the potential risks of secondary market trading, such as larger premium/discount, wider bid/ask spread and lower liquidity of Product A compared to the normal situation; and
 - The ETF manager will continue to monitor the suspension of trading of Index A futures contracts on Exchange F. When trading of Index A futures contracts on Exchange F resumes, further announcement will be made to investors.

Actions Taken on Day 2

- After it was announced at 8:00a.m. on Day 2 that trading of Index A futures contracts on Exchange F will be resumed, the ETF manager issued an announcement before 8:30a.m. (before trading hours of the SEHK) on HKEXnews website and the ETF website containing the following information:
 - Trading of Index A futures contracts on Exchange F will be resumed on Day 2;
 - Day 2 will be regarded as a Business Day;
 - Product A will be opened for primary market dealing;
 - Valuation/calculation of the NAV and portfolio rebalancing of Product A will be back to normal; and
 - The ETF manager will continue to monitor trading of Index A futures contracts on Exchange F and keep investors informed of any circumstances that need to be brought to their attention.



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Thank You

