

**Rules of the Exchange**

**CHAPTER 1**

**INTERPRETATION**

101. In these Rules, unless the context otherwise requires:-

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| “China Connect Market” | means a stock or exchange traded fund market in Mainland China acceptable to the Exchange and included in the list of China Connect Markets from time to time, as referred to in Rule 1409(1)(c) and, where the context so requires, includes the “China Connect Market Operator” operating the relevant stock or exchange traded fund market and the “China Connect Market System” operated by such China Connect Market Operator; |
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**CHAPTER 14A**

**CHINA CONNECT SERVICE - SHANGHAI**

**Application**

14A01. (2) China Connect Exchange Participants who wish to trade in eligible SSE-listed securities through the China Connect Service or engage in margin trading, securities borrowing and lending and short selling activities of eligible SSE-listed securities shall comply with this Chapter.

**Interpretation**

14A02. (2) In this Chapter, unless the context otherwise requires:

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| “Qualified Institution” | in relation to the Securities Borrowing and Lending of China Connect Securities referred to in Rule 14A16, means:<br><br>(a) any fund, Exchange Traded Fund or collective investment scheme managed by a person licensed or registered to carry out Type 9 (asset management) regulated activity under the Ordinance; |
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- (b) a participant of HKSCC (other than an Investor Participant as defined in the CCASS Rules); or
- (c) any other person accepted or specified by SSE;

“Securities Borrowing and Lending Arrangement”

means an arrangement permitted under Rule 14A16 whereby the persons referred to in Rules 14A16(4) to (7) borrow or lend China Connect Securities for the purposes mentioned in Rule 14A16(2) pursuant to a securities borrowing and lending agreement, and references to “Securities Borrowing and Lending”, “Securities Lender”, “Securities Borrower”, “lend” and “borrow” shall be construed accordingly;

“Shanghai-Hong Kong Stock Connect”

means the pilot programme jointly announced by the CSRC and the Commission dated 10 April 2014 comprising, among others, the order-routing arrangements to be entered into between the Exchange, SSE, the SEHK Subsidiary and a subsidiary of SSE which shall become a Special Participant, and any enhancements and expansions to the programme as both regulators may agree from time to time;

“Short Selling”

means the sale of Short Selling Securities in respect of which the China Connect Exchange Participant as seller, or the person for whose benefit or on whose behalf the sale is made, has a presently exercisable and unconditional right to vest the Short Selling Securities in the purchaser by virtue of having borrowed such securities under a Securities Borrowing and Lending Arrangement;

“Short Selling Ratio”

means the number of shares/units sold via Short Selling orders for a Short Selling Security on a given CSC trading day divided by the number of shares/units of that Short Selling Security held by all investors through CCASS as at the commencement of that CSC trading day, expressed as a percentage rounded to 2 decimal places;

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| “SSE ETF Market”   | means the exchange traded fund market operated by SSE;   |
| “SSE-listed ETFs”  | means the exchange traded funds which are accepted for listing and admitted to trading on the SSE ETF Market from time to time;  |
| “SSE Market”       | means the securities markets operated by SSE, comprising the SSE Main Board, SSE STAR Market and SSE ETF Market, collectively, a China Connect Market as defined in Chapter 1;   |
| “SSE Rules”        | means the SSE Regulations on the Shanghai-Hong Kong Stock Connect and the business and trading rules and regulations of SSE;   |
| “STAR shares”      | means the A shares which are accepted for listing and admitted to trading on the SSE STAR Market from time to time;  |
| “under risk alert” | in relation to A shares listed on SSE, 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 or the listing of which has been suspended by SSE under the SSE Rules; and |
| “unit”             | means one undivided share or undivided beneficial interest in an exchange traded fund or a similar investment arrangement.   |

### **Operational Hours of the China Connect Service in relation to SSE**

- 14A03. (2) The trading days and trading hours of SSE are set out below, which may be subject to change in accordance with the SSE Rules. Except (i) between 9:20 and 9:25 (for SSE-listed ETFs and A shares); and (ii) between 14:57 and 15:00 (for A shares only), SSE normally accepts order cancellation requests during its trading hours.

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| <b>SSE trading days</b>                                 | Monday to Friday (“T”) except where T is a public holiday in Mainland China  |
| <b>Trading hours on an SSE trading day for A shares</b> | Opening Call Auction session in the morning: 09:15 – 09:25<br>Continuous Auction session in the morning: 09:30 – 11:30 |

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|  | Continuous Auction session in the afternoon: 13:00 – 14:57<br>Closing Call Auction session in the afternoon: 14:57 – 15:00   |
| <b>Trading hours on an SSE trading day for SSE-listed ETFs</b> | Opening Call Auction session in the morning: 09:15 – 09:25<br>Continuous Auction session in the morning: 09:30 – 11:30<br>Continuous Auction session in the afternoon: 13:00 – 15:00 |

(3) The trading days of the China Connect Service and the operational hours are set out below, which may be subject to change in accordance with Rule 1415.

(b) Unless otherwise determined or announced by the Exchange, China Connect Exchange Participants may input China Connect orders for transmission to the CSC on a CSC trading day starting from:

- (i) 9:10 in respect of the SSE Opening Call Auction session in the morning;
- (ii) 9:25 in respect of the SSE Continuous Auction session in the morning;
- (iii) 12:55 in respect of the SSE Continuous Auction session in the afternoon; and
- (iv) (for A shares only) 14:57 in respect of the SSE Closing Call Auction session in the afternoon.

This means that the CSC will normally accept China Connect orders five minutes before commencement of each SSE trading session except for the SSE Closing Call Auction session with respect to A shares. Processing of China Connect orders in the SSE Market System normally starts at the beginning of each SSE trading session, as referred to in Rule 14A03(2).

#### **SSE-listed Securities as China Connect Securities**

- 14A04. (1) Pursuant to the Exchange’s powers under Rule 1407 (power to accept securities as China Connect Securities), securities which meet the criteria set out in Rule 14A04(2) or 14A04(2A) shall, subject to Rules 14A04(3), (4) and (4A), be accepted as China Connect Securities and be eligible for China Connect buy orders and China Connect sell orders.
- (2) Unless the Exchange otherwise determines, SSE-listed A shares set out below will be accepted as China Connect Securities:
- (a) constituent stocks of SSE180 Index;

- (b) constituent stocks of SSE380 Index; or
- (c) A shares listed on SSE that are not constituent stocks of the SSE 180 Index or SSE 380 Index but which have corresponding H shares accepted for listing and trading on the Exchange,

provided that:

- (i) they are not traded on SSE in currencies other than RMB; and
  - (ii) they are not under risk alert.
- (2A) Unless the Exchange otherwise determines, an SSE-listed ETF that fulfils all of the following eligibility criteria at any regular review will be accepted as a China Connect Security:
- (a) the SSE-listed ETF must be traded in RMB and has a daily average assets under management in the last six months of no less than RMB 1.5 billion;
  - (b) the SSE-listed ETF must have been listed on SSE for no less than six months;
  - (c) the benchmark index must have been launched for no less than one year;
  - (d) the total weighting of constituents which are SSE-listed and SZSE-listed A shares in the benchmark index must not be less than 90% and the total weighting of constituents which are China Connect Securities in the benchmark index must not be less than 80%; and
  - (e) the benchmark index or the index methodology of the benchmark index must also meet either of the following criteria: (i) (for broad-based indices) a constituent stock must not be more than 30% of the index's weighting; or (ii) (for non-broad-based indices) (A) the number of constituent stocks must not be less than 30, (B) a constituent must not be more than 15% of the index's weighting and the five highest weighted constituents in the aggregate must not be more than 60% of the index's weighting, and (C) the constituent stocks comprising no less than 90% of the index's weighting must be the top 80% shares by average daily turnover ranking in the relevant stock exchange in the past 12 months.

The Exchange will publish such eligibility criteria on the HKEX website or through such other means as it considers appropriate.

- (3) Unless the Exchange otherwise determines, the timing of acceptance of any securities as China Connect Securities shall follow Rule 14A04(4) and Rule 14A04(4A) (as applicable). Further, without prejudice to its powers under Rules 1407 and 1409, the Exchange will include and exclude securities as China Connect Securities based on the criteria set out in or prescribed under Rule 14A04(2) or Rule 14A04(2A) (as applicable), the adjustments made to the SSE 180 Index and SSE 380 Index, the timing at which relevant A shares, H shares

and SSE-listed ETFs are listed on or delisted from SSE and/or the Exchange, and the timing at which relevant A shares are placed under risk alert or released from risk alert.

- (4A) The Exchange will publish a list of SSE-listed ETFs which meet the criteria set out in or prescribed under Rule 14A04(2A) as soon as practicable after completion of any regular review that may be undertaken on eligible SSE-listed ETFs. Such eligible SSE-listed ETFs will be accepted as China Connect Securities on the second Monday after publication of the list of eligible SSE-listed ETFs by the Exchange, or, the next CSC trading day if it is not a CSC trading day.

#### **SSE-listed Securities as Special China Connect Securities**

- 14A05. (1) Pursuant to the Exchange's power under Rule 1408 (power to accept or designate securities as Special China Connect Securities), the securities referred to in Rules 14A05(2), (2A) and (3) shall be accepted and designated as Special China Connect Securities and be eligible only for China Connect sell orders and not for China Connect buy orders.
- (2) Unless the Exchange otherwise determines, the Exchange will accept or designate A shares which cease to meet the eligibility criteria set out in Rule 14A04(2) as Special China Connect Securities provided that they remain listed on SSE. These include:
- (a) shares accepted as China Connect Securities under Rule 14A04(2)(a) or (b) but which have subsequently ceased to meet the requirements specified in Rule 14A04(2)(a) or (b), as the case may be, and do not fall under Rule 14A04(2)(c);
  - (b) shares accepted as China Connect Securities under Rule 14A04(2)(c) but the H shares of which have been delisted from the Exchange, and the shares do not fall under Rule 14A04(2)(a) or (b); and
  - (c) shares accepted as China Connect Securities under Rule 14A04(2)(a), (b) or (c) but which have been placed under risk alert.
- (2A) Unless the Exchange otherwise determines, the Exchange will accept or designate an SSE-listed ETF, which has been accepted as a China Connect Security under Rule 14A04(2A) but which has subsequently met any of the following eligibility criteria of becoming a Special China Connect Security at any regular review that may be undertaken on eligible SSE-listed ETFs, as a Special China Connect Security provided that it remains listed on SSE:
- (a) the SSE-listed ETF's daily average assets under management in the last six months falls under RMB 1 billion;
  - (b) the total weighting of constituents which are SSE-listed and SZSE-listed A shares in the benchmark index falls under 85% or the total weighting of

constituents which are China Connect Securities in the benchmark index falls under 70%; or

- (c) the benchmark index and the index methodology of the benchmark index meets either of the following criteria: (i) (for broad-based indices) a constituent stock exceeds 30% of the index's weighting; or (ii) (for non-broad-based indices) (A) the number of constituent stocks falls under 30; (B) a constituent exceeds 15% of the index's weighting or the five highest weighted constituents in the aggregate exceeds 60% of the index's weighting; or (C) the constituent stocks which are the top 80% shares by average daily turnover ranking in the relevant stock exchange in the past 12 months falls under 90% of the index's weighting.
- (4) The Exchange will publish a list of Special China Connect Securities in respect of SSE in accordance with Rule 1409(1)(b) based on the principles set out in this Rule. The SSE-listed ETFs on the list will be accepted and designated as Special China Connect Securities on the second Monday after publication of the list, or, the next CSC trading day if it is not a CSC trading day, provided that they remain listed on SSE and meet the relevant conditions prescribed by the Exchange from time to time.

## **Trading Arrangements**

### **Pre-trade checking**

- 14A06. (6) In respect of a China Connect Exchange Participant who is a China Connect CCASS Clearing Participant, pre-trade checking of its China Connect sell orders will be conducted on the securities holding position of its designated CCASS stock account(s) in accordance with Rules 14A06(8)(a),(c) and (d) except where the China Connect sell order is an SPSA order or a Master SPSA order, in which case Rule 14A06(7A) or Rule 14A06(7B), as the case may be, shall apply.
- (7) In respect of a China Connect Exchange Participant who is not a China Connect CCASS Clearing Participant, pre-trade checking of its China Connect sell orders will, unless such order is an SPSA order or a Master SPSA order, be conducted on the securities holding position of the CCASS stock account(s) that has been designated to it by its duly appointed CCASS GCP for the settlement of its China Connect Securities Trades. Pre-trade checking of its China Connect sell orders will be conducted in accordance with Rules 14A06(8)(a), (c) and (d) except where the China Connect sell order is an SPSA order or a Master SPSA order, in which case Rule 14A06(7A) or Rule 14A06(7B), as the case may be, shall apply.
- (7A) In respect of an SPSA order input by a China Connect Exchange Participant, pre-trade checking will be conducted on the securities holding position of the Special Segregated Account with the assigned SPSA ID when it inputs the SPSA order in accordance with Rules 14A06(8)(b), (c) and (d).

- (7B) In respect of a Master SPSA order input by a China Connect Exchange Participant, pre-trade checking will be conducted on the aggregate securities holding position of all the Special Segregated Accounts mapped to the assigned Master SPSA ID when it inputs the Master SPSA order in accordance with Rules 14A06(8)(b), (c) and (d).
- (8) (a) Subject to Rule 14A06(8)(c) and any sellable balance adjustments made for the purpose of pre-trade checking under the CCASS Rules, the total number of shares/units which can be the subject of China Connect sell orders (other than SPSA orders and Master SPSA orders) in respect of each China Connect Security on a CSC trading day shall not exceed the total securities holding position in respect of the same China Connect Security as shown in the relevant designated CCASS stock account(s) referred to in Rule 14A06(6) or (7) immediately before the commencement of operation of the China Connect Service on that CSC trading day.
- (b) Subject to Rule 14A06(8)(c) and any sellable balance adjustments made for the purpose of pre-trade checking under the CCASS Rules:
- (i) the total number of shares/units which can be the subject of SPSA orders in respect of each China Connect Security in a Special Segregated Account on a CSC trading day shall not exceed the total securities holding position in respect of the same China Connect Security as shown in the relevant Special Segregated Account referred to in Rule 14A06(7A) immediately before the commencement of operation of the China Connect Service on that CSC trading day; and
- (ii) the total number of shares/units which can be the subject of Master SPSA orders in respect of each China Connect Security in the Special Segregated Accounts which are mapped to a Master SPSA ID on a CSC trading day shall not exceed the aggregate securities holding position in respect of the same China Connect Security as shown in all the Special Segregated Accounts mapped to the assigned Master SPSA ID referred to in Rule 14A06(7B) immediately before the commencement of operation of the China Connect Service on that CSC trading day.
- (c) In respect of overdue short securities positions in China Connect Securities of a China Connect CCASS Clearing Participant under the CNS System which are outstanding for settlement on the due date where such China Connect CCASS Clearing Participant is a China Connect Exchange Participant, HKSCC will request the Exchange to deduct the overdue short securities position quantities from the sellable balances of such China Connect CCASS Clearing Participant on the next CSC trading day, and if such China Connect CCASS Clearing Participant is a CCASS GCP of any China Connect Exchange Participant(s), from the sellable balances of each

of such China Connect Exchange Participant(s) on the next CSC trading day. If such overdue short securities positions are, or are alleged by such China Connect CCASS Clearing Participant to be, caused in whole or in part by an SPSA Delivery Failure, the sellable balances of such China Connect CCASS Clearing Participant, and/or the relevant China Connect Exchange Participant(s) and the relevant Special Segregated Accounts will be adjusted in accordance with the CCASS Rules. In the event of an SPSA Delivery Failure under a Master SPSA ID, the sellable balance with respect to the relevant China Connect Securities that were the subject of the SPSA Delivery Failure or the sellable balances of all the China Connect Securities under such Master SPSA ID may be reduced to zero on the next CSC trading day or for such longer period in accordance with the CCASS Rules.

- (d) Any China Connect sell order input by a China Connect Exchange Participant which may, upon execution, exceed the relevant total securities holding positions mentioned in Rule 14A06(8)(a) or (b) above will (subject to Rule 14A06(8)(c) and any sellable balance adjustments made for the purpose of pre-trade checking under the CCASS Rules) be rejected.
- (9) To enable the Exchange and the SEHK Subsidiary to apply the pre-trade checking procedures, HKSCC will, in accordance with the CCASS Rules and subject to Rule 14A06(8)(c) and any sellable balance adjustments made for the purpose of pre-trade checking under the CCASS Rules, reproduce and replicate the securities holding records of the CCASS stock accounts (both client and house account positions) referred to in Rules 14A06(6) and (7) and the Special Segregated Accounts referred to in Rule 14A06(7A) and Rule 14A06(7B), and transmit the information to the CSC before the commencement of operation of the China Connect Service on each CSC trading day. Each China Connect Exchange Participant agrees to and authorizes the reproduction, replication and transmission of its securities holding records as mentioned above for the purpose of enabling the Exchange and the SEHK Subsidiary to carry out the pre-trade checking procedures. In respect of Special Segregated Accounts (whether under SPSA ID or Master SPSA ID), each China Connect Exchange Participant who is authorized to execute on behalf of its clients (including the Master SPSA Holder where applicable) sale of China Connect Securities in the Special Segregated Accounts, acknowledges and confirms that its clients (including the Master SPSA Holder where applicable) have authorized the reproduction, replication and transmission of the securities holding records of the Special Segregated Accounts as mentioned above for the purpose of enabling the Exchange and the SEHK Subsidiary to carry out the pre-trade checking procedures.
- (10) Consistent with Rule 1421(2), China Connect Exchange Participants shall put in place appropriate arrangements to ensure that (a) in respect of an SPSA order, Rule 14A06(2A) will be complied with and in respect of a Master SPSA order, Rule 14A06(2B) will be complied with, respectively, before the placing of the order; and (b) in respect of a China Connect sell order (other than an SPSA order

or a Master SPSA order), there are sufficient China Connect Securities in the relevant client account or house account, as applicable, within CCASS before placing the order for the account of their client or for their own account, as the case may be. Upon matching of a China Connect sell order on the SSE Market System, the relevant number of China Connect Securities recorded in the relevant account referred to in 14A06(8)(a) above or the relevant Special Segregated Account(s), as the case may be, will be used for securities settlement in accordance with the CCASS Rules.

### **Quotas on SSE-listed Securities as China Connect Securities**

#### **Daily Quota**

- 14A07. (9) In respect of each CSC trading day, if the Daily Quota Balance drops to zero or below (i.e. if the Daily Quota is fully utilized):
- (b) after commencement of the SSE Continuous Auction session in the morning at 9:30 and before the end of the SSE Closing Call Auction session (for A shares) or the end of the SSE Continuous Auction session in the afternoon (for SSE-listed ETFs) (as applicable) at 15:00, no China Connect buy orders will be accepted for the rest of the CSC trading day unless the Exchange otherwise determines, but China Connect buy orders input before the time at which the Daily Quota Balance drops to zero or below will not be affected and will be transmitted by the CSC to the SSE Market System for execution in the usual manner.

#### **Quota Management**

- (13) Unless otherwise determined by the Exchange:
- (ba) (for A shares only) during the SSE Closing Call Auction session on each CSC trading day, the reference price referred to in Rule 14A07(12) shall be (i) the current bid price of the relevant China Connect Security; (ii) where no current bid price is available, the latest trade price of the relevant China Connect Security, and (iii) where the latest trade price is not available, the previous closing price of the relevant China Connect Security; and

### **Shareholding Restrictions on China Connect Securities**

#### **Shareholding limits on foreign investors**

- 14A08. (2) China Connect Exchange Participants shall comply, and shall make appropriate arrangements to ensure that their clients will comply, with the 10% individual shareholding limit in relation to A shares applicable to foreign investors (including Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors approved under the applicable laws of Mainland China, and other investors using the China Connect Service) as stipulated in applicable laws of Mainland China including the CSRC regulations concerning Shanghai-Hong Kong Stock Connect. China Connect Exchange Participants shall put

appropriate monitoring arrangements in place to comply with this Rule and to alert their clients to comply with the individual shareholding limit.

**Compliance with applicable laws in Mainland China**

14A10. As required by SSE, China Connect Exchange Participants shall:

- (4) acknowledge, and make appropriate arrangements to require their clients to acknowledge, that if the SSE Rules are breached, or if the disclosure and other obligations referred to in the listing rules of the SSE (including the rules of the SSE for stock listing on the SSE STAR Market and the rules of the SSE for ETFs listing on SSE ETF Market) or the SSE Rules are breached, SSE has the power to carry out investigations, and may, through the Exchange or the SEHK Subsidiary, require China Connect Exchange Participants to provide relevant information and materials (including the information and personal data of their clients and other persons referred to in Rules 537 and 1437) to assist in its investigation;

**Fees and Taxes**

- 14A11. (2) With respect to any fees, charges, levies and taxes which may be payable to SSE, the relevant China Connect Clearing House or the relevant governmental or regulatory bodies in Mainland China in respect of every purchase or sale of China Connect Securities executed through the China Connect Service, China Connect Exchange Participants shall pay to the Exchange such fees (including any handling fee, securities management fee and transfer fee), charges, levies and taxes, which will be published on the HKEX website or notified to China Connect Exchange Participants through such other means as the Exchange considers appropriate, for onward payment to SSE, the relevant China Connect Clearing House or the relevant governmental or regulatory bodies in Mainland China, as the case may be.

**Off-Exchange Trades or Transfers Prohibited**

- 14A12. (2) The following non-trade transfers are permitted:
  - (a) Securities Borrowing and Lending as permitted under Rule 14A16(2);
  - (b) transfers between Exchange Participants and their clients for the purpose of rectifying error trades;
  - (c) post-trade allocation of China Connect Securities to funds or sub-funds in different accounts by fund managers who have entered into China Connect Securities Trades for the collective account of funds or sub-funds under management; and
  - (d) transfers set out in Rule 4110iii(e) to (j) of the CCASS Rules.

### **Record Keeping**

- 14A13. To comply with applicable laws in Mainland China and the requirements of SSE, China Connect Exchange Participants shall keep proper books and records of the China Connect orders input and the China Connect Securities Trades executed by it and the related client instructions and account information (including the related BCAN and CID) for a period of not less than 20 years. Such books and records shall include all relevant information concerning the Margin Trading, Short Selling and Securities Borrowing and Lending of any China Connect Securities. For the avoidance of doubt, with respect to Margin Trading, proper books and records on the funds provided to and the relevant securities margin financing arrangement entered into with the clients shall also be kept.

### **Margin Trading of China Connect Securities**

#### **List of Eligible SSE Securities for Margin Trading**

- 14A15. (3) The Exchange will publish the List of Eligible SSE Securities for Margin Trading on the HKEX website or through such other means as it considers appropriate and may update or amend the list from time to time. Unless the Exchange otherwise determines, the List of Eligible SSE Securities for Margin Trading will be compiled by reference to SSE's list of eligible securities for margin trading for the SSE Market, excluding Special China Connect Securities.

### **Securities Borrowing and Lending of China Connect Securities**

- 14A16. (1) Unless the Exchange otherwise determines, China Connect Exchange Participants shall not enter into or carry out any Securities Borrowing and Lending Arrangement in respect of China Connect Securities and Special China Connect Securities except in accordance with this Rule 14A16.

#### **Purpose of Securities Borrowing and Lending of China Connect Securities**

- (2) Securities Borrowing and Lending of China Connect Securities may only be carried out for the following purposes:
- (a) for the purpose of Short Selling in accordance with Rule 14A17 provided that the securities loan period (inclusive of the date of securities loan and securities return) does not exceed one calendar month;
  - (b) for the purpose of enabling the clients of China Connect Exchange Participants to sell China Connect Securities held by them but which have not been transferred to the relevant CCASS stock account in time to meet the pre-trade checking requirement set out in Rule 14A06 provided that the securities loan period does not exceed one day and is non-renewable; and
  - (c) for such other purposes as the Exchange or SSE may specify from time to time.

- (3) For the purpose of Rule 14A16(2)(a), Securities Borrowing and Lending shall be limited to China Connect Securities excluding Special China Connect Securities; and for the purpose of Rule 14A16(2)(b), Securities Borrowing and Lending may cover any China Connect Securities including Special China Connect Securities. References to “China Connect Securities” in this Rule 14A16 shall be construed accordingly.

**Permitted Securities Lenders and Securities Borrowers**

**Source of China Connect Securities subject to Securities Borrowing and Lending**

**Provision of undertaking/confirmation**

- (10) Before a China Connect Exchange Participant lends any China Connect Securities to its clients under a Securities Borrowing and Lending Arrangement, it shall apply to the Exchange to be a Securities Lender and provide the Exchange with an undertaking in the prescribed form undertaking as follows:
- (a) it is duly licensed by the Commission to carry on the business of dealing in securities, and no restriction exists that would prevent or restrict it from dealing in securities or engaging in securities lending activities at the time of the application;
  - (b) it shall continue to be duly licensed by the Commission to carry on the business of dealing in securities and not subject to restrictions from securities dealing or engaging in securities lending activities at such time or times when China Connect Securities are lent to its clients;
  - (c) it shall promptly inform the Exchange and stop lending further China Connect Securities to its clients if it is suspended or restricted from dealing in securities or engaging in securities lending activities by the Commission; and
- (11) Before a China Connect Exchange Participant borrows any China Connect Securities from another Exchange Participant or a Qualified Institution (as Securities Lender) under a Securities Borrowing and Lending Arrangement, the China Connect Exchange Participant shall provide the Exchange with a confirmation in the prescribed form confirming that the Securities Lender has provided it with an undertaking in respect of the following:
- (a) that no restriction exists that prevents or restricts the Securities Lender from engaging in securities lending activities at the time the China Connect Securities are lent to the China Connect Exchange Participant;
  - (b) that the Securities Lender will promptly inform the China Connect Exchange Participant and stop lending further China Connect Securities to the China Connect Exchange Participant if it is suspended or restricted by a relevant regulator from engaging in securities lending activities;

- (c) where the Securities Lender is a Non-registered Exchange Participant or a Qualified Institution, the China Connect Securities being lent are held or owned by it as principal; and
- (d) that the Securities Lender shall, upon notification by the China Connect Exchange Participant, comply with such restrictions with respect to the lending of China Connect Securities as the Exchange may consider appropriate, including any restrictions imposed by SSE, failing which the Securities Lender agrees that the Securities Borrowing and Lending Arrangement may be terminated by the China Connect Exchange Participant if so directed by the Exchange.

**Reporting of Securities Borrowing and Lending activities**

- (12) A China Connect Exchange Participant referred to in Rule 14A16(10) and (11) shall file a monthly report with the Exchange providing details on its Securities Borrowing and Lending activities with respect to China Connect Securities in the prescribed form.

**Others**

- (13) China Connect Exchange Participants shall make appropriate arrangements to ensure that their clients understand and are aware of the restrictions, requirements and conditions applicable to the Securities Borrowing and Lending of China Connect Securities.
- (15) A Non-registered Exchange Participant who wishes to conduct securities lending activities concerning China Connect Securities shall comply with the following requirements:
  - (c) provide the undertaking referred to in Rule 14A16(11) to the relevant China Connect Exchange Participant as Securities Lender;
- (16) Without prejudice to any other powers which the Exchange may have under these Rules, where a China Connect Exchange Participant or a Non-registered Exchange Participant fails to comply with this Rule 14A16, the Exchange may take any of the following actions:
  - (a) require it to terminate or unwind any Securities Borrowing and Lending Arrangement;
  - (c) restrict or suspend it from carrying out any securities borrowing or lending activities concerning any China Connect Securities.
- (17) Unless otherwise determined by the Exchange, other provisions in these Rules on securities borrowing and lending and the Sixth Schedule do not apply to the Securities Borrowing and Lending of China Connect Securities under this Rule.
- (18) For the avoidance of doubt, references in this Rule 14A16 to “China Connect Exchange Participant” and “China Connect Exchange Participants” shall be read

to include the Exchange Participants referred to in Rule 590(1) (Exchange Participants trading through China Connect Exchange Participants). Accordingly, such Exchange Participants may carry out Securities Borrowing and Lending of China Connect Securities subject to the conditions, restrictions and requirements of this Rule; and this Rule shall apply to them as if they were China Connect Exchange Participants.

### **Short Selling**

- 14A17. (2) A China Connect Exchange Participant shall not input any Short Selling order unless at the time it inputs the order,
- (a) it has or, where it is selling for the account of its client, its client has; or
  - (b) it believes and has reasonable grounds to believe that the seller has, a presently exercisable and unconditional right to vest the relevant China Connect Securities in the purchaser by virtue of having borrowed such securities under a Securities Borrowing and Lending Arrangement. For the avoidance of doubt, the pre-trade checking requirements set out in Rule 14A06 apply to Short Selling orders.

### **List of Eligible SSE Securities for Short Selling**

- (4) The Exchange will publish the List of Eligible SSE Securities for Short Selling on the HKEX website or through such other means as it considers appropriate and may update or amend the list from time to time. Unless the Exchange otherwise determines, the List of Eligible SSE Securities for Short Selling will be compiled by reference to SSE's list of eligible securities for short selling for the SSE Market, excluding Special China Connect Securities.

### **Short Selling Order**

- (5) A Short Selling order shall only be input during the SSE Opening Call Auction session, a SSE Continuous Auction session or (for A shares only) the SSE Closing Call Auction session.
- (8) Short Selling orders shall be input into the CSC only in multiples of 100 shares/units.

### **Price restriction**

- (10) As required by SSE, where shares/units in any Short Selling Security borrowed for the purpose of Short Selling remain outstanding and have not yet been returned, China Connect Exchange Participants shall, and shall require their relevant clients to, comply with the price requirement in Rule 14A17(9) in respect of any instructions for the sale of that Short Selling Security through the China Connect Service, except for those instructions that exceed the number of the outstanding and unreturned shares/units.

### **Securities Borrowing for Short Selling**

- (12) Securities Borrowing and Lending for the purpose of Short Selling shall be subject to Rule 14A16(2)(a) and other restrictions as may be prescribed by the Exchange.
- (13) Before inputting a Short Selling order into the CSC, a China Connect Exchange Participant shall:
  - (a) where acting for the account of a client (including a Master SPSA Holder where applicable):
    - (iii) to the extent that its client has borrowed Short Selling Securities from a Securities Lender other than the China Connect Exchange Participant, have required the client to inform it (if and after the Short Selling order is executed on the SSE Market) of the client's return of the Short Selling Securities which are the subject of the Short Selling order to the Securities Lender (including the relevant date or dates of return and the number of shares/units being returned); and
    - (iv) to the extent that the Short Selling order to be input is an SPSA order or a Master SPSA order, have required its client to confirm that the borrowed Short Selling Securities are held in the relevant Special Segregated Account(s) and the order meets the pre-trade checking requirements set out in Rule 14A06(7A) or Rule 14A06(7B), as the case may be, and if the order is executed on the SSE Market, the borrowed securities will be delivered to it or its CCASS GCP for securities settlement; and

#### **Short Selling Ratio Limits**

- (15) The Exchange will publish on the HKEX website or through such other means as the Exchange considers appropriate the following information (for A shares only):
  - (a) prior to the start of a CSC trading day, the quantity of each Short Selling Security that may be the subject of Short Selling orders for the CSC trading day;
  - (b) after market close, the Short Selling turnover (including the number of shares and the value) and the Short Selling Ratio of each Short Selling Security for that CSC trading day, and the cumulative Short Selling Ratios of each Short Selling Security over the previous 10 consecutive CSC trading days.

#### **Reporting Requirements**

- (17) China Connect Exchange Participants shall submit reports to the Exchange on the open short position of any Short Selling Security and other information required by the Exchange, at such intervals as the Exchange may from time to time require. For the purposes of this Rule 14A17, "open short position" means the total number of shares/units of a Short Selling Security that have been

short sold by the China Connect Exchange Participant (whether as principal or agent) through the China Connect Service less the total number of shares/units borrowed for the purpose of Short Selling that have already been returned to the relevant Securities Lender.

### **Suspension and Resumption of Short Selling Activities**

- (22) The Exchange may, upon the request of SSE, the Commission or otherwise, direct a China Connect Exchange Participant to apply restrictions on the number of shares/units of any Short Selling Security that can be short sold by the China Connect Exchange Participants or particular clients and to report information about its or such clients' Short Selling activity as the Exchange, the SSE or the Commission may direct.

### **Exchange's Powers**

- (24) Notwithstanding anything contained herein, the Exchange reserves the right in its absolute discretion to:
- (b) impose limits on the number of shares/units of a particular Short Selling Security which may be the subject of Short Selling orders;
  - (c) impose open short position limits on the number of shares/units of a particular Short Selling Security which a China Connect Exchange Participant may hold on its own account or for the account of its clients;
  - (f) require a China Connect Exchange Participant to disclose to the Exchange at any time the number of shares/units of a Short Selling Security in which the China Connect Exchange Participant holds an open short position either on its own account or for the account of its clients; and
  - (g) prescribe from time to time such other restrictions, requirements and conditions subject to which Short Selling and the related Securities Borrowing and Lending shall be conducted.
- (26) The Exchange may from time to time exempt any Short Selling orders, related Securities Borrowing and Lending Arrangement, China Connect Securities Trades and China Connect Exchange Participants from all or any of the restrictions, requirements or conditions to which Short Selling shall be subject.

## CHAPTER 14B

### CHINA CONNECT SERVICE - SHENZHEN

#### Application

- 14B01. (2) China Connect Exchange Participants who wish to trade in eligible SZSE-listed securities through the China Connect Service or engage in margin trading, securities borrowing and lending and short selling activities of eligible SZSE-listed securities shall comply with this Chapter.

#### Interpretation

- 14B02. (2) In this Chapter, unless the context otherwise requires:

“ChiNext shares” means the A shares which are accepted for listing and admitted to trading on the SZSE ChiNext from time to time;

“Qualified Institution” in relation to the Securities Borrowing and Lending of China Connect Securities referred to in Rule 14B16, means:

- (a) any fund, Exchange Traded Fund or collective investment scheme managed by a person licensed or registered to carry out Type 9 (asset management) regulated activity under the Ordinance;
- (b) a participant of HKSCC (other than an Investor Participant as defined in the CCASS Rules); or
- (c) any other person accepted or specified by SZSE;

“Securities Borrowing and Lending Arrangement” means an arrangement permitted under Rule 14B16 whereby the persons referred to in Rules 14B16(4) to (7) borrow or lend China Connect Securities for the purposes mentioned in Rule 14B16(2) pursuant to a securities borrowing and lending agreement, and references to “Securities Borrowing and Lending”, “Securities Lender”, “Securities Borrower”, “lend” and “borrow” shall be construed accordingly;

|                                    |  |
|------------------------------------|--|
| “Shenzhen-Hong Kong Stock Connect” | means the programme jointly announced by the CSRC and the Commission dated 16 August 2016 comprising, among others, the order-routing arrangements to be entered into between the Exchange, SZSE, the SEHK Subsidiary and a subsidiary of SZSE which shall become a Special Participant, and any enhancements and expansions to the programme as both regulators may agree from time to time;      |
| “Short Selling”                    | means the sale of Short Selling Securities in respect of which the China Connect Exchange Participant as seller, or the person for whose benefit or on whose behalf the sale is made, has a presently exercisable and unconditional right to vest the Short Selling Securities in the purchaser by virtue of having borrowed such securities under a Securities Borrowing and Lending Arrangement; |
| “Short Selling Ratio”              | means the number of shares/units sold via Short Selling orders for a Short Selling Security on a given CSC trading day divided by the number of shares/units of that Short Selling Security held by all investors through CCASS as at the commencement of that CSC trading day, expressed as a percentage rounded to 2 decimal places;   |
| “SZSE ETF Market”                  | means the exchange traded fund market operated by SZSE;  |
| “SZSE-listed ETFs”                 | means the exchange traded funds which are accepted for listing and admitted to trading on the SZSE ETF Market from time to time;   |
| “SZSE Market”                      | means the securities markets operated by SZSE comprising the SZSE Main Board, SZSE ChiNext and SZSE ETF Market, collectively, a China Connect Market as defined in Chapter 1;  |
| “under risk alert”                 | in relation to A shares listed on SZSE, means the relevant shares are placed under “risk alert” by SZSE including shares of “ST companies”, “*ST companies” and shares   |

subject to the delisting process or the listing of which has been suspended by SZSE under the SZSE Rules; and

“unit”

means one undivided share or undivided beneficial interest in an exchange traded fund or a similar investment arrangement.

### **SZSE-listed Securities as China Connect Securities**

- 14B04. (1) Pursuant to the Exchange’s powers under Rule 1407 (power to accept securities as China Connect Securities), securities which meet the criteria set out in Rule 14B04(2) or Rule 14B04(2A) shall, subject to Rules 14B04(3),(4) and (4A) be accepted as China Connect Securities and be eligible for China Connect buy orders and China Connect sell orders.
- (2) Unless the Exchange otherwise determines, SZSE-listed A shares set out below will be accepted as China Connect Securities:
- (a) constituent stocks of SZSE Component Index which have a market capitalization of RMB6 billion or above, calculated according to such methodology as determined by SZSE at the periodic adjustment of the index;
  - (b) constituent stocks of SZSE Small/Mid Cap Innovation Index which have a market capitalization of RMB6 billion or above, calculated according to such methodology as determined by SZSE at the periodic adjustment of the index; or
  - (c) A shares listed on SZSE that are not included in (a) or (b) above but which have corresponding H shares accepted for listing and trading on the Exchange, provided that:
    - (i) they are not traded on SZSE in currencies other than RMB; and
    - (ii) they are not under risk alert.
- (2A) Unless the Exchange otherwise determines, an SZSE-listed ETF that fulfils all of the following eligibility criteria at any regular review will be accepted as a China Connect Security:
- (a) the SZSE-listed ETF must be traded in RMB and has a daily average assets under management in the last six months of no less than RMB 1.5 billion;
  - (b) the SZSE-listed ETF must have been listed on SZSE for no less than six months;
  - (c) the benchmark index must have been launched for no less than one year;

- (d) the total weighting of constituents which are SSE-listed and SZSE-listed A shares in the benchmark index must not be less than 90% and the total weighting of constituents which are China Connect Securities in the benchmark index must not be less than 80%; and
- (e) the benchmark index or the index methodology of the benchmark index must also meet either of the following criteria: (i) (for broad-based indices) a constituent stock must not be more than 30% of the index's weighting; or (ii) (for non-broad-based indices) (A) the number of constituent stocks must not be less than 30, (B) a constituent must not be more than 15% of the index's weighting and the five highest weighted constituents in the aggregate must not be more than 60% of the index's weighting, and (C) the constituent stocks comprising no less than 90% of the index's weighting must be the top 80% shares by average daily turnover ranking in the relevant stock exchange in the past 12 months.

The Exchange will publish such eligibility criteria on the HKEX website or through such other means as it considers appropriate.

- (3) Unless the Exchange otherwise determines, the timing of acceptance of any securities as China Connect Securities shall follow Rule 14B04(4) and Rule 14B04(4A) (as applicable). Further, without prejudice to its powers under Rules 1407 and 1409, the Exchange will include and exclude securities as China Connect Securities based on the criteria set out in Rule 14B04(2) or prescribed under Rule 14B04(2A) (as applicable), the adjustments made to the SZSE Component Index and SZSE Small/Mid Cap Innovation Index, the market capitalization of each constituent stock of the SZSE Component Index and 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 relevant A shares, H shares and SZSE-listed ETFs are listed on or delisted from SZSE and/or the Exchange, and the timing at which relevant A shares are placed under risk alert or released from risk alert.
- (4A) The Exchange will publish a list of SZSE-listed ETFs which meet the criteria set out in or prescribed under Rule 14B04(2A) as soon as practicable after completion of any regular review that may be undertaken on eligible SZSE-listed ETFs. Such eligible SZSE-listed ETFs will be accepted as China Connect Securities on the second Monday after publication of the list of eligible SZSE-listed ETFs by the Exchange, or, the next CSC trading day if it is not a CSC trading day.

#### **SZSE-listed Securities as Special China Connect Securities**

- 14B05. (1) Pursuant to the Exchange's power under Rule 1408 (power to accept or designate securities as Special China Connect Securities), the securities referred to in Rules 14B05(2), (2A) and (3) shall be accepted and designated as Special China Connect Securities and be eligible only for China Connect sell orders and not for China Connect buy orders.

- (2) Unless the Exchange otherwise determines, the Exchange will accept or designate A shares which cease to meet the eligibility criteria set out in Rule 14B04(2) as Special China Connect Securities provided that they remain listed on SZSE. These include:
- (a) shares accepted as China Connect Securities under Rule 14B04(2)(a) or (b) but which, based on the market capitalization of the shares calculated according to such methodology as determined by SZSE at any subsequent periodic adjustment of the relevant index, have ceased to meet the requirements specified in Rule 14B04(2)(a) or (b), as the case may be, and do not fall under Rule 14B04(2)(c);
  - (b) shares accepted as China Connect Securities under Rule 14B04(2)(a) or (b) but which have subsequently ceased to be constituent stocks of SZSE Component Index or SZSE Small/Mid Cap Innovation Index, as the case may be, and do not fall under Rule 14B04(2)(c);
  - (c) shares accepted as China Connect Securities under Rule 14B04(2)(c) but the H shares of which have been delisted from the Exchange, and the shares, based on the market capitalization of the shares calculated according to such methodology as determined by SZSE at any subsequent periodic adjustment of the relevant index, do not fall under Rule 14B04(2)(a) or (b);
  - (d) shares accepted as China Connect Securities under Rule 14B04(2)(c) but the H shares of which have been delisted from the Exchange, and the shares are not constituent stocks of SZSE Component Index or SZSE Small/Mid Cap Innovation Index; and
  - (e) shares accepted as China Connect Securities under Rule 14B04(2)(a), (b) or (c) but which have been placed under risk alert.
- (2A) Unless the Exchange otherwise determines, the Exchange will accept or designate an SZSE-listed ETF which has been accepted as a China Connect Security under Rule 14B04(2A) but which has subsequently met any of the following eligibility criteria of becoming a Special China Connect Security at any regular review that may be undertaken on eligible SZSE-listed ETFs, as a Special China Connect Security provided that it remains listed on SZSE:
- (a) the SZSE-listed ETF's daily average assets under management in the last six months falls under RMB 1 billion;
  - (b) the total weighting of constituents which are SSE-listed and SZSE-listed A shares in the benchmark index falls under 85% or the total weighting of constituents which are China Connect Securities in the benchmark index falls under 70%; or
  - (c) the benchmark index and the index methodology of the benchmark index meets either of the following criteria: (i) (for broad-based indices) a constituent stock exceeds 30% of the index's weighting; or (ii) (for non-broad-based indices) (A) the number of constituent stocks falls under 30; (B) a constituent exceeds 15% of the

index's weighting or the five highest weighted constituents in the aggregate exceeds 60% of the index's weighting; or (C) the constituent stocks which are the top 80% shares by average daily turnover ranking in the relevant stock exchange in the past 12 months falls under 90% of the index's weighting.(4) The Exchange will publish a list of Special China Connect Securities in respect of SZSE in accordance with Rule 1409(1)(b) based on the principles set out in this Rule. The SZSE-listed ETFs on the list will be accepted and designated as Special China Connect Securities on the second Monday after publication of the list, or, the next CSC trading day if it is not a CSC trading day, provided that they remain listed on SZSE and meet the relevant conditions prescribed by the Exchange from time to time.

## **Trading Arrangements**

### **Pre-trade checking**

- 14B06. (7) In respect of a China Connect Exchange Participant who is a China Connect CCASS Clearing Participant, pre-trade checking of its China Connect sell orders will be conducted on the securities holding position of its designated CCASS stock account(s) in accordance with Rules 14B06(10)(a),(c) and (d) except where the China Connect sell order is an SPSA order or a Master SPSA order, in which case Rule 14B06(9) or Rule 14B06(9A), as the case may be, shall apply.
- (8) In respect of a China Connect Exchange Participant who is not a China Connect CCASS Clearing Participant, pre-trade checking of its China Connect sell orders will, unless such order is an SPSA order or a Master SPSA order, be conducted on the securities holding position of the CCASS stock account(s) that has been designated to it by its duly appointed CCASS GCP for the settlement of its China Connect Securities Trades. Pre-trade checking of its China Connect sell orders will be conducted in accordance with Rules 14B06(10)(a),(c) and (d) except where the China Connect sell order is an SPSA order or a Master SPSA order, in which case Rule 14B06(9) or Rule 14B06(9A), as the case may be, shall apply.
- (9) In respect of an SPSA order input by a China Connect Exchange Participant, pre-trade checking will be conducted on the securities holding position of the Special Segregated Account with the assigned SPSA ID when it inputs the SPSA order in accordance with Rules 14B06(10)(b),(c) and (d).
- (9A) In respect of a Master SPSA order input by a China Connect Exchange Participant, pre-trade checking will be conducted on the aggregate securities holding position of all the Special Segregated Accounts mapped to the assigned Master SPSA ID when it inputs the Master SPSA order in accordance with Rules 14B06(10)(b), (c) and (d).
- (10) (a) Subject to Rule 14B06(10)(c) and any sellable balance adjustments made for the purpose of pre-trade checking under the CCASS Rules, the total number of shares/units which can be the subject of China Connect sell orders (other than SPSA orders and Master SPSA orders) in respect of each China Connect Security on a CSC trading day shall not exceed the total securities holding position in respect of the same China Connect Security as shown in the relevant designated CCASS stock account(s) referred to in Rule 14B06(7) or

- (8) immediately before the commencement of operation of the China Connect Service on that CSC trading day.
- (b) Subject to Rule 14B06(10)(c) and any sellable balance adjustments made for the purpose of pre-trade checking under the CCASS Rules:
- (i) the total number of shares/units which can be the subject of SPSA orders in respect of each China Connect Security in a Special Segregated Account on a CSC trading day shall not exceed the total securities holding position in respect of the same China Connect Security as shown in the relevant Special Segregated Account referred to in Rule 14B06(9) immediately before the commencement of operation of the China Connect Service on that CSC trading day; and
  - (ii) the total number of shares/units which can be the subject of Master SPSA orders in respect of each China Connect Security in the Special Segregated Accounts which are mapped to a Master SPSA ID on a CSC trading day shall not exceed the aggregate securities holding position in respect of the same China Connect Security as shown in all the Special Segregated Accounts mapped to the assigned Master SPSA ID referred to in Rule 14B06(9A) immediately before the commencement of operation of the China Connect Service on that CSC trading day.
- (c) In respect of overdue short securities positions in China Connect Securities of a China Connect CCASS Clearing Participant under the CNS System which are outstanding for settlement on the due date where such China Connect CCASS Clearing Participant is a China Connect Exchange Participant, HKSCC will request the Exchange to deduct the overdue short securities position quantities from the sellable balances of such China Connect CCASS Clearing Participant on the next CSC trading day, and if such China Connect CCASS Clearing Participant is a CCASS GCP of any China Connect Exchange Participant(s), from the sellable balances of each of such China Connect Exchange Participant(s) on the next CSC trading day. If such overdue short securities positions are, or are alleged by such China Connect CCASS Clearing Participant to be, caused in whole or in part by an SPSA Delivery Failure, the sellable balances of such China Connect CCASS Clearing Participant, and/or the relevant China Connect Exchange Participant and the relevant Special Segregated Accounts will be adjusted in accordance with the CCASS Rules. In the event of an SPSA Delivery Failure under a Master SPSA ID, the sellable balance with respect to the relevant China Connect Securities that were the subject of the SPSA Delivery Failure or the sellable balances of all the China Connect Securities under such Master SPSA ID may be reduced to zero on the next CSC trading day or for such longer period in accordance with the CCASS Rules.
- (d) Any China Connect sell order input by a China Connect Exchange Participant which may, upon execution, exceed the relevant total securities holding positions mentioned in Rule 14B06(10)(a) or (b) above will (subject to Rule

14B06(10)(c) and any sellable balance adjustments made for the purpose of pre-trade checking under the CCASS Rules) be rejected.

- (11) To enable the Exchange and the SEHK Subsidiary to apply the pre-trade checking procedures, HKSCC will, in accordance with the CCASS Rules and subject to Rule 14B06(10)(c) and any sellable balance adjustments made for the purpose of pre-trade checking under the CCASS Rules, reproduce and replicate the securities holding records of the CCASS stock accounts (both client and house account positions) referred to in Rules 14B06(7) and (8) and the Special Segregated Accounts referred to in Rule 14B06(9) and Rule 14B06(9A), and transmit the information to the CSC before the commencement of operation of the China Connect Service on each CSC trading day. Each China Connect Exchange Participant agrees to and authorizes the reproduction, replication and transmission of its securities holding records as mentioned above for the purpose of enabling the Exchange and the SEHK Subsidiary to carry out the pre-trade checking procedures. In respect of Special Segregated Accounts (whether under SPSA ID or Master SPSA ID), each China Connect Exchange Participant who is authorized to execute on behalf of its clients (including the Master SPSA Holder where applicable) sale of China Connect Securities in the Special Segregated Accounts acknowledges and confirms that its clients (including the Master SPSA Holder where applicable) have authorized the reproduction, replication and transmission of the securities holding records of the Special Segregated Accounts as mentioned above for the purpose of enabling the Exchange and the SEHK Subsidiary to carry out the pre-trade checking procedures.
- (12) Consistent with Rule 1421(2), China Connect Exchange Participants shall put in place appropriate arrangements to ensure that (a) in respect of an SPSA order, Rule 14B06(3) will be complied with and in respect of a Master SPSA order, Rule 14B06(3A) will be complied with, respectively, before the placing of the order; and (b) in respect of a China Connect sell order (other than an SPSA order or a Master SPSA order), there are sufficient China Connect Securities in the relevant client account or house account, as applicable, within CCASS before placing the order for the account of their client or for their own account, as the case may be. Upon matching of a China Connect sell order on the SZSE Market System, the relevant number of China Connect Securities recorded in the relevant account referred to in 14B06(10)(a) above or the relevant Special Segregated Account(s), as the case may be, will be used for securities settlement in accordance with the CCASS Rules.

## **Shareholding Restrictions on China Connect Securities**

### **Shareholding limits on foreign investors**

- 14B08. (2) China Connect Exchange Participants shall comply, and shall make appropriate arrangements to ensure that their clients will comply, with the 10% individual shareholding limit in relation to A shares applicable to foreign investors (including Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors approved under the applicable laws of Mainland China, and other investors using the China Connect Service) as stipulated in applicable laws of Mainland China including the CSRC regulations concerning Shenzhen-Hong Kong Stock

Connect. China Connect Exchange Participants shall put appropriate monitoring arrangements in place to comply with this Rule and to alert their clients to comply with the individual shareholding limit.

### **Compliance with applicable laws in Mainland China**

14B10. As required by SZSE, China Connect Exchange Participants shall:

- (4) acknowledge, and make appropriate arrangements to require their clients to acknowledge, that if the SZSE Rules are breached, or if the disclosure and other obligations referred to in the listing rules of the SZSE (including the rules of the SZSE for stock listing on ChiNext and the rules of the SZSE for ETFs listing on SZSE ETF Market) or the SZSE Rules are breached, SZSE has the power to carry out investigations, and may, through the Exchange or the SEHK Subsidiary, require China Connect Exchange Participants to provide relevant information and materials (including the information and personal data of their clients and other persons referred to in Rules 537 and 1437) to assist in its investigation;

### **Fees and Taxes**

- 14B11. (2) With respect to any fees, charges, levies and taxes which may be payable to SZSE, the relevant China Connect Clearing House or the relevant governmental or regulatory bodies in Mainland China in respect of every purchase or sale of China Connect Securities executed through the China Connect Service, China Connect Exchange Participants shall pay to the Exchange such fees (including any handling fee, securities management fee and transfer fee), charges, levies and taxes, which will be published on the HKEX website or notified to China Connect Exchange Participants through such other means as the Exchange considers appropriate, for onward payment to SZSE, the relevant China Connect Clearing House or the relevant governmental or regulatory bodies in Mainland China, as the case may be.

### **Off-Exchange Trades or Transfers Prohibited**

- 14B12. (2) The following non-trade transfers are permitted:
- (a) Securities Borrowing and Lending as permitted under Rule 14B16(2);
  - (b) transfers between Exchange Participants and their clients for the purpose of rectifying error trades;
  - (c) post-trade allocation of China Connect Securities to funds or sub-funds in different accounts by fund managers who have entered into China Connect Securities Trades for the collective account of funds or sub-funds under management; and
  - (d) transfers set out in Rule 4110iii(e) to (j) of the CCASS Rules.

### **Record Keeping**

- 14B13. To comply with applicable laws in Mainland China and the requirements of SZSE, China Connect Exchange Participants shall keep proper books and records of the China Connect orders input and the China Connect Securities Trades executed by it and the related client instructions and account information (including the related BCAN and CID) for a period of not less than 20 years. Such books and records shall include all relevant information concerning the Margin Trading, Short Selling and Securities Borrowing and Lending of any China Connect Securities. For the avoidance of doubt, with respect to Margin Trading, proper books and records on the funds provided to and the relevant securities margin financing arrangement entered into with the clients shall also be kept.

### **Margin Trading of China Connect Securities**

#### **List of Eligible SZSE Securities for Margin Trading**

- 14B15. (3) The Exchange will publish the List of Eligible SZSE Securities for Margin Trading on the HKEX website or through such other means as it considers appropriate and may update or amend the list from time to time. Unless the Exchange otherwise determines, the List of Eligible SZSE Securities for Margin Trading will be compiled by reference to SZSE's list of eligible securities for margin trading for the SZSE Market, excluding Special China Connect Securities.

### **Securities Borrowing and Lending of China Connect Securities**

- 14B16. (1) Unless the Exchange otherwise determines, China Connect Exchange Participants shall not enter into or carry out any Securities Borrowing and Lending Arrangement in respect of China Connect Securities and Special China Connect Securities except in accordance with this Rule 14B16.

#### **Purpose of Securities Borrowing and Lending of China Connect Securities**

- (2) Securities Borrowing and Lending of China Connect Securities may only be carried out for the following purposes:
- (a) for the purpose of Short Selling in accordance with Rule 14B17 provided that the securities loan period (inclusive of the date of securities loan and securities return) does not exceed one calendar month;
  - (b) for the purpose of enabling the clients of China Connect Exchange Participants to sell China Connect Securities held by them but which have not been transferred to the relevant HKSCC stock account in time to meet the pre-trade checking requirement set out in Rule 14B06 provided that the securities loan period does not exceed one day and is non-renewable; and
  - (c) for such other purposes as the Exchange or SZSE may specify from time to time.
- (3) For the purpose of Rule 14B16(2)(a), Securities Borrowing and Lending shall be limited to China Connect Securities excluding Special China Connect Securities; and for the purpose of Rule 14B16(2)(b), Securities Borrowing and Lending may cover any China Connect Securities including Special China Connect Securities.

References to “China Connect Securities” in this Rule 14B16 shall be construed accordingly.

**Permitted Securities Lenders and Securities Borrowers**

**Source of China Connect Securities subject to Securities Borrowing and Lending**

**Provision of undertaking/confirmation**

- (10) Before a China Connect Exchange Participant lends any China Connect Securities to its clients under a Securities Borrowing and Lending Arrangement, it shall apply to the Exchange to be a Securities Lender and provide the Exchange with an undertaking in the prescribed form undertaking as follows:
- (a) it is duly licensed by the Commission to carry on the business of dealing in securities, and no restriction exists that would prevent or restrict it from dealing in securities or engaging in securities lending activities at the time of the application;
  - (b) it shall continue to be duly licensed by the Commission to carry on the business of dealing in securities and not subject to restrictions from securities dealing or engaging in securities lending activities at such time or times when China Connect Securities are lent to its clients;
  - (c) it shall promptly inform the Exchange and stop lending further China Connect Securities to its clients if it is suspended or restricted from dealing in securities or engaging in securities lending activities by the Commission; and
  - (d) it shall comply with such restrictions with respect to the lending of China Connect Securities as the Exchange may consider appropriate, including any restrictions imposed by SZSE.
- (11) Before a China Connect Exchange Participant borrows any China Connect Securities from another Exchange Participant or a Qualified Institution (as Securities Lender) under a Securities Borrowing and Lending Arrangement, the China Connect Exchange Participant shall provide the Exchange with a confirmation in the prescribed form confirming that the Securities Lender has provided it with an undertaking in respect of the following:
- (a) that no restriction exists that prevents or restricts the Securities Lender from engaging in securities lending activities at the time the China Connect Securities are lent to the China Connect Exchange Participant;
  - (b) that the Securities Lender will promptly inform the China Connect Exchange Participant and stop lending further China Connect Securities to the China Connect Exchange Participant if it is suspended or restricted by a relevant regulator from engaging in securities lending activities;

- (c) where the Securities Lender is a Non-registered Exchange Participant or a Qualified Institution, the China Connect Securities being lent are held or owned by it as principal; and
- (d) that the Securities Lender shall, upon notification by the China Connect Exchange Participant, comply with such restrictions with respect to the lending of China Connect Securities as the Exchange may consider appropriate, including any restrictions imposed by SZSE, failing which the Securities Lender agrees that the Securities Borrowing and Lending Arrangement may be terminated by the China Connect Exchange Participant if so directs by the Exchange.

**Reporting of Securities Borrowing and Lending activities**

- (12) A China Connect Exchange Participant referred to in Rules 14B16(10) and (11) shall file a monthly report with the Exchange providing details on its Securities Borrowing and Lending activities with respect to China Connect Securities in the prescribed form.

**Others**

- (13) China Connect Exchange Participants shall make appropriate arrangements to ensure that their clients understand and are aware of the restrictions, requirements and conditions applicable to the Securities Borrowing and Lending of China Connect Securities.
- (15) A Non-registered Exchange Participant who wishes to conduct securities lending activities concerning China Connect Securities shall comply with the following requirements:
  - (c) provide the undertaking referred to in Rule 14B16(11) to the relevant China Connect Exchange Participant as Securities Lender;
- (16) Without prejudice to any other powers which the Exchange may have under these Rules, where a China Connect Exchange Participant or a Non-registered Exchange Participant fails to comply with this Rule 14B16, the Exchange may take any of the following actions:
  - (a) require it to terminate or unwind any Securities Borrowing and Lending Arrangement;
  - (c) restrict or suspend it from carrying out any securities borrowing or lending activities concerning any China Connect Securities.
- (17) Unless otherwise determined by the Exchange, other provisions in these Rules on securities borrowing and lending and the Sixth Schedule do not apply to the Securities Borrowing and Lending of China Connect Securities under this Rule.
- (18) For the avoidance of doubt, references in this Rule 14B16 to “China Connect Exchange Participant” and “China Connect Exchange Participants” shall be read to

include the Exchange Participants referred to in Rule 590(1) (Exchange Participants trading through China Connect Exchange Participants). Accordingly, such Exchange Participants may carry out Securities Borrowing and Lending of China Connect Securities subject to the conditions, restrictions and requirements of this Rule; and this Rule shall apply to them as if they were China Connect Exchange Participants.

### **Short Selling**

- 14B17. (2) A China Connect Exchange Participant shall not input any Short Selling order unless at the time it inputs the order,
- (a) it has or, where it is selling for the account of its client, its client has; or
  - (b) it believes and has reasonable grounds to believe that the seller has, a presently exercisable and unconditional right to vest the relevant China Connect Securities in the purchaser by virtue of having borrowed such securities under a Securities Borrowing and Lending Arrangement. For the avoidance of doubt, the pre-trade checking requirements set out in Rule 14B06 apply to Short Selling orders.

### **List of Eligible SZSE Securities for Short Selling**

- (4) The Exchange will publish the List of Eligible SZSE Securities for Short Selling on the HKEX website or through such other means as it considers appropriate and may update or amend the list from time to time. Unless the Exchange otherwise determines, the List of Eligible SZSE Securities for Short Selling will be compiled by reference to SZSE's list of eligible securities for short selling for the SZSE Market, excluding Special China Connect Securities.

### **Short Selling Order**

- (8) Short Selling orders shall be input into the CSC only in multiples of 100 shares/units.

### **Price restriction**

- (10) As required by SZSE, where shares/units in any Short Selling Security borrowed for the purpose of Short Selling remain outstanding and have not yet been returned, China Connect Exchange Participants shall, and shall require their relevant clients to, comply with the price requirement in Rule 14B17(9) in respect of any instructions for the sale of that Short Selling Security through the China Connect Service, except for those instructions that exceed the number of the outstanding and unreturned shares/units.

### **Securities Borrowing for Short Selling**

- (12) Securities Borrowing and Lending for the purpose of Short Selling shall be subject to Rule 14B16(2)(a) and other restrictions as may be prescribed by the Exchange.
- (13) Before inputting a Short Selling order into the CSC, a China Connect Exchange Participant shall:

- (a) where acting for the account of a client (including a Master SPSA Holder where applicable):
  - (iii) to the extent that its client has borrowed Short Selling Securities from a Securities Lender other than the China Connect Exchange Participant, have required the client to inform it (if and after the Short Selling order is executed on the SZSE Market) of the client's return of the Short Selling Securities which are the subject of the Short Selling order to the Securities Lender (including the relevant date or dates of return and the number of shares/units being returned); and
  - (iv) to the extent that the Short Selling order to be input is an SPSA order or a Master SPSA order, have required its client to confirm that the borrowed Short Selling Securities are held in the relevant Special Segregated Account(s) and the order meets the pre-trade checking requirements set out in Rule 14B06(9) or Rule 14B06(9A), as the case may be, and if the order is executed on the SZSE Market, the borrowed securities will be delivered to it or its CCASS GCP for securities settlement; and

#### **Short Selling Ratio Limits**

- (15) The Exchange will publish on the HKEX website or through such other means as the Exchange considers appropriate the following information (for A shares only):
  - (a) prior to the start of a CSC trading day, the quantity of each Short Selling Security that may be the subject of Short Selling orders for the CSC trading day;
  - (b) after market close, the Short Selling turnover (including the number of shares and the value) and the Short Selling Ratio of each Short Selling Security for that CSC trading day, and the cumulative Short Selling Ratios of each Short Selling Security over the previous 10 consecutive CSC trading days.

#### **Reporting Requirements**

- (17) China Connect Exchange Participants shall submit reports to the Exchange on the open short position of any Short Selling Security and other information required by the Exchange, at such intervals as the Exchange may from time to time require. For the purposes of this Rule 14B17, "open short position" means the total number of shares/units of a Short Selling Security that have been short sold by the China Connect Exchange Participant (whether as principal or agent) through the China Connect Service less the total number of shares/units borrowed for the purpose of Short Selling that have already been returned to the relevant Securities Lender.

#### **Suspension and Resumption of Short Selling Activities**

- (22) The Exchange may, upon the request of SZSE, the Commission or otherwise, direct a China Connect Exchange Participant to apply restrictions on the number of shares/units of any Short Selling Security that can be short sold by the China

Connect Exchange Participants or particular clients and to report information about its or such clients' Short Selling activity as the Exchange, the SZSE or the Commission may direct.

**Exchange's Powers**

- (24) Notwithstanding anything contained herein, the Exchange reserves the right in its absolute discretion to:
- (b) impose limits on the number of shares/units of a particular Short Selling Security which may be the subject of Short Selling orders;
  - (c) impose open short position limits on the number of shares/units of a particular Short Selling Security which a China Connect Exchange Participant may hold on its own account or for the account of its clients;
  - (f) require a China Connect Exchange Participant to disclose to the Exchange at any time the number of shares/units of a Short Selling Security in which the China Connect Exchange Participant holds an open short position either on its own account or for the account of its clients; and
  - (g) prescribe from time to time such other restrictions, requirements and conditions subject to which Short Selling and the related Securities Borrowing and Lending shall be conducted.
- (26) The Exchange may from time to time exempt any Short Selling orders, related Securities Borrowing and Lending Arrangement, China Connect Securities Trades and China Connect Exchange Participants from all or any of the restrictions, requirements or conditions to which Short Selling shall be subject.