



## EXCHANGE PUBLISHES FURTHER INFORMATION ON SHANGHAI-HONG KONG STOCK CONNECT

The Stock Exchange of Hong Kong (**SEHK**) has published further information in relation to Shanghai-Hong Kong Stock Connect (**Stock Connect**), the proposed mutual market access programme which will allow investors in Hong Kong and Mainland China to trade certain shares listed on the other market via the exchange and clearing house in their local market, which was announced on 10 April 2014. The further information provides details of the operation of the proposed programme for investors and market participants. Stock Connect is expected to be launched in October 2014 once relevant trading and clearing rules and systems have been finalised, necessary regulatory approvals have been granted and investor education programmes have been put in place.

This newsletter will highlight the salient issues identified in the latest information published by SEHK.

### Investor and Participant Eligibility

All Hong Kong and overseas investors will be allowed to trade SSE securities through Stock Connect. However, only Mainland institutional investors and individual investors holding an aggregate balance of RMB500,000 in their securities and cash accounts will be eligible to trade SEHK securities through Stock Connect.

Stock Connect will be open to all SEHK Exchange Participants (**EPs**), persons registered as a broker member of the Shanghai Stock Exchange (**SSE Member**), HKSCC's Clearing Participant (**CPs**) and participants of the China Securities Depository and Clearing Corporation Limited (**China Clear**), subject to certain requirements on IT capability, risk management and other

requirements as may be specified by the relevant exchange and/or clearing house. The names of all eligible EPs and CPs will be published on the HKEx website.

### Trading Arrangements

#### Northbound Trading

To facilitate trading in SSE Securities by Hong Kong and overseas investors, SEHK will establish a subsidiary in Shanghai, whose principal function will be to receive orders to trade in SSE securities from eligible EPs and route them onto SSE's trading platform for matching and execution. Once trades are executed, trade confirmation received from SSE will be sent to EPs. In general, Northbound Trade will follow the SSE market practices.

Hong Kong and overseas investors wishing to trade through Stock Connect will trade through EPs.



### Southbound Trading

Reciprocal arrangements will be adopted for Mainland investors trading in SEHK securities through Stock Connect.

It is proposed that both exchanges will reserve the right to suspend Stock Connect if necessary to ensure an orderly and fair market. Suspension could be executed either for a specific stock or for all stocks of the relevant market(s). Consent from the relevant regulator would be sought before a suspension. The suspension mechanism and the circumstances under which suspension may be triggered will be announced later once the details are finalised.

### Eligible Stocks

#### Stocks Eligible for Northbound Trading

In the initial phase, Hong Kong and overseas investors will be able to trade the following shares listed on the SSE market (SSE Securities):

- all constituent stocks of the SSE 180 Index;
- all the constituent stocks of 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.

The following shares are excluded:

- SSE-listed shares which are not traded in RMB; and
- SSE-listed shares which are included in the “risk alert board”.<sup>1</sup>

Northbound activities will be limited to secondary market trading. Hong Kong and overseas investors will not be able to participate in PRC’s initial public offerings. The full list of SSE Securities eligible for trading will be published on the HKEx website.

SEHK provides guidance on eligibility for Northbound Trading in the following circumstances:

Situations	Eligibility
SSE-listed security not accepted as a SSE Security upon the launch of Stock Connect due to its being under “risk alert”	Upon the subsequent removal from the “risk alert board”, it will be accepted as an SSE Security if it remains as a constituent stock of the relevant indices or if its corresponding H share continues to be listed and traded on the SEHK.
<ul style="list-style-type: none"> <li>• The SSE Security subsequently ceases to be a constituent stock of the relevant indices; and/or</li> <li>• the SSE Security is subsequently under “risk alert”; and/or</li> <li>• the corresponding H share of the SSE Security subsequently ceases to be traded on SEHK.</li> </ul>	Investors will be allowed to sell the SSE Security but restricted from further buying
A PRC company seeks 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 both the A share and H share have passed the stabilisation period
Where a PRC company whose share is listed on SEHK (as an H share) seeks an A share listing on SSE	The A share will be accepted as an SSE Security after the A share has passed the stabilisation period required by SSE. Where practicable, announcements will be made to inform the market of the date of an individual stock becoming an SSE Security after the stabilisation period
The corresponding H share of an SSE Security is suspended from trading on SEHK	The regulators are considering whether investors will be allowed to continue to buy and/or sell the SSE Security in this situation. The final arrangement will be announced

<sup>1</sup> According to the SSE Listing Rules, any SSE-listed company which is in the delisting process, or which operation is unstable due to financial or other reasons, to the extent that it is running the risk of being delisted or exposing investors’ interest to undue damage, the SSE-listed company will be earmarked and traded on the “risk alert board”.

## Stocks Eligible for Southbound Trading

Mainland investors will be able to trade the following shares listed on the SEHK (**SEHK Securities**):

- the constituent stocks of the Hang Seng Composite LargeCap Index;
- the constituent stocks of the Hang Seng Composite MidCap Index; and
- all H shares that are not included as constituent stocks of the relevant indices but which have corresponding shares in the form of SSE-listed Shares.

The following shares are excluded:

- Hong Kong shares that are not traded in Hong Kong dollars; and
- H shares which have corresponding shares listed and traded on an exchange in Mainland China other than SSE

Southbound activities will be limited to secondary market trading. Mainland investors will not be able to participate in Hong Kong's initial public offerings.

SEHK provides guidance on eligibility for Southbound Trading in the following situations:

Situations	Eligibility
<ul style="list-style-type: none"> <li>• The SEHK Security subsequently ceases to be a constituent stock of the relevant indices; and/or</li> <li>• the SEHK Security is an H share and the issuer's share is subsequently listed on an exchange in the Mainland other than SSE; and/or</li> <li>• the corresponding A share of the SEHK Security subsequently ceases to be traded on SSE</li> </ul>	Investors will be allowed to sell the SSE Security but restricted from further buying
A PRC company seeks simultaneous listing on both SSE (as A share) and SEHK (as H share)	The relevant H share will be accepted as an SEHK Security after both the A share and H share have passed the stabilisation period
An SSE-listed company whose share is not also listed as on SEHK seeks an H share listing on SEHK	The H share will be accepted as an SEHK Security after the H share has passed the stabilisation period as required by the SFC
An SEHK-listed company whose H share is not accepted as an SEHK Security seeks an A share listing on SSE	The H share will be accepted as an SEHK Security after the A share has passed the stabilisation period as required by SSE
The corresponding A share of an SEHK Security is suspended from trading on SSE	The regulators are considering whether investors will be allowed to continue to buy and/or sell the SEHK Security in this situation. The final arrangement will be announced





## Quotas (on a “Net Buy” Basis)

Trading under Stock Connect will initially be subject to two quotas, namely:

- A maximum cross-boundary investment quota (**Aggregate Quota**); and
- A Daily Quota

The Aggregate Quota caps the absolute amount of cross-boundary flow of funds, while the Daily Quota limits the maximum net buy value of cross-boundary trades under Stock Connect each day.

The initial quotas will be as set out in the table below.

	Aggregate Quota	Daily Quota
<b>Northbound Trade</b>	RMB 300 billion	RMB 13 billion
<b>Southbound Trade</b>	RMB 250 billion	RMB 10.5 billion

Both quotas will apply on a “net buy” basis. Accordingly, investors will always be allowed to sell their cross-boundary securities regardless of the quota balance.

SEHK will calculate the remaining balance of the Northbound Aggregate Quota at the end of each trading day as follows:

$$\text{Aggregate Quota Balance} = \text{Aggregate Quota} - \text{Aggregate Buy Trades} + \text{Aggregate Sell Trades}$$

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

The Northbound Daily Quota Balance will be updated each time a Northbound order is received and executed as follows:

$$\text{Daily Quota Balance} = \text{Daily Quota} - \text{Buy Orders} + \text{Sell Trades} + \text{Adjustments}^2$$

<sup>2</sup> Daily Quota Balance will be increased when a) a buy order is cancelled; b) a buy order is rejected by the other exchange; or c) a buy order is executed at a better price.

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

Once the Northbound Daily Quota balance drops to zero or is exceeded during a continuous auction session (Continuous Trading), no further buy orders will be accepted for the remainder of the day. If orders are cancelled during opening call auction, the Northbound Daily Quota balance may resume to a positive level before the end of the opening call auction. If this happens, SEHK will again accept Northbound buy orders.

## Price Limits

For the trade of SSE Securities, there is a general price limit of  $\pm 10\%$  (and  $\pm 5\%$  for stocks in the risk alert board) based on previous closing price. For the trade of SEHK Securities, trading will follow the existing quotation rules in place on SEHK.

## Trading Currency

All trades under the programme will be settled in RMB. Mainland investors will use RMB to invest in Hong Kong stocks, with the exchange to Hong Kong dollars taking place in Hong Kong through ChinaClear. Hong Kong and overseas investors must also use RMB to purchase SSE Securities, with HKSCC paying RMB to ChinaClear.

## Short Selling, Margin Financing and Stock Borrowing and Lending

Hong Kong and overseas investors are prohibited from naked short selling in SSE Securities, and will not be allowed to participate in the Mainland’s margin trading and securities lending. Under existing arrangements, Mainland investors can only sell A shares which are in their accounts at the end of the previous day.

For Northbound trading, SEHK will adopt pre-trade checking on Northbound sell orders at the EP level to ensure that there is no overselling by individual EPs.

Therefore, when placing sell orders, investors must ensure they have sufficient shares in their accounts opened with the EP who acts as the selling broker. If the shares are kept in an account opened with another EP or a custodian, investors must first transfer the shares to the selling EP on T-1 in order to sell their shares on T day.

For Southbound trading, SSE will adopt its existing pre-trade checks to Mainland investors trading SEHK securities.

## Disclosure Obligations

Under the current PRC rules, when an investor holds or controls up to 5% of the issued shares of an SSE-listed issuer, the investor is required to disclose his interest within three working days. Such investor may not buy or sell the shares in the listed issuer within the three-day period. For such investor, every time when there is an increase or decrease in his shareholding by 5% of the total issued share capital of the issuer, he is required to make a disclosure 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 shares in the listed issuer. 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 issued shares in the listed issuer, the investor is required to disclose the information within three working days.

SEHK expects that Hong Kong and overseas investors will be exempted from this disclosure requirement.

## Company Announcements of Corporate Actions

Approved corporate actions in relation to SSE Securities will be announced through the SSE website and in the following four newspapers: the Shanghai Securities News, Securities Times, China Securities Journal and Securities Daily. HKSCC will also record all corporate actions relating to SSE Securities in CCASS and advise CCASS Participants of the details via CCASS terminals as soon as practicable on the announcement date. Hong Kong and overseas investors will be able to visit the SSE and newspaper websites for the latest listed company announcements.

Hong Kong and overseas investors should note that the corporate documents of SSE-listed companies will be published in Chinese only and English translations will not be available.

## Fees and Levies Applicable to a Northbound Trade

Hong Kong and overseas investors trading SSE Securities under Stock Connect will be subject to the following fees:

Items	Rate	Charged by
Handling Fee	0.00696% of the consideration of a transaction per side	SSE
Securities Management Fee	0.002% of the consideration of a transaction per side	CSRC
Transfer Fee	0.06% on face value per side	ChinaClear
Stamp Duty	0.1% of the consideration of a transaction on the seller	State Administration of Taxation (SAT)

The following fees and taxes are to be confirmed with the relevant regulators:

Items	Description	Charged by
New CCASS Fee	<ul style="list-style-type: none"> <li>A new fee for providing depository and nominee services to Clearing Participants for SSE Securities</li> <li>Subject to SFC's approval</li> </ul>	Hong Kong Securities Clearing Company Limited
Dividend Tax	<ul style="list-style-type: none"> <li>Applicable to cash dividend and bonus issue</li> </ul>	SAT
Capital Gain Tax	<ul style="list-style-type: none"> <li>Applicable to share disposal</li> <li>Subject to clarification with State Administration of Taxation</li> </ul>	SAT

## Tentative Timetable

SEHK states that launch of Stock Connect will only take place once all relevant trading and clearing rules and systems have been finalised, all regulatory approvals have been granted and market participants have had sufficient opportunity to configure and adapt their operational and technical systems.

Below is the tentative implementation schedule of Stock Connect:

Time	Event
May 2014	1st Round of EP/CP Briefing
End of May 2014	Return of indication of interest by EP and CP
June/July 2014	2nd Round of EP/CP Briefing
By mid-June 2014	EP and CP submit application to participate in Stock Connect
August 2014	3rd Round of EP/CP Briefing (Market Rehearsal arrangements)
September 2014	Market Rehearsal
To be decided	Launch of Stock Connect

It is anticipated that preparatory work for formal launch of Stock Connect will take approximately six months from the date of the announcement of the programme on 10 April 2014.



# CHARLTONS

**Best Boutique Firm 2013**

Asian Legal Business Awards

---

**This newsletter is for information purposes only.**

Its contents do not constitute legal advice and it should not be regarded as a substitute for detailed advice in individual cases.

Transmission of this information is not intended to create and receipt does not constitute a lawyer-client relationship between Charltons and the user or browser.

Charltons is not responsible for any third party content which can be accessed through the website.

If you do not wish to receive this newsletter please let us know by emailing us at [unsubscribe@charltonslaw.com](mailto:unsubscribe@charltonslaw.com)

---

**Hong Kong Office**

Dominion Centre

12th Floor

43-59 Queen's Road East

Hong Kong

**Tel:** + (852) 2905 7888

**Fax:** + (852) 2854 9596

[www.charltonslaw.com](http://www.charltonslaw.com)