

# **Shanghai-Hong Kong Stock Connect**

## **FAQ for Investors**

(Version Date : 12 August 2016)

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## **I. GENERAL**

### **1. What is Shanghai-Hong Kong Stock Connect?**

Shanghai-Hong Kong Stock Connect is a securities trading and clearing links programme developed by Hong Kong Exchanges and Clearing Limited (HKEX), Shanghai Stock Exchange (SSE) and China Securities Depository and Clearing Corporation Limited (ChinaClear), aiming to achieve a breakthrough in mutual market access between the Mainland and Hong Kong.

Under Shanghai-Hong Kong Stock Connect, The Stock Exchange of Hong Kong Limited (SEHK), a wholly-owned subsidiary of HKEX, and SSE have 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.

The Hong Kong Securities Clearing Company Limited (HKSCC), also a wholly-owned subsidiary of HKEX, and 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 investors.

### **2. Why do HKEX, SSE and ChinaClear create Shanghai-Hong Kong Stock Connect?**

The establishment of Shanghai-Hong Kong Stock Connect is a ground-breaking initiative to both Mainland and Hong Kong as it has, for the first time, enabled mutual market access by investors in the two markets through an orderly, controllable and expandable channel. More importantly, this initiative has paved the way for the opening up of the Mainland's capital account and helped promote the internationalisation of Renminbi and development of the Hong Kong's capital market.

For Hong Kong, Shanghai-Hong Kong Stock Connect provides an unprecedented opportunity and creates momentum for the long-term development of the Hong Kong capital market. It enhances the Hong Kong market's liquidity and broadens the investor base. For HKEX, it is the first step of HKEX's China Connect Programme and represents an important part of HKEX' strategic development, which is to reinforce HKEX's position as the global exchange of choice for Mainland investors and the Chinese exchange of choice for international investors.

### **3. Who can participate in Shanghai-Hong Kong Stock Connect?**

While all Hong Kong and overseas investors are allowed to trade SSE Securities through Shanghai-Hong Kong Stock Connect, only Mainland institutional investors and those individual investors who satisfy the eligibility criteria (i.e. Individual investors who hold an aggregate balance of not less than RMB 500,000 in their securities and cash accounts) will be accepted to trade SEHK Securities through Shanghai-Hong Kong Stock Connect.

Shanghai-Hong Kong Stock Connect is open to all SEHK Participants (EPs), SSE Members, HKSCC's Clearing Participants (CPs), and ChinaClear Participants, subject to their meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and / or clearing house. The names of all eligible EPs and CPs have been published on HKEX website.

4. [Deleted]

5. **What can we trade under Shanghai-Hong Kong Stock Connect?**

***SSE Securities for trading by Hong Kong and overseas investors, i.e. “Northbound Trading”***

Among the different types of SSE-listed securities, only A shares are included in Shanghai-Hong Kong Stock Connect in the initial stage. Other product types such as B shares, Exchange Traded Funds (“ETF”s), bonds, and other securities are not included.

In the initial phase, Hong Kong and overseas investors are able to trade certain stocks listed on the SSE market (i.e. “SSE Securities”). These include all the constituent stocks from time to time of the SSE 180 Index and 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>.

For any SSE-listed security which is not accepted as an SSE Security at the launch of Shanghai-Hong Kong Stock Connect due to its being under risk alert, if it is subsequently released from risk alert board, it will be accepted as an SSE Security if it remains as a constituent stock of the relevant indices or if its corresponding H share continues to be listed and traded on the SEHK (as appropriate).

Investors are only allowed to sell an SSE Security but restricted from further buying if:

- (c) the SSE Security subsequently ceases to be a constituent stock of the relevant indices; and/or
- (d) the SSE Security is subsequently under “risk alert”; and/or
- (e) the corresponding H share of the SSE Security subsequently ceases to be traded on SEHK, as the case may be.

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 any price stabilisation periods (as stipulated in the prospectus) both the A share and H share have passed as required by the respective exchange or regulator.

In the case where a PRC company whose share is listed on SEHK (as H shares) seeks an A share listing on SSE, the A share will be accepted as an SSE Security after the A share has passed the price stabilisation period as required by SSE. In the case where an SSE-listed company whose share is

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<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)

not also listed on SEHK seeks an H share listing on SEHK, the A share will be accepted as an SSE Security only after price stabilisation period for the H share (as stipulated in prospectus) has passed as required by SFC.

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 which are not suspended from trading on SSE.

Hong Kong and overseas investors may receive shares or other types of securities from the issuer of SSE Security as entitlements:

- (a) if the entitlement security is an SSE Security, Hong Kong and overseas investors will be allowed to buy and sell the entitlement security through Shanghai-Hong Kong Stock Connect;
- (b) if the entitlement security is not an SSE Security but is a SSE-listed security and traded in RMB, Hong Kong and overseas investors will be allowed to sell the entitlement security through Shanghai-Hong Kong Stock Connect, but will not be allowed to buy such entitlement security; and
- (c) if the entitlement security is not a SSE-listed security, Hong Kong and overseas investors will not be allowed to buy or sell the entitlement security on SSE. HKSCC will consider alternative arrangements which could be put in place to handle such entitlement, and will notify CPs accordingly.

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

#### ***Eligible stocks to be included in Southbound Trading***

Among the different types of SEHK-listed securities, only equities listed on the Main Board are included in Shanghai-Hong Kong Stock Connect. Other products such as stocks listed on GEM, Nasdaq Pilot Programme stocks, Exchange Traded Funds (ETFs), Real Estate Investment Trusts (REITs), structured products, bonds, and other securities are not included.

Through Shanghai-Hong Kong Stock Connect, Mainland investors are able to trade the constituent stocks of the Hang Seng Composite LargeCap Index and Hang Seng Composite MidCap Index, and all H shares that are not included as constituent stocks of the relevant indices but which have corresponding shares in the form of SSE-listed Shares, except the following:

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

These eligible shares are collectively referred to as “SEHK Securities”.

In the case where a PRC company is seeking simultaneous listing on both SSE (as A share) and SEHK (as H share), the relevant H share will be accepted as a SEHK Security after any price stabilisation periods (as stipulated in

prospectus) both the A share and H share have passed as required by the respective exchange or regulator.

In the case where an SSE-listed company which A share is not accepted as a SSE Security seeks H share listing on SEHK, the H share will be accepted as a SEHK Security only after any applicable price stabilisation period (as stipulated in prospectus) has expired as required by SFC. In the case where an SEHK-listed company which H share is not accepted as a SEHK Security seeks A share listing on SSE, the H share will be accepted as a SEHK Security after the A share has passed the price stabilisation period as required by SSE.

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

Investor 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 or put under risk alert; and/or
- (c) where the SEHK Security is an H share and the share of the issuer of such SEHK Security is subsequently listed on an exchange in the Mainland other than SSE, as the case may be.

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

#### **5A. [Deleted]**

#### **6. Is there a quota?**

Trading under Shanghai-Hong Kong Stock Connect is, initially, subject to a maximum cross-boundary investment quota (i.e., Aggregate Quota), together with a Daily Quota.

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

The Northbound Aggregate Quota is set at RMB 300 billion. The Southbound Aggregate Quota is set at RMB 250 billion.

The Northbound Daily Quota is set at RMB 13 billion, and the Southbound Daily Quota is set at RMB 10.5 billion.

Both the Aggregate Quota and the Daily Quota apply on a “net buy” basis. Under that principle, investors are always allowed to sell their cross-boundary securities or input order cancellation requests regardless of the quota balance.

The Northbound Aggregate Quota balance will be published on HKEX website after SSE’s market close. The Daily Quota balance will be disseminated on HKEX website at 1-minute intervals and through CCOG and OMD Index Feed at 5-second intervals.

## **7. How does the Aggregate Quota work?)**

The Northbound Aggregate Quota is set at RMB 300 billion. The Southbound Aggregate Quota is set at RMB 250 billion. At the end of each trading day, SEHK will calculate and disseminate the remaining balance of the Northbound Aggregate Quota as follows:

Aggregate Quota balance = Aggregate Quota – aggregate buy trades + aggregate sell trades (calculated at the weighted average cost)

The weighted average cost of aggregate sell trades is calculated based on the purchase cost of all buy trades of the respective SSE Security conducted in Northbound Trading and is not the actual corresponding buy trades conducted by each individual EP.

If Aggregate Quota Balance is less than Daily Quota, Northbound buying will be suspended on the next trading day. However, investors can continue to sell SSE Securities, which will then increase the Aggregate Quota Balance. SEHK will re-open Northbound buying once the Aggregate Quota balance returns to the Daily Quota level or above.

## **8. How does the Daily Quota work?**

The Daily Quota limits the maximum net buy value of cross-boundary trades under Shanghai-Hong Kong Stock Connect each day.

SEHK monitors the usage of the Northbound Daily Quota on a real time basis and the Northbound Daily Quota Balance will be updated on HKEX website every minute:

Daily Quota Balance = Daily Quota – Buy Orders + Sell Trades + Adjustments

The Daily Quota will be refreshed and remain the same every day, subject to the balance of the Aggregate Quota. Unused Daily Quota will NOT be carried over to next day's Daily Quota.

Once the Northbound Daily Quota Balance drops to zero or is exceeded during a continuous auction session (Continuous Trading), no further buy orders will be accepted for the remainder of the day. Subject to the Aggregate Quota Balance, SEHK will resume the Northbound buying service on the following trading day.

Once the Northbound Daily Quota Balance drops to zero or the Daily Quota is exceeded during the opening call 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.

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 unless otherwise cancelled by the relevant EPs.

9. **How will the Northbound Daily Quota balance be updated and disseminated during the 5-minute order input period before SSE opens for trading? Will the Daily Quota Balance be updated when an EP input an order? Will the Daily Quota Balance be updated when an EP input an order cancellation request?**

The Northbound Daily Quota balance will be reduced whenever CSC receives and accepts a buy order, but the updated Daily Quota balance will only be disseminated according to the dissemination schedule, i.e. every 5 seconds for CC OG and OMD Index Feed and every minute on HKEX website. The Daily Quota balance will normally be increased when SSE sends an order cancellation confirmation to CSC. However, as SSE is not open during the 5-minute order input period, the Daily Quota balance will NOT be increased due to the input of order cancellation by EPs during that period.

10. **Does it mean that buy orders will no longer be accepted by CSC during a trading day once the Daily Quota balance drops to zero or becomes negative?**

Depending on when the Daily Quota balance drops to zero or below, new buy orders may or may not be accepted by CSC during a trading day:

Time when Daily Quota balance drops to zero or becomes negative	Will buy orders be accepted again?	
	During that session	In following session(s)*
09:10 – 09:15 (5-minute input period)	No	Yes
09:15 – 09:25 (Opening Call Auction)	Only if subsequently the Daily Quota balance > 0	Yes
09:25 – 09:30 (5-minute input period)	Only if subsequently the Daily Quota balance > 0	Yes
09:30 – 11:30 (Continuous Auction – morning)	No	No
12:55 – 13:00 (5-minute input period)	No	No
13:00 – 15:00 (Continuous Auction – afternoon)	No	No

\* If subsequently the Daily Quota Balance > 0

11. **Are there any measures in place to prevent quota hogging?**

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) for a certain percentage will be rejected by CSC. During Opening Call Auction, the current bid (or previous closing price in the absence of the current bid) will be used for checking. Dynamic price checking will be applied throughout the trading day, from the 5-minute input period before the start of Opening Call Auction until the end of the afternoon Continuous Auction. SEHK has set the dynamic price checking at 3% during the initial phase of Shanghai-Hong Kong Stock Connect. The percentage may be adjusted from time to time subject to market conditions.

**12. Can an EP place buy orders at a lower price first when trading commences and then amend the price of the orders afterwards in order to secure the availability of quota for Northbound trading?**

Northbound orders cannot be amended. EPs who wish to amend their Northbound orders must cancel the original orders first and then input new orders. The quota released at the time of order cancellation may immediately be taken up by orders input by other EPs. Hence, quota cannot be “reserved” by using this method. More importantly, EPs should not place buy orders with fictitious prices in order to secure or reserve the quota as such behavior will breach the Rules of SEHK, and SEHK has the right to take disciplinary actions against such EPs. EPs are therefore advised to remind their clients not to provide buy order instructions with an aim to “reserve” or “hog” the quota.

**13. How does Shanghai-Hong Kong Stock Connect differ from the current QDII / QFII schemes?**

Shanghai-Hong Kong Stock Connect differs from the current schemes such as the QDII, QFII and RQFII programmes in the following ways:

- (a) In terms of eligible investors, Shanghai-Hong Kong Stock Connect is open to SSE Members, institutional investors and individual investors who satisfy certain eligibility criteria in the Mainland for Southbound trades, and EPs and any of their clients (with no restrictions imposed) for Northbound trades; as comparison, QDII and QFII schemes target at selected institutional investors and they are not limited to investors in Hong Kong;
- (b) In terms of eligible products for investment, Shanghai-Hong Kong Stock Connect initially accepts certain SSE listed A shares and Hong Kong listed stocks (please refer to Question No. 5 for details), while QDII, QFII and RQFII schemes have different investment scope;
- (c) In terms of quota, the quota(s) of Shanghai-Hong Kong Stock Connect applies to the whole market rather than individual investors, while under QDII, QFII and RQFII schemes, quota is allocated to respective approved institutions.
- (d) In terms of cross-boundary fund flow and currency exchange, under Shanghai-Hong Kong Stock Connect it is handled by HKSCC and ChinaClear; While under QDII and QFII schemes it is completed by the QDII/QFII institutions.

Shanghai-Hong Kong Stock Connect is not exclusive to other schemes such as QDII, QFII or RQFII, i.e. it co-exists with these schemes.

**14. How will the cross-boundary regulatory enforcement issues arising from the programme be dealt with?**

According to the Memorandum of Understanding entered into between the SFC and the CSRC on 17 October 2014 on strengthening cross-boundary regulatory and enforcement cooperation under Shanghai-Hong Kong Stock 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 markets under Shanghai-Hong Kong Stock 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.

**15. Are we protected by the investor compensation fund?**

Hong Kong investors participating in Shanghai-Hong Kong Stock Connect through SEHK Participants continues to be protected by Hong Kong laws.

Similar to any overseas investment which involves a sub-custody arrangement, investors are also facing the counterparty risks of any additional parties along the value chain, and in this case ChinaClear which is the central registration company in the Mainland.

Similarly for the trading and settlement activities, Hong Kong investors continue to deal with SEHK Participants and be protected by the SFO.

It should however be noted that the current Investor Compensation Fund does not cover any Northbound activities.

**16. Can investors participating in Shanghai-Hong Kong Stock Connect participate in the initial public offerings (IPO) in the other market?**

The existing Shanghai-Hong Kong Stock Connect framework does not support initial public offering. We will further inform the market of the arrangements pertaining to other depository and nominee services under the programme, including for instance secondary market fund raising events.

**II. TRADING ARRANGEMENT**

**17. What are the trading hours for trading SSE Securities through Shanghai-Hong Kong Stock Connect?**

Hong Kong and overseas investors are required to follow SSE's trading hours to trade SSE Securities (i.e. Northbound trading). However, SEHK will accept Northbound orders from EPs five minutes before the Mainland market session opens in the morning and in the afternoon.

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

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

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

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

Southbound trading follows SEHK's trading hours.

### 17.1 What is the Circuit Breaker mechanism introduced by SSE?

On 4 December 2015, SSE announced new trading rules on the introduction of a circuit breaker mechanism which became effective on 1 January 2016 but which has since 8 January 2016 been suspended (please refer to SSE's [announcement](#)). The key features of the circuit breaker mechanism are summarized below:

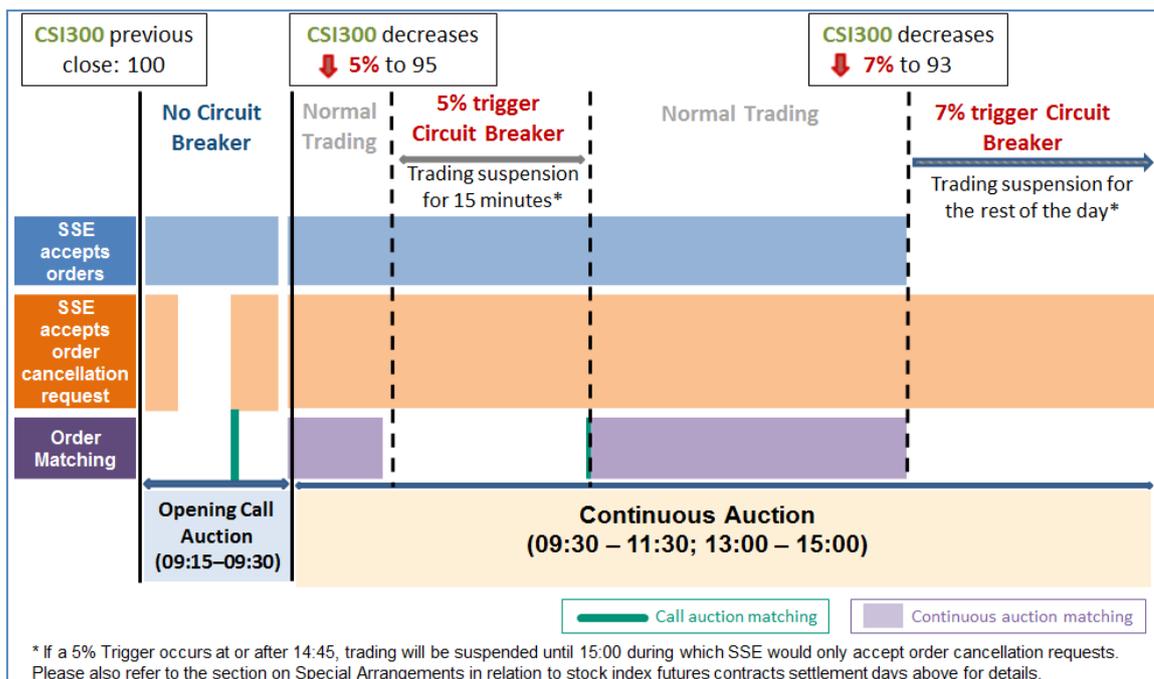
<b>Benchmark Index</b>	CSI 300 Index
<b>Circuit Breaker Trigger</b>	<ul style="list-style-type: none"> <li>• CSI 300 increases or decreases by 5% compared with its close on the previous trading day for the first time ("5% Trigger")</li> <li>• CSI 300 increases or decreases by 7% compared with its close on the previous trading day ("7% Trigger")</li> </ul>

<p><b>Trading Suspension (“Circuit Breaker”) and Resumption</b></p>	<p>Subject to the Note below and the section on Special Arrangements,</p> <ul style="list-style-type: none"> <li>• <b>5% Trigger occurs before 14:45:</b> Trading will be suspended for 15 minutes and will resume after the suspension (if the trading suspension occurs during the SSE Continuous (Morning) session and is not completed before 11:30, it will be extended to the SSE Continuous Auction (Afternoon) session such that the aggregate time of the suspension is kept to 15 minutes)</li> <li>• <b>5% Trigger occurs at or after 14:45:</b> Trading will be suspended until 15:00 and no resumption of trading will take place on the trading day</li> <li>• <b>7% Trigger occurs at any time during a trading day:</b> Trading will be suspended until 15:00 and no resumption of trading will take place on that day</li> </ul> <p><b>Note:</b></p> <ul style="list-style-type: none"> <li>• Where a 5% Trigger occurs during an SSE Opening Call Auction session, trading will be suspended for 15 minutes from 09:30 to 09:45</li> <li>• Where a 7% Trigger occurs during an SSE Opening Call Auction session, trading will be suspended from 09:30 for the whole trading day except as set out in the Special Arrangements below</li> </ul>
<p><b>Input of Orders and Order Cancellation Requests during Circuit Breaker</b></p>	<ul style="list-style-type: none"> <li>• <b>Circuit Breaker ends before 15:00</b> – SSE accepts orders and order cancellation requests during the trading suspension period.</li> <li>• <b>Circuit Breaker until 15:00</b> – SSE only accepts order cancellation requests during the trading suspension period</li> </ul>
<p><b>Call Auction after trading suspension (if any)</b></p>	<ul style="list-style-type: none"> <li>• <b>Circuit Breaker ends before 15:00</b> – a call auction will be conducted in respect of the outstanding orders received by the SSE System. Thereafter, continuous auction will be resumed.</li> <li>• <b>Circuit Breaker until 15:00</b> – no call auction or trading will be conducted on the trading day.</li> </ul>
<p><b>Special Arrangements in relation to stock index futures contracts settlement days</b></p>	<ul style="list-style-type: none"> <li>• Where a trading day falls on a settlement day of stock index futures contracts specified by SSE, no Circuit Breaker will be imposed during, or extended to, the SSE Continuous Auction (Afternoon) session of that trading day notwithstanding any 5% Trigger or 7% Trigger having occurred at any time during that trading day</li> </ul>

<b>Market Data</b>	<ul style="list-style-type: none"> <li>No indicative equilibrium price/volume and price queues for SSE Securities will be available when a Circuit Breaker is in effect and during the call auction that immediately follows</li> </ul>
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Please refer to SSE's [new trading rules](#), [announcement](#) and [FAQ](#) relating to the circuit breaker mechanism for details.

The following is an example illustrating the Circuit Breaker:



**17.2 How will the market be informed when a Circuit Breaker is imposed or activated?**

SSE will release announcements on its website to inform the market of the time of the trading suspension and/or resumption when a Circuit Breaker is imposed or activated. Investors should pay attention to the relevant [SSE announcements](#).

**17.3 Will the Northbound Daily Quota mechanism set out in Q8-Q10 be affected by a Circuit Breaker?**

The Daily Quota control mechanism for Northbound trading will not be affected and remain unchanged. Please refer to Q8-Q10 in relation to the current Daily Quota control mechanism.

**17.4 Notwithstanding a Circuit Breaker having been imposed, is it possible that orders in respect of SSE Securities may be matched and trades executed on the SSE trading system?**

SSE has advised that when a Circuit Breaker is triggered, suspension of order matching or trade execution on its trading system will be suspended on a stock-

by-stock basis. It is therefore possible that there may be a time lag between the official announcement of the imposition of a Circuit Breaker and the actual suspension of trade execution.

Hence, orders inputted through the China Connect Service which have not been cancelled may be matched on the SSE trading system during the Circuit Breaker. Such matched orders will be regarded as executed trades by the SSE and will be binding on the CCEP in accordance with the SEHK Rules.

**17.5 Will dynamic price checking for buy orders (see Q.11 above) apply when a Circuit Breaker is in effect? What will the reference price for the dynamic price checking be?**

Dynamic price checking on buy orders will still apply when a Circuit Breaker is in effect. As the current bid price will not be available when a Circuit Breaker is in effect, the reference price for dynamic price checking will be the latest trade price of the relevant SSE Security, and where the latest trade price is not available, the previous closing price of the relevant SSE Security.

**17.6 When a Circuit Breaker is imposed in the A-share market, will trading of the corresponding H shares listed on SEHK be affected by the Circuit Breaker?**

No, trading of the corresponding H shares on SEHK will not be subject to the Circuit Breaker, which is a feature of the A-share market.

**17.7 Will Southbound trading be affected by a Circuit Breaker?**

No, Southbound trading will not be affected by the imposition of a Circuit Breaker.

**18. What is the trading and settlement currency?**

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

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

**19. What kind of order(s) can investors enter when trading SSE Securities under Shanghai-Hong Kong Stock Connect?**

Only limit orders (SSE limit orders can be matched at the specified or better price) will be accepted for SSE Securities throughout the day.

**20. Can investor do day trading on SSE Securities?**

Day trading is not allowed for Mainland A shares market. Therefore, Hong Kong and overseas investors buying SSE Securities on T-day can only sell the shares on and after T+1 day.

**21. Is margin trading allowed for SSE Securities?**

Subject to conditions, margin trading in SSE Securities may be conducted by an EP.

Hong Kong and overseas investors cannot participate in the Margin Trading and Securities Lending (融資融券) Programme provided by SSE in Mainland China. However, based on requirements set by SSE, they are allowed to use funds provided by China Connect Exchange Participants (CCEPs) and EPs who are registered with SEHK to conduct trading in SSE Securities through CCEPs for the account of their clients (“Trade-through EPs”) via any form of securities margin financing arrangement to buy SSE Securities through Shanghai-Hong Kong Stock Connect. The relevant parameters have been included in the Rules of the Exchange.

Currently, Mainland investors can only conduct margin trading in certain A shares that the SSE has determined are eligible for margin trading and stock borrowing and lending. Hong Kong and overseas investors conducting margin trading in SSE Securities via Shanghai-Hong Kong Stock Connect are 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-Hong Kong Stock Connect are included in the List.

According to the relevant rules of SSE, SSE may suspend margin trading activities in specific A shares when the volume of margin trading activities in such A shares exceeds the threshold determined by SSE and resume margin trading activities when the volume drops below a prescribed threshold (see 22). When SEHK is notified by SSE that such suspension and resumption involves an SSE Security on the List of Eligible SSE Securities for Margin Trading, EPs and investors will be informed through the HKEX website. Margin trading in the relevant SSE Security should be suspended/resumed in Hong Kong accordingly.

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

**22. What are the prescribed thresholds that SSE may suspend or resume margin trading activities in specific A shares?**

Based on current SSE requirements on margin trading, SSE will suspend further margin trading in a stock eligible for margin trading after the “margin trading indicator” for the stock (单只股票的融资监控指标) reaches 25%. When the “margin trading indicator” drops below 20%, SSE will allow margin trading to resume. For information, SSE 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/>.

As mentioned in 21, the suspension and resumption of margin trading in eligible SSE Securities through Shanghai-Hong Kong Stock Connect follow the suspension and resumption of margin trading activities in SSE after SSE has duly notified SEHK. For information, EPs may refer to SSE’s website at <http://www.sse.com.cn/services/tradingservice/margin> which publishes individual A share’s margin trading level.

### **23. Is Stock Borrowing and Lending (SBL) allowed for SSE Securities?**

SBL of SSE 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 SSE Securities and sells them on SSE through a CCEP via Northbound trading; and
- (b) for the purpose of enabling a CCEP's client to sell SSE Securities when it is unable to effect a transfer of the relevant SSE Securities to the CCEP's clearing account in time to meet the pre-trade checking requirement set out in the Rules of the Exchange.

SBL in SSE Securities is subject to restrictions set by SSE which have been incorporated into the Rules of SEHK. These include:

- (a) SBL agreements for the purpose of short selling cannot be longer than one calendar month;
- (b) SBL agreements for the purpose of short selling cannot be longer than one calendar month;
- (c) Stock lenders are restricted to certain types of persons determined by SSE; and
- (d) SBL activities are required to be reported to SEHK.

### **24. What SSE Securities can be the subject of stock borrowing and lending?**

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

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

### **25. Who can participate in SBL of SSE Securities? Can I lend SSE Securities of which I am not the beneficial owner?**

The following persons may lend China Connect Securities:

- (a) CCEPs;
- (b) Trade-through EPs (i.e. EPs registered with SEHK to conduct trading in SSE Securities through CCEPs for the account of their clients);<sup>2</sup>
- (c) EPs other than (a) and (b) who own or hold SSE 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 Investor Participants);
  - (ii) funds, unit trusts or collective investment schemes which are managed by persons licensed or registered to carry out Type 9 (asset management) regulated activity under the Securities and Futures Ordinance (refer to [SFC website](#) for details); and

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<sup>2</sup> Note that under Rule 14A16(18) of the Rules of the Exchange, references to "China Connect Exchange Participants" in Rule 14A16 shall be read to include Trade-through Exchange Participants

(iii) other persons accepted or specified by SSE.

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	x	√	√
<b>QIs</b>	(d) Qualified Institutions	x	√	√

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

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

CCEPs and Trade-through EPs must provide SEHK with an undertaking or a confirmation in the prescribed form depending on whether they act as stock lender or stock borrower. They must also file a monthly report to SEHK providing details of their stock borrowing and lending activities with respect to SSE 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.

Non-registered EPs and QIs lending stocks to CCEPs and Trade-through EPs must provide the borrowers with an undertaking in the prescribed form confirming, among others, that they are not restricted from engaging in stock lending activities.

**26. Is short selling of SSE Securities allowed through Northbound trading? What are the trading arrangements on short selling?**

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

- (a) Only eligible SSE 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;

- (b) CCEPs can input short selling orders during the opening call auction session and continuous auction sessions on each CSC trading day;
- (c) CCEPs are required to flag the short selling orders when inputting them into the system. See 26.1 for details;
- (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 will be 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 SSE, 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. See 26.2 for details;
  - (iii) SEHK may impose additional price restriction to block the input of Short Selling orders at an artificially high price which has the effect 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 CSC consecutive trading days.

Both the daily and cumulative limits will be rounded to the nearest 2 decimal places. The daily limit usage will be calculated in real time throughout the CSC trading day. Any short selling order, if executed, that will cause the daily limit or the cumulative limit for a Short Selling Security to be exceeded during the course of a CSC trading day will be rejected.. The cumulative limit will be calculated at the end of each CSC trading day. See also 26.3 for details;

- (g) There are mandatory reporting requirements for short selling activities as follows. See also 26.4 for details:
- (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 exceeds any of the following thresholds:
    - A. RMB25 million; or
    - B. 0.02% of the total issued shares of the relevant Short Selling Security. See also 26.5 for details.
- (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 before commencement of trading on that CSC trading day. Short selling orders that do not meet the pre-trade checking requirement will be rejected.

**26.1 Are CCEPs required to confirm with their clients whether a sell order is a short sale or not? How about in cases where a client borrows shares from a Stock Lender other than the CCEP executing the short sale (i.e. another CCEP with whom the client has an account)?**

In order for CCEPs to flag short selling orders in accordance with the Rules of the Exchange, prior to inputting sell orders into the system, CCEPs should confirm with their clients whether the sell order is a short selling order. Alternatively, CCEPs should have appropriate arrangements in place that require their clients to inform them that the order is a short selling order when placing the order. CCEPs should establish effective procedures and keep proper records in these regards, which may be required to submit to SEHK upon request.

In the event that a client borrows shares from a Stock Lender other than the CCEP executing the short sale (i.e. another CCEP with whom the client has an account), the executing CCEP needs to require the client to inform it of the return of the stock loan so that it may comply with its reporting requirements on open short positions.

## 26.2 How does the price restriction work for short selling?

For tick rule checking, the input price of all short selling orders will be checked against the most recent execution price (and in its absence, the previous closing price) of the relevant Short Selling Security. If the input price is lower than the aforementioned price, the short selling order will be rejected.

In the event that shares of Short Selling Security borrowed for short selling remain outstanding and have not yet been returned to the Stock Lender, CCEPs and their relevant clients are required to comply with the tick rule requirement as mentioned 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.

**Example 1:** A Client who owns 200K of a Short Selling Security borrows 1 million shares from a CCEP for short selling purpose and has short sold 700K shares. The Client did not return the borrowed shares to the CCEP. Subsequently, the client wants to sell 200K shares that are owned by himself. In this case the sell order of 200K will still be subject to the tick rule requirement and the client and the CCEP need to ensure that the price of the sell order is not violating the tick rule. The sale is a long sale.

**Example 2:** Further to Example 1, if the Client has short sold all the 1 million shares that he borrowed but did not return any of the borrowed shares to the CCEPs. 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 and the sale again is a long sale.

## 26.3 What is the dissemination time of short selling related statistics on the HKEX website?

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

## 26.4 Who should submit the Short Selling Weekly Report and Large Open Short Position Report?

For the Short Selling Weekly Report, only the CCEPs who directly input the short selling orders into the CSC (and have the short selling orders executed) are required to submit the report. For the avoidance of doubt, this does not affect the requirement for submitting Stock Borrowing and Lending Monthly Report.

For the Large Open Short Position Report, both CCEPs and Trade-through EPs are required to submit the report in the event that there is any open short position of any Short Selling Security executed for their own account or for the account of any of their clients exceeding the reporting thresholds prescribed by SEHK from time to time.

## 26.5 Where can we find the total issued shares of each Short Selling Security?

The total issued shares of the relevant Short Selling Security can be found on the SSE website. For instance, the total issued shares of Shanghai Pudong Development Bank (Stock Code: 600000) can be found on [http://www.sse.com.cn/assortment/stock/list/info/capital/index.shtml?COMPANY\\_CODE=600000](http://www.sse.com.cn/assortment/stock/list/info/capital/index.shtml?COMPANY_CODE=600000)

### 上海浦东发展银行股份有限公司 600000

公司概况 股本结构 筹资情况 利润分配 成交概况 行情图表 公司公告 公告摘要 公司章程 治理细则 股东大会资料 高管人员

#### → 公司股本结构

股本结构		2014年11月24日	
股份名称	发行总股本(万股)	比例(%)	
尚未流通股份合计:	373069.43	20.00	
1. 发起人股份	0	0	
2. 募集法人股	0	0	
3. 内部职工股	0	0	
4. 机构配售	373069.43	20.00	
5. 其他尚未流通股	0	0	
已流通股份合计:	1492277.71	80.00	
1. 境内上市的人民币普通股	1492277.71	80.00	
2. 境内上市外资股	0	0	
3. 境外上市外资股	0	0	
4. 其他已流通股	0	0	
股份总数	1865347.14	100	

## 27. What are the prescribed thresholds that SSE may suspend or resume short selling activities in specific A shares?

Currently, SSE may suspend the short selling activities of an A share 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%. SSE 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/>. When SEHK is notified by

SSE that such suspension and resumption involves a Short Selling Security, such information will be published on the HKEX website, and short selling in the relevant SSE Security will be suspended and/or resumed for Northbound Trading accordingly. CCEPs are advised to check the HKEX website at 9 am in the morning to obtain the updated List of Eligible SSE Securities for Short Selling.

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>.

**28. What will happen to an outstanding SBL agreement if the relevant stock is taken out from the List of Eligible SSE Securities for Short Selling? Does the SBL agreement need to be closed out immediately?**

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

**29. Can SSE Securities be transferred off-exchange?**

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 Q23.

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.

With respect to (e), ChinaClear has stipulated in Article 9 of the ChinaClear Implementing Rules for Registration, Depository and Clearing Services under the Shanghai-Hong Kong Stock Connect Pilot Program that non-trade transfers are allowed in the following situations:

- succession;
- divorce;
- the dissolution, liquidation or winding-up of any company or corporation;
- donation to a charitable foundation;
- assisting in any enforcement in connection with proceedings or action taken by any court, prosecutor or law enforcement agency; and
- any other transfer as may be permitted by SSE.

Details of the arrangement for the collection of stamp duty from investors for these non-trade transfers in SSE Securities have been included in the CCASS Operational Procedures published on the HKEX website at <http://www.hkex.com.hk/eng/rulesreg/clearrules/ccassop/documents/sec12.pdf>.

**30. How will the forced-sale arrangement take place when the aggregate foreign shareholding in a particular SSE Security exceeded 30%?**

If the aggregate foreign shareholding limit (currently set at 30%) is exceeded due to trading in SSE Securities through Shanghai-Hong Kong Stock Connect, SSE will notify SEHK the number of shares that are subject to forced sale within 5 trading days. On a last-in-first-out basis, SEHK will identify the relevant trades involved and request the relevant EPs to require the clients concerned to sell the shares within the timeframe as stipulated by SEHK. If the relevant investors fail to sell their shares before the stipulated deadline, EPs will be required to force-sell the shares for the relevant investors in accordance with the Rules of SEHK, which contain provisions aimed at complying with the Mainland forced-sale regulations. Accordingly, EPs are advised to include relevant provisions in their client agreements such that they are authorized to comply with the forced-sale arrangement where applicable. It should be noted that the relevant Mainland regulations also provide that foreign investors who are subject to the forced-sale arrangement may apply for exemption if the aggregate foreign shareholding in the relevant A share drops below 30% within the 5-day forced-sale period. Where the aggregate foreign shareholding in respect of an A share drops below 30% during the 5-day period before an investor's shares are sold, EPs may apply to SEHK on behalf of their clients for an exemption from complying with the requirement so that the shares can be lifted from forced-sale and EPs can continue hold their SSE Security.

There may be cases where an EP who is subject to the forced-sale arrangement has transferred the shares to another CCASS Participant at the request of its client prior to receiving the forced-sale notice from SEHK. As stipulated under CCASS Rule 4110, such CCASS Participants should transfer the relevant SSE Securities back to the EP concerned after the end of the 5-

day period in the case where the client has not sold the shares in accordance to the forced-sale notice.

**31. Do EPs need to sign separate client agreement with their clients who want to participate in Northbound trading?**

For those clients who want to participate in Northbound trading, EPs should review their client agreement to ensure it has sufficient clauses covering the trading of SSE Securities including the risks involved. It is expected that the client agreement should, among other things, include the following for Northbound trading:

- (a) No day trading is allowed;
- (b) Pre-trade checking is in place so that a client must have his/her shares transferred to the EP's corresponding CCASS account before the commencement of trading on a trading day if he/she intends to sell the shares during a trading day;
- (c) All trading must be conducted on SSE, i.e. no over-the-counter (OTC) or manual trades are allowed;
- (d) Naked short selling is not allowed;
- (e) Foreign shareholding restriction (including the forced-sale arrangement) is in place and EPs should have the right to "force-sell" client's shares upon receiving the forced-sale notification from SEHK;
- (f) Investors should understand fully the Mainland rules and regulations in relation to short-swing profits, disclosure obligations and follow such rules and regulations accordingly;
- (g) EPs may have the right to cancel client's orders in case of contingency such as hoisting of Typhoon Signal No 8 in Hong Kong;
- (h) EPs may not be able to send in client's order cancellation requests in case of contingency such as when SEHK loses all its communication lines with SSE, etc and investors should still bear the settlement obligations if the orders are matched and executed;
- (i) Clients must comply with SSE Rules and other applicable laws of Mainland China relating to Northbound trading;
- (j) EPs may forward the client's identity to SEHK which may on-forward to SSE for surveillance and investigation purposes;
- (k) If the SSE Rules are breached, or the disclosure and other obligations referred to in the SSE Listing Rules or SSE Rules is breached, SSE has the power to carry out an investigation, and may, through SEHK, require EPs to provide relevant information and materials and to assist in its investigation;
- (l) SEHK may upon SSE's request, require an EP to reject orders from the client;
- (m) Client needs to accept the risks concerned in Northbound trading, including but not limited to prohibition of trading SSE Securities, being liable or responsible for breaching the SSE Listing Rules, SSE Rules and other applicable laws and regulations;
- (n) SSE may request SEHK to require EP to issue warning statements (verbally or in writing) to their clients, and not to extend Northbound trading service to their clients; and

- (o) HKEX, SEHK, SEHK Subsidiary, SSE and SSE Subsidiary and their respective directors, employees and agents shall not be responsible or held liable for any loss or damage directly or indirectly suffered by an EP, its clients or any third parties arising from or in connection with Northbound trading or the CSC.

**32. What are the board lot/odd lot, order size and tick size for SSE Securities?**

All SSE Securities are subject to the same trading board lot size, which is 100 shares (buy orders must be in board lot). Odd lot trading is only available for sell orders and all odd lots should be sold in one single order. It is common that a board lot buy order may be matched with different odd lot sell orders, resulting in odd lot trades. It should be noted that unlike Hong Kong, board lot and odd lot orders are both matched on the same platform on SSE, and subject to the same share price. The maximum order size is 1 million shares and the tick size is uniformly set at RMB 0.01.

**33. Does SSE price limit apply under Shanghai-Hong Kong Stock Connect?**

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

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

**34. Is there any foreign shareholding restriction on SSE Securities?**

Under current Mainland rules, unless otherwise permitted by the relevant strategic investor regulations, a single foreign investor's (i.e. QFII and RQFII) shareholding in a listed company is not allowed to exceed 10% of the company's total issued shares, while all foreign investors' shareholding in the A shares of a listed company is not allowed to exceed 30% of its total issued shares.

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

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

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

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

EPs should monitor their clients' shareholdings in SSE Securities and remind their clients to comply with the 10% single foreign investor's restriction, and forced-sale arrangement.

**35. Are there any disclosure obligations for SSE Securities?**

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.

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.

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.

**36. What is the pre-trade checking requirement?**

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

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

There are two models: the Current Pre-Trade Checking Model and the Enhanced Pre-Trade Checking Model.

Under the Current Pre-trade Checking Model, sell orders will be rejected if the cumulative sell quantity for the day is higher than the EP's shareholding position at market open. Therefore, when placing sell orders, investors must ensure that they have sufficient SSE Securities in their accounts opened with the EP who acts as the selling broker. If the SSE Securities are kept in an account opened with another EP or a custodian, investors must first transfer the SSE Securities to the selling EP on T-1 or via the morning SI on T day in order to sell their SSE Securities on T day.

To facilitate investors whose SSE Securities are maintained with custodians to sell their SSE Securities without having to pre-deliver the SSE Securities from their custodians to their executing brokers, an Enhanced Pre-trade Checking

Model has been introduced with effect from 30 March 2015. Under the enhanced model, an investor whose SSE Securities are maintained with a custodian which is a Custodian Participant or a GCP which is not EP (“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 SSE Securities. Each SPSA will be assigned a unique Investor ID by CCASS. The investor may designate at most 20 EPs as executing brokers which are authorized to use its Investor ID to execute sell orders in SSE Securities on its behalf.

CCASS will take a snapshot of the SSE 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 SSE 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 SSE Securities from its SPSA to its designated broker’s account after execution and not before placing the sell order.

**36.1 If a fund manager instructs a CCEP to sell A shares of a listed company for funds or sub-funds under its management through the use of two separate SPSAs opened with one or more Custodian Participant on the same trading day, can the fund manager decide how many shares in each SPSA are used for settlement after execution of the trades irrespective of the number of shares actually sold in respect of each SPSA? For example, Fund Manager instructs CCEP A to input a sell order of 10,000 shares of Stock X for each of SPSA 1 and SPSA 2, both under its management and maintained with Custodian Participant P. The order of 10,000 shares for SPSA 1 was fully executed but only 2,000 shares of the order for SPSA 2 were executed. Fund Manager wants the shares sold to be equally allocated to SPSA 1 and SPSA 2 and instructs Custodian Participant P to transfer 6,000 shares from each of SPSA 1 and SPSA 2 to CCEP A’s CCASS account for settlement. Can CCEP A or its CCCP responsible for settling the sale of 12,000 X shares accept delivery of 6,000 shares from each of SPSA 1 and SPSA 2 instead of 10,000 shares from SPSA 1 and 2,000 shares from SPSA 2?**

Where an SPSA order is executed by a CCEP, the relevant number of shares sold should normally be delivered from the SPSA that bears the investor identification number inputted into the CSC by the CCEP when the sale order was placed. This is the position laid down by Rules 14A06(2A)(a)(iii), 14A06(2A)(b) and 14A06(10) of the Rules of the Exchange and is consistent with the general principle against misappropriation of client assets (i.e. assets belonging to one client should not be used to settle the trades of another client). Therefore, in the example set out above, 10,000 shares should, under normal circumstances, be transferred from SPSA 1, and 2,000 shares should be transferred from SPSA 2 to CCEP A’s CCASS account for settlement on T.

However, it is noted that where the client of a CCEP is a fund manager which manages funds or sub-funds through the use of two or more SPSAs (whether

they are maintained with one or more Custodian Participants), the fund manager may want to treat the separate SPSA orders as part of a single aggregated sell order such that each SPSA order is in fact intended to be for the benefit of all of the relevant SPSAs, not just the SPSA identified for that order. Accordingly, the fund manager client would wish to effect settlement of any resulting trades by allocating shares for delivery by the SPSAs involved in the relevant proportions. SEHK does not intend the above Rules to stop fund manager clients aggregating orders where they have the appropriate authorities for the relevant funds and sub-funds and this is permitted under applicable rules and regulations (e.g. the SFC's Code of Conduct or Fund Manager Code of Conduct). Accordingly, where a CCEP is aware that it will handle SPSA orders for a fund manager client on this basis, it should have a prior arrangement in place with its fund manager client which confirms that:

- (i) the fund manager client has authority to aggregate SPSA orders across the relevant SPSAs and to decide the appropriate allocation of trades to funds or sub-funds in those SPSAs; and
- (ii) doing so complies with applicable laws, rules and regulations and does not involve any misappropriation of client assets.

The CCEP shall keep proper record of such confirmations and each related client instructions in accordance with Rule 14A13.

In the example given, provided that CCEP A obtains such confirmations before accepting the orders for each of SPSA 1 and SPSA 2, SEHK will not normally take enforcement action against CCEP A for breach of SEHK Rules 14A06(2A)(a)(iii), 14A06(2A)(b) and 14A06(10) by CCEP A even though the settlement will be effected by the delivery of 6,000 shares from each account. To confirm compliance, SEHK has the power to require CCEPs to provide copies of client confirmations and other related information under the SEHK Rules.

**36.2 If a CCEP wrongly inputs the investor identification number of its client in a sale order and as a result, a sale trade is recorded in respect of an SPSA of another client but the error is discovered before stock settlement on T, can the shares in the correct SPSA be transferred to the responsible CCCP for settlement? For example, CCEP X mistakenly inputs Client A's investor identification number in its sell order input of 10,000 Y shares on behalf of Client B and as a result, Client A's SPSA is used for pre-trade checking and upon execution, the trade is recorded in respect of Client A's SPSA. If CCEP X discovers the error before stock settlement on T, can it request Client B's Custodian Participant to transfer the correct number of shares in Client B's SPSA to its CCASS Account (where CCEP X is the responsible Clearing Participant) or to the CCASS Account of the relevant CCCP (where CCEP X is not responsible for clearing the trade)?**

In answering the above question, CCEPs should first note the following:

- (i) A CCEP is required to report to the SEHK any trading discrepancy or error related to China Connect Securities in the [prescribed form](#).
- (ii) Where a CCEP carries out a non-trade transfer between itself and its client for the purpose of rectifying an error trade, the CCEP is required to

submit to the SEHK details of the non-trade transfer to be processed in accordance with Rule 14A12(3).

- (iii) CCEPs should note the position laid down by Rules 14A06(2A)(a)(iii), 14A06(2A)(b) and 14A06(10) of the Rules of the Exchange as set out in 36.1.
- (iv) A CCEP which inputs SPSA orders for its clients should put in place a prior arrangement with its SPSA clients to deal with cases where the CCEP commits an error in inputting SPSA orders, including the error referred to in the example.

Where an error similar to the example occurs, the relevant CCEP must report the error by submitting to the SEHK the [Reporting of Trading Discrepancy / Error \(For China Connect Securities in relation to Special Segregated Account Only\)](#) (“SPSA Error Reporting Form”) providing details of the clients and the stock involved, the remedial actions taken or to be taken and such other information as the SEHK may request. Where a non-trade transfer is involved in rectifying the error trade, the CCEP shall submit to the SEHK the SPSA Error Reporting Form and provide to the SEHK the information required under Rule 14A12(3). In the given example, to effect the transfer of shares from Client B’s SPSA to the relevant CCEP/CCCP account for stock settlement, CCEP must notify the SEHK about the error before stock settlement on T and submit the SPSA Error Reporting Form and the relevant information as soon as possible.

It is the responsibility of the CCEP which commits the error to ensure that any remedial actions taken or to be taken to rectify the error, including the correction of the error in the records of the CCEP to be consistent with the original instructions from its clients, are in compliance with the prior arrangement with its SPSA clients and the applicable laws, rules and regulations (including the SFC’s Code of Conduct). So far as SEHK and HKSCC are concerned, the carrying out of a transfer between the CCEP and its SPSA clients for the purpose of rectifying an error trade, if required, is not prohibited under Rule 14A12(2)(b) and CCASS Rule 4110(iii)(c).

Subject to the above, where the CCEP intends to take action to rectify the error and use the correct client’s shares<sup>3</sup> to meet the settlement obligation of the sale trade, the CCEP shall, prior to taking any action to rectify the error:

- (i) duly notify the parties involved (including but not limited to the affected clients<sup>4</sup> and their respective custodians and the responsible CCCP (where the CCEP is not responsible for clearing the trade)) as soon as practicable about the error committed and agree with them on its proposed correction of records and other actions to rectify the error;
- (ii) notify the SEHK about the error committed and submit the SPSA Error Reporting Form as soon as possible to the SEHK providing details of the error<sup>5</sup>; and

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<sup>3</sup> Client B’s shares in the example.

<sup>4</sup> Client A and Client B in the example.

<sup>5</sup> In the given example, CCEP needs to confirm that Client B had instructed it to sell 10,000 Y shares and provide details of the error.

- (iii) ensure that the use of the correct client's shares to meet the delivery obligation is consistent with the correct client's original instruction to sell the relevant shares and does not involve any misappropriation of client assets<sup>6</sup>.

The CCEP shall keep proper record of the above actions and the related instructions, agreements, forms, reports and confirmations in accordance with Rule 14A13.

It should be noted that where the CCEP does not take any remedial action to rectify its error, the CCEP or the responsible CCCP, as the case may be, would likely have a CNS overdue short position on the relevant shares and the SI on-hold provisions will be triggered and HKSCC will effect buy-in on T+1.

CCEPs should also note that the SEHK does take trading errors and breaches of rules seriously and will review and follow up on each reported error. Follow-up actions of the SEHK may include issuing warning letters, conducting further enquiries, commencing an investigation and reporting the matter to the SFC and the Mainland regulator and/or exchange.

### 37. What is the holiday arrangement?

In the initial stage of operation of Shanghai-Hong Kong Stock Connect, investors are only allowed to trade on the other market on days where both markets are open for trading, and banking services are available in both markets on the corresponding settlement days. This arrangement is essential in ensuring that investors and brokers will have the necessary banking support on the relevant settlement days when they will be required to make payments.

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

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

If a Northbound trading day is a half trading day in Hong Kong market, Northbound Trading will continue until SSE market is closed. The Northbound trading calendar is now available on HKEX website.

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

<sup>6</sup> In the given example, CCEP has to confirm that the use of Client B's 10,000 Y shares to meet the delivery obligation which has wrongly been recorded to Client A's SPSA is consistent with Client B's original instruction to sell 10,000 Y shares and does not involve misappropriation of Client B's assets, and that the SPSA of Client B had the relevant number of shares to meet the pre-trade checking requirement had the sale order been inputted into the CSC with Client B's investor identification number.

**38. What is the contingency arrangement under severe weather conditions?**

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

- (a) If SSE is suspended due to bad weather, there will be no trading on the Northbound and Hong Kong investors and EPs will be informed by SEHK;
- (b) If typhoon signal number 8 (or above) and/or black rainstorm warning is issued in Hong Kong before Hong Kong market opens, Northbound trading will not open. If the signal/warning is subsequently discontinued on the same day, arrangement for the resumption of Northbound trading will follow that for the SEHK market (detailed arrangement is available on the HKEX website at <http://www.hkex.com.hk/eng/market/typhoons/tradingarrangement.htm>);
- (c) if typhoon no. 8 (or above) is issued in Hong Kong after the Hong Kong market opens but before SSE market opens (between 9:00 a.m. and 9:15 a.m.), Northbound trading will not open; and

If typhoon signal number 8 (or above) is issued in Hong Kong after SSE market has opened, trading will continue for 15 minutes during which order put and cancellation will be allowed. After 15 minutes, only order cancellation is allowed until SSE market is closed.

Scenarios	Northbound Trading of SSE 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 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 market close	Yes	Yes
4. Black rainstorm issued after HK market opens (i.e. 9:00 a.m.)	Trading continues as normal	Yes	Yes
5. T8 / Black rainstorm discontinued at or before 12:00 noon	Trading resumes after 2 hours	Postpone to 3 p.m.	

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

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

[http://www.hkex.com.hk/eng/market/typhoons/Trading\\_Arrangements\\_During\\_Typhoon\\_and\\_Black\\_Rainstorm.htm](http://www.hkex.com.hk/eng/market/typhoons/Trading_Arrangements_During_Typhoon_and_Black_Rainstorm.htm)

**39. Can investors trade through their existing broker(s) in Hong Kong? Do investors need to open any additional account with any party to trade SSE Securities under Shanghai-Hong Kong Stock Connect?**

Hong Kong and overseas investors can trade SSE Securities through any EPs, so long as the chosen EP is eligible to participate in Shanghai-Hong Kong Stock Connect. Investors should discuss with their brokers on the detailed arrangements of participating in Shanghai-Hong Kong Stock Connect, including whether they need to open a separate account for trading SSE Securities, in addition to the one for trading Hong Kong shares.

**40. Do investors need to sign a separate client agreement specially for participating in Shanghai-Hong Kong Stock Connect apart from that for the stock market?**

Brokers may amend their client agreements in relation to the trading of SSE Securities if necessary (refer to Q26). Investors should consult their brokers whether they are required to sign a separate client agreement before participating in Shanghai-Hong Kong Stock Connect.

**41. Has SEHK provided a trading calendar specific for Northbound Trading?**

SEHK has provided the Northbound Trading Calendar on HKEX website and will update it at the beginning of each calendar year.

**42. Are there any restrictions in odd lot trading in SSE Securities?**

For Northbound trading, EPs are allowed to input odd lot sell orders. However, odd lot buy orders will not be accepted. In addition, an investor (or ultimate beneficial owner) who places an odd lot sell order must ensure he/she sells all the odd lot in that SSE Security in one go. For example, if an investor has 107 shares of a certain SSE Security in his/her stock account, EPs can only input a sell order of 7 shares or 107 shares.

### **III. CLEARING, SETTLEMENT AND RISK MANAGEMENT ARRANGEMENT**

**43. What is the clearing and settlement cycle?**

Northbound trades follow the A share settlement cycle. For securities settlement, ChinaClear will debit or credit its clearing participants' (including HKSCC as clearing participant) stock accounts before 6:00pm on T day to settle their A share trades. To facilitate SSE Securities settlement cycle, HKSCC will conduct securities settlement on Northbound trades for its CPs via two rounds of Batch Settlement Runs at around 5:30pm and 7:00pm on T day.

For money settlement of Northbound trades, it will be effected by around noon on T+1 day.

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

**44. What are the clearing risk management measures in place under Shanghai-Hong Kong Stock Connect?**

HKSCC and ChinaClear have established the Clearing Links and each has become a participant of each other to facilitate clearing and settlement of cross-boundary trades. For cross-boundary trades initiated in a market, the clearing house of that market on one hand clears and settles with its own clearing participants, and on the other hand undertakes to fulfill the clearing and settlement obligations of its clearing participants with the counterparty clearing house.

ChinaClear generally applies its existing risk management measures on HKSCC's unsettled positions on SSE Securities. HKSCC in turn adapts ChinaClear's risk management measures and impose them on CPs trading SSE Securities. These risk management measures are largely similar to those imposed by ChinaClear on its other clearing participants.

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

Should the remote event of ChinaClear default occur and ChinaClear be declared as a defaulter, HKSCC's liabilities in Northbound trades under its market contracts with CPs will be limited to assisting CPs in pursuing their claims against ChinaClear. HKSCC will in good faith, seek recovery of the outstanding stocks and monies from ChinaClear through available legal channels or through ChinaClear's liquidation process. HKSCC will in turn distribute the stocks or monies recovered to CPs on a pro-rata basis.

**45. Is the RMB Equity Trading Support Facility (TSF) available for obtaining RMB funding to trade SSE-listed shares under Shanghai-Hong Kong Stock Connect?**

TSF, which serves as a back-up facility to enable investors to buy RMB-denominated shares on SEHK with HKD, does not cover SSE Securities initially. Hence, investors need to use their RMB to trade and settle SSE Securities.

**46. How would SSE Securities under Shanghai-Hong Kong Stock Connect be custodised for Hong Kong and overseas investors? Can investors hold SSE Securities acquired through Shanghai-Hong Kong Stock Connect in physical form?**

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

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

#### **47. How do I participate in corporate actions of SSE Securities companies?**

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

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

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

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

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

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

**48. What will be the implications for issuers of SEHK Securities should they exclude Mainland investors holding SEHK Securities through Shanghai-Hong Kong Stock Connect (Stock Connect Shareholders) from participating in their rights issues / open offers?**

On 14 November 2014, SEHK Listing Division issued Frequently Asked Questions Series 29 on Shanghai-Hong Kong Stock Connect

([http://www.hkex.com.hk/eng/rulesreg/listrules/listrulesfaq/Documents/FAQ\\_29.pdf](http://www.hkex.com.hk/eng/rulesreg/listrules/listrulesfaq/Documents/FAQ_29.pdf)) According to FAQ Series 29, it does not consider that there are grounds for issuers of SEHK Securities to exclude Stock Connect Shareholders from participating in their rights issue / open offers to subscribe for underlying shares based on the CSRC notice “Filing Requirements for Hong Kong Listed Issuers Making Rights Issues to Mainland Shareholders through Shanghai-Hong Kong Stock Connect” (Announcement [2014] No.48) which sets out the procedure for the filing of rights issue / open offer prospectuses.

If SSE considers that an issuer of SEHK Securities proposes not to extend its rights issues / open offers to subscribe for underlying shares to Stock Connect Shareholders without sufficient justification, SSE has the right to exclude such shares from the scope of SEHK Securities.

**49. For SSE Securities that Hong Kong and overseas investors have acquired through Shanghai-Hong Kong Stock Connect, can investors attend the relevant shareholder meetings in person or appoint more than one person to attend and act as proxy at the meetings on his/her behalf?**

As HKSCC is the shareholder on record of SSE listed companies (in its capacity as nominee holder for Hong Kong and overseas investors (see Questions 52 and 53)), 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.

**50. In what capacity does HKSCC hold the SSE Securities acquired by Hong Kong and overseas investors through Shanghai-Hong Kong Stock Connect?**

HKSCC is the “nominee holder” (名义持有人) of the SSE Securities acquired by Hong Kong and overseas investors through Shanghai-Hong Kong Stock Connect<sup>7</sup>.

**51. Is such concept of “nominee holder” recognised under the laws and regulations of Mainland China? If so, what is the function of a “nominee holder”?**

The CSRC Stock Connect Rules, as departmental regulations having legal effect in Mainland China, expressly provide for the concept of a “nominee holder”. The concept is also expressly used in the *SSE Stock Connect Pilot Provisions* and the *ChinaClear Stock Connect Implementing Rules*. There are also other laws and regulations in Mainland China which provide that securities can be registered in an account opened in the name of such “nominee holder”<sup>8</sup>. The reference to “nominee holder” in the Settlement Measures expressly recognises the concept of a “beneficial owner” of securities (证券权益拥有人). In addition, pursuant to the Settlement Measures, a nominee holder (being HKSCC in relation to the SSE Securities) is the person who holds securities on behalf of others (being Hong Kong and overseas investors in relation to the SSE Securities)<sup>9</sup>. The rights and obligations of HKSCC as the nominee holder in relation to the SSE Securities acquired by Hong Kong and overseas investors are set out in the amended CCASS Rules and CCASS Operational Procedures. Similar to existing provisions on other securities, it is made clear that HKSCC has no proprietary interest in SSE Securities and as a nominee holder, HKSCC is responsible for collecting and distributing dividends to its participants (for their own account and/or as agent for their investors), obtaining and consolidating voting instructions from its participants and submitting a combined single voting instruction to the issuer of the relevant SSE Securities<sup>10</sup>. For further information, please refer to the FAQ on Beneficial

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<sup>7</sup> See, article 7, *Several Provisions on the Pilot Program of Shanghai-Hong Kong Stock Market Connect, the “CSRC Stock Connect Rules”* 《沪港股票市场交易互联互通机制试点若干规定》; article 118, *Shanghai Stock Exchange Shanghai-Hong Kong Stock Connect Pilot Programme Provisions, the “SSE Stock Connect Pilot Provisions”* 《上海证券交易所沪港通试点办法》; and article 6, *ChinaClear’s Implementing Rules for Registration, Depository and Clearing Services under the Shanghai-Hong Kong Stock Connect Pilot Programme, the “ChinaClear Stock Connect Implementing Rules”* 中国证券登记结算有限责任公司《沪港股票市场交易互联互通机制试点登记、存管、结算业务实施细则》.

<sup>8</sup> Article 18, *the Administrative Measures for Registration and Settlement of Securities, the “Settlement Measures”* 《证券登记结算管理办法》.

<sup>9</sup> Article 78, *Settlement Measures*.

<sup>10</sup> Rule 824 of the CCASS Rules and Section 8 of the CCASS Operational Procedures, and article 118, *the SSE Stock Connect Pilot Provisions*.

Ownership under Shanghai-Hong Kong Stock Connect issued by the CSRC on 15 May 2015 (CSRC FAQ)<sup>11</sup>.

## 52. Who are the beneficial owners of the SSE Securities?

While HKSCC is the “nominee holder”, it holds the SSE Securities on behalf of Hong Kong and overseas investors who are the beneficial owners of the SSE Securities. The CSRC Stock Connect Rules expressly provide that investors enjoy the rights and benefits of the SSE Securities acquired through Shanghai-Hong Kong Stock Connect in accordance with applicable laws<sup>12</sup>. Therefore, based on such provision, it is the Hong Kong and overseas investors as the ultimate investors (rather than any broker, custodian or intermediary through whom such investors hold the SSE Securities) who would be recognised<sup>13</sup> under the laws and regulations of Mainland China as having beneficial ownership in the SSE Securities. Any broker or intermediary holding SSE Securities for its own account will also be regarded as an investor having beneficial ownership in such SSE Securities. CCASS Rule 824 confirms that all proprietary interests in respect of SSE Securities held by HKSCC as nominee holder belong to CCASS Participants or their clients (as the case may be).

## 53. For an investor who is the beneficial owner of the SSE Securities, how can it be sure that its beneficial holdings or ownership in SSE Securities is based on and can be traced back to legally recognised interest held through HKSCC as the nominee holder under Mainland law?<sup>14</sup>

This question can be answered in two parts by considering:

- (i) the nature of HKSCC’s interest as the holder of SSE Securities as recorded by ChinaClear; and
- (ii) the concept of nominee holder as it is recognised under Mainland law.

With respect to (i), there are clear provisions under existing Mainland law recognising the interest of a registered holder of shares as recorded by ChinaClear. These provisions are summarised below:

- (a) **Article 30 of CSRC’s Guidance on Listed Company Articles of Association**<sup>15</sup> – This provides that Mainland listed companies shall set up and maintain their registers of shareholders in accordance with the records provided by the securities registration and settlement institution (i.e. ChinaClear), which serve as sufficient evidence on the shares held by

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<sup>11</sup> CSRC FAQ: [http://www.csrc.gov.cn/pub/csrc\\_en/newsfacts/PressConference/201505/t20150515\\_277108.html](http://www.csrc.gov.cn/pub/csrc_en/newsfacts/PressConference/201505/t20150515_277108.html).

<sup>12</sup> Article 13, CSRC Stock Connect Rules. Please also refer to the CSRC FAQ for further information (see Q 51).

<sup>13</sup> Assuming the parties have not entered into any agreement or arrangement to the contrary.

<sup>14</sup> Consistent with Supplemental FAQ 4 published via HKEX’s press release dated 6 January 2015.

<sup>15</sup> Article 30: The company shall, according to the vouchers provided by the securities registration authority, prepare a register of shareholders, which serves as sufficient evidence for the company’s shares held by the shareholders. Shareholders shall enjoy rights and bear responsibilities according to the classes of shares held by them; shareholders with the same class of shares shall enjoy equal rights and bear the same obligations. (第三十条 公司依据证券登记机构提供的凭证建立股东名册，股东名册是证明股东持有公司股份的充分证据。股东按其所持有股份的种类享有权利，承担义务；持有同一种类股份的股东，享有同等权利，承担同种义务。)

shareholders. This means that the registers of shareholders of listed companies should be maintained in accordance with the records or registers of securities holders maintained by ChinaClear.<sup>16</sup>

- (b) **Section 160 of the Securities Law of the People's Republic of China**<sup>17</sup> – This provides that ChinaClear shall provide the issuer of securities with the register of securities holders and information regarding securities holders; ChinaClear shall confirm the fact that securities holders own or hold the relevant securities based on the result of the clearing and settlement arrangements. In addition, ChinaClear shall ensure that the registers of securities holders and the securities transfer and registration records maintained by it are true, accurate and complete.
- (c) **Article 7 of the ChinaClear Implementing Rules**<sup>18</sup> – This states that HKSCC, as the nominee holder of the SSE Securities, shall be registered in the register of shareholders maintained by SSE listed companies.
- (d) **Article 5 of the ChinaClear Securities Registration Rules** – This provides that the securities registration records issued by ChinaClear shall be valid evidence of the securities holders' possession or holding of such securities.

The above provides a sound legal basis confirming that ChinaClear's records (to be reflected in the registers of shareholders of listed companies) constitute conclusive evidence with respect to a person's holding of securities in a listed company. As HKSCC holds the SSE Securities as nominee holder only and its holdings are recorded in the registers maintained by ChinaClear and listed companies in accordance with the above regulations, the relevant records should serve as good evidence of ownership of SSE Securities at the HKSCC level.

With respect to (ii), the responses to Questions 51 and 52 have already dealt with the ownership position at the beneficial owners' level. In summary, as nominee holder of SSE Securities, HKSCC does not have any proprietary interest in SSE Securities; such interest rests with the beneficial owners. This is the case whether HKSCC is solvent or insolvent (See Question 61).

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<sup>16</sup> The Mainland operates an uncertificated securities system.

<sup>17</sup> Article 160: A securities registration and clearing institution shall provide the register of securities holders and associated documents to an issuer of securities. A securities registration and clearing institution shall, according to its securities registration and settlement records, confirm that a holder of securities owns the relevant securities and provide the registration documents of relevant securities holders. A securities registration and clearing institution shall guarantee the authenticity, accuracy and completeness of its registers of securities holders and transfer and registration records, and may not conceal, forge, alter or damage any of the aforesaid materials. (第一百六十条 证券登记结算机构应当向证券发行人提供证券持有人名册及其有关资料。证券登记结算机构应当根据证券登记结算的结果, 确认证券持有人持有证券的事实, 提供证券持有人登记资料。证券登记结算机构应当保证证券持有人名册和登记过户记录真实、准确、完整, 不得隐匿、伪造、篡改或者毁损。)

<sup>18</sup> Article 7: The securities acquired by investors through Shanghai Connect and held by HKSCC as nominee shall be deposited in ChinaClear and registered in the register of shareholders of the relevant companies listed on the SSE in the name of HKSCC. (第七条 香港结算作为名义持有人持有的沪股通投资者买入的证券, 以香港结算名义存管在本公司, 登记在上海证券交易所(以下简称“上交所”)上市公司的股东名册。)

The combination of (i) and (ii) provides a good basis to show that an investor's beneficial ownership in SSE Securities is based on and can be traced back to legally recognised interest held through HKSCC as nominee holder under Mainland China law.

**54. How does an investor, as the beneficial owner of the SSE Securities, under Shanghai-Hong Kong Stock Connect structure assert, exercise and enforce its rights over the SSE Securities?<sup>19</sup>**

First and foremost, a distinction should be made between a beneficial owner (i) asserting or exercising its rights over SSE Securities; and (ii) taking legal action or court proceedings to enforce rights over the SSE Securities. These are examined below.

**(i) Asserting or exercising rights over SSE Securities**

According to the “nominee holder” arrangement, the beneficial owners of the SSE Securities shall exercise their rights in relation to such securities through the nominee holder<sup>20</sup>. The securities account for the SSE Securities acquired by Hong Kong and overseas investors through Shanghai-Hong Kong Stock Connect is opened in the name of HKSCC as nominee holder with ChinaClear<sup>21</sup>. Accordingly, Hong Kong and overseas investors are to exercise shareholder rights in relation to the SSE Securities through HKSCC in accordance with the CCASS Rules and CCASS Operational Procedures<sup>22</sup>.

It is HKSCC's understanding that when Mainland China regulations refer to “exercising rights” in relation to SSE Securities, they refer to the dealings between shareholders and the companies covering the following:

- the right to call and participate in shareholders' meetings;
- the right to propose matters for voting at shareholders' meetings;
- the right to exercise voting rights or control over the company through voting at shareholders' meetings;
- the right to subscribe for allocated rights and entitlements; and
- the right to receive dividends and other distributions declared by the

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<sup>19</sup> Consistent with Supplemental FAQ 5 published via HKEX's press release dated 6 January 2015.

<sup>20</sup> Article 5, China Clear Securities Registration Rules 《中国结算证券登记规则》 and Article 118, SSE Stock Connect Pilot Provisions.

<sup>21</sup> Article 6, ChinaClear Stock Connect Implementing Rules.

<sup>22</sup> For further information, please refer to the CSRC FAQ (see Q51).

company.<sup>23</sup>

As provided in Rule 824 and Chapter 11 of the CCASS Rules and Section 8 of the CCASS Operational Procedures, HKSCC, as the nominee holder, will (subject to applicable Mainland regulations) assert or exercise the above rights for or on behalf of CCASS Participants and the underlying beneficial owners of SSE Securities under the Stock-Connect pilot scheme. These cover HKSCC's obligations to distribute company announcements and communications, attend shareholders' meetings and obtain voting instructions and instructions to deal with entitlements, dividends, distributions, and various kinds of corporate actions of listed companies. The obligations are discharged by HKSCC seeking and acting on the instructions of CCASS Participants which, in turn, seek instructions from their clients or the beneficial owners.

Accordingly, the relevant CCASS rules and HKSCC's role are consistent and compliant with Article 5 of the *ChinaClear Securities Registration Rules*.<sup>24</sup>

## (ii) Taking legal action or court proceedings to enforce rights over the SSE Securities

The rights under (i) should be distinguished from a beneficial owner's ability and voluntary decision to take legal action against an issuer of SSE Securities for whatever reasons.

HKSCC is not currently aware of any express provision in Mainland China law which prohibits a beneficial owner or an investor from taking legal action directly in the Mainland courts to enforce its rights, or which provides an express framework for a beneficial owner or an investor to take such legal action. However, it is noted that Article 119 of the *Civil Procedure Law* in Mainland China provides that a claimant in a legal action shall be a person who has a direct interest in the relevant case. Thus, there is ground to believe that if

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<sup>23</sup> HKSCC's understanding in this regard is confirmed by Article 31 of CSRC's Administrative Measures for Margin Financing and Securities Lending Services of Securities Firms. Article 31 provides as follows: With respect to the securities recorded in the covered securities account of the credit transactions of the clients, the securities firm shall exercise the rights attached to such securities against the issuers thereof in its own name and for the interest of the relevant clients. Before exercising the rights attached to such securities against the issuers thereof, the securities firm shall solicit opinions from the clients and proceed according to their opinions. **The rights against the issuers above mean the rights arising from holding securities such as requesting the convening of the general meeting of securities holders, participating in the general meeting of securities holders, proposal, voting, subscription of allotted shares and requesting the distribution of the earnings from investment.** [Emphasis added] (第三十一条 对客户信用交易担保证券账户记录的证券,由证券公司以自己的名义,为客户的利益,行使对证券发行人的权利。证券公司行使对证券发行人的权利,应当事先征求客户的意见,并按照其意见办理。前款所称对证券发行人的权利,是指请求召开证券持有人会议、参加证券持有人会议、提案、表决、配售股份的认购、请求分配投资收益等因持有证券而产生的权利。)

<sup>24</sup> Article 5 states, among others, that "securities may be registered under the name of nominee holders if this complies with laws, administrative regulations and CSRC rules. Nominee holders are legally entitled to the relevant rights as securities holders and shall bear corresponding obligations to the relevant beneficial owners. The beneficial owners shall exercise their relevant rights through the nominee holders. When nominee holders exercise the relevant rights as securities holders, they shall consult the beneficial owners and shall not harm the interests of beneficial owners."

an investor can provide evidence to show that it is the beneficial owner (such as certification of its beneficial ownership) and that it has a direct interest in the matter, it may be able to take legal action in its own name to enforce its rights in the Mainland courts directly<sup>25</sup>. It is also noted that there are a number of cases where the Mainland courts have recognised the rights of beneficial owners based on policy and general legal principles.

However, regardless of whether a beneficial owner of SSE Securities under Shanghai-Hong Kong Stock Connect is legally entitled to bring legal action directly in the Mainland courts against a listed company to enforce its rights, as set out in CCASS Rule 824, HKSCC is prepared to provide assistance to the beneficial owners of SSE Securities where necessary:

- (a) upon the request of the relevant CCASS Participant and after receiving the necessary information, documentation and indemnities as HKSCC may, reasonably require from the Participant, HKSCC will provide certification to ChinaClear for the purpose of providing evidential proof of the CCASS Participant's or its client's holding in SSE Securities at the relevant time; and
- (b) upon the request of the CCASS Participant, HKSCC will assist the CCASS Participant or its client in bringing the legal action in Mainland China in the manner as may be required under Mainland China law, after having regard to its statutory duties<sup>26</sup> and subject to such conditions as HKSCC may reasonably require (including payment of fees and cost up-front and indemnities to the satisfaction of HKSCC).

As HKSCC is only a nominee holder of SSE Securities, the beneficial owner who decides to take legal action should be responsible for seeking proper legal advice to satisfy itself and HKSCC that a cause of action exists<sup>27</sup>. The beneficial owner should be prepared to conduct the action and take up all costs in relation to the action, including providing HKSCC with indemnities and legal representation in the proceedings.<sup>28</sup>

## **55. Will the certification of SSE Securities provided by HKSCC be recognised**

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<sup>25</sup> For further information, please refer to the CSRC FAQ (see Q 51).

<sup>26</sup> HKSCC's statutory duties are set out in section 38 of the SFO. This includes managing risks prudently, acting in the public interest and in the interest of the investing public.

<sup>27</sup> It should be noted, for example, that under the PRC Company Law, certain actions that may be taken by shareholders require shareholders to meet the required shareholding thresholds. If the beneficial owner does not have the required level of shareholdings in SSE Securities held through HKSCC, it may not be able to establish a proper cause of action.

<sup>28</sup> Beneficial owners who decide to pursue a claim against a listed company must take charge of the conduct of the action and provide HKSCC with the necessary indemnities. Similar to CSDs such as Euroclear and Clearstream in the EU or the DTCC in the U.S., it is not ordinary business of HKSCC to get involved in private disputes and similar to other professional nominees, HKSCC does not exercise independent judgment on whether listed companies have acted properly or whether CCASS Participants or the underlying investors have a cause of action against a listed company.

## by the Mainland authorities?<sup>29</sup>

Paragraph 3, Article 5 of the *ChinaClear Securities Registration Rules* states that “any certification on securities holding of the beneficiary owner issued by the nominee holder is the lawful proof that the beneficiary owner holds the relevant securities”.

As HKSCC is expressly recognised by the *CSRC Stock Connect Rules* and the *ChinaClear Stock Connect Implementing Rules* as the nominee holder of all the SSE Securities acquired through the Northbound Trading Link, there is clear support that certification issued by HKSCC as nominee holder would be treated as lawful proof of a beneficial owner’s holdings of relevant securities<sup>30</sup>. It should also be noted that the *ChinaClear Securities Registration Rules* were issued with the prior approval of the CSRC.

## 56. What is the role of HKSCC in Shanghai-Hong Kong Stock Connect?<sup>31</sup>

HKSCC provides clearing, settlement and depository services to the securities market in Hong Kong. It is approved as a recognised clearing house by the Securities and Futures Commission (SFC), Hong Kong’s regulator for the securities market, under section 37(1) of the Securities and Futures Ordinance (SFO). In addition to the provision of clearing services, HKSCC’s role as a central securities depository (CSD) and a securities settlement system (SSS) in the provision of depository, nominee, securities and settlement services is enshrined in its CCASS Rules as approved by the SFC. Apart from the SFC, HKSCC is also accepted as a central clearing counterparty (CCP), SSS and CSD by other international bodies including the IMF<sup>32</sup>. It has also applied to the European Securities Markets Authority (ESMA) in the EU to be recognised as a “Third Country CCP” under the European Market Infrastructure Regulation (EMIR)<sup>33</sup> and has recently updated its application by including features of Shanghai-Hong Kong Stock Connect<sup>34</sup>.

In relation to SSE Securities, HKSCC performs the following functions:

- (i) it acts as the “participating CCP” vis-à-vis ChinaClear<sup>35</sup> for the clearing and settlement of all the SSE Securities traded through the Northbound Trading Link (i.e. all the SSE Securities bought and sold by the clearing participants of HKSCC for Hong Kong and overseas investors); and

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<sup>29</sup> Consistent with Supplemental FAQ 6 published via HKEX’s press release dated 6 January 2015.

<sup>30</sup> For further information, please refer to the CSRC FAQ (see Q 51).

<sup>31</sup> Consistent with Supplemental FAQ 1 published via HKEX’s press release dated 6 January 2015.

<sup>32</sup> IMF Assessment: <https://www.imf.org/external/pubs/ft/scr/2014/cr14208.pdf>. See Section 4: Overview of Financial Market Infrastructures and Appendix I (Table 3).

<sup>33</sup> Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

<sup>34</sup> Hong Kong has already been accepted by ESMA as an equivalent jurisdiction for the purposes of recognising g Hong Kong clearing houses as Third Country CCPs under EMIR.

<sup>35</sup> Under the CSD and Clearing Link Agreement, ChinaClear acts as the “host CCP” in the Mainland for the clearing and settlement of all SSE Securities traded on SSE, while HKSCC acts as the “participating CCP” through its status as a special clearing participant of ChinaClear. ChinaClear also acts as the “host CSD” in Mainland in relation to the SSE Securities acquired through the Northbound Trading Link.

- (ii) post-clearing and settlement, the SSE Securities are registered in the name of HKSCC in ChinaClear's books and records as the nominee holder for CCASS Participants and the underlying investors. Similar to Hong Kong listed shares and other types of securities, HKSCC offers nominee services to CCASS Participants in its role as a CSD.

The above functions are (a) prescribed by the CSRC under the *CSRC Stock Connect Rules*, the *SSE Stock Connect Pilot Provisions* and the *ChinaClear Stock Connect Implementing Rules* and the joint announcement of the SFC and the CSRC regarding the establishment of Shanghai-Hong Kong Stock Connect in April 2014;<sup>36</sup> and (b) specifically set out and provided for in the CSD and Clearing Link Agreement entered into between ChinaClear and HKSCC prior to the launch of the Stock Connect. Importantly, HKSCC's role as nominee holder is prescribed by regulations in Mainland China and recognised and confirmed in HKSCC's rules.

It is worth noting that HKSCC does not take on the role of and is not appointed by any CCASS Participant or investor as a typical "custodian", "sub-custodian" or "safe-keeping agent" in respect of the SSE Securities. As a CCP, CSD and SSS, HKSCC acts and operates as a financial market infrastructure and is regulated by the SFC as such. It is required to comply with CPMI-IOSCO's Principles for Financial Market Infrastructures (April 2012) (the PFMI Principles) which do not apply to typical custodians or safe-keeping agents. Disclosure of HKSCC's compliance with the PFMI Principles as a CCP, CSD and SSS is published on the HKEX website<sup>37</sup>

The following description of the role and functions of a CSD in the PFMI Principles should be helpful in demonstrating that HKSCC acts as a full-fledged CSD:<sup>38</sup>

- "A central securities depository provides securities accounts, central safekeeping services, and asset services, which may include the administration of corporate actions and redemptions, and plays an important role in helping to ensure the integrity of securities issues (that is, ensure that securities are not accidentally or fraudulently created or destroyed or their details changed)." **[NOTE: This is what HKSCC does in relation to Hong Kong listed shares, SSE Securities and other securities held by it as CSD and nominee.]**
  
- "A CSD can hold securities either in physical form (but immobilized) or in dematerialized form (that is, they exist only as electronic records). **[NOTE: This applies to HKSCC.]** The precise activities of a CSD vary based on

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<sup>36</sup> Articles 7, 13 and 14, *CSRC Stock Connect Rules*; Article 118, *SSE Stock Connect Pilot Provisions*; Articles 6 and 7, *ChinaClear Stock Connect Implementing Rules* and paragraph 3(2) of the SFC/CSRC joint announcement on the establishment of Shanghai-Hong Kong Stock Connect dated 10 April 2014.

<sup>37</sup> The SFC published guidelines in August 2013 requiring HKSCC to observe on an ongoing basis the PFMI Principles as applicable to a CCP, SSS operator, and CSD. The following link to HKEX's website introduces HKSCC as a financial market infrastructure and its disclosure on compliance with the PFMI Principles: <http://www.hkex.com.hk/eng/market/clr/specialtopics/pfmi.htm>.

<sup>38</sup> Paragraph 1.11 and the related footnotes, PFMI Principles: <http://www.bis.org/cpmi/publ/d101a.pdf>.

*jurisdiction and market practices. For example, the activities of a CSD may vary depending on whether it operates in a jurisdiction with a direct or indirect holding arrangement or a combination of both. In a direct holding system, each beneficial or direct owner of the security is known to the CSD or the issuer. In some countries, the use of direct holding systems is required by law. Alternatively, an indirect holding system employs a multi-tiered arrangement for the custody and transfer of ownership of securities (or the transfer of similar interests therein) in which investors are identified only at the level of their custodian or intermediary.” [NOTE: HKSCC currently uses an indirect holding system as described above. “Custodian Participants” constitute one of its categories of participants. These are typical custodians which institutional investors appoint to safe-keep assets on their behalf.]*

- *“A CSD may maintain the definitive record of legal ownership for a security; [NOTE: HKSCC is not providing such services yet but is moving towards this direction as set out in the Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Bill 2014 recently considered by the Hong Kong Legislative Council. When the Bill is enacted and becomes effective (expected to be in 2017/18), HKSCC will, in addition to its role as CCP, CSD and SSS, also act as the “system operator” to maintain the definitive records of legal ownership for Hong Kong listed uncertificated securities.] in some cases, however, a separate securities registrar will serve this notary function. In many countries, a CSD also operates a securities settlement system. A securities settlement system enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules.” [HKSCC is a securities settlement system under the PFMI Principles and has been assessed as such.]*

Based on the above, HKSCC’s role in Shanghai-Hong Kong Stock Connect is to act as CCP, CSD and SSS, as approved and regulated by the SFC and as prescribed by the CSRC under specific rules and regulations of Mainland China.

**57. Is HKSCC’s capacity in holding the SSE Securities acquired by Hong Kong and overseas investors through Shanghai-Hong Kong Stock Connect inconsistent with its role as CSD?<sup>39</sup>**

As mentioned in Questions 50, 51 and 52 above, HKSCC holds the SSE Securities acquired by Hong Kong and overseas investors as the “nominee holder”.

HKSCC’s role as nominee holder (with its name being registered as the holder of SSE Securities in the books of ChinaClear and accordingly, the registers of members of the relevant listed companies (see Question 53 above) is consistent with its role as CSD.<sup>40</sup> In fact, providing nominee services and acting as the nominee holder of the legal interest in Hong Kong listed shares for

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<sup>39</sup> Consistent with Supplemental FAQ 2 published via HKEX’s press release dated 6 January 2015.

<sup>40</sup> It is also consistent with PFMI Principles’ description of a CSD’s role under the “indirect holding system”.

CCASS Participants and investors has been HKSCC's role under the existing regulatory regime.

As nominee holder, HKSCC performs, among others, the following functions which enable CCASS Participants and the underlying investors to exercise their rights as beneficial owners of the relevant securities:

- collection or receipt of dividends, interest payments, redemption proceeds, distributions, rights, entitlements and other properties and documents with respect to the securities held by HKSCC;
- distribution or payment to CCASS Participants of dividends, interest payments, redemption proceeds, distributions, rights, entitlements and other properties and documents received by HKSCC with respect to the securities held by HKSCC;
- the seeking of voting instructions from CCASS Participants, voting at general meetings or the passing on of voting instructions to the relevant listed companies for voting during general meetings; and
- the seeking of instructions from CCASS Participants with regard to the exercise of rights and entitlements accruing to relevant securities or the participation in other actions, transactions or matters affecting them.<sup>41</sup>

Subject to applicable Mainland China law, these are functions which HKSCC also performs as nominee holder for CCASS Participants in relation to all the SSE Securities registered in its name in the books and records maintained by ChinaClear (see paragraph (i) of Question 54 above).

**58. Will the SSE Securities acquired by Hong Kong and overseas investors through Shanghai-Hong Kong Stock Connect be held on a segregated basis? To what extent are securities held at HKSCC and different levels segregated from the assets of HKSCC and the relevant intermediaries under the Hong Kong regulatory framework?<sup>42</sup>**

After the clearance and settlement of a buy transaction on SSE Securities through the Northbound Trading Link, the SSE Securities are held via book entry at different levels as follows:

- (i) **At the ChinaClear level** – As required by the *CSRC Stock Connect Rules* and the *ChinaClear Stock Connect Implementing Rules* (as approved by the CSRC), in the books and records of ChinaClear, SSE Securities are held in an omnibus stock account in the name of HKSCC and all the shares in this account are held by HKSCC as nominee holder for CCASS Participants and their underlying clients. The HKSCC account is separate from the accounts of the other clearing participants of ChinaClear, hence, the SSE Securities are segregated from the assets of other clearing

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<sup>41</sup> See CCASS Rule 1101.

<sup>42</sup> Consistent with Supplemental FAQ 7 published via HKEX's press release dated 6 January 2015.

participants of ChinaClear and ChinaClear itself. According to Article 13 of the CSRC *Stock Connect Rules*, investors are entitled in accordance with the law to the rights and interests in respect of shares purchased through Shanghai-Hong Kong Stock Connect. Furthermore, in the insolvency of ChinaClear, the SSE Securities recorded in HKSCC's omnibus account will not form part of the assets of ChinaClear and will not be available for distribution to the creditors of ChinaClear.

- (ii) **At the HKSCC level** – As all the SSE Securities recorded in HKSCC's omnibus account with ChinaClear are held by HKSCC as nominee holder, in the books and records of HKSCC, the full amount of such SSE Securities are allocated to, and recorded as separate holdings of, the CCASS Participants that have acquired the relevant number of SSE Securities (as reflected in the clearing and settlement records of HKSCC as the participating CCP under the CSD and Clearing Link Agreement and in accordance with its rules and operational procedures).

CCASS Participants' holdings in SSE Securities are recorded in their respective stock accounts in CCASS. Each CCASS Participant's account is separate from the other participants' accounts and the securities held in them are segregated from those held for other participants and from HKSCC's own assets. Proper system processes and operational procedures have been established to ensure the timely and daily reconciliation of CCASS Participants' holdings of SSE Securities in CCASS with those of HKSCC in ChinaClear (see Question 59 below).

To enable CCASS Participants to separately identify and handle their proprietary and clients' securities holdings in CCASS, HKSCC provides multiple stock segregated accounts to CCASS Participants for holding client securities. In addition, HKSCC also provides Special Segregated Accounts to its Custodian Participants and General Clearing Participants that are not Exchange Participants for holding client securities. CCASS Participants can, therefore, hold client securities in CCASS on an omnibus basis, or if they so wish, through individual stock segregated accounts or Special Segregated Accounts (as appropriate). Accordingly, it is possible for CCASS Participants to segregate each investor's holdings in SSE Securities through such accounts at the HKSCC level.

As provided for in the rules and operational procedures of HKSCC, SSE Securities are held by HKSCC for the account of the CCASS Participants and their clients. HKSCC does not have proprietary interest in the securities. Accordingly, as set out in the response to Question 61, upon the insolvency of HKSCC, the SSE Securities held by it as nominee holder will not be regarded as the general assets of HKSCC under Hong Kong and Mainland China law and will not be available to the general creditors of HKSCC. Further, based on the proposals on establishing an effective resolution regime for financial institutions in Hong Kong issued by the SFC, the Hong Kong Monetary Authority and other Hong Kong authorities, HKSCC, as a financial market infrastructure, will be included in the proposed resolution regime for the protection of CCASS Participants, investors and other stakeholders. Therefore, should HKSCC become

insolvent, it is expected that the interests of participants and the underlying investors will be safeguarded by the relevant regulations upon their becoming effective.

HKSCC is satisfied that the above structure meets the relevant segregation requirements under the PFMI Principles and the sub-account provision referred to in Article 24 of ChinaClear's *Administrative Rules on Securities Accounts* published in August 2014).<sup>43</sup>

- (iii) **At the CCASS Participant level** – In the books and records of CCASS Participant, the SSE Securities are held for the Participant's clients (including overseas investors). Under Hong Kong law, securities held by intermediaries for clients are held on trust on a fiduciary basis and do not normally form part of the assets of the intermediaries. Also, each client is entitled to agree with its intermediaries on how the SSE Securities should be held or segregated from the intermediary's or its other clients' assets.

Separately, the SFO sets out various requirements for the recording of client trades and the safeguarding of client positions and funds by all licensed corporations and registered institutions, including CCASS Participants (i.e. brokers and banks). For example, under section 3 of the *Securities and Futures (Keeping of Records) Rules*, a licensed corporation or registered institution is required, among others, to keep, where applicable, such accounting, trading and other records as are sufficient to account for all client assets that it receives or holds, and enable all movements of such client assets to be traced through its accounting systems and stock holding systems; and under the *Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission*, a licensed corporation or registered institution should keep separate accounts for each client for dealings in securities. HKSCC understands that compliance with these requirements is assessed as part of the routine market intermediaries supervision programme conducted by the SFC.

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<sup>43</sup> Article 24: Agencies that are designated by others to hold securities for others in compliance with laws, administrative regulations and relevant provisions of the securities regulatory authorities under the State Council may apply for the opening of securities accounts as a nominee. A nominee shall open subsidiary accounts for each of its securities beneficiary or subordinated nominee (i.e. the next level of nominee). A nominee may ask ChinaClear to open subsidiary accounts for the securities beneficiaries or subordinated nominees (i.e. the next level of nominee) under its name. A nominee shall comply with, and urge the securities beneficiaries or subordinated nominees under its name to comply with the provisions of laws, administrative regulations, the securities regulatory authorities under the State Council, the securities exchange and ChinaClear in relation to information disclosure, collection, voting, and others. To perform its duties by law, ChinaClear has the right to require a nominee to provide information relating the securities or subsidiary accounts held by any securities beneficiary or subordinated nominee under its name, as well as the information relating to any change in the holding. (第二十四条 符合法律、行政法规和国务院证券监督管理机构有关规定，受他人指定并代表他人持有证券的机构，可以申请开立名义持有人证券账户。名义持有人应当分别为每个证券实际权益拥有人或其次一级名义持有人开立明细账户，名义持有人可以委托本公司为其名下的证券实际权益拥有人或次一级名义持有人开立明细账户。名义持有人应当遵守并督促其名下证券实际权益拥有人、次一级名义持有人遵守法律、行政法规、国务院证券监督管理机构、证券交易场所及本公司关于信息披露、征集投票等相关规定。本公司为依法履行职责，有权要求名义持有人提供其名下证券实际权益拥有人、次一级名义持有人、明细账户证券持有及变动情况等有关信息。)

59. It is mentioned in Question 58 that HKSCC has established proper system processes and operational procedures to ensure timely and daily reconciliation of CCASS Participants' holdings of SSE Securities in CCASS with the holdings of SSE Securities held in the omnibus account that HKSCC maintains with ChinaClear. What reconciliation processes and procedures have been put in place?

In summary, reconciliation is achieved through three levels of processes/procedures: (i) between ChinaClear and HKSCC; (ii) within CCASS itself by HKSCC going through the same reconciliation procedures as it does for all Hong Kong listed shares in the usual manner; and (iii) through HKSCC providing reports and information to CCASS Participants to enable them to conduct their own checking and internal record reconciliation. These are described in more detail below.

(i) **Reconciliation of transactions executed on SSE**

The following steps aim to ensure that the ChinaClear and HKSCC's records on transactions that require settlement are consistent. This serves as the foundation to make sure that the daily stock balance at the end of the trading day in each CCASS Participant's account is accurate.

- At around 15:30 on each trading day after the close of the Shanghai market, ChinaClear will make available to HKSCC a **Provisional Clearing Data File** containing the provisional aggregate money settlement figures that will need to be settled by HKSCC in respect of all trades that are executed on the SSE via the Northbound Trading Link on that day;
- Upon receipt of the provisional clearing data file, HKSCC will perform reconciliation of the gross buy and sell trade amounts stated in the Provisional Clearing Data File with those arrived at based on its own trade records;
- At around 16:00, HKSCC will issue to each Stock Connect CCASS Participant a **Final Clearing Statement**, which contains the Participant's net stock position in each SSE Security and its related money position arising from trades in that SSE Security effected on that trading day, as well as details of all individual trades;
- At around 17:30, ChinaClear further makes available to HKSCC a **Clearing Data File** and a **Stock Movement Data File** showing detailed trade and settlement information, whereupon HKSCC performs further reconciliations with its own records and uses such data files as the basis for the final processing of the settlement of trades in SSE Securities with the relevant CCASS Participants at around 19:00, after it has settled such trades with ChinaClear;

(ii) **Post-settlement reconciliation of stock balance**

This aims to ensure that the stock balance of HKSCC's omnibus account with ChinaClear matches with the aggregate balance of stocks recorded in CCASS.

By about 18:30, ChinaClear makes available to HKSCC a **Stock Balance Data File** and HKSCC will once again perform reconciliations with its own records by comparing the aggregate holdings of all CCASS Participants in each SSE Security in CCASS against the day-end balance of each SSE Security in the stock account of HKSCC with ChinaClear, as provided by ChinaClear in the Stock Balance Data File, to ensure that the balance of each stock in HKSCC's stock account with ChinaClear matches the aggregate holding in such stock of all CCASS Participants in CCASS;

(iii) **Reports provided to CCASS Participants for their own reconciliation purposes**

At around 20:00, HKSCC makes available various reports for download by CCASS Participants in order that they may perform further reconciliation of their holdings in CCASS with the holdings in their own records. These include the following:

- **Settlement Report**, which shows the settled and unsettled stock and money positions of a CCASS Participant on that trading day
- **Entitlement Statement**, which contains details of any corporate action entitlements credited to a CCASS Participant's account on that trading day
- **Statement of Stock Movement (by Stock) Report**, which sets out all inward and outward movements of stock of a CCASS Participant, first by stock, then by account
- **Statement of Stock Movement (by Account) Report**, which sets out all inward and outward movements of stock of a CCASS Participant, first by account, then by stock
- **Daily Stock balance Report**, which shows the balance of each SSE Security in a CCASS Participant's stock account in CCASS at day end.

A description of the above and other CCASS reports, together with samples of each such report can be found in the following URL: <http://www.hkex.com.hk/eng/market/clr/secclr/ccass3/partug/Report%20Description%20Sample.htm>.

**60. Who is obligated to make any disclosure in respect of SSE Securities acquired by Hong Kong and overseas investors?**

Pursuant to the laws and regulations of Mainland China, when trading in securities through Shanghai-Hong Kong Stock Connect, Hong Kong investors shall comply with their reporting and disclosure obligations in accordance with applicable laws upon their triggering any relevant disclosure requirements ("Hong Kong investors" here refers to the investors who trade securities through Shanghai-Hong Kong Stock Connect, including both the local investors in Hong Kong and other overseas investors<sup>44</sup>). Disclosure responsibilities are borne by the person who has "actual control over voting rights of the

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<sup>44</sup> Article 13, CSRC Stock Connect Rules.

securities”<sup>45</sup>. Furthermore, this test may be satisfied by considering the single holding of an investor or by aggregating the holding of other parties “acting in concert” with such investor<sup>46</sup>. Accordingly, Hong Kong and overseas investors who will have “actual control over voting rights of the securities” (either individually or acting in concert with others) are responsible for complying with disclosure obligations under the laws and regulations of Mainland China in relation to SSE Securities acquired through Shanghai-Hong Kong Stock Connect.

Broadly speaking, a disclosure is required to be made within 3 days when such holding reaches 5% of the issued shares of an SSE-listed issuer. Thereafter, every increase or decrease in such holding by 5% will also trigger a disclosure to be made within 3 days. Please refer to Question 35 for further discussion in relation to disclosure obligations under the laws and regulations of Mainland China.

The disclosure obligation in respect of changes to the interest in SSE Securities does not apply to HKSCC in its capacity as the nominee holder of SSE Securities holding on behalf of Hong Kong and overseas investors<sup>47</sup>.

**61. On the insolvency of HKSCC, will SSE Securities acquired by Hong Kong and overseas investors be regarded as general assets of HKSCC and therefore distributed to HKSCC’s creditors?**

As discussed in the response to Questions 50, 51 and 52, HKSCC is only the nominee holder of SSE Securities acquired by Hong Kong and overseas investors, and is not the beneficial owner of such securities. Accordingly, such SSE Securities will not be regarded as the general assets of HKSCC under Hong Kong and Mainland China law and will not be available to the general creditors of HKSCC on its insolvency. Furthermore, as a company incorporated in Hong Kong, any bankruptcy proceedings against HKSCC will be initiated in Hong Kong and any claims against HKSCC will be determined as a matter of Hong Kong law. In that event, ChinaClear and the People’s courts will recognise the liquidator of HKSCC, which has been duly appointed pursuant to Hong Kong law, as the rightful entity having the power to deal with SSE Securities in the place of HKSCC.

**61.1 Many undertakings for collective investment in transferable securities (UCITS) regulated in the European Union (EU) have acquired SSE Securities through Shanghai-Hong Kong Stock Connect and may continue to do so in the future. The UCITS V Directive<sup>48</sup> which contains more stringent requirements on depositaries became effective on 18 March 2016. In respect of the SSE Securities acquired or to be acquired**

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<sup>45</sup> Article 12, the Administrative Measures for Acquisition of Listed Companies 《上市公司收购管理办法》.

<sup>46</sup> Art. 86, PRC Securities Law 《中华人民共和国证券法》.

<sup>47</sup> Article 115, SSE Stock Connect Pilot Provisions.

<sup>48</sup> The UCITS V Directive refers to Directive 2014/91/EC of the European Parliament and the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities as regards depositary functions, remuneration policies and sanctions.

**by UCITS via Shanghai-Hong Kong Stock Connect and held through HKSCC as nominee holder under the existing structure, does HKSCC have to be appointed as a delegate of the custody functions for the purposes of the UCITS V Directive or does any exclusion apply to HKSCC? (Updated as of 30 May 2016)**

Article 22 of the UCITS V Directive provides that the assets of UCITS must be entrusted to depositaries for safekeeping. Where a depositary decides to delegate the safekeeping function to third parties, it must ensure that the delegates or sub-custodians are able to meet the requirements set out in Article 22a(3) at all times during the performance of the tasks delegated to them. Article 22a(4) of the Directive, however, states that the provision of certain services by third-country securities settlement systems (SSS) shall not be considered to be a delegation of custody functions, hence excluded from the requirements applicable to sub-custodians.

For the reasons set out below, it is HKSCC's understanding that it falls within the exclusion set out in Article 22a(4) as a third-country SSS.

**(i) What does Article 22a(4) provide?**

Article 22a(4) of the UCITS V Directive provides as follows:

*“For the purposes of this Article [22a], the provision of services as specified by Directive 98/26/EC... by securities settlement systems as designated for the purposes of that Directive or the provision of similar services by third-country securities settlement systems shall not be considered to be a delegation of custody functions.”*

**(ii) Is HKSCC a third-country SSS which provides “similar services as specified by Directive 98/26/EC” (the SSS Directive)?**

Article 2 of the SSS Directive defines a “system” to mean a formal arrangement between three or more participants with common rules and standardised arrangements for the execution of “transfer orders” between the participants.

“Transfer order” is defined to mean either an instruction by a participant to transfer a sum of money to another participant for the discharge of its payment obligation by means of book entry on the accounts of a bank or a settlement agent as provided in the system's rules, or an instruction by a participant to transfer the title or interest in securities by means of a book entry on a register, or otherwise.<sup>49</sup>

Therefore, “similar services as specified by Directive 98/26/EC” is understood to refer to the following services of an SSS:

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<sup>49</sup> Pursuant to Article 2(i) of the SSS Directive, “transfer order” is defined as follows:

“ - any instruction by a participant to place at the disposal of a recipient an amount of money by means of a book entry on the accounts of a credit institution, a central bank or a settlement agent, or any instruction which results in the assumption or discharge of a payment obligation as defined by the rules of the system; or  
- an instruction by a participant to transfer the title to, or interest in, a security or securities by means of a book entry on a register, or otherwise.”

- (1) services to effect or act on the instructions of participants for the discharge of their money payment obligations arising from securities transactions; or
- (2) services to effect or act on the instructions of participants to transfer interest in securities by means of book entry.

Similar to securities traded on SEHK, HKSCC provides the services mentioned in (1) and (2) above in relation to SSE Securities in accordance with the CCASS Rules and Operational Procedures. These are formal rules approved by the SFC under section 41 of the SFO which are binding on and enforceable against all CCASS Participants including the 129 China Connect Clearing Participants currently permitted to clear and settle SSE Securities trades, whether for UCITS or other investors.

With respect to the money settlement services described in (1), HKSCC acts on CCASS Participants' instructions to issue instructions to their designated banks to make credits and debits to their bank accounts<sup>50</sup> in RMB for the purpose of settling payment obligations in respect of SSE Securities trades.<sup>51</sup>

With respect to the securities settlement services described in (2), apart from settling SSE Securities trades as a central counterparty through the Clearing Link with ChinaClear, HKSCC also acts on CCASS Participants' settlement instructions for the purpose of effecting transfers of interest in SSE Securities between participants.<sup>52</sup> Transfers are made by means of book entry to the stock accounts of participants.

Therefore, HKSCC provides the services specified by the SSS Directive in relation to the execution of "transfer orders" between its participants. As it is not established in the EU and does not operate any branch located in the EU, HKSCC should qualify as a third-country SSS within the exclusion set out in Article 22a(4) of the UCITS V Directive. In addition, as mentioned in the response to Question 56, HKSCC is an SSS as defined in the PFMI Principles and has been accepted and assessed by the SFC as such.<sup>53</sup>

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<sup>50</sup> Credit and debit amounts are made in the bank accounts of participants' designated banks by means of book entry.

<sup>51</sup> These services are performed in accordance with the provisions of Chapters 10 (Settlement Services), 12 (Money Settlement Services) and 41 (China Connect Clearing Services) of the CCASS Rules and Sections 10A (China Connect Securities Trade – CNS System) and 14 (Money Settlement) of the CCASS Operational Procedures.

<sup>52</sup> These services are performed in accordance with Chapters 9 (Clearing Services), 10 (Settlement Services) and 41 (China Connect Clearing Services) of the CCASS Rules and Sections 10A (China Connect Securities Trade – CNS System), 12 (Non-Exchange Trades – SI Transactions, Clearing Agency Transactions, ISI Transactions, Transfer Instructions and Non-Trade Transfers in China Connect Securities) and 13 (Securities Settlement) of the CCASS Operational Procedures.

<sup>53</sup> The PFMI Principles define "securities settlement system" as follows: "A securities settlement system enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules. Such systems allow transfers of securities either free of payment or against payment. When transfer is against payment, many systems provide delivery versus payment (DvP), where delivery of the securities occurs if and only if payment occurs. An SSS may be organised to provide additional securities and settlement functions, such as the confirmation of trade and settlement instructions."

**61.2 Recital (21) in the Preamble of the UCITS V Directive refers to the exclusion of central securities depositories (CSDs) from the delegation of custody functions. Does HKSCC also qualify for the purposes of that exclusion? (Updated as of 30 May 2016)**

While the exclusion under Article 22a(4) is the operative provision that applies to HKSCC,<sup>54</sup> it is HKSCC's understanding that it also falls within the exclusion under Recital (21) of the UCITS V Directive.

**(i) What does Recital (21) provide?**

Recital (21) of the UCITS V Directive provides as follows:

*“When a Central Securities Depository (CSD) as defined in point (1) of Article 2(1) of Regulation (EU) No 909/2014 of the European Parliament and of the Council<sup>55</sup> [the (CSD Directive)], or a third-country CSD provides the services of operating a securities settlement system as well as at least either the initial recording of securities in a book-entry system through initial crediting or providing and maintaining securities accounts at the top tier level, as specified in Section A of the Annex to that Regulation, the provision of those services by that CSD with respect to the securities of the UCITS that are initially recorded in a book-entry system through initial crediting by that CSD should not be considered to be a delegation of custody functions. However, entrusting the custody of securities of the UCITS to any CSD, or to any third-country CSD should be considered to be a delegation of custody functions.”*

**(ii) How does HKSCC qualify for the exclusion under Recital (21)?**

HKSCC is a third-country CSD that provides the services of an SSS.<sup>56</sup> As explained below, it also provides and maintains securities accounts “at the top tier level” when carrying out its role in the Stock Connect Pilot Programme.

Mainland listed companies are required to set up and maintain their registers of shareholders in accordance with the records provided by the securities registration and settlement institution, i.e. ChinaClear, which serve as sufficient evidence on the shares held by shareholders.<sup>57</sup> ChinaClear maintains the electronic records of the registers of shareholders of Mainland companies although the companies themselves are also required to keep their own registers of shareholders.

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<sup>54</sup> This is because a recital in the preamble of an EU directive does not normally have any binding legal effect independent of the operative provision of a directive, hence, Article 22a(4) is the more relevant exclusion.

<sup>55</sup> Regulation (EU) No 909/2014 of the European Parliament And of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012

<sup>56</sup> See the response to Questions 56 and 61.1.

<sup>57</sup> See response to Question 53.

Article 7 of the CSRC Stock Connect Rules provides that “*ChinaClear and HKSCC shall assume the following responsibilities when conducting the business in respect of the Shanghai-Hong Kong Stock Connect: ...*

*(2) provide registration, depository and clearing services for Shanghai-Hong Kong Stock Connect;...*

*(4) provide services as nominee holders in accordance with the law...”*

Hence, with respect to SSE Securities acquired by Hong Kong and international investors through Shanghai-Hong Kong Stock Connect, Article 7 mandates **both** ChinaClear and HKSCC to perform their functions effectively as joint CSDs – ChinaClear to provide registration, depository and clearing services for SSE Securities at the same time as and during the whole time when HKSCC provides the nominee holder services and maintains securities accounts and records of entries with respect to those accounts for Hong Kong participants as CSD under the Hong Kong regulatory framework. This structure requires the sharing of responsibility between ChinaClear and HKSCC such that under the unique Stock Connect Pilot Programme, the CSD function is provided by ChinaClear and HKSCC jointly as an integrated structure to facilitate the holding of SSE Securities: insofar as an investor has acquired SSE Securities through Shanghai-Hong Kong Stock Connect, HKSCC’s name must, as prescribed by the CSRC Stock Connect Rules, appear as the registered shareholder in ChinaClear’s top tier records in the Mainland while HKSCC provides and maintains securities accounts and records for its participants and their underlying clients as top tier CSD in Hong Kong.

It is also worth noting that the sharing of responsibility between ChinaClear and HKSCC is consistent with what is being contemplated by the CSD Directive. The CSD Directive acknowledges that a top tier CSD in one country may share responsibility with another party where strict rules in the national law so provide and where the other party is subject to appropriate regulation and supervision.<sup>58</sup>

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<sup>58</sup> Recital (39) of the CSD Directive provides as follows: “This Regulation should not prevent Member States allowing direct securities holding systems from providing in their national law that parties other than CSDs shall or may perform certain functions which in some other types of securities holding systems are typically performed by CSDs and specifying how those functions should be exercised. In particular, in some Member States account operators or participants in the securities settlement systems operated by CSDs record entries into securities accounts maintained by CSDs without necessarily being account providers themselves. In view of the need for legal certainty on the entries made into account at the CSD level, the specific role played by such other parties should be recognised by this Regulation. It should therefore be possible, under specific circumstances and subject to strict rules laid down by law, to share the responsibility between a CSD and the relevant other party or to provide for exclusive responsibility by that other party for certain aspects related to maintaining of securities account at the top tier level provided that such other party is subject to appropriate regulation and supervision. There should be no restrictions on the extent to which responsibility is shared.” In the context of Shanghai-Hong Kong Stock Connect, the sharing of responsibility between ChinaClear and HKSCC is mandated by the CSRC Stock Connect Rules. This arrangement allows ChinaClear to leverage on HKSCC’s infrastructure in Hong Kong to record A-share dealings and holdings without the need to require Hong Kong and international investors to open direct accounts with it, thereby enabling investors to invest in the A-share market without establishing physical presence or obtaining the relevant licenses in the Mainland in contrast with and as an alternative to the Qualified Foreign Institutional Investors regime.

**61.3 The AIFM Directive<sup>59</sup>, which became effective on 21 July 2011, contains a provision similar to Article 22a(4) of the UCITS V Directive. In respect of the SSE Securities acquired or to be acquired by alternative investment funds via Shanghai-Hong Kong Stock Connect and held through HKSCC as nominee holder under the existing structure, does an exclusion similar to the one set out in the response to Question 61.1 above apply to HKSCC? (Updated as of 30 May 2016)**

Article 21(8) of the AIFM Directive provides that the assets of alternative investment funds (AIFs) or alternative investment fund managers (AIFMs) acting on behalf of AIFs must be entrusted to depositaries for safekeeping. Where a depositary decides to delegate the safekeeping function to third parties, it must ensure that the delegates or sub-custodians are able to meet the requirements set out in Article 21(11)(d) at all times during the performance of the tasks delegated to them. The last paragraph of Article 21(11) of the AIFM Directive, however, states that the provision of “*similar services*” by third-country SSS as specified by the SSS Directive shall not be considered to be a delegation of custody functions,<sup>60</sup> hence, excluded from the requirements applicable to sub-custodians.

Based on the same reasons as discussed in section (ii) of the response to Question 61.1, HKSCC is a third-country SSS which provides “*similar services*” as specified by the SSS Directive. Therefore, it is HKSCC’s understanding that the exclusion set out in the last paragraph of Article 21(11) of the AIFM Directive also covers HKSCC.<sup>61</sup>

#### **IV. MARKET INFORMATION**

##### **62. Where can investors obtain market information?**

To increase A-share market data visibility to Hong Kong market, SSE and HKEX have agreed to exchange free 1-price depth data of eligible stocks for Southbound and Northbound Trading and the data will be provided to EPs free of charge.

Real-time A-share data of the eligible stocks for Northbound trading will be disseminated to EPs via their CC OG, updated once every 5 seconds. Data content includes Best Bid Price/Volume, Best Offer Price/Volume, Volume

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<sup>59</sup> The AIFM Directive refers to Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010.

<sup>60</sup> The last paragraph of Article 21(11) of the AIFM Directive provides as follows: “For the purposes of this paragraph, the provision of services as specified by Directive 98/26/EC by securities settlement systems as designated for the purposes of that Directive or the provision of similar services by third-country securities settlement systems shall not be considered a delegation of its custody functions.” The relevant recital in the AIFM Directive, namely Recital 41, contains similar wording to the operative provision as follows: “Entrusting the custody of assets to the operator of a securities settlement system as designated for the purposes of Directive 98/26/EC... or entrusting the provision of similar services to third-country securities settlement systems should not be considered to be a delegation of custody functions.”

<sup>61</sup> HKSCC’s understanding as set out in the response to Questions 61.1, 61.2 and 61.3 is supported by independent legal advice.

Traded, Value Traded, Previous Price, Open Price, Latest Price, Highest Price and Lowest Price.

The 1-price depth data of eligible stocks could only be used internally by EPs and for further distribution to their trading clients. Dissemination to any other third parties is not allowed. Further, the data could not be used for index compilation and deriving any tradable products.

To increase market transparency, real-time daily quote balance for Northbound Trading will be disseminated to EPs via their CC OG and OMD Index Feed and the information will be updated once every 5 seconds. The information could be redistributed free of charge.

EPs, system vendors and Hong Kong and overseas investors may also source real time market data of SSE via SSE licensed information vendors, a list of which is available on the website of China Investment Information Services Limited, which is a subsidiary of SSE incorporated in Hong Kong and is responsible for SSE overseas market data business. SSE real time market data can also be accessed through the licensed Mainland vendors of SSE Infonet Ltd., Co. which is the information business arm of SSE. Similarly, Mainland investors may also source market data of SEHK via HKEX licensed information vendors who are providing data services in the Mainland. In addition, a number of information vendors are providing 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 [HKEX website](#).

### **63. How do investors obtain the latest company announcement?**

All approved corporate actions on SSE Securities will be announced by the issuers through the [SSE website](#) and four officially appointed newspapers (both the printed paper and their websites): the *Shanghai Securities News*, *Securities Times*, *China Securities Journal* and *Securities Daily*. HKSCC will record all corporate actions relating to SSE Securities in CCASS and advise CCASS Participants of the details via the CCASS terminals as soon as practicable on the announcement date. Hong Kong and overseas investors can visit the SSE and newspaper websites for the latest listed company announcements.

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

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

## **V. FEES AND LEVIES**

### **64. How much does it cost to trade and settle SSE Securities under Shanghai-Hong Kong Stock Connect? (Updated as of 12 August 2016)**

Hong Kong and overseas investors trading SSE Securities under Shanghai-Hong Kong Stock Connect are subject to SSE's Handling Fee and Securities Management Fee, together with ChinaClear's and HKSCC's "Transfer Fee" (as referred below).

Investors should note that certain existing CCASS fees still apply, including stock settlement fee for settlement instructions and money settlement fee. HKSCC has imposed a Portfolio fee, on its CCASS Participants for providing depository and nominee services for their SSE Securities held in CCASS. The Portfolio Fee will be collected in HKD on a monthly basis.

Fees and taxes related to Northbound trades under Shanghai-Hong Kong Stock Connect as follows:

**Fees and taxes applicable to a Northbound trade:**

Items	Rate	Charged by
Handling Fee (經手費)	0.00487% of the consideration of a transaction per side	SSE
Securities Management Fee (證管費)	0.002% of the consideration of a transaction per side	CSRC
Transfer Fee (過戶費)	0.002% of the consideration of a transaction per side	ChinaClear
	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

All the above fees and levies will be collected from CCASS Participants' designated bank accounts at day-end of T day.

The following is an example illustrating the calculation of the revised fees for Shanghai-Hong Kong Stock Connect Northbound Trading and Clearing with effect from 15 August 2016:

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	$300 \times \text{¥} 10 \times 0.00487\%$ $= \text{¥} 0.1461$	¥ 0.15

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

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

**65. Are Hong Kong and overseas investors required to pay stamp duty on their transactions in SSE Securities?**

According to the notice jointly issued by the Ministry of Finance (MOF), the State Administration of Taxation (SAT) and CSRC on 14 November 2014 [http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201411/t20141114\\_1158461.html](http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201411/t20141114_1158461.html), Hong Kong and overseas investors are required to pay stamp duty arising from the sale and purchase of SSE Securities and the transfer of SSE Securities by way of succession and gift in accordance with existing Mainland taxation regulations.

**66. Are Hong Kong and overseas investors required to pay taxes on cash dividend and/or bonus shares of SSE Securities?**

According to the notice jointly issued by MOF, SAT and CSRC on 14 November 2014, Hong Kong and overseas investors are required to pay tax on cash dividend and/or bonus shares of SSE Securities at a standard rate of 10%, which will be withheld and paid to the relevant tax authority by the respective listed companies. For those investors whose residing country has entered into

a tax treaty with China which allows them enjoying a lower dividend tax rate, the investors may apply to the tax authority for a refund of the differences.

**67. Are Hong Kong and overseas investors required to pay capital gains tax or business tax when they trade SSE Securities?**

According to the notice jointly issued by MOF, SAT and CSRC on 14 November 2014, Hong Kong and overseas investors are exempted from paying both capital gains tax and business tax, when they trade SSE Securities via Shanghai-Hong Kong Stock Connect.

**Note:**

This FAQ will be updated from time to time as the implementation progresses and investors can refer to the HKEX website for the latest development of Shanghai-Hong Kong Stock Connect.