

SHANGHAI CONNECT  
SHENZHEN CONNECT

**HKEX**  
香港交易所

INFORMATION BOOK  
FOR INVESTORS

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## 1. Introduction

On 10 April 2014, the Securities and Futures Commission (SFC) and China Securities Regulatory Commission (CSRC) made a Joint Announcement (“**Joint Announcement**”) regarding the in-principle approval for the development of Shanghai Connect for the establishment of mutual stock market access between Mainland China and Hong Kong. Under Shanghai Connect, The Stock Exchange of Hong Kong Limited (SEHK), a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (HKEX), and Shanghai Stock Exchange (SSE) established mutual order-routing connectivity and related technical infrastructure (Trading Links) to enable investors of their respective market to trade shares listed on the other’s market.

Hong Kong Securities Clearing Company Limited (HKSCC), also a wholly-owned subsidiary of HKEX, and China Securities Depository and Clearing Corporation Limited (ChinaClear) have established clearing, settlement and nominee arrangements (Clearing Links) to provide for the clearing and settlement of trades executed through the Trading Links and the provision of depository, nominee and other related services to investors in the Mainland and Hong Kong.

Shanghai Connect created for the first time a feasible, controllable and expandable channel for mutual market access between the Mainland and Hong Kong by a broad range of investors, paving the way for further opening up of China’s capital account and RMB internationalisation.

Following the successful launch of Shanghai Connect on 17 November 2014, Shenzhen Connect is believed to be its natural extension, and launched on 5 December 2016 by and large applying similar programme principles and design.

This information book provides specific information for investors investing via Shanghai and Shenzhen Connect. It is not exhaustive and should be read in conjunction with the relevant documents on the programme available on the HKEX Website at [www.hkex.com.hk/mutualmarket](http://www.hkex.com.hk/mutualmarket).

## 2. Investor and Participant Eligibility

Except ChiNext Stocks of Shenzhen Stock Exchange (SZSE) which may only be traded by institutional professional investors in the initial stage<sup>1</sup>, Hong Kong and overseas investors are allowed to trade any Connect Securities through Shanghai and Shenzhen Connect. Only Mainland institutional investors and those individual investors who satisfy the eligibility criteria (i.e. Individual investors who hold an aggregate balance of not less

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<sup>1</sup> *ChiNext stocks refer to stocks listed on the ChiNext Board of SZSE which are eligible for trading under the Northbound Shenzhen Connect Trading Link. Other investors may later be allowed to trade SZSE ChiNext stocks subject to resolution of related legal and regulatory issues.*

than RMB 500,000 in their securities and cash accounts) will be accepted to trade SEHK Securities in Southbound trading.

Shanghai and Shenzhen Connect is open to all SEHK Participants, SSE Members, SZSE Members, CCASS Participants, and ChinaClear Participants, subject to their meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and / or clearing house. The names of all eligible SEHK Participants and CCASS Participants have been published on the HKEX website.

### **3. Trading Arrangement**

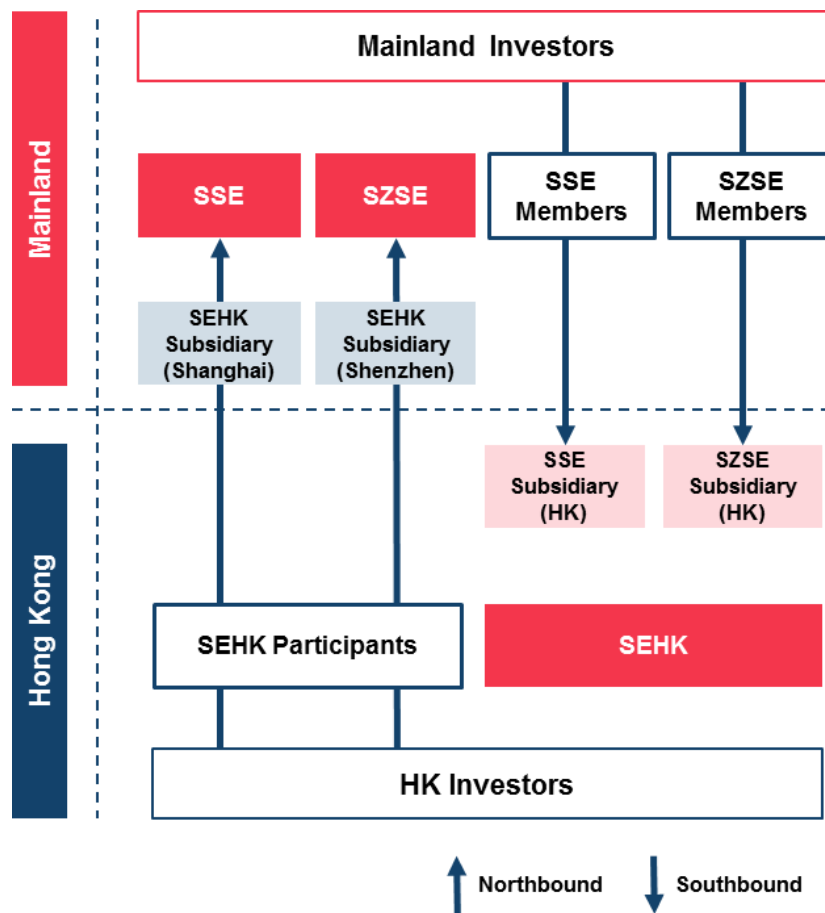
#### **3.1. Trading Arrangement Overview**

To facilitate Hong Kong and overseas investors trading in SSE Securities through Shanghai Connect (i.e. Northbound trading), SEHK has established an SEHK Subsidiary in Shanghai, whose principal function is to receive orders to trade in SSE Securities from SEHK Participants and route them onto SSE's trading platform for matching and execution on SSE. Upon trade execution, trade confirmation received from SSE will be sent to SEHK Participants. For Shenzhen Connect, SEHK has established another SEHK Subsidiary in Qianhai Shenzhen, whose principal function is to receive orders to trade in SZSE Securities from SEHK Participants and route them onto SZSE's trading platform for matching and execution on SZSE.

Same as the current arrangement for trading Hong Kong stocks, investors who want to participate in Shanghai and Shenzhen Connect will trade through SEHK Participants. Investors should check with their SEHK Participants on any specific conditions that their SEHK Participants may require them to satisfy before accepting their Northbound orders.

Northbound trades are executed on the SSE/SZSE platform, and therefore follow the SSE/SZSE market practices in general. This Section 3 explains the market practices that are applicable to Northbound and Southbound under Shanghai and Shenzhen Connect.

**Figure 3.1: Illustration of Order Flow**



It is contemplated that SEHK, SSE and SZSE would reserve the right to suspend Shanghai Connect and/or Shenzhen Connect respectively if necessary for ensuring an orderly and fair market and that risks are managed prudently. Suspension may be executed for a specific stock or all stocks of the relevant market(s). Consent from the relevant regulator would be sought before a suspension is triggered.

### **3.2. Eligible Securities for Northbound Trading under Shanghai and Shenzhen Connect**

Among the different types of SSE-or SZSE-listed securities, only A shares are included in Shanghai and Shenzhen Connect. Other product types such as B shares, Exchange Traded Funds (“ETFs”), bonds, and other securities are not included. The Joint Announcement dated 16 August 2016 provides that the CSRC and the SFC have reached a consensus to include exchange-traded funds (ETFs) as eligible securities under the mutual market access scheme. A launch date will be announced separately after Shenzhen Connect has been in operation for a period of time and upon the satisfaction of relevant conditions.

### ***Eligible Securities for Northbound Trading under Shanghai Connect***

Under Shanghai Connect, SSE Securities that are eligible for trading by Hong Kong and overseas investors include all the constituent stocks of the SSE 180 Index and the SSE 380 Index, and all the SSE-listed A shares that are not included as constituent stocks of the relevant indices but which have corresponding H shares listed on SEHK, except the following:

- (a) SSE-listed shares which are not traded in RMB; and
- (b) SSE-listed shares which are under risk alert<sup>2</sup>.

SSE-listed securities will be included and excluded as SSE Securities based on the adjustments made to the SSE 180 Index and the SSE 380 Index, the timing at which the relevant A shares and H shares are listed on or delisted from SSE and/or SEHK, and the timing at which relevant A shares are placed under risk alert or released from risk alert.

Investors will only be allowed to sell but restricted from buying such SSE Securities if:

- (a) such securities subsequently cease to be a constituent stock of the relevant indices; and/or
- (b) they are subsequently placed under risk alert; and/or
- (c) the corresponding H shares of such securities are subsequently delisted from SEHK, as the case may be.

### ***In relation to A+H shares***

In the case where a PRC company is seeking simultaneous listing on both SSE (as A share) and SEHK (as H share), the relevant A share will be accepted as an SSE Security after it has been traded on SSE for 10 trading days and after the price stabilization period (as stipulated in its prospectus) of the corresponding H share has ended or expired, whichever is later.

In the case where an SSE-listed company whose A share is not accepted as an SSE Security seeks an H share listing on SEHK, the A share will be accepted as an SSE Security after the price stabilisation period (as stipulated in its prospectus) for the H share has ended or expired.

In the case where a PRC company whose share is listed on SEHK (as H share) seeks an A share listing on SSE, the A share will be accepted as an SSE Security after it has been traded on the SSE for 10 trading days.

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<sup>2</sup> Means the relevant shares are placed under "risk alert" by SSE including shares of "ST companies", "\*\*ST companies" and shares subject to the delisting process under the SSE Rules. For details, please refer to the SSE Listing Rules at [http://www.sse.com.cn/lawandrules/sserules/listing/stock/c/c\\_20150912\\_3985869.shtml](http://www.sse.com.cn/lawandrules/sserules/listing/stock/c/c_20150912_3985869.shtml) and SSE Risk Alert Board Provisional Trading Arrangement at [http://www.sse.com.cn/lawandrules/sserules/listing/stock/c/c\\_20150912\\_3985876.shtml](http://www.sse.com.cn/lawandrules/sserules/listing/stock/c/c_20150912_3985876.shtml)

In the case where the corresponding H share of an SSE Security is suspended from trading on SEHK, investors can continue to buy and sell the SSE Security unless otherwise determined by SEHK.

### ***Securities received by investors***

Hong Kong and overseas investors may receive securities which are not already accepted as SSE Securities as a result of any distribution of rights (including the right to subscribe for rights issues or open offers) or entitlements, conversion, takeover, other corporate actions or special circumstances.

- (a) If such securities are SSE-listed securities and traded in RMB, Hong Kong and overseas investors will be allowed to sell them through Shanghai Connect; and
- (b) if such securities are not SSE-listed securities, Hong Kong and overseas investors will not be able to sell them through Shanghai Connect. HKSCC will consider alternative arrangements to handle such securities and will notify CCASS Participants accordingly.

The full list of SSE Securities has been published on the HKEX website, which will be updated from time to time.

### ***Eligible Securities for Northbound Trading under Shenzhen Connect***

Under Shenzhen Connect, SZSE Securities that are eligible for trading by Hong Kong and overseas investors include all the constituent stocks of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index which have a market capitalization of not less than RMB 6 billion, and all the SZSE-listed A shares which have corresponding H shares listed on SEHK, except the following:

- (a) SZSE-listed shares which are not traded in RMB; and
- (b) SZSE-listed shares which are under risk alert<sup>3</sup> or under delisting arrangement.

At the initial stage of Shenzhen Connect, investors eligible to trade shares that are listed on the ChiNext Board of SZSE under Northbound trading will be limited to institutional professional investors. Subject to resolution of related regulatory issues, other investors may subsequently be allowed to trade such shares.

SZSE-listed securities will be included and excluded as SZSE Securities

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<sup>3</sup> Under risk alert in relation to A shares listed on the SZSE Main Board or SZSE SME Board, means the relevant shares are placed under "risk alert" by SZSE including shares of "ST companies", "\*\*ST companies"; and in relation to any A shares listed on the SZSE Market, means the relevant shares are subject to the delisting process or the listing of which has been suspended by SZSE under the SZSE Rules. For details, please refer to the SZSE Listing Rules at <http://www.szse.cn/main/rule>.



based on adjustments made to the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index, the market capitalization of each constituent stock of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index calculated according to such methodology as determined by SZSE at the periodic adjustment of the index, the timing at which the relevant A shares and H shares are listed on or delisted from SZSE and/or SEHK, and the timing at which relevant A shares are placed under risk alert or released from risk alert.

Investors will only be allowed to sell but restricted from buying such SZSE Securities if:

- (a) such securities subsequently cease to be a constituent stock of the relevant indices; and/or
- (b) such securities are, based on any subsequent periodic review, determined to have a market capitalisation of less than RMB 6 billion; and/or
- (c) they are subsequently placed under risk alert; and/or
- (d) the corresponding H shares of such securities are subsequently delisted from SEHK, as the case may be.

#### ***In relation to A+H shares***

In the case where a PRC company is seeking simultaneous listing on both SZSE (as A share) and SEHK (as H share), the relevant A share will be accepted as an SZSE Security after it has been traded on SZSE for 10 trading days and after the price stabilization period (as stipulated in its prospectus) of the corresponding H share has ended or expired, whichever is later.

In the case where an SZSE-listed company whose A share is not accepted as an SZSE Security seeks an H share listing on SEHK, the A share will be accepted as an SZSE Security after the price stabilisation period (as stipulated in its prospectus) for the H share has ended or expired.

In the case where a PRC company whose share is listed on SEHK (as H share) seeks an A share listing on SZSE, the A share will be accepted as an SZSE Security after it has been traded on the SZSE for 10 trading days.

In the case where the corresponding H share of an SZSE Security is suspended from trading on SEHK, investors can continue to buy and sell the SZSE Security unless otherwise determined by SEHK.

#### ***Securities received by investors***

Hong Kong and overseas investors may receive securities which are not already accepted as SZSE Securities as a result of any distribution of rights

(including the right to subscribe for rights issues or open offers) or entitlements, conversion, takeover, other corporate actions or special circumstances.

- (a) If such securities are SZSE-listed securities and traded in RMB, Hong Kong and overseas investors will be allowed to sell them through Shenzhen Connect; and
- (b) if such securities are not SZSE-listed securities, Hong Kong and overseas investors will not be able to sell them through Shenzhen Connect. HKSCC will consider alternative arrangements to handle such securities and will notify CCASS Participants accordingly.

The full list of SZSE Securities has been published on the HKEX website, which will be updated from time to time.

### ***Eligible Securities for Southbound Trading under Shanghai Connect and Shenzhen Connect***

Among the different types of SEHK-listed securities, only equities listed on the Main Board are included in Shanghai and Shenzhen Connect. Other products such as stocks listed on GEM, Nasdaq Pilot Programme stocks, ETFs, Real Estate Investment Trusts (REITs), structured products, bonds, and other securities are not included. The Joint Announcement dated 16 August 2016 provides that the CSRC and the SFC have reached consensus to include ETFs as eligible securities under the mutual market access scheme. A launch date will be announced separately after Shenzhen Connect has been in operation for a period of time and upon the satisfaction of relevant conditions.

### ***Eligible Securities for Southbound Trading under Shanghai Connect***

Under Shanghai Connect, Mainland investors are able to trade selective stocks listed on SEHK (i.e. SEHK Securities) through SSE members. These include all the constituent stocks of the Hang Seng Composite LargeCap Index (“HSLI”) and Hang Seng Composite MidCap Index (“HSMI”), and all the H shares that are not included as constituent stocks of the relevant indices but which have corresponding shares in the form of A shares listed on SSE, except the following:

- (a) Hong Kong shares that are not traded in Hong Kong dollars (HKD);
- (b) H shares which have corresponding shares listed and traded on any exchange in Mainland China other than SSE; and
- (c) H shares which have corresponding A shares put under risk alert.

### ***Eligible Securities for Southbound Trading under Shenzhen Connect***

Under Shenzhen Connect, Mainland investors are also able to trade selective SEHK Securities through SZSE members. These include all the eligible stocks for Southbound Trading under Shanghai Connect, the

constituent stocks of the Hang Seng Composite SmallCap Index (“HSSI”) which have a market capitalization of not less than HKD 5 billion, and all the H shares of SEHK-listed companies which have A shares listed on SZSE, except the following:

- (a) Hong Kong shares that are not traded in HKD;
- (b) H shares which have corresponding shares listed and traded on any exchange in Mainland China other than SSE/SZSE; and
- (c) H shares which have corresponding A shares put under risk alert or delisting arrangement.

### ***Sell-only SEHK Securities***

Investors will only be allowed to sell an SEHK Security but restricted from further buying if:

- (a) the SEHK Security subsequently ceases to be a constituent stock of the relevant indices; and/or
- (b) the corresponding A share of the SEHK Security ceases to be traded on SSE/SZSE or is put under risk alert; and/or
- (c) the constituent stock of HSSI without corresponding A share listed on SSE/SZSE subsequently with market capitalisation less than HKD 5 billion based on any subsequent periodic adjustment of relevant index; and/or
- (d) where the SEHK Security is an H share and the A shares of the issuer becomes subsequently listed on an exchange in the Mainland instead of SSE/SZSE, as the case may be

provided that if an SEHK-listed security remains an SEHK Security under Shenzhen Connect notwithstanding that it has been removed as an SEHK Security under Shanghai Connect<sup>4</sup>, Mainland investors shall continue to be able to buy such SEHK-listed security as an SEHK Security under Shenzhen Connect notwithstanding that it has become a sell-only security under Shanghai Connect.

### ***In relation to A+H shares***

In the case where a company is seeking simultaneous listing on both SEHK (as H share) and SSE/SZSE (as A share), the relevant H share will be accepted as an SEHK Security after the price stabilization period of the H share (as stipulated in its prospectus) has ended or expired and after the corresponding A share has been traded on the SSE/SZSE (as the case may be) for 10 trading days, whichever is later.

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<sup>4</sup> An example is where the corresponding A share of an H-share company is delisted from SSE but the H-share company is a constituent stock of the HSSI and has a market capitalization of more than HK\$5 billion.

In the case where an SEHK-listed company whose H share is not accepted as an SEHK Security seeks an A share listing on SSE/SZSE, the H share will be accepted as an SEHK Security after the corresponding A share has been traded on the SSE/SZSE (as the case may be) for 10 trading days.

In the case where an SSE/SZSE-listed company whose share is not also listed on SEHK seeks an H share listing on SEHK, the H share will be accepted as an SEHK Security after the price stabilisation period for the H share (as stipulated in its prospectus) has ended or expired.

In the case where the corresponding A share of an SEHK Security is suspended from trading on SSE/SZSE, Mainland investors will be allowed to continue to buy and sell the SEHK Security which remains active on SEHK.

### ***Securities received by investors***

Mainland investors may receive securities which are not already accepted as SEHK Securities as a result of any distribution of rights (including the right to subscribe for rights issues or open offers) or entitlements, conversion, takeover, other corporate actions or special circumstances.

- (a) If such securities are SEHK-listed securities and traded in HKD, Mainland investors will be allowed to sell them through Shanghai and Shenzhen Connect; and
- (b) if such securities are not SEHK-listed securities or are not traded in HKD, Mainland investors will not be able to sell them through Shanghai and Shenzhen Connect. ChinaClear will consider alternative arrangements to handle such securities and will notify SSE/SZSE members accordingly.

The scope of the SSE Securities, the SZSE Securities and the SEHK Securities may be amended from time to time as agreed by SSE, SZSE and SEHK after consulting each other and after obtaining the consent of the relevant regulatory bodies.

### **3.3. Quota**

Trading under Shanghai and Shenzhen Connect will be subject to a Daily Quota. There is no Aggregate Quota for Shanghai and Shenzhen Connect as the Aggregate Quota for Shanghai Connect was abolished since 16 August 2016 and none was introduced for Shenzhen Connect.

Northbound trading and Southbound trading are respectively subject to a separate set of Daily Quota, which is monitored by SEHK, SSE and SZSE respectively.

The Daily Quota is applied on a “net buy” basis. Based on that principle, investors are always allowed to sell their cross-boundary securities regardless of the quota balance.

The Northbound Daily Quota balance is disseminated on the HKEX website at 1-minute intervals and through CCOG and OMD Index Feed at 5-second intervals.

### ***Daily Quota***

The Daily Quota limits the maximum net buy value of cross-boundary trades under each of Shanghai and Shenzhen Connect each day. The Northbound Daily Quota is set at RMB 13 billion for each of Shanghai Connect and Shenzhen Connect, and the Southbound Daily Quota is set at RMB 10.5 billion for each of Shanghai Connect and Shenzhen Connect.

SEHK monitors the usage of the Northbound Daily Quota on a real time basis, and the Northbound Daily Quota Balance for each market is and will be updated on the HKEX website every minute and disseminated through CCOG and OMD Index Feed at 5-second intervals:

$$\text{Daily Quota Balance} = \text{Daily Quota} - \text{Buy Orders} + \text{Sell Trades} + \text{Adjustments}$$

The Daily Quota will be reset every day. Unused Daily Quota will NOT be carried over to next day's Daily Quota.

If the Northbound Daily Quota Balance drops to zero or the Daily Quota is exceeded during the opening call auction session, new buy orders will be rejected. However, as order cancellation is common during opening call auction, the Northbound Daily Quota Balance may resume to a positive level before the end of the opening call auction. When that happens, SEHK will again accept Northbound buy orders.

Once the Northbound Daily Quota Balance drops to zero or the Daily Quota is exceeded during a continuous auction session, no further buy orders will be accepted for the remainder of the day. The same arrangement applies to the closing call auction of SZSE. It should be noted that buy orders already accepted will not be affected by the Daily Quota being used up and will remain on the order book of SSE and SZSE respectively unless otherwise cancelled by relevant SEHK Participants.

### **3.4. Trading Hours**

Northbound trading follows SSE's and SZSE's trading hours. However, SEHK will accept Northbound orders from SEHK Participants five minutes before the Mainland market sessions open in the morning and in the afternoon.

SSE Trading Session	SSE Trading Hours	Time for SEHK Participants to input Northbound orders
Opening Call Auction	09:15 – 09:25	09:10 – 11:30
Continuous Auction (Morning)	09:30 – 11:30	
Continuous Auction (Afternoon)	13:00 – 15:00	12:55 – 15:00

*09:20 – 09:25: SSE will not accept order cancellation*

*09:10 – 09:15; 09:25 – 09:30; 12:55 – 13:00: Orders and order cancellations can be accepted by SEHK but will not be processed by SSE until SSE's market open*

*Orders that are not executed during the opening call auction session will automatically enter the continuous auction session*

SZSE Trading Session	SZSE Trading Hours	Time for SEHK Participants to input Northbound orders
Opening Call Auction	09:15 – 09:25	09:10 – 11:30
Continuous Auction (Morning)	09:30 – 11:30	
Continuous Auction (Afternoon)	13:00 – 14:57	12:55 – 15:00
Closing Call Auction	14:57 – 15:00	

*09:20 – 09:25, 14:57 – 15:00: SZSE will not accept order cancellation*

*09:10 – 09:15; 09:25 – 09:30; 12:55 – 13:00: Orders and order cancellations can be accepted by SEHK but will not be processed by SZSE until SZSE's market open*

*Any buy or sell orders not executed during the opening call auction session will automatically enter the continuous auction session. Any buy or sell orders not executed during the continuous auction session will automatically enter the closing call auction session.*

Southbound trading follows SEHK's trading hours.

### 3.5. Holiday

Until special banking arrangements are established, investors will only be allowed to trade on the other market on days where Hong Kong and Mainland markets are both open for trading, and banking services are available in both Hong Kong and Mainland markets on the corresponding settlement days. This arrangement is essential in ensuring that investors and brokers will have the necessary banking support on the relevant settlement days when they will be required to make payments.

The following table illustrates the holiday arrangement of Northbound trading of SSE/SZSE Securities:

	Mainland	Hong Kong	Open for Northbound Trading?	
Day-1	Business Day	Business Day	Yes	
Day-2	Business Day	Business Day	No	HK market closes on money settlement day
Day-3	Business Day	Public Holiday	No	HK market closes on trading day
Day-4	Public Holiday	Business Day	No	Mainland market closes

If a Northbound trading day is a half trading day in the Hong Kong market, Northbound trading will continue until respective Connect Market is closed. Please refer to the HKEX website for the Northbound trading calendar for Shanghai Connect Northbound trading and Shenzhen Connect Northbound trading.

HKEX will continue to explore with market players and the banking sector to consider the operational feasibility as well as market demand to support cross-boundary trading/money settlement during holidays.

A similar arrangement has been adopted for Southbound trading.

### 3.6. Trading Currency

Hong Kong and overseas investors trade and settle SSE and SZSE Securities in RMB only.

Mainland investors trade SEHK Securities in HKD only and settle the trades with ChinaClear or its clearing participants in RMB.

### 3.7. Order Types

For Northbound trading, only limit orders (i.e. orders which can be matched at the specified price or a better price) will be accepted for SSE Securities and SZSE Securities throughout the day.

For Southbound trading, only at-auction limit orders will be accepted during the pre-opening session and only enhanced limit orders will be accepted during the continuous trading session.

### **3.8. Price Limit**

For SSE Securities, there is a general price limit of  $\pm 10\%$  (and  $\pm 5\%$  for stocks under special treatment (i.e. ST and \*ST stocks) under risk alert) based on previous closing price.

All orders input for SSE Securities must be at or within the price limit. Any order with a price beyond the price limit will be rejected by SSE. The upper and lower price limit will remain the same intra-day.

The same price limit arrangement applies to SZSE Securities. Stocks traded on SZSE's ChiNext Market are also subject to a  $\pm 10\%$  price limit based on the previous closing price.

For SEHK Securities, trading follows the existing quotation rules in place on SEHK.

### **3.9. Dynamic Price Check**

To prevent mischievous behavior towards the use of the Northbound quota, SEHK has put in place a dynamic price checking for buy orders. Buy orders with input prices lower than the current best bid (or last traded price in the absence of current best bid, or previous closing price in the absence of both current best bid and last traded price) beyond a prescribed percentage will be rejected by CSC.

During Opening Call Auction, the current bid (or previous closing price in the absence of the current bid) will be used for checking. During Closing Call Auction of SZSE, the current bid (or last traded price in the absence of the current bid) will be used for checking. Dynamic price checking will be applied throughout the trading day, from the 5-minute input period before the start of Opening Call Auction until the end of the afternoon Continuous Auction (until the end of the Closing Call Auction for SZSE). SEHK has set the dynamic price checking at 3% during the initial phase and may be adjusted from time to time subject to market conditions.

### **3.10. Stock Code, Board Lot/Odd Lot, Order Size and Tick Size**

The stock codes of SSE and SZSE Securities are 6 digits and investors should use SSE and SZSE stock codes when placing orders. All SSE and SZSE Securities are subject to the same trading board lot size, which is 100 shares (buy orders must be in board lots). Odd lot trading is only available for sell orders and all odd lots should be sold in one single order. It is common that a board lot buy order may be matched with different odd lot sell orders, resulting in odd lot trades. It should be noted that unlike Hong Kong, board lot and odd lot orders are both matched on the same platform on SSE



and SZSE, and subject to the same share price. The maximum order size is 1 million shares and the tick size is uniformly set at RMB 0.01.

For Southbound trading, all orders are subject to the board lot, order size and tick size requirements of SEHK. Mainland investors are only allowed to input odd lot sell orders. It should be noted that odd lot trading in Hong Kong may likely be executed at a price which is not as favourable as the prevailing market price.

### **3.11. No Day (Turnaround) Trading**

Day trading is not allowed for both Connect Markets. Therefore, Hong Kong and overseas investors buying SSE and SZSE Securities on T-day can only sell the shares on and after T+1 (see also Pre-trade Checking).

For Southbound trading, Mainland investors are allowed to conduct day trading for Hong Kong stocks.

### **3.12. Block Trades**

For Northbound trading, block trade facility is not available.

For Southbound trading, there is no block trade facility.

### **3.13. Manual Trades**

For Northbound trading, there is no manual trade facility.

For Southbound trading, manual trade is not available.

### **3.14. Margin Trading**

Subject to conditions, margin trading in Connect Securities may be conducted by a CCEP. The following arrangement will be applied to margin trading conducted by CCEP Shanghai Connect and Shenzhen Connect.

Hong Kong and overseas investors cannot participate in the Margin Trading and Securities Lending (融資融券) Programme provided by SSE and SZSE in Mainland China. However, based on requirements set by SSE and SZSE, CCEPs and SEHK Participants who are registered with SEHK to conduct trading in Connect Securities through CCEPs for the account of their clients (“**Trade-through EPs**”) would be allowed to provide securities margin financing arrangement to their clients to buy Connect Securities through Shanghai and Shenzhen Connect.

Currently, Mainland investors can only conduct margin trading on a Connect Market in certain A shares that the SSE or SZSE, as the case may be, has determined as eligible for margin trading and stock borrowing and lending. Hong Kong and overseas investors conducting margin trading in Connect Securities via Shanghai and Shenzhen Connect will be subject to similar

restrictions. A list of Eligible SSE Securities for Margin Trading, the scope of which is determined by SSE from time to time, has been posted on the HKEX website for reference by the investing public. Only those SSE Securities which are eligible for both buy orders and sell orders through Shanghai Connect are included in the list. The same arrangement applies to margin trading in SZSE Securities through Shenzhen Connect.

According to the relevant rules of SSE and SZSE, each of SSE and SZSE may suspend margin trading activities in specific A shares in its market when the volume of margin trading activities in such A shares exceeds the threshold determined by it and resume margin trading activities when the volume drops below a prescribed threshold. When SEHK is notified by SSE or SZSE that such suspension and/or resumption involves an SSE Security on the List of Eligible SSE Securities for Margin Trading or an SZSE Security on the List of Eligible SZSE Securities for Margin Trading, SEHK Participants and investors will be informed through the HKEX website. Margin trading in the relevant SSE Security or SZSE Security, as the case may be, should be suspended and/or resumed in Hong Kong accordingly.

Based on current requirements on margin trading of SSE and of SZSE, each of SSE and SZSE will suspend further margin trading in a stock eligible for margin trading after the “margin trading indicator” for the stock (單隻股票的融資監控指標) reaches 25%. When the “margin trading indicator” drops below 20%, SSE/SZSE will allow margin trading to resume. For information, each of SSE and SZSE publishes a list of A shares which have reached the 25% margin trading indicator on its website at <http://www.sse.com.cn/disclosure/magin/margin/> (in respect of the SSE market) and <http://www.szse.cn/main/disclosure/rzrqxx/ywgg/> (in respect of the SZSE market).

The suspension and resumption of margin trading in eligible Connect Securities through Shanghai and Shenzhen Connect will follow the suspension and resumption of margin trading activities in the relevant Connect Market after SSE or SZSE has duly notified SEHK. For information, SEHK Participants may refer to SSE’s or SZSE’s website at <http://www.sse.com.cn/services/tradingservice/margin> and <http://www.szse.cn/main/aboutus/xywjs/rzrqxzjd/> respectively.

Each of SSE and SZSE has reserved the right to require margin trading orders to be flagged as margin trading orders to be routed to its system. This requirement will not be implemented at the initial launch of Shanghai and Shenzhen Connect and CCEPs will be given sufficient advance notice on the timing of implementation to ensure that the necessary development work can be done.

### **3.15. Stock Borrowing & Lending (SBL)**

SBL of Connect Securities will be allowed in the following situations:

- (a) for the purpose of short selling in accordance with the Rules of the Exchange: an investor borrows Connect Securities and sells them on the relevant Connect Market through a CCEP via Northbound trading; and
- (b) for the purpose of enabling a CCEP's client to sell Connect Securities when it is unable to effect a transfer of the relevant Connect Securities to the CCEP's clearing account in time to meet the pre-trade checking requirement set out in the Rules of the Exchange.

SBL in Connect Securities is subject to restrictions set by SSE or SZSE, as the case may be, which are incorporated into the Rules of the Exchange. These include:

- (a) SBL agreements for the purpose of short selling cannot be longer than one calendar month;
- (b) SBL agreements for meeting pre-trade checking requirement cannot be longer than one day and roll-over is not allowed;
- (c) Stock lenders are restricted to certain types of persons determined by SSE or SZSE, as the case may be; and
- (d) SBL activities will need to be reported to SEHK.

SBL for the purpose of short selling are limited to those Connect Securities which are eligible for both buy orders and sell orders through Shanghai and Shenzhen Connect, i.e. excluding Connect Securities that are only eligible for sell orders.

SBL for the purpose of meeting the pre-trade checking requirements covers all Connect Securities, including Connect Securities that are only eligible for sell orders through Shanghai and Shenzhen Connect.

The following persons may lend Connect Securities:

- (a) CCEPs;
- (b) Trade-through EPs (i.e. SEHK Participants registered with SEHK to conduct trading in Connect Securities through CCEPs for the account of their clients);<sup>5</sup>
- (c) SEHK Participants other than (a) and (b) who own or hold Connect Securities for their own account or on a proprietary basis ("**Non-Registered EPs**"); and

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<sup>5</sup> Note that under Rule 14A16(18) and draft [Rule 14B16(18)] of the Rules of the Exchange, references to "China Connect Exchange Participants" in Rule 14A16 and draft Rule 14B(16) shall be read to include Trade-through Exchange Participants

- (d) Qualified institutions (“QIs”) which will include:
- (i) CCASS participants (other than Investor Participants);
  - (ii) funds, unit trusts or collective investment schemes which are managed by persons licensed or registered to carry out Type 9 (asset management) regulated activity under the Securities and Futures Ordinance (refer to [SFC website](#) for details); and
  - (iii) other persons accepted or specified by SSE/SZSE.

CCEPs and Trade-through EPs may lend to their clients while Non-registered EPs and QIs may only lend to CCEPs and Trade-through EPs. A summary is set out in the table below:

	Who can be lenders?	Who can they lend to?		
		Clients	CCEPs	Trade-Through EPs
<b>EPs</b>	(a) CCEPs	√	√	√
	(b) Trade-Through EPs	√	√	√
	(c) Non-Registered EPs	<b>x</b>	√	√
<b>QIs</b>	(d) Qualified Institutions	<b>x</b>	√	√

The Connect Securities to be lent by a CCEP or a Trade-through EP must either be securities held or owned by it as principal, or securities borrowed from other CCEPs, Trade-through EPs, Non-Registered EPs or QIs, in each case, who are lending as principal.

The Connect Securities to be lent by a Non-Registered EP or a QI must only be securities held or owned by it as principal.

CCEPs and Trade-through EPs must provide SEHK with an undertaking or a confirmation in the prescribed form depending on whether they act as stock lender or stock borrower. They must also file a monthly report to SEHK providing details of their stock borrowing and lending activities with respect to Connect Securities in the prescribed form which will include details such as stock name, name of borrower, name of lender, number of shares borrowed/lent, number of shares outstanding, date of borrowing/returning etc. The form is available on the HKEX website and CCEPs and Trade-through EPs shall follow the procedures and means of submission specified by SEHK from time to time.

Non-registered EPs and QIs lending stock to CCEPs and Trade-through EPs, must provide the borrower with an undertaking in the prescribed form

confirming, among others, that they are not restricted from engaging in stock lending activities.

### **3.16. Covered Short Selling**

Naked short selling is prohibited for Northbound trading. Covered short selling of Connect Securities is allowed subject to the following requirements:

- (a) Only eligible Connect Securities (Short Selling Security) can be short sold. The List of Eligible SSE Securities for Short Selling has been published on the HKEX website and the list is compiled by reference to SSE's list of eligible stocks for short selling for the SSE market excluding SSE Securities which are eligible for only sell orders. The List of Eligible SZSE Securities for Short Selling has been published on the HKEX website and the list is compiled by reference to SZSE's list of eligible stocks for short selling for the SZSE market excluding SZSE Securities which are for only sell orders;
- (b) CCEPs can input short selling orders during the opening call auction session, continuous auction sessions for both SSE and SZSE, as well as closing call auction for SZSE on each CSC trading day;
- (c) CCEPs are required to flag the short selling orders when inputting them into the system;
- (d) Short selling orders must be submitted in multiples of 100 shares;
- (e) Short selling orders are subject to the following price restrictions:
  - (i) Short selling orders are subject to a tick rule: the input price of a short selling order must not be lower than the most recent execution price (or the previous closing price if there have been no executed trades on a given day) of the relevant Short Selling Security;
  - (ii) As required by each of SSE and SZSE, in respect of the relevant Connect Market, where shares in any Short Selling Security borrowed for short selling remain outstanding and have not yet been returned, CCEPs and their relevant clients are required to comply with the price requirement in (i) above in respect of any instructions for the sale of that Short Selling Security, except for those instructions that exceed the number of the outstanding and unreturned shares;
  - (iii) SEHK may impose additional price restriction to block the input of Short Selling orders at an artificially high price which has the effect of artificially using up the Short Selling Ratio limits (see (f) below). This additional price restriction is not applicable currently;
- (f) For each Short Selling Security, there are quantity restrictions (i.e. Short Selling Ratio limits) for short selling and the calculation of which

is based on HKSCC's holding of that security in the omnibus account maintained in ChinaClear (i.e. the number of shares of that Short Selling Security held by all Northbound investors through CCASS as of the beginning of a CSC trading day) as follows:

- (i) Daily limit: 1%;
- (ii) Cumulative limit: 5% for any period of 10 consecutive CSC trading days.

Both the daily and cumulative limits will be rounded to the nearest 2 decimal places. The daily limit usage will be calculated in real time throughout the CSC trading day. Any short selling order, if executed, that will cause the daily limit or the cumulative limit for a Short Selling Security to be exceeded during the course of a CSC trading day will be rejected. The cumulative limit will be calculated at the end of each CSC trading day

- (g) There are mandatory reporting requirements for short selling activities as follows:

- (i) [Short Selling Weekly Report](#): This is a weekly report on the short selling activities of each Short Selling Security. CCEPs are required to submit the report if they have conducted any short selling activities, whether for their own account or for clients, if any borrowed shares have been returned to the Stock Lender in respect of open short positions during the week and/or if there are outstanding short positions as at the end of the week. CCEPs should submit the completed report via the Electronic Communication Platform (ECP) on or before the 1st working day of the following week. See [Explanatory Notes](#) for details;

- (ii) [Large Open Short Position Report](#): This report must be filed by a CCEP/Trade-through EP if there is any open short position of any Short Selling Security (whether executed for their own account or for the account of any of their clients) after the market close on the last CSC trading day of a calendar week that equals or exceeds any of the following thresholds:

- A. RMB25 million; or

- B. 0.02% of the total issued shares of the relevant Short Selling Security.

- (h) Pre-trade checking applies to short selling orders. Therefore the borrowed stocks for the purpose of short selling on a CSC trading day should be held in the selling CCEP's CCASS account or the investor's SPSA before commencement of trading on that CSC trading day. Short selling orders that do not meet the pre-trade checking requirement will be rejected.

To facilitate short selling by CCEPs, HKEX publishes on its website on each CSC trading day and for each Short Selling Security the following information:

	Information Display	Update time / frequency
a.	Maximum number of shares available for short selling for the CSC trading day	Before market open
b.	Remaining balance available for short selling	Every 15 minutes
c.	Short selling turnover (in shares and in value) for each stock	After the close of morning session and after market close
d.	Respective daily and 10-day cumulative short selling percentage	After market close

Currently, each of SSE and SZSE may suspend the short selling activities of an A share listed on its market when the total open short positions in that A share reaches 25% of the stock's listed and tradable shares (上市可流通量), and may resume short selling activities on the following trading day when the A share's total open short position drops below 20%. Each of SSE and SZSE will publish a list of specific A shares which have reached the prescribed threshold on its website at <http://www.sse.com.cn/disclosure/margin/margin/> (in respect of SSE market) and <http://www.szse.cn/main/disclosure/rzrqxx/ywgg/> (in respect of SZSE market) respectively. When SEHK is notified by SSE or SZSE that such suspension and/or resumption involves a Short Selling Security in the SSE market or SZSE market, as the case may be, such information will be published on the HKEX website, and short selling in the relevant Short Selling Security will be suspended and/or resumed for Northbound trading accordingly. CCEPs are advised to check the HKEX website at 9 am in the morning to obtain the updated List of Eligible SSE Securities for Short Selling and the List of Eligible SZSE Securities for Short Selling.

SEHK Participants who are interested to know more about the individual A share's open short position level can also refer to SSE's website at <http://www.sse.com.cn/services/tradingservice/margin> and SZSE's website at <http://www.szse.cn/main/aboutus/xywjs/rzrqxzjd/>.

### 3.17. Non-trade Transfer

As stipulated in Article 11 of the CSRC Stock Connect Rules, transfers of SSE Securities should only be conducted on SSE and off-exchange trading is not allowed unless otherwise permitted. To facilitate market players in conducting Northbound trading and the normal course of business operation, the following types of off-exchange or “non-trade” transfer of SSE Securities are allowed (Article 29 of the SSE Stock Connect Pilot Provisions):

- (a) SBL for covered short selling purpose (not more than one month duration);
- (b) SBL for the purpose of satisfying the pre-trade checking requirement (one-day duration which cannot be rolled over);
- (c) transfers between SEHK Participants and their clients for the purpose of rectifying error trades;
- (d) post-trade allocation of shares to different funds/sub-funds by fund managers; and
- (e) other situations specified by SSE and ChinaClear.

With respect to (a) and (b), details are set out in 3.15. The same non-trade transfer restriction and exceptions applies to Shenzhen Connect.

With respect to (c), SEHK Participants who perform non-trade transfers of SSE Securities to rectify error trades are required to submit to SEHK an error trade report together with supporting documents explaining the error made and providing details of the non-trade transfer. SEHK has the power to disallow a particular SEHK Participant to conduct further non-trade transfers for error trade rectification if SEHK believes that the SEHK Participant has abused such rectification arrangements. SEHK may provide error trade reports and related information to the SFC and SSE. SEHK Participants are cautioned not to misuse this arrangement to effect off-exchange trades or transfers which are otherwise disallowed under the relevant Mainland regulation. With respect to (e), ChinaClear has stipulated in Article 9 of the ChinaClear Implementing Rules for Registration, Depository and Clearing Services under the Shanghai Connect that non-trade transfers are allowed in the following situations:

- (a) succession;
- (b) divorce;
- (c) the dissolution, liquidation or winding-up of any company or corporation;
- (d) donation to a charitable foundation;
- (e) assisting in any enforcement in connection with proceedings or action taken by any court, prosecutor or law enforcement agency; and



(f) any other transfer as may be permitted by SSE.

Details of the arrangement for the collection of stamp duty from investors for these non-trade transfers in SSE Securities have been included in the CCASS Operational Procedures published on the HKEX website at:

<http://www.hkex.com.hk/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Rules/HKSCC/Operational-Procedures/SEC12.pdf?la=en>.

The same arrangement for Shanghai Connect applies to Shenzhen Connect.

### 3.18. Pre-trade checking

In general, Mainland investors are only allowed to sell SSE-listed and SZSE-listed which are available in their stock accounts at the end of the previous day. Based on the shareholdings of an investor, SSE/SZSE will reject a sell order if the investor does not have sufficient shares in his account.

For Northbound trading, SEHK applies similar checking on all Northbound sell orders to ensure there is no overselling by individual SEHK Participants.

Under SEHK's pre-trade checking model, sell orders will be rejected if the cumulative sell quantity for the day is higher than the SEHK Participant's shareholding position at market open. Therefore, when placing sell orders, investors must ensure they have sufficient shares in their accounts opened with the SEHK Participant who acts as the selling broker. If the shares are kept in an account opened with another SEHK Participant or a custodian, investors must first transfer the shares to the selling SEHK Participant on T-1 in order to sell their shares on T day unless a Special Segregated Account ("**SPSA**") arrangement as mentioned below has been put in place, in which case investors whose Connect Securities are maintained with custodians may sell their Connect Securities without having to pre-deliver the Connect Securities from their custodians to their executing brokers.

Under the SPSA arrangement introduced on 30 March 2015, an investor whose Connect Securities are maintained with a custodian which is a Custodian Participant or a GCP which is not an SEHK Participant ("**non-EP GCP**") can request such Custodian Participant or non-EP GCP to open an SPSA in CCASS to maintain its holdings in Connect Securities under the same SPSA. Each SPSA will be assigned a unique investor identification number ("**Investor ID**") by CCASS. The investor may designate at most 20 SEHK Participants as executing brokers which are authorised to use its Investor ID to execute sell orders in Connect Securities on its behalf. There should only be one set of designated SEHK Participants for each SPSA, even though the SPSA may contain securities from both Connect Markets.

CCASS will take a snapshot of the Connect Securities holdings under each SPSA of a Custodian Participant or non-EP GCP and replicate such holdings to CSC to perform pre-trade checking. When the designated SEHK Participant inputs such investor's sell order, it shall also input the Investor ID with the sell order. Prior to sending the sell order to the relevant Connect

Market for execution, CSC will verify whether the SEHK Participant is a designated broker for the investor and whether the investor has sufficient holding in its SPSA. If the sell order passes the checking, it will be accepted; otherwise it will be rejected. Under this model, an investor will only need to transfer the relevant Connect Securities from its SPSA to its designated broker's account after execution and not before placing the sell order.

Further to the launch of Shenzhen Connect, the SPSA arrangement has been enhanced to allow the optional input of Investor IDs in buy orders. However, this indicator is only for SEHK Participants' own reference and there will not be any intraday update in clients' stockholdings in their SPSAs.

For further details regarding settlement from different SPSA and erroneous input of Investor ID for sell orders using SPSA, please refer to Questions 1.48.1 and 1.48.2 of the Frequently Asked Questions posted on the HKEX website.

For Southbound trading, SSE and SZSE apply their existing pre-trade checking mechanisms to Mainland investors when they trade SEHK Securities.

### **3.19. Shareholding Restrictions on SSE and SZSE Securities**

Under current PRC rules, a single foreign investor's shareholding in a listed company (regardless of the channels through which shares in such listed company are held, including through QFII, RQFII and Shanghai and Shenzhen Connect) is not allowed to exceed 10% of the company's total issued shares, while all foreign investors' shareholding in the A shares of a listed company is not allowed to exceed 30% of its total issued shares.

When the aggregate foreign shareholding of an individual A share reaches 26%, SSE or SZSE, as the case may be, will publish a notice on its website (<http://www.sse.com.cn/disclosure/disclosure/qfii> for SSE and <http://www.szse.cn/main/disclosure/news/qfii/> for SZSE). If the aggregate foreign shareholding exceeds the 30% threshold, the foreign investors concerned will be requested to sell the shares on a last-in-first-out basis within five trading days.

SSE Securities purchased through Shanghai Connect and SZSE Securities purchased through Shenzhen Connect will be considered in totality with those purchased by QFII and RQFII, and subject to the same foreign shareholding restriction. Once SSE/SZSE informs SEHK that the aggregate foreign shareholding of an SSE/SZSE Security reaches 28%, further Northbound buy orders in that SSE/SZSE Security will not be allowed, until the aggregate foreign shareholding of that SSE/SZSE Security is sold down to 26%. If the 30% threshold is exceeded due to Shanghai Connect or Shenzhen Connect, HKEX will identify the relevant SEHK Participant and require it to follow the forced-sale requirements.

HKEX will publish a notification on its website to inform the market about suspension of buy orders if the shareholding limit goes beyond 28% and about the resumption of buy orders if the shareholding drops below 26%.

Foreign investors can continue to sell the A share whose aggregate foreign shareholding has reached the 30% threshold. If such selling activities cause the aggregate foreign shareholding to drop below the 30% threshold within 5 trading days, EPs who were subject to the forced-sale requirement may submit an application to SEHK for a forced-sale exemption.

SEHK Participants should monitor their clients' shareholdings in SSE Securities and SZSE Securities and remind their clients to comply with the 10% single foreign investor's restriction policy, and alert them of the possibility of the forced-sale arrangement.

### **3.20. Disclosure Obligations**

According to the Law of the PRC on Securities, when an investor holds or controls up to 5% of the issued shares of a Mainland listed company, the investor is required to report in writing to the CSRC and the relevant exchange, and inform the listed company within three working days. The investor is not allowed to continue purchasing or selling shares in that listed company during those three days.

For such investor, every time a change in his shareholding reaches 5%, he is required to make disclosure (in the same manner as mentioned above) within three working days. From the day the disclosure obligation arises to two working days after the disclosure is made, the investor may not buy or sell the shares in the relevant Mainland listed company.

If a change in shareholding of the investor is less than 5% but results in the shares held or controlled by him falling below 5% of the relevant Mainland listed company, the investor is required to disclose the information within three working days.

### **3.21. Severe Weather Conditions**

In the initial stage, the trading arrangement under severe weather conditions is as follows:

- (a) For Northbound trading,
  - i. If SSE or SZSE is suspended due to inclement weather, there will be no Northbound trading on the relevant market and Hong Kong investors and CCEPs will be informed by SEHK ;
  - ii. If typhoon signal number 8 or above and/or black rainstorm warning is issued in Hong Kong before the Hong Kong market opens, Northbound trading will not open. If the signal/warning is subsequently discontinued on the same day, arrangement for the resumption of Northbound trading will follow that for the SEHK market (detailed arrangement is available on the HKEX website at

[http://www.hkex.com.hk/Services/Trading-hours-and-Severe-Weather-Arrangements/Severe-Weather-Arrangements/Trading?sc\\_lang=en](http://www.hkex.com.hk/Services/Trading-hours-and-Severe-Weather-Arrangements/Severe-Weather-Arrangements/Trading?sc_lang=en));

- iii. if typhoon no. 8 or above is issued in Hong Kong after the Hong Kong market opens but before SSE's market and SZSE's market opens (between 9:00a.m. and 9:15a.m.), Northbound trading will not open; and
- iv. If typhoon signal number 8 or above is issued in Hong Kong after SSE's and SZSE's market have opened, trading will continue for 15 minutes during which order put and cancellation will be allowed. After 15 minutes, only order cancellation is allowed until the close of SSE's market or SZSE's market.

Scenarios	Northbound Trading of SSE/ SZSE Securities	Money Settlement (for T-1 position)	Securities Settlement (for T position)
1. T8 / Black rainstorm issued before HK market opens (i.e. 9:00 a.m.) and discontinued after 12:00 noon	Not open	No	N/A
2. T8 issued between 9:00 a.m. and 9:15 a.m.	Not open	Yes	
3. T8 issued after SSE/SZSE market opens (i.e. 9:15 a.m.)	Trading will continue for 15 minutes after T8 issuance, thereafter, only order cancellation is allowed till SSE/ SZSE market close	Yes	Yes
4. Black rainstorm issued after HK market opens (i.e. 9:00 a.m.)	Trading continues as normal	Yes	Yes
5. T8 / Black rainstorm discontinued at or before 12:00 noon	Trading resumes after 2 hours	Postpone to 3 p.m.	

Similar to the holiday arrangement, HKEX will further consider whether there is any alternative arrangement or enhancement that can be done and will engage the market as appropriate.

- (b) For Southbound trading arrangement, it will be announced by SSE/SZSE in due course.

For details of the existing typhoon/rainstorm procedure for the Hong Kong market, please refer to the HKEX website:

[http://www.hkex.com.hk/Services/Trading-hours-and-Severe-Weather-Arrangements/Severe-Weather-Arrangements/Trading?sc\\_lang=en](http://www.hkex.com.hk/Services/Trading-hours-and-Severe-Weather-Arrangements/Severe-Weather-Arrangements/Trading?sc_lang=en)

### 3.22. Circuit Breaker

On 4 December 2015, CSRC announced new regulations on the introduction of a circuit breaker mechanism for trading of A shares on SSE/SZSE which became effective on 1 January 2016 but which has since 8 January 2016 been suspended. Details can be found in the respective websites of SSE/SZSE.

## **4. Clearing, Settlement and Depository Arrangement**

### **4.1. Clearing and Settlement Arrangement Overview**

HKSCC and ChinaClear have entered into an agreement to establish Clearing Links for Shanghai Connect, whereby the two parties have agreed to undertake to the other to perform their settlement obligations in respect of the Northbound and Southbound trades. The agreement has been extended to cover the Clearing Links for Shenzhen Connect.

For Northbound trades, ChinaClear acts as the host Central Counterparty (CCP) and HKSCC is a participant of ChinaClear. HKSCC takes up settlement obligations of its CCASS Participants in respect of Northbound trades and settles the trades directly with ChinaClear in the Mainland.

Vice versa for Southbound trades, HKSCC is the host CCP and ChinaClear is its Clearing Agency Participant. ChinaClear takes up settlement obligations of its clearing participants in respect of Southbound trades and settles the trades with HKSCC in Hong Kong.

### **4.2. Clearing and Settlement Cycle**

Northbound trades executed under Shanghai and Shenzhen Connect will follow the settlement cycles of the Shanghai and Shenzhen markets. Both markets adopt the same settlement cycle – stock settlement on T day, and money settlement on T+1 day. For securities settlement, ChinaClear will debit or credit its participants' (including HKSCC as clearing participant) stock accounts before 6:00pm on T day to settle their trades in the Connect Markets. To facilitate the settlement cycles of Connect Securities, HKSCC will conduct securities settlement on Northbound trades for its CCASS Participants via four rounds of Batch Settlement Runs at around 4:45pm, 5:30pm, 6:15pm and 7:00pm on T day for each Connect Market.

Money settlement for Northbound trades will be effected by around noon on T+1 day on a net money position of SSE Securities and SZSE Securities.

Investors should consult their brokers on their stock and money settlement arrangement with respect to Northbound trading, which may not exactly follow the ChinaClear and HKSCC time schedule as explained above.

### **4.3. Stock Transfer**

Hong Kong and overseas investors who have acquired Connect Securities through Northbound trading shall maintain their SSE and SZSE Securities with their brokers or custodians under CCASS stock accounts. CCASS Participants can transfer Connect Securities between their CCASS stock accounts by way of Settlement Instructions (SIs).

For the avoidance of doubt, Investor Participants (IPs) accounts are not available for maintaining Connect Securities.

#### **4.4. Depository Services**

Since Connect Securities are issued in scripless form, physical deposits and withdrawals of SSE and SZSE Securities into/from the CCASS Depository are not available.

As explained above, Hong Kong and overseas investors can only hold Connect Securities through their brokers/custodians. Their ownership of such is reflected in their brokers/custodians' own records such as client statements.

#### **4.5. Nominee Services and Corporate Actions**

HKSCC will provide nominee services to CCASS Participants/investors in respect of Connect Securities held in CCASS in accordance with and subject to CCASS Rules.

HKSCC will keep CCASS Participants informed of the corporate actions of Connect Securities, in particular those that require CCASS Participants/investors to take actions. CCASS Participants/investors should note that the time for them to take actions for some types of corporate actions of Connect Securities may be as short as one business day only. Common types of corporate actions of Connect Securities include but are not limited to cash dividend, bonus issues and voting etc. Besides, take-over offers and rights issue/ open offer may occur but they are relatively uncommon.

HKSCC will endeavor to collect and distribute cash dividends relating to Connect Securities to CCASS Participants in a timely manner. Upon receipt of the dividend amount on payment date, HKSCC will to the extent practicable arrange to distribute it to the relevant CCASS Participants on the same day.

HKSCC will inform CCASS Participants of all general meeting details such as meeting date, time, and the number of resolutions relating to Connect Securities. Hong Kong and overseas investors who have relevant holdings with their CCASS Participants as at the record date can vote via such CCASS Participants. HKSCC will consolidate the voting instructions from CCASS Participants and endeavor to submit a combined single voting instruction (with 'For' and/or 'Against' votes together with 'Abstain' and/or cumulative votes if applicable) to the relevant issuers or its authorised agents or representatives via the designated on-line voting platform, in accordance with the requirements of the relevant issuers or authorised agents or representatives.

According to the relevant rules and guidelines of the PRC, SSE-/SZSE-listed companies are required to disclose the number of votes cast by small and medium investors. Investors should therefore provide the necessary information to their CCASS Participants for them to make such disclosure using the Shareholding Category Disclosure Maintenance function in CCASS. HKSCC will consolidate all the disclosure information from CCASS

Participants and submit them to the relevant issuers or authorised agents or representatives.

As HKSCC is the shareholder on record of SSE-/SZSE-listed companies (in its capacity as nominee holder for Hong Kong and overseas investors), it can attend shareholders' meeting as shareholder. Where the articles of association of a listed company do not prohibit the appointment of proxy/multiple proxies by its shareholder, HKSCC will make arrangements to appoint one or more investors as its proxies or representatives to attend shareholders' meetings when instructed. Further, investors (with holdings reaching the thresholds required under Mainland regulations and the articles of associations of listed companies) may, through their CCASS Participants, pass on proposed resolutions to listed companies via HKSCC under the CCASS Rules. HKSCC will pass on such resolutions to the companies as shareholder on record if so permitted under the relevant regulations and requirements.

HKSCC will inform CCASS Participants of details of take-over offers such as the offer rate and the subscription period. Take-over offers may be in the form of cash or securities. Normally, the offer period is around 30 days. Hong Kong and overseas investors who have relevant holdings with their CCASS Participants during the subscription period can accept the take-over offers via CCASS Participants. HKSCC will consolidate the acceptance instructions from CCASS Participants and endeavor to submit one consolidated acceptance instruction to the relevant SSE-listed company / SZSE-listed company via the designated electronic platform. Upon receipt of the cash or securities consideration, HKSCC will to the extent practicable arrange to distribute it to the relevant CCASS Participants on the same day.

HKSCC will inform CCASS Participants of details of rights issues/ open offers such as the subscription price and the subscription period. Normally, the subscription period is around one week, but it may be as short as one business day only. Hong Kong and overseas investors who have relevant holdings with their CCASS Participants at the record date will receive the rights/ open offer and can subscribe for the rights/ open offers during the subscription period via CCASS Participants. Rights/ open offers are non-tradable. No excess application is available in general. HKSCC will consolidate the subscription instructions from CCASS Participants and endeavor to submit one consolidated subscription instruction to the relevant SSE-listed company / SZSE-listed company via the designated electronic platform. Upon receipt of the rights/ open offer shares, HKSCC will to the extent practicable arrange to distribute them to the relevant CCASS Participants on the same day.

Shanghai and Shenzhen Connect do not support initial public offering.

Hong Kong and overseas investors should note and comply with the arrangement and deadline specified by their respective brokers or custodians (i.e. CCASS Participants) in order to participate in the corporate actions relating to their SSE Securities and SZSE Securities.

#### **4.6. Clearing and Settlement Currency**

HKSCC settles Northbound trades with CCASS Participants in RMB. HKSCC also settles the same with ChinaClear in RMB.

### **5. Clearing Risk Management**

Under the Clearing Links between HKSCC and ChinaClear for Shanghai and Shenzhen Connect, both clearing houses are participants of each other to facilitate the clearing and settlement of cross-boundary trades. For cross-boundary trades initiated in a market, the clearing house of that market on one hand clears and settles with its own clearing participants, and on the other hand undertakes to fulfill the clearing and settlement obligations of its clearing participants with the counterparty clearing house.

In general, ChinaClear Shanghai and ChinaClear Shenzhen applies its existing risk management measures on HKSCC's unsettled positions on SSE Securities and SZSE Securities respectively. HKSCC in turn adapts ChinaClear's risk management measures and imposes them on CCASS Participants trading SSE Securities and SZSE Securities separately ("two-market approach"). These risk management measures are largely similar to those imposed by ChinaClear Shanghai and ChinaClear Shenzhen on their other clearing participants.

To avoid risk spill-over across the border, both HKSCC and ChinaClear do not participate in each other's mutualised risk management pools (e.g. default fund) that are normally contributed by their home market clearing participants. As such, ChinaClear does not contribute to the HKSCC Guarantee Fund and ChinaClear is not required to share any default loss of CCASS Participants. CCASS Participants' Guarantee Fund contributions is not utilised to offset close-out loss in ChinaClear's default.

In the unlikely event of a ChinaClear default occurring in Northbound trades in either SSE Securities or SZSE Securities, a concurrent default in the other market, as well as in the Southbound trades will be triggered. Set-off will then be applied to any obligations and liabilities between ChinaClear and HKSCC arising from Shanghai Connect and Shenzhen Connect for Northbound and Southbound trades. HKSCC's liabilities in Northbound trades in SSE Securities and SZSE Securities under its market contracts with CPs will be limited to assisting CPs in pursuing their claims against ChinaClear. HKSCC will in good faith, seek recovery of the outstanding stocks and monies from ChinaClear through available legal channels or through ChinaClear's liquidation process. HKSCC will in turn distribute the stocks or monies recovered to CPs on a pro-rata basis.

## **6. Market Information**

### **6.1. Market Data**

To increase the Connect Markets' data visibility to the Hong Kong market, SSE, SZSE and HKEX have agreed to exchange free 1 depth data of eligible



stocks for Southbound and Northbound trading and the data will be provided to EPs and their trading clients free of charge.

- 6.1.1** For Shanghai Connect, the 1-depth data of eligible stocks for Southbound trading is provided via SSE's platform. For Shenzhen Connect, the 1-depth data of eligible stocks for Southbound trading is provided through SZSE's platform.
- 6.1.2** Real-time SSE 1-depth data and real-time SZSE 1-depth data of the eligible stocks for Northbound trading are disseminated to SEHK Participants' via their China Connect Open Gateways, with real-time SSE data updated once every 3 seconds and real-time SZSE 1-depth data once every 3 seconds. Data content from both SSE and SZSE is the same and it includes Best Bid Price/Volume, Best Offer Price/Volume, Volume Traded, Value Traded, Previous Price, Open Price, Latest Price, Highest Price and Lowest Price.
- 6.1.3** The 1 depth data of eligible stocks can only be used internally by SEHK Participants and for further distribution to their trading clients. Dissemination to any other third parties is not allowed. Further, the data cannot be used for index compilation or devising any tradable product.
- 6.1.4** To increase market transparency, real-time daily quota balances for Northbound trading will be disseminated to EPs via their China Connect Open gateway and OMD Index Feed and the information will be updated once every 5 seconds. The information can be redistributed free of charge.
- 6.1.5** For Northbound trading under Shanghai Connect, CCEPs, system vendors and Hong Kong and overseas investors may also source real time market data of SSE via SSE licensed information vendors, a list of which is available on the website of China Investment Information Services Limited, which is a wholly-owned subsidiary of SSE incorporated in Hong Kong and is responsible for SSE's overseas market data business. SSE real time market data can also be accessed through the licensed Mainland vendors of SSE Infonet Ltd which is the information business arm of SSE.
- 6.1.6** For Northbound trading under Shenzhen Connect, CCEPs, system vendors and Hong Kong and overseas investors may source real time market data of SZSE via SZSE licensed information vendors, a list of which is available on the website of Shenzhen Securities Information Co. Ltd., which is a subsidiary of SZSE incorporated in China and is SZSE's exclusive agent that is responsible for SZSE's local and overseas market data businesses.
- 6.1.8** Similarly, for Southbound trading under Shanghai and Shenzhen Connect, SSE Members, SZSE Members, system vendors and Mainland investors may source market data of SEHK via licensed information vendors who are providing data services in the Mainland. In addition, a number of information vendors are providing SEHK real-time basic market prices (BMP) to investors in Hong Kong, the Mainland and overseas for free. A list of such vendors and their websites is available on the HKEX website.

## 6.2. Company Announcements on Corporate Actions

All approved corporate actions of SSE Securities and SZSE Securities are announced by issuers through the SSE website or the SZSE website, as the case may be, and officially appointed newspapers (both the printed papers and their websites): the Shanghai Securities News, Securities Times, China Securities Journal, Securities Daily and [www.cninfo.com.cn](http://www.cninfo.com.cn). Investors are reminded that issuers listed on the ChiNext Market are required to publish certain corporate announcements on their corporate websites and the officially appointed websites only. HKSCC will also record all corporate actions relating to SSE and SZSE Securities in CCASS and advise CCASS Participants of the details via the CCASS terminals as soon as practicable on the announcement date. Hong Kong and overseas investors can visit the SSE, SZSE and newspaper websites for the latest listed company announcements.

Hong Kong and overseas investors can also visit HKEX website's China Stock Markets Web for the company announcements of Connect Securities issued on the previous trading day.

Hong Kong and overseas investors trading Connect Securities through Shanghai and Shenzhen Connect should note that SSE-listed and SZSE-listed issuers will continue to publish corporate documents in Chinese only as their current practice, and English translation will not be available.

## 7. Fees and Levies

Under Shanghai and Shenzhen Connect, Hong Kong and overseas investors will be subject to the following fees and levies imposed by SSE, SZSE, ChinaClear, HKSCC or the relevant Mainland authority when they trade and settle SSE Securities and SZSE Securities:

Items	Rate	Charged by
Handling Fee (經手費)	0.00487% of the consideration of a transaction per side	SSE / SZSE
Securities Management Fee (證管費)	0.002% of the consideration of a transaction per side	CSRC
Transfer Fee (過戶費/登記過戶費)	0.002% of the consideration of a transaction per side	ChinaClear Shanghai / ChinaClear Shenzhen
	0.002% of the consideration of a transaction per side	HKSCC
Stamp Duty	0.1% of the consideration of a	SAT

( 交易印花稅 )	transaction on the seller	
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All the above fees and levies will be collected from CCASS Participants' designated bank accounts at day-end of T day.

Investors should note that certain existing CCASS fees still apply, including stock settlement fee for settlement instructions and money settlement fee. HKSCC also imposes a Portfolio Fee on its CCASS Participants for providing depository and nominee services for their SSE Securities and SZSE Securities held in CCASS. The Portfolio Fee will be collected in HKD on a monthly basis based on a single portfolio of SSE Securities and SZSE Securities of each CCASS Participant. The relevant fee arrangement may change subject to SFC's approval.

Besides, taxes imposed by the State Administration of Taxation (SAT), including stamp duty and dividend tax will also be applied to the Northbound trades and SSE Securities acquired through Shanghai Connect as well as SZSE Securities acquired through Shenzhen Connect. Any additional tax imposed by the SAT, if applicable, will be subject to further clarification with the SAT.

The following illustrates the calculation of the relevant fees and taxes using Northbound Trading and Clearing under Shanghai Connect as an example:

Assume that on T day, a Clearing Participant has to clear Northbound **Sell** Trades with details as follows:

Trade Quantity: 300 shares

Trade Price: ¥ 10 per share

Fee Type	Description	Formula	Amount *
Handling Fee (經手費)	0.00487% of the consideration of the Sell Trade	$300 \times ¥ 10 \times 0.00487\%$ $= ¥ 0.1461$	¥ 0.15
Securities Management Fee (證管費)	0.002% of the consideration of the Sell Trade	$300 \times ¥ 10 \times 0.002\%$ $= ¥ 0.06$	¥ 0.06

Fee Type	Description	Formula	Amount *
Transfer Fee (過戶費)	0.002% of the consideration of the Sell Trade to be charged under ChinaClear's Shanghai-Hong Kong Stock Connect Rules	$300 \times \text{¥} 10 \times 0.002\%$ = ¥ 0.06	¥ 0.06
	0.002% of the consideration of the Sell Trade to be charged under the General Rules of CCASS	$300 \times \text{¥} 10 \times 0.002\%$ = ¥ 0.06	¥ 0.06
Stamp Duty (交易印花稅)	0.1% of the consideration of the Sale Trade (imposed only on the seller)	$300 \times \text{¥} 10 \times 0.1\%$ = ¥3.00	¥ 3.00
<b>Total transaction cost to settle the Sell Trade</b>			<b>¥ 3.33</b>

\* Note: Fees are rounded to the nearest cent.

Dividend tax will be withheld by issuers of Connect Securities and ChinaClear upon dividend payment.

## 8. Cross-boundary Regulatory Framework

According to the Memorandum of Understanding entered into between the SFC and the CSRC on 17 October 2014 on strengthening cross-boundary regulatory and enforcement cooperation under Shanghai Connect, the SFC and the CSRC have agreed to:

- (a) provide for the sharing of information and data of risks and alerts about potential or suspected wrongdoing in either the Hong Kong or Shanghai stock market under Shanghai Connect;
- (b) establish a commitment and a process for joint investigations;
- (c) ensure complementary enforcement action can be taken where there is wrongdoing in both jurisdictions; and
- (d) make sure enforcement actions in both jurisdictions operate to protect the investing public of both the Mainland and Hong Kong, including

actions that may be necessary to provide financial redress or compensation to affected investors.

The scope of the existing co-operation arrangement between the SFC and the CSRC has been extended to include Shenzhen Connect upon the launch of Shenzhen Connect.

## **9. Enquiries and Others**

For queries and comments on Shanghai Connect and/or Shenzhen Connect, please write to

Hong Kong Exchanges and Clearing Limited  
12th Floor, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

**Re: Information Book on Shanghai and Shenzhen Connect**

Alternatively please contact us by e-mail to [info@hkex.com.hk](mailto:info@hkex.com.hk)

## 10. Glossary

CCASS	the Central Clearing and Settlement System operated by HKSCC for the clearing of securities listed or traded on SEHK
CCASS Participant	a person registered as a participant of HKSCC under one of the categories of participants specified in the CCASS Rules
CCASS Rules	the General Rules and Operational Procedures of HKSCC, as amended from time to time
CCP	central counterparty
ChinaClear	China Securities Depository and Clearing Corporation Limited
ChinaClear Participant	a person who is registered as a clearing participant of ChinaClear
ChinaClear Shanghai	China Securities Depository and Clearing Corporation Limited, Shanghai Branch
ChinaClear Shenzhen	China Securities Depository and Clearing Corporation Limited, Shenzhen Branch
Clearing Links	the linkage established between HKSCC and ChinaClear under which HKSCC and ChinaClear will act as participating CCPs and provide depository and nominee services to their respective participants in respect of Connect Securities and SEHK Securities executed through the Trading Links
Connect Market	SSE's market or SZSE's market
Connect Securities	SSE Securities and SZSE Securities
CSRC	China Securities Regulatory Commission
HKEX	Hong Kong Exchanges and Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of HKEX

IP	Investor Participant, a type of CCASS Participant
Northbound	the trading of SSE Securities or SZSE Securities by Hong Kong and overseas investors through the relevant Trading Link
QFII	Qualified Foreign Institutional Investor
RQFII	Renminbi Qualified Foreign Institutional Investor
SEHK	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of HKEX
SEHK Participant	a person who may trade on or through SEHK and whose name is entered in a list, register or roll kept by SEHK as such
SEHK Securities	securities listed and traded on SEHK which may be traded by Mainland investors under Shanghai Connect and/or Shenzhen Connect
SEHK Subsidiary	SEHK's wholly-owned subsidiary incorporated in Shanghai for Shanghai Connect or SEHK's wholly-owned subsidiary incorporated in Qianhai for Shenzhen Connect, as the case may be
SFC	the Securities and Futures Commission of Hong Kong
Shanghai and Shenzhen Connect	Shanghai Connect and Shenzhen Connect
Shanghai Connect	a securities trading and clearing links programme developed by SEHK, SSE, HKSCC and ChinaClear for the establishment of mutual market access between Hong Kong and Shanghai
Shareholding Category Disclosure	the disclosure required to be made by a CCASS Participant in respect of votes on shareholder resolutions cast by its clients based on such categorization or other parameter as HKSCC may prescribe from time to time according to the requirements of the relevant issuers or applicable laws, rules or regulations



Shenzhen Connect	a securities trading and clearing links programme developed by SEHK, SZSE, HKSCC and ChinaClear for the establishment of mutual market access between Hong Kong and Shenzhen
Southbound	the trading of SEHK Securities by Mainland investors through either of the Trading Links
Special Segregated Account or SPSA	a Stock Segregated Account within the range of account codes specified by HKSCC which is designated by a Custodian Participant or a GCP which is not an SEHK Participant for one of its clients for the purpose of maintaining holdings of Connect Securities of this client and for facilitating the determination of the maximum amount of Connect Securities that may be sold by this client on a particular trading day
SSE	the Shanghai Stock Exchange
SSE-listed shares	shares which are from time to time accepted for listing and admitted to trading on SSE
SSE Member	a person who is registered as a broker member of SSE
SSE Securities	securities listed and traded on SSE which may be traded by Hong Kong and overseas investors under Shanghai Connect
SSE Subsidiary	SSE's subsidiary incorporated in Hong Kong for Shanghai Connect
SZSE	the Shenzhen Stock Exchange
SZSE-listed shares	shares which are from time to time accepted for listing and admitted to trading on SZSE
SZSE Member	a person who is registered as a broker member of SZSE
SZSE Securities	securities listed and traded on SZSE which may be traded by Hong Kong and overseas investors under Shenzhen Connect

## Trading Links

the respective linkages between SEHK and SSE and between SEHK and SZSE under which Hong Kong and overseas investors may trade SSE Securities or SZSE Securities through the relevant SEHK Subsidiary and under which Mainland investors may trade SEHK Securities through the SSE Subsidiary or the SZSE Subsidiary

Hong Kong Exchanges and Clearing Limited  
12/F, One International Finance Centre  
1 Harbour View Street, Central, Hong Kong

[info@hkex.com.hk](mailto:info@hkex.com.hk)

t: +852 2522 1122 f: +852 2295 3106

[hkexgroup.com](http://hkexgroup.com) | [hkex.com.hk](http://hkex.com.hk)