HKEx 香港交易所

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香港聯合交易所有限公司
(香港交易及結算所有限公司全資附屬公司)
The Stock Exchange of Hong Kong Limited
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

事項
Subject: **SHORT SELLING OF CHINA CONNECT SECURITIES THROUGH SHANGHAI-HONG KONG STOCK CONNECT**

查詢
Enquiry: **Participant General Enquiry Hotline (Tel : 2840 3626 E-mail : trd@hkex.com.hk)**

Reference is made to the Exchange circular (Ref: CT/013/15) dated 18 February 2015 regarding Short Selling of China Connect Securities through Shanghai-Hong Kong Stock Connect. Exchange Participants ("EPs") are requested to note that Short Selling of eligible China Connect Securities will start on 2 March 2015.

The Frequently Asked Questions ("FAQ") for market participants and investors have been updated with further information regarding Short Selling. EPs may also refer to Attachment 1 for the additional information.

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Attachment 1

Shanghai-Hong Kong Stock Connect

FAQ on Short Selling

(26 February 2015)

Q: If brokers do not intend to participate in short selling of China Connect Securities, will the launch of short selling regime affect them? (EP-CP FAQ 1.21.6)

A: Brokers who do not intend to participate in Short Selling of China Connect Securities need to be mindful of the following:

a. Rule 14A17(6) stipulates that a broker needs to ask its client to confirm whether a sell order is a Short Selling order or have appropriate arrangements in place that require the client to inform it whether the sell order is a Short Selling order. Also the broker needs to have effective procedures and keep proper records to ensure compliance with this Rule.

➔ *On this front, even brokers who do not engage in Short Selling should either ask their clients to confirm or have procedures or documentation in place to ensure that the sell orders placed by their clients are long sales and not short sales.*

b. Rule 14A17(10) stipulates that if a client of a broker has borrowed shares for Short Selling and has not yet returned the borrowed shares to the Stock Lender, even when the client wants to place a long sale order, the long sale order may still be subject to the tick rule in Rule 14A17(9). The examples below illustrate how to determine the number of shares that are subject to the tick rule:

Example 1: A Client who owns 200K shares of a Short Selling Security borrows 1 million shares from a China Connect EP for Short Selling purposes and has short sold 700K shares. The Client has not yet returned borrowed shares to the China Connect EP. Subsequently, the Client wants to sell 200K shares that are owned by himself. In this case the sell order of 200K shares will still be subject to the tick rule requirement and the Client and the China Connect EP need to ensure that the price of the sell order is not violating the tick rule even though the sale is a long sale.

Example 2: Further to Example 1, assume the Client instead has short sold all the 1 million shares that he borrowed and has not yet returned any of the borrowed shares to the China Connect EP. If he subsequently wants to sell the 200K shares owned by himself, in this case the sell order of 200K shares will not be subject to the tick rule because the entire quantity of borrowed shares has already been short sold. This sale is also a long sale.

➔ *On this front, even brokers who do not engage in Short Selling should alert their clients (with proper records to prove that such alerts have been given to their clients or with proper documentation in place) that when the clients have borrowed shares and not yet returned the shares, the clients should comply with the tick rule requirement even when placing a long sale order in the situation referred to in Rule 14A17(10). When brokers are aware that the clients have such long sale orders, brokers should also ensure that the tick rule is being complied with.*