

# Stock Connect

# Another Milestone

## Information Book for Market Participants

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**TABLE OF CONTENTS**


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<b>SECTION 1: INTRODUCTION.....</b>	<b>3</b>
<b>SECTION 2: OVERVIEW OF SHANGHAI AND SHENZHEN CONNECT.....</b>	<b>10</b>
<b>SECTION 3: TRADING ARRANGEMENT.....</b>	<b>13</b>
<b>SECTION 4: CLEARING AND SETTLEMENT .....</b>	<b>41</b>
<b>SECTION 5: RISK MANAGEMENT.....</b>	<b>57</b>
<b>SECTION 6: MARKET DATA.....</b>	<b>64</b>
<b>SECTION 7: ELIGIBILITY .....</b>	<b>66</b>
<b>SECTION 8: HOLIDAYS AND SEVERE WEATHER CONDITIONS.....</b>	<b>68</b>
<b>SECTION 9: SYSTEM ARRANGEMENT .....</b>	<b>72</b>
<b>SECTION 10: SUMMARY OF FEES AND TAXES .....</b>	<b>76</b>
<b>SECTION 11: CROSS-BOUNDARY FRAMEWORK.....</b>	<b>80</b>
<b>SECTION 12: APPLYING TO PARTICIPATE IN CHINA CONNECT .....</b>	<b>81</b>

**APPENDICES**

<b>APPENDIX I: MAJOR DIFFERENCE BETWEEN THE TRADING OF SSE/SZSE-LISTED SHARES BY HONG KONG AND OVERSEAS INVESTORS .....</b>	<b>82</b>
<b>APPENDIX II: TRADING ARRANGEMENTS UNDER SHANGHAI AND SHENZHEN CONNECT .....</b>	<b>85</b>

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## SECTION 1: INTRODUCTION

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### *About This Information Book*

- 1.1. 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.
- 1.2. Under Shanghai Connect, The Stock Exchange of Hong Kong Limited (SEHK) and Shanghai Stock Exchange (SSE) established mutual order-routing connectivity and related technical infrastructure to enable investors of their respective market to trade designated equity securities listed in the other’s market. Hong Kong Securities Clearing Company Limited (HKSCC) and China Securities Depository and Clearing Corporation Limited (ChinaClear) are responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by their respective market participants and/or investors.
- 1.3. Shanghai Connect is a ground-breaking initiative with significance to both Hong Kong and the Mainland. It creates for the first time a feasible, controllable and expandable channel for cross-boundary RMB flow by a broad range of investors, paving the way for further opening up of China’s capital account and RMB internationalisation. Hong Kong, on the other hand, will benefit from the uplift in market liquidity, the expansion of offshore RMB business and its overall solidified position as the gateway to the Mainland for the rest of the world and vice versa.
- 1.4. The design of Shanghai Connect follows a set of key principles to ensure minimal change of regulatory structure in each market, controllability of cross-boundary fund flow, as well as sustainability and scalability of the model for further expansion to other markets and/or asset classes. Shanghai Connect was launched on 17 November 2014. Information relating to the development of Shanghai Connect can be found on the HKEX website.
- 1.5. Following the successful launch of Shanghai Connect, Shenzhen Connect is believed to be its natural extension for the further establishment of mutual stock market access between Mainland China and Hong Kong. Shenzhen Connect, which by and large applies similar programme principles and design, was launched on 5 December 2016.
- 1.6. This information book explains the detailed operating flows of Shanghai Connect and Shenzhen Connect, focusing on the trading of SSE/SZSE-listed shares by Hong Kong and overseas investors. It contains largely technical information which is only of relevance to market participants who

are interested in participating in this programme. Appendix I highlights the major difference between the trading of SSE- and SZSE-listed shares by Hong Kong and overseas investors. Investors who would like to understand more about the programme can refer to the “Mutual Market Access – The Next Milestones – Information Book for Investors” available on the HKEX website at <http://www.hkex.com.hk/mutualmarket>.

- 1.7. Market participants who are interested in participating in Shanghai Connect and/or Shenzhen Connect can refer to Section 7 and Section 12 of this information book for information on the eligibility and application requirements.
- 1.8. Exchange Participants and CCASS Participants who want to further understand the details of or comment on Shanghai Connect and/or Shenzhen Connect can refer to the following website, hotlines and email accounts:

Shanghai and Shenzhen Connect webpage:

<http://www.hkex.com.hk/mutualmarket>

Hotline for Exchange Participants: 2840 3626

Hotline for CCASS Participants: 2979 7123

Email box for Exchange Participants: [trd@hkex.com.hk](mailto:trd@hkex.com.hk)

Email box for CCASS Participants: [clg@hkex.com.hk](mailto:clg@hkex.com.hk)

**Glossary**

AMS/3	the Automated Order Matching and Execution System operated by SEHK
A shares	except where the context requires, references to A shares in this information book mean all A shares listed and traded on the SSE or SZSE
BSS	the Broker Supplied System of an EP
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
CNS	Continuous Net Settlement
China Connect Clearing Participant or CCCP	a CP which is registered as a China Connect Clearing Participant by HKSCC
China Connect Exchange Participant or CCEP	an EP which is registered as a China Connect Exchange Participant by SEHK
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 linkages between HKSCC and ChinaClear under which HKSCC and ChinaClear act as participating CCPs and provide clearing and settlement, 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/or SZSE Securities
CP	a CCASS Participant admitted to participate in CCASS as a DCP or GCP
CSC	China Stock Connect System, the open gateway through which EPs may place orders for SSE Securities or SZSE Securities to the relevant SEHK Subsidiary
CSRC	China Securities Regulatory Commission
DCP	a CCASS Participant admitted to participate in CCASS as a Direct Clearing Participant
EP or Exchange Participant	a person registered as an Exchange Participant of SEHK
GCP	a CCASS Participant admitted to participate in CCASS as a General Clearing Participant
HKEX	Hong Kong Exchanges and Clearing Limited
HKICL	Hong Kong Interbank Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of HKEX
HKSCC GF	the HKSCC Guarantee Fund
HK shares	shares listed and traded on SEHK
H shares	a specific class of shares of certain companies incorporated in the Mainland which are approved for listing on SEHK
Hong Kong	the Hong Kong Special Administrative Region of the PRC
IP	a CCASS Participant admitted to participate in CCASS as an Investor Participant
Institutional professional investor	as defined under paragraph 15.2 of the Code of Conduct for Persons Licensed by or Registered with

	the Securities and Futures Commission, means a person falling under paragraphs (a) to (i) of the definition of “professional investors” in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance.
Mainland, Mainland China, PRC or China	the People’s Republic of China. Except where the context requires, geographical references in this information book to the PRC, Mainland, Mainland China or China exclude Hong Kong, Macau and Taiwan
market contract	shall have the meaning ascribed to such term in Schedule 1 to the SFO
NCP	Non-Clearing Participant, an EP of SEHK which is not a CP of HKSCC
Northbound	the trading of SSE Securities or SZSE Securities by Hong Kong and overseas investors through the relevant Trading Link
PRC Law	the laws of the PRC, as amended from time to time
QDII	Qualified Domestic Institutional Investor
QFII	Qualified Foreign Institutional Investor
RQFII	Renminbi Qualified Foreign Institutional Investor
Rules of the Exchange	the Rules of the Exchange of SEHK, as amended from time to time
SEHK	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of HKEX
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 carrying out Northbound activities under Shanghai Connect or  SEHK’s wholly-owned subsidiary incorporated in Qianhai Shenzhen for carrying out Northbound activities under Shenzhen Connect, as the case may be

SFC	the Securities and Futures Commission of Hong Kong
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shanghai and Shenzhen Connect	Shanghai Connect and Shenzhen Connect collectively
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
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 Exchange 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
SPSA Delivery Failure	the failed delivery of the relevant quantity of a Connect Security from a SPSA to a CCCP for CNS settlement on a settlement day
SPSA Model	an enhanced pre-trade checking model for SPSAs introduced by HKSCC on 30 March 2015
SSE	the Shanghai Stock Exchange
SSE Member	a person who is registered as a broker member of SSE, or an institution recognized by SSE that is subject to SSE's rules regarding the trading of SEHK



	Securities through SSE Subsidiary
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 carrying out Southbound activities under Shanghai Connect
SZSE	the Shenzhen Stock Exchange
SZSE Member	a person who is registered as a broker member of SZSE, or an institution recognized by SZSE that is subject to SZSE's rules regarding the trading of SEHK Securities through SZSE Subsidiary
SZSE Securities	securities listed and traded on SZSE which may be traded by Hong Kong and overseas investors under Shenzhen Connect
SZSE Subsidiary	SZSE's subsidiary incorporated in Hong Kong for carrying out Southbound activities under Shenzhen Connect
Southbound	the trading of SEHK Securities by Mainland investors through the Trading Links
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

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## SECTION 2: OVERVIEW OF SHANGHAI AND SHENZHEN CONNECT

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### *Why Consider Participating in Shanghai and Shenzhen Connect*

- 2.1. Shanghai and Shenzhen Connect brings another historical opportunity for the growth of the Hong Kong securities market which is commensurable to Mainland companies' listings that started more than 20 years ago. In addition to the current schemes such as the QDII, QFII and RQFII programmes, it provides, for the first time, a feasible, controllable and expandable channel for a broad range of investors to gain mutual market access between Hong Kong and the Mainland. It is expected that Shanghai and Shenzhen Connect will structurally uplift Hong Kong market's liquidity by attracting both Mainland and overseas investors alike.
- 2.2. Shanghai and Shenzhen Connect is an innovative solution which entails relatively low "costs" for market participants in Hong Kong and Mainland to trade in each other's market in that:
  - (a) it does not change the current market structure;
  - (b) it is relatively convenient for Hong Kong-based participants to continue their relationship with SEHK and trade SSE/SZSE-listed A shares through mutual order-routing connectivity;
  - (c) cross-boundary clearing and settlement risks are effectively controlled with both clearing houses stepping in as CCPs for their respective clearing participants; and
  - (d) it and other schemes such as QDII or QFII are not mutually exclusive, i.e. it will co-exist with these schemes so that market participants can enjoy competitive pricing.

### *Key Features*

#### **2.3. Participant and Investor Eligibility**

- 2.3.1. Shanghai and Shenzhen Connect is open to all market participants, but those who wish to participate must satisfy certain eligibility and readiness requirements as prescribed by the relevant exchange, clearing house and regulators.
- 2.3.2. Trading of SSE Securities and SZSE Securities under Shanghai and Shenzhen Connect will be opened to all Hong Kong and overseas investors, including institutional and individual investors. The only exception is SZSE Securities which are listed on the ChiNext market, the trading of which will initially be limited to institutional professional investors.

## 2.4. Trading

- 2.4.1. For Shanghai Connect, SEHK has established a SEHK Subsidiary in Shanghai to facilitate cross-boundary order-routing from EPs to SSE. This SEHK Subsidiary is a special trading participant of SSE and acts as the order routing facilitator for EPs placing orders in SSE Securities for Northbound trading. A similar arrangement was made by SSE to facilitate Southbound trading by Mainland investors of SEHK Securities on SEHK.
- 2.4.2. For Shenzhen Connect, SEHK has established another SEHK Subsidiary in Qianhai Shenzhen to facilitate cross-boundary order-routing from EPs to SZSE. This SEHK Subsidiary is a special trading participant of SZSE and acts as the order routing facilitator for EPs placing orders in SZSE Securities for Northbound trading. A similar arrangement was made by SZSE to facilitate Southbound trading by Mainland investors of SEHK Securities on SEHK under a Southbound Trading Link established by SZSE.
- 2.4.3. Chapter 14A of the Rules of the Exchange sets out the rights and obligations of EPs who engage in Northbound trading under Shanghai Connect via the relevant SEHK Subsidiary. Chapter 14B of the Rules of the Exchange sets out the rights and obligations of EPs who engage in Northbound trading under Shenzhen Connect via the relevant SEHK Subsidiary. EPs who are not existing CCEPs will be required to submit an application to SEHK and sign an undertaking with each SEHK Subsidiary in order to participate in Shanghai and Shenzhen Connect. EPs who are already participating in Shanghai Connect as CCEPs will be required to sign an undertaking with the SEHK Subsidiary in Qianhai Shenzhen in order to participate in Shenzhen Connect.
- 2.4.4. Shanghai and Shenzhen Connect will initially cover the shares of companies listed on SEHK, SSE and SZSE. The scope of equity securities already included is detailed in Section 3.
- 2.4.5. Each of SEHK, SSE and SZSE reserves the right to suspend the relevant Northbound and/or Southbound Trading Link(s) if necessary for ensuring an orderly and fair market and that risks are managed prudently. Consent from the relevant regulator would be sought before a suspension is triggered.

## 2.5. Clearing and Settlement

- 2.5.1. For Shanghai Connect, HKSCC and ChinaClear have established Clearing Links whereby the two clearing houses have become a participant of each other, and have agreed to undertake the settlement obligations in respect of Northbound and Southbound trades executed through the relevant SEHK Subsidiary and the SSE Subsidiary respectively.
- 2.5.2. All trades executed on SSE, including the Northbound trades executed by EPs through the SEHK Subsidiary in Shanghai, are settled in ChinaClear.

Being a participant of ChinaClear, HKSCC settles the Northbound trades with ChinaClear Shanghai on behalf of its CPs. HKSCC on the other hand settles such trades with its CPs in Hong Kong. A similar settlement arrangement has been adopted by ChinaClear for Southbound trades initiated by Mainland investors under Shanghai Connect.

- 2.5.3. For Shenzhen Connect, HKSCC settles the Northbound trades executed on SZSE with ChinaClear Shenzhen on behalf of its CPs. HKSCC on the other hand settles such trades with its CPs in Hong Kong. HKSCC has extended its participantship with ChinaClear to undertake the settlement obligations in respect of Northbound trades executed under Shenzhen Connect. A similar settlement arrangement was adopted by ChinaClear for Southbound trades initiated by Mainland investors under Shenzhen Connect.

## 2.6. **Clearing Risk Management**

- 2.6.1. As HKSCC stands in between CPs and ChinaClear and clears and settles Northbound trades of CPs with ChinaClear under Shanghai Connect, relevant risk management measures have been incorporated into the CCASS Rules to align CP's obligations with the operation and requirements of the Shanghai market. New risk management measures have been adopted for Shenzhen Connect as HKSCC also stands in between CPs and ChinaClear and clears and settles Northbound trades of CPs with ChinaClear under Shenzhen Connect.
- 2.6.2. There are also measures in place to insulate risk spillover across markets.

## 2.7. **IT**

- 2.7.1. SEHK has set up an order-routing system (i.e. China Stock Connect System or "**CSC**") to capture and handle the Northbound orders input by EPs. EPs who want to participate in Shanghai and Shenzhen Connect will need to install a separate open gateway (i.e. China Connect OG or "**CC OG**") connecting to the CSC. CPs can participate in Shanghai and Shenzhen Connect via their existing CCASS terminal and Participant Gateways ("**PG**").

## 2.8. **Fees and Levies**

- 2.8.1. Under Shanghai and Shenzhen Connect, investors trading across the boundary will be subject to the same trading fees and levies applicable to local investors. The fees and levies for Northbound trading imposed by ChinaClear will be collected in RMB. With regard to the fees and levies for depository and nominee services provided by HKSCC, it is envisaged that the portfolio fee applicable to CCASS Participants on their SSE Securities has been extended to include SZSE Securities to form a single combined portfolio charged according to the tiered fee structure as set out in the CCASS Rules upon the launch of Shenzhen Connect.

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## **SECTION 3: TRADING ARRANGEMENT**

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### ***Overview of Northbound Trading***

- 3.1. At inception, Shanghai and Shenzhen Connect will only encompass secondary market trading. Primary market activities, such as initial public offering will not be supported.
- 3.2. Northbound orders need to follow the business rules of the respective Connect Market. Before routing orders to SSE or SZSE for matching and execution, SEHK will conduct basic checking to ensure that the orders are in accordance with the SSE or SZSE requirements as reflected in the Rules of the Exchange. Invalid orders will be rejected.
- 3.3. 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 will not be included. The Further 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 Stock Connect has been in operation for a period of time and upon the satisfaction of relevant conditions.

### ***Participation in Northbound Trading***

- 3.4. Shanghai and Shenzhen Connect is open to all EPs, but those who wish to participate must satisfy certain IT capability, risk management and other requirements as may be specified by SEHK from time to time. EPs can refer to Section 7 for more details.
- 3.5. EPs who are not existing CCEPs will be required to submit an application to SEHK and sign an undertaking with each SEHK Subsidiary in order to participate in Shanghai and Shenzhen Connect.
- 3.6. EPs who are already participating in Shanghai Connect as CCEPs will need to sign an undertaking with the SEHK Subsidiary in Qianhai Shenzhen in order to participate in Shenzhen Connect.

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

- 3.7. 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>1</sup>.

- 3.8. 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.

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

- 3.9. 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.
- 3.10. 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.
- 3.11. 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.
- 3.12. 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.

***Sell-only SSE Securities***

- 3.13. 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.

<sup>1</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)

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

- 3.14. 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***

- 3.15. 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 capitalisation 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>2</sup>.
- 3.16. At the initial stage of Shenzhen Connect, investors eligible to trade shares that are listed on the ChiNext Board of SZSE under Northbound trading are limited to institutional professional investors. Subject to resolution of related regulatory issues, other investors may subsequently be allowed to trade such shares.
- 3.17. SZSE-listed securities will be included and excluded as SZSE Securities 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

<sup>2</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/>.

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.

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

- 3.18. 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.
- 3.19. 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.
- 3.20. 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.
- 3.21. 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.

***Sell-only SZSE Securities***

- 3.22. 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.

***Securities received by investors***

- 3.23. 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:

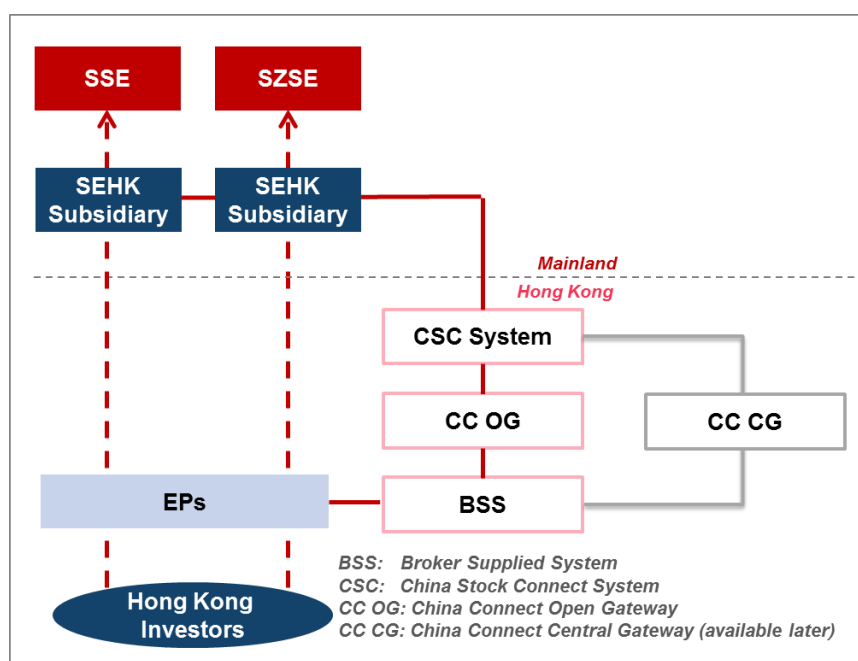


- (a) if such securities are SZSE-listed securities and traded in RMB, Hong Kong and overseas investors will be allowed to sell them through Shenzhen Connect; and
- (b) if such securities are not SZSE-listed securities, Hong Kong and overseas investors will not be able to sell them through Shenzhen Connect. 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.

### ***Northbound Trading Flow***

- 3.24. EPs who want to participate in Shanghai and Shenzhen Connect will need to install a separate open gateway (or central gateway, subject to the launch of China Connect Central Gateway) for connecting to CSC. EPs can refer to Section 9 for further details about the technical set-up. Existing CCEPs can use the existing gateway to participate in Shenzhen Connect.
- 3.25. As Northbound trading under Shanghai Connect follows the SSE business rules in principle, EPs may need to upgrade their BSS to participate in Shanghai Connect. The same applies to Shenzhen Connect.
- 3.26. Orders received by CSC will be routed to SSE/SZSE via the relevant SEHK Subsidiary for matching and execution on the trading platform of SSE or SZSE, as the case may be. The SEHK Subsidiary in Shanghai for Shanghai Connect is a special trading participant of SSE and receives SSE Securities orders only from CCEPs. Another new SEHK Subsidiary has been established in Qianhai Shenzhen for Shenzhen Connect. Such SEHK Subsidiary has applied to become a special trading participant of SZSE and receives SZSE Securities orders only from CCEPs.
- 3.27. For executed trades, trade confirmations received from SSE and SZSE will be sent to CCEPs via the CSC.

**Figure 3.1: Northbound Order Flow**

### **Northbound Trading Arrangements**

#### **3.28. Trading Arrangement Overview**

In principle, Northbound trades executed on SSE/SZSE will have to follow the respective trading rules of SSE and SZSE. However, due to the uniqueness of individual markets, certain trading arrangements and features of SSE and SZSE may not fit the Hong Kong market and therefore will not be applicable at least in the initial stage. The following paragraphs set out the trading arrangements for trading SSE Securities and SZSE Securities. A summary is also available in Appendix II.

#### **3.29. Trading Hours**

- 3.29.1. Hong Kong and overseas investors are required to follow SSE's trading hours to trade SSE Securities and SZSE's trading hours to trade SZSE Securities. SSE's trading hours comprise an opening call auction session (similar to SEHK's pre-opening session) from 9:15 a.m. to 9:25 a.m., and two continuous auction sessions (similar to SEHK's continuous trading session) from 9:30 a.m. to 11:30 a.m. and from 1:00 p.m. to 3:00 p.m. SZSE's trading hours comprise an opening call auction session (similar to SEHK's pre-opening session) from 9:15 a.m. to 9:25 a.m., and two continuous auction sessions (similar to SEHK's continuous trading session) from 9:30 a.m. to 11:30 a.m. and from 1:00 p.m. to 2:57 p.m. There is also a closing call auction session for SZSE from 2:57 p.m. to 3:00 p.m.
- 3.29.2. The SSE trading system does not accept any order cancellation during the opening call auction session between 9:20 a.m. and 9:25 a.m.; neither will

the SZSE trading system accept any order cancellation during the opening call auction session between 9:20 a.m. and 9:25 a.m. or the closing call auction between 2:57 p.m. and 3:00 p.m. In both Connect Markets, any buy or sell orders not executed during the opening call auction session will automatically enter the continuous auction session. In Shenzhen Connect Northbound, any buy or sell orders not executed during the continuous auction session will automatically enter the closing call auction session.

- 3.29.3. SEHK accepts Northbound orders for SSE's market or SZSE's market from CCEPs five minutes prior to the opening of each trading session, which means that CCEPs can input Northbound orders from 9:10 a.m. to 11:30 a.m. and from 12:55 p.m. to 3:00 p.m. However, it should be noted that SSE and SZSE only process the orders during SSE's and SZSE's trading hours. The following table summarises SSE's and SZSE's trading hours and the time for CCEPs to input Northbound orders.

**Table 3.1: Trading Hours**

SSE Trading Session	SSE Trading Hours	Time for EPs to input Northbound orders
Opening Call Auction	9:15 a.m. – 9:25 a.m.	9:10 a.m. – 11:30 a.m.
Continuous Auction (Morning)	9:30 a.m. – 11:30 a.m.	
Continuous Auction (Afternoon)	1:00 p.m. – 3:00 p.m.	12:55 p.m. – 3:00 p.m.

SZSE Trading Session	SZSE Trading Hours	Time for EPs to input Northbound orders
Opening Call Auction	9:15 a.m. – 9:25 a.m.	9:10 a.m. – 11:30 a.m.
Continuous Auction (Morning)	9:30 a.m. – 11:30 a.m.	
Continuous Auction (Afternoon)	1:00 p.m. – 2:57 p.m.	12:55 p.m. – 3:00 p.m.
Closing Call Auction	2:57 p.m. – 3:00 p.m.	

For SSE Securities, CCEPs can input requests to cancel their outstanding Northbound orders anytime when the SSE market is open, except that from 9:20 a.m. to 9:25 a.m. any order cancellation will not be accepted as mentioned earlier. CCEPs can also input cancel requests five minutes prior to the opening of each SSE trading session but such cancel requests will be submitted to SSE only when the market opens. For SZSE Securities, CCEPs can input requests to cancel their outstanding Northbound orders anytime when the SZSE market is open, except that from 9:20 a.m. to 9:25

a.m. and from 2:57 p.m. to 3:00 p.m. any order cancellation will not be accepted as mentioned earlier. CCEPs can also input cancel requests five minutes prior to the opening of each SZSE trading session but such cancel requests will be submitted to SZSE only when the market opens.

- 3.29.4. SSE and SZSE do not accept order amendments. CCEPs who want to modify a Northbound order will therefore need to cancel the outstanding order and input a new one.

3.29.5. **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.

3.30. **Order Types**

- 3.30.1. CCEPs can only place limit orders to trade SSE and SZSE Securities.

- 3.30.2. CCEPs should note that limit orders in SSE and SZSE are different from the limit orders in SEHK. While SEHK limit orders can only be matched at the specified price, SSE and SZSE limit orders can be matched at the specified price or a better price. Any unfilled quantity after matching will remain in the queue at the specified price.

3.31. **No Day (Turnaround) Trading**

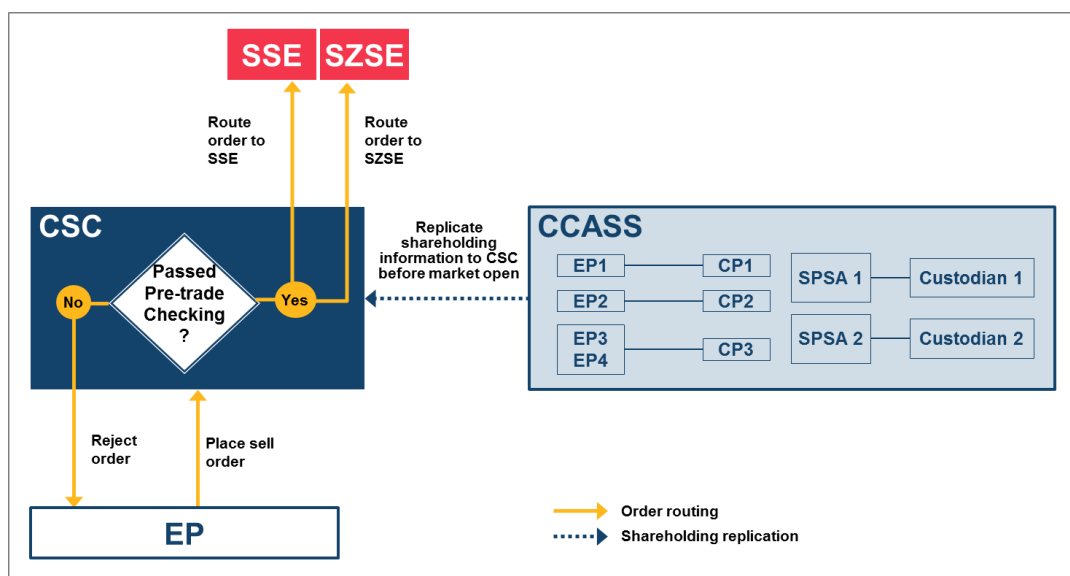
- 3.31.1. In both Connect Markets, shares purchased by investors cannot be sold before settlement, which means day trading is not allowed. Hong Kong and overseas investors as well as CCEPs trading SSE Securities through Shanghai Connect and SZSE Securities through Shenzhen Connect have to follow the same rule.

- 3.31.2. SEHK and HKSCC perform pre-trade checking at the EP and/or CP level on Northbound orders to ensure CCEPs do not conduct day trading (please refer to the following paragraphs for further details). CCEPs should also ensure that their clients do not conduct day trading on SSE and SZSE Securities.

3.32. **Pre-trade Checking**

- 3.32.1. Mainland investors are only allowed to sell SSE-listed and SZSE-listed securities which are available in their ChinaClear accounts at the end of the previous day (T-1). Such shareholding information is forwarded to SSE and SZSE each day-end. Based on the T-1 shareholdings, SSE and SZSE will reject a sell order if the investor does not have sufficient shares in his account.

- 3.32.2. SSE and SZSE will conduct the same pre-trade shareholding checking for the respective SEHK Subsidiary's sell orders. Under Shanghai and Shenzhen Connect, Connect Securities acquired by Hong Kong and overseas investors will be held in HKSCC's omnibus stock account maintained with ChinaClear Shanghai and ChinaClear Shenzhen respectively. Therefore, on each trading day, SSE and SZSE will validate the relevant SEHK Subsidiary's sell orders in respect of SSE Securities and SZSE Securities against HKSCC's account balances.
- 3.32.3. SEHK will apply similar checking on the sell orders in respect of Connect Securities against the relevant CCEP's shareholding records in its or its GCP's designated CCASS stock account(s) to ensure that there is no overselling by individual CCEPs. A sell order in respect of a Connect Security will be rejected if the cumulative sell quantity in that Connect Security put through by the CCEP for the day is higher than its stock holding position at market open.
- 3.32.4. To enable this pre-trade checking mechanism, an EP who is interested in trading Connect Securities must either be a CP itself (i.e. a DCP who holds stocks by itself), or appoint a GCP of CCASS to maintain all its Connect Securities in a designated sub-account and clear the Northbound trades on its behalf (in which case the EP would be an NCP). HKSCC will replicate the CCASS shareholding records to the CSC at the end of each day for pre-trade checking on the next trading day.
- 3.32.5. HKSCC will also replicate the CCASS shareholding records to the CSC in the morning of each day for pre-trade checking. The sellable quantity of SSE Securities and SZSE Securities will then be updated to CSC for pre-trade checking. EPs are advised to check the message posted on the Electronic Communication Platform whether the update has been successfully performed or not.
- 3.32.6. The diagram below illustrates the flow of pre-trade checking. Further details about the relevant shareholding maintenance approach and daily information replication process are explained in Section 4.

**Figure 3.2: Pre-trade Checking Work Flow**

EPs should make sure that they have in place procedures and systems to prevent their clients from conducting day trading and overselling of SSE/SZSE Securities.

### 3.32.7. SPSA Model

To facilitate investors whose Connect Securities are maintained with custodians to sell their Connect Securities without having to pre-deliver the Connect Securities from their custodians to their executing brokers, the SPSA Model was introduced with effect from 30 March 2015. Under the SPSA Model, an investor whose Connect Securities are maintained with a custodian which is a Custodian Participant or a non-EP GCP can request such Custodian Participant or non-EP GCP to open a Special Segregated Account (SPSA) in CCASS to maintain its holdings in Connect Securities. Each SPSA will be assigned a unique investor identification number ("Investor ID") by CCASS. The investor may designate at most 20 EPs as executing brokers which are authorised to use its Investor ID to execute orders in Connect Securities on its behalf. There should only be one set of designated EPs 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 EP 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 EP 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 EP's own reference and there will not be any intraday update in clients' stockholdings in their SPSAs.

For further details on clearing arrangements, please refer to Sections 4.23 - 4.33. 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 Frequently Asked Questions posted on the HKEX website.

### **3.33. Manual and Block Trades**

- 3.33.1. No manual trade, block trade, internalisation or reporting are allowed for Connect Securities.

### **3.34. Margin Trading**

- 3.34.1. Subject to conditions, margin trading in Connect Securities may be conducted by a CCEP. The following arrangement has been applied to margin trading conducted by CCEP for Shanghai Connect and Shenzhen Connect.
- 3.34.2. 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 EPs 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. The relevant parameters are included in the Rules of the Exchange.
- 3.34.3. 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 through CCEPs and Trade-through EPs will be subject to a similar restriction. 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 such margin trading in SZSE Securities through Shenzhen Connect.

- 3.34.4. According to the relevant rules of SSE and of 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 (see Section 3.34.5). 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, EPs 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.
- 3.34.5. Based on the 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 on its market 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%, it 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).
- 3.34.6. 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, EPs may refer to SSE’s and SZSE’s website at <http://www.sse.com.cn/services/tradingservice/margin> and <http://www.szse.cn/main/aboutus/xywjs/rzrqxzjd/> respectively.
- 3.34.7. 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 is not implemented yet, and CCEPs will be given sufficient advance notice on the timing of implementation to ensure that the necessary development work can be done.

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

- 3.35.1. 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.

3.35.2. 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.

3.35.3. SBL for the purpose of short selling will be 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.

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

3.35.5. The following persons may lend Connect Securities:

- (a) CCEPs;
- (b) Trade-through EPs (i.e. EPs registered with SEHK to conduct trading in Connect Securities through CCEPs for the account of their clients);<sup>3</sup>
- (c) EPs other than (a) and (b) above who own or hold Connect Securities for their own account or on a propriety basis ("Non-Registered EPs"); and
- (d) Qualified institutions ("QIs") which will include:
  - (i) HKSCC participants (other than IP);
  - (ii) funds, unit trusts or collective investment schemes which are managed by persons licensed or registered to carry out Type 9

<sup>3</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

(asset management) regulated activity under the SFO (refer to [SFC website](#) for details); and

- (iii) other persons accepted or specified by SSE or SZSE, as the case may be.

3.35.6. 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>	√	√

3.35.7. 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.

3.35.8. 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.

3.35.9. 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.

3.35.10. 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.

### 3.36. Covered Short Selling

3.36.1. 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 eligible 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 of 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, 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.

- 3.36.2. 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

- 3.36.3. 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 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/magin/margin/> (in respect of SSE market) and <http://www.szse.cn/main/disclosure/rzrqxx/ywgg/> (in respect of the SZSE market). 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 9:00 a.m. in the morning to obtain the updated List of Eligible SSE Securities for Short Selling and List of Eligible SZSE Securities for Short Selling.

EPs 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/>.

3.36.4. Each of SSE and SZSE will notify SEHK when an A share in its market is removed from the short selling stock list maintained by it. Short selling activities in that A share will then be suspended in both the Mainland and Hong Kong markets. Suspension of further short selling activities in that A share will not affect the outstanding SBL agreements entered into in relation to that A share for the purpose of short selling, and EPs and investors will not be required to close out such agreements. However, eligible lenders and borrowers are advised to consider the potential implications of the suspension mechanism on their business arrangement (including the relevant SBL agreements) before participating in A share short selling.

### 3.37. **Non-trade Transfer**

3.37.1. 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 EPs 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 3.35. The same non-trade transfer restriction also applies to Shenzhen Connect.

3.37.2. With respect to (c), EPs 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 EP to conduct further non-trade transfers for error trade rectification if SEHK believes that the EP has abused such rectification arrangements. SEHK may provide error trade reports and related information to the SFC and SSE. EPs are cautioned not to misuse this arrangement to effect off-exchange trades or transfers which are otherwise disallowed under the relevant Mainland regulation.

3.37.3. 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.

3.37.4. 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.

### **3.38. Trading Currency**

3.38.1. Currently, all Connect Securities are traded in RMB. Investors therefore trade and settle Connect Securities in RMB.

3.38.2. The existing RMB Equity Trading Support Facility operated by HKSCC, which serves as a back-up facility to enable investors to use HKD to buy RMB-denominated shares listed on SEHK, is not available for Connect Securities trading. Brokers should ensure they or their clients have sufficient RMB to settle Connect Securities trades.

### **3.39. Board Lot/Odd Lot, Order Size and Tick Size**

3.39.1. All SSE/SZSE-listed shares are subject to the same trading board lot size, which is 100 shares for buy orders. For Northbound trading, buy orders can be input in multiples of board lots, while sell orders can be input in any size (i.e. odd lots are allowed). It should be noted that when an EP inputs an odd lot sell order for its client, all the odd lots held by such client needs to be sold in one single order.

3.39.2. In Hong Kong, board lot and odd lot orders are matched on separate platforms. SSE and SZSE adopt a different arrangement whereby board lot and odd lot orders for a SSE and SZSE-listed security are matched on the same platform at the same share price.

3.39.3. The maximum order size for Connect Securities is 1 million shares and the tick size is uniformly set at RMB 0.01.

### 3.40. Price Limit

- 3.40.1. SSE/SZSE imposes a price limit on all SSE/SZSE-listed shares based on their previous closing price. The price limit is  $\pm 10\%$  for stocks, including those on ChiNext Market of SZSE, under normal circumstances and  $\pm 5\%$  for stocks on the risk alert. Any orders with price beyond the price limit will be rejected. Northbound trading is subject to the same rule.
- 3.40.2. In determining the triggering point of the price limit, the calculation is rounded to the tick size.

### 3.41. Dynamic Price Checking

- 3.41.1. 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.
- 3.41.2. During Opening Call Auction, the current bid (or previous closing 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 market close. SEHK has set the dynamic price checking at 3% during the initial phase. The percentage may be adjusted from time to time subject to market conditions.

### 3.42. Summary of Trading Arrangements

- 3.42.1. The following table summarises the Northbound trading arrangements:

**Table 3.2: Northbound Trading Arrangements**

	<b>Shanghai:</b>	<b>Shenzhen:</b>
<b>Trading hours</b>	<u>Opening Call Auction:</u> 9:15 a.m. – 9:25 a.m. (No order cancellation accepted during 9:20 a.m. – 9:25a.m.)	<u>Opening Call Auction:</u> 9:15 a.m. – 9:25 a.m. (No order cancellation accepted during 9:20 a.m. – 9:25a.m.)
	<u>Continuous Auction:</u> 9:30 a.m. – 11:30 a.m. 1:00 p.m. – 3:00 p.m. (CCEPs can input orders 5 minutes before the commencement of Opening Call Auction and Continuous	<u>Continuous Auction:</u> 9:30 a.m. – 11:30 a.m. 1:00 p.m. – 2:57 p.m.
	Call Auction and Continuous	<u>Closing Call Auction:</u> (No order cancellation accepted during



	Auction)	2:57 p.m. – 3:00 p.m.) (CCEPs can input orders 5 minutes before the commencement of Opening Call Auction and Continuous Auction)
<b>Stock Code</b>	6 digits, start with “60”	6 digits, Main Board & SME Board start with “00” and ChiNext Board start with “300”
<b>Trading and settlement currency</b>	RMB	
<b>Order type</b>	Limit order	
<b>Order amendment</b>	Not allowed	
<b>Day trading</b>	Not allowed	
<b>Manual trade</b>	Not available	
<b>Short selling</b>	Naked short selling not allowed  Covered short sell is allowed subject to certain conditions	
<b>Margin financing &amp; SBL</b>	Not allowed to participate in Mainland’s margin trading and securities lending  Margin trading and SBL outside Mainland is allowed subject to certain conditions	
<b>Board lot size</b>	100 shares (for buy orders)	
<b>Odd lot trading</b>	Sell orders only	
<b>Tick Size</b>	Uniform at RMB 0.01	

### 3.43. Files available for Northbound Trading

- 3.43.1. Northbound trade files in Central Trade Feed format using SSE and SZSE stock codes with 6 digits will be available on Electronic Communication Platform for download after mid-day and after market close.
- 3.43.2. On the days where Typhoon Signal No. 8 or above is hoisted after SSE’s and SZSE’s market open, ad hoc trade files will be provided. Details of this arrangement can be found on 8.8 (d).
- 3.43.3. Stock code mapping file on SSE/SZSE stock codes and CCASS stock codes will be available on HKEX website before market open. The file will contain

SSE/SZSE and CCASS stock code mapping, together with information indicating whether the stock is available for both “buy and sell” or “sell only”.

***Shareholding Restrictions on SSE and SZSE Securities***

- 3.44. 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.
- 3.45. 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.
- 3.46. 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, upon receiving the notice from SSE/SZSE, will identify the relevant EP (who will inform the relevant investor) and require it to follow the forced-sale requirements.
- 3.47. 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%.
- 3.48. 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, EP who was subject to the forced-sale requirement may submit an application to the SEHK for a forced-sale exemption.
- 3.49. EPs 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 forced-sale arrangement.

### ***Disclosure Obligations for SSE Securities and SZSE Securities***

- 3.50. 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 the three days.
- 3.51. For such investor, every time when 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.
- 3.52. 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.
- 3.53. The disclosure obligation in respect of changes to the interest in SSE/SZSE Securities does not apply to HKSCC in its capacity as the nominee holder of SSE/SZSE Securities holding on behalf of Hong Kong and overseas investors<sup>4</sup>.

### ***Quota***

- 3.54. Trading under Shanghai Connect and Shenzhen Connect will be subject to a Daily Quota. The Aggregate Quota for Shanghai Connect was abolished since 16 August 2016. No Aggregate Quota has been established for Shenzhen Connect.
- 3.55. Northbound trading and Southbound trading are respectively subject to a separate set of Daily Quota, which is monitored by SEHK, SSE and SZSE respectively.
- 3.56. The Daily Quota will apply on a “net buy” basis. Based on that principle, investors are always allowed to sell their cross-boundary securities regardless of the quota balance.
- 3.57. **Daily Quota**
  - 3.57.1. The Daily Quota limits the maximum net buy value of cross-boundary trades under Shanghai Connect and Shenzhen Connect each day. The Northbound Daily Quota is set at RMB 52 billion for each of Shanghai

<sup>4</sup> Article 115, SSE Stock Connect Pilot Provisions and detailed provisions of Shenzhen Connect to be provided.

Connect and Shenzhen Connect, and the Southbound Daily Quota is set at RMB 42 billion for each of Shanghai Connect and Shenzhen Connect.

- 3.57.2. 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 HKEX website every minute and disseminated through CCOG and OMD Index Feed at 5-second intervals:

$$\text{Daily Quota Balance} = \text{Daily Quota} - \text{Buy Orders} + \text{Sell Trades} + \text{Adjustments}^5$$

- 3.57.3. The Daily Quota will be reset every day. Unused Daily Quota will NOT be carried over to the following day's Daily Quota.
- 3.57.4. 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.
- 3.57.5. 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. Once the Northbound Daily Quota Balance drops to zero or the Daily Quota is exceeded during a closing call auction session, no further buy orders will be accepted for the remainder of the day.
- 3.57.6. 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 EPs.

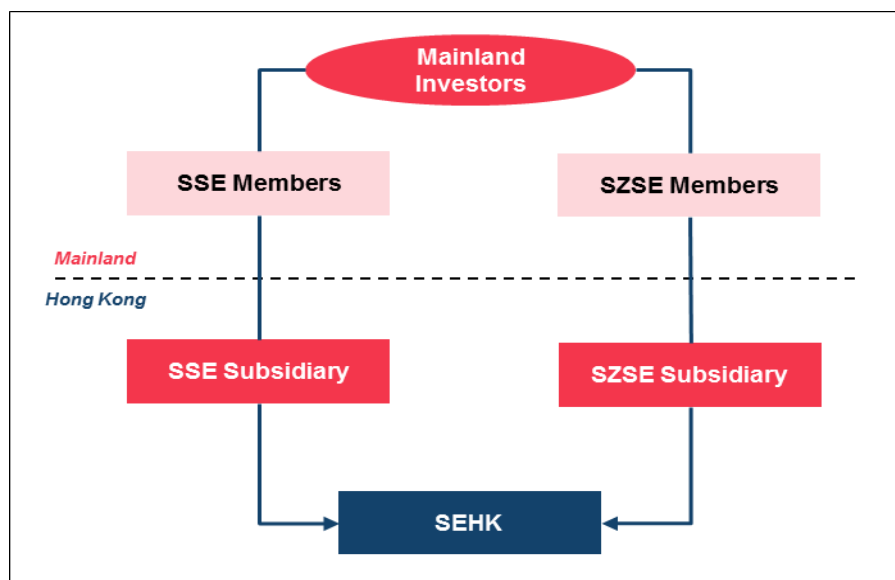
### ***Southbound Trading – Overview***

- 3.58. On a reciprocal basis, Mainland investors are / will be able to trade eligible SEHK-listed shares through Shanghai Connect and Shenzhen Connect (i.e. Southbound trading).
- 3.59. Similar to Northbound trading, Southbound activities are limited to secondary market trading. Mainland investors are not able to participate in Hong Kong's initial public offerings at the initial stage.
- 3.60. Mainland investors can place Southbound orders with their brokers (i.e. SSE/SZSE Members). Such orders will then be routed to SEHK for matching and execution through the SSE and SZSE Subsidiaries

<sup>5</sup> Daily Quota Balance will be increased when a) a buy order is cancelled; b) a buy order is rejected by the other exchange; or c) a buy order is executed at a better price.

respectively. These Subsidiaries are special participants of SEHK and are subject to the Rules of the Exchange. The relevant Subsidiary ensures that all Southbound orders placed on SEHK will in principle follow the business rules of the SEHK market. Figure 3.3 below illustrates the Southbound order flow.

**Figure 3.3: Southbound Order Flow**



- 3.61. SSE/SZSE Members who wish to participate in Shanghai and Shenzhen Connect need to comply with the requirements imposed by SSE/SZSE.
- 3.62. 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 have not been included. The Further 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***

- 3.63. 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 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***

3.64. Under Shenzhen Connect, Mainland investors are also able to trade selective SEHK Securities through SZSE Members. These include all the eligible securities for southbound trading under Shanghai Connect, 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 SSE or 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

***Sell-only SEHK Securities***

3.65. 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 share 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>6</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.

<sup>6</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 relation to A+H shares***

- 3.66. 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.
- 3.67. 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.
- 3.68. 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.
- 3.69. 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***

- 3.70. Mainland investors may receive any 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;
  - (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;

***Southbound Trading Arrangements***

- 3.71. *Trading Hours:* Mainland investors follow SEHK's trading hours to trade SEHK Securities.
- 3.72. *Order Types:* Mainland investors can initially place at-auction limit orders only during the pre-opening session and enhanced limit orders only during the continuous trading session.

- 3.73. *Order Amendment:* Mainland investors/SSE/SZSE Members follow the current Mainland practice when they want to amend a Southbound order, i.e. they must first cancel the original order and then input a new one.
- 3.74. *Day Trading:* Following the practice of the Hong Kong market, Mainland investors are allowed to conduct day trading in SEHK Securities.
- 3.75. *Pre-trade Checking:* Even though SEHK does not impose pre-trade checking requirements in the Hong Kong market, SSE/SZSE still applies pre-trade checking on all Southbound sell orders to make sure that Mainland investors will not oversell SEHK Securities. SSE/SZSE uses investors' T-1 day-end shareholdings plus their newly bought shares on T-day to conduct pre-trade checking on all sell orders of SEHK Securities.
- 3.76. *Manual Trades:* Mainland investors are not allowed to conduct manual trades on SEHK Securities in the initial stage.
- 3.77. *Trading Currency:* Mainland investors trade SEHK Securities quoted in HKD but settle such trades with ChinaClear or its clearing participants in RMB. Where required, ChinaClear is responsible for converting (i) RMB received from its participants into HKD for settlement with HKSCC and (ii) HKD received from HKSCC into RMB for settlement with its participants. Please refer to Section 4 for the detailed money settlement process.
- 3.78. *Short Selling, Margin Financing and SBL:* Under current Mainland market structure, Mainland investors are not able to do covered short selling or engage in margin financing or stock borrowing and lending as the existing margin trading and securities lending regime in the Mainland does not cover SEHK Securities.
- 3.79. *Board Lot/Odd Lot, Order Size and Tick Size:* All Southbound orders are subject to the board lot, order size and tick size requirements of SEHK. For odd lot trading, SSE/SZSE only allows Mainland investors to input odd lot sell orders; however, the point-and-shoot function (i.e. Input Odd Lot / Special Lot Purchase (semi-automatic) and Input Odd Lot / Special Lot Sale (semi-automatic) functions) and off market trading are not be available initially.
- 3.80. *Price Limit:* Southbound orders are subject to the quotation rules of SEHK.
- 3.81. *Southbound Quota:* Similar to Northbound trading, a quota system is also in place for Southbound trading to control the initial *pace* and *size* of cross-boundary fund flows under Shanghai and Shenzhen Connect. The Daily Quota for Southbound trading is set at RMB 42 billion for each market. The Aggregate quota for Shanghai Connect was abolished since 16 August 2016.



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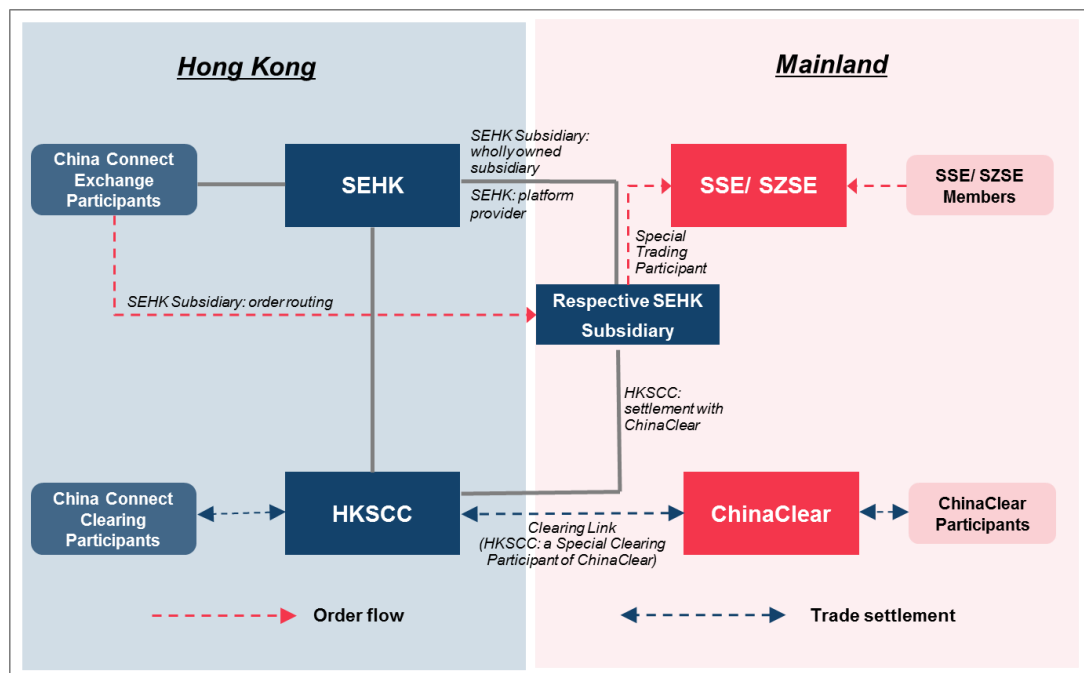
## SECTION 4: CLEARING AND SETTLEMENT

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### *Overview of Clearing and Settlement*

- 4.1. Under Shanghai Connect, ChinaClear and HKSCC have established Clearing Links whereby the two clearing houses have become a participant of each other, and have agreed to undertake the settlement obligations in respect of the Southbound and Northbound trades.
- 4.2. To implement Shenzhen Connect, the Clearing Links between ChinaClear and HKSCC have been extended such that HKSCC undertakes the settlement obligations in respect of the Northbound trades under Shenzhen Connect and, ChinaClear undertakes the settlement obligations in respect of Southbound trades under Shenzhen Connect.
- 4.3. For Northbound trades executed on SSE and SZSE, HKSCC on the one hand settles with ChinaClear in Shanghai and Shenzhen respectively on behalf of its CCCPs, and on the other hand settles with its CCCPs in Hong Kong under the CCASS Continuous Net Settlement (CNS) System<sup>7</sup>. There is no contractual relationship between CPs and ChinaClear.
- 4.4. As HKSCC stands in between CCCPs and ChinaClear and clears and settles Northbound trades of CCCPs with ChinaClear, risk management measures and settlement processes and procedures which align CCCPs' obligations with the operation and requirements of the Shanghai and Shenzhen markets need to be established. Relevant risk management and settlement arrangements have already been included in the CCASS Rules upon the launch of Shanghai Connect and Shenzhen Connect.
- 4.5. Northbound trades executed under Shanghai Connect and Shenzhen Connect 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. CCCPs shall settle their net money obligations arising from both the Shanghai and Shenzhen markets with HKSCC.
- 4.6. The following diagram illustrates the Northbound trading and clearing arrangement, and the relationship between the key stakeholders along the flow:

<sup>7</sup> When a trade is being accepted by HKSCC to be settled under the CNS System, HKSCC will be substituted as the settlement counterparty and such settlement will be effected between CPs and HKSCC on a net basis.



**Figure 4.1: Overview of Northbound Trading and Clearing Arrangement**

***Stock Settlement of Northbound Trades on T day (Updated as of 20 November 2017)***

- 4.7. According to ChinaClear's settlement schedule for both the Shanghai and Shenzhen markets, ChinaClear will settle A share trades by debiting and crediting investors' stock accounts by 6:00 p.m. on T day. HKSCC will follow this schedule to settle the Northbound trades with ChinaClear Shanghai and ChinaClear Shenzhen.
- 4.8. On each trading day, HKSCC may have net buy positions in some SSE Securities or SZSE Securities, and net sell positions in others. In order for HKSCC to settle the various positions with ChinaClear on time, four Batch Settlement Runs ("**BSRs**") have been introduced under Shanghai Connect and Shenzhen Connect respectively for CCCPs to settle CNS stock positions in SSE Securities and/or SZSE Securities with HKSCC. The following is a brief description of the CNS BSR for SSE Securities and SZSE Securities:
  - (a) First and second BSRs at around 4:45 p.m. and 5:30 p.m.: CCASS will debit the Clearing Account of those CCCPs who are holding short positions in SSE Securities and/or SZSE Securities in these BSRs, before HKSCC delivers SSE Securities and/or SZSE Securities to settle any corresponding net short positions with ChinaClear at 6:00 p.m. on the same day. CCASS will follow the existing CNS allocation

algorithm to allocate the shares to those CCCPs who are holding long positions in the relevant SSE Securities and/or SZSE Securities; and

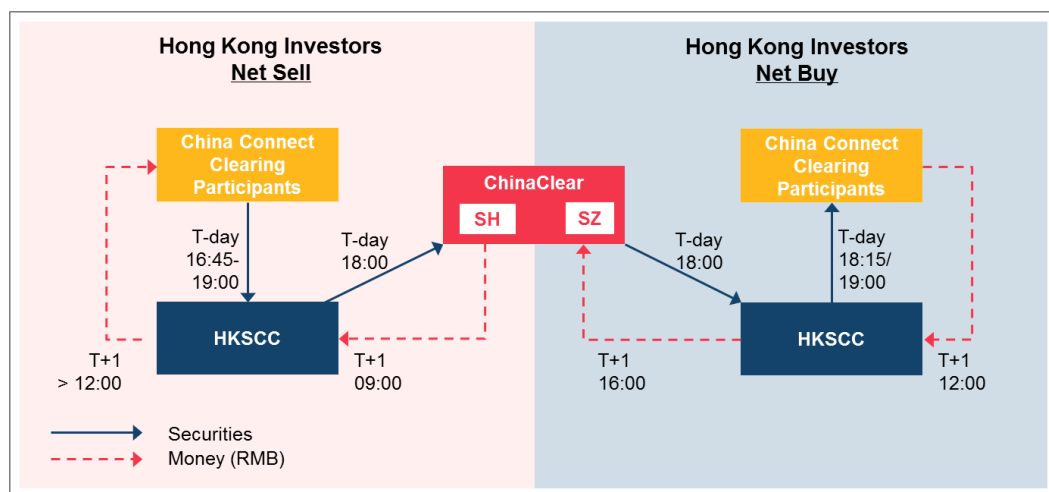
- (b) Third and fourth BSRs at around 6:15 p.m. and 7:00 p.m.: For those SSE Securities and/or SZSE Securities that HKSCC receives from ChinaClear at around 6:00 p.m., CCASS will allocate to the relevant CCCPs who are holding long positions in these BSRs. HKSCC will also continue to settle outstanding positions in SSE Securities and/or SZSE Securities not being settled in the first and second BSRs.
- 4.9. CNS positions in SSE Securities and SZSE Securities will be settled via the four BSRs. CNS short stock positions of CCCPs may also be settled by the input of Delivery Instructions (“DI”) into CCASS from 4:00 p.m. to 7:00 p.m. on each trading day.
- 4.10. To facilitate CCCPs to prepare for SSE Securities and SZSE Securities settlement, CCASS will generate and make available two Final Clearing Statements<sup>8</sup> (“FCSs”) for Northbound trades to CCCPs at around 4:00 p.m., one for each Connect Market on T day.
- 4.11. SSE Securities and SZSE Securities allocated to CCCPs’ Clearing Accounts for CNS settlement will be put on hold until the relevant money obligations have been fulfilled.

***Money Settlement of Northbound Trades on T+1 (Updated as of 20 November 2017)***

- 4.12. Following the existing practice of the Connect Markets, Connect Securities are traded and settled in RMB.
- 4.13. Money settlement of Northbound trades will take place on T+1 via Real Time Gross Settlement (“RTGS”). Similar to the existing CCASS money settlement mechanism, CCCPs can refer to the existing CCASS report “Statement of Money Ledger” available on T+1 morning for their CNS money obligations in Northbound trades for funding preparation.
- 4.14. CNS money positions in SSE Securities and SZSE Securities of the same CCCP on a trading day will be netted into a payable or receivable amount for settlement between HKSCC and the CCCP. On T+1 morning, CCASS will issue CHATS Payment Instructions (CPIs) in the net amount to CCCPs’ designated banks such that:
  - (a) each CCCP who has a net payable amount shall make payment to HKSCC by 12:00 noon on T+1, via RTGS; and

<sup>8</sup> Unlike the Hong Kong market, trade amendment is not available in the Connect Markets. Hence, CCASS will NOT generate Provisional Clearing Statement (PCS) for Northbound trades.

- (b) each CCCP who has a net receivable amount will receive money from HKSCC shortly after 12:30 p.m. on T+1, via RTGS.
- 4.15. In addition to any CNS money payment obligation of CCCPs, CCCPs also need to pay other SSE Securities and SZSE Securities related fees and levies, including Stamp Duty (交易印花稅), Handling Fee (經手費), Securities Management Fee (證管費), and Transfer Fee (過戶費 levied by ChinaClear Shanghai and 登記過戶費 levied by ChinaClear Shenzhen). CCASS will collect such fees from CCCPs via Direct Debit Instructions (“DDIs”). Details of the fees and levies are explained in Section 10.
- 4.16. The following diagram illustrates the stock and money settlement flows of Northbound trades:



**Figure 4.2: Stock and Money Settlement Flow of Northbound Trades**

- 4.16a The list of designated banks who provide RMB CHATS service is available at [http://www.hkex.com.hk/-/media/HKEX-Market/Services/Clearing/Securities/Overview/List-of-Designated-Banks-Non-Investor-Participants/RMB/NON-IP\\_BKLIST\\_RMB.pdf?la=en](http://www.hkex.com.hk/-/media/HKEX-Market/Services/Clearing/Securities/Overview/List-of-Designated-Banks-Non-Investor-Participants/RMB/NON-IP_BKLIST_RMB.pdf?la=en)

***Transfer of Connect Securities within CCASS (Updated as of 14 May 2018)***

- 4.17. As explained in Section 3, the SPSA Model which is based on the shareholding balance of a client in a Special Segregated Account maintained with a Custodian Participant or a non-EP GCP, runs alongside the pre-trade checking model which is based on EPs' shareholdings. Sell orders in SSE Securities and SZSE Securities will be subject to either of these pre-trade checking models where
- (a) under the non-SPSA pre-trade checking model :

- i. the cumulative sell quantity in an SSE Security or SZSE Security put through by an EP for the day cannot be larger than its shareholding balance at 8:15 a.m. on T day in that SSE Security or SZSE Security. The objective of this arrangement is to ensure CCCPs have sufficient shares to settle their Northbound trades on T day.
- ii. For the proper functioning of this pre-trade checking model, CCASS must ensure SSE Securities and SZSE Securities committed as sellable shares for the day remain in the relevant CCCPs' stock accounts in CCASS until they settle their CNS short positions on T day. As such, stock transfers between CPs through Settlement Instructions ("**SI**"s) will NOT be allowed before the completion of the fourth BSR at around 7:00 p.m. on each settlement day unless the delivering CPs have no outstanding CNS short positions in the transferred stock.

(b) Under the SPSA Model :

- i. the cumulative sell quantity in an SSE Security or SZSE Security put through by an EP for the day for an SPSA client cannot be larger than its shareholding balance in its SPSA account under its Custodian Participant or non-EP GCP at 8:15 a.m. on T day in that SSE Security or SZSE Security. The objective of this arrangement is to ensure that the client has sufficient shares to settle its Northbound trades on T day.
- ii. To facilitate CNS settlement of CCCPs for short positions arising from SPSA trades, SIs for the transfer of shares from SPSA accounts to stock accounts of CCCPs are allowed at 4:45 p.m., 5:30 p.m., 6:15 p.m. and 7:00 p.m. prior to the first to fourth BSR respectively on each settlement day.

4.18. SIs can be settled in BSRs executed at 4:45 p.m., 5:30 p.m., 6:15 p.m., 7:00 p.m. and 7:45 p.m. on each settlement day. CPs can effect DIs to settle their SIs in Connect Securities between 4:00 p.m. to 7:45 p.m. provided that they have no outstanding CNS short positions in the relevant Connect Securities or they are under circumstances stated in Section 12.1.6 (vi) (e) of CCASS Operational Procedures. However, CPs can only effect DIs to settle SIs executed on a Realtime Delivery versus Payment ("**RDP**") basis from 4:00 p.m. to 5:30 p.m. (for HKD/USD SI) or from 4:00 p.m. to 7:00 p.m. (for CNY SI).

4.19. It should be noted that although SIs in Connect Securities are only settled at BSRs at around 4:45 p.m., 5:30 p.m., 6:15 p.m., 7:00 p.m. and 7:45 p.m. on each settlement day, CPs can nevertheless input SIs anytime during the day. SIs in Connect Securities can be matched in any of the nine SI matching runs at around 11:45 a.m., 1:45 p.m., 3:00 p.m., 4:45 p.m., 5:00 p.m., 5:30 p.m., 6:15 p.m., 7:00 p.m. and 7:45 p.m. respectively. These 5 BSRs will

only settle SIs from Delivery Participants who have no outstanding CNS short positions in the relevant Connect Securities, or who are under circumstances stated in Section 12.1.6 (vi) (e) of CCASS Operational Procedures.

- 4.20. SIs in Connect Securities can be settled on a Free of Payment (“**FOP**”) basis, Delivery versus Payment (“**DVP**”) basis or RDP basis in HKD, RMB or USD. The RDP money settlement for SIs in Connect Securities rides on the same model as in the Hong Kong market. During a BSR or upon the input of a DI, CCASS will put on-hold the relevant securities in the relevant stock account of the delivering CCCP and issue a CPI to the Designated Bank of the receiving CCCP for money settlement. The Designated Bank of the receiving CCCP will have to instruct payment to the Designated Bank of the delivering CCCP via the RTGS system operated by HKICL. Upon receipt of payment confirmation from HKICL, CCASS will effect the delivery of the relevant securities from the delivering CCCP to the receiving CCCP immediately.

CCASS Participants can refer to Section 21 of CCASS Operational Procedures for the fee applicable to execute SIs in Connect Securities. CCASS Participants should also take into consideration of the clearing tariff charged by HKICL to paying banks on effecting CHATS payments. Paying designated banks, subject to their commercial considerations, may pass on such clearing tariff and add other charges to CCCPs and Custodian Participants who execute RDP SIs on Connect Securities. Please refer to the “CHATS” section of the [HKICL Clearing Tariff schedules for RMB, HKD and USD](#).

- 4.21. Based on existing practice, CNS allocated SSE Securities or SZSE Securities will be put on-hold until the relevant money payment obligations have been fulfilled. If needed, CCCPs may effect one cash prepayment and/or apply for early release of their CNS allocated SSE Securities or SZSE Securities for same day settlement via SIs on T day.

CCCPs must make cash prepayment requests to HKSCC via the CCASS Terminal function, “Cash Prepayment Instruction Maintenance for China Connect Markets” or request HKSCC to generate recurring cash prepayment instructions on behalf of them automatically via “Cash Prepayment Standing Instruction Maintenance for China Connect Markets”; CCCPs must liaise closely with their banks to ensure that available funds are transferred to HKSCC’s specified bank account before T-day 6:00 p.m. if “Others” is selected as the payment method or before T-day 7:00 p.m. if “CHATS” is selected as the payment method. Upon receipt of good funds, HKSCC will update the CP’s Settlement Account Money Ledger to reduce their money obligation due to HKSCC and, release the on-hold allocated Connect Securities.

Application for the early release of on-hold allocated Connect Securities in prescribed form must be submitted to HKSCC between 4:00 p.m. and 5:30 p.m. CCCPs must liaise closely with their banks to ensure that the same day

available funds in USD or HKD are transferred to HKSCC's specified bank account no later than T-day 5:30 p.m. Upon acceptance of the application and receipt of good funds, HKSCC will update the CCCP's Money Ledger and CCMS Collateral Account to record the collateral deposited and release the on-hold allocated Connect Securities. The collateral will be redelivered to the CCCP without interest at around 5:50 p.m. on T+1 after the CCCP fully satisfies the CNS payment obligations in respect of the Connect Securities which have been early released in RMB by 12 noon on T+1. For detailed procedures and the related handling fee to be charged for the application, please refer to Sections 10A.14.5A and 21.1A of CCASS Operational Procedures.

While the transfer of SSE Securities and SZSE Securities between CCCPs via SIs is subject to time and account restrictions as mentioned in 4.19 above, CCCPs can nevertheless transfer SSE Securities and SZSE Securities between their own stock accounts anytime from 7:15 a.m. to 8:00 p.m. via Account Transfer Instructions ("ATI") or Stock Segregated Account Transfer Instructions ("STI"), subject to certain restrictions as detailed in the CCASS Terminal User Guide for Participants in [Section 8.1.7](#) and [Section 8.1.7a](#) respectively.

***CCASS Shareholding Records as Basis for Pre-trade Checking (Updated as of 14 May 2018)***

- 4.22. As described in Section 3, under the non-SPSA pre-trade checking model, sell orders in Connect Securities are subject to pre-trade checking, where a sell order will be rejected if the cumulative sell quantity in a Connect Security executed by the EP for the day is larger than its shareholding balance at 8:15 a.m. on T day in that Connect Security. As a result, EPs who want to participate in China Connect must be able to identify and commit to SEHK under the non-SPSA pre-trade checking model the Connect Securities that can be sold by them.
- 4.23. An EP may or may not be a CCCP. For an EP who is also a CCCP, it can refer to its Connect Securities in all of its CCASS stock accounts (except stock account 20 which is for collateral recording and management) as its sellable Connect Securities. For an EP who is an NCP, it can appoint a GCP who is a CCCP to hold Connect Securities on its behalf, in a designated stock account of the GCP, as its sellable Connect Securities. The GCP so appointed should be the same GCP that clears and settles the NCP's trades in HK stocks, SSE Securities and SZSE Securities. HKSCC will replicate the shareholding records to the CSC at the end of each day for pre-trade checking on the next trading day.
- 4.24. A GCP may represent one or multiple NCPs. In either case the GCP still needs to inform HKSCC whether it is supporting NCPs in Northbound trading, and under which stock account(s) in accordance with the following:

- (i) for a GCP who only clears its own Northbound trades or one NCP's Northbound trades, the GCP may opt to designate all of its CCASS stock accounts (except stock account 20 which is for collateral recording and management) or to designate up to 40 of its CCASS stock accounts (except stock accounts 01, 02, 17, 18, 19 and 20) to hold its Connect Securities for the purpose of pre-trade checking;
  - (ii) for a GCP who clears Northbound trades for multiple NCPs, the GCP can assign up to a maximum of 40 stock accounts for each of its underlying NCPs (except stock accounts 01, 02, 17, 18, 19 and 20 which will not be allowed to be mapped to any particular EP). The same designated stock account mapping shall be applied to the pre-trade checking of both SSE Securities and SZSE Securities.
- 4.25. For those GCPs who have set up stock accounts for participating in Northbound trading, they should ensure any Connect Securities allocated to their clearing accounts for CNS settlement are properly transferred to their respective NCPs' designated stock accounts and/or their own stock accounts on each settlement day, for pre-trade checking purpose on the next trading day. The GCPs should also be mindful of the CNS securities on-hold mechanism, which means that in case they have a net payable amount due to HKSCC on their CNS positions in Connect Securities and those positions are held on behalf of a number of NCPs, they would need to make cash prepayment and/or apply for the early release of on-hold allocated Connect Securities to release the CNS allocated Connect Securities before they can transfer such Connect Securities to the respective stock accounts for pre-trade checking on the next trading day.
- 4.26. For Connect Securities maintained by a client in an account with a Custodian Participant or a non-EP GCP, unless the account is an SPSA, the Custodian Participant or non-EP GCP would need to act according to the request of the client to transfer Connect Securities to the relevant CCCPs by the end of T-1 in order to enable the client to sell the Connect Securities on T day.
- 4.27. On the other hand, Hong Kong and overseas investors who opt to adopt the SPSA Model must maintain their SPSAs with Custodian Participants or non-EP GCPs. SPSA is a type of stock segregated account which facilitates pre-trade checking. A unique Investor ID will be assigned to each SPSA opened in CCASS and an investor can request its Custodian Participant or non-EP GCP to map this Investor ID to up to 20 designated brokers to execute orders in Connect Securities on its behalf. CCASS will take a snapshot of Connect Securities holdings under custodians' SPSAs and replicate them to CSC. Eligible EPs appointed by an SPSA investor can execute its sell orders with its Investor ID which would enable CSC to perform pre-trade checking based on the shareholding balance in its SPSA account with that Investor ID. Connect Securities for matched sell trades shall be transferred from the SPSA to the relevant EP before the CNS BSR on T day.



- 4.28. Investor Participants of HKSCC are required to maintain Connect Securities with their brokers or custodians.

***Stock Settlement Failure of Northbound Trades***

- 4.29. A CCCP who has taken up the stock settlement obligations of Northbound trades executed based on its shareholdings (i.e. adopting the current pre-trade checking model) should have sufficient shareholdings in its stock accounts to meet its delivery obligations. However, since CNS settlement is only effected through the stock clearing account, a CCCP may still fail to settle its CNS short stock positions in Connect Securities if it fails to transfer them from its other stock accounts to its stock clearing account in time.
- 4.30. A CCCP who has taken up the stock settlement obligations of Northbound trades executed for its SPSA clients (i.e. adopting the Enhanced Pre-trade Checking Model or SPSA Model) should arrange for the transfer of Connect Securities via SIs from such clients' SPSA accounts maintained with their Custodian Participants or non-EP GCPs so that the CP can settle the corresponding short stock positions with CNS. Failure of any such SI transfer from its clients' SPSA accounts maintained with their Custodian Participants or non-EP GCPs will render the CP failing to settle its CNS short stock positions arising from such Northbound trades.

***Buy-in exemption for overdue short positions in Connect Securities (Updated as of 16 January 2017)***

- 4.31. Upon the launch of Shenzhen Connect, HKSCC may grant buy-in exemptions in respect of overdue short positions in Connect Securities on the following grounds:
- (a) Clerical error – where the CCCP has sufficient shareholdings in its stock accounts but fails to transfer Connect Securities to its stock clearing account for CNS settlement due to clerical error or the delivering Custodian Participants have sufficient shareholdings and received valid instructions from clients but fail to transfer Connect Securities to the CCCP for settlement due to clerical error; or
  - (b) Contingent scenarios – where the settlement failure is due to contingent scenarios such as the acts of God or other events beyond the control of the CCCP.

A CCCP who wishes to apply for a buy-in exemption is required to submit the application before the prescribed deadline of 8:00 p.m. on the due settlement day. Exempted short positions in SSE and SZSE Securities are required to be settled by the CCCP on the immediately following settlement day. The default fee paid by the CCCP may only be returned to it if the buy-in exemption is granted under the ground of contingent scenarios.

To prohibit CCCPs from abusing the buy-in exemption mechanism, certain limitations will apply. CCCPs which have successfully claimed exemptions for Connect Securities under the ground of clerical error three times (sum of successful applications in all Connect Markets) within a rolling period of ten Northbound settlement days will not be allowed to apply for buy-in exemption under the ground of clerical error. Such limitation will apply for the four calendar weeks counting from the date the third exemption was granted.

For the avoidance of doubt, the number of successful applications in the Hong Kong market and the Connect Markets are counted separately.

4.32. The following will be applied if a CCCP fails to settle its CNS short stock position in a Connect Security by the fourth BSR at around 7:00 p.m. on T day:

- (a) the CCCP will be subject to buy-in on T+1, as well as penalty charges unless buy-in exemption is granted;
- (b) all outstanding delivering SIs of that CCCP in the Connect Security concerned will only be effected under the following circumstances:
  - (i) where the overdue short positions are solely due to the failure of the CCCP to transfer such Connect Securities to its stock clearing account for CNS settlement, but the CCCP has since transferred sufficient quantity of Connect Securities to its stock clearing account; or
  - (ii) where the overdue short positions are solely due to an SPSA Delivery Failure and a request for adjustment has been submitted to HKSCC in accordance with Section 2.3.15 of CCASS Operational Procedures; or
  - (iii) where the overdue short positions are partly due to an SPSA Delivery Failure and partly due to the failure of the CCCP to transfer such Connect Securities to its stock clearing account for CNS settlement, and (i) in respect of the SPSA Delivery Failure, a request for adjustment has been submitted to HKSCC in accordance with Section 2.3.15 of CCASS Operational Procedures and (ii) in respect of the overdue short position which are not due to SPSA Delivery Failure, the CCCP has since transferred sufficient quantity of Connect Securities to its stock clearing account;
- (c) the overdue quantity of the Connect Security will be deducted from the CP's shareholding record when the shareholding record is replicated from CCASS to CSC for pre-trade checking on the following trading day; and
- (d) for a GCP, if there is an outstanding short position in a Connect Security in its stock 01 account, the sellable quantity of that Connect Security of each of its NCPs under the GCP will be deducted by the outstanding short position quantity.

***Adjustment of sellable balance and the effect of SIs that is pending for settlement due to failure of stock delivery from SPSAs (Updated as of 16 January 2017)***

- 4.33. Under the SPSA Model, if, after a sell order is executed, the correct number of shares sold is not transferred from the SPSA to the relevant CCCP for any reason, the following consequences may follow:
- (i) the SPSA Delivery Failure may cause the CCCP to have an overdue short stock position in the Connect Security for CNS settlement, resulting in all its SIs for delivering the same Connect Security not to be effected and pending for settlement <sup>9</sup>;
  - (ii) whether or not the CCCP has an overdue short stock position, the sellable balance of the Selling SPSA would reflect a higher number of shares that could be sold on the next trading day<sup>10</sup>, and the sellable balance of the CCCP would reflect a lower number of shares that could be sold by or through it on the next trading day, due to the SPSA Delivery Failure. This may in turn affect the ability of the CCCP's other clients to sell the Connect Security on the next trading day; and
  - (iii) the position of the CCCP's other SPSA Clients that have bought shares in the same Connect Security on the same trading day may be affected - their sellable balance may reflect a lower number of shares that could be sold on the next trading day due to the SPSA Delivery Failure.
- 4.34. For the above reasons, where an SPSA Delivery Failure has occurred, the CCCP is required to request for adjustments of its sellable balance, the sellable balance of the selling SPSA, and where applicable, the sellable balance of any buying SPSA that may be affected using the SPSA Delivery Failure Maintenance function in its CCASS Terminal. Where an overdue short stock position is solely or partly caused by an SPSA Delivery Failure, CCASS will not effect the delivery of the SIs of the CCCP for the same Connect Security unless the condition as specified in 4.32(b) (ii) or (iii), as the case may be, is satisfied. (Please refer to the CCASS Terminal User Guide for Participants for details on the function.)

***Depository and Nominee Services (Updated as of 16 January 2017)***

**4.35. Depository Services**

- 4.35.1. For Shanghai Connect, HKSCC as a participant of ChinaClear maintains an omnibus stock account with ChinaClear Shanghai under which it holds SSE

<sup>9</sup> Section 12.1.6(vi)(e) of the CCASS Operational Procedures

<sup>10</sup> This could be confusing for the Selling SPSA Client and may give a misleading impression that it has more shares to sell on the next trading day than it actually holds.

Securities as nominee on behalf of CCASS Participants. The total holdings in SSE Securities in HKSCC's omnibus stock account with ChinaClear Shanghai equals the aggregate holdings in SSE Securities of all CCASS Participants in CCASS.

- 4.35.2. For Shenzhen Connect, the same arrangement applies. HKSCC has opened and maintained an omnibus stock account with ChinaClear Shenzhen to hold SZSE Securities as nominee on behalf of CCASS Participants. The total holdings in SZSE Securities in HKSCC's omnibus stock account with ChinaClear Shenzhen equals the aggregate holdings in SZSE Securities of all CCASS Participants in CCASS.
- 4.35.3. ChinaClear is the Central Securities Depository for the securities listed on SSE and SZSE. Since Connect Securities are issued in scripless form, physical deposits and withdrawals of Connect Securities into/from CCASS are, therefore, not available to CCASS Participants.
- 4.35.4. Hong Kong and overseas investors can only hold Connect Securities through their brokers/custodians and their ownership of such is reflected in their brokers/custodians' own records such as client statements.
- 4.35.5. According to PRC law, ChinaClear's records form the electronic register of members ("**ROM**"). As such, HKSCC is recognised as the registered holder of the Connect Securities held in its omnibus stock accounts in ChinaClear. HKSCC holds Connect Securities as nominee for CCASS Participants and, pursuant to CCASS Rules, has no proprietary interest in the Connect Securities.

#### 4.36. **Overview of Nominee Services**

- 4.36.1. Notwithstanding the fact that HKSCC does not claim proprietary interests in the Connect Securities held in its omnibus stock accounts in ChinaClear, ChinaClear as the share registrar for SSE and SZSE listed companies will still treat HKSCC as one of the shareholders when it handles corporate actions in respect of such Connect Securities.
- 4.36.2. HKSCC will provide nominee services to CCASS Participants in respect of Connect Securities held in CCASS in accordance with and subject to CCASS Rules.
- 4.36.3. HKSCC will monitor the corporate actions affecting Connect Securities and keep CCASS Participants informed of the details of all corporate actions relating to Connect Securities via CCASS terminals as soon as practicable on the announcement date. CCASS Participants can refer to the existing nominee related on-line enquiry functions and reports for the information.
- 4.36.4. In addition to the CCASS on-line functions and reports, CCASS Participants can also refer to the websites of SSE

(<http://www.sse.com.cn/disclosure/listedinfo/announcement/>) and SZSE (<http://disclosure.szse.cn/m/drpg.htm>) and officially appointed newspapers and website(i.e. Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報) and Securities Daily (證券日報) and [www.cninfo.com.cn](http://www.cninfo.com.cn) (巨潮資訊網)) for the corporate announcements made by SSE- or SZSE-listed companies. CCASS Participants 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. Corporate announcements posted through these channels are only available in Simplified Chinese.

4.36.5. Cash dividend, bonus issue and voting are the most common types of corporate actions relating to Connect Securities. Take-over offers, rights issues, open offer and business mergers may also occur but they are relatively uncommon. The following paragraphs provide a general description about each of these corporate actions.

#### 4.37. **Cash Dividend (現金紅利)**

4.37.1. HKSCC will endeavour to collect and distribute cash dividends relating to Connect Securities to CCASS Participants in a timely manner. Each CCASS Participant's cash dividend entitlement will be determined by reference to its holding of the relevant Connect Security on the record date according to HKSCC's record, taking into account any overdue CNS long and short positions in the relevant Connect Security.

4.37.2. With regard to the dividend withholding tax ("**WHT**") on SSE Securities, the 10% WHT that currently applies to HKSCC under the Corporate Income Tax Law ("**CIT**") of the PRC is applicable to the SSE Securities held by Hong Kong and overseas investors. The same arrangement is applicable to SZSE Securities.

#### 4.38. **Bonus issues (紅股)**

4.38.1. Bonus issue entitlements of each CCASS Participant will be determined by reference to its holding of the relevant Connect Security on the record date according to HKSCC's record, taking into account any overdue CNS long and short positions in the relevant Connect Security. The listing date of the bonus shares in the SSE Market is normally two business days after the record date while the listing date of the bonus shares in the SZSE Market is normally the business day following the record date.

4.38.2. HKSCC will to the extent practicable arrange to credit the entitled bonus shares to the stock accounts of relevant CCASS Participants on the business day-end immediately before the listing date of the bonus shares.

- 4.38.3. In the Mainland, bonus issues are normally paid with cash dividends. WHT will be imposed on both bonus shares and cash dividends, and the total WHT requirement will be deducted from the cash dividend amount. This practice is currently applicable to H shares.

#### 4.39. **Shareholders Meeting**

- 4.39.1. SSE- and SZSE-listed companies usually announce their annual general meeting (“**AGM**”) / extraordinary general meeting (“**EGM**”) information about two to three weeks before the meeting date. A poll is called on all resolutions for all votes.
- 4.39.2. HKSCC will inform CCASS Participants of all general meeting details such as meeting date, time and the number of proposed resolutions. CCASS Participants who have relevant holdings in their stock accounts (for themselves or as agents for the underlying investors) as at the record date may provide HKSCC with instructions on how to cast their votes via CCASS’s existing voting functions.
- 4.39.3. 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. HKSCC will from time to time specify in the CCASS Terminal User Guide for CCASS Participants such Shareholding Category Disclosure as may be required from CCASS Participants.
- 4.39.4. As HKSCC is the shareholder on record of SSE 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. The same arrangement is applicable to SZSE Securities.

#### 4.40. **Take-over Offers (要約收購) (Updated as of 20 November 2017)**

- 4.40.1. Take-over offers made to holders of Connect Securities may be for cash or for securities.

- 4.40.2. HKSCC will inform CCASS Participants of details of take-over offer such as the offer rate and the subscription period, including the relevant time-limit. Normally, the offer period is around 30 days.
- 4.40.3. CCASS Participants may submit instructions via CCASS's existing subscription functions immediately after the fourth BSR at around 7:00 p.m. to 7:45 p.m. during the subscription period. HKSCC will debit the Connect Securities in respect of which acceptances have been made from the relevant stock accounts of the CCASS Participants on the instruction input day.
- 4.40.4. Based on the instructions of CCASS Participants, HKSCC will submit one consolidated acceptance instruction to the relevant SSE- or SZSE-listed company via the designated electronic platform or other means as agreed with SSE or SZSE.
- 4.40.5. Upon receipt of the cash / securities consideration, HKSCC will to the extent practicable arrange to distribute it to the relevant CCASS Participants on the same day.

#### 4.41. **Rights Issue / Open Offer (配股/公開配售)**

- 4.41.1. Rights issue / open offer entitlements of each CCASS Participant will be determined by reference to its holding of the relevant Connect Security on the record date according to HKSCC's record, taking into account any overdue CNS long and short positions in the Connect Security. Rights / open offer are non-tradable.
- 4.41.2. HKSCC will inform CCASS Participants of details of rights issues/ open offers such as the subscription price and the subscription period, including the relevant time-limit. Normally, the subscription period is around one week, but it may be as short as one business day only.
- 4.41.3. CCASS Participants may submit instructions via CCASS's existing subscription functions from 8:00 a.m. to 7:45 p.m. during the subscription period. No excess application is available in general. HKSCC will debit the rights / open offer in respect of which subscriptions have been made from the relevant stock accounts of the CCASS Participants and the subscription monies on the instruction input day. CCASS Participants may be required to submit written instructions together with proof of payment (in good funds) to HKSCC in the cases where the subscription period is as short as one business day.
- 4.41.4. Based on the instructions of CCASS Participants, HKSCC will submit one consolidated subscription instruction to the relevant SSE- or SZSE-listed company via the designated electronic platform.

- 4.41.5. 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.

4.42. **Others**

- 4.42.1. Currently, Shanghai Connect and Shenzhen Connect do not support initial public offerings.
- 4.42.2. CCASS Participants who participate in Shanghai and Shenzhen Connect may apply specific arrangements and deadlines to their investor clients in respect of the corporate actions of their Connect Securities. CCASS Participants should ensure that their investor clients are well aware of such arrangements and deadlines.

***Clearing and Settlement of Southbound Trades***

- 4.43. As indicated in Section 4.2, SZSE has developed a Southbound Trading Link as an alternative for Mainland investors to trade SEHK Securities via SZSE. The corresponding Southbound clearing arrangement largely followed that of Shanghai Connect.
- 4.44. For Southbound trades executed on SEHK through SSE/SZSE Subsidiaries, ChinaClear Shanghai/ ChinaClear Shenzhen is responsible for the settlement obligations of the respective SSE/SZSE Subsidiaries and settles directly with HKSCC under the CNS System. ChinaClear Shanghai/ ChinaClear Shenzhen also acts as CCP and in turn settles the Southbound trades with the respective participants in the Mainland. SEHK Securities acquired by Mainland investors are held in ChinaClear's CCASS stock account on their behalves.
- 4.45. Southbound trades are cleared and settled in CCASS according to the existing Hong Kong settlement cycle, that is, both securities and money are settled on T+2.
- 4.46. HKSCC provides nominee services to ChinaClear Shanghai/ ChinaClear Shenzhen for the SEHK Securities held in its stock accounts with CCASS. ChinaClear Shanghai/ ChinaClear Shenzhen in turn provide nominee services to respective ChinaClear participants and investors in respect of the SEHK Securities held in their stock accounts with ChinaClear Shanghai/ ChinaClear Shenzhen.



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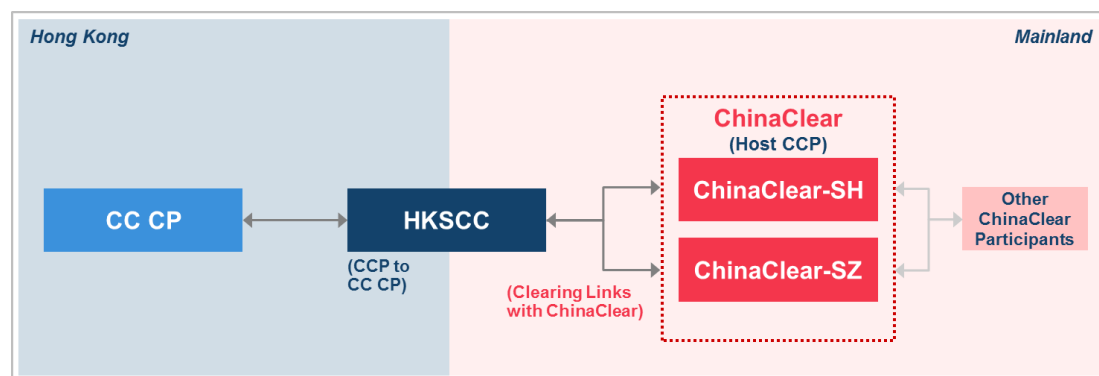
## SECTION 5: RISK MANAGEMENT

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### *Principles of the Risk Management Model*

- 5.1. Based on the clearing and settlement model as described in Section 4, HKSCC and ChinaClear have bridged the clearing and settlement of cross-boundary trades initiated from their own markets. Through this arrangement, each clearing house undertakes settlement obligations of their respective clearing participants' cross-boundary trades and settles with the other clearing house.
- 5.2. This Clearing Links arrangement enables market participants to trade across the boundary within the protection of the two clearing houses' robust risk management frameworks. Clearing participants of each market are not directly exposed to the default risk of clearing participants of the other market.
- 5.3. To ensure that any new risks resulting from this Clearing Links arrangement are properly mitigated, enhancements to the existing clearing house risk management frameworks are required. In designing the risk management model for Shanghai Connect and Shenzhen Connect, HKSCC and ChinaClear have agreed on the following key principles:
  - (a) ***Application of home risk management regime to the extent possible:*** risk management measures imposed by a CCP on its clearing participants regarding cross-boundary trades are generally similar to those imposed by the home CCP on its clearing participants. For example, the risk management measures imposed by HKSCC on its CPs regarding their Northbound trades largely follow those imposed by ChinaClear on its clearing participants. This ensures that market participants which access a market directly and those who access via the Clearing Links are subject to comparable risk management measures and related costs.
  - (b) ***Insulation against risk spill-over across markets:*** clearing participants of one market should be shielded against the default risk of clearing participants of the other market. This can be achieved by having each CCP to undertake the settlement obligations of their respective clearing participants with respect to their cross-boundary trades. Also, both CCPs do not participate in each other's mutualised risk management pools (e.g. default funds) that are contributed by their home market clearing participants.
- 5.4. With Shenzhen Connect, the key variable that was brought to the existing risk management model was the "two-market approach". In other words, although ChinaClear as a legal entity continues to be the single counterparty of HKSCC under the Clearing Links, its branches, namely, ChinaClear Shanghai and ChinaClear Shenzhen (which are responsible for the daily

clearing operations onshore) continues to clear trades and apply risk management measures separately for SSE's market and SZSE's market. Please refer to Figure 5.1 for the relationship among HKSCC, ChinaClear and its aforesaid operating branches for Northbound trades.



**Figure 5.1: Clearing and Risk Management Structure for Northbound Trades under Shanghai Connect and Shenzhen Connect**

***Risk Management Measures on CCCPs' Northbound Positions (Updated as of 16 January 2017)***

5.5. CCCPs who participate in Shanghai Connect and Shenzhen Connect will be subject to the following risk management measures, which will be calculated separately in respect of Northbound trades in each Connect Market. The collection and/ or refund of Northbound collateral for both Connect Markets will be netted in one payment instruction before issuing to the banks for payment:

- (a) payment of the Mainland Settlement Deposit (including intra-day and day-end collection); and
- (b) contribution to the Mainland Security Deposit (non-mutualised portion)

Details of the above risk management measures are elaborated in Section 5.8.

5.6. The collateral received from CCCPs through the above measures is also used by HKSCC in meeting its obligations to ChinaClear, including collateral requirements, which are imposed by ChinaClear on HKSCC separately for the overall Northbound trades and positions created in each Connect Market. ChinaClear will keep the collateral posted by HKSCC for each Connect Market under designated accounts at third-party custody banks under the name of ChinaClear but segregated from ChinaClear's own assets.

5.7. HKSCC currently maintains a Guarantee Fund ("HKSCC GF") which serves as the last line of defense in case a defaulting CCCP's collateral is not sufficient to cover the loss arising from the closing-out of its unsettled positions. The HKSCC GF has been extended to cover Northbound trading in Connect Securities.

- 5.8. The following table shows a comparison between the risk management measures imposed by ChinaClear on its clearing participants and those imposed by HKSCC on CCCPs participating in Shanghai Connect and Shenzhen Connect.

**Table 5.1: Existing Mainland Risk Management Measures vs. Northbound Risk Management Measures**

Measures by ChinaClear on its Clearing Participants  <i>(Note: Collaterals are calculated and collected separately for SSE's and SZSE's markets)</i>	Measures by HKSCC on CCCPs  <i>(Note: Collaterals will be calculated separately for each Connect Market)</i>
<b>Settlement Reserve Fund (結算備付金)</b>	<b>Mainland Settlement Deposit</b>
<p><u>Requirement:</u></p> <ul style="list-style-type: none"> <li>20% of a clearing participant's previous month's average daily purchase turnover in the relevant market</li> </ul> <p><u>Frequency:</u></p> <ul style="list-style-type: none"> <li>Monthly calculation on the first business day in the Mainland with collection before 4:00 p.m. on the second business day</li> </ul> <p><b>Remark:</b></p> <p><i>Monthly review in the Shanghai and Shenzhen markets is normally performed on the first business day but ChinaClear's rules allow the monthly review to be performed within the first three business days of each month</i></p>	<p><u>Requirement:</u></p> <ul style="list-style-type: none"> <li>20% of a CCCP's previous month's average daily purchase turnover, overdue short positions and sell turnover for SPSAs in the relevant Connect Market</li> </ul> <p><u>Frequency:</u></p> <ul style="list-style-type: none"> <li><b>Monthly</b> calculation based on the above methodology is performed at month end. Collection is made at the end of the first business day of each month in Hong Kong via Direct Debit Instructions</li> <li><b>Daily</b> calculation is also performed based on the above methodology. If the daily required amount is larger than the amount of Mainland Settlement Deposit posted with HKSCC (after netting the surplus Mainland Security Deposit, if any), the shortfall will be collected at day end via Direct Debit Instructions</li> </ul> <p><u>Refund:</u></p> <ul style="list-style-type: none"> <li>Refund via day end Direct Credit Instructions on such Trading days of each month as specified by HKSCC and notified to CPs via circular. In general, refunds will be performed on a daily basis except the first Trading day of each month to the day</li> </ul>

<b>Measures by ChinaClear on its Clearing Participants</b>  <i>(Note: Collaterals are calculated and collected separately for SSE's and SZSE's markets)</i>	<b>Measures by HKSCC on CCCPs</b>  <i>(Note: Collaterals will be calculated separately for each Connect Market)</i>
	<p>after monthly review by ChinaClear.</p> <p><b>Remarks:</b></p> <p>(i) <i>As the monthly requirement for Shenzhen market is not calculated in the first calendar month during which Shenzhen Connect is launched, there is no refund of Mainland Settlement Deposit for Shenzhen market during that month.</i></p> <p>(ii) <i>The refund day of each Connect Market will be adjusted according to the monthly review schedule of ChinaClear Shanghai and ChinaClear Shenzhen</i></p> <p><b>Intra-day Mainland Settlement Deposit Requirement:</b></p> <ul style="list-style-type: none"> <li>• Same as Mainland Settlement Deposit except using the snapshot at the mid-day in determining the required amount</li> </ul> <p><b>Frequency:</b></p> <ul style="list-style-type: none"> <li>• Daily calculation after morning close of Connect Market</li> <li>• Upon completion of the calculation of Intra-day Mainland Settlement Deposit at around 11:50 a.m., a broadcast message and a report will be generated to CCCPs. If a CCCP's required amount is larger than the amount posted with HKSCC(after netting the surplus Mainland Security Deposit, if any) and exceeds the tolerance limit of RMB 5 million (an aggregate amount covering shortfall of both Connect Markets), the CCCP is required to top up the full shortfall amount via CPI or RTGS by 2:00 p.m. on the same day</li> </ul>

<b>Measures by ChinaClear on its Clearing Participants</b>  <i>(Note: Collaterals are calculated and collected separately for SSE's and SZSE's markets)</i>	<b>Measures by HKSCC on CCCPs</b>  <i>(Note: Collaterals will be calculated separately for each Connect Market)</i>
<b>Settlement Guarantee Fund</b> <b>(證券結算保證金)</b>	<b>Mainland Security Deposit</b>
<p><u>Requirement:</u></p> <ul style="list-style-type: none"> <li>• A mutualised portion for house account on proprietary positions and a non-mutualised portion for client accounts on clients' positions</li> <li>• Past six-months' average daily net settlement amount × 14% for SSE's market / × 16% for SZSE's market</li> </ul> <p><u>Minimum:</u></p> <ul style="list-style-type: none"> <li>• RMB200,000 for each account and each Connect Market</li> </ul> <p><u>Frequency:</u></p> <ul style="list-style-type: none"> <li>• Monthly calculation on the first business day in Mainland with collection before 4:00 p.m. on the second business day</li> </ul>	<p><u>Requirement:</u></p> <ul style="list-style-type: none"> <li>• Non-mutualised contribution on CCCPs' positions</li> <li>• For Shanghai Connect: Past six-months' average daily CNS positions of CCCPs × 16.4%</li> <li>• For Shenzhen Connect: Past six-months' average daily CNS positions of CCCPs × 18.5%</li> </ul> <p><u>Minimum:</u></p> <ul style="list-style-type: none"> <li>• RMB200,000 required from each CCCP before commencement of trading under China Connect as a whole (i.e. a CCCP who is participating in Shanghai Connect will not be required to make an additional minimum Mainland Security Deposit before commencing trading under Shenzhen Connect)</li> </ul> <p><u>Frequency:</u></p> <ul style="list-style-type: none"> <li>• Monthly calculation at month end with collection at day end on the first business day of each month in Hong Kong via Direct Debit Instructions</li> <li>• Surplus cash collateral for Mainland Security Deposit in a Connect Market will be first applied to cover any shortfall in Mainland Security Deposit for the other Connect Market, then apply the remaining surplus Mainland Security Deposit to cover shortfall in Mainland Settlement Deposit</li> </ul> <p><u>Refund:</u></p> <ul style="list-style-type: none"> <li>• Refund at day end on the day via Direct</li> </ul>

<b>Measures by ChinaClear on its Clearing Participants</b>  <i>(Note: Collaterals are calculated and collected separately for SSE's and SZSE's markets)</i>	<b>Measures by HKSCC on CCCPs</b>  <i>(Note: Collaterals will be calculated separately for each Connect Market)</i>
	Credit Instructions when HKSCC receives refund of the corresponding Settlement Guarantee Fund surplus from ChinaClear after monthly review
	<b>HKSCC GF</b>
	<ul style="list-style-type: none"> <li>• Used as the last line of defence to cover CCCPs' residual default loss arising from their positions in Connect Securities</li> <li>• a CCCP's positions in Connect Securities are included in its HKSCC GF contribution calculations</li> </ul>

### ***Risk Management Measures on ChinaClear's Southbound Positions***

- 5.9. As ChinaClear takes up the settlement obligations of Southbound trades, ChinaClear is subject to the risk management measures applicable to other CPs trading HK shares (i.e. margin, marks, concentration collateral and additional collateral), with the following exceptions:
- Under the risk insulation principle discussed in Section 5.3, ChinaClear does not contribute to the HKSCC GF, and is not required to share any default loss of other CPs. Similarly, CP's HKSCC GF contributions will not be utilised to offset any potential close-out loss in the remote event of ChinaClear default.
  - Due to ChinaClear's operational limitations, ChinaClear is not able to meet the normal payment timeline which is currently applied to other HKSCC's CPs. One extra business day would be needed for ChinaClear to complete the transfer of the collateral required to meet the imposed risk management measures. Similarly, it is envisaged that there will be operational and practical difficulties for the ChinaClear to meet the intra-day collection of marks, concentration collateral and margin called by HKSCC.
  - To mitigate the incremental risk due to ChinaClear's non-participation in the HKSCC GF, and the added flexibility required to address its operational constraints, a higher margin rate has been imposed on ChinaClear's positions in SEHK Securities. ChinaClear is also required to provide additional collateral to cover the assumed closing-out loss of its unsettled positions which are projected under an extreme but

plausible market condition. Moreover, ChinaClear is required to post collateral securities with HKSCC to cover all its short positions in SEHK Securities.

### ***Risk of ChinaClear Default***

5.10. As the national CCP of the Mainland's securities market, ChinaClear operates a comprehensive network of clearing, settlement and stock holding infrastructure. ChinaClear has established a risk management framework and measures that are approved and supervised by the CSRC. The chances of ChinaClear default are considered to be remote. Nonetheless, the following arrangements have been considered for reason of prudence:

- (a) Northbound trades in Connect Securities – If ChinaClear defaults as the host CCP in the Mainland, HKSCC will in good faith, seek recovery of the outstanding stocks and monies from ChinaClear through available legal channels and through ChinaClear's liquidation process. HKSCC will in turn distribute the stocks or monies recovered to CPs on a pro-rata basis<sup>11</sup>. Although ChinaClear default is considered to be remote, CPs should be aware of this arrangement and should inform their clients of this potential exposure before engaging in Northbound trading in Connect Securities.
- (b) Southbound trades – If ChinaClear fails to meet its settlement obligations in respect of Southbound trades, HKSCC will consider the circumstances and may declare ChinaClear as a defaulter if the situation warrants. HKSCC will then apply its standard default procedures and will execute closing-out of ChinaClear's unsettled positions in SEHK Securities through HKSCC's authorised brokers. Margin and all other collateral (including collateral securities) posted by ChinaClear with HKSCC will be used to cover any loss arising from the closing-out process. As ChinaClear does not contribute to the HKSCC GF, HKSCC will not use the HKSCC GF to cover any residual closing-out loss with respect to ChinaClear's Southbound positions. If ChinaClear defaults as the host CCP in Northbound trades for either SSE Securities or SZSE Securities, it would trigger a concurrent default in the other market, as well as default in the relevant Southbound trades. After declaring ChinaClear as a defaulter, set-off will be applied to any obligations and liabilities between ChinaClear and HKSCC arising from Shanghai Connect and Shenzhen Connect for Northbound and Southbound Trades.

5.11. While it is remote that ChinaClear would default for financial reasons, HKSCC and ChinaClear have developed contingency plans to minimise the chance and impact of any temporary operational disruption.

<sup>11</sup> Each CP to which HKSCC is liable shall only be entitled to receive payment or delivery of stocks pro rata according to the amount due to it as compared with the aggregate due to all CPs in Northbound positions.

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**SECTION 6: MARKET DATA**


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- 6.1. To increase Shanghai and Shenzhen Connect Market 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 CCEPs 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 of the eligible stocks for Northbound trading is currently disseminated to EPs via their CC OG, updated once every 3 seconds whilst real-time SZSE 1-depth data of the eligible stocks for Northbound trading is disseminated to EPs via their CC OG, updated 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-price depth data of eligible stocks can only be used internally by CCEPs 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 and deriving any tradable products.
- 6.2. To increase market transparency, real-time daily quota balance for Northbound trading will be disseminated to CCEPs via their CC OG and OMD Index Feed and the information will be updated once every 5 seconds. The information can be redistributed free of charge.
- 6.3. For Northbound trading under Shanghai Connect, CCEPs, system vendors and Hong Kong and overseas investors may 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.
- 6.4. For Northbound trading under Shenzhen Connect, CCEPs, system vendors and Hong Kong and overseas investors may also 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 majority own-subsidary of SZSE incorporated in China and is SZSE's



exclusive agent that is responsible for SZSE's local and overseas market data businesses.

- 6.5. 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.

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## **SECTION 7: ELIGIBILITY**

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### ***Exchange Participant Eligibility***

- 7.1. China Connect is open to all EPs, but those who wish to participate must satisfy certain eligibility requirements as published on the HKEX website at <http://www.hkex.com.hk/mutualmarket>.
- 7.2. EPs/CPs fulfilling the requirements in the SEHK/CCASS Rules (i.e. CCEPs/CCCPs) can participate in Northbound trading of both SSE's and SZSE's markets. All clients of CCEPs are eligible to participate in trading in SSE's and SZSE's market except the ChiNext Market as indicated below.
- 7.3. In considering whether to expand their business to cover Northbound trading under Shenzhen Connect, existing CCEPs should take into account, among other factors:
- The need to upgrade their trading/back office systems to cater for additional business for Northbound trading under Shenzhen Connect;
  - The need to upgrade their lines/throttle to cater for additional business volume; and
  - The potentially higher capital requirements for risk management purposes due to bigger business volume.
- 7.4. As ChiNext stocks of SZSE will be limited to institutional professional investors. In view of the potential risks of trading ChiNext stocks, CCEPs shall have measures in place to ensure that ChiNext stocks will only be traded by those of their clients who are institutional professional investors may need to amend their client agreements to include a risk disclosure statement to alert their clients regarding the potential risks of trading ChiNext stocks. CCEPs should also review and reinforce their Know Your Client ("KYC") procedures and put in place control procedures to avoid unauthorized trading on ChiNext stocks.
- 7.5. EPs/ CPs other than CCEPs/ CCCPs who wish to join Shanghai and Shenzhen Connect should also satisfy certain eligibility requirements as published on the HKEX website at <http://www.hkex.com.hk/mutualmarket> before they will be accepted to clear and settle Northbound trades.
- 7.6. A list of eligible CCEPs and CCCPs is published on the HKEX website.

***Investor Eligibility***

- 7.7. Except ChiNext stocks of SZSE which is initially limited to institutional professional investors<sup>12</sup>, there is not any restriction imposed on Hong Kong and overseas investors participating in China Connect.

<sup>12</sup> *Other investors may later be allowed to trade SZSE ChiNext stocks subject to resolution of related legal and regulatory issues.*

## SECTION 8: HOLIDAYS AND SEVERE WEATHER CONDITIONS

### *Holiday Arrangement*

- 8.1. CCEPs can only trade SSE Securities or SZSE Securities on a Hong Kong business day, and only if both the Hong Kong market and the relevant Mainland market are open for trading (T-day) and banking services are available in both Hong Kong and the Mainland on the corresponding money settlement day (T+1). This arrangement is essential in ensuring that proper banking support is available for CCCPs to settle their money obligations for Northbound trades on T+1.
- 8.2. Below is an example illustrating the holiday arrangement of Northbound trading of SSE Securities or SZSE Securities:

Date	Hong Kong	Mainland	Shanghai Connect or Shenzhen Connect		
			Trading (T-day)	Money Settlement (for T-1 day's trades)	Securities Settlement (for T-day's trades)
23 Mar 2016 (Wed)	Business Day	Business Day	✓	✓	✓
24 Mar 2016 (Thu)	Business Day	Business Day	✗ <sup>^</sup>	✓	✗ <sup>^</sup>
25 Mar 2016 (Fri)	Public Holiday	Business Day	✗	✗	✗
28 Mar 2016 (Mon)	Public Holiday	Business Day	✗	✗	✗
29 Mar 2016 (Tue)	Business Day	Business Day	✓	✓ <sup>#</sup>	✓

<sup>^</sup> 24 Mar 2016 (Thu) is a business day for both Hong Kong and Mainland. However, if EPs trade SSE Securities or SZSE Securities on 24 Mar 2016, CCCPs may have difficulty settling their money positions with HKSCC on 25 Mar 2016 (Fri), which is a public holiday in Hong Kong. Hence China Connect will not be open for trading SSE Securities or SZSE Securities on 24 Mar 2016.

<sup>#</sup> There will not be any money settlement for Northbound trades on 29 Mar 2016 as 28 Mar 2016 is not open for Northbound trading. However, as CCASS is open for business on 29 Mar 2016, it will still process money transactions in relation to nominee's activities with respect to SSE Securities and SZSE Securities, if any.

- 8.3. If a Northbound trading day is a half trading day in the Hong Kong market, Northbound trading will continue until the close of the relevant Connect Market.

- 8.4. SSE, SZSE and SEHK will continue to explore with market participants and the banking sector to consider the operational feasibility as well as market demand to support cross-boundary trading and money settlement during public holidays.
- 8.5. The Northbound trading calendar for Shanghai and Shenzhen Connect is available on the HKEX website.

### ***Severe Weather Conditions***

- 8.6. Currently, SEHK and HKSCC may suspend services during severe typhoons and/or black rainstorms.
- 8.7. SSE and SZSE have a similar arrangement where they will announce to the market one day prior to any potential services suspension due to severe weather conditions.
- 8.8. The Northbound trading arrangement under severe weather conditions is as follows:
- (a) If SSE or SZSE is suspended due to bad weather, there will be no Northbound trading in the relevant market and Hong Kong investors and CCEPs will be informed by SEHK;
  - (b) 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 or 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));
  - (c) 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 open (between 9:00a.m. and 9:15a.m.), Northbound trading will not open; and
  - (d) If typhoon signal number 8 or above is issued in Hong Kong after SSE's market and SZSE's market have opened:
    - Northbound trading will continue for 15 minutes during which order input and order cancellation will be allowed;
    - after 15 minutes and until the close of SSE's market or SZSE's market, only order cancellation is allowed;
    - in addition to mid-day and day end trade files, preliminary trade files (retrieved through Electronic Communication Platform) will be generated multiple times before the close of SSE's market or SZSE's market so that CCEPs who have completed all order

cancellations can use the trade files to continue their reconciliation;

- HKEX will make broadcast message (via the HKEX website) to provide alerts/warnings to CCEPs on the arrangement when a typhoon is approaching; and
- EPs are encouraged to make pre-arrangement with their clients to allow them to cancel clients' orders in this situation and conduct order cancellation as soon as possible.

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.	

8.9. As for the clearing and settlement of Northbound trades and the relevant CCASS services under severe weather conditions, the following arrangement will be applied in the initial stage:

- (a) if typhoon signal number 8 or above and/or black rainstorm warning is issued before 9:00 a.m. and is not cancelled at or before 12:00 noon,
  - i. CCASS services for SSE Securities and SZSE Securities will not be available for the day;
  - ii. money settlement for Northbound trades executed on the previous day will be postponed to the next business day, at the same stipulated time;
  - iii. HKSCC will to the extent practicable arrange to credit the entitled bonus shares to the stock accounts of relevant CCASS Participants in the morning of the listing date of the relevant bonus shares.
- (b) if typhoon signal number 8 or above and/or black rainstorm warning is issued before 9:00 a.m. and cancelled at or before 12:00 noon,

- i. CCASS services for SSE Securities and SZSE Securities will resume two hours after the cancellation of the signal/warning;
  - ii. CCCPs will need to fulfill their money obligations for Northbound trades executed on the previous day by 3:00 p.m.
- (c) if typhoon signal number 8 or above and/or black rainstorm warning is issued at or after 9:00 a.m.,
  - i. normal CCASS services will be available for SSE Securities and SZSE Securities; However, subscription services of SSE Securities and SZSE Securities may be blocked or affected if no clearing services are provided by HKICL on that day.
  - ii. CCCPs will need to fulfill their money obligations for Northbound trades executed on the previous day. In the case of typhoon, subject to the issuance time, HKSCC may revise the payment deadline; and
  - iii. CCCPs will need to fulfill their stock settlement obligations for the Northbound trades executed on the typhoon day (if any) by the normal stipulated deadline.

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## SECTION 9: SYSTEM ARRANGEMENT

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### **CCEP Interface – CC OG and BSS**

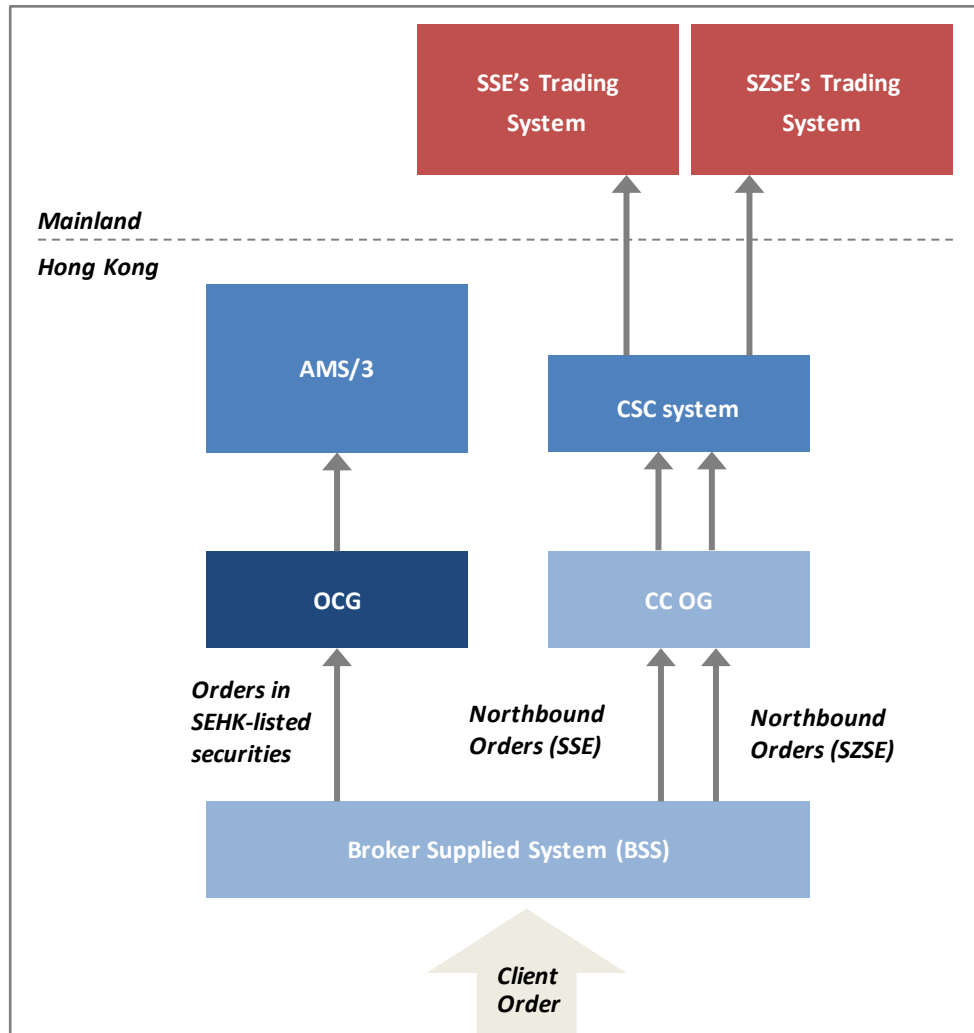
- 9.1. As explained in Section 3, SEHK has enhanced the existing order routing system CSC to capture and consolidate the Northbound orders input by CCEPs, and route them to SSE and SZSE accordingly.
- 9.2. Existing CCEPs may use their CC OG for Shanghai Connect to participate in Shenzhen Connect. Those EPs who are not existing CCEPs will be required to install a separate open gateway (China Connect OG or CC OG) connecting to the CSC in order to participate in Shanghai Connect and Shenzhen Connect.
- 9.3. CC OG only supports limit orders for submission to SSE and SZSE. It does not support other order types, quotes or manual trades. For order cancellations, CC OG only supports single order cancellation but not bulk cancellation.
- 9.4. CC OG cannot share the existing throttle(s) for AMS/3 Orion Central Gateway (OCG), separate, additional throttle(s) will need to be purchased and assigned. Each CC OG device can have a maximum of 60 throttles.
- 9.5. CCEPs can select either the standalone server or High Availability (HA) server for CC OG. CCEPs can procure the CC OG through SEHK or procure their own CC OG with software installation by appointed vendors.
- 9.6. Northbound trading can currently only be conducted through CC OG<sup>13</sup>. CCEPs have to connect their own BSS to CC OG to trade Connect Securities. Depending on the existing BSS design, CCEPs may need to upgrade their BSS to cater for the SSE/SZSE business rules (as described in Section 3) if they want to participate in Northbound trading.
- 9.7. 1-price depth market data of Connect Securities will be provided via CC OGs. CCEPs can also subscribe real-time SSE and SZSE market data via licensed information vendors. For details please refer to Section 6.

<sup>13</sup> SEHK is discussing with its system suppliers on the rollout plan of China Connect Central Gateway for Northbound trading. Further details will be announced once available.



- 9.8. The following diagram illustrates the high-level trading infrastructure for Northbound trading:

**Figure 9.1: High-level trading infrastructure**



### **Trading Network**

- 9.9. CC OG is connected to CSC through the existing SEHK network SDNet/2. CCEPs need to subscribe a new pair of SDNet/2 lines<sup>14</sup> for installation of CC OG.
- 9.10. CC OG can supply 1-price depth market data for eligible stocks for Northbound trading. CCEPs receiving stock market data from CC OG need to upgrade their SDNet/2 lines from 2Mbps to 3Mbps of bandwidth. CCEPs who choose not to receive market data from CC OG can keep their existing 2Mbps of bandwidth for their SDNet/2 lines for pure trading purpose.

<sup>14</sup> Duplicate SDNet/2 lines for back-up purpose.

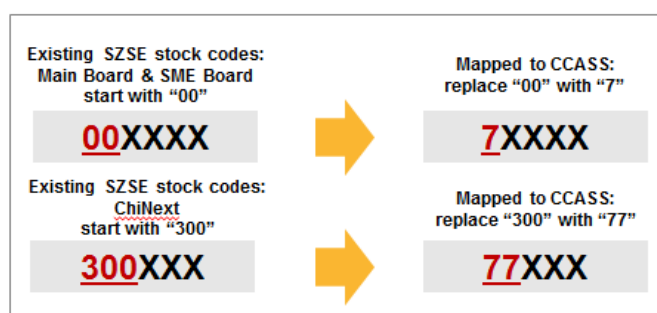
### Clearing Infrastructure and CPs' Preparation

- 9.11. CPs can participate in China Connect via their existing CCASS/3 Terminals, PGs and SDNet/2 lines. Depending on each CP's business plan, a CP may consider upgrading its infrastructure capacity.
- 9.12. Connect Securities are represented by 6-digit stock codes in both markets. The same 6-digit stock codes have been used by EPs trading SSE Securities and SZSE Securities through Shanghai and Shenzhen Connect respectively. However, CCASS currently adopts a 5-digit stock code system. Changing the 5-digit stock code to a 6-digit stock code system will require fundamental system upgrades by all CPs. To avoid market wide impact, CCASS uses the existing 5-digit stock code structure to support Shanghai Connect. A mapping mechanism has been adopted such that each 6-digit SSE stock code is represented by a unique 5-digit code in CCASS. The same mechanism applies to SZSE stock codes as illustrated in the below diagram:

**Figure 9.2: Stock Code mapping for use in CCASS for Shanghai Connect**



**Figure 9.3: Stock Code mapping for use in CCASS for Shenzhen Connect**



- 9.13. The settlement cycle of Northbound trades is different from the existing SEHK trades as described in Section 4. Therefore, new "markets" have been set up in CCASS for Shanghai and Shenzhen Connect to handle all the relevant processes. CPs are required to prepare and make necessary modifications to their back office systems to interface with the "two" markets in CCASS with different set-up, functions and reports. CPs who are using PGs also need to prepare for the new message templates.

- 9.14. The detailed technical specifications of the new functions and reports for Shenzhen Connect are available on HKEX website.

## SECTION 10: SUMMARY OF FEES AND TAXES

- 10.1. Under Shanghai and Shenzhen Connect, Hong Kong and overseas investors will be subject to the following fees and levies imposed by the 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 ( 交易印花稅 )	0.1% of the consideration of a transaction on the seller	SAT

- 10.2. 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

Fee Type	Description	Formula	Amount *
Securities Management Fee (證管費)	0.002% of the consideration of the Sell Trade	$300 \times \text{¥} 10 \times 0.002\%$ $= \text{¥} 0.06$	¥ 0.06
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	$300 \times \text{¥} 10 \times 0.002\%$ $= \text{¥} 0.06$	¥ 0.06
	0.002% of the consideration of the Sell Trade to be charged under the General Rules of CCASS	$300 \times \text{¥} 10 \times 0.002\%$ $= \text{¥} 0.06$	¥ 0.06
Stamp Duty (交易印花稅)	0.1% of the consideration of the Sale Trade (imposed only on the seller)	$300 \times \text{¥} 10 \times 0.1\%$ $= \text{¥} 3.00$	¥ 3.00
<b>Total transaction cost to settle the Sell Trade</b>			<b>¥ 3.33</b>

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

- 10.3. The above fees and levies are collected in RMB.
- 10.4. In the Mainland, trading and clearing related fees and levies are paid together with trade consideration. In the case of Northbound trading, these fees and levies will be collected through CCASS and passed onto ChinaClear Shanghai and ChinaClear Shenzhen separately for paying to the relevant parties. CCASS will post the above items to CPs' Miscellaneous Account of their money ledger on T day and collect such payments via day-end DDI. The Transfer Fee under the General Rules of CCASS for the provision of Northbound Clearing services by HKSCC will also be posted to CPs' Miscellaneous Account of their money ledger on T day and collect such payments via day-end DDI. CPs can refer to the existing "Statement of Money Ledger" available on T+1 morning for details.

- 10.5. It should however be noted that Connect Securities acquired by Hong Kong and overseas investors may entail corporate activities, and in the case of cash dividend and bonus issues investors will be subject to dividend withholding tax imposed by SAT.
- 10.6. CCASS Participants may also use other CCASS services to maintain their Connect Securities, in which case they may be subject to the relevant CCASS fees. For example, CPs effecting SIs and STIs to transfer Connect Securities in CCASS will be subject to the relevant stock settlement fees.
- 10.7. Also, HKSCC provides depository and nominee services to CCASS Participants in respect of their Connect Securities in CCASS. As Connect Securities are issued in scripless form, the existing depository and nominee fees for SEHK-listed securities are not applicable to Connect Securities for this new service. A Portfolio Fee has been imposed by HKSCC for providing similar services to CCASS Participants on their SSE Securities and SZSE Securities as a single portfolio.

The Portfolio Fee is calculated based on the daily stock portfolio value of a CCASS Participant's SSE Securities and SZSE Securities in total. It is accrued on a daily basis and collected on a monthly basis through the first weekly EPI of the following month. The fee adopts a sliding scale where a bigger portfolio value will be subject to a lower fee rate:

Daily Portfolio Fee = {[closing price of SSE Securities of the day x number of shares] converted into Hong Kong Dollar Equivalent + [closing price of SZSE Securities of the day x number of shares] converted into Hong Kong Dollar Equivalent} x tier rate of each applicable tier /365

Tier Level	Portfolio Value Range	Fee Rate / Annum
1	The first HK\$50 billion	0.008%
2	The next HK\$200 billion (portfolio values between HK\$50 billion and HK\$250 billion)	0.007%
3	The next HK\$250 billion (portfolio values between HK\$250 billion and HK\$500 billion)	0.006%

Tier Level	Portfolio Value Range	Fee Rate / Annum
4	The next HK\$250 billion (portfolio values between HK\$500 billion and HK\$750 billion)	0.005%
5	The next HK\$250 billion (portfolio values between HK\$750 billion and HK\$1,000 billion)	0.004%
6	Remainder (portfolio values above HK\$1,000 billion)	0.003%

On days where Hong Kong is a holiday and Northbound trading is not open, the fee will be calculated based on the latest available closing price kept by HKSCC. The exchange rate currently used for calculating Hong Kong stamp duty for RMB-denominated securities traded on SEHK will be used to calculate this portfolio fee. Such exchange rate is available on the HKEX website on each trading day of the Hong Kong market. In case of a non-trading day where such exchange rate is not available, the latest available exchange rate will be used.

- 10.8. In principle, CC OG Hardware and Throttle Charges for Northbound trading follow the same charging scheme as that for trading in AMS/3:

Item	Charges
One-off Throttle Fee	HKD50,000 per throttle
Throttle Monthly Fee	HK\$ 960 per throttle (HK\$ 480 per backup throttle)
CC OG Hardware	HK\$ 30,000 (Standard) / HK\$ 104,000 (High Availability)
CC OG Monthly Fee	HK\$ 1,250 per CC OG

- No entitlement throttle, need to purchase new throttles to trade Northbound;
- Throttles assigned to CC OG can be used to place orders to both Shanghai and Shenzhen markets; and
- Lower hardware costs for CC OG compared with AMS OG as security card is not required.

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**SECTION 11: CROSS-BOUNDARY FRAMEWORK**

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- 11.1. Under China Connect, EPs and CPs will continue to be governed and protected by the regulations and rules of the Hong Kong market. However, cross-boundary trades executed by EPs through China Connect have to follow the business rules of the respective Connect Markets. In this connection, the rules of SEHK and CCASS have been amended respectively to reflect the business rules applicable to the cross-boundary trades under Shanghai and Shenzhen Connect, with which EPs and CPs have to comply.
- 11.2. According to the Memorandum of Understanding entered into between the SFC and the CSRC on 17 October 2014 (MoU) 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.

- 11.3. At the exchange level, the market surveillance teams of SEHK, SSE and SZSE will agree on information sharing and investigative assistance mechanisms relating to the provision of their own participants' trade and order information to the other market in order to assist each other in monitoring their own markets and the two regulators with regard to their cross-boundary regulatory and enforcement cooperation.



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## **SECTION 12: APPLYING TO PARTICIPATE IN CHINA CONNECT**

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- 12.1. Shanghai Connect was implemented on 17 November 2014 and Shenzhen Connect was implemented on 5 December 2016.
- 12.2. EPs and CPs who are interested in participating in Shanghai and Shenzhen Connect should complete and submit to SEHK and HKSCC the relevant application form and documents which can be downloaded from the HKEX website at <http://www.hkex.com.hk/mutualmarket>.

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## APPENDIX I: MAJOR DIFFERENCE BETWEEN THE TRADING OF SSE/SZSE-LISTED SHARES BY HONG KONG AND OVERSEAS INVESTORS

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	Shanghai Northbound Trading	Shenzhen Northbound Trading
<b>Trading Arrangement</b>		
1. Eligible Securities	<p>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:</p> <ul style="list-style-type: none"> <li>SSE-listed shares which are not traded in RMB; and</li> <li>SSE-listed shares which are under “risk alert”.</li> </ul>	<p>In the initial phase, Hong Kong and overseas investors will be able to trade selective stocks listed on the SZSE market (i.e. “<b>SZSE Securities</b>”). These include all the constituent stocks of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index, with market capitalization of not less than RMB 6 billion, and all the SZSE-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:</p> <ul style="list-style-type: none"> <li>SZSE-listed shares which are not traded in RMB; and</li> <li>SZSE-listed shares which are under “risk alert”</li> </ul>
2. Trading Hours	<p><u>Opening Call Auction:</u> 9:15 a.m. – 9:25 a.m. (No order cancellation allowed during 9:20 a.m. – 9:25a.m.)</p> <p><u>Continuous Auction:</u> 9:30 a.m. – 11:30 a.m. 1:00 p.m. – 3:00 p.m.</p> <p>(EPs can input orders 5 minutes before the commencement of Opening Call Auction and Continuous Auction)</p>	<p><u>Opening Call Auction:</u> 9:15 a.m. – 9:25 a.m. (No order cancellation allowed during 9:20 a.m. – 9:25a.m.)</p> <p><u>Continuous Auction:</u> 9:30 a.m. – 11:30 a.m. 1:00 p.m. – 2:57 p.m.</p> <p><u>Closing Call Auction:</u> (No order cancellation allowed during 2:57 p.m. – 3:00 p.m.)</p> <p>(EPs can input orders 5 minutes before the commencement of Opening Call Auction and Continuous Auction)</p>

Clearing and Settlement		
1. Securities Settlement	Upon receipt of good funds, HKSCC will update the CP's Settlement Account of Money Ledger to reduce their money obligation due to HKSCC and as a result, release their on-hold allocated shares of both Connect Markets.	
2. Money Settlement	Netting money settlement for SSE and SZSE Securities.	
3. Corporate Action	The listing date of the bonus shares in SSE is normally two business days after the record date.	The listing date of the bonus shares in SZSE is normally on the following business day of the record date.
Risk Management		
1. Intra-day Mainland Settlement Deposit	The RMB 5 million tolerance limit is an aggregate amount that covers shortfall for both SSE and SZSE Securities trades.	
2. Mainland Security Deposit	Past six-month average daily CNS positions of CPs × 16.4%	Past six-month average daily CNS positions of CPs × 18.5%
	RMB200,000 required for each CP before commencement of trading for Shanghai and Shenzhen Connect as a whole. (i.e. CP who is participating in Shanghai Connect will not be required to make additional minimum Mainland Security Deposit before commencing trading in Shenzhen Connect)	
Market Data		
Update interval of 1-depth data via CC OG	Real-time SSE 1-depth data of the eligible stocks for Northbound Trading is updated once every 5 seconds.	Real-time SZSE 1-depth data of the eligible stocks for Northbound Trading is updated once every 3 seconds.
System Arrangement		
Network Setup	CC OG can supply 1-price depth market data for eligible stocks for Northbound Trading. CCEPs receiving stock market data from CC OG need to upgrade their SDNet/2 lines from 2Mbps to 3Mbps of bandwidth. CCEPs choose not to receive market data from CC OG can keep their existing 2Mbps of bandwidth for their SDNet/2 lines for pure trading purpose.	

Stock Code Mapping	The first 2-digit “60” is replaced by “9” in CCASS, that is, SSE stock code “60xxxx” is mapped to “9xxxx” in CCASS.	<p>The first 2-digit “00” will be replaced by “7” in CCASS for SZSE-listed securities on Main Board and SME Board, that is, SSE stock code “00xxxx” will be mapped to “7xxxx” in CCASS.</p> <p>The first 3-digit “300” will be replaced by “77” in CCASS for SZSE-listed securities on ChiNext Market, that is, SZSE stock code “300xxx” will be mapped to “77xxx” in CCASS.</p>
<b>Eligibility</b>		
Investor	All institutional and individual investors	<p>For Main Board and SME Board: all institutional and individual investors.</p> <p>For ChiNext: At the initial stage, limited to institutional professional investors. Subject to resolution of related regulatory issues, other investors may subsequently be allowed to trade such shares.</p>
<b>Fees</b>		
1. Portfolio Fee	Portfolio Fee is calculated based on the daily stock portfolio value of SSE Securities and SZSE Securities held by individual CPs in total.	

## APPENDIX II: TRADING ARRANGEMENTS UNDER SHANGHAI AND SHENZHEN CONNECT

### Northbound Trading Arrangements

I. Trading Arrangements that are common for SSE/SZSE and China Connect (Northbound Trading)		
1.	Order Modification	Not available on SSE / SZSE
2.	Day (Turnaround) Trading	Not allowed
3.	Manual Trade	Not available on SSE / SZSE (except for block trade)
4.	Trading Currency	RMB
5.	Board Lot	100 shares (applicable for buy orders only)
6.	Odd Lot	Sell orders only (odd lot should be made in one single order)
7.	Max Order Size	1 million shares
8.	Tick Size	Uniform at RMB 0.01
9.	Price Limit	±10% on previous closing price (±5% for stocks under special treatment under risk alert, i.e. ST and *ST stocks)
10.	Pre-trade monitoring	Applied

II. Trading Arrangements that are Different between SSE/SZSE and Shanghai and Shenzhen Connect (Northbound Trading)			
		SSE/SZSE	Shanghai and Shenzhen Connect
1.	Order Types	<u>Opening Call Auction</u> : Limit orders*; <u>Continuous Auction</u> : Limit Orders; Market orders <u>Closing Call Auction (SZSE)</u> : Limit Orders	<u>Opening Call Auction</u> : Limit orders <u>Continuous Auction</u> : Limit orders <u>Closing Call Auction (Shenzhen Connect)</u> : Limit orders
2.	Block Trade	Allowed	Not allowed
3.	Short Selling	Allowed (restrictive)	Subject to certain conditions, allowed to participate in short selling of Connect Securities
4.	Margin Financing & SBL	Allowed (restrictive)	Not allowed to participate in Mainland's margin trading and securities lending Subject to certain conditions, allowed to participate in margin trading and SBL in Connect Securities outside of Mainland
5.	Designated broker	Required	Not required
6.	Trading on Hong Kong Holidays	Allowed	Not allowed (if trade day and/or settlement day falls on Hong Kong holiday)

\* SSE/SZSE limit orders may be executed at or better than the input price