

# Shanghai-Hong Kong Stock Connect

## FAQ for Market Participants

(Updated: 10 November 2014)

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## **PART 1: TRADING**

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### *General*

#### **1.1. What is Shanghai-Hong Kong Stock Connect?**

Shanghai-Hong Kong Stock Connect is a securities trading and clearing links programme to be developed by Hong Kong Exchanges and Clearing Limited (HKEx), Shanghai Stock Exchange (SSE) and China Securities Depository and Clearing Corporation Limited (ChinaClear), aiming to achieve a breakthrough in mutual market access between the Mainland and Hong Kong.

Under Shanghai-Hong Kong Stock Connect, The Stock Exchange of Hong Kong Limited (SEHK), a wholly-owned subsidiary of HKEx, and 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), also a wholly-owned subsidiary of HKEx, and 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.

#### **1.2. Is Shanghai-Hong Kong Stock Connect open to all Exchange Participants (EPs)?**

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>.

#### **1.3. Is Shanghai-Hong Kong Stock Connect open to all investors?**

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.

#### **1.4. Will all securities listed on SSE be eligible for trading through Shanghai-Hong Kong Stock Connect?**

##### *General eligibility criteria*

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 (ETFs), bonds, and other securities will not be included.

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”<sup>1</sup>.

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 board”, 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*

Investors will only be allowed to sell an SSE Security but restricted from further buying if:

- (a) the SSE Security subsequently ceases to be constituent stock of the relevant indices; and/or
- (b) the SSE Security is subsequently put under “risk alert board”; 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)*

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 (a) 10 trading days after the date of listing on SSE and (b) after expiry of the price stabilisation period for the H share (as stipulated in its H share offer prospectus), whichever is later.

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 expiry of the price stabilisation period (as stipulated in its H share offer prospectus).

Where a PRC company whose shares are listed on SEHK (as H share) seeks an A share listing on SSE, the A share will be accepted as an SSE Security 10 trading days after the date of listing on SSE. Where practicable, relevant announcements will be made to inform the market of the exact date of an individual stock becoming an SSE Security.

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 which is not suspended from trading on SSE.

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<sup>1</sup> According to the SSE Listing Rules, any SSE-listed company which is in the delisting process, or which operation is unstable due to financial or other reasons, to the extent that it is running the risk of being delisted or exposing investors' interest to undue damage, the SSE-listed company will be earmarked and traded on the “risk alert board”. For details, please refer to the SSE Listing Rules at [http://www.sse.com.cn/lawandrules/sserules/listing/stock/c/c\\_20131230\\_3760420.pdf](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](http://www.sse.com.cn/lawandrules/sserules/trading/stock/c/c_20121217_3669125.shtml).

*Entitlement shares (Updated as of 26 September 2014)*

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;
- (c) if the entitlement security is an SSE-listed security but is not traded in RMB, Hong Kong and overseas investors will not be allowed to buy or sell the entitlement security through Shanghai-Hong Kong Stock Connect. SSE and SEHK will consult each other to agree on the appropriate treatment of the entitlement security; and
- (d) 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.

**1.4A. Will there be any special arrangement to exclude certain eligible SEHK Securities from Southbound Trading during initial launch? (Updated as of 10 November 2014)**

To ensure smooth implementation of Shanghai-Hong Kong Stock Connect and that Mainland investors have sufficient time to familiarize themselves with the trading rules and practices for SEHK Securities, eligible securities that will undergo trading arrangement(s) resulting in parallel trading (e.g. share consolidation / subdivision and change in board lot size) before 30 November 2014 will be excluded from the SEHK Securities list, until they have completed parallel trading and the last conversion cycle in CCASS. EPs should refer to the SEHK Securities list available at the SSE website from time to time.

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

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.

**1.6. Is there a quota for Shanghai-Hong Kong Stock Connect?**

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.

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.

The Northbound Aggregate Quota is set at RMB 300 billion. The Southbound Aggregate Quota is set at RMB 250 billion.

The Northbound Daily Quota is set at RMB 13 billion, and the Southbound Daily Quota is set at RMB 10.5 billion.

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 or input order cancellation requests regardless of the quota balance.

#### **1.7. How does the Aggregate Quota work? (Updated as of 14 October 2014)**

The Northbound Aggregate Quota is set at RMB 300 billion. The Southbound Aggregate Quota is set at RMB 250 billion. At the end of each trading day, SEHK will calculate and disseminate the remaining balance of the Northbound Aggregate Quota as follows:

Aggregate Quota balance = Aggregate Quota – aggregate buy trades + aggregate sell trades (calculated at the weighted average cost)

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.

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.

#### **1.8. How does the Daily Quota work? (Updated as of 26 September 2014)**

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

SEHK will monitor 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:

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

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.

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.

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.

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.

**1.9. How does an EP know how much quota is available in the market? (Updated as of 26 September 2014)**

The Daily Quota balance will be disseminated via CC OG and OMD Index Feed at 5-second intervals and via HKEx's website at 1-minute intervals. The Aggregate Quota balance will be published on HKEx's website after SSE's market close.

**1.10. How will the Northbound Daily Quota balance be updated and disseminated during the 5-minute order input period before SSE opens for trading? Will the Daily Quota Balance be updated when an EP inputs an order? Will the Daily Quota Balance be updated when an EP inputs an order cancellation request? (Updated as of 26 September 2014)**

The Northbound Daily Quota balance will be reduced whenever CSC receives and accepts a buy order, but the updated Daily Quota balance will only be disseminated according to the dissemination schedule, i.e. every 5 seconds for CC OG and OMD Index Feed and every minute on the HKEx website. The Daily Quota balance will normally be increased when SSE sends an order cancellation confirmation to CSC. However, as SSE is not open for trading during the 5-minute order input period between 9:10 and 9:15 on a trading day, the Daily Quota balance will NOT be increased due to the input of order cancellation by EPs during that period.

**1.11. Does it mean that buy orders will no longer be accepted by CSC during a trading day once the Daily Quota balance drops to zero or becomes negative? (Updated as of 6 October 2014)**

Depending on when the Daily Quota balance drops to zero or below, new buy orders may or may not be accepted by CSC during a trading day:

| Time when Daily Quota balance drops to zero or becomes negative | Will buy orders be accepted again?               |                          |
|---|--|--------------------------|
|   | During that session                              | In following session(s)* |
| 09:10 – 09:15 (5-minute input period)                           | No   | Yes                      |
| 09:15 – 09:25 (Opening Call Auction)                            | Only if subsequently the Daily Quota balance > 0 | Yes                      |
| 09:25 – 09:30 (5-minute input period)                           | Only if subsequently the Daily Quota balance > 0 | Yes                      |
| 09:30 – 11:00 (Continuous Auction – morning)                    | No   | No                       |

|  |    |    |
|--|----|----|
| 12:55 – 13:00 (5-minute input period)          | No | No |
| 13:00 – 15:00 (Continuous Auction – afternoon) | No | No |

\* If subsequently the Daily Quota Balance > 0

**1.12. Are there any measures in place to prevent quota hogging? (Updated as of 26 September 2014)**

Since the announcement of Shanghai-Hong Kong Stock Connect, SEHK has received market feedback concerning the possibility of mischievous behavior towards the use of the Northbound quota, which may affect the proper running of the programme. In light of this, 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. 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.

**1.13. Can an EP place buy orders at a lower price first when trading commences and then amend the price of the orders afterwards in order to secure the availability of quota for Northbound trading? (Updated as of 26 September 2014)**

Northbound orders cannot be amended. EPs who wish to amend their Northbound orders must cancel the original orders first and then input new orders. The quota released at the time of order cancellation may immediately be taken up by orders input by other EPs. Hence, quota cannot be “reserved” by using this method. More importantly, EPs should not place buy orders with fictitious prices in order to secure or reserve the quota as such behavior will breach the Rules of SEHK, and SEHK has the right to take disciplinary actions against such EPs. EPs are therefore advised to remind their clients not to provide buy order instructions with an aim to “reserve” or “hog” the quota.

***Regulatory Matters***

**1.14. Will EPs and Clearing Participants (CPs) be subject to the Rules of SSE and ChinaClear if they participate in Shanghai-Hong Kong Stock Connect?**

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 Shanghai-Hong Kong Stock Connect 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.

**1.15. Is day trading of SSE Securities allowed?**

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.

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

**1.16. Is margin trading allowed for SSE Securities? (Updated as of 14 October 2014)**

Subject to conditions, margin trading in SSE Securities may be conducted.

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.

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.

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 1.17). 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.

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.

**1.17. What are the prescribed thresholds that SSE may suspend or resume margin trading activities in specific A shares? (Updated as of 14 October 2014)**

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/>.

As mentioned in 1.16, 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.

**1.18. Is Stock Borrowing and Lending (SBL) allowed for SSE Securities? (Updated as of 14 October 2014)**

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).

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.

**1.19. What SSE Securities can be the subject of stock borrowing and lending? (Updated as of 14 October 2014)**

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.

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.

**1.20. Who can participate in SBL of SSE Securities? Can I lend SSE Securities of which I am not the beneficial owner? (Updated as of 14 October 2014)**

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);<sup>2</sup>
- (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.

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:

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

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.

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.

<sup>2</sup> 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))

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.

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.

**1.21. Is short selling of SSE Securities allowed through Northbound trading? (Updated as of 14 October 2014)**

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:

- (a) the eligibility of SSE Securities that can be short sold;
- (b) flagging of short selling orders by EPs when inputting them into the system;
- (c) 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.

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.

**1.22. What are the prescribed thresholds that SSE may suspend or resume short selling activities in specific A shares? (Updated as of 14 October 2014)**

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 stock's 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/disclosure/margin/>.

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/>.

**1.23. What will happen to an outstanding SBL agreement if the relevant stock is taken out from the List of Eligible SSE Securities for Short Selling? Does the SBL agreement need to be closed out immediately? (Updated as of 14 October 2014)**

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.

**1.24. Can SSE Securities be transferred off-exchange? (Updated as of 26 September 2014)**

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

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

With respect to (a) and (b), details are set out in Q1.18.

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.

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:

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

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.

**1.25. How will the forced-sale arrangement take place when the aggregate foreign shareholding in a particular SSE Security exceeds 30%? (Updated as of 26 September 2014)**

If the aggregate foreign shareholding limit (currently set at 30%) is exceeded due to trading in SSE Securities through Shanghai-Hong Kong Stock Connect, SSE will notify SEHK the number of shares that are subject to forced sale within 5 trading days. On a last-in-first-out basis, SEHK will identify the relevant trades involved and request the relevant EPs to require the clients concerned to sell the shares within the timeframe as stipulated by SEHK. If the relevant investors fail to sell their shares before the stipulated deadline, EPs will be required to force-sell the shares for the relevant investors in accordance with the Rules of SEHK, which contain provisions aimed at complying with the Mainland forced-sale regulations. Accordingly, EPs are advised to include relevant provisions in their client agreements such that they are authorized to comply with the forced-sale arrangement where applicable. It should be noted that the relevant Mainland regulations also provide that foreign investors who are subject to the forced-sale arrangement may apply for exemption if the aggregate foreign shareholding in the relevant A share drops below 30% within the 5-day forced-sale period. Where the aggregate foreign shareholding in respect of an A share drops below 30% during the 5-day period before an investor's shares are sold, EPs may apply to SEHK on behalf of their clients for an exemption from complying with the requirement so that the shares can be lifted from forced-sale and EPs can continue hold their SSE Security.

There may be cases where an EP who is subject to the forced-sale arrangement has transferred the shares to another CCASS Participant at the request of its client prior to receiving the forced-sale notice from SEHK. As stipulated under CCASS Rule

4110, such CCASS Participants should transfer the relevant SSE Securities back to the EP concerned after the end of the 5-day period in the case where the client has not sold the shares in accordance to the forced-sale notice.

**1.26. Do EPs need to sign separate client agreement with their clients who want to participate in Northbound trading? (Updated as of 26 September 2014)**

For those clients who want to participate in Northbound trading, EPs should review their client agreement to ensure it has sufficient clauses covering the trading of SSE Securities including the risks involved. It is expected that the client agreement should, among other things, include the following for Northbound trading:

- (a) No day trading is allowed;
- (b) Pre-trade checking is in place so that a client must have his/her shares transferred to the EP's corresponding CCASS account before the commencement of trading on a trading day if he/she intends to sell the shares during a trading day;
- (c) All trading must be conducted on SSE, i.e. no over-the-counter (OTC) or manual trades are allowed;
- (d) Naked short selling is not allowed;
- (e) Foreign shareholding restriction (including the forced-sale arrangement) is in place and EPs should have the right to "force-sell" client's shares upon receiving the forced-sale notification from SEHK;
- (f) Investors should understand fully the Mainland rules and regulations in relation to short-swing profits, disclosure obligations and follow such rules and regulations accordingly;
- (g) EPs may have the right to cancel client's orders in case of contingency such as hoisting of Typhoon Signal No 8 in Hong Kong;
- (h) EPs may not be able to send in client's order cancellation requests in case of contingency such as when SEHK loses all its communication lines with SSE, etc and investors should still bear the settlement obligations if the orders are matched and executed;
- (i) Clients must comply with SSE Rules and other applicable laws of Mainland China relating to Northbound trading;
- (j) EPs may forward the client's identity to SEHK which may on-forward to SSE for surveillance and investigation purposes;
- (k) If the SSE Rules are breached, or the disclosure and other obligations referred to in the SSE Listing Rules or SSE Rules is breached, SSE has the power to carry out an investigation, and may, through SEHK, require EPs to provide relevant information and materials and to assist in its investigation;
- (l) SEHK may upon SSE's request, require an EP to reject orders from the client;
- (m) Client needs to accept the risks concerned in Northbound trading, including but not limited to prohibition of trading SSE Securities, being liable or responsible for breaching the SSE Listing Rules, SSE Rules and other applicable laws and regulations;
- (n) SSE may request SEHK to require EP to issue warning statements (verbally or in writing) to their clients, and not to extend Northbound trading service to their clients; and

- (o) HKEx, SEHK, SEHK Subsidiary, SSE and SSE Subsidiary and their respective directors, employees and agents shall not be responsible or held liable for any loss or damage directly or indirectly suffered by an EP, its clients or any third parties arising from or in connection with Northbound trading or the CSC.

## **Trading Operations**

### **1.27. Can EPs use the existing trading device to participate in Shanghai-Hong Kong Stock Connect? (Updated as of 26 September 2014)**

SEHK will set up a new order routing system (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 (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 code. Existing trading functions which are not applicable to the Northbound trading will be removed from the CC OG. EPs may redeploy specific models of their existing OG as CC OG, please refer to Part 6 for details.

### **1.28. What are the trading hours for trading SSE Securities through Shanghai-Hong Kong Stock Connect?**

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

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

### **1.29. What order types will Shanghai-Hong Kong Stock Connect accept?**

EPs can only input limit orders to trade SSE Securities through Shanghai-Hong Kong Stock Connect.

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 or a better price. Any unfilled quantity after matching will remain in the queue of the specified price.

### **1.30. Can an EP input manual trades via Shanghai-Hong Kong Stock Connect?**

EPs are not allowed to input manual trades via Shanghai-Hong Kong Stock Connect.

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



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

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

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

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

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

**1.34. What is the currency for trading and settling SSE Securities via Shanghai-Hong Kong Stock Connect?**

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

**1.35. If a Northbound order remains unexecuted by the end of the trading day, will it be carried forward to the following trading day? (Updated as of 26 September 2014)**

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

**1.36. Will northbound trading open in the afternoon if the Hong Kong market is a half trading day? (Updated as of 26 September 2014)**

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

**1.37. Does the requirement to issue contract notes on T+2 apply to Northbound trades executed by EPs for clients in Hong Kong? (Updated as of 26 September 2014)**

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

contract. A “relevant contract” includes a contract for a dealing in securities, whether it is in local or overseas securities.

**1.38. Which format of stock code (6 digits 60xxx as used by SSE or 5 digits 9xxxx as used by CCASS) should be presented in the contract notes? (Updated as of 26 September 2014)**

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

**1.39. Will SEHK provide a trading calendar specific for Northbound Trading? (Updated as of 26 September 2014)**

SEHK will provide the Northbound Trading Calendar before the launch of Shanghai-Hong Kong Stock Connect and the beginning of each calendar year thereafter. For the market’s reference, SEHK has prepared a “Mock Northbound Trading Calendar” covering the period from October to December 2014 (please refer to: [www.hkex.com.hk/chinaconnect](http://www.hkex.com.hk/chinaconnect)) as a sample. Once the rollout day is confirmed, an actual trading calendar will be provided.

**1.40. What are the Market Identifier Codes (MIC) for Northbound / Southbound trading? (Updated as of 26 September 2014)**

SWIFT has published two MIC respectively for Northbound and Southbound trading. For Northbound trading, the MIC is XSSC; for Southbound trading, the MIC is SHSC. For further details, please refer to:

<http://www.iso15022.org/MIC/homepageMIC.htm>.

**1.41. Are there any restrictions in odd lot trading in SSE Securities? (Updated as of 26 September 2014)**

For Northbound trading, EPs are allowed to input odd lot sell orders. However, odd lot buy orders will not be accepted. In addition, an investor (or ultimate beneficial owner) who places an odd lot sell order must ensure he/she sells all the odd lot in that SSE Security in one go. For example, if an investor has 107 shares of a certain SSE Security in his/her stock account, EPs can only input a sell order of 7 shares or 107 shares.

**1.42. What is the record keeping period required for Northbound trading? (Updated as of 14 October 2014)**

To comply with the applicable laws in Mainland China and the requirements of SSE, EPs should keep proper books and records of the orders and trades input or executed

by it and the related client instructions and information (including the telephone recording) for a period of not less than **20 years**.

**1.43. For those EPs who have not registered with SEHK as a China Connect EP to participate in Shanghai-Hong Kong Stock Connect, can they trade SSE Securities through a China Connect? What would be the arrangement? (Updated as of 14 October 2014)**

EPs who are registered with SEHK as China Connect EPs can directly input orders into the CSC for routing to the SSE trading system for execution. EPs who do not wish to be registered as China Connect EPs but who wish to provide services to their clients to trade in SSE Securities may do so through China Connect EPs for the account of their clients. As Trade-through EPs, these EPs are required to provide a declaration to SEHK declaring their readiness for Northbound trading. Among other things, their back office systems must have the capability of conducting pre-trade checking, client agreements must be amended to allow for Northbound trading and appropriate arrangements must be made to ensure that their clients understand the risks of investing in SSE Securities, etc. These Trade-through EPs will be required to abide by the SEHK rules governing Northbound trading as if they were China Connect EPs. SEHK will publish the names of such EPs on the HKEx website.

***Pre-trade Checking***

**1.44. What is pre-trade checking?**

Mainland investors are only allowed to sell SSE-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.

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 as of T-1 day-end.

**1.45. Which party is responsible for enforcing the pre-trade checking rule for Shanghai-Hong Kong Stock Connect?**

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 Direct Clearing Participants (DCP) who holds stocks by itself), or appoint a General Clearing Participant (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.

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

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

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

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

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

CCASS maintains multiple stock accounts for each CP, and a CP may maintain SSE Securities in its different accounts. For EPs who are also CPs (i.e. Direct Clearing Participants or DCPs), all SSE Securities in their CCASS accounts (except account 20 which is for collateral recording and management) will be counted for pre-trade checking. For NCPs who have linked up with a GCP, pre-trade checking will be performed against their SSE Securities balance in their designated SSAs under the GCP.

***Foreign Shareholding Restriction***

**1.49. Will there be any foreign shareholding restriction on SSE Securities? (Updated as of 26 September 2014)**

Under current Mainland rules, unless otherwise permitted by the relevant strategic investor regulations, 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.

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.

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 will identify the relevant EP and require it to follow the forced-sale requirements.

HKEx will publish a notification on its website to inform the market about suspension of buy orders if the shareholding limit goes beyond 28% and about the resumption of buy orders if the shareholding drops below 26%.

Foreign investors can continue to sell the A share 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, EPs who were subject to the forced-sale requirement may submit application to the SEHK for forced-sale exemption.

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

**1.50. Will there be any disclosure obligations for SSE Securities? (Updated as of 26 September 2014)**

According to the Law of the PRC on Securities, when an investor holds or controls up to 5% of the issued shares of a Mainland listed company, the investor is required to report in writing to the CSRC and the relevant exchange, and inform the listed company within three working days. The investor is not allowed to continue purchasing or selling shares in that listed company during the three days.

For such investor, every time when a change in his shareholding reaches 5%, he is required to make disclosure (in the same manner as mentioned above) within three working days. From the day the disclosure obligation arises to two working days after the disclosure is made, the investor may not buy or sell the shares in the relevant Mainland listed company.

If a change in shareholding of the investor is less than 5% but results in the shares held or controlled by him falling below 5% of the relevant Mainland listed company, the investor is required to disclose the information within three working days.

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## **PART 2: CLEARING AND SETTLEMENT**

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### *General*

**2.1. How will CCASS Participants be notified when an SSE Security is admitted for clearing and settlement in CCASS? (Updated as of 26 September 2014)**

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

**2.2. Are the English abbreviated names of SSE Securities used in CCASS the same as the official names published by SSE? (Updated as of 26 September 2014)**

CCASS Participants can obtain the official English abbreviated names of SSE Securities from the SSE's website (<http://www.sse.com.cn/assortment/stock/home/>) by clicking into the profile of each SSE Security.

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

**2.3. Will different ISINs be assigned to an SSE Security and its corresponding H shares listed on SEHK? (Updated as of 26 September 2014)**

Yes, the A shares and the H shares issued by a listed company will have two different ISINs.

### *CP Eligibility*

**2.4. Who are eligible to clear and settle SSE Securities trades executed via Shanghai-Hong Kong Stock Connect?**

The following types of CPs under the CCASS Rules can apply to become an eligible participant to clear and settle Northbound trades:

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

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.

A list of eligible CPs will be published on the HKEx website.

**2.5. What are the registration criteria set by HKSCC for CPs to participate in Shanghai-Hong Kong Stock Connect?**

CPs should comply with the following registration criteria before they will be accepted to clear and settle SSE Securities trades under Shanghai-Hong Kong Stock Connect:

- (a) Internal back office system and operational procedures capabilities (including internal processes, control procedures and documentation) to handle SSE Securities and the related settlement process including a new settlement cycle;
- (b) RMB settlement capabilities via the Real Time Gross Settlement system (RTGS) operated by HKICL on Hong Kong business days initially<sup>3</sup>;
- (c) Successful completion of the market rehearsal(s)/test(s) prescribed by HKSCC and/or prove to the satisfaction of HKSCC their system and operational readiness for conducting and/or clearing SSE Securities trades; and
- (d) Provide confirmation to HKSCC of their readiness to comply with any requirements, directions or restrictions imposed by the HKSCC from time to time.

**2.6. Who can hold SSE Securities purchased via Shanghai-Hong Kong Stock Connect in CCASS?**

Initially, only CPs and Custodian Participants can hold SSE Securities in CCASS.

Investor Participants will not be allowed to hold SSE Securities in their CCASS accounts in the initial stage.

*Clearing and Settlement Services*

**2.7. Who will settle with CPs on their SSE Securities trades? HKSCC or ChinaClear?**

HKSCC will settle with CPs on their SSE Securities trades.

To facilitate the clearing and settlement of cross-boundary trades executed under Shanghai-Hong Kong Stock Connect, HKSCC and ChinaClear will establish Clearing Links and become a participant of each other.

All trades executed on SSE, including the SSE Securities trades executed by the SEHK subsidiary for EPs, are settled in ChinaClear. Being a participant of ChinaClear, HKSCC will settle the SSE Securities 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, under the CCASS Continuous Net Settlement (CNS) system.

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<sup>3</sup> Subject to further development of the Shanghai-Hong Kong Stock Connect model at a later stage, Hong Kong and overseas investors may be able to trade SSE Securities on all days when the SSE market opens, by then CPs may also be required to settle their RMB money positions on Hong Kong public holidays and typhoon/rainstorm days.

**2.8. How and when will CPs be notified of their settlement obligations in respect of their SSE Securities trades?**

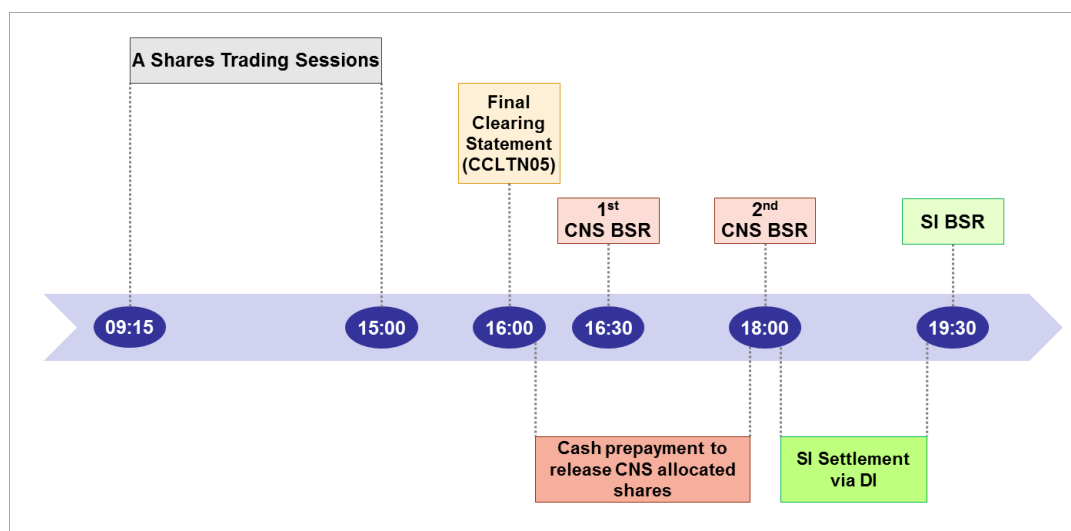
On each trading day after the A share market closes, CCASS will generate a “Final Clearing Statement” for SSE Securities trades at around 4:00 p.m. for CPs to prepare for settlement. *Please note that the “Provisional Clearing Statement” currently provided for trades executed on SEHK will not be applicable to SSE Securities trades.*

**2.9. What is the settlement cycle for SSE Securities trades?**

SSE Securities trades will follow the settlement cycle of the Shanghai securities market, where stock will be settled on T-day, and money will be settled on T+1.

**2.10. How and at what time on T-day will SSE Securities trades be settled? Will SSE Securities trades be settled in the existing CCASS Batch Settlement Runs? Can CPs use Delivery Instructions (DIs) to settle their SSE Securities trades?**

CCASS will introduce two new Batch Settlement Runs designated to settle the CNS stock positions in SSE Securities (CNS BSRs) at around 4:30 p.m. and 6:00 p.m. on T-day. Upon the completion of the second CNS BSR, CCASS will generate a “Settled Position Report” recording the settled stock positions for CPs’ reference and follow-up. Use of DIs to settle SSE Securities CNS stock positions will not be allowed in the initial stage.



**2.11. How and at what time on T+1 will money settlement of SSE Securities trades take place? (Updated as of 26 September 2014)**

Money settlement of SSE Securities trades will take place on T+1 via RTGS. 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 CP. On T+1 morning, CCASS will issue CHATS Payment Instructions (CPIs) in the net amount to CPs’ designated banks such that:

- (a) CPs who have a net payable amount should 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.



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

**2.12. Do CPs need to open a new set of CCASS designated bank accounts to facilitate the money settlement of SSE Securities trades?**

CPs who have already opened RMB CCASS designated bank accounts can continue to use their existing RMB bank accounts for settling their SSE Securities trades. However, they should ensure that their designated banks provide RMB RTGS services as SSE Securities trades will be settled via RTGS. CPs can also continue to use their existing HKD CCASS designated bank accounts for other CCASS payments.

**2.13. Will new sets of CCASS stock and money ledger accounts be maintained for CPs participating in Shanghai-Hong Kong Stock Connect?**

CPs can continue to use the existing set of stock accounts (including SSAs) and money ledger accounts for maintaining SSE Securities and settling the relevant trades.

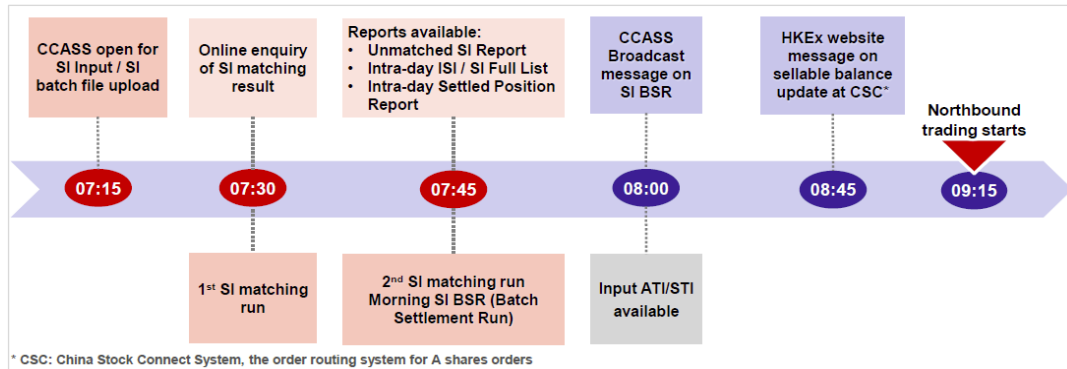
**2.14. Will existing CCASS functions and reports also be applicable to SSE Securities?**

Most of the existing CCASS maintenance and batch file transfer functions as well as CCASS reports and data files will be modified to support SSE Securities. However, due to different clearing and settlement schedules, the availability of individual functions, reports and data files for SSE Securities may be different from those for the Hong Kong market. Details will be supplemented later.

**2.15. Can a CCASS Participant use Settlement Instruction (SI) to transfer SSE Securities to another CCASS Participant within CCASS? (Updated as of 26 September 2014)**

A CCASS Participant may make use of the existing SI related maintenance and batch file transfer functions to input SI for transferring SSE Securities from/to its SI counterparties, provided that such transfer does not amount to a non-trade transfer which is not permitted under the CCASS Rules. CCASS Participants can settle SIs in SSE Securities by way of Batch Settlement Runs or DIs, but the settlement can only be conducted during the first SI Batch Settlement Run (SI BSR) or after the completion of the second CNS BSR for SSE Securities at around 6:00 p.m. Two new Batch Settlement Runs will be executed at 7:45 a.m. and 7:30 p.m. to settle SI stock positions in SSE Securities. However, the SI BSR at 7:45 a.m. will only settle SIs in SSE Securities where the delivering party is either a Custodian Participant or a GCP which is not an EP.

Please note that initially, only Free of Payment (FOP) SIs will be available for SSE Securities.



**2.16. Will ATIs and STIs be available for CCASS Participants to transfer SSE Securities between their own CCASS stock accounts including SSAs?**

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

**2.17. Can an CP effect prepayment on T day to release the A shares which are put on-hold in its CCASS stock account as a result of CNS settlement? Under what circumstances is prepayment necessary? (Updated as of 26 September 2014)**

For Northbound trading, A shares credited to a CP's stock account for the settlement of a CNS position on T day will be put on-hold until money is settled on T+1. A CP who wishes to transfer such A shares to another CCASS Participant on T day will need to arrange cash prepayment in order to enable SI transfer after the completion of CNS settlement. A GCP who wishes to transfer such A shares to the designated stock accounts of its NCPs to make them available for sale on the next day by the relevant NCPs will also need to arrange cash prepayment to release such A shares for ATI/STI transfer.

**2.18. Can CPs make prepayment to release on-hold CNS allocated SSE Securities during the day? (Updated as of 26 September 2014)**

CPs can make use of the cash prepayment services to release CNS allocated SSE Securities on T-day, if applicable. However, in the initial stage, cash prepayment for SSE Securities will be handled manually. CPs are required to inform HKSCC of the prepayment by phone or e-mail on T-day. HKSCC will update CPs' money ledger only when the funds and supporting documents are received no later than 6:00 p.m. on the same day.

**2.19. Will overdue CNS positions in SSE Securities be subject to compulsory buy-in? Can CPs request for early buy-in on such overdue CNS positions?**

CNS short positions in SSE Securities being overdue after the second CNS BSR at around 6:00 p.m. on T-day will be subject to compulsory buy-in and penalty charges. HKSCC will instruct its authorised brokers to effect buy-in on T+1 morning. Buy-in details for SSE Securities will be listed in the "Buy-in Notification Report" generated for SSE Securities shortly after the completion of the second CNS BSR.

CPs should note that the current "early buy-in" arrangement will not be applicable to SSE Securities. At present, a CP who anticipates difficulty in settling a CNS short position in HK stocks may initiate a request for HKSCC to execute buy-in before the

position becomes overdue. Such requests may be submitted the latest in the morning of T+2. As SSE Securities trades are settled on T-day, this “early buy-in” arrangement will not be available.

**2.20. Can a CCASS Direct Clearing Participant (DCP) transfer SSE Securities to another CCASS DCP in the morning Settlement Instruction (SI) session? (Updated as of 26 September 2014)**

The morning SI session is only for Custodians or GCPs which are not EPs to transfer SSE Securities to CPs / Custodians. DCPs should only be recipients of SSE Securities in that session.

***Third-Party Clearing***

**2.21. How can a GCP support its NCP clients in trading SSE Securities?**

SSE Securities orders are subject to pre-trade checking. 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. For those EPs who are also CPs, they can refer to their SSE Securities in their CCASS stock accounts as their sellable shares. For an EP who is an NCP, it can appoint a GCP to hold SSE Securities on its behalf, in a designated SSA of the GCP, as its sellable shares.

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

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

**2.22. Can an EP being a DCP for its trades in SEHK-listed securities appoint a GCP to clear and settle its SSE Securities trades? (Updated as of 26 September 2014)**

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

**2.23. Can an NCP sell SSE Securities on the next day if such shares have just been acquired on current day? Is the GCP required to do anything to support the sell transaction?**

At present, shares allocated to a CP for settling a CNS position will be put on-hold in the CP’s stock clearing account until the relevant CNS payment is made in full. For GCPs who clear SSE Securities trades for multiple NCPs, in the case of SSE Securities, although the CNS payment will be completed by noon on T+1, due to the

pre-trade checking mechanism, the SSE Securities balance snapshot as of the close of T day will not include those on-hold SSE Securities in the CP's stock clearing account and therefore will not be available for selling on T+1 day. To make such SSE Securities available for selling on T+1 day, those NCPs must instruct their GCP to make cash prepayment to release the on-hold CNS allocated shares, and transfer the SSE Securities to their SSAs on T day. For GCPs who only clear their own SSE Securities trades or one NCP's SSE Securities trades, the SSE Securities balance snapshot as of the close of T day will include those on-hold SSE Securities.

### *Depository and Nominee Services*

**2.24. Can CCASS Participants deposit or withdraw physical certificates of SSE Securities?**

As shares traded on SSE are issued in scripless form, physical deposit and withdrawal of SSE Securities into/from the CCASS Depository are not available.

**2.25. Can Hong Kong and overseas investors through CCASS Participants request to receive hard copies of corporate communications such as circulars, annual reports from SSE-listed companies? (Updated as of 26 September 2014)**

No. Hong Kong and overseas investors should follow the Mainland market practice and 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.

**2.26. How will CCASS Participants be notified of the corporate actions of SSE Securities?**

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

**2.27. Will all the existing CCASS depository and nominee functions also be applicable to SSE Securities?**

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

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

A detailed function list for SSE Securities will be supplemented later.

**2.28. Can Hong Kong and overseas investors vote at the shareholder meetings of SSE Securities through HKSCC? (Updated as of 26 September 2014)**

Yes. SSE-listed issuers 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.

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 account 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 issuer via the designated on-line voting platform.

**2.29. Can Hong Kong and overseas investors attend the shareholder meetings of issuers of SSE Securities in person or appoint more than one person to attend and act as proxy at the meetings on their behalf? (Updated as of 26 September 2014)**

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.

**2.30. Are the cash dividend and/or bonus shares of SSE Securities subject to any Mainland tax? What is the tax rate?**

According to the Individual Income Tax Policies on Dividends and Bonuses of Listed Companies introduced in January 2013, Mainland individual investors are required to pay income tax on cash dividend and/or bonus shares, at a rate ranges from 5% to 20% depending on the holding period of the underlying shares. On the other hand, according to the Corporate Income Tax Law (CIT) of PRC, non-resident corporates are subject to 10% withholding tax on income sourced from PRC. HKSCC will clarify with the State Administration of Taxation (SAT) whether SSE Securities acquired through Shanghai-Hong Kong Stock Connect and held in the name of HKSCC in ChinaClear should be regarded as shares held by foreign corporate investor, and subject to the standard 10% withholding tax. CCASS Participants will be updated on the arrangement once available.

The tax rate and the dividend rate will be available via the existing "Enquire Announcement Information" function.

**2.31. Can Hong Kong and overseas investors participate in rights issue subscription of SSE-listed companies through CCASS Participants? What is the subscription period and subscription instruction input time for rights issue in CCASS? (Updated as of 26 September 2014)**

Yes. Normally, the subscription period for rights issue of SSE-listed companies will be around one week, but it may be as short as one business day only. CCASS

Participants may submit instructions via CCASS' 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 will be available in general. HKSCC will debit the rights entitlements in respect of which subscription have been made from the relevant stock accounts of the CCASS Participants and the subscription monies on the instruction input day. CCASS Participants may be required to submit written instructions together with proof of payment (in good fund) to HKSCC for cases where the subscription period is as short as one business day.

#### *A shares Ownership (Updated as of 26 September 2014)*

**2.32. In what capacity does HKSCC hold the SSE Securities acquired by Hong Kong and overseas investors through Shanghai-Hong Kong Stock Connect?**

HKSCC is the “nominee holder” (名義持有人) of the SSE Securities acquired by Hong Kong and overseas investors through Shanghai-Hong Kong Stock Connect<sup>4</sup>.

**2.33. Is such concept of “nominee holder” recognised under the laws and regulations of Mainland China? If so, what is the function of a “nominee holder”?**

The CSRC Stock Connect Rules, as departmental regulations having legal effect in Mainland China, expressly provide for the concept of a “nominee holder”. As mentioned in the response to Question 2.32, the concept is also expressly used in the SSE Stock Connect Pilot Provisions and the ChinaClear Stock Connect Implementing Rules. There are also other laws and regulations in Mainland China which provide that securities can be registered in an account opened in the name of such “nominee holder”<sup>5</sup>. The reference to “nominee holder” in the Settlement Measures expressly recognises the concept of a “beneficial owner” of securities (證券權益擁有人). In addition, pursuant to the Settlement Measures, a nominee holder (being HKSCC in relation to the SSE Securities) is the person who holds securities on behalf of others (being Hong Kong and overseas investors in relation to the SSE Securities)<sup>6</sup>. The rights and obligations of HKSCC as the nominee holder in relation to the SSE Securities acquired by Hong Kong and overseas investors are set out in the amended CCASS Rules and CCASS Operational Procedures (amendments approved by the SFC pending announcement of effective date). Similar to existing provisions on other securities, it is made clear that HKSCC has no proprietary interest in SSE Securities and as a nominee, HKSCC will be responsible for collecting and distributing dividends to its participants (for their own account and/or as agent for their investors), obtaining and consolidating voting instructions from its

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<sup>4</sup> See, article 7, *Several Provisions on the Pilot Program of Shanghai-Hong Kong Stock Market Connect*, the “**CSRC Stock Connect Rules**” 《滬港股票市場交易互聯互通機制試點若干規定》; article 118, *Shanghai Stock Exchange Shanghai-Hong Kong Stock Connect Pilot Programme Provisions*, the “**SSE Stock Connect Pilot Provisions**” 《上海證券交易所滬港通試點辦法》; and article 6, *ChinaClear's Implementing Rules for Registration, Depository and Clearing Services under the Shanghai-Hong Kong Stock Connect Pilot Programme*, the “**ChinaClear Stock Connect Implementing Rules**” 中國證券登記結算有限責任公司《滬港股票市場交易互聯互通機制試點登記、存管、結算業務實施細則》.

<sup>5</sup> Article 18, *the Administrative Measures for Registration and Settlement of Securities*, the “**Settlement Measures**” 《證券登記結算管理辦法》.

<sup>6</sup> Article 78, *Settlement Measures*.

participants and submitting a combined single voting instruction to the issuer of the relevant SSE Securities<sup>7</sup>.

#### **2.34. Who are the beneficial owners of the SSE Securities?**

While HKSCC is the “nominee holder”, it holds the SSE Securities on behalf of Hong Kong and overseas investors who are the beneficial owners of the SSE Securities. The CSRC Stock Connect Rules expressly provide that investors enjoy the rights and benefits of the SSE Securities acquired through Shanghai-Hong Kong Stock Connect<sup>8</sup> in accordance with applicable laws. Therefore, based on such provision, it is the Hong Kong and overseas investors as the ultimate investors (rather than any broker, custodian or intermediary through whom such investors hold the SSE Securities) who should be recognised under the laws and regulations of Mainland China as having beneficial ownership in the SSE Securities. Any broker or intermediary holding SSE Securities for its own account will also be regarded as an investor having beneficial ownership in such SSE Securities.

#### **2.35. Being the beneficial owner of the SSE Securities, can a Hong Kong or overseas investor exercise shareholder rights in Mainland China against the issuer of such SSE Securities?**

According to the “nominee holder” arrangement, the beneficial owners of the SSE Securities shall exercise their rights in relation to such securities through the nominee holder<sup>9</sup>. The securities account for the SSE Securities acquired by Hong Kong and overseas investors through Shanghai-Hong Kong Stock Connect will be opened in the name of HKSCC as nominee holder with China Securities Depository and Clearing Corporation Limited<sup>10</sup>. Accordingly, Hong Kong and overseas investors are to exercise shareholder rights in relation to the SSE Securities through HKSCC in accordance with the CCASS Rules and CCASS Operational Procedures including receiving dividends through, and giving voting instructions to, HKSCC<sup>11</sup>.

However, it should be noted that, under the CCASS Rules, HKSCC as nominee holder shall have no obligation to take any legal action or court proceeding to enforce any rights on behalf of the investors in respect of the SSE Securities in Mainland China or elsewhere. HKSCC as nominee holder will, upon the request of a participant holding SSE Securities through HKSCC, provide certification of the participant’s holdings of SSE Securities in CCASS.

#### **2.36. Who is obligated to make any disclosure in respect of SSE Securities acquired by Hong Kong and overseas investors?**

Pursuant to the laws and regulations of Mainland China, when trading in securities through Shanghai-Hong Kong Stock Connect, Hong Kong investors shall comply with their reporting and disclosure obligations in accordance with applicable laws

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<sup>7</sup> *New Rule 824 of the CCASS Rules and Section 8 of the CCASS Operational Procedures, and article 118, the SSE Stock Connect Pilot Provisions.*

<sup>8</sup> *Article 13, CSRC Stock Connect Rules.*

<sup>9</sup> *Article 5, China Securities Depository and Clearing Corporation Limited Securities Registration Rules 《中國證券登記結算有限責任公司證券登記規則》.*

<sup>10</sup> *Article 7, CSRC Stock Connect Rules.*

<sup>11</sup> *Article 118, the SSE Stock Connect Pilot Provisions.*

upon their triggering any relevant disclosure requirements (“Hong Kong investors” here refers to the investors who trade securities through Shanghai-Hong Kong Stock Connect, including both the local investors in Hong Kong and other overseas investors)<sup>12</sup>. Disclosure responsibilities are borne by the person who has “actual control over voting rights of the securities”<sup>13</sup>. Furthermore, this test may be satisfied by considering the single holding of an investor or by aggregating the holding of other parties “acting in concert” with such investor<sup>14</sup>. Accordingly, Hong Kong and overseas investors who will have “actual control over voting rights of the securities” (either individually or acting in concert with others) are responsible for complying with disclosure obligations under the laws and regulations of Mainland China in relation to SSE Securities acquired through Shanghai-Hong Kong Stock Connect.

Broadly speaking, a disclosure is required to be made within 3 days when such holding reaches 5% of the issued shares of an SSE-listed issuer. Thereafter, every increase or decrease in such holding by 5% will also trigger a disclosure to be made within 3 days. Please refer to Q1.45 for further discussion in relation to disclosure obligations under the laws and regulations of Mainland China.

The disclosure obligation in respect of changes to the interest in SSE Securities does not apply to HKSCC in its capacity as the nominee holder of SSE Securities holding on behalf of Hong Kong and overseas investors<sup>15</sup>.

**2.37. On the insolvency of HKSCC, will SSE Securities acquired by Hong Kong and overseas investors be regarded as general assets of HKSCC and therefore distributed to HKSCC’s creditors?**

As discussed in the response to Question 2.34, HKSCC is only the nominee holder of SSE Securities acquired by Hong Kong and overseas investors, and is not the beneficial owner of such securities. Accordingly, such SSE Securities will not be regarded as the general assets of HKSCC under Hong Kong and Mainland China law and will not be available to the general creditors of HKSCC on its insolvency. Furthermore, as a company incorporated in Hong Kong, any bankruptcy proceedings against HKSCC will be initiated in Hong Kong and any claims against HKSCC will be determined as a matter of Hong Kong law. In that event, ChinaClear and the People’s courts will recognize the liquidator of HKSCC, which has been duly appointed pursuant to Hong Kong law, as the rightful entity having the power to deal with SSE Securities in the place of HKSCC.

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<sup>12</sup> Article 13, CSRC Stock Connect Rules.

<sup>13</sup> Article 12, the Administrative Measures for Acquisition of Listed Companies 《上市公司收购管理办法》.

<sup>14</sup> Art. 86, PRC Securities Law 《中华人民共和国证券法》.

<sup>15</sup> Article 115, SSE Stock Connect Pilot Provisions.



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## **PART 3: RISK MANAGEMENT**

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### *Risk Management Measures on CPs for SSE Securities Trades*

#### **3.1. What are the risk management measures to be imposed by HKSCC on CPs trading in SSE Securities? (Updated as of 14 October 2014)**

HKSCC will become a participant of ChinaClear under Shanghai-Hong Kong Stock Connect and undertake the clearing and settlement obligations of its CPs trading in SSE Securities. ChinaClear will impose its risk management requirements on HKSCC. HKSCC will in turn adapt ChinaClear's risk management measures and impose them on its CPs trading in SSE Securities.

The risk management measures to be imposed on HKSCC (and in turn on its CPs) will be largely similar to those imposed on other ChinaClear participants. Such risk management measures will comprise contributions to: (i) the Mainland Settlement Deposit (including intra-day and day-end collection); and (ii) the Mainland Security Deposit (non-mutualised portion).

The majority of these collaterals collected from CPs will be passed on to ChinaClear as HKSCC will clear and settle the SSE Securities trades on behalf of CPs, with ChinaClear. To increase the protection to HKSCC and its CPs in the remote event of ChinaClear's liquidation, these collaterals will be kept under designated accounts at third-party custody banks under the name of ChinaClear. For further details including the contribution requirements and frequency, please refer to the Information Book for Market Participants.

In the case where these collaterals are not sufficient to cover any residual loss in the closing-out of a defaulting CP's positions in SSE Securities, HKSCC will extend the Guarantee Fund (HKSCC GF) as the last line of defence to fill the gap. CPs' positions in both SSE Securities and HK stocks will be included in the required fund size calculation.

#### **3.2. Will HKSCC collect intra-day marks from CPs for SSE Securities positions? (Updated as of 26 September 2014)**

In initial stage, HKSCC will not collect intra-day marks from CPs but may collect intra-day Mainland Settlement Deposit if necessary to cover any deterioration of intra-day risk exposures. For calculation of intra-day Mainland Settlement Deposit HKSCC will perform risk assessment of CPs' positions in SSE Securities with reference to the prices and CPs' positions in SSE Securities in mid-day. When a CP's risk exposure of positions in SSE Securities is significant due to unfavourable price movements or surge in trading activities, HKSCC will calculate the CP's intra-day Mainland Settlement Deposit shortfall based on its purchase turnover and overdue short positions in SSE Securities at the morning close. A CP is required to top up requirement of the Mainland Settlement Deposit via RTGS on the same day if the shortfall exceeds the tolerance limit of RMB 5 million. This tolerance limit is applicable only to intraday, but not day end Mainland Settlement Deposit.

**3.3. Will interest be paid on collateral provided by CPs with respect to their trades in SSE Securities? (Updated as of 14 October 2014)**

Interest will be paid on the Mainland Settlement Deposit and Mainland Security Deposit.

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

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

CPs trading in SSE Securities are required to fulfill their collateral requirements by cash in RMB. This arrangement mirrors HKSCC's obligations to meet the corresponding ChinaClear's collateral requirement by cash in RMB. Non-cash collateral is not acceptable for covering collateral requirement for SSE Securities trades.

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

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

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

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

**3.7. Will Mainland Settlement Deposit and Mainland Security Deposit be counted as Liquid Capital under the FRR? (Updated as of 26 September 2014)**

Although Mainland Settlement Deposit and Mainland Security Deposit placed with HKSCC may be transferred to ChinaClear, as long as these two deposits are classified as receivable from HKSCC, they meet the requirement under section 28(1) in the Financial Resources Rules (FRR) and can be counted as Liquid Capital under the FRR.

**3.8. Can CPs use client money to pay for Mainland Settlement Deposit and Mainland Security Deposit? (Updated as of 26 September 2014)**

For the use of client money to pay for Mainland Settlement Deposit and Mainland Security Deposit, since these deposits are not margin requirement of a particular client or directly related to the settlement obligations of a particular client, it would be appropriate for CPs to pay these deposits by its own money.

**3.9. Currently Mainland Clearing Participants are required by ChinaClear to contribute to a Clearing Risk Fund. Are Clearing Participants of HKSCC in Northbound trading subject to the same contribution requirement? (Updated as of 31 October 2014)**

According to Article 10 of ChinaClear's Stock Connect Implementation Rules published on 26 September 2014, HKSCC (and therefore CCASS Participants who wish to participate in Shanghai-Hong Kong Stock Connect) will be exempted from paying or contributing to the Mainland's Clearing Risk Fund (結算風險基金). Separately, the rate of the Security Deposit is now confirmed at 16.4%, which should be paid by CCASS Participants.

***Risk Management Measures on ChinaClear for SEHK Securities Trades***

**3.10. What will be the risk management measures imposed by HKSCC on ChinaClear for SEHK Securities trades? How will they be different from those HKSCC currently imposes on its CPs?**

ChinaClear is required to meet HKSCC's risk management requirements for its unsettled positions in SEHK Securities. The risk management measures applicable to ChinaClear include margin, marks, concentration collateral and additional collateral. Under the principle of risk insulation, both HKSCC and ChinaClear will not participate in each other's mutualised risk management pools that are normally contributed by their participants. As such, ChinaClear will not be required to participate in the HKSCC GF. This will be compensated by ChinaClear in providing margin at a higher rate and collateral securities to cover its unsettled short positions in SEHK Securities. The higher margin will mitigate the incremental risk due to ChinaClear's non-participation in the HKSCC GF, and the extra time required by ChinaClear to effect cross-boundary transfer of the required collateral to HKSCC. ChinaClear is also required to provide additional collateral to cover the assumed closing-out loss of its unsettled positions which are projected under an extreme but plausible market condition.

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

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

***Guarantee Fund and Stress Testing***

**3.12. How will the HKSCC GF size calculation and the corresponding contributions from CPs be impacted by the introduction of Shanghai-Hong Kong Stock Connect?**

The HKSCC GF serves as the last line of defence to cover any residual loss in the case of a CP default, i.e. where the collateral deposited by the defaulting CP is insufficient to cover the loss in the closing-out of its positions. With the introduction of Shanghai-Hong Kong Stock Connect, the HKSCC GF will be extended to cover CP's positions in SSE Securities.

### **Total GF calculation and size**

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

- (a) Hong Kong and overseas investors trading SSE Securities: In determining the HKSCC GF fund size, HKSCC will take into account the specific risk management measures to be imposed on CPs trading SSE Securities, namely contribution to the Mainland Settlement Deposit (which is 20% of CPs' previous month average daily purchase turnover and overdue short positions), Mainland Security Deposit and additional collateral on SSE Securities positions (if any). Stress testing results indicate that these specific measures generally provide adequate protection against potential default losses arising from CP's positions in SSE Securities. It follows that the probability of having any residual default loss to be covered by the HKSCC GF with respect to positions in SSE Securities is low. Therefore, the net impact on the size of the HKSCC GF is believed to be immaterial despite the extension of coverage to SSE Securities.
- (b) Mainland investors trading SEHK Securities: Since ChinaClear will not participate in the HKSCC GF, trades in SEHK Securities by Mainland investors will not have any "direct impact" on the HKSCC GF fund size. However, the additional cross-boundary trades from the Mainland may also bring about positive impact on the overall market turnover in Hong Kong. For additional turnover contributed by local and overseas investors, the corresponding increase in positions would also lead to an increase in the projected default loss. Therefore, a possible "indirect impact" is that a larger HKSCC GF will be required to cover the larger projected default loss.

### **CPs' contribution**

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

In addition, as the relative proportion of cross-boundary trades increases over time, it is possible that HKSCC will be considered by the SFC at some stage as "systemically important" to both Hong Kong and the Mainland, and be subject to more stringent requirements for fund size determination. If such requirement is

adopted, the size of the HKSCC GF, as well as CPs' contributions, will increase accordingly. CPs will be informed of any development as appropriate<sup>16</sup>.

**3.13. Will an additional Dynamic Contribution Credit be offered to each CP trading in SSE Securities?**

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

***Default Management***

**3.14. What actions will HKSCC take under the default of a CP in SSE Securities positions?**

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

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

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

- (a) If ChinaClear, as a host CCP, defaults (i.e. in SSE Securities trades), HKSCC would in good faith seek recovery of the outstanding stocks and monies from ChinaClear through available legal channels and through ChinaClear's liquidation process, if applicable. HKSCC will in turn distribute the stocks or monies recovered to CPs on a pro-rata basis<sup>17</sup>. Although ChinaClear default is considered to be remote, CPs should be aware of this arrangement and should inform their clients of this potential exposure before engaging in Northbound trading.
- (b) If ChinaClear fails to meet its settlement obligations in respect of Southbound trades, HKSCC will consider the circumstances and may declare ChinaClear as a defaulter if the situation warrants. HKSCC will then apply its standard default procedures and will execute closing-out of ChinaClear's unsettled

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<sup>16</sup> According to principle 4 of the PFMI, a Central Counterparty that is "systemically important to multiple jurisdictions" is required to maintain a default fund that can "withstand the concurrent default of its two largest participants and their affiliates" (as compared to our current first and fifth largest participants default assumption).

<sup>17</sup> 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)

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.

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

**3.16. Will collateral placed by a CP with respect to its positions in SSE Securities be used to cover its default loss attributable to its position in HK stocks, and vice versa?**

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

## PART 4: HOLIDAY AND SEVERE WEATHER CONDITIONS

### *Holiday Arrangement*

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

In the initial stage of operation of Shanghai-Hong Kong Stock Connect, EPs can only trade SSE Securities on Hong Kong business day, 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.

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 | ✗ <sup>^</sup>                   | ✓                                       | ✗ <sup>^</sup>                             |
| 18 Apr 2014 (Fri) | Public Holiday | Business Day | ✗                                | ✗                                       | ✗  |
| 21 Apr 2014 (Mon) | Public Holiday | Business Day | ✗                                | ✗                                       | ✗  |
| 22 Apr 2014 (Tue) | Business Day   | Business Day | ✓                                | ✓ <sup>#</sup>                          | ✓  |

<sup>^</sup> 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.

<sup>#</sup> 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 nominees activities with respect to SSE Securities, if any.

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.

### *Severe Weather Conditions*

#### 4.2. What will be the trading arrangement for SSE Securities under severe weather conditions, for example, when typhoon signal number 8 (or above) and/or black rainstorm warning is issued in Hong Kong? (Updated as of 26 September 2014)

In the initial stage, the trading arrangement for SSE Securities 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 which 15 minutes and until SSE market closes, only order cancellation will be allowed;
  - in addition to mid-day and day end trade files, preliminary trade files (retrieved through Electronic Communication Platform) will be generated multiple times before SSE market closes so that EPs who have inputted order cancellations can use such 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.                  |  |



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

In the initial stage, HKSCC will apply the following CCASS service schedule to SSE Securities:

- (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, CCASS services for SSE Securities will not be available for the day.
- (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, CCASS services for SSE Securities will resume two hours after the cancellation of the signal/warning.
- (c) If typhoon signal number 8 (or above) is issued at or after 9:00 a.m., CCASS services, except batch file upload and mass ATI/STI input functions, will be available for SSE Securities.
- (d) If black rainstorm warning is issued at or after 9:00 a.m., normal CCASS services will be available for SSE Securities.

**4.4. What will be the money settlement arrangement for SSE Securities trades when Hong Kong market is closed or suspended due to the issuance of typhoon signal number 8 (or above) and/or black rainstorm warning? (Updated as of 26 September 2014)**

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

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

## PART 5: FEES AND OTHER TRANSACTION COSTS

### 5.1. What are the fees and taxes applicable to the trading and clearing of SSE Securities?

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

The above fees and levies are collected in RMB.

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, such tax will be withheld by the issuers at the time of entitlement distribution.

### 5.2. How are the fees and taxes calculated? (Updated as of 26 September 2014)

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<br>(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<br>(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<br>(過戶費)                                 | 0.06000% on face value per side                                     | $300 \times ¥ 1 \times 0.06000\% = ¥ 0.18$    | ¥ 0.18   |
| Stamp Duty<br>(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

### 5.3. Will the existing CCASS fees be applicable to SSE Securities? (Updated as of 14 October 2014)

Only certain existing CCASS fees will be applied to SSE Securities, such as stock settlement fees related to SIs and STIs, and money settlement fees.

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. A new CCASS Fee (in HKD), called “Portfolio fee”, will be introduced by HKSCC for providing new depository and nominee 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<br>(portfolio values between HK\$50 billion and HK\$250 billion)    | 0.007%           |
| 3          | The next HK\$250 billion<br>(portfolio values between HK\$250 billion and HK\$500 billion)   | 0.006%           |
| 4          | The next HK\$250 billion<br>(portfolio values between HK\$500 billion and HK\$750 billion)   | 0.005%           |
| 5          | The next HK\$250 billion<br>(portfolio values between HK\$750 billion and HK\$1,000 billion) | 0.004%           |
| 6          | Remainder<br>(portfolio values above HK\$1,000 billion)                                      | 0.003%           |

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

**5.4. As Northbound trades are subject to Transfer Fee which is calculated based on the face value of the stock, do all SSE securities have the same face value? (Updated as of 26 September 2014)**

Face value of SSE securities is usually RMB 1, with a few exceptions. HKEx will publish the face values of SSE securities on HKEx's website, as part of the eligible stock list for Shanghai-Hong Kong Stock Connect.

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## **PART 6: IT**

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### *Trading System*

**6.1. Can EPs use the existing trading device to participate in Shanghai-Hong Kong Stock Connect?**

SEHK will set up a new order routing system (China Stock Connect System or CSC) to capture, consolidate and route the cross-boundary orders input by EPs. EPs who want to participate in Shanghai-Hong Kong Stock Connect will need to 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 code. Existing trading functions which are not applicable to the cross-boundary orders to be transmitted to SSE will be removed from the CC OG.

**6.2. Apart from CC OG, can EPs trade SSE Securities through MWS, Second Terminal and ORS?**

In the initial stage, SSE Securities trading can only be conducted through CC OG. EPs will have to connect their own BSS to CC OG to trade SSE Securities.

**6.3. Does CC OG provide market data of SSE Securities? (Updated as of 26 September 2014)**

CC OG will provide free 1-price level market data of SSE Securities. EPs can also subscribe real-time SSE market data via licensed information vendors, a list of which is available on the website of China Investment Information Services Limited ([http://www.ciis.com.hk/New\\_Web/eng/index.html](http://www.ciis.com.hk/New_Web/eng/index.html)). EPs can also access real-time market data through internet. The licensed vendor for market data is published on the website of SSE Infonet Ltd., Co. (<http://ywtb.sseinfo.com/ywtb/show.do>)

**6.4. Will Orion Central Gateway (OCG) support the trading of SSE Securities through Shanghai-Hong Kong Stock Connect?**

As planned, the existing OG will be migrated to OCG in batches starting from mid-2014. HKEx is in discussion with the system vendor about incorporating necessary features in OCG to support Shanghai-Hong Kong Stock Connect. EPs will be informed of the implementation plan about migrating CC OG to OCG in due course.

**6.5. What are the differences in terms of trading function between CC OG and AMS/3 OG? Is the input of SSE Securities orders through CC OG governed by SEHK's throttle mechanism?**

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

CC OG will follow the existing SEHK throttle mechanism to control the creation and cancellation of SSE Securities orders. However, since CC OG cannot share the existing throttle(s) for AMS/3 OG, separate throttle(s) will need to be assigned.

**6.6. What are the resilience options supported by CC OG?**

EPs can select either the standalone server or High Availability (HA) server for CC OG in the same way as AMS/3 OG.

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

EPs need to subscribe a new pair of 2Mbps SDNet/2 lines for CC OG.

**6.8. Is CC OG supported by HKEx Hosting Services?**

Like AMS/3 OG, CC OG is also supported by HKEx Hosting Services. It should be noted that when CC OG is migrated to OCG at later stage, the machine will be placed in the HKEx's Data Centre.

**6.9. Can an EP re-deploy its AMS/3 OG server as CC OG after migrating to OCG for trading in the Hong Kong Market? (Updated as of 26 September 2014)**

EPs can re-deploy their AMS/3 OG hardware server as CC OG if hardware support is still available for the server model. Currently there are four OG server hardware models in service:

x226 - This model cannot be re-deployed as CC OG as it has already reached the official end of support and is currently in the extended support period

x3400 - This model cannot be re-deployed as CC OG as it will reach end of support in 2015

x3400 M3 - This model can be re-deployed as CC OG

x3300 M4 - This model can be re-deployed as CC OG

The servers to be re-deployed as CC OG will need to be installed with additional memory and the latest system software and application software.

**6.10. Can the EP continue to use the original SDNet/2 circuits after re-deploying the production AMS/3 OG as CC OG? (Updated as of 26 September 2014)**

The AMS/3 OG circuits can be re-deployed to CC OG if the AMS/3 OG is no longer in use. The bandwidth requirement of CC OG is lower than AMS/3 OG, therefore, it is subject to the contract agreement between the EP and the SDNet/2 vendors. In addition, there will be configuration charge if the circuits are re-deployed for use by CC OG.

***Testing of Trading System***

**6.11. Will SEHK provide any tools to assist EPs to develop their trading software to participate in Shanghai-Hong Kong Stock Connect?**

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

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

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

In addition to the end-to-end testing environment, EPs who want to be eligible for trading SSE Securities at the initial launch of Shanghai-Hong Kong Stock Connect have also verified their production set-up by participating in market rehearsals.

**6.13. Can AMS/3 OG and CC OG share the same testing OG hardware and the testing line connection of SDNet/2 development network?**

Yes, EPs can use the same OG hardware and line connection for the testing activities of both AMS/3 OG and CC OG.

*Clearing System*

**6.14. Is there any extra system and line requirement for CPs participating in Shanghai-Hong Kong Stock Connect?**

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

**6.15. Will CCASS use 5-digit or 6-digit stock codes to represent SSE Securities??**

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 upgrade 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 mechanism as described in the immediately following paragraph will be put in place to map the 6-digit SSE stock codes to 5-digit CCASS stock codes.

Existing SSE-listed stock codes are in 6-digit. The first 2-digit "60" will be replaced by "9" in CCASS, that is, SSE stock code "60xxxx" will be mapped to "9xxxx" in CCASS.

**6.16. Are CPs required to modify their internal systems to participate in Shanghai-Hong Kong Stock Connect?**

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

**6.17. Will HKSCC provide an end-to-end testing environment for CPs to verify their PG set-up? If so, when?**

An end-to-end testing environment will be provided for CPs to verify their PG set-up. Tentatively it will be available about one month before the market rehearsal.

CPs who use CCASS/3 Terminal to access CCASS can verify their internal set-up in the market rehearsal.

**Note:**

This FAQ will be updated from time to time as the implementation progresses and market participants can refer to the HKEx website for the latest development of Shanghai-Hong Kong Stock Connect.