

Joint Announcement of China Securities Regulatory Commission and Securities and Futures Commission

10 Apr 2014

The China Securities Regulatory Commission and the Securities and Futures Commission have approved, in principle, the development of a pilot programme (**Shanghai-Hong Kong Stock Connect**) for establishing mutual stock market access between Mainland China and Hong Kong.

When launched, the pilot programme will operate between the Shanghai Stock Exchange (**SSE**), the Stock Exchange of Hong Kong Limited (**SEHK**), China Securities Depository and Clearing Corporation Limited (**ChinaClear**) and Hong Kong Securities Clearing Company Limited (**HKSCC**).

This announcement describes the principles under which it is expected that Shanghai-Hong Kong Stock Connect will operate.

I. SSE and SEHK will enable investors to trade eligible shares listed on the other's market through local securities firms or brokers. Shanghai-Hong Kong Stock Connect comprises a Northbound Trading Link and a Southbound Trading Link. Under the Northbound Trading Link, investors, through their Hong Kong brokers and a securities trading service company to be established by SEHK, will be able to place orders to trade eligible shares listed on SSE by routing orders to SSE. Under the Southbound Trading Link, eligible investors, through Mainland securities firms and a securities trading service company to be established by SSE, will be able to place orders to trade eligible shares listed on SEHK by routing orders to SEHK.

II. Shanghai-Hong Kong Stock Connect is an important step in the opening up of the China capital market and will enhance capital market connectivity between Mainland China and Hong Kong, bringing various benefits, including:

a. The programme will enhance the overall strength of China's capital markets through a new and significant collaborative mechanism. Shanghai-Hong Kong Stock Connect deepens cooperation and communication between the stock markets in Shanghai and Hong Kong; expanded cross--boundary investment channels will enhance the competitiveness of both markets.

b. Shanghai-Hong Kong Stock Connect will further consolidate the position of Shanghai and Hong Kong as financial centres, enhance the attractiveness of both markets to international investors. It will improve the investor profile of SSE, and promote the development of Shanghai as an international financial centre. Shanghai-Hong Kong Stock Connect will reinforce Hong Kong's position, in particular, its development as a destination for Mainland investors.

c. Shanghai-Hong Kong Stock Connect will also help promote the internationalization of the RMB and development of Hong Kong as an offshore RMB business centre by enabling Mainland investors to directly participate in the Hong Kong stock market using RMB. It will also expand investment channels for offshore RMB funds and facilitate an orderly flow of RMB funds between the two markets.

III. Shanghai-Hong Kong Stock Connect will be founded on the existing rules and regulations and operational models governing trading and clearing in each market. Set out below are the five principal elements of Shanghai-Hong Kong Stock Connect :

a. **Applicable trading, clearing and listing rules.** Trading and clearing arrangements will be subject to the regulations and operational rules of the market where trading and clearing take place. Listed companies will continue to be subject only to the listing and other rules and regulations of the markets where they are listed. Shanghai-Hong Kong Stock Connect will only operate on a day which is a trading day of both SSE and SEHK and where the clearing arrangements are in order.

b. **Clearing.** ChinaClear and HKSCC will establish a direct link for the cross--boundary clearing. Each of them will become each other's clearing participant to provide clearing services for Shanghai-Hong Kong Stock Connect.

c. **Eligible shares.** Under the pilot programme, shares eligible to be traded through the Northbound Trading Link will comprise all the constituents of the SSE 180 Index and SSE 380 Index, and shares of all SSE-listed companies which have issued both A shares and H shares. Shares eligible to be traded through the Southbound Trading Link comprise all the constituents of the Hang Seng Composite LargeCap Index and Hang Seng Composite MidCap Index, and shares of all companies listed on both SSE and SEHK. The scope of Shanghai-Hong Kong Stock Connect is subject to further adjustment following launch of the pilot programme.

d. **Quotas.** Trading under Shanghai-Hong Kong Stock Connect will, initially, be subject to a maximum cross-boundary investment quota, together with a daily quota that will be monitored on a "real time" basis. The Northbound Trading Link will be limited to an aggregate quota of RMB300 billion and a daily quota of RMB13 billion, and the Southbound Trading Link will be limited to an aggregate quota of RMB250 billion and a daily quota of RMB10.5 billion. Quotas may be adjusted in future.

e. **Eligible investors.** Initially, the SFC requires Mainland investors participating in the Southbound Trading Link to be

limited to institutional investors, and those individual investors who hold an aggregate balance of not less than RMB 500,000 in their securities and cash accounts.

IV. Both the CSRC and the SFC will actively enhance cross-boundary regulatory and enforcement cooperation. Each of them will take all necessary measures to establish, in the interests of investor protection, an effective regime under Shanghai-Hong Kong Stock Connect to respond to all misconduct in either or both markets on a timely basis. The CSRC and the SFC will improve the current bilateral agreement to strengthen enforcement cooperation in respect of the following areas:

- referral and information exchange mechanisms concerning improper activities;
- investigatory cooperation in relation to cross boundary illegal activities including disclosure of false or misleading information, insider dealing and market manipulation;
- bilateral enforcement exchange and training; and
- enhancement of general standards of cross--boundary enforcement cooperation.

V. The two Commissions will establish a dedicated liaison mechanism for Shanghai-Hong Kong Stock Connect to deal with any issues that may be encountered during the pilot programme which may require joint resolution.

SSE, SEHK, ChinaClear and HKSCC will collaborate with each other to develop the operational and other components of Shanghai-Hong Kong Stock Connect prior to launch, including all necessary arrangements to ensure an orderly market and prudent risk management. Launch of Shanghai-Hong Kong Stock Connect will only take place once relevant trading and clearing rules and systems have been finalized, all regulatory approvals have been granted, market participants have had sufficient opportunity to configure and adapt their operational and technical systems. All necessary investor education programmes must also be in place.

SSE, SEHK, ChinaClear and HKSCC will, during the development of Shanghai-Hong Kong Stock Connect, and prior to launch, liaise with market participants in relation to all rules, systems and technical requirements relevant to their operations. Further announcements will be made as development work progresses, including as to the expected timetable. It should take approximately six months from the date of this announcement to complete the preparation for formal launch.