

Stock Connect

Another Milestone

FAQ

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PART 1: TRADING

General

1.1. What is the Mutual Market Access Program?

It is the establishment of mutual market access between the Mainland and Hong Kong, with Shanghai and Shenzhen Connect for the stock market.

Shanghai 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 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.

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/or investors.

Shanghai Connect was launched on 17 November 2014. Information relating to the development of Shanghai Connect can be found on the HKEX website.

Shenzhen Connect was launched on 5 December 2016. Shenzhen Connect by and large applies similar programme principles and design. Information relating to the development of Shenzhen Connect can be found on the HKEX website.

1.2. Are Shanghai Connect and Shenzhen Connect open to all participants of SEHK ("Exchange Participants" or "EPs")?

Shanghai Connect and Shenzhen Connect are open to all EPs, but those who wish to participate must satisfy certain eligibility requirements as published on the HKEX website at <http://www.hkex.com.hk/mutualmarket>.

EPs which fulfil the requirements in the SEHK Rules can participate in Northbound trading in both the Shanghai and Shenzhen markets.

In considering whether to expand their business to cover Shenzhen Northbound trading, existing CCEPs should take into account, among other factors:

- The need to upgrade their trading/back office systems to cater for additional business for Shenzhen Northbound trading (e.g. separate market for Shenzhen);
- The need to upgrade their line/throttle to cater for additional business volume; and

- The potentially higher capital requirements for risk management purposes due to increased business volume.

1.3. Are Shanghai Connect and Shenzhen Connect open to all investors?

Trading of SSE Securities under Shanghai Connect is open to all Hong Kong and overseas investors including institutional and individual investors.

Trading of SZSE Securities, under Shenzhen Connect except ChiNext stocks, is open to all Hong Kong and overseas investors including institutional and individual investors. ChiNext stocks will be limited to institutional professional investors during the initial launch of Shenzhen Connect¹.

1.4. Are all securities listed on SSE/SZSE eligible for trading through Shanghai Connect and Shenzhen Connect?

Among the different types of SSE-/SZSE-listed securities, only A shares are included in Shanghai and Shenzhen Connect. Other product types such as B shares, Exchange Traded Funds (“ETFs”), bonds, and other securities are not included.

The Joint Announcement dated 16 August 2016 provides that the CSRC and the SFC have reached consensus to include ETFs as eligible securities under the mutual market access program. A launch date will be announced separately after Shenzhen Connect has been in operation for a period of time and upon the satisfaction of relevant conditions.

Eligible Securities for Northbound Trading under Shanghai Connect

Under Shanghai Connect, Hong Kong and overseas investors are able to trade selective stocks listed on the SSE market (“**SSE Securities**”). These include all the constituent stocks of the SSE 180 Index and the SSE 380 Index, and all the SSE-listed A shares that are not included as constituent stocks of the relevant indices but which have corresponding H shares listed on SEHK, except the following:

- SSE-listed shares which are not traded in RMB; and
- SSE-listed shares which are under risk alert².

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

¹ Other investors may later be allowed to trade SZSE ChiNext stocks subject to resolution of related legal and regulatory issues.

² 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,
 and SSE Risk Alert Board Provisional Trading Arrangement at:
http://www.sse.com.cn/lawandrules/sserules/listing/stock/c/c_20150912_3985876.shtml

Sell-only SSE Securities

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

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

In relation to A+H shares

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

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

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

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

Securities received by investors

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

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

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

Eligible Securities for Northbound Trading under Shenzhen Connect

Under Shenzhen Connect, Hong Kong and overseas investors are able to trade selective stocks listed on the SZSE market ("**SZSE Securities**").

These include all the constituent stocks of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index which have a market capitalization of not less than RMB 6 billion³, and all the SZSE-listed A shares which have corresponding H shares listed on SEHK, except the following:

- (a) SZSE-listed shares which are not traded in RMB; and
- (b) SZSE-listed shares which are under risk alert⁴.

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

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

In relation to A+H shares

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

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

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

³ Both indices include shares listed on the Main Board, the Small and Medium Enterprise Board and the ChiNext Market of SZSE.

⁴ Under risk alert in relation to A shares listed on the SZSE Main Board or SZSE SME Board, means the relevant shares are placed under "risk alert" by SZSE including shares of "ST companies", "*ST companies", and in relation to any A shares listed on the SZSE Market, means the relevant shares are subject to the delisting process or the listing of which has been suspended by SZSE under the SZSE Rules. For details, please refer to the SZSE Listing Rules at <http://www.szse.cn/main/rule/>.

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

Sell-only SZSE Securities

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

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

Securities received by investors

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

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

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

1.4.1 How is the market capitalisation of each constituent stock of the relevant index calculated to determine if the stock meets the minimum capitalisation requirement (RMB 6 billion for Northbound and HK\$5 billion for Southbound) eligible for trading under Shenzhen Connect?

Methodology (Northbound Trading)

Each constituent stock of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index:

- (a) the average daily market capitalisation of the constituent stock in the 6 months prior to the periodic review of the relevant index; or
- (b) if the stock is listed within the 6 months prior to the periodic review of the relevant index, its average daily market capitalisation in the period since it was listed.

Methodology (Southbound Trading)

Each constituent stock of the Hang Seng Composite SmallCap Index:

- (a) the average month-end market capitalisation of the constituent stock in the 12 months prior to the periodic review of the index; or
- (b) if the stock is listed within the 12 months prior to the periodic review of the index, its average month-end market capitalisation in the period since it was listed.

Review period applicable at launch of Shenzhen Connect

The market capitalisation calculation that was adopted for determining the securities eligible for trading at the launch of Shenzhen Connect was based on the latest periodic review of the respective indices.

For Shenzhen Connect launched on 5 December 2016, the applicable 6-month period for calculating the market capitalization of a constituent stock of the SZSE Component Index or the SZSE Small/Mid Cap Innovation Index for Northbound Trading is from 1 November 2015 to 30 April 2016, both days inclusive.

For Southbound Trading, the applicable 12-month period for calculating the market capitalisation of a constituent stock of the Hang Seng Composite SmallCap Index is from 1 July 2015 to 30 June 2016, both days inclusive.

Review period applicable after launch of Shenzhen Connect

For ongoing review subsequent to the launch of Shenzhen Connect, the market capitalisation calculation will follow the periodic review of the relevant indices. The SZSE Component Index and the SZSE Small/Mid Cap Innovation Index for Northbound Trading and the Hang Seng Composite SmallCap Index for Southbound Trading are all reviewed half-yearly.

1.4.2 Are investors protected by the Investor Compensation Fund established under the Securities and Futures Ordinance (“SFO”)?

Investors should note that the Investor Compensation Fund established under the SFO does not cover any Northbound activities. However, investor protection measures which are required under the SFO to be observed by Exchange Participants vis-à-vis their clients, such as those relating to dealings with client securities and payment of client money into segregated accounts, are also applicable to Northbound trading activities undertaken by Exchange Participants for their clients under Shanghai and Shenzhen Connect.

1.5. Can Hong Kong and overseas investors participate in the initial public offering of SSE and SZSE A shares through Shanghai Connect and Shenzhen Connect?

Shanghai Connect and Shenzhen Connect only encompass secondary market trading. Primary market activities, such as initial public offering are not supported.

**1.6. Is there a quota for Shanghai Connect and Shenzhen Connect?
(Updated as of 7 May 2018)**

Trading under Shanghai Connect and Shenzhen Connect is subject to a Daily Quota.

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

The Northbound Daily Quota is set at RMB 52 billion for each of Shanghai Connect and Shenzhen Connect, and the Southbound Daily Quota is set at RMB 42 billion for each of Shanghai Connect and Shenzhen Connect.

The Daily Quota is applied 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.

1.7. How does the Aggregate Quota work?

The Aggregate Quota for Shanghai Connect has been abolished since 16 August 2016. No Aggregate Quota has been established for Shenzhen Connect.

1.8. How does the Daily Quota work?

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

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

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

The Daily Quota is reset every day. Unused Daily Quota is NOT carried over to the following day's Daily Quota.

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

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

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/SZSE unless otherwise cancelled by relevant EPs.

1.9. [Repealed]

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

The Northbound Daily Quota balance will be reduced whenever the China Stock Connect System (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 the HKEX website. The Daily Quota balance will normally be increased when SSE/SZSE sends an order cancellation confirmation to CSC. However, as SSE/SZSE is not open for trading during the 5-minute order input period between 9:10 and 9:15 on a trading day, the Daily Quota balance will NOT be increased due to the input of order cancellation by EPs during that period.

1.11. 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 for SSE?	
		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

Time when Daily Quota balance drops to zero or becomes negative		Will buy orders be accepted again for SZSE?	
		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 – 14:57	(Continuous Auction – afternoon)	No	No
14:57 – 15:00	(Closing Call Auction)	No	No

* If subsequently the Daily Quota Balance > 0

1.12. 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) beyond a prescribed percentage will be rejected by CSC. During opening call auction, the current bid (or previous closing price in the absence of the current bid) will be used for checking. During closing call auction of SZSE, the current bid (or last traded price in the absence of the current bid) will be used for checking. Dynamic price checking will be applied throughout the trading day, from the 5-minute input period before the start of opening call auction until market close of SSE/SZSE. SEHK has set the dynamic price checking at 3% during the initial phase. The percentage may be adjusted from time to time subject to market conditions.

1.13. 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 is in breach of 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.

1.13.1 How does Shanghai and Shenzhen Connect differ from the current QDII, QFII and RQFII schemes?

Shanghai and Shenzhen 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 and Shenzhen Connect is open to SSE/SZSE Members, institutional investors and individual investors who satisfy certain eligibility criteria in the Mainland for Southbound trading, and SEHK EPs and any of their clients (with no restrictions imposed) for Northbound trading (other than trading of ChiNext shares on SZSE which is initially available for institutional professional investors only); in comparison, QDII, QFII and RQFII schemes target selected institutional investors;
- (b) In terms of eligible products for investment, Shanghai and Shenzhen Connect initially accepts certain SSE and SZSE listed A shares and Hong Kong listed stocks (please refer to Question 1.4 for details), while QDII, QFII and RQFII schemes have different investment scope;
- (c) In terms of quota, the quota(s) of Shanghai and Shenzhen Connect is available to all market participants rather than specific investors, while under QDII, QFII and RQFII schemes, quota is allocated to respective approved institution;
- (d) In terms of cross-boundary fund flow and, for Southbound, currency exchange, under Shanghai and Shenzhen Connect they are handled by HKSCC and ChinaClear; while under QDII, QFII and RQFII schemes the respective institutions will have to arrange the same with their on- and off-shore custodians in accordance with the respective operating procedures of the schemes.

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

Regulatory Matters

1.14. Will EPs and Clearing Participants (CPs) be subject to the Rules of SSE/SZSE and ChinaClear if they participate in Shanghai Connect or Shenzhen Connect?

Under Shanghai and Shenzhen Connect, EPs and CPs continue to be governed and protected by the regulations and rules of the Hong Kong market. However, cross-boundary trades executed by EPs through Shanghai and Shenzhen Connect have to follow the business rules of the Connect Markets. In this connection, the Rules of the Exchange and the CCASS Rules and Operational Procedures of HKSCC have been amended respectively to reflect the business rules applicable to the cross-boundary trades for Shanghai and Shenzhen Connect, with which EPs and CPs have to comply.

1.15. Is day trading of Connect Securities allowed?

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

SEHK performs pre-trade checking at the EP level on Northbound orders to ensure EPs do not conduct day trading. EPs should also ensure that their clients do not conduct day trading in Connect Securities.

1.16. Is margin trading allowed for Connect Securities?

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

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

Currently, Mainland investors can only conduct margin trading on a Connect Market in certain A shares that the SSE or SZSE, as the case may be, has determined as eligible for margin trading and stock borrowing and lending. Hong Kong and overseas investors conducting margin trading in Connect Securities via Shanghai and Shenzhen Connect through CCEPs and Trade-through EPs will be subject to a similar restriction. A list of Eligible SSE Securities for Margin Trading, the scope of which is determined by SSE from time to time, has been posted on the HKEX website for reference by the investing public. Only those SSE Securities which are eligible for both buy orders and sell orders through Shanghai Connect are included in the list. The same arrangement is applied to such margin trading in SZSE Securities through Shenzhen Connect.

According to the relevant rules of SSE and of SZSE, each of SSE and SZSE may suspend margin trading activities in specific A shares in its market when the volume of margin trading activities in such A shares exceeds the threshold determined by it and resume margin trading activities when the volume drops below a prescribed threshold (see Section 3.30.5). When SEHK is notified by SSE or SZSE that such suspension and/or resumption involves an SSE Security on the List of Eligible SSE Securities for Margin Trading or an SZSE Security on the List of Eligible SZSE Securities for Margin Trading, EPs and investors will be informed through the HKEX website. Margin trading in the relevant SSE Security or SZSE Security, as the case may be, should be suspended and/or resumed in Hong Kong accordingly.

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

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

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

As mentioned in 1.16, the suspension and resumption of margin trading in eligible Connect Securities through Shanghai and Shenzhen Connect will follow the suspension and resumption of margin trading activities in the relevant Connect Market after SSE or SZSE has duly notified SEHK. For information, EPs may refer to SSE’s and SZSE’s websites at <http://www.sse.com.cn/services/tradingservice/margin> and <http://www.szse.cn/main/aboutus/xywjs/rzrqxzjd/>.

1.18. Is Stock Borrowing and Lending (SBL) allowed for Connect Securities?

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

- (a) for the purpose of covered short selling in accordance with the Rules of the Exchange: an investor borrows Connect Securities and sells them on the relevant Connect Market through a CCEP via Northbound trading; and
- (b) for the purpose of enabling a CCEP’s client to sell Connect Securities when it is unable to effect a transfer of the relevant Connect

Securities to the CCEP's clearing account in time to meet the pre-trade checking requirement set out in the Rules of the Exchange.

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

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

1.19. What Connect Securities can be the subject of stock borrowing and lending?

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

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

1.20. Who can participate in SBL of Connect Securities? Can I lend Connect Securities of which I am not the beneficial owner?

The following persons may lend Connect Securities:

- (a) CCEPs;
- (b) Trade-through EPs (i.e. EPs registered with SEHK to conduct trading in Connect Securities through CCEPs for the account of their clients);⁵
- (c) EPs other than (a) and (b) who own or hold Connect Securities for their own account or on a propriety basis ("**Non-Registered EPs**"); and
- (d) Qualified institutions ("**QIs**") which will include:
 - (i) HKSCC participants (other than Investor Participants);
 - (ii) funds, unit trusts or collective investment schemes which are managed by persons licensed or registered to carry out Type 9 (asset management) regulated activity under the Securities and Futures Ordinance (refer to [SFC website](#) for details); and
 - (iii) other persons accepted or specified by SSE or SZSE, as the case may be.

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

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
EPs	(a) CCEPs	√	√	√
	(b) Trade-Through EPs	√	√	√
	(c) Non-Registered EPs	x	√	√
QIs	(d) Qualified Institutions	x	√	√

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

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

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

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

1.21. Is short selling of Connect 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 Connect Securities is allowed subject to the following requirements:

- (a) Only eligible Connect Securities (Short Selling Security) can be short sold. The List of Eligible SSE Securities for Short Selling has been

published on the HKEX website and the list is compiled by reference to SSE's list of eligible stocks for short selling for the SSE market excluding SSE Securities which are eligible for only sell orders. The List of Eligible SZSE Securities for Short Selling has been published on the HKEX website and the list is compiled by reference to SZSE's list of eligible stocks for short selling for the SZSE market excluding SZSE Securities which are eligible for only sell orders;

- (b) CCEPs can input short selling orders during the opening call auction session, continuous auction sessions for both SSE and SZSE, as well as closing call auction for SZSE on each CSC trading day;
- (c) CCEPs are required to flag the short selling orders when inputting them into the system. See 1.21.1 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 are subject to a tick rule: the input price of a short selling order must not be lower than the most recent execution price (or the previous closing price if there have been no executed trades on a given day) of the relevant Short Selling Security;
 - (ii) As required by each of SSE and SZSE, in respect of the relevant Connect Market, where shares in any Short Selling Security borrowed for short selling remain outstanding and have not yet been returned, CCEPs and their relevant clients are required to comply with the price requirement in (i) above in respect of any instructions for the sale of that Short Selling Security, except for those instructions that exceed the number of the outstanding and unreturned shares. See 1.21.2 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 consecutive CSC trading days.

Both the daily and cumulative limits will be rounded to the nearest 2 decimal places. The daily limit usage will be calculated in real time

throughout the CSC trading day. Any short selling order, if executed, will cause the daily limit or the cumulative limit for a Short Selling Security to be exceeded during the course of a CSC trading day will be rejected. The cumulative limit will be calculated at the end of each CSC trading day. See also 1.21.3 for details;

(g) There are mandatory reporting requirements for short selling activities as follows. See also 1.21.4 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 equals or exceeds any of the following thresholds:

A. RMB25 million; or

B. 0.02% of the total issued shares of the relevant Short Selling Security. See also 1.21.5 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 or the investor's Special Segregated Account (SPSA) before commencement of trading on that CSC trading day. Short selling orders that do not meet the pre-trade checking requirement will be rejected.

1.21.1 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.

1.21.2 How does the price restriction work in 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.*

1.21.3 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

1.21.4 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.

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

The total issued shares of the relevant SSE 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

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

股本结构 股本变动及原因

数据日期：2016年08月30日

股份名称	发行总股本(万股)	比例(%)
尚未流通股份合计	109946.14	5.09
1.发起人股份	109946.14	5.09
2.募集法人股	0	0
3.内部职工股	0	0
4.机构配售	0	0
5.其他尚未流通股	0	0
已流通股份合计:	2051881.86	94.91
1.境内上市的人民币普通股	2051881.86	94.91
2.境内上市外资股	0	0
3.境外上市外资股姓名	0	0
4.其他已流通股	0	0
股份总数	2161827.99	100

Total Issued Shares

The total issued shares of the relevant SZSE Short Selling Security can be found on the SZSE website. For instance, the total issued shares of Ping An Bank Co. Ltd. (Stock Code: 000001) can be found on http://www.cninfo.com.cn/information/companyinfo_n.html?fulltext?szmb000001 under “最新資料”.

股票代码：000001 股票简称：平安银行

代码/简称/拼音

选择股票

最新股本状况（单位：股）

总股本：	17,170,411,366	Total Issued Shares
流通股：	14,631,180,387	
国家股：		
法人股：		
发起人股：		
转配股：		
B股：		
H股：		

最新财务指标（2016中期）

每股收益(元)：	0.72
每股资本公积金(元)：	3.2886
每股未分配利润(元)：	3.67
净资产收益率(%)：	6.41
每股净资产(元)：	10.00

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

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

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

1.23. 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 or the List of Eligible SZSE Securities for Short Selling? Does the SBL agreement need to be closed out immediately?

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

1.24. Can Connect 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 Q1.18. The same non-trade transfer restriction and exception is also applied to Shenzhen Connect.

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 Shanghai Connect 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/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Rules/HKSCC/Operational-Procedures/SEC12.pdf?la=en>.

The same arrangement for Shanghai Connect is applied to Shenzhen Connect.

1.25. How will the forced-sale arrangement take place when the aggregate foreign shareholding in a particular SSE and SZSE Security exceeds 30%?

If the aggregate foreign shareholding limit (currently set at 30%) is exceeded due to trading in SSE Securities through Shanghai Connect or SZSE Securities through Shenzhen Connect, SSE/SZSE 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 and SZSE 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 Participant 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. This arrangement is also applied to Shenzhen Connect.

1.26. Do EPs need to sign a 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 sufficiently covers 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, unless an SPSA arrangement is in place;
- (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 the EP should have the right to "force-sell" client's shares upon receiving the forced-sale notification from SEHK;
- (f) the client should understand fully the Mainland rules and regulations in relation to short-swing profits, disclosure obligations and follow such rules and regulations accordingly;
- (g) the EP may have the right to cancel the client's orders in case of contingency such as hoisting of Typhoon Signal No 8 in Hong Kong;
- (h) the EP may not be able to send in the client's order cancellation requests in case of contingency such as when SEHK loses all its communication lines with SSE, etc. and the client should still bear the

- settlement obligations if the orders are matched and executed;
- (i) the client must comply with SSE Rules and other applicable laws of Mainland China relating to Northbound trading;
 - (j) the EP 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 are breached, SSE has the power to carry out an investigation, and may, through SEHK, require the EP to provide relevant information and materials and to assist in its investigation;
 - (l) SEHK may upon SSE's request, require the EP to reject orders from the client;
 - (m) the 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 the EP to issue warning statements (verbally or in writing) to the client, and not to extend Northbound trading service to the client; 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 the EP, the client or any third parties arising from or in connection with Northbound trading or the CSC.

The same provisions are applied to Shenzhen Connect. Since trading of ChiNext stocks is limited to institutional professional investors during the initial stage of Shenzhen Connect, EPs should have sufficient provisions covering the trading of ChiNext stocks including the risks involved.

Investors should consult their brokers on the detailed arrangements of participating in Shanghai and Shenzhen Connect, including whether they are required to sign a separate client agreement and whether they need to open a separate account for trading Connect Securities, in addition to the one for trading Hong Kong shares.

Trading Operations

1.27. Can EPs use the existing trading device to participate in Shanghai Connect and Shenzhen Connect?

SEHK has set up China Stock Connect System or CSC to capture and handle the Northbound orders input by EPs. EPs who want to participate in Shanghai and Shenzhen Connect need to install an open gateway (China Connect OG or CC OG) connecting to the CSC. EPs who want to participate in both Shanghai Connect and Shenzhen Connect can use the same CC OG.

1.28. What are the trading hours for trading SSE Securities through Shanghai Connect and for trading SZSE Securities through Shenzhen Connect?

Hong Kong and overseas investors are required to follow SSE's trading hours to trade SSE Securities (i.e. Northbound trading). It includes an opening call auction session from 9:15 a.m. to 9:25 a.m., and two continuous auction sessions from 9:30 a.m. to 11:30 a.m. and 1:00 p.m. to 3:00 p.m.

SEHK will accept Northbound orders from EPs five minutes before the opening of each SSE trading session. Therefore, EPs can input Northbound orders from 9:10 a.m. to 11:30 a.m. and from 12:55 p.m. to 3:00 p.m. However, it should be noted that SSE will only process the orders during SSE's trading hours.

Hong Kong and overseas investors are required to follow SZSE's trading hours to trade SZSE Securities (i.e. Northbound trading). It includes an opening call auction session from 9:15 a.m. to 9:25 a.m., two continuous auction sessions from 9:30 a.m. to 11:30 a.m. and 1:00 p.m. to 2:57 p.m. and one closing call auction session from 2:57 p.m. to 3:00 p.m.

SEHK will accept Northbound orders from EPs five minutes before the opening of each SZSE trading session. Therefore, EPs can input Northbound orders from 9:10 a.m. to 11:30 a.m. and from 12:55 p.m. to 3:00 p.m. However, it should be noted that SZSE will only process the orders during SZSE's trading hours.

1.28.1 What is the Circuit Breaker mechanism introduced by CSRC?

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

1.28.2 [Repealed]

1.28.3 [Repealed]

1.28.4 [Repealed]

1.28.5 [Repealed]

1.28.6 [Repealed]

1.28.7 [Repealed]

1.29. What order types will Shanghai Connect and Shenzhen Connect accept?

EPs can only input limit orders to trade SSE and SZSE Securities through Shanghai Connect and Shenzhen Connect.

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

1.30. Can an EP input manual trades via Shanghai Connect or Shenzhen Connect?

EPs are not allowed to input manual trades via Shanghai Connect or Shenzhen Connect.

1.31. Are the 24-spread rule and 9 times restriction currently imposed on the quotation of orders on SEHK-listed securities similarly applicable to SSE and SZSE Securities orders?

The 24-spread rule and 9 times restriction currently imposed on the quotation of orders on SEHK-listed securities are NOT applicable to SSE and SZSE Securities orders. However, A shares traded on the SSE/SZSE are subject to a price limit based on their previous closing price, including a $\pm 10\%$ price limit for stocks under normal circumstances and a $\pm 5\%$ price limit for stocks that are under special treatment (i.e. ST and *ST stocks) under risk alert. Northbound trading follows the same rule. SEHK also applies a dynamic price checking on buy orders (see Q1.12)

1.32. Can an EP cancel its SSE and SZSE Securities order during lunch time?

EPs can input requests to cancel their outstanding Northbound orders anytime when the SSE market is open, except during 9:20 a.m. to 9:25 a.m. EPs can also input order cancellation request five minutes prior to the opening of each SSE trading session but such cancellation requests will be submitted to SSE only when the market opens.

EPs can input requests to cancel their outstanding Northbound orders anytime when the SZSE market is open, except during 9:20 a.m. to 9:25 a.m. and 2:57 p.m. to 3:00 p.m. EPs can also input order cancellation request five minutes prior to the opening of each SZSE trading session but such cancellation requests will be submitted to SZSE only when the market opens.

1.33. Can an EP reduce the order quantity without changing the time priority?

Shanghai Connect and Shenzhen Connect will not support order modification. EPs who want to modify an SSE/SZSE Securities order will need to cancel the outstanding order and re-input a new one.

1.34. What is the currency for trading and settling SSE and SZSE Securities via Shanghai Connect and Shenzhen Connect?

Currently, all SSE and SZSE Securities are traded in RMB. Investors therefore trade and settle SSE and SZSE Securities in RMB. The existing RMB Equity Trading Support Facility operated by HKSCC, which serves as a back-up facility to enable investors to use HKD to buy RMB-denominated shares listed on SEHK, is not available for Northbound trading. EPs should ensure they and their clients have sufficient RMB to settle their Northbound trades.

1.35. If a Northbound order remains unexecuted by the end of the trading day, will it be carried forward to the following trading day?

Orders are good till day end only. EPs have to input a new order on the following trading day if required.

1.36. Will Northbound trading open in the afternoon if the Hong Kong market is a half trading day?

If the SSE/SZSE market is open on a day which is a half trading day in the Hong Kong market, Northbound trading will continue until the SSE/SZSE market is closed.

1.37. Does the requirement to issue contract notes on T+2 apply to Northbound trades executed by EPs for clients in Hong Kong?

Our understanding is that wherever an intermediary enters into a “relevant contract” (as defined in section 2 of the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules) with or on behalf of a client, it shall prepare and provide a contract note to the client within two business days after entering into the contract. A “relevant contract” includes a contract for dealing in securities, whether it is in local or overseas securities.

1.38. Which format of stock code (6 digits used by SSE and SZSE or 5 digits used by CCASS) should be presented in the contract notes?

Section 5(3)(c)(i) of the Securities and Futures (Contract Notes, Statement of Account and Receipts) Rules provides that a contract note shall include “full particulars of the relevant contract including the quantity, name, description and such other particulars of the securities, futures contracts or leveraged foreign exchange contracts involved, as are sufficient to enable them to be identified”. The said rule is applicable to all relevant contracts executed by a licensed corporation for or on behalf of its clients in any exchanges, including SEHK or other overseas exchanges. It does not stipulate that a brokerage firm needs to indicate any SSE/SZSE or CCASS stock code. The key requirement is that the brokerage firm should include in a contract note full description and such other particulars of the securities as are sufficient to enable them to be identified by its client.

1.39. Will SEHK provide a trading calendar specific for Northbound Trading?

The Northbound Trading Calendars for Shanghai Connect and Shenzhen Connect are available on the HKEX website and will be updated at the beginning of each calendar year.

1.40. What are the Market Identifier Codes (MIC) for Northbound / Southbound trading?

SWIFT publishes nearly all MICs for both Shanghai and Shenzhen Connect. For Shanghai Connect, the MIC for Northbound trading is XSSC and that for Southbound trading is SHSC. For Shenzhen Connect, the MIC for Northbound trading is XSEC and that for Southbound trading is SZSC. For further details, please refer to: <http://www.iso15022.org/MIC/homepageMIC.htm>.

1.41. Are there any restrictions in odd lot trading in SSE and SZSE 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/SZSE Security in one go. For

example, if an investor has 107 shares of a certain SSE/SZSE Security in his/her stock account, EPs can only input a sell order of 7 shares or 107 shares.

1.42. What is the record keeping period required for Northbound trading?

To comply with the applicable laws in Mainland China and the requirements of SSE and SZSE, EPs should keep proper books and records of the orders and trades input or executed by it and the related client instructions and information (including the telephone recording) for a period of not less than 20 years.

1.43. For those EPs who have not registered with SEHK as a CCEP to participate in Shanghai Connect and Shenzhen Connect, can they trade SSE/SZSE Securities through a CCEP? What would be the arrangement?

EPs who are registered with SEHK as CCEPs can directly input orders into the CSC for routing to the SSE/SZSE trading system for execution. China Connect EPs can trade SSE/SZSE Securities according to their business needs.

EPs who do not wish to be registered as CCEPs but who wish to provide services to their clients to trade in SSE/SZSE Securities may do so through CCEPs for the account of their clients. As Trade-through EPs, these EPs are required to provide a declaration to SEHK declaring their readiness for Northbound trading. Among other things, their back office systems must have the capability of conducting pre-trade checking, client agreements must be amended to allow for Northbound trading and appropriate arrangements must be made to ensure that their clients understand the risks of investing in SSE/SZSE Securities, etc. These Trade-through EPs are required to abide by the SEHK rules governing Northbound trading as if they were CCEPs. SEHK has published the names of such EPs on the HKEX website.

Pre-trade Checking

1.44. What is pre-trade checking?

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

SSE and SZSE conduct the same pre-trade shareholding checking for SEHK Subsidiaries' sell orders. Under Shanghai and Shenzhen Connect, SSE/SZSE Securities acquired by Hong Kong and overseas investors are held in HKSCC's omnibus stock accounts maintained with ChinaClear. Therefore, on each trading day, SSE and SZSE validate the relevant SEHK Subsidiary's sell orders in respect of SSE/SZSE Securities against HKSCC's account balances as of T-1 day-end.

1.45. Which party is responsible for enforcing the pre-trade checking rule for Shanghai Connect and Shenzhen Connect?

To enable this pre-trade checking mechanism, an EP who is interested in trading SSE and SZSE Securities must either be a CP itself (i.e. a Direct

Clearing Participants (DCP) who holds stocks by itself), or appoint a General Clearing Participant (GCP) of CCASS to maintain all its SSE and SZSE Securities in a designated sub-account and clear the Northbound trades on its behalf (in which case the EP would be an NCP). HKSCC will replicate the CCASS shareholding records to the CSC for pre-trade checking before market open.

1.46. How can an EP ensure its clients will not oversell SSE and SZSE Securities holdings? What will happen if a client's SSE and SZSE Securities have been mistakenly oversold?

Similar to the existing arrangement for trading in the Hong Kong securities market, EPs are responsible for putting in place proper risk management measures to ensure compliance with the relevant rules. Among others, EPs may need to modify their system and/or operational procedures to ensure that their clients have sufficient shares in their accounts on the previous day before placing sell orders. An EP who has mistakenly oversold, or permitted the overselling of a client's SSE/SZSE Securities will be subject to buy-in, penalty charge, and other risk management measures.

1.47. Are all EPs required to maintain CCASS accounts for SEHK to perform pre-trade checking if they want to participate in Shanghai Connect and Shenzhen Connect? Will an EP being a Non-Clearing Participant (NCP) be excluded from Shanghai Connect and Shenzhen Connect?

An EP who is not a CP (i.e. a Non-CP or NCP) may participate in Shanghai Connect and Shenzhen Connect by appointing a GCP who has registered for respective Connect program to clear and settle its SSE and/or SZSE Securities trades. The GCP so appointed should be the same GCP that clears and settles the NCP's SEHK-listed securities trades. The GCP should open at least one designated sub-account (Stock Segregated Account with Statement or "SSA") for holding the NCP's SSE and SZSE Securities. The NCP and GCP should notify SEHK and HKSCC respectively about the arrangement for pre-trade checking purpose.

1.48. How will SEHK perform pre-trade checking on EPs' orders in Connect Securities? Will the orders be validated against all the relevant Connect Securities maintained in EPs' corresponding CCASS stock accounts?

Different types of stock accounts are made available to each CP in CCASS and a CP may maintain Connect Securities in different CCASS stock accounts. For an EP who is also a CP (i.e. a Direct Clearing Participant or DCP), all Connect Securities in its CCASS stock accounts (except account 20 which is for collateral recording and management) will be counted for pre-trade checking. For an EP who is an NCP, pre-trade checking will be performed against the Connect Securities balance in the CCASS stock segregated account(s) ("SSAs") of its GCP which has been designated by its GCP for the NCP.

To facilitate investors whose Connect Securities are maintained with custodians to sell their Connect Securities without having to pre-deliver the SSE and SZSE Securities from their custodians to their executing brokers, the Special Segregated Account (SPSA) model was introduced on 30 March

2015. Under the SPSA model, an investor whose Connect 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 an SPSA in CCASS to maintain its holdings in Connect 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 authorised to use its Investor ID to execute sell orders in Connect Securities on its behalf. There should only be one set of designated EPs for each SPSA, even though the SPSA may contain securities from both Connect Markets.

CCASS will take a snapshot of the Connect Securities holdings under each SPSA of a Custodian Participant or non-EP GCP and replicate such holdings to CSC to perform pre-trade checking. When the designated EP inputs such investor's sell order, it shall also input the Investor ID with the sell order. Prior to sending the sell order to the relevant Connect Market for execution, CSC will verify whether the EP is a designated broker for the investor and whether the investor has sufficient holding in its SPSA. If the sell order passes the checking, it will be accepted; otherwise it will be rejected. Under this model, an investor will only need to transfer the relevant Connect Securities from its SPSA to its designated broker's account after execution and not before placing the sell order.

Further to the launch of Shenzhen Connect, the SPSA model was enhanced to allow the optional input of Investor IDs in buy orders. However, this indicator is only for EPs' own reference and there will not be any intraday update in clients' stockholdings in SPSA.

For further details on pre-trade checking arrangements, please refer to Questions 2.7-2.9.

- 1.48.1 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 China Connect Clearing Participant ("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.

1.48.2 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)? (Updated as of 16 January 2017)

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 1.48.1.
- (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 shares⁶ 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 clients⁷ 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 error⁸; and
- (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 assets⁹.

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 unsettled delivering SIs. HKSCC will then effect buy-in on T+1 unless buy-in exemption is granted by HKSCC.

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 the relevant exchange.

Foreign Shareholding Restriction

1.49. Is there any foreign shareholding restriction on SSE and SZSE Securities?

Under current PRC rules, a single foreign investor's shareholding in a listed company (regardless of the channels through which shares in such company

⁶ Client B's shares in the example.

⁷ Client A and Client B in the example.

⁸ 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.

⁹ 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.

are held, including QFII, RQFII and Shanghai and Shenzhen Connect) is not allowed to exceed 10% of the company's total issued shares, while all foreign investors' shareholding in the A shares of a listed company is not allowed to exceed 30% of its total issued shares.

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

SSE/SZSE Securities purchased through Shanghai Connect and Shenzhen Connect are considered in totality with those purchased under QFII and RQFII, and subject to the same foreign shareholding restriction. Once SSE/SZSE informs SEHK that the aggregate foreign shareholding of an SSE/SZSE Security reaches 28%, further Northbound buy orders in that SSE/SZSE Security will not be allowed, until the aggregate foreign shareholding of that SSE/SZSE Security is sold down to 26%. If the 30% threshold is exceeded due to Shanghai Connect or Shenzhen Connect, HKEX will identify the relevant 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 whose aggregate foreign shareholding has reached the 30% threshold. If such selling activities cause the aggregate foreign shareholding to drop below the 30% threshold within 5 trading days, EPs who were subject to the forced-sale requirement may submit an application to the SEHK for a forced-sale exemption.

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

1.50. Are there any disclosure obligations for SSE and SZSE 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.

Participation in ChiNext Market (New for Shenzhen Connect)

1.51 What is an Institutional Professional Investor?

Institutional Professional Investor (“IPI”), as defined under paragraph 15.2 of the Code of Conduct for Persons Licensed by or Registered with the SFC, means a person falling under paragraphs (a) to (i) of the definition of “professional investors” in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance.

1.52. Trading of ChiNext shares is initially permitted for institutional professional investors only. How can a CCEP satisfy this investor eligibility requirement?

Before accepting any instruction to trade ChiNext shares from a client, a CCEP should conduct appropriate Know-Your-Client procedures to ensure that such client is an Institutional Professional Investor (“IPI”) in accordance with the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. If such client is an intermediary placing orders to the CCEP as agent on behalf of its underlying customers, the CCEP should ensure that those underlying customers who trade ChiNext shares through an intermediate broker are also IPIs.

Notwithstanding the above, a CCEP may accept instructions to sell ChiNext stocks from non-IPI client if the relevant ChiNext stocks are received by such non-IPI client as a result of any distribution of rights (including the right to subscribe for rights issues open offers) or entitlements, conversion, takeover, other corporate actions or special circumstances.

1.53. Apart from those clauses required to be included in the client agreement covering trading of SZSE Securities mentioned in Q1.26, is there any specific clause for clients to participate in ChiNext Market?

Since trading of ChiNext stocks is limited to institutional professional investors during the initial stage of Shenzhen Connect, EPs should include in the client agreement sufficient provisions covering the trading of ChiNext stocks including the risks involved. CCEPs should also review and reinforce their Know Your Client (“KYC”) procedures and put in place control procedures to avoid unauthorized trading of ChiNext stocks.

1.54. Is there any impact on a CCEP if clients which are not institutional professional investors (“non-IPI”) participated in the ChiNext Market?

CCEP shall implement appropriate and effective measures to ensure compliance with the requirements under the SEHK Rules relating to the ChiNext Market. Non-compliance would constitute a breach of SEHK Rules and the CCEP will be subject to disciplinary action for.

1.55. Can SEHK prohibit the input of buy/sell order of non-qualified investors for ChiNext stocks based on the investor IDs of SPSAs?

A CCEP shall not accept instructions to buy or sell ChiNext stocks from non-IPI, and shall not input orders for ChiNext stocks into the CSC for any client

unless it is satisfied that the client is an IPI. The CCEP shall implement appropriate and effective measures to ensure compliance with the SEHK Rules and SEHK, like any other order, cannot prohibit the orders from non-IPI inputted by CCEP.

1.56. What should a CCEP do if it executed a ChiNext order for a non-IPI?

This is no different from a non-professional investor mistakenly purchasing professional debt securities or a retail investor without derivatives knowledge accidentally trading derivatives, which are current restrictions under existing Listing Rules and the SFC's Code of Conduct. CCEPs should already have appropriate controls in place to prevent similar events from happening, and necessary measures to rectify the breaches. And as is the case of any violation of HKEX and/or SEHK Rules, CCEPs should self-report to SEHK (no specific form provided). CCEPs should have prior arrangements with their clients, including but not limited to requesting the non-IPI to unwind positions of ChiNext shares as soon as possible. SEHK takes any breaches of rules seriously and will review and follow up on each incident. Follow-up actions may include issuing warning letters, conducting further enquiries, commencing investigations and reporting the matters to the SFC and the Mainland regulator and/or exchanges.

PART 2: CLEARING AND SETTLEMENT

General

2.1. How will CCASS Participants be notified when a Connect Security is admitted for clearing and settlement in CCASS?

Similar to the current arrangement for the SEHK-listed securities, a circular will be issued by HKSCC and a broadcast message will be published on the HKEX website and via CCASS Terminals respectively when a Connect Security is admitted for clearing and settlement in CCASS.

2.2. Are the English abbreviated names of SSE and SZSE Securities used in CCASS the same as the official names published by SSE and SZSE respectively?

CCASS Participants can obtain the official English abbreviated names of SSE Securities from the SSE's website (<http://english.sse.com.cn/products/equities/overview/>), and can obtain official English abbreviated names of SZSE Securities from the SZSE's website (<http://www.szse.cn/main/marketdata/jypz/colist/>) by downloading the excel showing profile of SZSE Securities.

CCASS will use the official English abbreviated names of SSE and SZSE Securities published by SSE and SZSE as far as possible. However, due to the differences in system design, the two sets of names may differ in some cases. English abbreviated names of SSE Securities and SZSE Securities in CCASS carry a suffix "-A" and "+A" respectively.

2.3. Are different ISINs assigned to a Connect Security and its corresponding H shares listed on SEHK?

Yes, the A shares and the H shares issued by a listed company have two different ISINs. Furthermore, Connect Securities have ISINs that are the same as A shares.

CP Eligibility

2.4. Who are eligible to clear and settle Northbound trades executed via Shanghai and Shenzhen Connect?

The following types of CCASS Participants under the CCASS Rules can apply to become an eligible participant (China Connect Clearing Participant or CCCP) to clear and settle Northbound trades:

- (a) Direct Clearing Participants (DCPs); and
- (b) General Clearing Participants (GCPs).

DCPs and GCPs (CPs) should also satisfy certain eligibility requirements as published on the HKEX website at <http://www.hkex.com.hk/mutualmarket> before they are accepted to clear and settle Northbound trades.

A list of eligible CCCPs has been published on the HKEX website.

2.5. What are the registration criteria set by HKSCC for CPs to participate in Shanghai and Shenzhen Connect?

CPs should comply with the following registration criteria before they are accepted as CCCPs to clear and settle Connect Securities Trades under Shanghai and Shenzhen Connect:

- (a) Internal back office system and operational procedures capabilities (including internal processes, control procedures and documentation) to handle Connect Securities and the related settlement processes including new settlement cycles;
- (b) RMB settlement capabilities via the Real Time Gross Settlement system (RTGS) operated by HKICL on Hong Kong business days initially¹⁰;
- (c) Successful completion of the market rehearsal(s)/test(s) prescribed by HKSCC and/or prove to the satisfaction of HKSCC their system and operational readiness for conducting and/or clearing Connect Securities Trades; and
- (d) Provide confirmation to HKSCC of their readiness to comply with any requirements, directions or restrictions imposed by the HKSCC from time to time.

2.5.1. Can existing CCCPs participate in Shenzhen Connect? (New for Shenzhen Connect)

Existing CCCPs will be allowed to participate in the Shenzhen Connect, subject to the submission of relevant documentation to HKSCC to confirm their readiness. The CCCP status applies to both Shanghai Connect and Shenzhen Connect. However, the CCCP may offer services of either one or both of the Connect Markets to their clients based on their business needs.

2.6. Who can hold Connect Securities purchased via Shanghai and Shenzhen Connect in CCASS?

Only CPs and Custodian Participants can hold Connect Securities in CCASS. Investor Participants are not allowed to hold Connect Securities in their CCASS accounts.

Special Segregated Account (“SPSA”) for pre-trade checking

2.7. What is Special Segregated Account (“SPSA”) and how does it work? (Updated as of 20 November 2017)

Special Segregated Account (“SPSA”) is a type of stock segregated account introduced by HKSCC on 30 March 2015 which facilitates pre-trade checking. Under the SPSA arrangement a unique Investor ID is assigned to each SPSA opened in CCASS by a Custodian Participant or non-EP GCP for a client and the client can request such Custodian Participant or non-EP GCP

¹⁰ Subject to further development of the Shanghai and Shenzhen Connect model at a later stage, Hong Kong and overseas investors may be able to trade SSE and SZSE Securities on all days when the SSE and SZSE market open, by then CPs may also be required to settle their RMB money positions on Hong Kong public holidays and typhoon/rainstorm days.

to provide its Investor ID to its designated brokers who are authorized to execute sell orders in respect of Connect Securities in the SPSA on its behalf. CCASS will take snapshots of Connect Securities holdings under SPSAs of Custodian Participants and non-EP GCPs and replicate them to CSC. When a designated EP inputs a sell order for a client in respect of Connect Securities maintained in an SPSA, it shall also input the Investor ID into the sell order. Prior to sending the sell order to the relevant Connect Market for execution, CSC will verify whether the EP is a designated broker for the SPSA client and whether such client has sufficient holding in its SPSA. Under this model, an investor will only need to transfer Connect Securities from its SPSA to its designated broker's account after execution and not before placing the sell order. Nevertheless, Connect Securities for matched sell trades shall be transferred from the SPSA to the relevant CCCP for settlement before the CNS Batch Settlement Runon T day.

2.8. Who is eligible to open SPSAs in CCASS?

Custodian Participants and non-EP GCPs are eligible to open SPSAs in CCASS for their clients upon request. They can set up an SPSA via the existing "Add Stock Segregated Account" function in CCASS. Any SPSA set up by a Custodian Participant or non-EP GCP within the specific range 80000000-80099999 will be classified as an SPSA and CCASS will generate a unique Investor ID for each SPSA. The same list of designated EPs will be applied to both SSE Securities and SZSE Securities held at the same SPSA.

2.9. How many designated executing brokers can an SPSA client designate and how shall such designation be notified to HKSCC?

A client who has requested its Custodian Participant or non-EP GCP to open an SPSA may designate not more than 20 eligible EPs to use the Investor ID assigned to the SPSA for executing sell orders in Connect Securities on its behalf. The Custodian Participant or non-EP GCP shall give not less than five Business Days' written notice to HKSCC of the designation of an SPSA to a client (with the Investor ID), details of each EP that is designated by the client to execute sell orders on its behalf and any subsequent changes by completing and returning the Special Segregated Account and Designated Executing Broker Maintenance Form ("SPSA Form") to HKSCC. The same list of designated EPs will be applied to both SSE Securities and SZSE Securities held in the same SPSA.

Clearing and Settlement Services

2.10. Who settles with CCCPs on their Connect Securities trades? HKSCC or ChinaClear?

HKSCC settles with CCCPs on their Connect Securities Trades.

To facilitate the clearing and settlement of cross-boundary trades executed under Shanghai Connect, HKSCC and ChinaClear have established Clearing Links and become a participant of each other. The Clearing Links have been extended to include Shenzhen Connect.

For Shanghai Connect, all trades executed on SSE, including the SSE Securities trades executed by SEHK subsidiary for EPs, are settled in ChinaClear. Being a participant of ChinaClear, HKSCC settles the SSE

Securities trades with ChinaClear in Shanghai on behalf of its CCCPs. HKSCC on the other hand settles such trades with its CCCPs in Hong Kong, under the CCASS Continuous Net Settlement (CNS) system.

For Shenzhen Connect, HKSCC has extended its participation with ChinaClear to undertake the settlement obligations in respect of SZSE Securities trades in the same way as in the case of SSE Securities trades described above.

2.11. How and when will CCCPs be notified of their settlement obligations in respect of their Connect Securities trades?

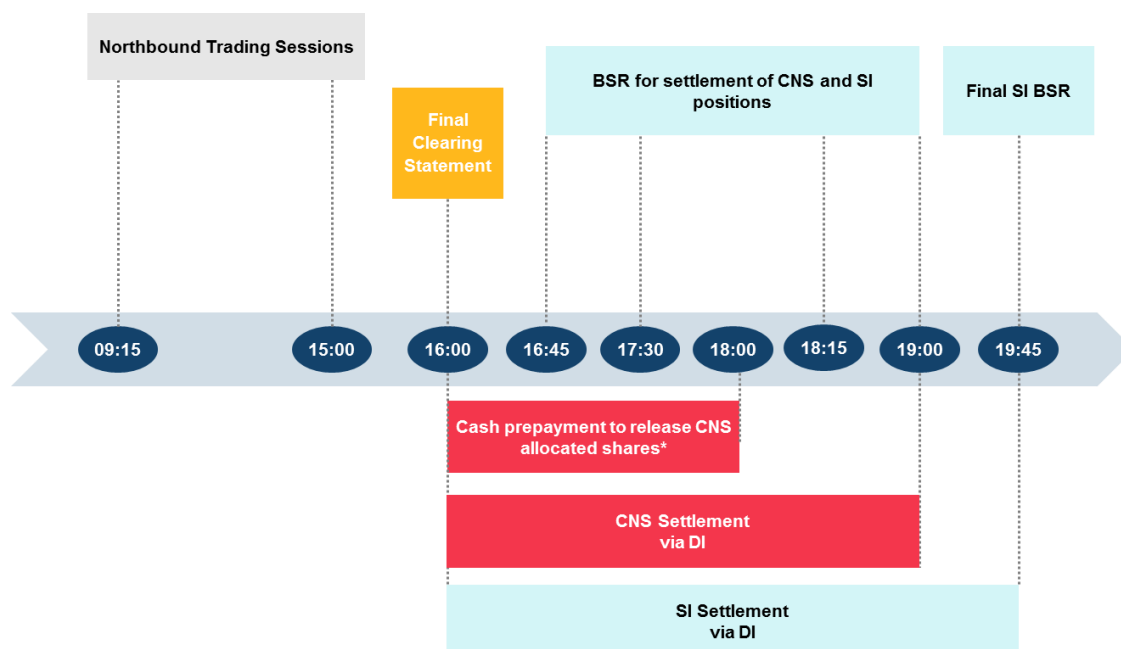
On each trading day after the close of the Connect Markets, CCASS will generate a “Final Clearing Statement” for each Connect Market respectively at around 4:00 p.m. for CCCPs to prepare for settlement. *Please note that the “Provisional Clearing Statement” currently provided for trades executed on SEHK is not applicable to Connect Securities trades.*

2.12. What is the settlement cycle for SSE and SZSE Securities trades?

SSE Securities trades and SZSE Securities trades follow the settlement cycles of the Shanghai and Shenzhen securities markets respectively, where stock will be settled on T-day, and money will be settled on T+1 for both markets.

2.13. How and at what time on T-day will SSE and SZSE Securities trades be settled? Will SSE and SZSE Securities trades be settled in the existing CCASS Batch Settlement Runs? Can CCCPs use Delivery Instructions (DIs) to settle their SSE and SZSE Securities trades? (Updated as of 20 November 2017)

CCASS has four Batch Settlement Runs designated to settle the CNS stock positions in SSE Securities and SZSE Securities respectively (BSRs) at around 4:45 p.m., 5:30 p.m., 6:15 p.m. and 7:00 p.m. on T-day. Besides, CNS short stock positions of CCCPs for each Connect Market may also be settled by the input of DI into CCASS from 4:00 p.m. to 7:00 p.m. on each trading day. Upon the completion of the fourth BSR, CCASS will generate a “Settled Position Report” for each Connect Market respectively recording the settled stock positions for CCCPs’ reference and follow-up.



* Cash Prepayment Maintenance in “CHATS” payment method ends at 17:30

2.14. How and at what time on T+1 will money settlement of SSE and SZSE Securities trades take place?

Money settlement of SSE and SZSE Securities trades will take place on T+1 via RTGS. CNS money positions in SSE Securities and SZSE Securities of the same CCCP on a trading day will be netted into a payable or receivable amount for settlement between HKSCC and the CCCP. On T+1 morning, CCASS will issue CHATS Payment Instructions (CPIs) in the net amount to CCCPs’ designated banks such that:

- CCCPs who have a net payable amount should make payment to HKSCC by 12:00 noon on T+1, via RTGS; and
- CCCPs who have a net receivable amount will receive money from HKSCC shortly after 12:30 p.m. on T+1, via RTGS.

To prepare for the funding, CCCPs should refer to (i) the “Settled Position Report” generated separately for SSE Securities and for SZSE Securities on T-day; and (ii) the existing “Statement of Money Ledger” available on T+1 morning.

2.15. Do CCCPs need to open a new set of CCASS designated bank accounts to facilitate the money settlement of Connect Securities trades? (Updated as of 20 November 2017)

CCCPs who have already opened RMB CCASS designated bank accounts can continue to use their existing RMB bank accounts for settling their Connect Securities trades. However, they should ensure that their designated banks provide RMB RTGS services as Connect Securities trades will be settled via RTGS. Please refer to the [list of DBs](#) who provide RMB CHATS service. CCCPs can also continue to use their existing HKD CCASS designated bank accounts for other CCASS payments.

2.16. Can a CCASS Participant use Settlement Instruction (SI) to transfer Connect Securities to another CCASS Participant within CCASS? (Updated as of 20 November 2017)

A CCASS Participant may make use of the existing SI related maintenance and batch file transfer functions to input SI for transferring Connect Securities from/to its SI counterparties provided that the transfer involved does not amount to a “non-trade transfer” (please refer to Question 1.24 regarding non-trade transfers).

CCASS Participants can settle SIs in Connect Securities by way of BSRs or DIs. HKSCC provides five BSRs on T-day (at 4:45 p.m., 5:30 p.m., 6:15 p.m., 7:00 p.m. and 7:45 p.m.) to settle SI stock positions in Connect Securities:

- the BSR at 4:45 p.m., 5:30 p.m., 6:15 p.m. and 7:00 p.m. only settles SI stock positions in Connect Securities (i) where the delivering party is either a Custodian Participant or a GCP which is not an EP, and the delivering account is an SPSA and (ii) where the delivering party is a CCASS Participant which has no outstanding short CNS position in the relevant stock and the delivering account is a non-SPSA; and
- the BSR at 7:45 p.m. settles SI stock positions in Connect Securities with no restriction on the delivering party, the delivering account or the receiving account. The SI stock positions will be settled provided that the delivering account has no outstanding CNS short position in the relevant stock.

2.16A How and at what time does money settlement of SIs in Connect Securities on a “delivery vs payment” (DvP) basis take place? (Updated as of 20 November 2017)

The settlement of money payment obligations in respect of SIs on DvP basis in Connect Securities is effected by way of Interbank Bulk Settlement Runs conducted by HKICL.

To support same-day money settlement of SIs in Connect Securities for the purpose of eliminating overnight counterparty risk, an Interbank Bulk Settlement Run in RMB is conducted by HKICL in the evening of T-day (“Same-day Night Settlement”) such that RMB money payment obligations in respect of SIs in Connect Securities under all the BSRs on T-day (at 4:45 p.m., 5:30 p.m., 6:15 p.m., 7:00 p.m. and 7:45 p.m.) will be settled at around 9:25 p.m. on the same day so long as and provided that the Designated Banks (“DBs”) of both counterparties to the SIs can support the Same-day Night Settlement; otherwise, the payment obligations in respect of these SIs will be effected in the Interbank Bulk Settlement Run conducted by HKICL at 9:30 a.m. on the following day, i.e. on T+1. For the avoidance of doubt, payment obligations in respect of DVP SIs in Connect Securities settled in HKD or USD will also be effected in the Interbank Bulk Settlement Run conducted by HKICL at 9:30 a.m. on the following day, i.e. on T+1.

For the list of DBs that support the Same-day Night Settlement, please refer to 2.16B below. Together, they act for all the CCCPs that conduct Shanghai and Shenzhen Connect SIs under the BSRs at 4:45 p.m., 5:30 p.m., 6:15 p.m., 7:00 p.m. and 7:45 p.m. to date. For a list of CCCPs that are served by

the DBs which support the Same-day Night Settlement, please refer to HKSCC's circular dated 13 April 2016 [Reference No.: [CD/CDCO/CCASS/080/2016](#)].

From a system perspective, to ensure that all BSRs on T-day can be settled through Same-day Night Settlement with the support of the DBs mentioned above, CCASS has been enhanced so that the settlement process at around 9:25 p.m. on T-day will cover all the related Shanghai and Shenzhen Connect SIs automatically.

2.16B Where is the list of Designated Banks that support the Same-day Night Settlement published?

The list can be accessed via this link to the HKEX website:

http://www.hkex.com.hk/eng/market/clr/secclr/clrarng_hksc/ Documents/NO N-IP_BKLIST_RMB.pdf

2.16C Can SIs in Connect Securities be settled on a “realtime delivery vs payment” (RDP) basis? (Updated as of 20 November 2017)

Starting from 20 November 2017, CCASS supports settlement of SIs in Connect Securities on RDP basis. The RDP money settlement for SIs in Connect Securities rides on the same model as in the Hong Kong market. During a BSR or upon the input of a DI, CCASS will put on-hold the relevant securities in the relevant stock account of the delivering CCCP and issue a CPI to the DB of the receiving CCCP for money settlement. The DB of the receiving CCCP will have to instruct payment to the DB of the delivering CCCP via the RTGS system operated by HKICL. Upon receipt of payment confirmation from HKICL, CCASS will effect the delivery of the relevant securities from the delivering CCCP to the receiving CCCP immediately.

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

2.17. Are ATIs and STIs available for CCASS Participants to transfer Connect Securities between their own CCASS stock accounts including SSAs and SPSA? (Updated as of 20 November 2017)

CCASS Participants may make use of the existing ATI and STI related maintenance and batch file transfer functions to transfer Connect Securities between their own stock account and their respective SSAs and SPSAs.

Delivery of Connect Securities to/from SPSAs will be placed in the “Pending for Transfer” status if input and authorisation of an STI are made between 8:15 a.m. and the sixth STI Batch run.

STI Batch Runs for Connect Securities:

Account	[1] 8:00 am	[2] 9:15 am	[3] 10:00 am	[4] 12:45 pm	[5] 3:30 pm	[6] 5:00 pm	[7] 5:30 pm	[8] 6:15 pm	[9] 7:00 pm	[10] 7:30 pm	[11] 8:00 pm
Non-SPSA	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
SPSA	✓ ⁽¹⁾						✓ ⁽²⁾⁽³⁾	✓ ⁽²⁾⁽³⁾	✓ ⁽²⁾⁽³⁾	✓ ⁽¹⁾	✓ ⁽¹⁾

- (1) In the STI Batch Run at 8:00 a.m., 7:30 p.m. and 8:00 p.m., STI transfers to or from SPSAs will be processed
- (2) In the STI Batch Run at 5:30 p.m., 6:15 p.m. and 7:00 p.m., STI transfers from SPSA will be processed before STI Transfers from non-SPSA.
- (3) In the STI Batch Run for SPSA at 5:30 p.m., 6:15 p.m. and 7:00 p.m., STI transfers from non-SPSA to SPSA will be excluded

2.18. On T day, how can a CCCP's Connect Securities which are put on-hold in its CCASS stock account as a result of CNS settlement be released? Under what circumstances is prepayment / application for the early release of on-hold CNS allocated Connect Securities necessary? (Updated as of 14 May 2018)

For Northbound trading, Connect Securities credited to a CCCP's stock account for the settlement of a CNS position on T day will be put on-hold until money is settled on T+1. A CCCP that wishes to have such Connect Securities released for onward delivery to another CCASS Participant on T day will need to arrange cash prepayment and / or apply for the early release of such Connect Securities by depositing USD/HKD collateral in order to enable SI transfer after the completion of CNS settlement. A GCP that wishes to transfer such Connect Securities to the designated stock accounts of its NCPs to make them available for sale on the next day by the relevant NCPs will also need to arrange cash prepayment and / or apply for the early release of such Connect Securities for ATI/STI transfer. CCCPs should consider the aggregated CNS money obligation of Connect Markets when making cash prepayment and / or applying for the early release of on-hold CNS allocated Connect Securities.

2.19. How can CCCPs make prepayment to release on-hold CNS allocated Connect Securities during the day? (Updated as of 20 November 2017)

CCCPs can use cash prepayment services to release on-hold CNS allocated Connect Securities by making request via the CCASS Terminal function, "Cash Prepayment Instruction Maintenance for China Connect Markets" on T-day. Irrevocable payments via CHATS or internal bank account transfer to HKSCC's specific bank account with Bank of China (Hong Kong) Ltd shall be made by CCCPs to release on-hold CNS allocated Connect Securities. CCCPs can also create and authorize cash prepayment standing instruction via the CCASS Terminal function, "Cash Prepayment Standing Instruction Maintenance for China Connect Markets" for HKSCC to generate recurring cash prepayment request automatically (please refer to the CCASS Terminal User Guide for details of the arrangement).

2.19.1. How can CCCPs apply for the early release of on-hold CNS allocated Connect Securities? (Updated as of 14 May 2018)

In addition to effecting cash prepayment, CCCPs can also apply for the early release of on-hold CNS allocated Connect Securities by depositing funds in USD/HKD as collateral to HKSCC. CCCPs should submit the "Shanghai and

Shenzhen Stock Connect: Early Release of Securities-on-hold Application Form” (“CCASS Form 89”) to HKSCC between 4:00 p.m. and 5:30 p.m. on T-day and make irrevocable payments to HKSCC’s specified bank account by 5:30 p.m. on T-day. Before submitting the application, CCCPs should refer to the exchange rate and haircut rate published by HKSCC via CCASS Broadcast Message at around 4:15 p.m. on T-day to calculate the required amount of USD/HKD collateral.

2.19.2.How is the collateral required for the early release of on-hold CNS allocated Connect Securities calculated? (Updated as of 14 May 2018)

CCCPs need to consider 1) their CNS payment obligations and 2) the latest exchange rate and haircut rate as announced by HKSCC at around 4:15 p.m. on T-day when calculating the amount of collateral required for the early release of on-hold CNS allocated Connect Securities.

For example: A CCCP has RMB 10,000,000 CNS obligation and instead of using cash prepayment, the CCCP applies for the early release of on-hold CNS allocated Connect Securities by depositing funds in HKD as collateral. The HKD collateral amount required should be calculated as follows:

Assuming:

Exchange rate: RMB to HKD = 1 to 1.25

Haircut rate: 2%Then:

HKD collateral amount required: $10,000,000 \times 1.25 / (1 - 2\%)$
= HKD 12,755,102.04

2.19.3.What will be HKSCC’s arrangement for the USD/HKD collateral after CCCPs fulfill the CNS obligation by T+1 noon? When and how will HKSCC redeliver the USD/HKD collateral to CCCPs? Can CCCPs apply for keeping the collateral with HKSCC? (Updated as of 14 May 2018)

Subject to CCCPs fully satisfying their CNS payment obligations in respect of the on-hold CNS allocated Connect Securities which have been early released in RMB by T+1 noon, HKSCC will redeliver the full amount of surplus USD/HKD collateral to CCCPs via Electronic Payment Instruction (“EPI”) at around 5:50 p.m. on the same day in accordance with CCASS Operational Procedures. As the redelivery of collateral is effected after the deadline of an early release application (i.e. 5:30 p.m.), the redelivered collateral cannot be used for another application for the early release of on-hold CNS allocated Connect Securities on the same day.

Alternatively, CCCPs may instruct HKSCC not to redeliver the collateral as mentioned above, by submitting the “Placing / Cancellation of Standing Instruction in Connection with Collateral Provided for the Early Release of Securities-on-hold” form (“CCASS Form 90”) and indicating the placing of a standing instruction on the form no later than 2:00 p.m. on T+1 for the standing instruction to take effect on the same day. Such collateral not being redelivered will still be kept as “A-share Collateral” under Special-Use Collateral in CCCPs’ CCMS Collateral Account (“Surplus Collateral”). To make use of all or part of such Surplus Collateral for subsequent application

for the early release of on-hold CNS allocated Connect Securities, the CCCP shall submit CCASS Form 89 to notify HKSCC of the amount of Surplus Collateral to be applied. Only the amount of such collateral accepted by HKSCC in relation to an application for the early release of on-hold CNS allocated Connect Securities will be subject to a handling fee (Refer to Question 2.19.5 below).

2.19.4.Can CCCPs request partial / full withdrawal of the Surplus Collateral? How can CCCPs cancel the standing instruction? (Updated as of 14 May 2018)

CCCPs can apply for a partial or full withdrawal of any Surplus Collateral by submitting an “Application Form for Withdrawal of Surplus Collateral” (“CCASS Form 91”) to HKSCC. Besides, CCCPs can cancel the standing instruction of not redelivering the Surplus Collateral by submitting CCASS Form 90.

Both forms should be received by HKSCC by 2:00 p.m. on a Settlement Day, to allow for the redelivery of surplus collateral to CCCPs on the same day via EPI at around 5:50 p.m. Otherwise, the instructions under CCASS Form 90 will take effect on the next Settlement Day, while the application under CCASS Form 91 will be rejected.

2.19.5.How is the handling fee for the early release of on-hold CNS allocated Connect Securities calculated? When will the handling fee be collected by HKSCC? (Updated as of 14 May 2018)

The application for the early release of on-hold CNS allocated Connect Securities is optional and a handling fee, currently set at 1% per annum, will be charged based on the amount of collateral accepted by HKSCC in relation to an application for early release. The example below illustrates the calculation of handling fee:

On T day, a CCCP has RMB 5,000,000 CNS money obligation to be settled on T+1. The CCCP deposits USD 300,000 as collateral for the early release of on-hold CNS allocated Connect Securities and also makes cash prepayment of RMB 1,000,000 on T day in order to release the on-hold CNS allocated Connect Securities:

Assuming:

Exchange rates: RMB to HKD = 1 to 1.2; USD to HKD = 1 to 7.8

Haircut rate:2%

Then:

Handling fee rate: 1%

Steps for calculating the handling fee:

- 1) Convert the USD to RMB equivalent value using the applicable exchange and haircut rates:

$$300,000 \times 7.8 / 1.2 \times (1 - 2\%) = \text{RMB } 1,911,000 \text{ [A]}$$

- 2) Calculate remaining CNS obligation after cash prepayment:

RMB 5,000,000 – RMB 1,000,000 = RMB 4,000,000 [B]

- 3) Calculate the handling fee based on the amount of collateral accepted and used by HKSCC (i.e. lower of [A] or [B]):

{Lower of [A] or [B] x handling fee rate / 360} converted to HKD, rounded to 2 decimal places:

1,911,000 x 1% / 360 x 1.2 = HKD 63.70

If T+1 is three calendar days from T-day (e.g. T is a Friday and T+1 is the following Monday), the handling fee will be HKD 63.70 x 3 = HKD 191.10.

Each CCCP can refer to the CCASS report named “Handling Fee Collection Report for the Early Release of Securities-on-hold for China Connect Markets” (CSECC03), which is available for download via a CCASS terminal for details of the handling fee charged to it. Same as the arrangement for other fees collected by HKSCC, such handling fee will be posted to CCCPs’ Billing Account (a sub-account of the Money Ledger) on the Settlement Day when HKSCC receives the application for the early release of on-hold CNS allocated Connect Securities and will be collected weekly via EPI per existing arrangement.

2.19.6. Will any interest be payable by HKSCC to CCCPs for USD / HKD collateral deposited for the early release of on-hold CNS allocated Connect Securities? (Updated as of 14 May 2018)

No interest will be payable by HKSCC to CCCPs for any USD / HKD collateral deposited for the early release of on-hold CNS allocated Connect Securities.

2.20. If a CCCP has an overdue CNS short stock position in a Connect Security, can it transfer any such Connect Security to another CCASS Participant via Settlement Instructions (SI)? (Updated as of 16 January 2017)

If a CCCP has an overdue short stock position in a Connect Security, its SIs which involve the delivery of such Connect Security to other CCASS Participants will only be effected under the following circumstances:

- a. where the overdue short positions are solely due to the failure of the CCCP to transfer such Connect Securities to its Stock Clearing Account for CNS settlement, but the CCCP has since transferred sufficient quantity of Connect Securities to its Stock Clearing Account; or
- b. where the overdue short positions are solely due to the failed delivery of the relevant quantity of such Connect Security from a Special Segregated Account to the CCCP for CNS settlement (“SPSA Delivery Failure”) and a request for adjustment has been submitted to HKSCC in accordance with Section 2.3.15 of CCASS Operational Procedures (please refer to the CCASS Terminal User Guide for Participants for details of the function); or
- c. where the overdue short positions are partly due to an SPSA Delivery Failure and partly due to the failure of the CCCP to transfer such Connect Securities to its Stock Clearing Account for CNS settlement,

and (i) in respect of the SPSA Delivery Failure, a request for adjustment has been submitted to HKSCC in accordance with Section 2.3.15 of CCASS Operational Procedures (please refer to the CCASS Terminal User Guide for Participants for details of the function) and (ii) in respect of the overdue short position which are due to the failure of the CCCP to transfer such Connect Securities to its Stock Clearing Account, the CCCP has since transferred sufficient quantity of Connect Securities to its Stock Clearing Account.

2.21. If an overdue CNS short stock position in a Connect Security of a CCCP is solely caused by the delivery failure of one or more SPSAs that have sold the Connect Security (“Selling SPSAs”), what actions should be taken? (Updated as of 16 January 2017)

Under the SPSA model, a CCCP may have an overdue CNS short stock position in a Connect Security solely caused by the failure of one or more Selling SPSAs to deliver the correct number of shares sold to the CCCP before CNS settlement on the relevant settlement day, resulting in the CCCP’s settlement instructions (SIs) for delivering the Connect Security not to be effected.

Under such circumstances, on the same settlement day that the SPSA Delivery Failure takes place, the CCCP is required to use the SPSA Delivery Failure Maintenance function in its CCASS Terminal to request for having all of its related matched SIs to be settled and, for pre-trade checking purposes, to adjust its sellable balance, the sellable balance of the Selling SPSA(s), and where applicable, the sellable balance of any SPSA clients that have bought shares in the same Connect Security (“**Buying SPSAs**”) and affected by the SPSA Delivery Failure (please refer to the CCASS Terminal User Guide for Participants for details of the function). Please also refer to Question 2.20 above.

After this, the CCCP should follow up with the Selling SPSA client, the affected Buying SPSA client (if any) and/or the relevant Custodian Participant or Non-EP GCP to deal with outstanding issues arising from the SPSA Delivery Failure including the delivery of shares from the Selling SPSA client and/or the delivery of shares to the affected Buying SPSA client.

2.22. If an overdue CNS short stock position in a Connect Security of a CCCP is in part caused by an SPSA Delivery Failure of one or more Selling SPSAs and also in part caused by the CCCP’s failure to transfer sufficient shares to its Stock Clearing Account for CNS settlement, what actions should be taken? (Updated as of 16 January 2017)

Under such circumstances, all the CCCP’s related SIs will not be effected for settlement (see Question 2.20 and 2.21 above). Similarly, on the settlement day that the SPSA Delivery Failure takes place, the CCCP is required to, for pre-trade checking purposes, use the SPSA Delivery Failure Maintenance function in its CCASS Terminal to request for adjustments on its sellable balance, the sellable balance of the Selling SPSA(s), and where applicable, the sellable balance of any Buying SPSA(s) affected by the SPSA Delivery Failure (please refer to the CCASS Terminal User Guide for Participants for

details on the function). However, to effect the related SIs, the CCCP should also transfer sufficient quantity of Connect Securities to its Stock Clearing Account to cover the overdue short position which are not due to SPSA Delivery Failure.

After this, the CCCP should also follow up with the Selling SPSA client, the affected Buying SPSA client (if any) and/or the relevant Custodian Participant or Non-EP GCP to deal with outstanding issues arising from the SPSA Delivery Failure including the delivery of shares from the Selling SPSA client and/or the delivery of shares to the affected Buying SPSA client.

2.23. If there is an SPSA Delivery Failure in a Connect Security by one or more Selling SPSAs but the CCCP has a CNS long stock position or a nil stock position in respect of the Connect Security, what actions should be taken?

Under such circumstances, on the settlement day that the SPSA Delivery Failure takes place, the CCCP is required to use the SPSA Delivery Failure Maintenance function in its CCASS Terminal to request for adjustments on its sellable balance, the sellable balance of the Selling SPSA(s), and where applicable, the sellable balance of any Buying SPSA(s) affected by the SPSA Delivery Failure for pre-trade checking purposes (please refer to the CCASS Terminal User Guide for Participants for details of the function).

After this, the CCCP should also follow up with the Selling SPSA client, the affected Buying SPSA client (if any) and/or the relevant Custodian Participant or Non-EP GCP to deal with outstanding issues arising from the SPSA Delivery Failure including the delivery of shares from the Selling SPSA client and/or the delivery of shares to the affected Buying SPSA client.

2.24. What is the effect of an adjustment to sellable balance as a result of an SPSA Delivery Failure?

Adjustments to sellable balances made by HKSCC will only have the effect of adjusting the snapshot image of the CCCP's and the relevant SPSA client's stock holdings in the Connect Security concerned for pre-trade checking purposes. The actual stock holdings of the parties will not be adjusted.

Adjustments to sellable balances will only apply to the next trading day. After an adjustment to sellable balance is made by HKSCC, the CCCP and the relevant SPSA client will be able to sell such number of shares in the Connect Security on the next trading day up to the adjusted sellable balance.

2.25. Will the adjustment requests mentioned in Questions 2.21 to 2.23 above from a CCCP have any impact on the day-end CCASS service schedule?

The **SPSA Delivery Failure Maintenance function** will end at 7:45 p.m. and will not have impact on the timing of the final SI Batch Settlement Run scheduled at 7:45 p.m.

2.26. [Repealed]

Third-Party Clearing

2.27. How can a GCP support its NCP clients in trading Connect Securities?

Connect Securities orders are subject to pre-trade checking. As a result, EPs who want to participate in Shanghai and Shenzhen Connect must be able to identify and commit to SEHK the Connect Securities that can be sold by them. For those EPs who are also CCCPs, they can refer to their Connect Securities in their CCASS stock accounts as their sellable Connect Securities. For an EP who is an NCP, it can appoint a GCP to hold Connect Securities on its behalf, in a designated SSA of the GCP, as its sellable Connect Securities.

A GCP may represent one or multiple NCPs. In either case the GCP still needs to inform HKSCC whether it is supporting NCPs in Connect Securities trading, and under which stock accounts as follows:

- (i) For a GCP who only clears its own Connect Securities trades or one NCP's Connect Securities trades, the GCP may opt to designate ALL its CCASS stock accounts (except stock account 20 which is for collateral recording and management) or one SSA for the purpose of pre-trade checking;
- (ii) For a GCP who clears Connect Securities trades for multiple NCPs, the GCP will need to maintain separate SSAs for each of its underlying NCPs (except stock accounts 01, 02, 17, 18, 19 and 20 which will not be allowed to be mapped to any particular EP).

2.28. Can an EP being a DCP for its trades in SEHK-listed securities appoint a GCP to clear and settle its Connect Securities trades?

No. An EP should either be a DCP for its trades in both SEHK-listed securities and Connect Securities, or an NCP for its trades in both SEHK-listed securities and Connect Securities, in which case the EP being an NCP should appoint a GCP to take up the clearing and settlement of its trades in all markets.

2.29. Can an NCP sell Connect Securities on the next day if such shares have just been acquired on current day? Is the GCP required to do anything to support the sell transaction? (Updated as of 14 May 2018)

At present, shares allocated to a CCCP for settling a CNS position will be put on-hold in the CCCP's stock clearing account until the corresponding CNS payment is made in full. For GCPs who clear Connect Securities trades for multiple NCPs, although the CNS payment will be completed by noon on T+1, due to the pre-trade checking mechanism, the Connect Securities balance snapshot as of the close of T day will not include those on-hold Connect Securities in the CCCP's stock clearing account and therefore will not be available for selling on T+1 day. To make such Connect Securities available for selling on T+1 day, those NCPs must instruct their GCP to make cash prepayment and / or apply for the early release of on-hold CNS allocated Connect Securities, and transfer the Connect Securities to their SSAs on T day. For GCPs who only clear their own Connect Securities trades or one NCP's Connect Securities trades, the Connect Securities balance snapshot as of the close of T day will include those on-hold Connect Securities.

2.29A. If a GCP has an overdue CNS long stock position in a Connect Security, can it make request to HKSCC for adjustment of sellable balance to GCP itself and the NCPs it serves?

A China Connect Clearing Participant which is a GCP and which has long stock positions in Connect Securities may make an adjustment request to HKSCC using the prescribed form (please see the CCASS Terminal User Guide for Participants for the form) to allocate the relevant number of long stock positions from its Stock Clearing Account to the sellable balances of its relevant Stock Accounts, including those of its NCPs. Any adjustment made by HKSCC shall only have the effect of adjusting the sellable balances for pre-trade checking purpose and will only apply to the following trading day. The actual holdings of the Stock Accounts of the GCP will not be adjusted.

Depository and Nominee Services

2.30. How are Connect Securities under Shanghai and Shenzhen Connect held for Hong Kong and overseas investors? Can investors hold Connect Securities acquired through Shanghai and Shenzhen Connect in physical form?

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

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

2.31. Can Hong Kong and overseas investors through CCASS Participants request to receive hard copies of corporate communications such as circulars, annual reports from SSE/SZSE-listed companies?

No. Hong Kong and overseas investors should follow the Mainland market practice and refer to the websites of SSE (<http://www.sse.com.cn/disclosure/listedinfo/announcement/>) and SZSE (<http://disclosure.szse.cn/m/drgg.htm>) and officially appointed newspapers and website (i.e. Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and www.cninfo.com.cn (巨潮資訊網)) for the corporate announcements made by SSE/SZSE-listed companies. CCASS Participants are reminded that Issuers listed on the ChiNext Market are required to publish certain corporate announcements on their corporate websites and the officially appointed websites only. Corporate announcements posted through these channels are only available in Simplified Chinese.

2.32. How will CCASS Participants be notified of the corporate actions of Connect Securities?

Same as for SEHK-listed securities, corporate action information of Connect Securities will be available through CCASS, via the existing nominee related enquiry functions and reports.

2.33. Are all the existing CCASS depository and nominee functions also applicable to Connect Securities?

Existing CCASS depository and nominee functions which are relevant to the business scope of Connect Securities are applicable, except,

- a) functions like Tendering and EIPO are not applicable as Shanghai and Shenzhen Connect does not facilitate primary market activities;
- b) ETF creation/redemption are not applicable as ETF is not eligible for cross-boundary trading according to the proposed scope; and
- c) inter-counter transfer/conversion instruction maintenance are not applicable to Connect Securities, as the function is mainly for dual-counter trading and conversion of shareholding due to parallel trading arrangement.

2.34. Can Hong Kong and overseas investors exercise voting rights in respect of the Connect Securities held on their behalf at shareholders' meetings of the relevant SSE-/SZSE-listed companies through HKSCC? (Updated as of 16 January 2017)

Yes, Hong Kong and overseas investors may cast their votes by providing instructions to HKSCC through their CCCPs.

SSE-/SZSE-listed companies usually announce information regarding annual general meetings and extraordinary general meetings two to three weeks before the meeting date. HKSCC will inform CCASS Participants of the details of general meetings such as the meeting date, time and the number of proposed resolutions. CCASS Participants who have the relevant holdings in their stock accounts (for themselves or as agents for the underlying investors) as at the record date may provide HKSCC with instructions on how to cast their votes via CCASS's existing voting functions.

According to the relevant rules and guidelines of the PRC, SSE-/SZSE-listed companies are required to disclose the number of votes cast by small and medium investors. Therefore, CCASS Participants are required to make disclosure in respect of votes on shareholder resolutions cast by its clients based on such categorization or other parameter as HKSCC may prescribe from time to time according to the requirements of the relevant issuers or applicable laws, rules or regulations ("Shareholding Category Disclosure"). Investors should therefore provide the necessary information to their CCASS Participants for them to make such disclosure using the Shareholding Category Disclosure Maintenance function in CCASS. HKSCC will consolidate all the disclosure information from CCASS Participants and submit them to the relevant issuers or authorised agents or representatives. HKSCC will from time to time specify in the CCASS Terminal User Guide for CCASS Participants such Shareholding Category Disclosure as may be required from CCASS Participants.

2.35. Can Hong Kong and overseas investors attend the shareholder meetings of issuers of Connect Securities in person or appoint more than one person to attend and act as proxy at the meetings on their behalf?

As HKSCC is the shareholder on record of SSE/SZSE listed companies (in its capacity as nominee holder for Hong Kong and overseas investors (see Questions 2.40 and 2.41)), 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.

2.36. Can Hong Kong and overseas investors participate in rights issue / open offer subscription of SSE/SZSE-listed companies through CCASS Participants? What is the subscription period and subscription instruction input time for rights issue / open offer in CCASS?

Yes. Normally, the subscription period for rights issue / open offer of SSE/SZSE-listed companies is around one week, but it may be as short as one business day only. HKSCC will advise CCASS Participants of the rights issues / open offer details such as subscription price and the subscription period including the relevant time-limit. CCASS Participants may submit instructions via CCASS' existing subscription functions from 8:00 a.m. to 7:45 p.m. during the subscription period. No excess application will be available in general. HKSCC will debit the rights / open offer in respect of which subscription have been made from the relevant stock accounts of the CCASS Participants and the subscription monies on the instruction input day. CCASS Participants may be required to submit written instructions together with proof of payment (in good funds) to HKSCC in the case where the subscription period is as short as one business day.

2.37. What are the implications for issuers of SEHK Securities should they exclude Mainland investors from participating in their rights issues / open offers?

On 14 November 2014, SEHK Listing Division issued Frequently Asked Questions Series 29 on Shanghai Connect (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.

The same arrangement applies to Shenzhen Connect.

A shares Ownership

2.38. In what capacity does HKSCC hold the SSE and SZSE Securities acquired by Hong Kong and overseas investors through Shanghai and Shenzhen Connect?

HKSCC is the “nominee holder” (名義持有人) of the SSE Securities acquired by Hong Kong and overseas investors through Shanghai Connect¹¹.

The same nominee holder arrangement applies to Shenzhen Connect.

2.39. 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”¹². The reference to “nominee holder” in the *Settlement Measures* expressly recognises the concept of a “beneficial owner” of securities (證券權益擁有人). 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)¹³. 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

¹¹ See, article 7, *Several Provisions on the Pilot Program of Shanghai-Hong Kong Stock Market Connect*, the “**CSRC Stock Connect Rules**” 《滬港股票市場交易互聯互通機制試點若干規定》; article 118, *Shanghai Stock Exchange Shanghai-Hong Kong Stock Connect Pilot Programme Provisions*, the “**SSE Stock Connect Pilot Provisions**” 《上海證券交易所滬港通試點辦法》; 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**” 中國證券登記結算有限責任公司《滬港股票市場交易互聯互通機制試點登記、存管、結算業務實施細則》.

¹² Article 18, the *Administrative Measures for Registration and Settlement of Securities*, the “**Settlement Measures**” 《證券登記結算管理辦法》.

¹³ Article 78, *Settlement Measures*.

Securities¹⁴. For further information, please refer to the FAQ on Beneficial Ownership under Shanghai Connect issued by the CSRC on 15 May 2015 (CSRC FAQ)¹⁵.

The same nominee holder arrangement applies to Shenzhen Connect.

2.40. Who are the beneficial owners of Connect 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 Connect in accordance with applicable laws¹⁶. 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 recognised¹⁷ 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).

The same beneficial ownership arrangement applies to Shenzhen Connect.

2.41. For an investor who is the beneficial owner of certain Connect Securities, how can it be sure that its beneficial holdings or ownership in the Connect Securities is based on and can be traced back to legally recognised interest held through HKSCC as the nominee holder under Mainland law? ¹⁸

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 summarized below:

¹⁴ Rule 824 of the CCASS Rules and Section 8 of the CCASS Operational Procedures, and article 118, the SSE Stock Connect Pilot Provisions.

¹⁵ CSRC FAQ:
http://www.csrc.gov.cn/pub/csrc_en/newsfacts/PressConference/201505/t20150515_277108.html.

¹⁶ Article 13, CSRC Stock Connect Rules. Please also refer to the CSRC FAQ for further information (see Q 2.39).

¹⁷ Assuming the parties have not entered into any agreement or arrangement to the contrary.

¹⁸ Consistent with Supplemental FAQ 4 published via HKEX’s press release dated 6 January 2015.

- (a) **Article 30 of CSRC's Guidance on Listed Company Articles of Association**¹⁹ - 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 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.²⁰
- (b) **Section 160 of the Securities Law of the People's Republic of China**²¹ – 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**²²– 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.

¹⁹ 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。)

²⁰ The Mainland operates an uncertificated securities system.

²¹ 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。)

²² 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 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 2.39 and 2.40 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 2.49).

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.

The same arrangement applies to Shenzhen Connect.

2.42. How does an investor, as the beneficial owner of Connect Securities under the Shanghai and Shenzhen Connect structure, assert, exercise and enforce its rights over the Connect Securities?²³

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 holder²⁴. The securities account for the SSE Securities acquired by Hong Kong and overseas investors through Shanghai Connect is opened in the name of HKSCC as nominee holder with ChinaClear²⁵. 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 Procedures²⁶.

It is HKSCC's understanding that when Mainland China regulations refer to "exercising rights" in relation to SSE Securities, they refer to the

²³ Consistent with Supplemental FAQ 5 published via HKEX's press release dated 6 January 2015.

²⁴ Article 5, ChinaClear Securities Registration Rules 《中國結算證券登記規則》 and Article 118, SSE Stock Connect Pilot Provisions.

²⁵ Article 67, ChinaClear Stock Connect Implementing Rule.

²⁶ For further information, please refer to the CSRC FAQ (see Q2.39).

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 company.²⁷

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*.²⁸

²⁷ 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。).

²⁸ 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."

(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 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 directly²⁹. 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.

Regardless of whether a beneficial owner of SSE Securities under Shanghai 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 duties³⁰ 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

²⁹ For further information, please refer to the CSRC FAQ (see Q 2.39).

³⁰ 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.

seeking proper legal advice to satisfy itself and HKSCC that a cause of action exists³¹. 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.³²

The same arrangement applies to Shenzhen Connect.

2.43. Will the certification of Connect Securities provided by HKSCC be recognised by the Mainland authorities?³³

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 securities³⁴. It should also be noted that the *ChinaClear Securities Registration Rules* were issued with the prior approval of the CSRC.

The same arrangement applies to Shenzhen Connect.

2.44. What is the role of HKSCC in Shanghai Connect and Shenzhen Connect?³⁵

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

³¹ 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.

³² 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 the 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.

³³ Consistent with Supplemental FAQ 6 published via HKEX’s press release dated 6 January 2015.

³⁴ For further information, please refer to the CSRC FAQ (see Q2.39).

³⁵ Reproduced from Supplemental FAQ 1 published via HKEX’s announcement dated 6 January 2015.

the IMF³⁶. It is recognised as a “Third Country CCP” under the European Market Infrastructure Regulation (EMIR)³⁷.

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

- (i) it acts as the “participating CCP” vis-à-vis ChinaClear³⁸ 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
- (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 Implementation Rules* and the joint announcement of the SFC and the CSRC regarding the establishment of Shanghai Connect in April 2014;³⁹ 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 website⁴⁰

³⁶ 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).

³⁷ 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.

³⁸ 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.

³⁹ 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.

⁴⁰ 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/Services/Clearing/Securities/PFMI?sc_lang=en.

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:⁴¹

- *“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 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. 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.]**

⁴¹ Paragraph 1.11 and the related footnotes, PFMI Principles: <http://www.bis.org/cpmi/publ/d101a.pdf>.

Based on the above, HKSCC's role in Shanghai 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.

The same arrangement applies to Shenzhen Connect. HKSCC's role in Shenzhen 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.

2.45. Is HKSCC's capacity in holding the Connect Securities acquired by Hong Kong and overseas investors through Shanghai Connect and Shenzhen Connect inconsistent with its role as CSD?⁴²

As mentioned in Questions 2.38, 2.39 and 2.40 above, HKSCC holds the Connect 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 Connect Securities in the books of ChinaClear and accordingly, the registers of members of the relevant listed companies (see Question 2.41 above) is consistent with its role as CSD.⁴³ In fact, providing nominee services and acting as the nominee holder of the legal interest in Hong Kong listed shares for 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.⁴⁴

⁴² Consistent with Supplemental FAQ 2 published via HKEX's press release dated 6 January 2015.

⁴³ It is also consistent with PFMI Principles' description of a CSD's role under the "indirect holding system".

⁴⁴ See CCASS Rule 1101.

Subject to applicable Mainland China law, these are functions which HKSCC also performs as nominee holder for CCASS Participants in relation to all the Connect Securities registered in its name in the books and records maintained by ChinaClear (see paragraph (i) of Question 2.42 above).

2.46. Will the Connect Securities acquired by Hong Kong and overseas investors through Shanghai Connect and Shenzhen 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?⁴⁵

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 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 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 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

⁴⁵ Consistent with Supplemental FAQ 7 published via HKEX's press release dated 6 January 2015.

Securities in CCASS with those of HKSCC in ChinaClear (see Question 2.47 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 2.49, 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).⁴⁶

- (iii) **At the CCASS Participant level** – In the books and records of each 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.

The same arrangement applies to Shenzhen Connect.

⁴⁶ 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持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持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持有人、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持有人、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。)

- 2.47. It is mentioned in Question 2.46 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? How about SZSE Securities under Shenzhen Connect?

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.

Shanghai Connect

(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 day-end 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 day-end, 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 reports and other CCASS reports, together with samples of each such report can be found in the following URL: http://www.hkex.com.hk/Services/Clearing/Securities/Infrastructure/CCA-SS-3-Terminal/CCASS-and-CCMS-Terminal-User-Guide-for-Participant/4,-d-,3-Report-Data-File-Description?sc_lang=en

Shenzhen Connect

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

The following steps aim to ensure that 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 Shenzhen market, ChinaClear will make available to HKSCC a **T-day Settlement Amount Summary 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 SZSE via the Northbound Trading Link on that day;

- Upon receipt of the ***T-day Settlement Amount Summary File***, HKSCC will perform reconciliation of the gross buy and sell trade amounts stated in the ***T-day Settlement Amount Summary 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 SZSE Security and its related money position arising from trades in that SZSE Security effected on that trading day, as well as details of all individual trades;
- Between 16:00 and 17:45, ChinaClear further makes available to HKSCC different ***Clearing Data Files*** 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 SZSE 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 17:45, 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 day-end holdings of all CCASS Participants in each SZSE Security in CCASS against the day-end balance of each SZSE 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 day-end, 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 SZSE Security in a CCASS Participant's stock account in CCASS at day end.

A description of the above reports and other CCASS reports, together with samples of each such report can be found in the following URL: http://www.hkex.com.hk/Services/Clearing/Securities/Infrastructure/CCASS-3-Terminal/CCASS-and-CCMS-Terminal-User-Guide-for-Participant/4,-d,-3-Report-Data-File-Description?sc_lang=en

2.48. Who is obligated to make a disclosure in respect of Connect Securities acquired by Hong Kong and overseas investors?

Pursuant to the laws and regulations of Mainland China, when trading in securities through Shanghai Connect and Shenzhen 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 and Shenzhen Connect, including both the local investors in Hong Kong and other overseas investors)⁴⁷. Disclosure responsibilities are borne by the person who has "actual control over voting rights of the securities"⁴⁸. 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 investor⁴⁹. 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/SZSE Securities acquired through Shanghai Connect and Shenzhen 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/SZSE-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 Q1.50 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 Connect Securities does not apply to HKSCC in its capacity as the nominee holder of Connect Securities holding on behalf of Hong Kong and overseas investors⁵⁰.

2.49. On the insolvency of HKSCC, will Connect Securities acquired by Hong Kong and overseas investors be regarded as general assets of HKSCC and therefore distributed to HKSCC's creditors?

⁴⁷ Article 13, CSRC Stock Connect Rules.

⁴⁸ Article 12, the Administrative Measures for Acquisition of Listed Companies 《上市公司收购管理办法》.

⁴⁹ Article 86, PRC Securities Law 《中华人民共和国证券法》.

⁵⁰ Article 115, SSE Stock Connect Pilot Provisions.

As discussed in the response to Questions 2.38, 2.39 and 2.40, HKSCC is only the nominee holder of Connect Securities acquired by Hong Kong and overseas investors, and is not the beneficial owner of such securities. Accordingly, such Connect 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 recognize the liquidator of HKSCC, which has been duly appointed pursuant to Hong Kong law, as the rightful entity having the power to deal with Connect Securities in the place of HKSCC.

UCITS V Directive & AIFM Directive Compliance

- 2.50. Many undertakings for collective investment in transferable securities (UCITS) regulated in the European Union (EU) have acquired SSE and SZSE Securities through Shanghai Connect and Shenzhen Connect. The UCITS V Directive⁵¹ which contains more stringent requirements on depositaries became effective on 18 March 2016. In respect of the SSE and SZSE Securities acquired by UCITS via Shanghai and Shenzhen 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?**

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

⁵¹ 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.

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.⁵²

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

- (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 CCCPs 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 accounts⁵³ in

⁵² 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.”

⁵³ Credit and debit amounts are made in the bank accounts of participants’ designated banks by means of book entry.

RMB for the purpose of settling payment obligations in respect of SSE Securities trades.⁵⁴

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.⁵⁵ 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 2.44, HKSCC is an SSS as defined in the PFMI Principles and has been accepted and assessed by the SFC as such.⁵⁶

The same analysis applies to Shenzhen Connect.

2.51. 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?

While the exclusion under Article 22a(4) is the operative provision that applies to HKSCC,⁵⁷ 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

⁵⁴ 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.

⁵⁵ 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.

⁵⁶ 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."

⁵⁷ 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.

Parliament and of the Council⁵⁸ [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.⁵⁹ 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.⁶⁰ 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.

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

⁵⁸ 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

⁵⁹ See the response to Questions 2.44 and 2.50.

⁶⁰ See response to Question 2.41.

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.⁶¹

The same analysis applies to Shenzhen Connect.

2.52 The AIFM Directive⁶², which became effective on 21 July 2011, contains a provision similar to Article 22a(4) of the UCITS V Directive. In respect of the Connect Securities acquired or to be acquired by alternative investment funds via Shanghai and Shenzhen 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 2.50 above apply to HKSCC?

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

⁶¹ 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.

⁶² 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.

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,⁶³ hence, excluded from the requirements applicable to sub-custodians.

Based on the same reasons as discussed in section (ii) of the response to Question 2.50, 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.⁶⁴

The same analysis applies to Shenzhen Connect.

⁶³ 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.”

⁶⁴ HKSCC’s understanding as set out in the response to Questions 2.50, 2.51 and 2.52 is supported by independent legal advice.

PART 3: RISK MANAGEMENT

Risk Management Measures on CCCPs for SSE and SZSE Securities Trades

3.1. What are the risk management measures imposed by HKSCC on CCCPs trading in SSE and SZSE Securities?

HKSCC is a participant of ChinaClear under Shanghai Connect and Shenzhen Connect, and undertakes the clearing and settlement obligations of its CCCPs trading in SSE and SZSE Securities respectively. Although legally, ChinaClear will continue to be the single counterparty of HKSCC, its branches, namely, ChinaClear Shanghai and ChinaClear Shenzhen (which are responsible for the daily clearing operations onshore) will separately clear and apply risk management measures to the Shanghai and Shenzhen Northbound trades. HKSCC in turn adapts risk management measures of ChinaClear Shanghai and ChinaClear Shenzhen and imposes them on its CCCPs trading in SSE and SZSE Securities respectively.

The risk management measures imposed on HKSCC (and in turn on its CCCPs) are largely similar to those imposed on other ChinaClear participants. Such risk management measures comprise contributions to: (i) the Mainland Settlement Deposit (including intra-day and day-end collection); and (ii) the Mainland Security Deposit (non-mutualised portion). For Mainland Settlement Deposit, the same rate of 20% will be applied to both SSE and SZSE Securities trades. For Mainland Security Deposit, 18.5% will be imposed on SZSE Securities trades while 16.4% will continue to apply to SSE Securities trades. All collateral will be calculated separately and collected for SSE and SZSE Securities trades. For further details including the contribution requirements and frequency of collection and refund, please refer to the Information Book for Market Participants.

The majority of these collaterals collected from CCCPs will be passed on to ChinaClear as HKSCC clears and settles the SSE and SZSE Securities trades on behalf of CCCPs, with ChinaClear. To increase the protection to HKSCC and its CCCPs in the remote event of ChinaClear's liquidation, these collaterals are kept under designated accounts at third-party custody banks under the name of ChinaClear.

In the case where these collaterals are not sufficient to cover any residual loss in the closing-out of a defaulting CCCP's positions in SSE and/or SZSE Securities, HKSCC will extend the Guarantee Fund (HKSCC GF) as the last line of defence to fill the gap. CCCPs' positions in SSE Securities, SZSE Securities and HK shares will be included in the required fund size calculation. In determining the fund size, positions in SSE and SZSE Securities will be netted off and then stressed separately from the positions in HK shares.

3.2. Will HKSCC collect intra-day marks from CCCPs for SSE and SZSE Securities positions?

HKSCC does not collect intra-day marks from CCCPs but collects intra-day Mainland Settlement Deposit to cover any deterioration of intra-day risk

exposures. HKSCC will calculate each CCCP's intra-day Mainland Settlement Deposit shortfall based on its purchase turnover, overdue short positions and sell turnover for SPSA in SSE and SZSE Securities at the morning close. A broadcast message and a report will be generated to CCCPs upon completion of intra-day Mainland Settlement Deposit calculation at around 11:50 a.m. A CCCP is required to top up requirement of the Mainland Settlement Deposit via CPI or RTGS before 2:00 p.m. on the same day if the shortfall exceeds the tolerance limit of RMB5 million. This tolerance limit is an aggregate amount that covers shortfall for both SSE and SZSE Securities trades and is applicable only to intra-day, but not day end Mainland Settlement Deposit.

3.3. Will interest be paid on collateral provided by CCCPs with respect to their trades in SSE and SZSE Securities?

Following ChinaClear's practice, interest will be paid on the Mainland Settlement Deposit and Mainland Security Deposit for each Connect Market at different interest rates on a quarterly basis.

The majority of the Mainland Settlement Deposit and Mainland Security Deposit deposited by CCCPs will be used by HKSCC in meeting its corresponding requirements imposed by ChinaClear for each Connect Market. For those collaterals that are posted with ChinaClear, HKSCC will allocate the actual interest earned from ChinaClear in the Mainland to CCCPs on a pro rata basis. For those collaterals that are retained by HKSCC (e.g. to cover the specific risks of individual CCCPs), interest will be allocated to CCCPs based on the actual interest earned in Hong Kong on a pro rata basis.

3.4. Will CCCPs be allowed to use non-cash collateral to meet the required risk management measures with respect to their trades in SSE and SZSE Securities?

CCCPs trading in SSE and SZSE Securities are required to fulfill their collateral requirements by cash in RMB. This arrangement mirrors HKSCC's obligations to meet the corresponding ChinaClear's collateral requirement by cash in RMB only. Hence, non-cash collateral is not acceptable for covering collateral requirement for SSE and SZSE Securities trades.

3.4.1 Will CCCPs be allowed to use the collateral posted for SSE Securities trades to meet the required risk management measures with respect to their trades in SZSE Securities or vice versa? (Updated as of 16 January 2016)

To ease the financial burden of CCCPs in meeting Northbound collateral requirements and better utilize the surplus Northbound collateral held in HKSCC, surplus Mainland Security Deposit in one Connect Market will be first applied to cover any shortfall in Mainland Security Deposit for the other Connect Market; then to cover Mainland Settlement Deposit shortfall for the same Connect Market; and followed by Mainland Settlement Deposit shortfall for the other Connect Market.

Mainland Security Deposit surplus in one Connect Market that is used to cover any shortfall as mentioned above will not be available for refund.

3.5. Will CCCPs be allowed to use collateral security or specific cash collateral to cover their unsettled positions in SSE and SZSE Securities?

The use of collateral security and specific cash collateral to cover unsettled positions is specific to the Hong Kong market. ChinaClear does not have similar arrangements and, hence, these two types of collateral are not applicable in covering CCCPs' unsettled positions in SSE and SZSE Securities.

3.6. Will the collateral provided by CCCPs be used to cover the default losses of ChinaClear participants in the Mainland?

CCCPs will not be liable to share default losses of ChinaClear participants and vice versa. Therefore, the collateral provided by CCCPs will not be used for such purpose.

3.6.1 If a CCCP has already registered for trading SSE Securities, is an extra RMB200,000 minimum Mainland Security Deposit needed before commencing trading in SZSE Securities? (New for Shenzhen Connect)

The RMB200,000 minimum Mainland Security Deposit is good for trading in either or both SSE and SZSE Securities. In other words, CCCPs who are already participating in Shanghai Northbound trading will not be required to make an additional minimum Mainland Security Deposit before commencing trading in SZSE Securities.

3.7. Will Mainland Settlement Deposit and Mainland Security Deposit be counted as Liquid Capital under the FRR? (Updated as of 14 May 2018)

Although Mainland Settlement Deposit and Mainland Security Deposit placed with HKSCC may be transferred to ChinaClear, as long as these two deposits are reported as receivable from HKSCC on balance sheet, they could be treated as liquid assets under section 28(1) in the Financial Resources Rules (FRR) and counted as Liquid Capital under the FRR.

3.7A Will USD/HKD collateral deposited by CCCPs for an application of the early release of on-hold CNS allocated Connect Securities also be counted as Liquid Capital under the FRR? (Updated as of 14 May 2018)

Similar to the Mainland Settlement Deposit and Mainland Security Deposit placed with HKSCC, any USD/HKD provided to HKSCC in connection with an application for the early release of on-hold CNS allocated Connect Securities is a form of collateral deposited by a CCCP with HKSCC. CCCPs should seek independent professional advice on whether these collaterals could be reported as receivables from HKSCC on balance sheet and counted as Liquid Capital under the FRR.

3.8. Can CCCPs use client money to pay for Mainland Settlement Deposit and Mainland Security Deposit?

Since the Mainland Settlement Deposit and Mainland Security Deposit are not margin requirements of a particular client or directly related to the settlement obligations of a particular client, it would be appropriate for

CCCPs to pay these deposits using their own money as opposed to client money.

3.9. Currently Mainland Clearing Participants are required by ChinaClear to contribute to a Clearing Risk Fund for Connect Securities trades. Are Clearing Participants of HKSCC in Northbound trading subject to the same contribution requirement?

HKSCC has been exempted from contributing to the Clearing Risk Fund for SSE and SZSE Securities trades.

3.10. What is the impact to the calculation of Mainland Settlement Deposit in SSE and SZSE Securities trades under the SPSA Model?

To manage the settlement risk of short positions for SPSA, the calculation methodology has been revised to include sell turnover for SPSA in SSE and SZSE Securities in arriving at the daily and monthly Mainland Settlement Deposit requirement with respect to SSE and SZSE Securities trades. For CCCPs who do not have SPSA sell trades, their Mainland Settlement Deposit requirements are not affected.

For details of the revised calculation methodology of Mainland Settlement Deposit, please refer to the CCASS Operational Procedures Section 10A.8.

<http://www.hkex.com.hk/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Rules/HKSCC/Operational-Procedures/SEC10A.pdf?la=en>

3.11. Is there any impact to the calculation of Mainland Security Deposit under the SPSA Model?

There is no change to the calculation of Mainland Security Deposit requirement under the SPSA Model.

3.11.1 Will HKSCC grant buy-in exemption to overdue short positions in SSE and SZSE Securities upon the launch of Shenzhen Connect? (Updated as of 25 November 2016)

Further to the launch of Shenzhen Connect, HKSCC may grant buy-in exemptions in respect of overdue short positions in Connect Securities on the following grounds:

- (a) Clerical error – where the CCCP has sufficient shareholdings in its stock accounts but fails to transfer Connect Securities for settlement due to clerical error or the delivering Custodian Participant has sufficient shareholdings and has received valid instructions from clients but fails to transfer Connect Securities to the CCCP for settlement due to clerical error; or
- (b) Contingent scenarios – where the settlement failure is due to contingent scenarios such as acts of God or other events beyond the control of the CCCP.

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

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

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

3.12. What is the change to the refund mechanism of Mainland Settlement Deposit and Mainland Security Deposit (“MSTD”) and Mainland Security Deposit (“MSCD”) with netting of surplus MSCD? Please explain the daily refund mechanism of Mainland Settlement Deposit in more details. (Updated as of 16 January 2017)

Refund of Mainland Settlement Deposit will be performed on a daily basis starting from the day ChinaClear conducts its collection/refund of the relevant deposit from or to HKSCC after its monthly review to the last business day of that month via day-end Direct Credit Instruction (“DCI”).

Example below illustrates the collection and refund of Mainland Settlement Deposit after revision:

Refund schedule of MSTD in January 2017: 4 to 31 January 2017

Date: 3 Jan 2017

(i) Daily MSTD requirement	: RMB 3,000,000
(ii) Monthly MSTD requirement	: RMB 2,000,000
MSTD requirement on 3 Jan 2017	: RMB 3,000,000 [higher of (i)&(ii)]
MSTD on-hand before offsetting with surplus MSCD	: RMB 3,800,000
MSTD (Shortfall) / Excess amount before offsetting with surplus MSCD	: RMB 800,000
MSTD on-hand after offsetting with surplus MSCD	: RMB 3,800,000
(Collection) / Refund at day-end	: RMB 0
(no refund as 3 Jan 2017 is not a refund day)	

Date: 4 Jan 2017

(i) Daily MSTD requirement	: RMB 4,400,000
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(ii) Monthly MSTD requirement	: RMB 2,000,000
MSTD requirement 4 Jan 2017	: RMB 4,400,000 [higher of (i) and (ii)]
MSTD on-hand before offsetting with surplus MSCD	: RMB 3,800,000
MSTD (Shortfall) / Excess amount before offsetting with surplus MSCD	: RMB (600,000)
MSTD on-hand after offsetting with surplus MSCD ⁶⁵	: RMB 4,000,000
(Collection) / Refund at day-end	: RMB (400,000) (collection will be via day-end DDI)

Date: 5 Jan 2017

(i) Daily MSTD requirement	: RMB 1,500,000
(ii) Monthly MSTD requirement	: RMB 2,000,000
MSTD requirement on 5 Jan 2017	: RMB 2,000,000 [higher of (i) and (ii)]
MSTD on-hand before offsetting with surplus MSCD	: RMB 4,400,000
MSTD (Shortfall) / Excess amount before offsetting with surplus MSCD	: RMB 2,400,000
MSTD on-hand after offsetting with surplus MSCD	: RMB 4,400,000
(Collection) / Refund at day-end	: RMB 2,400,000 (refund will be via day-end DCI)

Refund day of Mainland Security Deposit will be advanced from the 10th business day of each month to as soon as practical after ChinaClear conducts its collection/refund of the relevant deposit from or to HKSCC after its monthly review.

HKSCC will post the tentative refund schedules of Mainland Settlement Deposit and Mainland Security Deposit on the HKEX website and inform CCCPs of such arrangement by way of circular.

Risk Management Measures on ChinaClear for SEHK Securities Trades

3.13. What are the risk management measures imposed by HKSCC on ChinaClear for SEHK Securities trades? How are they different from those HKSCC currently imposes on its CCCPs?

ChinaClear is required to meet HKSCC's risk management requirements for its unsettled positions in SEHK Securities. The risk management measures applicable to ChinaClear include margin, marks, concentration collateral and additional collateral. Under the principle of risk insulation, both HKSCC and ChinaClear do not participate in each other's mutualised risk management pools that are normally contributed by their participants. As such, ChinaClear is not required to participate in the HKSCC GF. This is

⁶⁵ Surplus MSCD on 4 Jan 2017 is RMB 200,000

compensated by ChinaClear in providing margin at a higher rate and collateral securities to cover its unsettled short positions in SEHK Securities. The higher margin will mitigate the incremental risk due to ChinaClear's non-participation in the HKSCC GF, and the extra time required by ChinaClear to effect cross-boundary transfer of the required collateral to HKSCC. ChinaClear is also required to provide additional collateral to cover the assumed closing-out loss of its unsettled positions which are projected under an extreme but plausible market condition.

3.14. Would CCCPs' contribution to the HKSCC GF be used to cover any loss in the event of ChinaClear's default?

No. Since ChinaClear does not contribute to the HKSCC GF, the HKSCC GF will not be used to cover the default loss in the remote event of ChinaClear's default.

Guarantee Fund and Stress Testing

3.15. How will the HKSCC GF size calculation and the corresponding contributions from CCCPs be impacted by Shanghai Connect and Shenzhen Connect?

The HKSCC GF serves as the last line of defence to cover any residual loss in the case of a CCCP default, i.e. where the collateral deposited by the defaulting CCCP is insufficient to cover the loss in the closing-out of its positions. With the implementation of Shanghai Connect and Shenzhen Connect, the HKSCC GF has been extended to cover CCCP's positions in SSE and SZSE Securities.

Total GF calculation and size

Generally, the HKSCC GF fund size is unlikely to be impacted by investors participating in SSE and SZSE Securities trading, but could be increased due to increase in market turnover brought about by Shanghai Connect and Shenzhen Connect.

- (a) Hong Kong and overseas investors trading SSE and SZSE Securities: In determining the HKSCC GF fund size, HKSCC will take into account the specific risk management measures to be imposed on CCCPs trading SSE and SZSE Securities, namely contribution to the Mainland Settlement Deposit (which is 20% of CCCPs' previous month average daily purchase turnover, overdue short positions and sell turnover for SPSA), Mainland Security Deposit and additional collateral on SSE and SZSE Securities positions (if any). Stress testing results indicate that these specific measures generally provide adequate protection against potential default losses arising from CCCP's positions in SSE and SZSE Securities. It follows that the probability of having any residual default loss to be covered by the HKSCC GF with respect to positions in SSE and/or SZSE Securities is low. Therefore, the net impact on the size of the HKSCC GF is believed to be immaterial despite the extension of coverage to SSE and SZSE Securities.

- (b) Mainland investors trading SEHK Securities: Since ChinaClear does not participate in the HKSCC GF, trades in SEHK Securities by Mainland investors do not have any “direct impact” on the HKSCC GF fund size. However, the additional cross-boundary trades from the Mainland may also bring about positive impact on the overall market turnover in Hong Kong. For additional turnover contributed by local and overseas investors, the corresponding increase in positions would also lead to an increase in the projected default loss. Therefore, a possible “indirect impact” is that a larger HKSCC GF is required to cover the larger projected default loss.

CCCPs’ contribution

A CCCP’s contribution requirement to the HKSCC GF depends on both the overall size of the HKSCC GF, and the share of the contribution allocated to the CCCP. The paragraphs above explain the possible impact on the overall size of the HKSCC GF. As for a CCCP’s allocated share of contribution, the size changes dynamically with a CCCP’s relative share of the total market’s open positions (which will include both positions of HK stocks, SSE Securities under Shanghai Connect and SZSE Securities under Shenzhen Connect). This is consistent with today’s practice for the allocation of contribution requirements to CCCPs. Therefore, a CCCP who becomes more active and as a result holds larger open positions might be required to contribute more to the HKSCC GF.

In addition, as the relative proportion of cross-boundary trades increases over time, it is possible that HKSCC will be considered by the SFC at some stage as “systemically important” to both Hong Kong and the Mainland, and be subject to more stringent requirements for fund size determination . If such requirement is adopted, the size of the HKSCC GF, as well as CCCPs’ contributions, will increase accordingly. CCCPs will be informed of any development as appropriate⁶⁵.

3.16. Will an additional Dynamic Contribution Credit be offered to each CCCP trading in SSE and SZSE Securities?

No additional or separate Dynamic Contribution Credit will be granted to a CCCP over and above the existing amount of HKD1 million. There will still be one HKSCC GF even though each CCCP’s contribution is based on its positions in SSE Securities, SZSE Securities and HK shares.

Default Management

3.17. What actions will HKSCC take under the default of a CCCP in SSE and/or SZSE Securities positions?

⁶⁵ According to principle 4 of the PFMI, a Central Counterparty that is “systemically important to multiple jurisdictions” is required to maintain a default fund that can “withstand the concurrent default of its two largest participants and their affiliates” (as compared to our current first and fifth largest participants default assumption).

When an event of default occurs, HKSCC may declare the CCCP as a defaulter and may proceed with closing-out of the defaulting CCCP's positions. HKSCC will appoint Authorised Brokers to execute the required closing-out operation. The defaulting CCCP's positions in HK shares, SSE and SZSE Securities will be closed out to arrive at a net closing-out gain/loss. Any net closing-out loss which is not fully covered by the defaulting CCCP's collateral will be covered by the HKSCC GF in the order prescribed under the CCASS Rules.

3.18. What actions will HKSCC take under the default of ChinaClear?

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

- (a) If ChinaClear, as a host CCP, defaults (i.e. in SSE and/or SZSE Securities trades), HKSCC would in good faith seek recovery of the outstanding stocks and monies from ChinaClear through available legal channels and through ChinaClear's liquidation process. HKSCC will in turn distribute the stocks or monies recovered to CCCPs on a pro-rata basis⁶⁶. Although ChinaClear default is considered to be remote, CCCPs should be aware of this arrangement and should inform their clients of this potential exposure before engaging in Northbound trading.
- (b) If ChinaClear fails to meet its settlement obligations in respect of Southbound trades, HKSCC will consider the circumstances and may declare ChinaClear as a defaulter if the situation warrants. HKSCC will then apply its standard default procedures and will execute closing-out of ChinaClear's unsettled positions in SEHK Securities through HKSCC's authorised brokers. Margin and all other collateral (including collateral securities) posted by ChinaClear with HKSCC will be used to cover any loss arising from the closing-out process. As ChinaClear does not contribute to the HKSCC GF, HKSCC will not use the HKSCC GF to cover any residual closing-out loss with respect to ChinaClear's Southbound positions.
- (c) A ChinaClear default in Northbound trades in either SSE or SZSE Securities would trigger a concurrent ChinaClear default in the other market, as well as default in the relevant Southbound trades. After declaring ChinaClear as a defaulter, set-off will be applied to any obligations and liabilities between ChinaClear and HKSCC arising from

⁶⁶ Each CP to which HKSCC is liable shall only be entitled to receive payment or delivery of stocks pro rata according to the amount due to it as compared with the aggregate due to all CPs in Northbound positions.

Shanghai Connect and Shenzhen Connect for Northbound and Southbound trades.

While it is remote that ChinaClear would default due for financial reasons, HKSCC has worked with ChinaClear to develop contingency plans to minimise the chance and impact of any temporary operational disruption.

3.19. Will collateral placed by a CCCP with respect to its positions in SSE and/or SZSE Securities be used to cover its default loss attributable to its position in HK shares, and vice versa?

HKSCC will use all collateral provided by a defaulting CCCP to offset the net loss arising from the closing-out of that CCCP's positions in SSE and/or SZSE Securities and HK shares. HKSCC will disregard whether the collateral is provided by such CCCP with respect to its positions in SSE and/or SZSE Securities or HK shares.

PART 4: HOLIDAY AND SEVERE WEATHER CONDITIONS

Holiday Arrangement

4.1. What would be the trading, clearing and settlement arrangements for SSE and SZSE Securities when a Hong Kong holiday falls on a Mainland business day?

EPs can only trade SSE and SZSE Securities on a Hong Kong business day, and only if both the markets in Hong Kong and Mainland are open for trading (T-day) and banking services are available in the Hong Kong and Mainland markets on the corresponding money settlement days (T+1). This arrangement is essential in ensuring that proper banking support is available for CCCPs to settle their money obligations for Northbound trades on T+1.

Below is an example illustrating the holiday arrangement of Northbound trading of SSE and SZSE Securities:

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

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

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

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

Severe Weather Conditions

4.2. What will be the trading arrangement for SSE and SZSE Securities under severe weather conditions, for example, when typhoon signal number 8 or above and/or black rainstorm warning is issued in Hong Kong?

The Northbound trading arrangement under severe weather conditions will be as follows:

- (a) If SSE or SZSE is suspended due to inclement weather, there will be no Northbound trading in the relevant market and Hong Kong investors and CCEPs will be informed by SEHK;
- (b) If typhoon signal number 8 or above and/or black rainstorm warning is issued in Hong Kong before the Hong Kong market opens, Northbound trading will not open. If the signal or warning is subsequently discontinued on the same day, arrangement for the resumption of Northbound trading will follow that for the SEHK market (detailed arrangement is available on the HKEX website at http://www.hkex.com.hk/Services/Trading-hours-and-Severe-Weather-Arrangements/Severe-Weather-Arrangements/Trading?sc_lang=en);
- (c) If typhoon no. 8 or above is issued in Hong Kong after the Hong Kong market opens but before SSE's market and SZSE's market open (between 9:00 a.m. and 9:15 a.m.), Northbound trading will not open; and
- (d) If typhoon signal number 8 or above is issued in Hong Kong after SSE's market and SZSE's market have opened:
 - Northbound trading will continue for 15 minutes during which order input and order cancellation will be allowed;
 - after 15 minutes and until the close of SSE's market or SZSE's market, only order cancellation will be allowed;
 - in addition to mid-day and day end trade files, preliminary trade files (retrieved through Electronic Communication Platform) will be generated multiple times before the close of SSE's market or SZSE's market so that CCEPs who have inputted order cancellations can use such trade files to continue their reconciliation;
 - HKEX will make broadcast message (via the HKEX website) to provide alerts/warnings to CCEPs on the arrangement when a typhoon is approaching; and
 - EPs are encouraged to make pre-arrangement with their clients to allow them to cancel clients' orders in this situation and conduct order cancellation as soon as possible.

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

4.3. Will CCASS services for SSE and SZSE Securities be available when the Hong Kong market is closed due to issuance of typhoon signal number 8 or above and/or black rainstorm warning?

In the initial stage, HKSCC applies the following CCASS service schedule to SSE Securities and SZSE Securities:

- If typhoon signal number 8 or above and/or black rainstorm warning is issued before 9:00 a.m. and is not cancelled at or before 12:00 noon, CCASS services for SSE Securities and SZSE Securities will not be available for the day.
- If typhoon signal number 8 or above and/or black rainstorm warning is issued before 9:00 a.m. and cancelled at or before 12:00 noon, CCASS services for SSE Securities and SZSE Securities will resume two hours after the cancellation of the signal/warning.
- If typhoon signal number 8 or above is issued at or after 9:00 a.m., CCASS services will be available for SSE Securities and SZSE Securities. However, subscription services of SSE Securities and SZSE Securities may be blocked or affected if no clearing services are provided by HKICL on that day.
- If black rainstorm warning is issued at or after 9:00 a.m., normal CCASS services will be available for SSE Securities and SZSE Securities.

4.4. What will be the money settlement arrangement for SSE and SZSE Securities trades when Hong Kong market is closed or suspended due to the issuance of typhoon signal number 8 or above and/or black rainstorm warning?

Currently, SEHK and HKSCC may suspend trading, clearing and settlement services during severe typhoon and/or rainstorm situations. In the initial stage, similar arrangement will be applied to the clearing and settlement of SSE / SZSE Securities trades under severe weather conditions, as described below:

- (a) If typhoon signal number 8 or above and/or black rainstorm warning is issued before 9:00 a.m. and is not cancelled at or before 12:00 noon, money settlement for SSE / SZSE Securities trades executed on the previous day will be postponed to next business day, at the same stipulated time.
- (b) If typhoon signal number 8 or above and/or black rainstorm warning is issued before 9:00 a.m. and cancelled at or before 12:00 noon, CCCPs will need to fulfill their money obligations for SSE / SZSE Securities trades executed on the previous day by 3:00 p.m., unless HKSCC announced to extend the payment deadline.
- (c) If typhoon signal number 8 or above and/or black rainstorm warning is issued at or after 9:00 a.m., CCCPs will need to fulfill their money obligations for SSE / SZSE Securities trades executed on the previous day as usual. CCCPs are also required to fulfill their stock settlement obligations for the SSE Securities trades executed on the typhoon day (if any) by the normal stipulated deadline.

PART 5: FEES AND OTHER TRANSACTION COSTS

5.1. What are the fees and taxes applicable to the trading and clearing of A shares under Northbound Trading?

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

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

The above fees and levies are collected in RMB, and may change subject to SFC's approval.

5.2. Are Hong Kong and overseas investors required to pay stamp duty on their transactions in Connect 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, 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.

The same arrangement is applied to SZSE Securities.

5.3. Are Hong Kong and overseas investors required to pay taxes on cash dividend and/or bonus shares of Connect 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.

The same arrangement is applied to SZSE Securities.

The tax rate and the dividend rate can be enquired via the existing “Enquire Announcement Information” function in CCASS Terminal.

5.4. Are Hong Kong and overseas investors required to pay capital gains tax or business tax when they trade SSE/SZSE 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 Connect.

The same exemption is applied to SZSE Securities.

5.5. How are the fees and taxes calculated?

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

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

Trade Quantity: 300 shares Trade Price: ¥ 10 per share

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

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

5.6. Are the existing CCASS fees applicable to Connect Securities?

Only certain existing CCASS fees have been applied to Connect Securities, such as stock settlement fees related to SIs and STIs, and money settlement fees. The relevant fee arrangement may change subject to SFC's approval.

HKSCC provides depository and nominee services to CCASS Participants for their Connect Securities in CCASS. As Connect Securities are issued in scripless form, the existing depository and nominee fees for SEHK-listed securities are not applicable to Connect Securities. "Portfolio Fee" has been introduced by HKSCC for providing depository and nominee services to CCASS Participants on their Connect Securities.

The Portfolio Fee is calculated based on the daily stock portfolio value of Connect Securities held by individual CCASS Participants as a single portfolio. It is accrued on a daily basis and collected on a monthly basis through the first weekly EPI of next month. The fee adopts a sliding scale where a bigger portfolio value is subject to a lower fee rate:

Daily Portfolio Fee = [Closing price of Connect Securities of the day x number of shares] *converted into Hong Kong Dollar Equivalent* x tier rate of each applicable tier /365

Tier Level	Portfolio Value Range	Fee Rate / Annum
1	The first HK\$50 billion	0.008%
2	The next HK\$200 billion (portfolio values between HK\$50 billion and HK\$250 billion)	0.007%
3	The next HK\$250 billion (portfolio values between HK\$250 billion and HK\$500 billion)	0.006%
4	The next HK\$250 billion (portfolio values between HK\$500 billion and HK\$750 billion)	0.005%
5	The next HK\$250 billion (portfolio values between HK\$750 billion and HK\$1,000 billion)	0.004%
6	Remainder (portfolio values above HK\$1,000 billion)	0.003%

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

PART 6: IT

Trading System

6.1. Can EPs use the existing trading device to participate in Shanghai Connect and Shenzhen Connect?

SEHK has set up an order routing system (China Stock Connect System or CSC) to capture, consolidate and route the cross-boundary orders input by EPs. EPs who participate in Shanghai Connect can use the same open gateways (China Connect OG or CC OG) which are connected to their own BSS, to participate in Shenzhen Connect. Those who are new to Shanghai and Shenzhen Connect and want to participate will need to install separate CC OGs connecting to the CSC.

6.2. [Repealed]

6.3. Does CC OG provide market data of Connect Securities?

CC OG will provide free 1-depth market data of Connect Securities.

For Shanghai Connect, EPs can also subscribe real-time SSE market data via licensed information vendors. A list of which is available on the website of China Investment Information Services Limited (http://www.ciis.com.hk/New_Web/eng/index.html). EPs can also access real-time market data through internet. The list of licensed vendor for market data is published on the website of SSE Infonet Ltd., Co. (<http://ywtb.sseinfo.com/ywtb/show.do>), which is the information business arm of SSE.

For SZSE market data, EPs can also subscribe real-time SZSE market data via licensed information vendors and a list of licensed information vendors is available on the website of Shenzhen Securities Information Co. Ltd. (<http://www.cninfo.com.cn/fwsq/hq/qsmid.htm>), an exclusive agent of SZSE for local and overseas market data businesses.

6.4. Can an EP who is a China Connect Exchange Participant subscribe for market data of SZSE Securities without participating in Shenzhen Connect? (New for Shenzhen Connect)

A China Connect Exchange Participant who does not participate in the trading of Shanghai Connect is not entitled to the 1-depth free market data of the eligible stocks for Shanghai Connect. Similarly, a China Connect Exchange Participant who does not participate in the trading of Shenzhen Connect will not be entitled to the 1-depth free market data of the eligible stocks for Shenzhen Connect.

6.5. Will Orion Central Gateway (OCG) support the trading of SSE Securities through Shanghai Connect and SZSE Securities through Shenzhen Connect?

HKEX is in the planning stage of developing a system to support Shanghai Connect and Shenzhen Connect in OCG protocols, namely China Connect

Central Gateway (“CC CG”). EPs will be informed of the implementation plan to migrate CC OG to CC CG in due course.

6.6. What are the order types supported by CC OG? Can the existing throttle(s) for AMS/3 Orion Central Gateway (OCG) be shared with CC OG?

CC OG only supports limit orders for submission to SSE/SZSE. It does not support other order types, quotes or manual trades. For order cancellation, CC OG only supports single order cancellation but not bulk cancellation.

CC OG cannot share the existing throttle(s) for AMS/3 OCG, separate additional throttle(s) will need to be purchased and assigned.

6.7. What are the resilience options supported by CC OG?

EPs can select either the standalone server or High Availability (HA) server for CC OG.

6.8. Can CC OG and AMS/3 OCG share the same production SDNet/2 line connection?

EPs need to subscribe for a new pair of 2Mbps or 3Mbps SDNet/2 lines for CC OG for accessing either Connect program. EPs receiving free stock market data from CC OG need to install 3 Mbps of bandwidth for their SDNet/2 lines. EPs who choose not to receive market data from CC OG can subscribe for a lower 2Mbps of bandwidth for pure trading purpose.

6.9. Is CC OG supported by HKEX Hosting Services?

CC OG is supported by HKEX Hosting Services. It should be noted that when CC OG is migrated to CC CG at a later stage, the machine will be placed in HKEX’s Data Centre.

6.10. [Repealed]

6.11. [Repealed]

Testing of Trading System

6.12. A separate CC OG simulator was available for EPs to test their internal system before joining the end-to-end test with SEHK for Shanghai Connect. Will the same arrangement be available for Shenzhen Connect?

A new CC OG simulator will be available for EPs to test their internal systems before joining the end-to-end test with SEHK.

6.13. Will SEHK provide an end-to-end testing environment for EPs to verify their BSS? If so, when?

An end-to-end testing environment has been provided for EPs to connect their BSS with CSC host via their CC OG, so that they can verify their system and interface set-up for Shanghai Connect and Shenzhen Connect.

In addition to the end-to-end testing environment, EPs who want to be eligible for trading SZSE Securities at the initial launch of Shenzhen Connect also have to verify their production set-up by participating in pre-launch market rehearsals.

6.14. [Repealed]

Clearing System

6.15. Is there any extra system and line requirement for CPs participating in Shanghai Connect and Shenzhen Connect?

CPs can participate in Shanghai Connect and Shenzhen Connect via their existing CCASS/3 Terminals, Participant Gateways and SDNet/2 lines. Subject to each CP's business plan, one may consider to upgrade its infrastructure capacity.

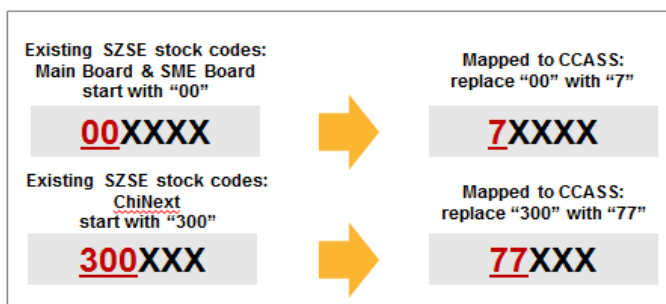
6.16. Does CCASS use 5-digit or 6-digit stock codes to represent SSE and SZSE Securities?

SSE and SZSE Securities are represented by 6-digit stock codes on SSE and SZSE respectively. The same 6-digit stock codes have been and will be used by EPs trading SSE and SZSE Securities through Shanghai and Shenzhen Connect respectively. However, CCASS currently adopts a 5-digit stock code system. Changing the 5-digit stock code to a 6-digit stock code system will require fundamental system upgrade by all CPs. To avoid market-wide impact, CCASS uses the existing 5-digit stock code structure to support Shanghai Connect and Shenzhen Connect in its initial stage of operation. A stock code conversion as depicted below has been put in place to map the 6-digit stock codes to 5-digit CCASS stock codes.

Stock Code mapping for use in CCASS for Shanghai Connect



Stock Code mapping for use in CCASS for Shenzhen Connect



6.17. Are CPs required to modify their internal systems to participate in Shanghai- Connect and Shenzhen Connect?

CPs who want to participate in Shanghai Connect and Shenzhen Connect have to ensure their back office systems are capable of interfacing with the new market in CCASS, which is operated with different settlement cycles, functions, reports, and Participant Gateway (PG) message templates. Besides potential system changes, CPs should also review their need to update their operational procedures, investor services, and legal documents such as client agreements.

Note:

This FAQ will be updated from time to time as the implementation progresses and market participants can refer to the HKEX website for the latest development of Shanghai Connect and / or Shenzhen Connect.