

Shanghai-Hong Kong Stock Connect

Information Book for Market Participants

(Updated: 14 October 2014)

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SECTION 1: INTRODUCTION

About This Information Paper

- 1.1. On 10 April 2014, the Securities and Futures Commission (“SFC”) and China Securities Regulatory Commission (“CSRC”) made a Joint Announcement (“Joint Announcement”) regarding the in-principle approval for the development of the Pilot Programme (Shanghai-Hong Kong Stock Connect) for the establishment of mutual stock market access between Mainland China and Hong Kong.
- 1.2. Under Shanghai-Hong Kong Stock Connect, The Stock Exchange of Hong Kong Limited (“SEHK”) and Shanghai Stock Exchange (“SSE”) will establish mutual order-routing connectivity and related technical infrastructure to enable investors of their respective market to trade designated equity securities listed in the other’s market. Hong Kong Securities Clearing Company Limited (“HKSCC”) and China Securities Depository and Clearing Corporation Limited (“ChinaClear”) will be responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by their respective market participants and/or investors.
- 1.3. Shanghai-Hong Kong Stock Connect is a ground-breaking initiative with significance to both Hong Kong and the Mainland. It creates for the first time a feasible, controllable and expandable channel for cross-boundary RMB flow by a broad range of investors, paving the way for further opening up of China’s capital account and RMB internationalisation. Hong Kong, on the other hand, will benefit from the uplift in market liquidity, the expansion of offshore RMB business and its overall solidified position as the gateway to the Mainland for the rest of the world and vice versa.
- 1.4. The design of Shanghai-Hong Kong Stock Connect follows a set of key principles to ensure minimal change of regulatory structure in each market, controllability of cross-boundary fund flow, as well as sustainability and scalability of the model for further expansion to other markets and/or asset classes.
- 1.5. Implementation of Shanghai-Hong Kong Stock Connect is subject to market readiness and the satisfaction of other conditions such as regulatory approval. Information relating to the development of Shanghai-Hong Kong Stock Connect can be found on the HKEx website.
- 1.6. This information book explains the detailed operating flows of Shanghai-Hong Kong Stock Connect, focusing on the trading of SSE-listed shares by Hong Kong and overseas investors. It contains largely technical information which is only of relevance to market participants who are interested in participating in this programme. Investors who would like to understand more about the programme can refer to the “Shanghai-Hong Kong Stock Connect – Information Book for Investors” available on the HKEx website at <http://www.hkex.com.hk/chinaconnect>.
- 1.7. Market participants who are interested in participating in Shanghai-Hong Kong Stock Connect can refer to Section 7 and Section 12 of this information book for information on the eligibility and application requirements.

- 1.8. Exchange Participants and CCASS Participants who want to further understand the details of or comment on Shanghai-Hong Kong Stock Connect can refer to the following website, hotlines and email accounts:

Shanghai-Hong Kong Stock Connect webpage:

<http://www.hkex.com.hk/chinaconnect>

Hotline for Exchange Participants: 2840 3626

Hotline for CCASS Participants: 2979 7111

Email box for Exchange Participants: trd@hkex.com.hk

Email box for CCASS Participants: clg@hkex.com.hk

- 1.9. Implementation of arrangements for the establishment of Shanghai-Hong Kong Stock Connect will be subject to the satisfaction of conditions, including obtaining all necessary regulatory approvals. Some of the detailed arrangements are still subject to confirmation by the relevant authorities and further discussions between the relevant parties. Market participants and investors will be updated as and when further information is available or if there are any changes to such information.

Glossary

AMS/3	the Automated Order Matching and Execution System operated by SEHK
A shares	except where the context requires, references to A shares in this information book mean all A shares listed and traded on the SSE only and do not include those listed and traded on SZSE
A share market	SSE's A share market
ATS	an automated trading services provider authorised or licensed by the SFC
BSS	the Broker Supplied System of an EP
CCASS	the Central Clearing and Settlement System operated by HKSCC for the clearing of securities listed or traded on SEHK
CCASS Participant	a person registered as a participant of HKSCC under one of the categories of participants specified in the CCASS Rules
CCASS Rules	the Rules and Operational Procedures of HKSCC, as amended from time to time
CCP	central counterparty
CNS	Continuous Net Settlement
ChinaClear	China Securities Depository and Clearing Corporation Limited
ChinaClear Participant	a person who is registered as a clearing participant of ChinaClear
Clearing Links	the linkage to be established between HKSCC and ChinaClear under which HKSCC and ChinaClear will act as participating CCPs and provide clearing and settlement, depository and nominee services to their respective participants in respect of SSE Securities and SEHK Securities executed through the Trading Links
CP	a CCASS Participant admitted to participate in CCASS as a DCP or GCP
CSC	China Stock Connect System, the open gateway through which EPs may place orders for SSE Securities to the SEHK Subsidiary

CSRC	China Securities Regulatory Commission
DCP	a CCASS Participant admitted to participate in CCASS as a Direct Clearing Participant
EP	a person registered as an Exchange Participant of SEHK
GCP	a CCASS Participant admitted to participate in CCASS as a General Clearing Participant
HKEx	Hong Kong Exchanges and Clearing Limited
HKICL	Hong Kong Interbank Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of HKEx
HKSCC GF	the HKSCC Guarantee Fund
HK shares	shares listed and traded on SEHK
H shares	a specific class of shares of certain companies incorporated in the Mainland which are approved for listing on SEHK
Hong Kong	the Hong Kong Special Administrative Region of the PRC
IP	a CCASS Participant admitted to participate in CCASS as an Investor Participant
IRD	Inland Revenue Department of the Government of Hong Kong
Mainland, PRC or China	the People's Republic of China. Except where the context requires, geographical references in this information book to the PRC, Mainland or China exclude Hong Kong, Macau and Taiwan
market contract	shall have the meaning ascribed to such term in Schedule 1 to the SFO
MOU	Memorandum of Understanding
NCP	Non Clearing Participant, an EP of SEHK which is not a CP of HKSCC
Northbound	the trading of SSE Securities by Hong Kong and overseas investors through the Trading Link
PRC Law	the laws of the PRC, as amended from time to time

QDII	Qualified Domestic Institutional Investor
QFII	Qualified Foreign Institutional Investor
RQFII	Renminbi Qualified Foreign Institutional Investor
Rules of the Exchange	the Rules of SEHK, as amended from time to time
SEHK	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of HKEx
SEHK Subsidiary	SEHK's wholly-owned subsidiary to be incorporated in Shanghai for Shanghai-Hong Kong Stock Connect
SEHK Securities	securities listed and traded on SEHK which may be traded by Mainland investors under Shanghai-Hong Kong Stock Connect
SFC	the Securities and Futures Commission of Hong Kong
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shanghai-Hong Kong Stock Connect or Pilot Programme	a securities trading and clearing links programme to be developed by SEHK, SSE, HKSCC and ChinaClear for the establishment of mutual market access between Hong Kong and Shanghai
SSE	the Shanghai Stock Exchange
SSE Member	a person who is registered as a broker member of SSE
SSE Securities	securities listed and traded on SSE which may be traded by Hong Kong and overseas investors under Shanghai-Hong Kong Stock Connect
SSE Subsidiary	SSE's subsidiary incorporated in Hong Kong for Shanghai-Hong Kong Stock Connect
SZSE	Shenzhen Stock Exchange
Southbound	the trading of SEHK Securities by Mainland investors through the Trading Links
Trading Links	the linkage to be established between SEHK and SSE under which Hong Kong and international investors may trade SSE Securities through the SEHK Subsidiary and under which Mainland investors may trade SEHK Securities through the SSE Subsidiary

SECTION 2: OVERVIEW OF SHANGHAI-HONG KONG STOCK CONNECT

Why Consider Participating in Shanghai-Hong Kong Stock Connect

- 2.1. Shanghai-Hong Kong Stock Connect brings another historical opportunity for the growth of the Hong Kong securities market which is commensurable to Mainland companies listings that started 20 years ago. In addition to the current schemes such as the QDII, QFII and RQFII programmes, it provides, for the first time, a feasible, controllable and expandable channel for a broad range of investors to gain mutual market access between Hong Kong and the Mainland. It is expected that Shanghai-Hong Kong Stock Connect will structurally uplift Hong Kong market's liquidity by attracting both Mainland and international investors alike.
- 2.2. Shanghai-Hong Kong Stock Connect is an innovative solution which entails relatively low "costs" for market participants to trade in each other's market in that:
 - (a) it does not change the current market structure;
 - (b) it is relatively convenient for Hong Kong-based participants to continue their relationship with SEHK and trade SSE-listed A shares through a mutual order-routing connectivity;
 - (c) cross-boundary clearing and settlement risks are effectively controlled with both clearing houses stepping in as CCPs for their respective clearing participants; and
 - (d) it and other schemes such as QDII or QFII are not mutually exclusive, i.e. it will co-exist with these schemes so that market participants will enjoy competitive pricing.

Key Features

- 2.3. **Participant and Investor Eligibility**
 - 2.3.1. Shanghai-Hong Kong Stock Connect is open to all market participants, but those who wish to participate must satisfy certain eligibility and readiness requirements as prescribed by the relevant exchange, clearing house and regulators.
 - 2.3.2. Trading of SSE Securities under Shanghai-Hong Kong Stock Connect will be open to all Hong Kong and overseas investors, including institutional and individual investors.
- 2.4. **Trading**
 - 2.4.1. SEHK will establish SEHK Subsidiary, a wholly-owned subsidiary in Shanghai to facilitate cross-boundary order-routing from EPs to SSE. SEHK Subsidiary will become a non-member trading participant of SSE, and act as the order routing facilitator for EPs placing orders in SSE Securities for Northbound trading. Similar arrangement will be made by SSE to facilitate Southbound trading by Mainland investors of SEHK Securities on SEHK.

2.4.2. There will be a new chapter in the Rules of the Exchange on the rights and obligations of EPs who engage in Northbound trading via SEHK Subsidiary. EPs will be required to submit an application to SEHK in order to participate in Shanghai-Hong Kong Stock Connect.

2.4.3. Shanghai-Hong Kong Stock Connect will cover the shares of companies listed on SEHK and SSE. The scope of equity securities to be included in the Pilot Programme is detailed in Section 3.

2.4.4. It is contemplated that both SEHK and SSE would reserve the right to suspend Northbound and/or Southbound trading if necessary for ensuring an orderly and fair market and that risks are managed prudently. Consent from the relevant regulator would be sought before a suspension is triggered.

2.5. **Clearing and Settlement**

2.5.1. HKSCC and ChinaClear will establish Clearing Links whereby the two clearing houses will become a participant of each other, and undertake the settlement obligations in respect of the Northbound and Southbound trades.

2.5.2. All trades executed on SSE, including the Northbound trades executed by EPs through SEHK Subsidiary, are settled in ChinaClear. Being a participant of ChinaClear, HKSCC will settle the Northbound trades with ChinaClear in Shanghai on behalf of its CPs. HKSCC will on the other hand settle such trades with its CPs in Hong Kong. A similar settlement arrangement will be adopted by ChinaClear for Southbound trades initiated by Mainland investors.

2.6. **Clearing Risk Management**

2.6.1. As HKSCC will stand in between CPs and ChinaClear and will clear and settle Northbound trades of CPs with ChinaClear, new risk management measures will be incorporated into the CCASS Rules to align CP's obligations with the operation and requirements of the A share market.

2.6.2. There are also measures in place to insulate risk spillover across markets.

2.7. **IT**

2.7.1. SEHK will set up a new order routing system (i.e. China Stock Connect System or "CSC") to capture and handle the Northbound orders input by EPs. EPs who want to participate in Shanghai-Hong Kong Stock Connect will need to install a separate open gateway (i.e. China Connect OG or "CC OG") connecting to the CSC. CPs can participate in the Pilot Programme via their existing CCASS terminal and Participant Gateways ("PG").

2.8. **Fees and Levies (Updated as of 26 September 2014)**

2.8.1. Under Shanghai-Hong Kong Stock Connect, investors trading across the boundary will be subject to the same fees and levies applicable to local investors. Fees and levies for Northbound trading will be collected in RMB. A new CCASS fee (in HKD) which is Portfolio fee will be introduced by HKSCC for providing new depository and nominee services to CCASS Participants on their SSE Securities.

SECTION 3: TRADING ARRANGEMENT

Overview of Northbound Trading

- 3.1. At inception, Shanghai-Hong Kong Stock Connect will only encompass secondary market trading. Primary market activities, such as initial public offering will not be supported.
- 3.2. Northbound orders will need to follow the business rules of the A share market. Before routing orders to SSE for matching and execution, SEHK will conduct basic checking to ensure that the orders are in accordance with the SSE requirements as reflected in the Rules of the Exchange. Invalid orders will be rejected.

Participation in Northbound Trading

- 3.3. Shanghai-Hong Kong Stock Connect is open to all EPs, but those who wish to participate must satisfy certain IT capability, risk management and other requirements as may be specified by SEHK from time to time. EPs can refer to Section 7 for more details.
- 3.4. EPs who want to participate in Shanghai-Hong Kong Stock Connect will need to provide an undertaking to SEHK Subsidiary insofar as its routing of orders to trade SSE Securities for EPs is concerned.

Eligible Securities for Northbound Trading

General eligibility criteria

- 3.5. Among the different types of SSE-listed securities, only A shares will be included in Shanghai-Hong Kong Stock Connect in the initial stage. Other product types such as B shares, Exchange Traded Funds (“ETF”s), bonds, and other securities will not be included.
- 3.6. In the initial phase, Hong Kong and overseas investors will be able to trade selective stocks listed on the SSE market (i.e. “SSE Securities”). These include all the constituent stocks of the SSE 180 Index and SSE 380 Index, and all the SSE-listed A shares that are not included as constituent stocks of the relevant indices but which have corresponding H shares listed on SEHK, except the following:
 - (a) SSE-listed shares which are not traded in RMB; and
 - (b) SSE-listed shares which are included in the “risk alert board”¹.

¹ 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”. For details, please refer to the SSE Listing Rules at http://www.sse.com.cn/lawandrules/sserules/listing/stock/c/c_20131230_3760420.pdf, and SSE Risk Alert Board Provisional Trading Arrangement at http://www.sse.com.cn/lawandrules/sserules/trading/stock/c/c_20121217_3669125.shtml.

- 3.7. For any SSE-listed security which is not accepted as an SSE Security upon the launch of operation of Shanghai-Hong Kong Stock Connect due to its being under “risk alert”, if it is subsequently removed 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 (as appropriate).

SSE Security for sale only

- 3.8. Investors will only be allowed to sell an SSE Security but restricted from further buying if:
- (a) the SSE Security subsequently ceases to be a constituent stock of the relevant indices; and/or
 - (b) the SSE Security is subsequently put under “risk alert”; and/or
 - (c) the corresponding H share of the SSE Security subsequently ceases to be traded on SEHK, as the case may be.

In relation to A+H shares (Updated as of 26 September 2014)

- 3.9. In the case where a PRC company is seeking simultaneous listing on both SSE (as A share) and SEHK (as H-share), the relevant A share will be accepted as an SSE Security after the price stabilisation periods for both the A share and H share (as stipulated in its prospectus) have passed as required by the respective exchange or regulator.
- 3.10. In the case where an SSE-listed company whose A share is not accepted as an SSE Security seeks an H share listing on SEHK, the A share will be accepted as an SSE Security after the price stabilisation period (as stipulated in its prospectus) for the H share has passed as required by the SFC.
- 3.11. In the case where a PRC company whose share is listed on SEHK (as H share) seeks an A share listing on SSE, the A share will be accepted as an SSE Security after the stabilisation period for the A share has passed as required by SSE. Where practicable, relevant announcements will be made to inform the market of the exact date of an individual stock becoming an SSE Security after the price stabilisation period.
- 3.12. In the case where the corresponding H share of an SSE Security is suspended from trading on SEHK, investors can continue to buy and sell the SSE Security.

Entitlement shares (Updated as of 26 September 2014)

- 3.13. Hong Kong and overseas investors may receive shares or other types of securities from an issuer of SSE Security as entitlements:
- (a) if the entitlement security is an SSE Security, Hong Kong and overseas investors will be allowed to buy and sell the entitlement security through Shanghai-Hong Kong Stock Connect;
 - (b) if the entitlement security is not an SSE Security but is an SSE-listed security and traded in RMB, Hong Kong and overseas investors will be allowed to sell

the entitlement security through Shanghai-Hong Kong Stock Connect, but will not be allowed to buy such entitlement security; and

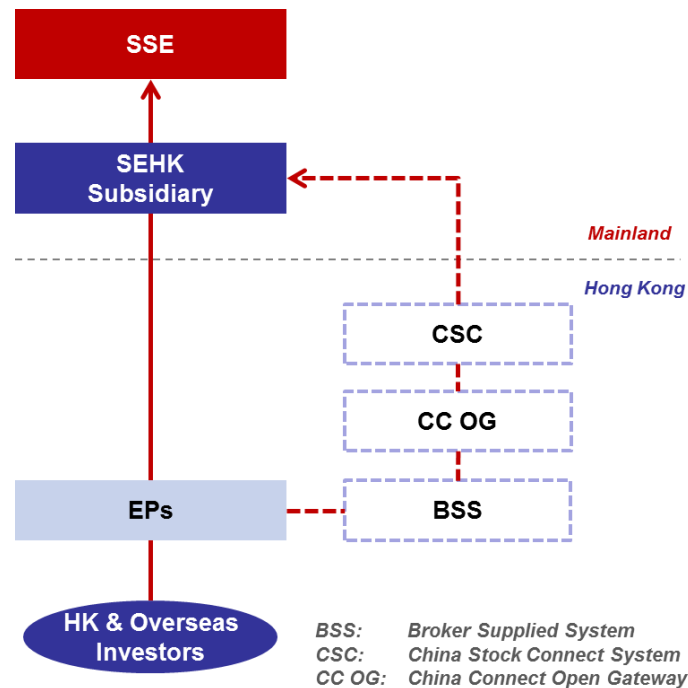
- (c) if the entitlement security is not an SSE-listed security, Hong Kong and overseas investors will not be able to buy or sell the entitlement security on SSE. HKSCC is considering alternative arrangement which could be put in place to handle such entitlement, and will update CPs in due course.

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

Northbound Trading Flow

- 3.14. EPs who want to participate in Shanghai-Hong Kong Stock Connect will need to install a separate open gateway for connecting to CSC. EPs can refer to Section 9 for further details about the technical set-up.
- 3.15. As Northbound trading will in principle follow the SSE business rules, EPs may need to upgrade their BSS to participate in Shanghai-Hong Kong Stock Connect.
- 3.16. Orders received by CSC will be routed to SSE via SEHK Subsidiary for matching and execution on the trading platform of SSE. SEHK Subsidiary will become a non-member trading participant of SSE and will receive SSE Securities orders only from EPs.
- 3.17. For executed trades, trade confirmation received from SSE will be sent to EPs via the CSC.

Figure 3.1: Northbound Order Flow



Northbound Trading Arrangements

3.18. Trading Arrangement Overview

In principle, Northbound trades executed on SSE will have to follow the SSE trading rules. However, due to the uniqueness of individual markets, certain trading arrangements and features of SSE may not fit the Hong Kong market and therefore will not be applicable at least in the initial stage. The following paragraphs set out the trading arrangements for trading SSE Securities. A summary is also available in Appendix I.

3.19. Trading Hours

- 3.19.1. Hong Kong and overseas investors will be required to follow SSE's trading hours to trade SSE Securities. SSE's trading hours comprise an opening call auction session (similar to SEHK's pre-opening session) from 9:15 a.m. to 9:25 a.m., and two continuous auction sessions (similar to SEHK's continuous trading session) from 9:30 a.m. to 11:30 a.m. and from 1:00 p.m. to 3:00 p.m.
- 3.19.2. The SSE trading system will not accept any order cancellation during the opening call auction session between 9:20 a.m. and 9:25 a.m. Any buy or sell orders not executed during the opening call auction session will automatically enter the continuous auction session.
- 3.19.3. SEHK will accept Northbound orders from EPs five minutes prior to the opening of each SSE trading session, which means that EPs can input Northbound orders from 9:10 a.m. to 11:30 a.m. and from 12:55 p.m. to 3:00 p.m. However, it should be noted that SSE will only process the orders during SSE's trading hours. The following table summarises SSE's trading hours and the time for EPs to input Northbound orders.

Table 3.1: Trading Hours

SSE Trading Session	SSE Trading Hours	Time for EPs to input Northbound orders
Opening Call Auction	9:15 a.m. – 9:25 a.m.	9:10 a.m. – 11:30 a.m.
Continuous Auction (Morning)	9:30 a.m. – 11:30 a.m.	
Continuous Auction (Afternoon)	1:00 p.m. – 3:00 p.m.	12:55 p.m. – 3:00 p.m.

- 3.19.4. EPs can input requests to cancel their outstanding Northbound orders anytime when the SSE market is open, except during 9:20 a.m. to 9:25 a.m. as mentioned earlier. EPs can also input cancel request five minutes prior to the opening of each SSE trading session but such cancel requests will be submitted to SSE only when the market opens.
- 3.19.5. SSE does not accept order amendment. EPs who want to modify a Northbound order will therefore need to cancel the outstanding order and input a new one.

3.20. **Order Types**

- 3.20.1. EPs can only place limit orders to trade SSE Securities.
- 3.20.2. EPs should note that limit orders in SSE are different from the limit orders in SEHK. While SEHK limit orders can only be matched at the specified price, SSE limit orders can be matched at the specified price or a better price. Any unfilled quantity after matching will remain in the queue at the specified price.

3.21. **Day (Turnaround) Trading**

- 3.21.1. In the A share market, shares purchased by investors cannot be sold before settlement, which means day trading is not allowed. Hong Kong and overseas investors as well as EPs trading SSE Securities through Shanghai-Hong Kong Stock Connect will have to follow the same rule.
- 3.21.2. SEHK will perform pre-trade checking at the EP level on Northbound orders to ensure EPs do not conduct day trading (please refer to the following paragraphs for further details). EPs should also ensure that their clients do not conduct day trading on SSE Securities.

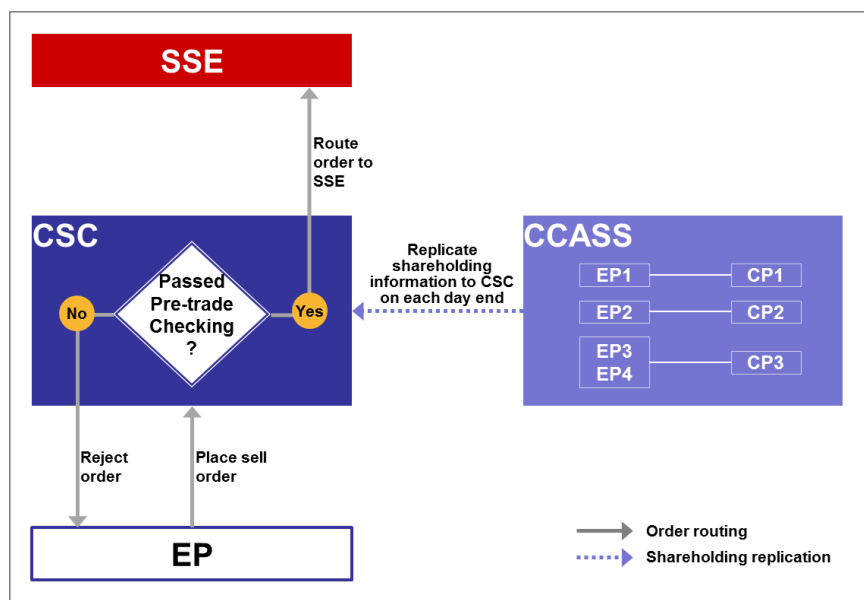
3.22. **Pre-trade Checking (Updated as of 14 October 2014)**

- 3.22.1. Mainland investors are only allowed to sell SSE-listed securities which are available in their ChinaClear accounts at the end of the previous day (T-1). Such shareholding information is forwarded to SSE each day-end. Based on the T-1 shareholdings, SSE will reject a sell order if the investor does not have sufficient shares in his account.
- 3.22.2. SSE will conduct the same pre-trade shareholding checking for SEHK Subsidiary's sell orders. Under Shanghai-Hong Kong Stock Connect, SSE Securities acquired by Hong Kong and overseas investors will be held in HKSCC's omnibus stock account maintained with ChinaClear. Therefore, on each trading day, SSE will validate SEHK Subsidiary's sell orders in respect of SSE Securities against HKSCC's account balance.
- 3.22.3. SEHK will apply similar checking on the sell orders in respect of SSE Securities against the relevant EP's shareholding records in its designated CCASS stock account(s) to ensure that there is no overselling by individual EPs. A sell order will be rejected if the cumulative sell quantity in that SSE Security put through by the EP for the day is higher than its stock holding position at market open.
- 3.22.4. To enable this pre-trade checking mechanism, an EP who is interested in trading SSE Securities must either be a CP itself (i.e. a DCP who holds stocks by itself), or appoint a GCP of CCASS to maintain all its SSE Securities in a designated sub-account and clear the Northbound trades on its behalf (in which case the EP would be an NCP). HKSCC will replicate the CCASS shareholding records to the CSC at the end of each day for pre-trade checking on the next trading day.
- 3.22.5. Since Hong Kong and overseas investors may opt to maintain their SSE Securities with CPs or Custodian Participants of HKSCC, an additional settlement instruction

(SI) session will be available in the morning on T day to allow Custodian Participants to transfer SSE Securities. The sellable quantity of SSE Securities will then be updated to CSC for pre-trade checking. EPs are advised to check the message posted on Electronic Communication Platform on whether the update has been successfully performed or not. Details for this additional settlement instruction session can be found in Chapter 4.

- 3.22.6. The diagram below illustrates the flow of pre-trade checking. Further details about the relevant shareholding maintenance approach and daily information replication process are explained in Section 4.

Figure 3.2: Pre-trade Checking Work Flow



- 3.22.7. EPs should make sure that they have in place procedures and systems to prevent their clients from conducting day trading and overselling of SSE Securities.

3.23. Manual and Block Trades

- 3.23.1. No manual trade, block trade, internalisation or reporting will be allowed for SSE Securities.

3.24. Margin Trading (Updated as of 14 October 2014)

- 3.24.1. Subject to conditions, margin trading in SSE Securities may be conducted.
- 3.24.2. Hong Kong and overseas investors cannot participate in the Margin Trading and Securities Lending (融資融券) Programme provided by SSE in Mainland China. However, based on requirements set by SSE, they will be allowed to use funds provided by China Connect EPs and EPs who are registered with SEHK to conduct trading in SSE Securities through China Connect EPs for the account of their clients (“Trade-through EPs”) via any form of securities margin financing arrangement to

buy SSE Securities through the Shanghai-Hong Kong Stock Connect. The relevant parameters will be included in the Rules of the SEHK.

- 3.24.3. Currently, Mainland investors can only conduct margin trading in certain A shares that the SSE has determined are eligible for margin trading and stock borrowing and lending. Hong Kong and overseas investors conducting margin trading in SSE Securities via the Shanghai-Hong Kong Stock Connect will be subject to a similar restriction. A List of Eligible SSE Securities for Margin Trading, the scope of which will be determined by SSE from time to time, will be posted on the HKEx website for reference by the investing public. Only those SSE Securities which are eligible for both buy orders and sell orders through the Shanghai-Hong Kong Stock Connect will be included in the List.
- 3.24.4. According to the relevant rules of SSE, SSE may suspend margin trading activities in specific A shares when the volume of margin trading activities in such A shares exceeds the threshold determined by SSE and resume margin trading activities when the volume drops below a prescribed threshold (see 3.29). When SEHK is notified by SSE that such suspension and resumption involves an SSE Security on the List of Eligible SSE Securities for Margin Trading, EPs and investors will be informed through the HKEx website. Margin trading in the relevant SSE Security should be suspended/resumed in Hong Kong accordingly.
- 3.24.5. Based on current SSE requirements on margin trading, SSE will suspend further margin trading in a stock eligible for margin trading on the following trading day after the “margin trading indicator” for the stock (单只股票的融资监控指标) reaches 25%. When the “margin trading indicator” drops below 20%, SSE will allow margin trading to resume on the following trading day. For information, SSE publishes a list of A shares which have reached the 25% margin trading indicator on its website at <http://www.sse.com.cn/disclosure/diclosure/margin/>.
- 3.24.6. The suspension and resumption of margin trading in eligible SSE Securities through the Shanghai-Hong Kong Stock Connect will follow the suspension and resumption of margin trading activities in SSE after SSE has duly notified SEHK. For information, EPs may refer to SSE’s website at <http://www.sse.com.cn/aboutus/innovation/margin/> which publishes individual A share’s margin trading level.
- 3.24.7. SSE has reserved the right to require margin trading orders to be flagged as margin trading orders to be routed to the SSE system. This requirement will not be implemented at the initial launch of Northbound trading and EPs will be given sufficient advance notice on the timing of implementation to ensure that the necessary development work can be done.

3.25. **Stock Borrowing & Lending (SBL) (Updated as of 14 October 2014)**

- 3.25.1. SBL of SSE Securities will be allowed in the following situations:
 - (a) for covered short selling: an investor borrows SSE Securities and sells it on SSE through a China Connect EP or a Trade-Through EP via Northbound trading; and

- (b) for meeting the pre-trade checking requirement in certain circumstances (such as where a China Connect EP's client is unable to effect a transfer of shares to the China Connect EP's clearing account in time to meet the pre-trade checking requirement).
- 3.25.2. SBL in SSE Securities will be subject to restrictions set by SSE to be incorporated into the Rules of SEHK. These include:
- (a) SBL agreements for covered short selling purpose cannot be longer than one month;
 - (b) SBL agreements for pre-trade checking purpose cannot be longer than one day (roll-over not allowed);
 - (c) Stock lending will be restricted to certain types of persons to be determined by SSE; and
 - (d) SBL activities will be required to be reported to SEHK.
- 3.25.3. SBL for the purpose of short selling will be limited to those SSE Securities which are eligible for both buy orders and sell orders through the Shanghai-Hong Kong Stock Connect, i.e. excluding SSE Securities that are only eligible for sell orders.
- 3.25.4. SBL for the purpose of meeting the pre-trade checking requirements will cover all SSE Securities, including SSE Securities that are only eligible for sell orders through the Shanghai-Hong Kong Stock Connect.
- 3.25.5. The following persons may lend China Connect Securities:
- (a) China Connect EPs;
 - (b) Trade-through EPs (i.e. EPs registered with SEHK to conduct trading in SSE Securities through China Connect EPs for the account of their clients);²
 - (c) EPs other than (a) and (b) who own or hold SSE Securities for their own account or on a propriety basis ("Non-Registered EPs"); and
 - (d) Qualified institutions ("QIs") which will include:
 - (i) HKSCC participants (other than Investor Participants);
 - (ii) funds, unit trusts or collective investment schemes which are managed by persons licensed or registered to carry out Type 9 (asset management) regulated activity under the Securities and Futures Ordinance; and
 - (iii) other persons accepted or specified by SSE.
- 3.25.6. China Connect EPs and Trade-through EPs may lend to their clients while Non-registered EPs and QIs may only lend to China Connect EPs and Trade-through EPs. A summary is set out in the table below:

² Note that under the draft SEHK Rules, references to "China Connect Exchange Participants" shall be read to include Trade-through Exchange Participants (see Rule 14A16(18))

	Who can be lenders?	Who can they lend to?		
		Clients	China Connect EPs	Trade-Through EPs
EPs	(a) China Connect EPs	√	√	√
	(b) Trade-Through EPs	√	√	√
	(c) Non-Registered EPs	x	√	√
QIs	(d) Qualified Institutions	x	√	√

- 3.25.7. The SSE Securities to be lent by a China Connect EP or a Trade-through EP must be either be securities held or owned by it as principal, or securities borrowed from other China Connect EPs, Trade-through EPs, Non-Registered EPs or QIs, in each case, who are lending as principal.
- 3.25.8. The SSE Securities to be lent by a Non-Registered EP or a QI must only be securities held or owned by it as principal.
- 3.25.9. China Connect EPs and Trade-through EPs must provide SEHK with an undertaking or a confirmation in the prescribed form depending on whether they act as stock lender or stock borrower. They must also file a monthly report to SEHK providing details on their stock borrowing and lending activities with respect to SSE Securities in the prescribed form which will include details such as stock name, name of borrower, name of lender, amount of shares borrowed/lent, amount of shares outstanding, date of borrowing/returning etc. The form will be available on the HKEx website in due course and China Connect EPs and Trade-through EPs will be informed of the procedures and means of submission.
- 3.25.10. Non-registered EPs and QIs lending stock to China Connect EPs and Trade-through EPs, must provide the borrower with an undertaking in the prescribed form confirming, among others, that they are not restricted from engaging in stock lending activities.

3.26. **Covered Short Selling (Updated as of 14 October 2014)**

- 3.26.1. Short selling of SSE Securities which are eligible for both buy orders and sell orders through Northbound trading will be allowed subject to a number of requirements set by SSE. These include requirements on:
- the eligibility of SSE Securities that can be short sold;
 - flagging of short selling orders by EPs when inputting them into the system;
 - the input price of a short selling order must not be lower than the last traded price (and in the absence of the last traded price, the previous closing price), of the relevant SSE Security;

- (d) in respect of each SSE Security, restrictions will be imposed on the total quantity that can be short sold: (i) on each trading day (i.e. 1% of HKSCC's holding of that security in the omnibus account maintained in ChinaClear); and (ii) for a rolling period (i.e. 5% for 10 trading days);
- (e) reporting of open short positions; and
- (f) according to the relevant rules of SSE, SSE may suspend short selling activities in specific A shares when the volume of short selling activities in such A shares exceeds the threshold determined by SSE and resume short selling activities when the volume drops below a prescribed threshold. When SEHK is notified by SSE that such suspension and resumption involves an SSE Security on the Eligible SSE Securities List for Short Selling, EPs and investors will be informed through the HKEx website, and short selling in the relevant SSE Security will be suspended/resumed in Hong Kong accordingly.

Further details on the above will be published in due course.

- 3.26.2. Currently, SSE may suspend the short selling activities of an A share when the total open short positions in that A share reaches 25% of the stocks listed and tradable shares (上市可流通量), and may resume short selling activities on the following trading day when the A share's total open short position drops below 20%. SSE will publish a list of specific A shares which have reached the prescribed threshold on its website at <http://www.sse.com.cn/disclosure/diclosure/margin/>.
- 3.26.3. EPs who are interested to know more about the individual A share's open short position level can also refer to SSE's website at <http://www.sse.com.cn/aboutus/innovation/margin/>.
- 3.26.4. SSE will notify SEHK when an A share is removed from the short selling stock list maintained by SSE. Short selling activities in that A share will then be suspended in both the Mainland and Hong Kong markets. Suspension of further short selling activities in the A share will not affect the outstanding SBL agreements entered into in relation to that A share for the purpose of short selling, EPs and investors will not be required to close out such agreements. However, eligible lenders and borrowers are advised to consider the potential implications of the suspension mechanism on their business arrangement (including the relevant SBL agreements) before participating in A share short selling.
- 3.26.5. Implementation of some of the requirements described above needs system support. Therefore, covered short selling of SSE Securities will not be available at the initial launch of Shanghai-Hong Kong Stock Connect. SEHK will keep the market informed of developments and the proposed timing of implementation.

3.27. **Non-trade Transfer (Updated as of 14 October 2014)**

- 3.27.1. As stipulated in Article 11 of the CSRC Stock Connect Rules, transfers of SSE Securities should only be conducted on SSE and off-exchange trading is not allowed unless otherwise permitted. To facilitate market players in conducting Northbound trading and the normal course of business operation, the following types of off-exchange or "non-trade" transfer of SSE Securities are allowed (Article 29 of the SSE Stock Connect Pilot Provisions):

- (a) SBL for covered short selling purpose (not more than one month duration);
- (b) SBL for the purpose of satisfying the pre-trade checking requirement (one-day duration which cannot be rolled over);
- (c) transfers between EPs and their clients for the purpose of rectifying error trades;
- (d) post-trade allocation of shares to different funds/sub-funds by fund managers; and
- (e) other situations specified by SSE and ChinaClear.

With respect to (a) and (b), details are set out in Q3.25.

3.27.2. With respect to (c), EPs who perform non-trade transfers of SSE Securities to rectify error trades will be required to submit to SEHK an error trade report together with supporting documents explaining the error made and providing details of the non-trade transfer. SEHK has the power to disallow a particular EP to conduct further non-trade transfers for error trade rectification if SEHK believes that the EP has abused such rectification arrangements. SEHK may provide error trade reports and related information to the SFC and SSE. EPs are cautioned not to misuse this arrangement to effect off-exchange trades or transfers which are otherwise disallowed under the relevant Mainland regulation.

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

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

3.27.4. HKSCC is discussing with ChinaClear and the relevant authorities how to facilitate stamp duty collection (if required) from investors for these non-trade transfers in SSE Securities. Further details will be published on the HKEx website in due course.

3.28. **Trading Currency**

3.28.1. Currently, all SSE Securities are traded in RMB. Investors will therefore trade and settle SSE Securities in RMB.

3.28.2. The existing RMB Equity Trading Support Facility operated by HKSCC, which serves as a back-up facility to enable investors to use HKD to buy RMB-denominated shares listed on SEHK, will not be available for SSE Securities trading

initially. Brokers should ensure they or their clients have sufficient RMB to settle SSE Securities trades.

3.29. Board Lot/Odd Lot, Order Size and Tick Size (Updated as of 26 September 2014)

- 3.29.1. All SSE-listed shares are subject to the same trading board lot size, which is 100 shares for buy orders. For Northbound trading, buy orders can be input in multiples of board lots, while sell orders can be input in any size (i.e. odd lots are allowed). It should be noted that when an EP inputs an odd lot sell order for its client, all the odd lots held by such client needs to be sold in one single order.
- 3.29.2. In Hong Kong, board lot and odd lot orders are matched on separate platforms. SSE adopts a different arrangement, whereby board lot and odd lot orders in a SSE-listed security are matched on the same platform, and subject to the same share price.
- 3.29.3. The maximum order size for SSE Securities is 1 million shares and the tick size is uniformly set at RMB 0.01.

3.30. Price Limit

- 3.30.1. SSE imposes a price limit on all SSE-listed shares based on their previous closing price. The price limit is $\pm 10\%$ for stocks under normal circumstances and $\pm 5\%$ for stocks on the “risk alert board”. Any orders with price beyond the price limit will be rejected. Trading will continue at or within the price limit and will not be suspended unless the price limit is exceeded. Northbound trading will be subject to the same rule.
- 3.30.2. In determining the triggering point of the price limit, the calculation will be rounded to the tick size.

3.31. Dynamic Price Checking (Updated as of 14 October 2014)

- 3.31.1. To prevent mischievous behavior towards the use of the Northbound quota, SEHK will put in place a dynamic price checking for buy orders. Buy orders with input prices lower than the current best bid (or last traded price in the absence of current best bid, or previous closing price in the absence of both current best bid and last traded price) beyond a prescribed percentage will be rejected by CSC.
- 3.31.2. During Opening Call Auction, the current bid (or previous closing price in the absence of the current bid) will be used for checking. Dynamic price checking will be applied throughout the trading day, from the 5-minute input period before the start of Opening Call Auction until the end of the afternoon Continuous Auction. SEHK intends to set the dynamic price checking at 3% during the initial phase of Shanghai-Hong Kong Stock Connect. The percentage may be adjusted from time to time subject to market conditions.

3.32. Summary of Trading Arrangements (Updated as of 14 October 2014)

- 3.32.1. The following table summarises the initial Northbound trading arrangements:

Table 3.2: Initial Northbound Trading Arrangements

Trading hours	<u>Call Auction:</u> 9:15 a.m. – 9:25 a.m. (No order cancellation allowed during 9:20 a.m. – 9:25a.m.) <u>Continuous Auction:</u> 9:30 a.m. – 11:30 a.m. 1:00 p.m. – 3:00 p.m. (EPs can input orders 5 minutes before the commencement of each trading session)
Stock Code	6 digits
Trading and settlement currency	RMB
Order type	Limit order
Order amendment	Not allowed
Day trading	Not allowed
Manual trade	Not allowed
Short selling	Naked short selling not allowed Subject to certain conditions, allowed to participate in covered short sell. But not available at initial launch given system development required
Margin financing & SBL	Not allowed to participate in Mainland’s margin trading and securities lending Subject to certain conditions, allowed to participate in margin trading and SBL outside of Mainland
Board lot size	100 shares (for buy orders)
Odd lot trading	Sell orders only
Order size	Max 1 million shares
Tick size	Uniform at RMB 0.01

3.33. Files available for Northbound Trading (Updated as of 26 September 2014)

- 3.33.1. Northbound trade files in Central Trade Feed format using SSE stock codes with 6 digits will be available on Electronic Communication Platform for download after mid-day and after market close.
- 3.33.2. On the days where Typhoon Signal No. 8 or above is hoisted after SSE’s market open, ad hoc trade files will be provided. Details of this arrangement can be found on 8.8 (d).
- 3.33.3. Stock code mapping file on SSE stock codes and CCASS stock codes will be available on HKEx website before market open. The file will contain SSE and

CCASS stock code mapping, together with information indicating whether the stock is available for both “buy and sell” or “sell only”.

Shareholding Restrictions on SSE Securities (Updated as of 26 September 2014)

- 3.34. Under current PRC rules, a single foreign investor’s (i.e. QFII and RQFII) shareholding in a listed company is not allowed to exceed 10% of the company’s total issued shares, while all foreign investors’ shareholding in the A shares of a listed company is not allowed to exceed 30% of its total issued shares.
- 3.35. When the aggregate foreign shareholding of an individual A share reaches 26%, SSE will publish notices on its website (<http://www.sse.com.cn/disclosure/disclosure/qfii>). If aggregate foreign shareholding exceeds the 30% threshold, the foreign investors concerned will be requested to sell the shares on a last-in-first-out basis within five trading days.
- 3.36. SSE Securities purchased through Shanghai-Hong Kong Stock Connect will be considered in totality with those purchased by QFII and RQFII, and be subject to the same foreign shareholding restriction. Once SSE informs SEHK that the aggregate foreign shareholding of an SSE Security reaches 28%, further Northbound buy orders in that SSE Security will not be allowed, until the aggregate foreign shareholding of that SSE Security is sold down to 26%. If the 30% threshold is exceeded due to Shanghai-Hong Kong Stock Connect, HKEx, upon receiving the notice from SSE, will identify the relevant EP (who will inform the relevant investor) and require it to follow the forced-sale requirements.
- 3.37. HKEx will publish a notification on its website to inform the market about suspension of buy orders if the shareholding limit goes beyond 28% and about the resumption of buy orders if the shareholding drops below 26%.
- 3.38. Foreign investors can continue to sell the A share which aggregate foreign shareholding has reached the 30% threshold. If such selling activities cause the aggregate foreign shareholding to drop below the 30% threshold within 5 trading days, EP who were subject to the forced-sale requirement may submit application to the SEHK for forced-sale exemption.
- 3.39. EPs should monitor their clients’ shareholdings in SSE Securities and remind their clients to comply with the 10% single foreign investor’s restriction policy, and alert them of the possibility of forced-sale arrangement.

Disclosure Obligations for SSE Securities

- 3.40. According to the Law of the PRC on Securities, when an investor holds or controls up to 5% of the issued shares of a Mainland listed company, the investor is required to report in writing to the CSRC and the relevant exchange, and inform the listed company within three working days. The investor is not allowed to continue purchasing or selling shares in that listed company during the three days.
- 3.41. For such investor, every time when a change in his shareholding reaches 5%, he is required to make disclosure (in the same manner as mentioned above) within three working days. From the day the disclosure obligation arises to two working days

after the disclosure is made, the investor may not buy or sell the shares in the relevant Mainland listed company.

- 3.42. If a change in shareholding of the investor is less than 5% but results in the shares held or controlled by him falling below 5% of the relevant Mainland listed company, the investor is required to disclose the information within three working days.
- 3.43. HKEx is clarifying with the relevant Mainland regulatory authority whether the disclosure requirement would apply to HKSCC as a nominee holding SSE Securities or non-Mainland investors under Northbound clearing, although it is expected that HKSCC would be exempt from such requirement.

Quota (Updated as of 26 September 2014)

- 3.44. Trading under Shanghai-Hong Kong Stock Connect will, initially, be subject to a maximum cross-boundary investment quota (i.e.. Aggregate Quota), together with a Daily Quota.
- 3.45. Northbound trading and Southbound trading will respectively be subject to a separate set of Aggregate and Daily Quota, which is monitored by SEHK and SSE respectively.
- 3.46. Both the Aggregate Quota and the Daily Quota will apply on a “net buy” basis. Under that principle, investors will always be allowed to sell their cross-boundary securities regardless of the quota balance.

Aggregate Quota (Updated as of 14 October 2014)

- 3.46.1. The Aggregate Quota caps the amount of fund inflow into the Mainland under Northbound, and the amount of outflow from the Mainland under Southbound.
- 3.46.2. The Northbound Aggregate Quota is set at RMB 300 billion. The Southbound Aggregate Quota is set at RMB 250 billion.
- 3.46.3. At the end of each trading day, SEHK will calculate the remaining balance of the Northbound Aggregate Quota:

$$\text{Aggregate Quota balance} = \text{Aggregate Quota} - \text{aggregate buy trades} + \text{aggregate sell trades (calculated at the weighted average cost)}$$

- 3.46.4. The weighted average cost of aggregate sell trades is calculated based on the purchase cost of all buy trades of the respective SSE Security conducted in Northbound Trading and is not the actual corresponding buy trades conducted by each individual EP.
- 3.46.5. 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.

3.46.6. The Northbound Aggregate Quota balance will be published on HKEx's website after SSE's market close.

3.47. Daily Quota (Updated as of 26 September 2014)

3.47.1. The Daily Quota limits the maximum net buy value of cross-boundary trades under Shanghai-Hong Kong Stock Connect each day. The Northbound Daily Quota is set at RMB 13 billion, and the Southbound Daily Quota is set at RMB 10.5 billion.

3.47.2. SEHK monitors the usage of the Northbound Daily Quota on a real time basis and the Northbound Daily Quota balance will be updated on HKEx website every minute:

$$\text{Daily Quota Balance} = \text{Daily Quota} - \text{Buy Orders} + \text{Sell Trades} + \text{Adjustments}^3$$

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

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

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

3.47.6. It should be noted that buy orders already accepted will not be affected by the Daily Quota being used up and will remain on the order book of SSE unless otherwise cancelled by relevant EPs.

3.47.7. The Northbound Daily Quota balance will be disseminated via CC OG and OMD Index Feed at 5-second intervals and via HKEx website at 1-minute intervals.

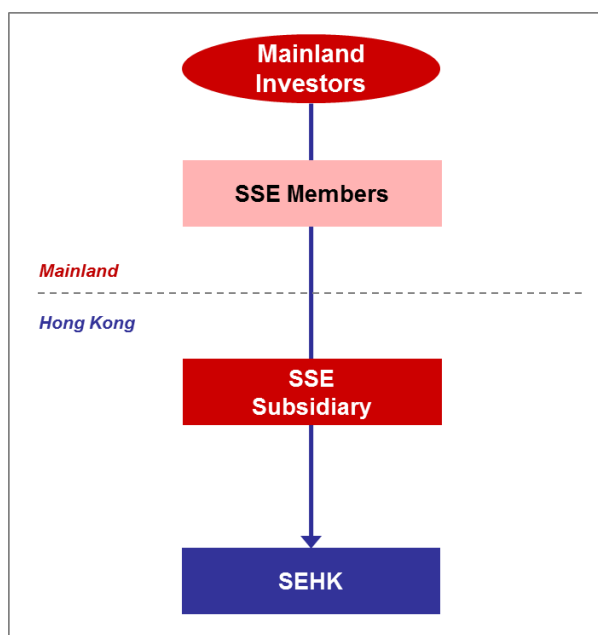
Southbound Trading – Overview (Updated as of 26 September 2014)

3.48. On a reciprocal basis, Mainland investors will be able to trade eligible SEHK-listed shares through Shanghai-Hong Kong Stock Connect (i.e. Southbound trading).

³ 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.

- 3.49. Similar to Northbound trading, Southbound activities will be limited to secondary market trading. Mainland investors will not be able to participate in Hong Kong’s initial public offerings at the initial stage.
- 3.50. Mainland investors will place Southbound orders with their brokers (i.e. SSE Members), which orders will then be routed to SEHK for matching and execution through SSE Subsidiary. SSE Subsidiary will become a special participant of SEHK and be subject to the Rules of the Exchange. It will ensure that all Southbound orders placed on SEHK will in principle follow the business rules of the SEHK market. Figure 3.3 below illustrates the Southbound order flow.

Figure 3.3: Southbound Order Flow



- 3.51. SSE Members who wish to participate in Shanghai-Hong Kong Stock Connect will need to comply with the requirements imposed by SSE.
- 3.52. In the initial phase of Shanghai-Hong Kong Stock Connect, Mainland investors will be able to trade selective stocks listed on SEHK (i.e. SEHK Securities). These will include all the constituent stocks of the Hang Seng Composite LargeCap Index and Hang Seng Composite MidCap Index, and all the H shares that are not included as constituent stocks of the relevant indices but which have corresponding shares in the form of A shares listed on SSE, except that the following will not be accepted as SEHK Securities upon the launch of operation of Shanghai-Hong Kong Stock Connect:
- (a) Hong Kong shares that are not traded in HKD;
 - (b) H shares which have corresponding shares listed and traded on any exchange in Mainland China other than SSE; and
 - (c) H shares which have corresponding A shares put under “risk alert”.

- 3.53. Investors will only be allowed to sell an SEHK Security but restricted from further buying if:
- (a) the SEHK Security subsequently ceases to be a constituent stock of the relevant indices; and/or
 - (b) the corresponding A share of the SEHK Security ceases to be traded on SSE or put under “risk alert”; and/or
 - (c) where the SEHK Security is an H share and the A shares of the issuer becomes subsequently listed on an exchange in the Mainland instead of SSE, as the case may be.
- 3.54. In the case where a company is seeking simultaneous listing on both SEHK (as H share) and SSE (as A share), the relevant H share will be accepted as an SEHK Security after the price stabilisation periods for both the H share (as stipulated in its prospectus) and A share have passed as required by the respective exchange or regulator.
- 3.55. In the case where 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 price stabilisation period for the A share has passed as required by SSE.
- 3.56. In the case where an SSE-listed company whose share is not also listed on SEHK seeks an H share listing on SEHK, the H share will be accepted as an SEHK Security after the price stabilisation period for the H share (as stipulated in its prospectus) has passed as required by the SFC.
- 3.57. In the case where the corresponding A share of an SEHK Security is suspended from trading on SSE, Mainland investors will be allowed to continue to buy and sell the SEHK Security which remains active on SEHK.
- 3.58. Mainland investors may receive shares or other types of securities from an issuer of SEHK Security as entitlements:
- (a) if the entitlement security is an SEHK Security, Mainland investors will be allowed to buy and sell the entitlement security through Shanghai-Hong Kong Stock Connect;
 - (b) if the entitlement security is not an SEHK Security but is an SEHK-listed security, Mainland investors will be allowed to sell the entitlement security through Shanghai-Hong Kong Stock Connect, but will not be allowed to buy such entitlement security; and
 - (c) if the entitlement security is not an SEHK-listed security or it is not traded in HKD, Mainland investors will not be allowed to buy or sell the entitlement security on SEHK. An alternative arrangement will be provided by ChinaClear to handle such entitlement for Mainland investors.

Southbound Trading Arrangements

- 3.59. *Trading Hours:* Mainland investors will follow SEHK’s trading hours to trade SEHK Securities.

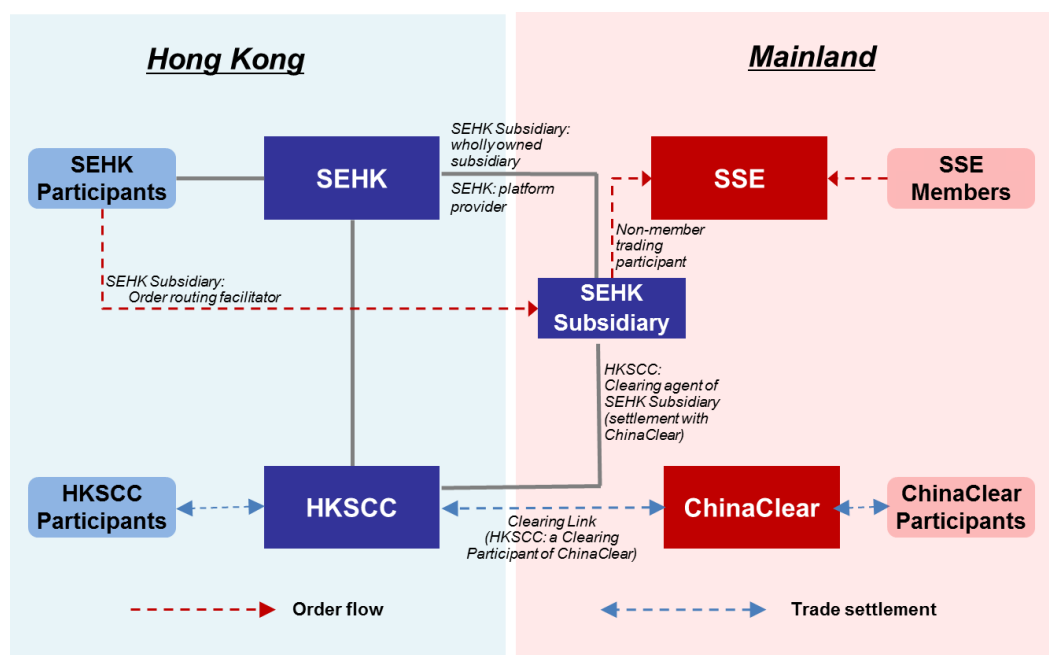
- 3.60. *Order Types:* Mainland investors can initially place at-auction limit orders only during the pre-opening session and enhanced limit orders only during the continuous trading session.
- 3.61. *Order Amendment:* Mainland investors/SSE Members will follow the current Mainland practice when they want to amend a Southbound order, i.e. they must first cancel the original order and then input a new one.
- 3.62. *Day Trading:* Following the practice of the Hong Kong market, Mainland investors will be allowed to conduct day trading in SEHK Securities.
- 3.63. *Pre-trade Checking:* Even though SEHK does not impose pre-trade checking requirements in the Hong Kong market, SSE will still apply pre-trade checking on all Southbound sell orders to make sure that Mainland investors will not oversell SEHK Securities. SSE will use investors' T-1 day-end shareholdings plus their newly bought shares on T-day to conduct pre-trade checking on all sell orders of SEHK Securities.
- 3.64. *Manual Trades:* Mainland investors will not be allowed to conduct manual trades on SEHK Securities in the initial stage.
- 3.65. *Trading Currency:* Mainland investors will trade SEHK Securities quoted in HKD but will settle such trades with ChinaClear or its clearing participants in RMB. Where required, ChinaClear will be responsible for converting (i) RMB received from its participants into HKD for settlement with HKSCC and (ii) HKD received from HKSCC into RMB for settlement with its participants. Please refer to Section 4 for the detailed money settlement process.
- 3.66. *Short Selling, Margin Financing and SBL:* Under current Mainland market structure, Mainland investors will not be able to do covered short selling or engage in margin financing or stock borrowing and lending as the existing margin trading and securities lending regime in the Mainland will not cover SEHK Securities.
- 3.67. *Board Lot/Odd Lot, Order Size and Tick Size:* All Southbound orders will be subject to the board lot, order size and tick size requirements of SEHK. For odd lot trading, SSE will only allow Mainland investors to input odd lot sell orders; however, the point-and-shoot function (i.e. Input Odd Lot / Special Lot Purchase (semi-automatic) and Input Odd Lot / Special Lot Sale (semi-automatic) functions) and off market trading will not be available initially.
- 3.68. *Price Limit:* Southbound orders are subject to the quotation rules of SEHK.
- 3.69. *Southbound Quota:* Similar to Northbound trading, a quota system will also be in place for Southbound trading to control the initial *pace* and *size* of cross-boundary fund flows under Shanghai-Hong Kong Stock Connect. The Daily Quota for Southbound trading is set at RMB 10.5 billion whereas the Aggregate Quota is RMB 250 billion.

SECTION 4: CLEARING AND SETTLEMENT

Overview of Clearing and Settlement

- 4.1. ChinaClear and HKSCC will establish Clearing Links whereby the two clearing houses will become a participant of each other, and undertake the settlement obligations in respect of the Southbound and Northbound trades.
- 4.2. For Northbound trades executed on SSE, HKSCC will on the one hand settle with ChinaClear in Shanghai on behalf of its CPs, and on the other hand settle with its CPs in Hong Kong under the CCASS Continuous Net Settlement (CNS) System⁴. There will be no contractual relationship between CPs and ChinaClear.
- 4.3. As HKSCC will stand in between CPs and ChinaClear and will clear and settle Northbound trades of CPs with ChinaClear, new risk management measures and settlement processes and procedures will be incorporated into the CCASS Rules to align CPs' obligations with the operation and requirements of the A share market.
- 4.4. Northbound trades will follow the settlement cycle of the A share market, where stock will be settled on T day, and money will be settled on T+1 day.
- 4.5. The following diagram illustrates the Northbound trading and clearing arrangement, and the relationship between the key stakeholders along the flow:

Figure 4.1: Overview of Northbound Trading and Clearing Arrangement



⁴ When a trade is being accepted by HKSCC to be settled under the CNS System, HKSCC will be substituted as the settlement counterparty and such settlement will be effected between CPs and HKSCC on a net basis.

Stock Settlement of Northbound Trades on T day

- 4.6. According to ChinaClear’s settlement schedule, ChinaClear will settle A share trades by debiting and crediting investors’ stock accounts by 6:00 p.m. on T day. HKSCC will follow this schedule to settle the Northbound trades with ChinaClear in Shanghai.
- 4.7. On each trading day, HKSCC may have net buy positions in some SSE Securities, and net sell positions in others. In order for HKSCC to settle the various positions with ChinaClear on time, two new Batch Settlement Runs will be conducted in CCASS solely for HKSCC to settle SSE Securities CNS stock positions (“**CNS BSR**”) with CPs as follows:
- (a) First CNS BSR at around 4:30 p.m.: CCASS will debit the Clearing Account of those CPs who are holding short positions in SSE Securities in this CNS BSR, before HKSCC delivers SSE Securities to settle any corresponding net short positions with ChinaClear at 6:00 p.m. on the same day. CCASS will follow the existing CNS allocation algorithm to allocate the shares to those CPs who are holding long positions in the relevant SSE Securities; and
 - (b) Second CNS BSR at around 6:00 p.m.: For those SSE Securities that HKSCC receives from ChinaClear at around 6:00 p.m., CCASS will allocate to the relevant CPs who are holding long positions in this CNS BSR.
- 4.8. CNS positions in SSE Securities must be settled via the two new CNS BSRs. Delivery Instructions (“DI”) will not be available to settle such positions.
- 4.9. To facilitate CPs to prepare for SSE Securities settlement, CCASS will generate and make available the Final Clearing Statement⁵ (“**FCS**”) for Northbound trades to CPs at around 4:00 p.m. on T day.
- 4.10. SSE Securities allocated to CPs’ Clearing Accounts for CNS settlement will be put on hold until the relevant money obligations have been fulfilled.

Money Settlement of Northbound Trades on T+1

- 4.11. Following the existing practice of the A share market, SSE Securities will be traded and settled in RMB.
- 4.12. Money settlement of Northbound trades will take place on T+1 via Real Time Gross Settlement (“**RTGS**”). Similar to the existing CCASS money settlement mechanism, CPs can refer to the existing CCASS report “Statement of Money Ledger” available on T+1 morning for their CNS money obligations in Northbound trades for funding preparation.
- 4.13. All CNS money positions in SSE Securities of the same CP on a trading day will be netted into a payable or receivable amount for settlement between HKSCC and the

⁵ Unlike the Hong Kong market, trade amendment is not available in the A share market. Hence, CCASS will NOT generate Provisional Clearing Statement (PCS) for Northbound trades.

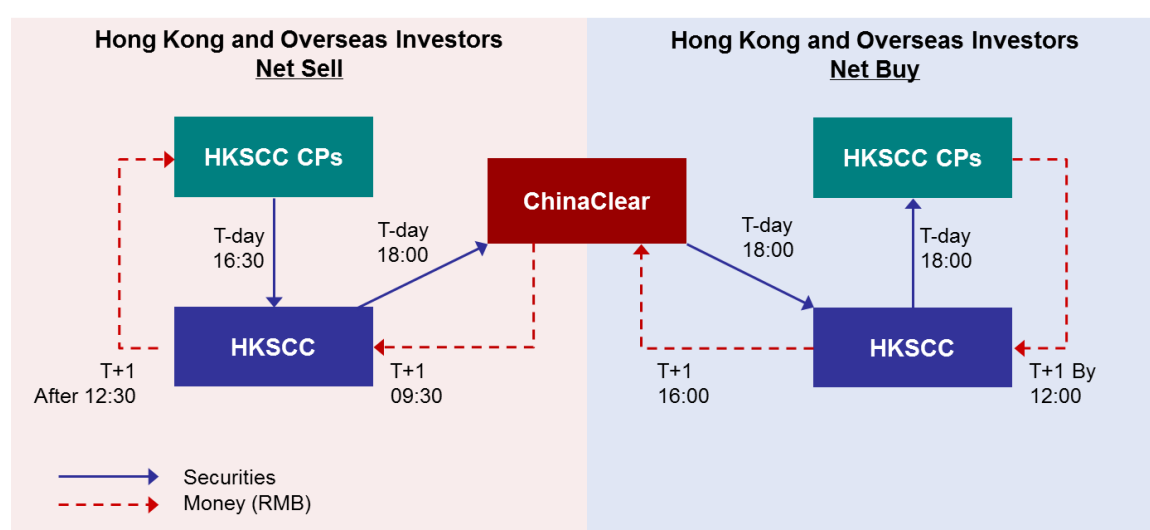
CP. On T+1 morning, CCASS will issue CHATS Payment Instructions (“CPI”) in the net amount to CPs’ designated banks such that⁶:

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

4.14. In addition to any CNS money payment obligation of CPs, CPs also need to pay other SSE Securities related fees and levies, including Stamp Duty (交易印花稅), Handling Fee (經手費), Securities Management Fee (證管費), and Transfer Fee (過戶費). CCASS will collect such fees from CPs via Direct Debit Instructions (“DDIs”). Details of the fees and levies are explained in Section 10.

4.15. The following diagram illustrates the stock and money settlement flows of Northbound trades:

Figure 4.2: Stock and Money Settlement Flow of Northbound Trades



Transfer of SSE Securities within CCASS (Updated as of 26 September 2014)

4.16. As explained in Section 3, sell orders in SSE Securities will be subject to pre-trade checking, where the cumulative sell quantity in an SSE Security put through by an EP for the day cannot be larger than its shareholding balance at 8:30 a.m. on T day in that SSE Security. The objective of this arrangement is to ensure CPs have sufficient shares to settle their Northbound trades on T day.

4.17. For the proper functioning of pre-trade checking, CCASS must ensure SSE Securities committed as sellable shares for the day remain in the relevant CPs’ stock

⁶ It should be noted that the above payment schedule is only tentative. HKSCC will further discuss the arrangement with banks and will notify CPs of the confirmed processing schedule in due course.

accounts in CCASS until they settle their CNS short positions on T day. As such, stock transfers between CPs through Settlement Instructions (“SI”s) will NOT be allowed after 7:45 a.m. and before the completion of the second CNS BSR at around 6:00 p.m. on each settlement day.

- 4.18. A new BSR will be executed at 7:45 a.m. and on each settlement day to settle SIs in SSE Securities (“**SI BSR**”). CPs can only effect Delivery Instructions (“**DI**”) to settle their SIs in SSE Securities after completion of the second CNS BSR at around 6:00 p.m., until 7:30 p.m. DI will not be allowed in the morning SI session between 7:15 a.m. to 7:45 a.m..
- 4.19. It should be noted that although SIs in SSE Securities will only be settled at 7:45 a.m. before Mainland market opens and after the completion of the second CNS BSR, CPs can nevertheless input SIs anytime during the day. SIs in SSE Securities can be matched in any of the six SI matching runs at around 7:30 a.m., 7:45 a.m., 11:45 a.m., 3:00 p.m., 5:00 p.m. and 7:30 p.m. respectively. SI BSR at 7:45 a.m. will only settle the SIs in SSE Securities with Custodian Participants as SI delivering parties.
- 4.20. SIs in SSE Securities can only be executed on a Free of Payment (“**FOP**”) basis.
- 4.21. Same as existing practice, CNS allocated shares for SSE Securities will be put on-hold until the relevant money obligations have been fulfilled. If needed, CPs may effect cash prepayment to release their CNS allocated shares for same day settlement via SIs on T day.

CPs may make their cash prepayment requests to HKSCC by phone/email, with payment details. CPs must then liaise closely with their banks to ensure that same day available funds are transferred to HKSCC’s specified bank account via internal bank transfer or RTGS before 6:00 p.m. CPs need to fax/email supporting documents (such as credit transmit copies, payment instructions to bank or electronic banking payment authorizations etc.) to HKSCC before 5:45 p.m. Upon receipt of good funds, HKSCC will update the CP’s Settlement Account of Money Ledger to reduce their money obligation due to HKSCC and as a result, release their on-hold allocated shares.

- 4.22. While SSE Securities transfers between CPs will not be allowed after 7:45 a.m. and before the second CNS BSR, CPs can nevertheless transfer SSE Securities between their own stock accounts anytime from 8:00 a.m. to 7:30 p.m. via Account Transfer Instructions (“**ATI**”) / Stock Segregated Account Transfer Instructions (“**STI**”).

CCASS Shareholding Records as Basis for Pre-trade Checking (Updated as of 14 October 2014)

- 4.23. As described in Section 3, sell orders in SSE Securities are subject to pre-trade checking, where a sell order will be rejected if the cumulative sell quantity in an SSE Security executed by the EP for the day is larger than its shareholding balance at 8:15 a.m. on T day in that SSE Security. As a result, EPs who want to participate in Shanghai-Hong Kong Stock Connect must be able to identify and commit to SEHK the SSE Securities that can be sold by them.

- 4.24. An EP may or may not be a CP. For an EP who is also a CP (i.e. DCP), it can refer to its SSE Securities in all of its CCASS stock accounts (except stock account 20 which is for collateral recording and management) as its sellable shares. For an EP who is an NCP, it can appoint a GCP to hold SSE Securities on its behalf, in a designated stock account of the GCP, as its sellable shares. The GCP so appointed should be the same GCP that clears and settles the NCP's trades in HK stocks. HKSCC will replicate the shareholding records to the CSC at the end of each day for pre-trade checking on the next trading day.
- 4.25. A GCP may represent one or multiple NCPs. In either case the GCP still needs to inform HKSCC whether it is supporting NCPs in Northbound trading, and under which stock account(s) in accordance with the following:
- (i) for a GCP who only clears its own Northbound trades or one NCP's Northbound trades, the GCP may opt to designate all of its CCASS stock accounts (except stock account 20 which is for collateral recording and management) or to designate some and up to 40 of its CCASS stock accounts(except stock accounts 01, 02, 17, 18, 19 and 20) to hold its SSE Securities for the purpose of pre-trade checking;
 - (ii) for a GCP who clears Northbound trades for multiple NCPs, the GCP can assign up to a maximum of 40 stock accounts for each of its underlying NCPs (except stock accounts 01, 02, 17, 18, 19 and 20 which will not be allowed to be mapped to any particular EP).
- 4.26. For those GCPs who have set up stock accounts for participating in Northbound trading, they should ensure any SSE Securities allocated to their clearing accounts for CNS settlement are properly transferred to their respective NCPs' designated stock accounts and/or their own stock accounts on each settlement day, for pre-trade checking purpose on the next trading day. The GCPs should also be mindful of the CNS securities on-hold mechanism, which means that in case they have a net payable amount due to HKSCC on their CNS positions in SSE Securities and those positions are held on behalf of a number of NCPs, they would need to make cash prepayment to release the CNS allocated shares in SSE Securities before they can transfer such shares to the respective stock accounts for pre-trade checking on the next trading day.
- 4.27. Hong Kong and overseas investors may opt to maintain their SSE Securities with CPs or Custodian Participants of HKSCC. In the latter case, the Custodian Participants would need to act according to the request of their investor clients to transfer SSE Securities to the relevant CPs by the end of T-1 or via the morning SI on T day in order to enable their clients to sell the shares on T day.
- 4.28. At the initial stage, Investor Participants of HKSCC should maintain SSE Securities with their brokers or custodians.

Stock Settlement Failure of Northbound Trades (Updated as of 26 September 2014)

- 4.29. As Northbound sell orders are subject to pre-trade checking, a CP who has taken up the settlement obligations of Northbound trades should have sufficient shareholdings in its stock accounts to meet its delivery obligations. However, since CNS

settlement is only effected through the stock clearing account, a CP may fail to transfer SSE Securities from its other stock accounts to its stock clearing account in time, in which case it may fail to settle its CNS short stock positions.

- 4.30. The following will be applied if a CP fails to settle its CNS short stock position in an SSE Security by the second CNS BSR at around 6:00 p.m. on T day:
- (a) the CP will be subject to buy-in on T+1, as well as penalty charges;
 - (b) all outstanding delivering SIs of that CP in the SSE Security concerned will automatically be put on-hold until the overdue CNS short stock position is subsequently settled; and
 - (c) the overdue quantity of the SSE Security will be deducted from the CP's shareholding record when the shareholding record is replicated from CCASS to CSC for pre-trade checking on the following trading day.
 - (d) for GCP, if there is outstanding short position in stock account 01, the sellable quantity of that stock of all NCPs under the GCP will be deducted

Depository and Nominee Services

4.31. Depository Services

- 4.31.1. HKSCC will become a participant of ChinaClear and will open and maintain an omnibus stock account with ChinaClear to hold SSE Securities on behalf of CCASS Participants. The total shareholdings in HKSCC's omnibus stock account with ChinaClear will equal to the aggregate shareholdings of all CCASS Participants in SSE Securities held in CCASS.
- 4.31.2. ChinaClear is the Central Securities Depository for the A shares listed on SSE. Since A shares are issued in scripless form, physical deposits and withdrawals of SSE Securities into/from the CCASS Depository will, therefore, not be available to CCASS Participants.
- 4.31.3. Hong Kong and overseas investors can only hold SSE Securities through their brokers/custodians and their ownership of such is reflected in their brokers/custodians' own records such as client statements.
- 4.31.4. According to PRC law, ChinaClear's records form the electronic register of members ("ROM"). As such, HKSCC will be recognised as the registered holder of the SSE Securities held in its omnibus stock account in ChinaClear. However, pursuant to CCASS Rules, HKSCC has no proprietary interest in the SSE Securities to the extent they are credited to the CCASS stock account of a CCASS Participant.

4.32. Overview of Nominee Services (Updated as of 26 September 2014)

- 4.32.1. Notwithstanding the fact that HKSCC does not claim proprietary interests in the SSE Securities held in its omnibus stock account in ChinaClear, ChinaClear as the share registrar for SSE listed companies will still treat HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE Securities.
- 4.32.2. HKSCC will extend its existing nominee services to CCASS Participants in respect of their SSE Securities held in CCASS, which will be subject to CCASS Rules.

- 4.32.3. HKSCC will monitor the corporate actions affecting SSE Securities and keep CCASS Participants informed of the details of all corporate actions relating to SSE Securities via CCASS terminals as soon as practicable on the announcement date. CCASS Participants can refer to the existing nominee related on-line enquiry functions and reports for the information.
- 4.32.4. In addition to the CCASS on-line functions and reports, CCASS Participants can also refer to the websites of SSE and four officially appointed newspapers (i.e. Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報) and Securities Daily (證券日報)) for the corporate announcements made by SSE-listed companies. Corporate announcements posted through these channels are only available in Simplified Chinese.
- 4.32.5. In the A share market, cash dividend, bonus issue and voting are the most common types of corporate actions. Besides, take-over offers, rights issue and business merger in the A share market may occur but they are relatively uncommon. The following paragraphs provide a general description about each of these corporate actions.
- 4.33. **Cash Dividend (現金紅利)**
- 4.33.1. HKSCC will endeavour to collect and distribute cash dividends relating to SSE Securities to CCASS Participants in a timely manner. Upon receipt of the dividend amount on payment date, HKSCC will to the extent practicable arrange to distribute to the relevant CCASS Participants on the same day. Each CCASS Participant's cash dividend entitlement will be determined by reference to its holding of SSE Securities on the record date according to HKSCC's record, taking into account any overdue CNS long and short positions in the relevant SSE Securities.
- 4.33.2. Upon receipt of the dividend amount on payment date, HKSCC will to the extent practicable arrange to distribute to the relevant CCASS Participants on the same day.
- 4.33.3. With regard to the dividend withholding tax (“WHT”) on SSE Securities, clarification will be sought from the State Administration of Taxation (“SAT”) on whether the 10% WHT that currently applies to HKSCC under the Corporate Income Tax Law (“CIT”) of the PRC will continue to be applicable to the SSE Securities held by Hong Kong and overseas investors.
- 4.34. **Bonus issues (紅股) (Updated as of 26 September 2014)**
- 4.34.1. Bonus issue entitlements of each CCASS Participant will be determined by reference to its holding of the SSE Securities on the record date according to HKSCC's record, taking into account any overdue CNS long and short positions in the relevant SSE Securities. The listing date of the bonus shares in SSE is normally two business days after the record date.
- 4.34.2. HKSCC will to the extent practicable arrange to credit the entitled bonus shares to the stock accounts of relevant CCASS Participants on the business day-end immediately before the listing date of the bonus shares.

4.34.3. In the Mainland, bonus issues are normally paid with cash dividends. WHT will be imposed on both bonus shares and cash dividends, and the total WHT requirement will be deducted from the cash dividend amount. This practice is currently applicable to H shares.

4.35. Shareholders Meeting (Updated as of 26 September 2014)

4.35.1. SSE-listed companies usually announce their annual general meeting (“AGM”) / extraordinary general meeting (“EGM”) information about two to three weeks before the meeting date. A poll is called on all resolutions for all votes.

4.35.2. HKSCC will advise CCASS Participants of all general meeting details such as meeting date, time and the number of resolutions. CCASS Participants who have relevant holdings in their stock accounts as at the record date can vote via CCASS’s existing voting functions. However, if CCASS Participants wish to cast “Abstain” and/or cumulative votes (if applicable), they are required to submit written instructions to HKSCC. HKSCC will consolidate the voting instructions from CCASS Participants and endeavor to submit a combined single voting instruction (with ‘For’ and/or ‘Against’ votes together with ‘Abstain’ and/or cumulative votes if applicable) to the relevant SSE-listed company via the designated on-line voting platform.

4.35.3. It is worth noting that multiple proxies are not available in the Mainland market today. Following the existing Mainland market practice, Hong Kong and overseas investors being the beneficial owners of SSE Securities will not be able to attend meetings as proxy in person, as opposed to what they can do in Hong Kong if they hold SEHK-listed shares.

4.36. Take-over Offers (要約收購) (Updated as of 26 September 2014)

4.36.1. Take-over offers made to holders of SSE Securities may be for cash or for securities.

4.36.2. HKSCC will advise CCASS Participants of the take-over offers details such as offer rate and the subscription period stating the relevant time-limit. Normally, the offer period will be around 30 days.

4.36.3. Participants may submit instructions via CCASS’s existing subscription functions immediately after the second CNS BSR at around 6:00 p.m. to 7:00 p.m. during the subscription period. HKSCC will debit the SSE Securities in respect of which acceptances have been made from the relevant stock accounts of the Participants on the instruction input day.

4.36.4. Based on the instructions of Participants, HKSCC will submit one consolidated acceptance instruction to the relevant SSE-listed company via the designated electronic platform

4.36.5. Upon receipt of the cash / securities consideration, HKSCC will to the extent practicable arrange to distribute to the relevant CCASS Participants on the same day.

4.37. **Rights Issue (配股)**

- 4.37.1. Rights issue entitlements of each CCASS Participant will be determined by reference to its holding of the SSE Securities on the record date according to HKSCC's record, taking into account any overdue CNS long and short positions in the relevant SSE Securities. Rights offer are non-tradable.
- 4.37.2. HKSCC will advise CCASS Participants of the rights details such as subscription price and the subscription period stating the relevant time-limit. Normally, the subscription period will be around one week, but it may be as short as one business day only.
- 4.37.3. Participants may submit instructions via CCASS's existing subscription functions immediately after the second CNS BSR at around 6:00 p.m. to 7:00 p.m. during the subscription period. No excess application is available in general. HKSCC will debit the rights in respect of which subscription have been made from the relevant stock accounts of the Participants and the subscription monies on the instruction input day. Participants may be required to submit written instructions together with proof of payment (in good fund) to HKSCC for the cases in which the subscription period is as short as one business day.
- 4.37.4. Based on the instructions of Participants, HKSCC will submit one consolidated subscription instruction to the relevant SSE-listed company via the designated electronic platform.
- 4.37.5. Upon receipt of the rights shares, HKSCC will to the extent practicable arrange to distribute to the relevant CCASS Participants on the same day.

4.38. **Others**

- 4.38.1. It is currently contemplated that Shanghai-Hong Kong Stock Connect will not support initial public offering.
- 4.38.2. CCASS Participants who participate in Shanghai-Hong Kong Stock Connect may apply specific arrangements and deadlines to their investor clients in respect of the corporate actions of their SSE Securities. CCASS Participants should ensure their investor clients are well aware of such arrangements and deadlines.

Clearing and Settlement of Southbound Trades

- 4.39. For Southbound trades executed on SEHK by SSE Subsidiary, ChinaClear will take up the settlement obligations of SSE Subsidiary and settle directly with HKSCC under the CNS System. ChinaClear will also act as a CCP and in turn settle the Southbound trades with its participants in the Mainland. SEHK Securities acquired by Mainland investors will be held in ChinaClear's CCASS stock account on their behalves.

- 4.40. Southbound trades will be cleared and settled in CCASS according to the existing Hong Kong settlement cycle, that is, both securities and money will be settled on T+2.
- 4.41. HKSCC will provide nominee services to ChinaClear for the SEHK Securities held in its stock accounts with CCASS. ChinaClear will in turn provide nominee services to its ChinaClear Participants and investors in respect of the SEHK Securities held in their stock accounts with ChinaClear.

SECTION 5: RISK MANAGEMENT

Principles of the Proposed Risk Management Model (Updated as of 6 October 2014)

- 5.1. Based on the clearing and settlement model as described in Section 4, HKSCC and ChinaClear will bridge the clearing and settlement of cross-boundary trades initiated from their own markets. Through this arrangement, each clearing house will undertake settlement obligations of their respective clearing participants' cross-boundary trades and settle with the other clearing house.
- 5.2. This Clearing Links arrangement enables market participants to trade across the boundary within the protection of the two clearing houses' robust risk management frameworks. Clearing participants of each market will not be directly exposed to the default risk of clearing participants of the other market.
- 5.3. To ensure that any new risks resulting from this Clearing Links arrangement are properly mitigated, enhancements to the existing clearing house risk management frameworks are required. In designing the risk management model for the Pilot Programme, HKSCC and ChinaClear have agreed on the following key principles:
 - (a) ***Application of home risk management regime to the extent possible***: risk management measures to be imposed by a CCP on its clearing participants regarding cross-boundary trades will generally be similar to those imposed by the home CCP on its clearing participants. For example, the risk management measures imposed by HKSCC on its CPs regarding their Northbound trades will largely follow those imposed by ChinaClear on its clearing participants. This will ensure that market participants which access a market directly and those who access via the Clearing Links are subject to comparable risk management measures and related costs.
 - (b) ***Insulation against risk spill-over across markets***: clearing participants of one market should be shielded against the default risk of clearing participants of the other market. This can be achieved by having each CCP to undertake the settlement obligations of their respective clearing participants with respect to their cross-boundary trades. Also, both CCPs will not participate in each other's mutualised risk management pools (e.g. default funds) that are contributed by their home market clearing participants.

Risk Management Measures on CPs' Northbound Positions (Updated as of 6 October 2014)

- 5.4. CPs who participate in Shanghai-Hong Kong Stock Connect will be subject to the following risk management measures regarding Northbound trades:
 - (a) payment of the Mainland Settlement Deposit (including intra-day and day-end collection); and
 - (b) contribution to the Mainland Security Deposit (non-mutualised portion)

Details of the above risk management measures are elaborated in Section 5.7.

- 5.5. The collateral received from CPs through the above measures will also be used by HKSCC in meeting its collateral requirements, which are imposed by ChinaClear on HKSCC for the overall Northbound trades and positions created. ChinaClear will keep the collateral posted by HKSCC under designated accounts at third-party custody banks under the name of ChinaClear but segregated from ChinaClear’s own assets.
- 5.6. HKSCC currently maintains a Guarantee Fund (“**HKSCC GF**”) which serves as the last line of defense in case a defaulting CP’s collateral is not sufficient to cover the loss arising from the closing-out of its unsettled positions. The HKSCC GF will be extended to cover Northbound trading.
- 5.7. The following table shows a comparison between the risk management measures imposed by ChinaClear on its clearing participants and those imposed by HKSCC on CPs participating in Shanghai-Hong Kong Stock Connect.

Table 5.1: Existing Mainland Risk Management Measures vs. Northbound Risk Management Measures (Updated as of 6 October 2014)

Measures by ChinaClear on its Clearing Participants	Proposed Measures by HKSCC on CPs
Settlement Reserve Fund (結算備付金)	Mainland Settlement Deposit
<p><u>Requirement:</u></p> <ul style="list-style-type: none"> • 20% of clearing participant’s previous month average daily purchase turnover <p><u>Frequency:</u></p> <ul style="list-style-type: none"> • Monthly calculation on the first business day in the Mainland with collection before 4:00 p.m. on the second business day 	<p><u>Requirement:</u></p> <ul style="list-style-type: none"> • 20% of a CP’s previous month average daily purchase turnover and overdue short positions <p><u>Frequency:</u></p> <ul style="list-style-type: none"> • Monthly calculation at month end with collection at day end on the first business day of each month in Hong Kong via Direct Debit Instruction • Refund at day end on the tenth business day of each month in Hong Kong via Direct Credit Instruction <p>Remarks: no refund in the first calendar month upon the launch of Shanghai-Hong Kong Stock Connect</p> <ul style="list-style-type: none"> • Daily calculation based on CP’s daily purchase turnover and overdue short positions. When the daily required amount is larger than the amount of Mainland Settlement Deposit posted with HKSCC, the shortfall will be collected at day end via Direct Debit Instruction <p>Intra-day Mainland Settlement Deposit</p> <p><u>Requirement:</u></p> <ul style="list-style-type: none"> • Same as Mainland Settlement Deposit except

Measures by ChinaClear on its Clearing Participants	Proposed Measures by HKSCC on CPs
	<p>using the snapshot at the mid-day in determining the required amount</p> <p><u>Frequency:</u></p> <ul style="list-style-type: none"> • Daily calculation for CPs with significant intra-day risk exposures due to unfavourable price movements or surge in trading activities • When the required amount is larger than the amount posted with HKSCC and exceeds the tolerance of RMB 5 million, HKSCC will notify the CP by fax and phone at around 1:30 p.m. to top up the full shortfall amount via RTGS by 3:30 p.m. on the same day
Settlement Guarantee Fund (證券結算保證金)	Mainland Security Deposit
<p><u>Requirement:</u></p> <ul style="list-style-type: none"> • A mutualised portion for house account on proprietary positions and an non-mutualised portion for client accounts on clients' positions • Past six-month average daily CNS positions × 14% <p><u>Minimum:</u></p> <ul style="list-style-type: none"> • RMB200,000 for each account <p><u>Frequency:</u></p> <ul style="list-style-type: none"> • Monthly calculation on the first business day in Mainland with collection before 4:00 p.m. on the second business day 	<p><u>Requirement:</u></p> <ul style="list-style-type: none"> • Non-mutualised contribution on CPs' positions • Past six-month average daily CNS positions of CPs × 16.4% <p><u>Minimum:</u></p> <ul style="list-style-type: none"> • RMB200,000 required for each CP before commencement of trading <p><u>Frequency:</u></p> <ul style="list-style-type: none"> • Monthly calculation at month end with collection at day end on the first business day of each month in Hong Kong via Direct Debit Instruction • Refund at day end on the tenth business day of each month in Hong Kong via Direct Credit Instruction
	HKSCC GF
	<ul style="list-style-type: none"> • Used as the last line of defence to cover CPs' residual default loss regarding their positions in SSE Securities • Include CPs' positions in SSE Securities in the HKSCC GF contribution calculation

Risk Management Measures on ChinaClear's Southbound Positions

- 5.8. As ChinaClear will take up the settlement obligations of Southbound trades, ChinaClear will be subject to the risk management measures applicable to other CPs trading HK stocks (i.e. margin, marks, concentration collateral and additional collateral), with the following exceptions:
- (a) Under the risk insulation principle discussed in Section 5.3, ChinaClear will not contribute to the HKSCC GF, and will not be required to share any default loss of other CPs. Similarly, CP's HKSCC GF contributions will not be utilised to offset any potential close-out loss in the remote event of ChinaClear default.
 - (b) Due to ChinaClear's operational limitations, ChinaClear will not be able to meet the normal payment timeline which is currently applied to other CPs. One extra business day would be needed for ChinaClear to complete the transfer of the collateral required to meet the imposed risk management measures. Similarly, it is envisaged that there will be operational and practical difficulties for the Chinaclear to meet the intra-day collection of marks, concentration collateral and margin called by HKSCC. In that regard, discussion is continuing as to what alternative risk management measures would be required to address the concerns. Updates on the results of discussion with the SFC will be provided in due course.
 - (c) To mitigate the incremental risk due to ChinaClear's non-participation in the HKSCC GF, and the added flexibility required to address its operational constraints, a higher margin rate will be imposed on ChinaClear's positions in SEHK Securities. ChinaClear is also required to provide additional collateral to cover the assumed closing-out loss of its unsettled positions which are projected under an extreme but plausible market condition. Moreover, ChinaClear will be required to post collateral securities with HKSCC to cover all its short positions in SEHK Securities.

Risk of ChinaClear Default

- 5.9. As the national CCP of the Mainland's securities market, ChinaClear operates a comprehensive network of clearing, settlement and stock holding infrastructure. ChinaClear has established a risk management framework and measures that are approved and supervised by the CSRC. The chances of ChinaClear default are considered to be remote. Nonetheless, the following arrangements have been considered for reason of prudence:
- (a) Northbound trades – If ChinaClear defaults as the host CCP in the Mainland, HKSCC will in good faith, seek recovery of the outstanding stocks and monies from ChinaClear through available legal channels and through ChinaClear's liquidation process, if applicable. HKSCC will in turn distribute the stocks or monies recovered to CPs on a pro-rata basis⁷. Although ChinaClear default is considered to be remote, CPs should be aware of this arrangement and should

⁷ Each CP to which HKSCC is liable shall only be entitled to receive payment or delivery of stocks pro rata according to the amount due to it as compared with the aggregate due to all CPs in Northbound positions. (Updated as of 26 September 2014)

inform their clients of this potential exposure before engaging in Northbound trading.

- (b) Southbound trades – If ChinaClear fails to meet its settlement obligations in respect of Southbound trades, HKSCC will consider the circumstances and may declare ChinaClear as a defaulter if the situation warrants. HKSCC will then apply its standard default procedures and will execute closing-out of ChinaClear's unsettled positions in SEHK Securities through HKSCC's authorised brokers. Margin and all other collateral (including collateral securities) posted by ChinaClear with HKSCC will be used to cover any loss arising from the closing-out process. As ChinaClear does not contribute to the HKSCC GF, HKSCC will not use the HKSCC GF to cover any residual closing-out loss with respect to ChinaClear's Southbound positions.

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

SECTION 6: MARKET DATA (Updated as of 26 September 2014)

- 6.1. To increase A-share market data visibility to Hong Kong market, SSE and HKEx will exchange free 1-price depth data of eligible stocks for Southbound and Northbound Trading and the data will be provided to EPs free of charge.
- 6.2. Real-time A-share data of the eligible stocks for northbound trading will be disseminated to EPs via their CC OG, updated once every 5 seconds. Data content includes Best Bid Price/Volume, Best Offer Price/Volume, Volume Traded, Value Traded, Previous Price, Open Price, Latest Price, Highest Price and Lowest Price.
- 6.3. The 1-price depth data of eligible stocks could only be used internally by EPs and for further redistribution to their trading clients. Dissemination to any other third parties is not allowed. Further, the data could not be used for index compilation and deriving any tradable products.
- 6.4. To increase market transparency, real-time daily quote balance for Northbound Trading will be disseminated to EPs via their CC OG and OMD Index Feed and the information will be updated once every 5 seconds. The information could be redistributed free of charge.
- 6.5. EPs, system vendors and Hong Kong and overseas investors may also source real time market data of SSE via SSE licensed information vendors, a list of which is available on the website of China Investment Information Services Limited, which is a subsidiary of SSE incorporated in Hong Kong and is responsible for SSE overseas market data business. SSE real time market data can also be accessed through the licensed Mainland vendors of SSE Infonet Ltd Co which is the information business arm of SSE.
- 6.6. Similarly, SSE members, system vendors and Mainland investors may also source market data of SEHK via licensed information vendors who are providing data services in the Mainland. In addition, 23 information vendors are providing real time basic market prices (BMP) to investors in Hong Kong, the Mainland and overseas for free. The list of such vendors and their websites is available on HKEx website.

SECTION 7: ELIGIBILITY

Exchange Participant Eligibility

- 7.1. Shanghai-Hong Kong Stock Connect is open to all EPs, but those who wish to participate must satisfy certain eligibility requirements as published on the HKEx website at <http://www.hkex.com.hk/chinaconnect>.
- 7.2. For those EPs who are eligible to participate in Shanghai-Hong Kong Stock Connect, their names will be published on the HKEx website for reference.

Clearing Participant Eligibility

- 7.3. The following types of CPs under the CCASS Rules can apply to become an eligible participant to clear and settle Northbound trades:
- (a) DCPs; and
 - (b) GCPs.
- 7.4. CPs should also satisfy certain eligibility requirements as published on the HKEx website at <http://www.hkex.com.hk/chinaconnect> before they will be accepted to clear and settle Northbound trades.
- 7.5. A list of eligible CPs will be published on the HKEx website.

Investor Eligibility

- 7.6. There will not be any restriction imposed on Hong Kong and overseas investors participating in the programme.

SECTION 8: HOLIDAYS AND SEVERE WEATHER CONDITIONS

Holiday Arrangement (Updated as of 26 September 2014)

- 8.1. In the initial stage of operation of Shanghai-Hong Kong Stock Connect, EPs can only trade SSE Securities on Hong Kong business days, provided that both markets are open for trading (T-day) and banking services are available in both markets on the corresponding money settlement days (T+1). This arrangement is essential in ensuring that proper banking support is available for CPs to settle their money obligations for Northbound trades on T+1.
- 8.2. Below is an example illustrating the holiday arrangement of Northbound trading of SSE Securities:

Date	Hong Kong	Mainland	Shanghai-Hong Kong Stock Connect		
			Trading (T-day)	Money Settlement (for T-1 day's trades)	Securities Settlement (for T-day's trades)
16 Apr 2014 (Wed)	Business Day	Business Day	✓	✓	✓
17 Apr 2014 (Thu)	Business Day	Business Day	✗ [^]	✓	✗ [^]
18 Apr 2014 (Fri)	Public Holiday	Business Day	✗	✗	✗
21 Apr 2014 (Mon)	Public Holiday	Business Day	✗	✗	✗
22 Apr 2014 (Tue)	Business Day	Business Day	✓	✓ [#]	✓

[^] 17 Apr 2014 (Thu) is a business day for both Hong Kong and Mainland. However, if EPs trade SSE Securities on 17 Apr 2014, CPs may have difficulty settling their money positions with HKSCC on 18 Apr 2014 (Fri), which is a public holiday in Hong Kong. Hence Shanghai-Hong Kong Stock Connect will not be open for trading SSE Securities on 17 Apr 2014.

[#] There will not be any money settlement for Northbound trades on 22 Apr 2014 as 21 Apr 2014 is not open for Northbound trading. However, as CCASS is open for business on 22 Apr, it will still process money transactions in relation to nominee's activities with respect to SSE Securities, if any.

- 8.3. If a Northbound trading day is a half trading day in Hong Kong market, Northbound Trading will continue until SSE market is closed.
- 8.4. Both exchanges will continue to explore with market participants and the banking sector to consider the operational feasibility as well as market demand to support cross-boundary trading/money settlement during holidays.
- 8.5. The Northbound trading calendar will be available on HKEx website before launch of Shanghai-Hong Kong Stock Connect.

Severe Weather Conditions (Updated as of 26 September 2014)

- 8.6. Currently, SEHK and HKSCC may suspend services during severe typhoons and/or black rainstorms.

- 8.7. SSE has a similar arrangement where it will announce to the market one day prior to any potential services suspension due to severe weather conditions.
- 8.8. In the initial stage, it is intended that the Northbound trading arrangement under severe weather conditions will be as follows:
- (a) If SSE is suspended due to bad weather, there will be no trading on the Northbound Trading Link and Hong Kong investors and EPs will be informed by the SEHK;
 - (b) If typhoon signal number 8 (or above) and/or black rainstorm warning is issued in Hong Kong before Hong Kong market opens, Northbound trading will not open. If the signal/warning is subsequently discontinued on the same day, arrangement for the resumption of Northbound trading will follow that for the SEHK market (detailed arrangement is available on the HKEx website at <http://www.hkex.com.hk/eng/market/typhoons/tradingarrangement.htm>);
 - (c) If typhoon no. 8 (or above) is issued in Hong Kong after Hong Kong market opens but before SSE market opens (between 9a.m. and 9:15a.m.), Northbound trading will not open; and
 - (d) If typhoon signal number 8 (or above) is issued in Hong Kong after SSE market has opened:
 - Northbound trading will continue for 15 minutes during which order input and order cancellation will be allowed;
 - after 15 minutes and until SSE market close, only order cancellation is allowed;
 - in addition to mid-day and day end trade files, preliminary trade files (retrieved through Electronic Communication Platform) will be generated multiple times before market close so that EPs who have completed all order cancellations can use the trade files to continue their reconciliation;
 - HKEx will make broadcast message (via HKEx website) to provide alerts/warning to EPs on the arrangement when a typhoon is approaching; and
 - EPs are encouraged to make pre-arrangement with their clients to allow them to cancel clients' orders in this situation and conduct order cancellation as soon as possible.

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

8.9. As for the clearing and settlement of Northbound trades and the relevant CCASS services under severe weather conditions, the following arrangement will be applied in the initial stage:

- (a) if typhoon signal number 8 (or above) and/or black rainstorm warning is issued before 9:00 a.m. and is not cancelled at or before 12:00 noon,
 - i. CCASS services for SSE Securities will not be available for the day;
 - ii. money settlement for Northbound trades executed on previous day will be postponed to the next business day, at the same stipulated time;
 - iii. HKSCC will to the extent practicable arrange to credit the entitled bonus shares to the stock accounts of relevant CCASS Participants in the morning of the listing date of the relevant bonus shares.
- (b) if typhoon signal number 8 (or above) and/or black rainstorm warning is issued before 9:00 a.m. and cancelled at or before 12:00 noon,
 - i. CCASS services for SSE Securities will resume two hours after the cancellation of the signal/warning;
 - ii. CPs will need to fulfill their money obligations for Northbound trades executed on previous day by 3:00 p.m.
- (c) if typhoon signal number 8 (or above) and/or black rainstorm warning is issued at or after 9:00 a.m.,
 - i. normal CCASS services will be available for SSE Securities in general, except in the case of typhoon, where batch file upload and mass ATI/STI input functions will not be provided;
 - ii. CPs will need to fulfill their money obligations for Northbound trades executed on the previous day. In the case of typhoon, subject to the issuance time, HKSCC may revise the payment deadline; and

- iii. CPs will need to fulfill their stock settlement obligations for the Northbound trades executed on the typhoon day (if any) by the normal stipulated deadline.

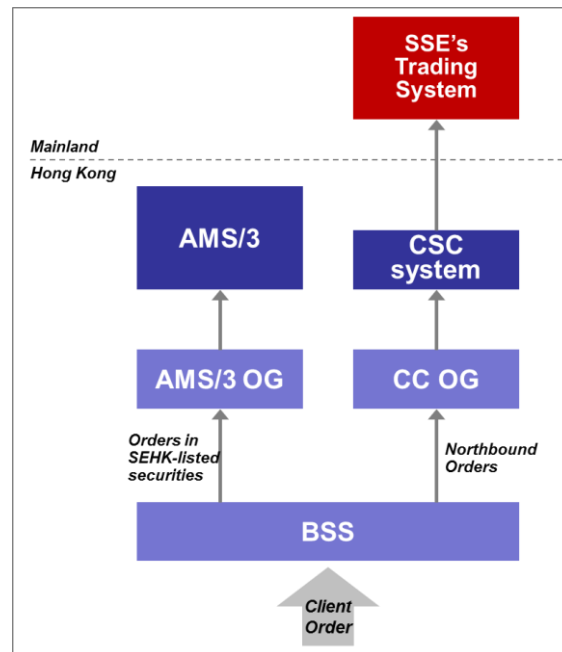
SECTION 9: SYSTEM ARRANGEMENT

EP Interface – CC OG and BSS (Updated as of 26 September 2014)

- 9.1. As explained in Section 3, SEHK will set up a new order routing system CSC to capture and consolidate the Northbound orders input by EPs, and route them to SSE.
- 9.2. EPs who want to participate in Shanghai-Hong Kong Stock Connect should install a separate open gateway (China Connect OG or CC OG) connecting to the CSC. The CC OG has an interface protocol which is very similar to the existing AMS/3 OG, except that it is able to support 6-digit stock codes. Existing trading functions which are not applicable to Northbound trading will be removed from the CC OG.
- 9.3. CC OG will only support limit orders for submission to SSE. It does not support other order types, quotes or manual trades. For order cancellations, CC OG only supports single order cancellation but not bulk cancellation.
- 9.4. CC OG will follow the existing SEHK throttle mechanism to control the creation and cancellation of Northbound orders. However, as CC OG cannot share the existing throttle(s) for AMS/3 OG, separate throttle(s) will need to be assigned. Each CC OG device can have a maximum of 60 throttles.
- 9.5. EPs can select either the standalone server or High Availability (HA) server for CC OG in the same way as AMS/3 OG. EPs can procure the CC OG through HKEx, re-deploy specific models of existing OG (x3400 M3 and x3300 M4) or procure their own CC OG with software installation by appointed vendors.
- 9.6. In the initial stage, Northbound trading can only be conducted through CC OG⁸. EPs have to connect their own BSS to CC OG to trade SSE Securities. Depending on the current BSS design, EPs may need to upgrade their BSS to cater for the SSE business rules (as described in Section 3) if they want to participate in Northbound trading.
- 9.7. CC OG will provide 1-price depth market data of SSE Securities. EPs can also subscribe real-time SSE market data via licensed information vendors. For details please refer to Section 6.
- 9.8. The following diagram illustrates the high-level trading infrastructure for Northbound Trading:

⁸ *MWS, Trading Terminal and ORS will not support Northbound trading for Shanghai-Hong Kong Stock Connect. SEHK is discussing with its system suppliers on the rollout plan of China Connect Central Gateway for Northbound trading. Further details will be announced once available.*

Figure 9.1: High-level trading infrastructure



Trading Network

- 9.9. CC OG will be connected to CSC through the existing HKEx network SDNet/2. EPs need to subscribe a new pair of SDNet/2 lines⁹ for installation of CC OG.
- 9.10. As CC OG will not provide market data, 2 Mbps of bandwidth should be sufficient for each CC OG connection for supporting a maximum of 60 throttles per device.

Clearing Infrastructure and CPs' Preparation

- 9.11. CPs can participate in Shanghai-Hong Kong Stock Connect via their existing CCASS/3 Terminal, PG and SDNet/2 lines. Depending on each CP's business plan, a CP may consider upgrading its infrastructure capacity.
- 9.12. SSE Securities are represented by 6-digit stock codes on SSE. The same 6-digit stock codes will be used by EPs trading SSE Securities through Shanghai-Hong Kong Stock Connect. However, CCASS currently adopts a 5-digit stock code system. Changing the 5-digit stock code to a 6-digit stock code system will require fundamental system upgrades by all CPs. To avoid market wide impact, CCASS will continue to use the existing 5-digit stock code structure to support Shanghai-Hong Kong Stock Connect in its initial stage of operation. A mapping mechanism will be adopted such that each 6-digit SSE stock code will be represented by a unique 5-digit code in CCASS, as illustrated in the below diagram:

⁹ Duplicate SDNet/2 lines for back-up purpose.

Figure 9.2: Stock Code mapping for use in CCASS



- 9.13. The settlement cycle of Northbound trades will be different from the existing SEHK trades as described in Section 4. Therefore, a new “market” will be set up in CCASS to handle all the relevant processes. CPs will be required to prepare and make necessary modifications to their back office systems to interface with the new market in CCASS with different set-up, functions and reports. CPs who are using PG will also need to prepare for the new message templates.
- 9.14. The detailed technical specifications of the new functions and reports will be distributed to CPs separately. CPs will be able to verify their system and operation set-up at a later stage through an end-to-end testing environment and market rehearsals.

SECTION 10: SUMMARY OF FEES AND TAXES (Updated as of 14 October 2014)

- 10.1. Under Shanghai-Hong Kong Stock Connect, investors trading across the boundary will be subject to the same fees and levies applicable to local investors. Hong Kong and overseas investors will therefore be subject to the following fees and levies when they trade SSE Securities and settle the transactions:

Items	Rate	Charged by
Handling Fee (經手費)	0.00696% of the consideration of a transaction per side	SSE
Securities Management Fee (證管費)	0.002% of the consideration of a transaction per side	CSRC
Transfer Fee (過戶費)	0.06% of the face value of a transaction per side	ChinaClear
Stamp Duty (交易印花稅)	0.1% of the consideration of a transaction on the seller	SAT

- 10.2. The following is an example illustrating the calculation of fees and taxes:

On T day, a CP has to clear a Northbound **Sell** Trades with below detail:

Trade Quantity: 300 shares Trade Price: ¥ 30

Face Value: RMB 1 per share

Fee Type	Description	Formula	Amount *
Handling Fee (經手費)	0.00696% of the consideration of a transaction per side	$300 \times ¥ 30 \times 0.00696\% = ¥ 0.6264$	¥ 0.63
Securities Management Fee (證管費)	0.00200% of the consideration of a transaction per side	$300 \times ¥ 30 \times 0.00200\% = ¥ 0.18$	¥ 0.18
Transfer Fee (過戶費)	0.06000% on face value per side	$300 \times ¥ 1 \times 0.06000\% = ¥ 0.18$	¥ 0.18
Stamp Duty (交易印花稅)	0.10000% of the consideration of a transaction on the <u>seller</u>	$300 \times ¥ 30 \times 0.10000\% = ¥ 9$	¥ 9
Total transaction cost to settle the Northbound Trade			¥ 9.99

* Note: Mainland fees will be rounded to the nearest cent

- 10.3. The above fees and levies are collected in RMB.
- 10.4. In the Mainland, trading and clearing related fees and levies are paid together with trade consideration. In the case of Northbound trading, these fees and levies will be collected through CCASS and passed onto ChinaClear for paying to the relevant parties. CCASS will post the above items to CPs' Miscellaneous Account of their money ledger on T day and collect such payments via day-end DDI. CPs can refer to the existing "Statement of Money Ledger" available on T+1 morning for details.
- 10.5. The above table summarises the fees and levies applicable to Northbound trades. It should however be noted that SSE Securities acquired by Hong Kong and overseas

investors may entail corporate activities, and in the case of cash dividend and bonus issues investors will be subject to dividend withholding tax imposed by SAT. Subject to the clarification of the SAT on the detailed arrangement of dividend withholding tax as described in Section 4, such tax will be withheld by the issuers at the time of entitlement distribution.

- 10.6. CCASS Participants may also use other CCASS services to maintain their SSE Securities, in which case they may be subject to the relevant CCASS fees. For example, CCASS Participants effecting SIs and STIs to transfer SSE Securities in CCASS will be subject to the relevant stock settlement fees.
- 10.7. Also, HKSCC will provide depository and nominee services to CCASS Participants for their SSE Securities in CCASS. As SSE Securities are issued in scripless form, the existing depository and nominee fees for SEHK-listed securities will not be applicable to SSE Securities for this new service. A new CCASS Fee (in HKD) which is Portfolio Fee will be introduced by HKSCC for providing similar services to CCASS Participants on their SSE Securities.

Portfolio Fee is calculated based on the daily stock portfolio value of SSE Securities held by individual CPs. It is accrued on a daily basis and collected on a monthly basis through the first weekly autopay of next month. The fee adopts a sliding scale where a bigger portfolio value will be subject to a lower fee rate:

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

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

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

Kong market. In case of non-trading day where such exchange rate is not available, the latest exchange rate will be used.

- 10.8. Subject to the SFC's approval, in principle, CC OG Hardware and Throttle Charges for Northbound trading will follow the same charging scheme as that for trading in AMS/3:

Item	Proposed Charges
One-off Throttle Fee	HKD50,000 per throttle (same as current)
Throttle Monthly Fee	HKD960 per throttle (HKD480 per backup throttle) (same as current)
CC OG Hardware	HKD28,000 (Standard) / HKD115,000 (High Availability)
CC OG Monthly Fee	HKD1,250 per CC OG

- No entitlement throttle, need to purchase new throttles to trade Northbound; and
- Lower hardware costs for CC OG compared with AMS OG as security card is not required.

SECTION 11: CROSS-BOUNDARY FRAMEWORK

- 11.1. Under Shanghai-Hong Kong Stock Connect, EPs and CPs will continue to be governed and protected by the regulations and rules of the Hong Kong market. However, cross-boundary trades executed by EPs through the Pilot Programme will have to follow the business rules of the A share market. In this connection, the rules of SEHK and CCASS will be amended respectively to reflect the business rules applicable to the cross-boundary trades, with which EPs and CPs will have to comply.
- 11.2. According to the Joint Announcement, 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 their current bilateral agreement to strengthen enforcement cooperation in respect of the following areas:
- (a) referral and information exchange mechanisms concerning improper activities;
 - (b) investigatory cooperation in relation to cross-boundary illegal activities including disclosure of false or misleading information, insider dealing and market manipulation;
 - (c) bilateral enforcement exchange and training; and
 - (d) enhancement of general standards of cross-boundary enforcement cooperation.

The Joint Announcement further notes that 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.

- 11.3. At the exchange level, the market surveillance teams of SEHK and SSE will agree on information sharing and investigative assistance mechanisms relating to the provision of their own participants' trade and order information to the other market in order to assist each other in monitoring their own markets and the two regulators with regard to their cross-boundary regulatory and enforcement cooperation.

SECTION 12: IMPLEMENTATION

Tentative timetable (Updated as of 26 September 2014)

- 12.1. As mentioned in the Joint Announcement, launch of Shanghai-Hong Kong Stock Connect will only take place once 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. All necessary investor education programmes must also be in place.
- 12.2. It should take approximately six months from the date of the Joint Announcement to complete the preparation for formal launch.
- 12.3. Below is the tentative implementation schedule of Shanghai-Hong Kong Stock Connect:

Time	Event
May 2014	1 st Round of EP/CP Briefing
End of May 2014	Return of Form of Indication of Interest by EP & CP
June/July 2014	2 nd Round of EP/CP Briefing
End of June 2014	EPs & CPs submit application to participate in Shanghai-Hong Kong Stock Connect at its initial launch
2 July to 15 August 2014	End to End (E2E) Tests
Late July to early August 2014	3 rd Round of EP/CP Briefing (Market Rehearsal arrangements)
By 15 August 2014	EPs submit E2E Test results
23 and 24 August 2014	Connectivity Test#
30 and 31 August 2014	Market Rehearsal 1
13 and 14 September 2014	Market Rehearsal 2
20 and 21 September 2014	Practice Session 1
11 October 2014	Practice Session 2
To be decided	Launch of Shanghai-Hong Kong Stock Connect*

* Subject to SFC approval

Applying to Participate in Shanghai-Hong Kong Stock Connect

- 12.4. EPs and CPs who are interested in participating in Shanghai-Hong Kong Stock Connect should complete and submit to SEHK and HKSCC the relevant application form which can be downloaded from the HKEx website at <http://www.hkex.com.hk/chinaconnect>.

APPENDIX I: TRADING ARRANGEMENTS UNDER SHANGHAI-HONG KONG STOCK CONNECT

Initial Northbound Trading Arrangements (Updated as of 26 September 2014)

I. Trading Arrangements that are common for SSE and Shanghai-Hong Kong Stock Connect (Northbound Trading)		
1.	Order Modification	Not available on SSE
2.	Day (Turnaround) Trading	Not allowed
3.	Manual Trade	Not available on SSE (except for block trade)
4.	Trading Currency	RMB
5.	Board Lot	100 shares (applicable for buy orders only)
6.	Odd Lot	Sell orders only (odd lot should be made in one single order)
7.	Max Order Size	1 million shares
8.	Spread	Uniform at RMB 0.01
9.	Price Limit	±10% on previous closing price (±5% for stocks under special treatment on risk alert board, i.e. ST and *ST stocks)
10.	Pre-trade monitoring	Applied

II. Trading Arrangements that are Different between SSE and Shanghai-Hong Kong Stock Connect (Northbound Trading)			
		SSE	Shanghai-Hong Kong Stock Connect
1.	Order Types	<u>Call Auction</u> : Limit orders*; <u>Continuous Auction</u> : Limit Orders; Market orders	<u>Call Auction</u> : Limit orders <u>Continuous Auction</u> : Limit orders
2.	Block Trade	Allowed	Not allowed
3.	Short Selling	Allowed (restrictive)	Naked short selling not allowed Subject to certain conditions, allowed to participate in covered short sell. But not available at initial launch given system development required
4.	Margin Financing & SBL	Allowed (restrictive)	Not allowed to participate in Mainland's margin trading and securities lending Subject to certain conditions, allowed to participate in margin trading and SBL in SSE Securities outside of Mainland
5.	Designated broker	Required	Not required
6.	Trading on Hong Kong Holidays	Allowed	Not allowed (if trade day and/or settlement day falls on Hong Kong holiday)

* SSE limit orders may be executed at or better than the input price