

Shanghai-Hong Kong Stock Connect Business Model

Briefing to Participants
May 2014



The implementation of Shanghai-Hong Kong Stock Connect is subject to conditions, including regulatory approvals, completion of all necessary development work and market readiness.

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1 Overview of Shanghai-Hong Kong Stock Connect

2 Trading

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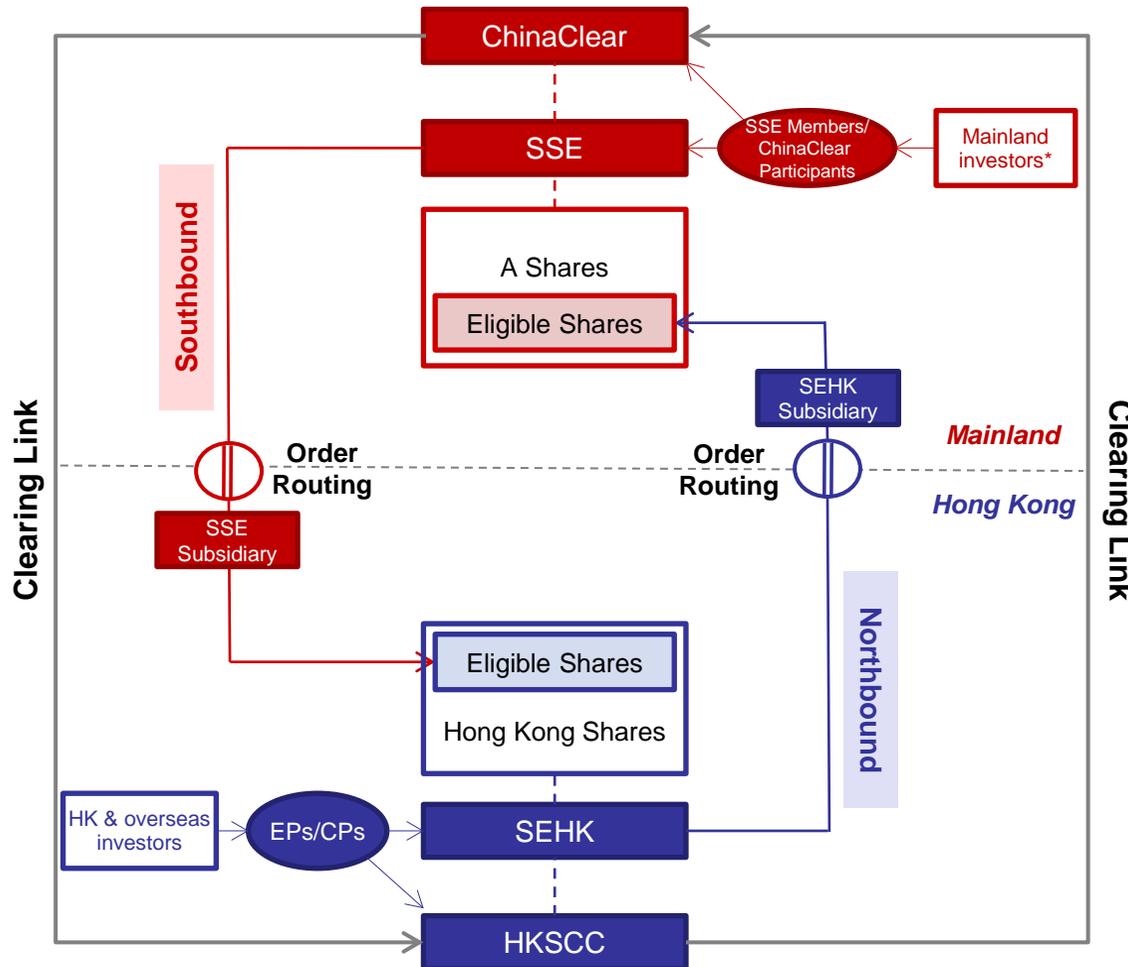
What is Shanghai-Hong Kong Stock Connect?



Shanghai-Hong Kong Stock Connect is a mutual market access programme, through which investors in Hong Kong and Mainland China can trade and settle shares listed on the other market respectively via the exchange and clearing house in their local market

Key Features of Shanghai-Hong Kong Stock Connect

To achieve maximum market efficiency with minimum systemic risks



Order Routing in Gross for Maximum Price Discovery

Clearing and Settlement in Net for Minimum Cross-boundary Fund Flow

All RMB Conversion in HK, Facilitating Offset of Currency Conversion

Closed Loop Cross-Boundary Fund Flow to Achieve Stringent Risk Management

“Home Market” Rules and Laws Apply to the Extent Possible

Reciprocal Structure for Alignment of Interest

Equal Revenue Sharing to Achieve Win-win Solution

Quota Applied for Smooth and Stable Launch

Scalable in Size, Scope and Market in the Future

*Note: Only eligible Mainland investors can participate in Southbound trading

1 Overview of Shanghai-Hong Kong Stock Connect

2 Trading

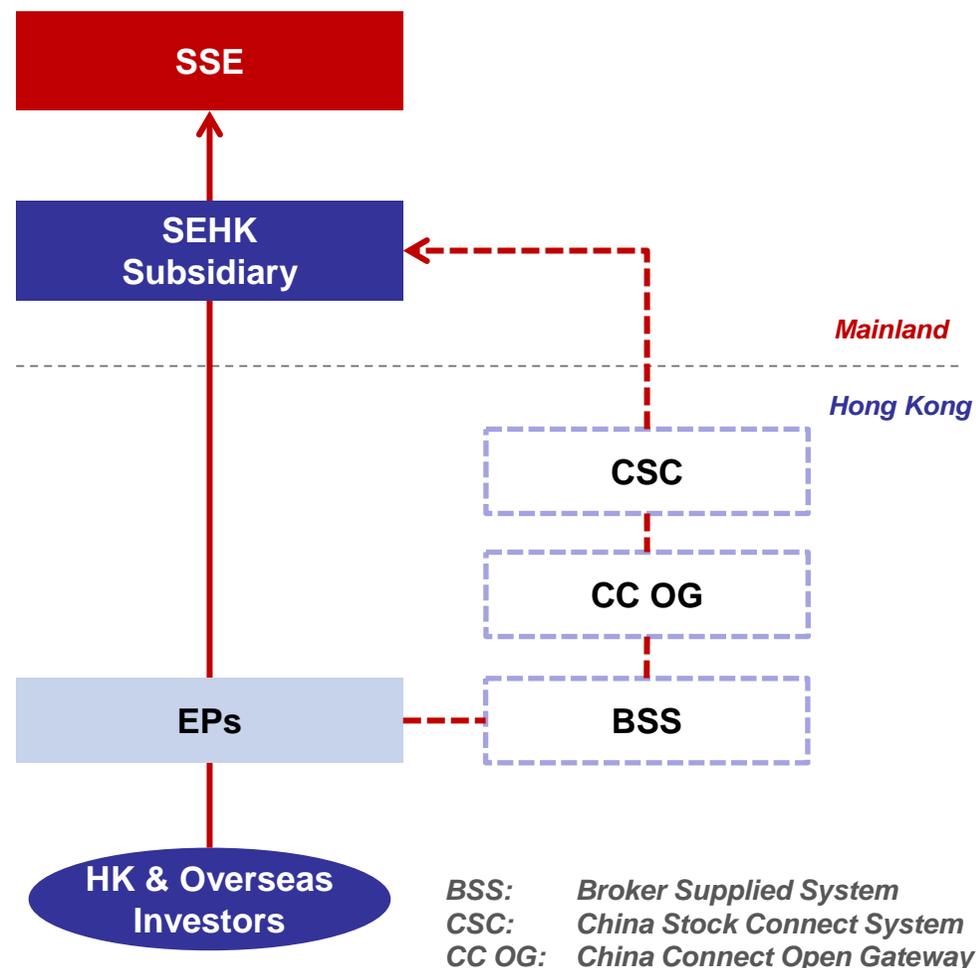
3 Clearing and Settlement

4 Risk Management

5 How to Participate

Northbound Trading Flow

- For secondary market trading only
- Investors place orders with EPs
- EPs input orders into their A-share-enabled BSS, which will then send the orders to a new system “CSC” (China Stock Connect System, for basic order checking and quota control) via “CC OG” (China Connect Open Gateway)
- For executed trade, SSE will send trade confirmation to SEHK Subsidiary, which will forward the confirmation to EPs via the CC OG



Note: For Southbound trading, SSE Subsidiary will become an SEHK special participant, and route orders placed by Mainland investors (via SSE members) to SEHK through their AMS/3 OG

Eligible Securities



	Northbound: SSE Securities	Southbound: SEHK Securities
Index Constituent Stocks	SSE180 SSE380	HS LargeCap HS MidCap
A+H	SSE-SEHK A+H	SSE-SEHK A+H
Excluding	Shares under risk alert board [風險警示板] Shares that are not traded in RMB	A+H on other Mainland exchange Shares that are not traded in HKD
Total No of Stocks*	568	266
Market Capitalisation*	90%	82%
Average Daily Turnover*	80%	78%

* No. of stocks as of 10 April 2014; MC as at end of March 2014; ADT is for Jan-March 2014

For any SSE security not accepted as an SSE Security upon launch 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 falls under any of the selection criteria

List of SSE Securities (for reference) is available on the HKEx website and will be updated upon launch

Northbound Trading

- **Only sell orders are allowed if:**
 - ceases to be constituent stocks of relevant indices; and/or
 - subsequently put under risk alert board; and/or
 - corresponding H share of A+H ceases to be traded on SEHK;
as the case may be

- **A share of A+H shares will be accepted as SSE Security after the stabilisation period of:**
 - both A and H shares if both are simultaneously listed
 - H share if it is subsequently listed on SEHK
 - A share if it is subsequently listed on SSE

- **If only the H share of an A+H share is suspended:**
 - whether investors will be allowed to buy and/or sell the A share is being considered by the relevant regulators. The final arrangement will be announced in due course.

- **Entitlement:**
 - if it is an SSE Security, both buy and sell orders are allowed
 - if it is not an SSE Security but is SSE-listed, only sell orders are allowed
 - if it is not SSE-listed, cash options may be offered (to be confirmed)

Southbound Trading

- **Only sell orders are allowed if:**
 - ceases to be constituent stocks of relevant indices; and/or
 - corresponding A share of A+H ceases to be traded on SSE; and/or
 - H share issuer lists its A share on a Mainland exchange other than SSE;
as the case may be

- **H share of A+H shares will be accepted as SEHK Security after the stabilisation period of:**
 - both A and H shares if both are simultaneously listed
 - H share if it is subsequently listed on SEHK
 - A share if it is subsequently listed on SSE

- **If only the A share of an A+H share is suspended:**
 - whether investors will be allowed to buy and/or sell the H share is being considered by the relevant regulators. The final arrangement will be announced in due course

- **Entitlement:**
 - if it is an SEHK Security, both buy and sell orders are allowed
 - if it is not an SEHK Security but is SEHK-listed, only sell orders are allowed
 - if it is not SEHK-listed, buy/sell is not allowed on SEHK (ChinaClear will consider alternative arrangement to handle such entitlement)

Quota

To control initial pace and size of cross-boundary fund flows



	Northbound Trading of SSE Securities	Southbound Trading of SEHK Securities
Aggregate Quota (AQ)	RMB 300b	RMB 250b
Daily Quota (DQ)	RMB 13b	RMB 10.5b

Key Principles

- Quota control only applies to buy orders, i.e. **sell orders are always allowed regardless of quota level**
- Quota is used on a first-come, first-served basis

Aggregate Quota

- **When to calculate:** At the end of each trading day
- **Aggregate Quota Balance:** Aggregate Quota – Aggregate **Buy Trades** + Aggregate **Sell Trades**
- **If Aggregate Quota Balance < Daily Quota:** Suspend buy order input for the next trading day
- **If Aggregate Quota Balance increases to Daily Quota level:** Resume buy order input for the next trading day

Daily Quota

- **When to calculate:** Real-time during trading hours
- **Daily Quota Balance:** Daily Quota – **Buy Orders** + **Sell Trades** + Adjustments (e.g. Buy Order cancelled, Buy Order rejected by SSE, Buy Order executed at a better price)
- **If Daily Quota balance ≤ 0:**
 - During opening call auction [開盤集合競價] (Pre-opening): Reject new buy orders until DQ Balance becomes positive (e.g. due to Buy Order cancellation)
 - During continuous auction [連續競價] (Continuous Trading): Suspend buy order input for the remaining of the day
 - Buy orders already input in CSC before suspension will not be affected

Quota Info

- Quota Information will be disseminated on HKEx website at scheduled time

Northbound Trading Hours



- Follow SSE (home market) trading hours
- Once Northbound orders are accepted by SSE, they will be matched in strict price-time priority with all other SSE orders as per SSE current rules
- EPs can start inputting SSE Securities orders **5 minutes** prior to the start of SSE trading session in the morning and in the afternoon

SSE Trading Session	Time	Time for CSC to accept Northbound orders
Opening Call Auction [開盤集合競價]	09:15 – 09:25	09:10 – 11:30
Continuous Auction [連續競價] (Morning)	09:30 – 11:30	
Continuous Auction [連續競價] (Afternoon)	13:00 – 15:00	12:55 – 15:00

Notes:

- (1) 09:20 – 09:25: SSE will not accept order cancellation
- (2) (a) 09:10 – 09:15; (b) 09:25 – 09:30; (c) 12:55 – 13:00: Orders and order cancellations can be input into CSC but will not be processed by SSE until market opens
- (3) Orders that are not executed during the opening call auction session will automatically enter the continuous auction session

Holiday Arrangement



- Initially, Hong Kong and overseas investors will only be allowed to trade SSE Securities on days when:
 - both SEHK and SSE are open for business; and
 - banking services of both markets are open on the corresponding money settlement days

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	x^	✓	x^
18 Apr 2014 (Fri)	Public Holiday	Business Day	x	x	x
21 Apr 2014 (Mon)	Public Holiday	Business Day	x	x	x
22 Apr 2014 (Tue)	Business Day	Business Day	✓	✓#	✓

^ Although 17 Apr is a business day for both Hong Kong and Mainland, if EPs trade SSE Securities on 17 Apr, CPs may have difficulty settling their money positions with HKSCC on 18 Apr, which is a public holiday in Hong Kong. Hence Northbound trading will not be open on 17 Apr.

There will not be any money settlement for Northbound trades on 22 Apr as 21 Apr 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.

- Similar arrangement for Southbound trading
(Southbound trading will be opened when the Mainland market is open on the corresponding T-day, and Mainland banking services are available on T+1 and T+2)

Going forward, will explore with the banking industry for banking support on public holidays, such that both Northbound and Southbound trading can follow home market's trading calendar

Severe Weather Conditions

- If SSE notifies the market about the potential service suspension of trading on the following trade day due to severe weather conditions, SEHK will notify the market accordingly
- Initially, in case of Typhoon signal no. 8 or above (T8) or Black rainstorm in Hong Kong:

Scenarios	Northbound Trading of SSE Securities	Hong Kong Market today*
T8 / Black rainstorm issued before HK market opens (i.e. 9:00 a.m.)	Not open	Not open
T8 issued between 9:00 a.m. and 9:15 a.m.	Not open	Trading terminates after Pre-opening Session
T8 issued after SSE market opens (i.e. 9:15 a.m.)	Arrangement to be announced in due course	Trading terminates in 15 minutes
Black rainstorm issued after HK market opens (i.e. 9:00 a.m.)	Trading continues as normal	Trading continues as normal
T8 / Black rainstorm discontinued at or before 12:00 noon	Trading resumes after 2 hours	Trading resumes after 2 hours
T8 / Black rainstorm discontinued after 12:00 noon	Not open	Not open

Going forward, will explore with the banking industry for banking support on typhoon / rainstorm days, such that Northbound trading can follow home market's trading calendar

Northbound Trading: Initial Arrangements (I)



■ Largely follow SSE trading rules

1. Stock Code	6 digits (for order input and trade confirmation)
2. Modify Order	Not available on SSE
3. Day (Turnaround) Trading	Not available on SSE
4. Manual Trade	Not available on SSE (except for block trade)
5. Trading Currency	RMB
6. Board Lot	100 shares (applicable for buy orders only)
7. Odd Lot	Sell orders only
8. Maximum Order Size	1 million shares
9. Spread	Uniform at RMB 0.01
10. Price Limit	±10% on previous closing price (±5% for ST and *ST stocks)

■ But with a few exceptions

	SSE's Current Arrangement	Northbound Trading of SSE Securities
11. Order Types	Limit orders* (whole day); Market orders (continuous auction)	Limit orders only
12. Block Trade	Allowed	Not allowed
13. Short Selling	Allowed (restrictive)	Naked short selling not allowed
14. Margin Financing	Allowed (restrictive)	Not allowed to participate in Mainland's margin trading and securities lending [融資融券]
15. Stock Borrowing & Lending	Allowed (restrictive)	

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

Northbound Trading: Initial Arrangements (II)

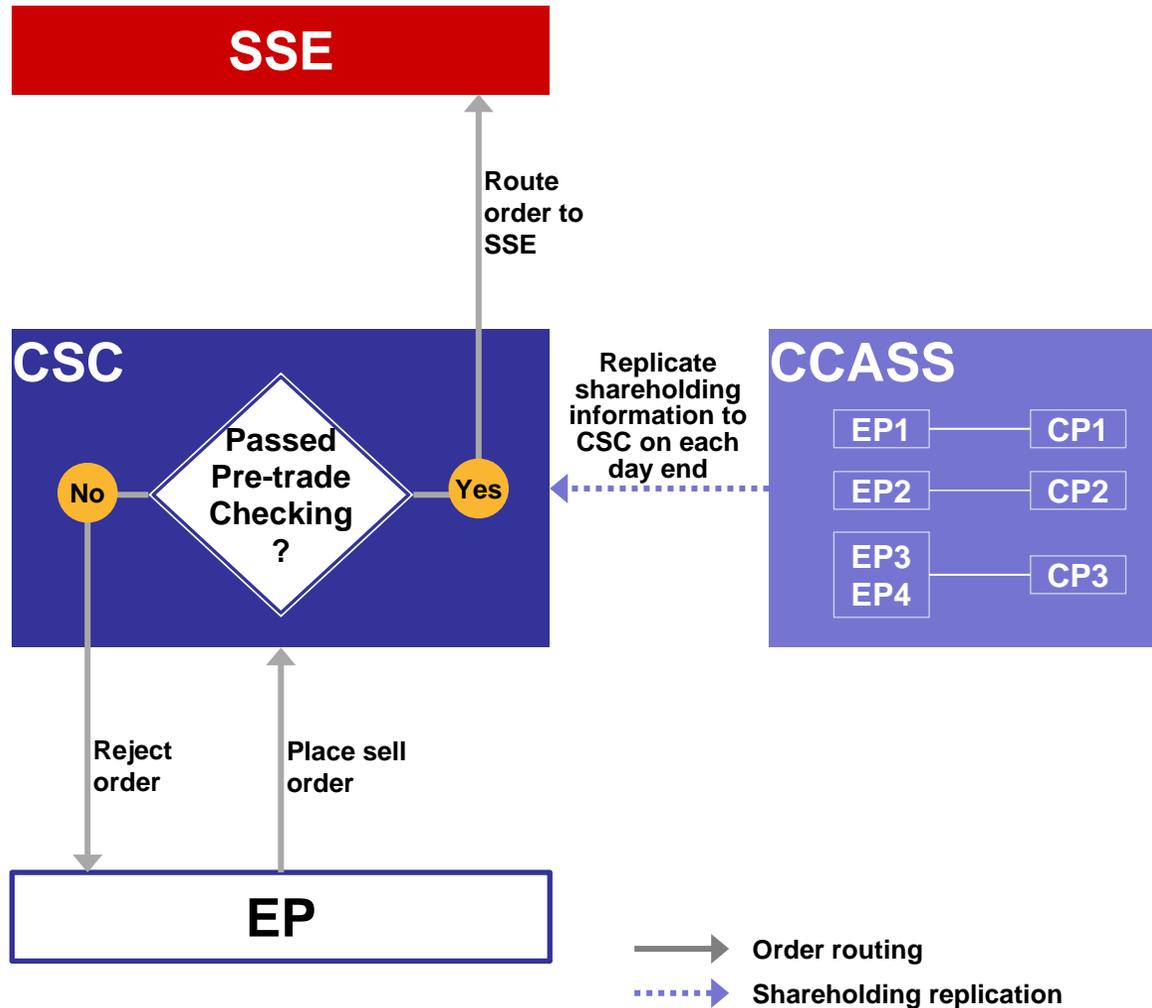


- Note the following are not available for Northbound trading:

	Northbound Trading of SSE Securities
1. Central Trade Feed (CTF)*	Not available (Retrieve trade reports through ECP)
2. Broker Bulk Cancel Order	Not available (Orders need to be cancelled one by one)
3. Cross Trading Device Functions	Not available (Under emergency condition, EP may request the Exchange to submit order cancellation requests on its behalf to cancel all of its outstanding orders)
4. Price / Consideration Warning	Not available
5. 24-spread rules	Not available (Orders will be subject to SSE rules (e.g. $\pm 10\%$ price limit))
6. Modify Order	Not available (EP needs to cancel the original order and insert a new one)
7. Trading Support Facility (TSF)	Not available

* EPs can download the trade reports through ECP (Electronic Communication Platform) around 3:30 pm on T day, the same system for stamp duty reporting. EPs can login to the ECP by inputting the user ID with the "TO" user group (i.e. user ID of MXXXXXTXXXX) and Password. TO user group is for downloading trade files such as Callable Bull/Bear Contract (CBBC) Post Mandatory Call Event (MCE) trade files and other trade files distributed to EPs under contingency for reconciliation purpose. Report format is the same as CTF

Northbound Trading: Pre-trade Checking



What is Pre-trade checking?

- A mechanism to ensure EPs will have sufficient shares to settle their sell trades

How is it done?

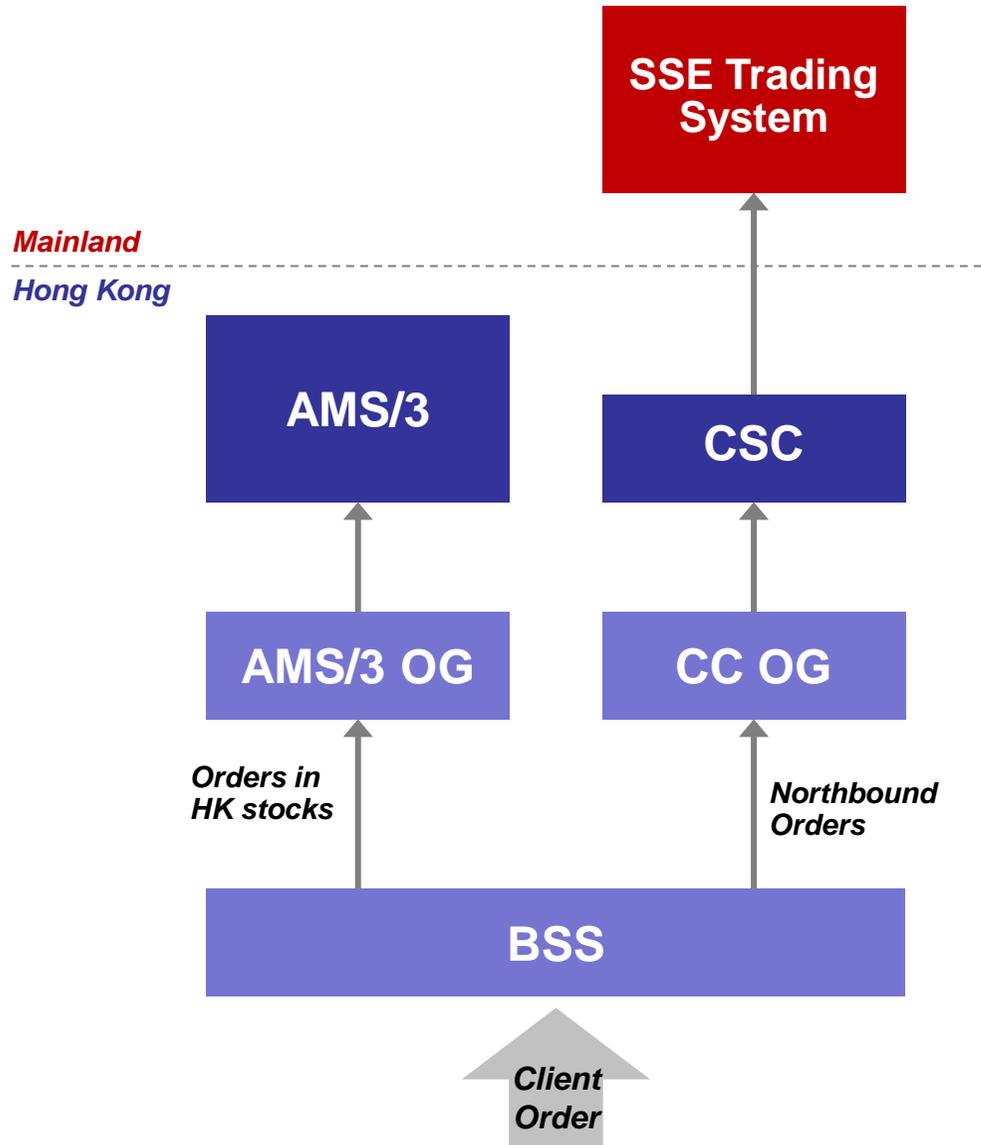
- CCASS will take snapshot of each CP's SSE Securities holdings at the end of each business day and replicate to CSC to facilitate pre-trade checking of SSE Securities on the next day
- Sell orders by an EP will be rejected by CSC if the EP's cumulative sell quantity in that stock for the day is higher than its stockholdings at market open

Who to ensure investors will not oversell?

- EP's responsibility to ensure they have in place procedures and systems to prevent their clients from day trading and overselling of SSE securities

EPs should remind investors to transfer shares to the selling EP on T-1 day

Northbound Trading: Technical Set-up Overview



- Northbound trading must be conducted through BSS and CC OG
- Hosting services for CC OG is available
- No MWS and terminal for Northbound trading
- CC OG as interface between EP BSS and CSC
 - Exclusive for trading in SSE Securities
 - Similar protocol to existing AMS/3 OG
 - No smart card required
 - No SSE market data provided
 - Need to acquire new throttles (existing throttles used for AMS/3 trading cannot be transferred to CC OG for Northbound trading, and vice versa)

Costs of Participating in Northbound Trading

Fees & Taxes



■ Fees and taxes applicable to a Northbound trade:

Items	Rate	Charged by
Handling Fee (經手費)	0.00696% of the consideration of a transaction per side	SSE
Securities Management Fee (證管費)	0.00200% of the consideration of a transaction per side	CSRC
Transfer Fee (過戶費)	0.06000% on face value per side	ChinaClear
Stamp Duty (交易印花稅)	0.10000% of the consideration of a transaction on the seller	SAT

Note : The above fees and taxes-will be collected via day end DDI on T Day

■ Fees and taxes to be confirmed with the relevant regulators/authorities:

Items	Description	Charged by
New CCASS Fee	<ul style="list-style-type: none"> A new fee for providing depository and nominee services to CPs for SSE Securities Subject to SFC's approval 	HKSCC
Dividend Tax	<ul style="list-style-type: none"> Applicable to cash dividend and bonus issue Subject to clarification with SAT 	SAT
Capital Gain Tax	<ul style="list-style-type: none"> Applicable to share disposal Subject to clarification with SAT 	SAT

Note: Mainland taxes will be rounded to the nearest cent. New CCASS Fee will be rounded up to two decimal places

SAT: State Administration of Taxation

Costs of Participating in Northbound Trading

Throttles and Hardware Charging Scheme



- In principle, follow the same charging scheme as that for trading in AMS/3 (subject to SFC's approval):

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

- No entitlement throttle, need to purchase new throttles to trade Northbound
- Lower hardware costs for CC OG compared with AMS OG as security card is not required
- Procurement of CC OG (except for hosting service) through HKEX

Market Data for Trading

- **Data feed**
 - **Directly from China Investment Information Services Limited (CIIS)*中國投資信息有限公司 (http://www.ciis.com.hk/New_Web/eng/index.html)**
 - **Indirectly from CIIS' licensed Information Vendors (more than 20 IVs providing Level-1, Level-2 or A+H collaboration services; see CIIS' website for IV list)**
- **View data only**
 - **Level-1 real-time SSE market data also available through internet of Mainland IVs (full list: <http://ywtb.sseinfo.com/ywtb/show.do>) or websites such as Google Finance and Yahoo**

Issuer Announcements

- **In Chinese only**
- **Through these channels:**
 - **SSE website**
 - **Issuer's websites**
 - **HKEx website – China Stock Market Web (only displayed up to T-1 day) (<http://www.hkex.com.hk/eng/csm/homepage.asp?LangCode=en>)**
 - **Four official appointed newspapers and their websites**
 - **Shanghai Securities News 上海證券報**
 - **Securities Times 證券時報**
 - **China Securities Journal 中國證券報**
 - **Securities Daily 證券日報**

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Current Clearing and Settlement Arrangement for A Share Trades in Shanghai



Clearing House

- ChinaClear acts as
 - The Clearing House
 - The Share Registrar
 - The Depository

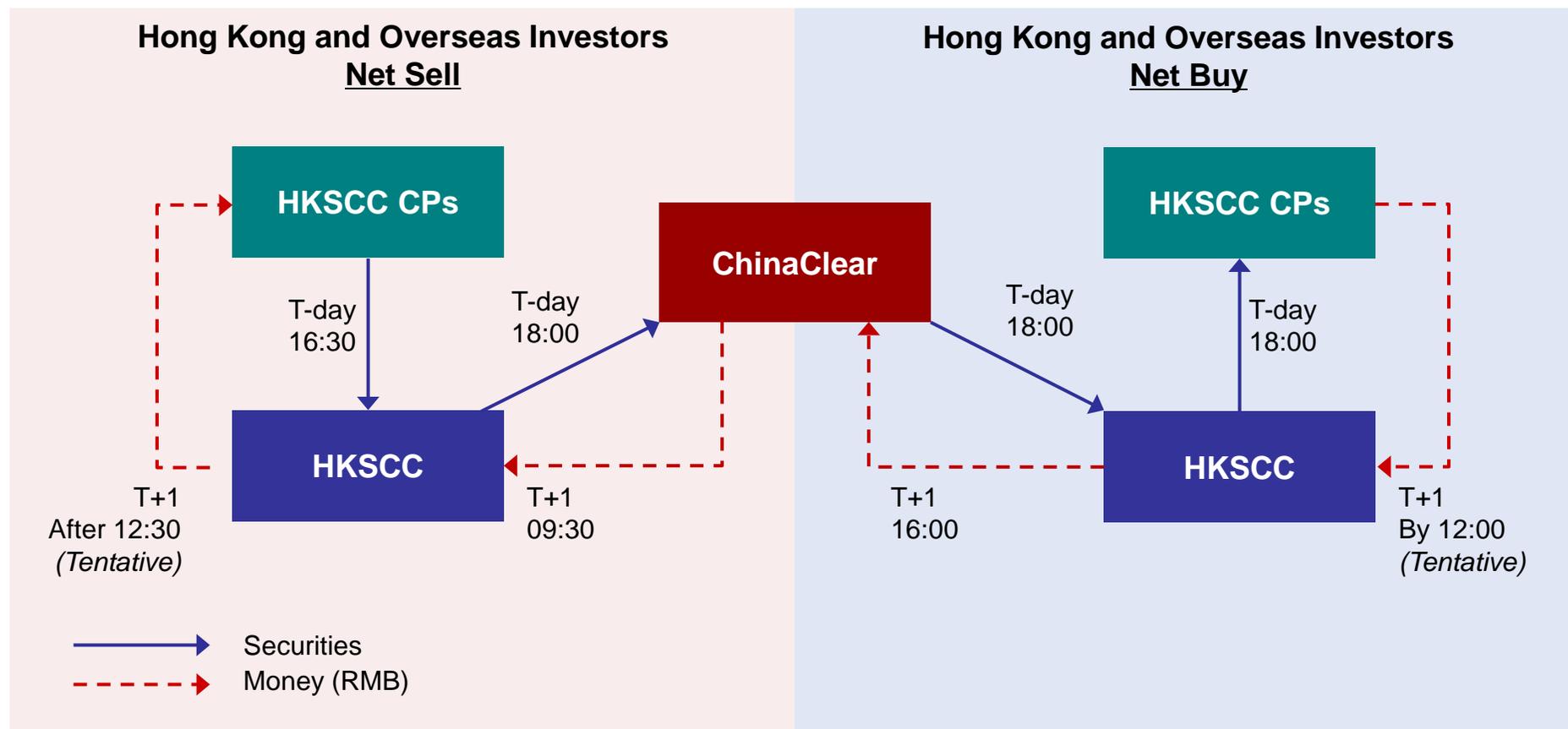
Settlement Cycle

- Securities settlement on T day
- Money settlement on T+1

No Settlement Failure

- Apply pre-trade checking mechanism to ensure the availability of shares when placing sell orders

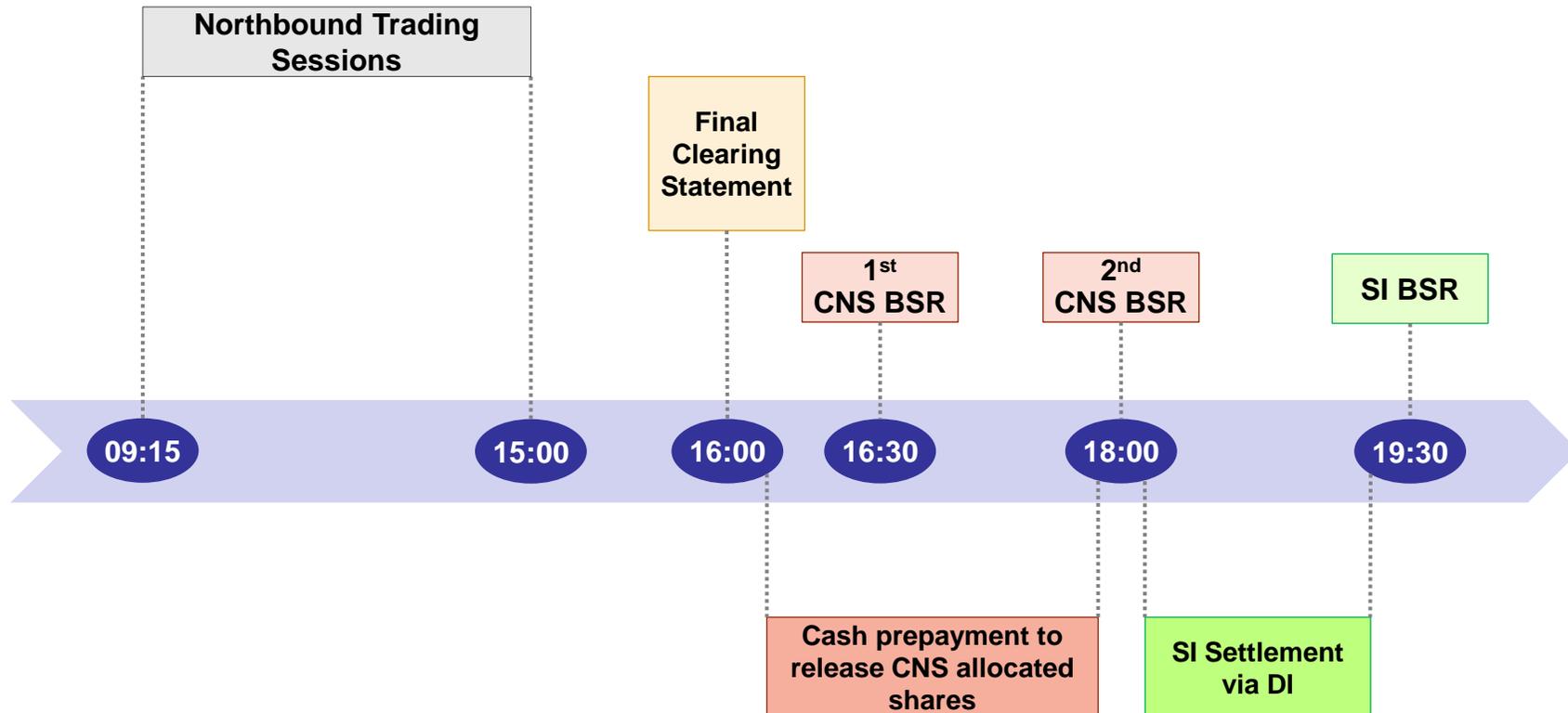
Settlement of Northbound Trades between ChinaClear, HKSCC and CPs



- Stock settlement on T-day, and money settlement on T+1
- HKSCC will collect RMB from ChinaClear and Net Buy CPs before paying RMB to Net Sell CPs and ChinaClear, if applicable
- Detailed money settlement arrangement is subject to discussion with banks

Settlement of Northbound Trades in CCASS

Securities Settlement on T day

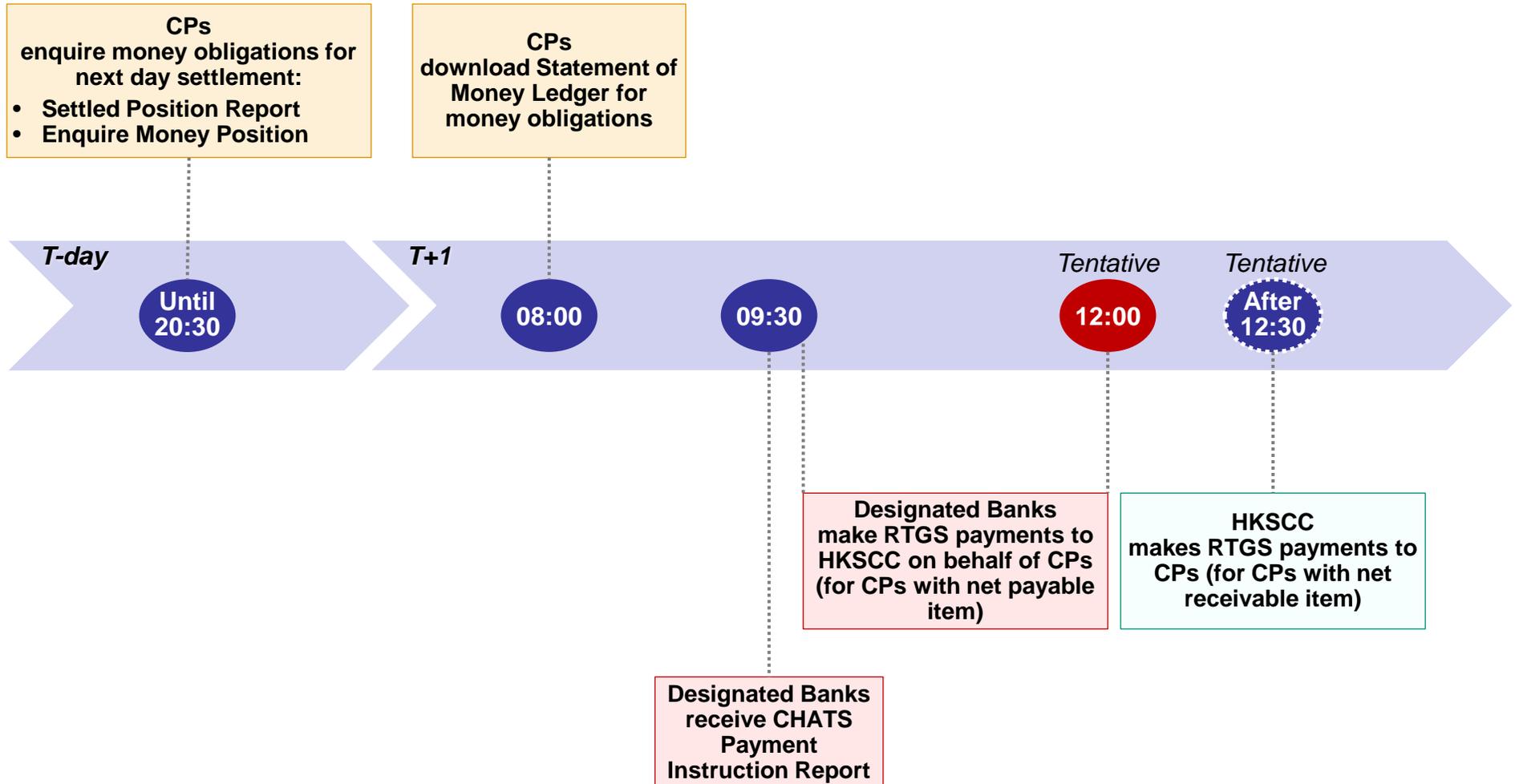


- ❑ **Two Batch Settlement Runs for settling CNS Positions (CNS BSRs)**
- ❑ **SI Settlement will only be allowed after the completion of ALL CNS BSRs at around 18:00**
- ❑ **Only one Batch Settlement Run for settling SI Positions (SI BSR) at around 19:30**

Note: Provisional Clearing Statement (PCS) will not be applicable for Northbound trades

Settlement of Northbound Trades in CCASS

Money Settlement on T+1, in RMB via RTGS



Determine Sellable Shares for Pre-Trade Checking



(1) DCP / GCP serving ONE EP only

CCASS: SSE Securities Balance on T-1 Day end

CCASS Stock Accounts of B12345*		SSE Securities Balance
01	Clearing A/C	100
02	Entitlement A/C	200
03	Stock Segregated A/C	300
20	Collateral Control A/C	400
21	Stock Segregated A/C	500
22	Stock Segregated A/C	600

1,700

Total Balance, except those in A/C 20

CSC: Sellable Shares for Pre-Trade Checking on T-day

EP	Sellable Shares
12345	1,700
XXXXX	XXX
XXXXX	X,XXX
XXXXX	XXX
XXXXX	XX,XXX
XXXXX	XXX

* A DCP, or a GCP clears for itself or for one EP only

DCP: Direct Clearing Participant

GCP: General Clearing Participant

NCP: Non-Clearing Participant (being an Exchange Participant)

CCMS Collateral Account is a Control Account for safekeeping of Stock Collateral Only

Determine Sellable Shares for Pre-Trade Checking

(2) GCP serving multiple EPs



CCASS: SSE Securities Balance on T-1 Day end

CCASS Stock Accounts of B54321*		SSE Securities Balance
01	Clearing A/C	100
02	Entitlement A/C	200
03	Stock Segregated A/C	300
20	Collateral Control A/C	400
21	Stock Segregated A/C – NCP1	500
22	Stock Segregated A/C – NCP1	600
23	Stock Segregated A/C	700
24	Stock Segregated A/C – NCP2	800

CSC: Sellable Shares for Pre-Trade Checking on T-day

EP	Sellable Shares
12345	1,700
54321	300
NCP1	1,100
NCP2	800
XXXXX	XX,XXX
XXXXX	XXX

300

1,100

800

Total Balances of the mapped accounts only

* A GCP clears for itself and multiple EPs

Note :

- On T day, after securities settlement, GCPs need to transfer the settled SSE Securities to each NCP's designated CCASS stock segregated accounts before day end
- GCPs may need to execute cash prepayment to release on-hold CNS allocated A shares before transfer of shares
- For GCP serving multiple EPs, SSE Securities Balance in CCASS Accounts 01, 02, 17, 18, 19 will not be allowed to map to any EP

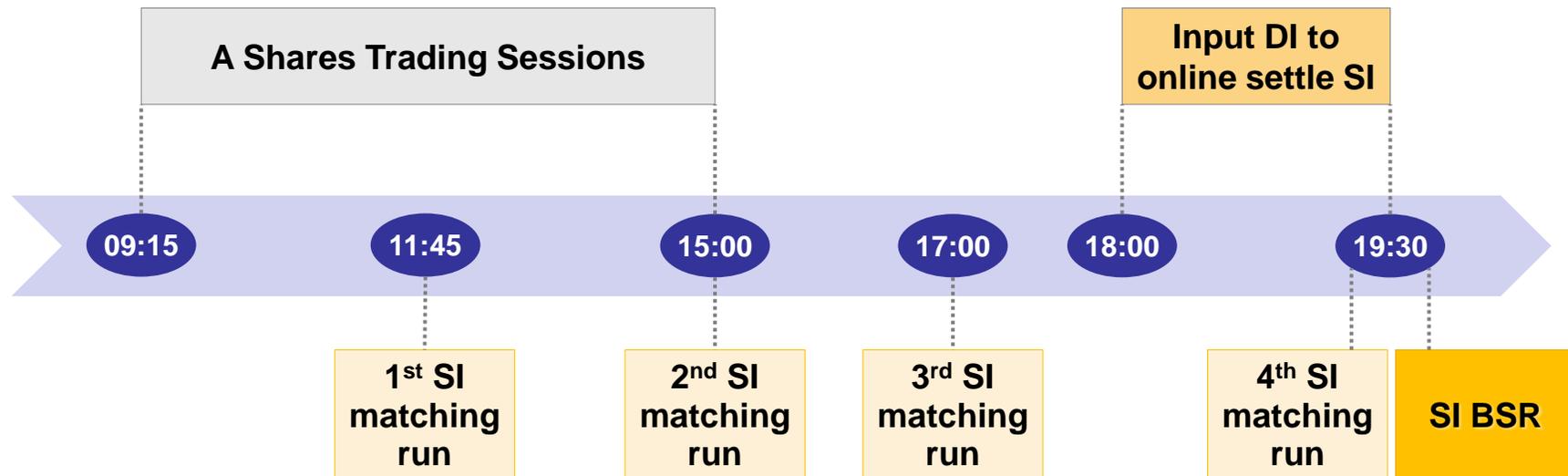
A. Within CCASS Participants' own stock accounts

Follow the existing practice and schedules (including function times and file validation runs)

- ATI to transfer among stock segregated accounts without statements
- STI to transfer into or out of stock segregated accounts with statements (SSA)

B. Between Counterparties

- SI to transfer between Counterparties, *with new schedules*
- SI in SSE Securities must be executed on an FOP basis



Measures for Northbound Trade Settlement Failure

CPs failed to meet share delivery obligations



Preventive Measure

Snapshot of SSE Securities Holdings

- CCASS will take a snapshot of each CP's SSE Securities holdings at the end of each business day and replicate to CSC to facilitate Pre-trade Checking on the next day

If a CP fails to transfer SSE Securities to its stock clearing account (01) in time, it may fail to settle its Northbound sell trades

Measures upon Settlement Failure

Compulsory Buy-in

- Compulsory buy-in with NO buy-in exemption
- Apply a penalty charge (i.e. default fee)

On-hold SI

- For those SSE Securities with overdue CNS short stock position, CCASS will on-hold ALL delivering SI positions in the SSE Securities concerned from settlement until the overdue CNS short stock position has been settled

Withheld from Selling

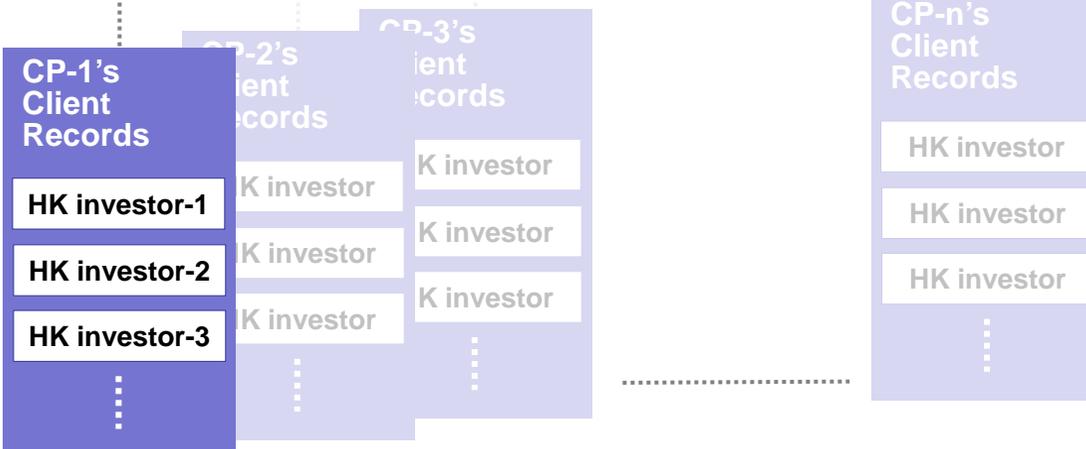
- Overdue CNS quantity will be withheld from selling on the following trading day

Hold SSE Securities through CCASS

ChinaClear – electronic ROM



CCASS



- All SSE Securities are issued in scripless form
- ChinaClear records as electronic Register Of Members (ROM)
- HKSCC holds SSE Securities on behalf of CPs
- All SSE Securities acquired through Northbound Trading are held at CPs' (i.e. brokers' or custodians') CCASS stock accounts
- Investors/Investor Participants should hold SSE Securities through brokers or custodians
- HKSCC provides nominee services to CPs on their SSE Securities
- Hong Kong and overseas investors' ownership of SSE Securities is reflected in their brokers' or custodians' client records

Cash / Scrip Entitlements

- Unchanged – distribute to entitlement accounts, i.e. money ledger account (04) / stock account (02)
- Subject to Dividend Tax (to be discussed with the SAT on the tax rate)
- Scrip entitlement will normally be credited to stock account (02) on the day before its listing date

Voting

- In the Mainland, a shareholder is not allowed to appoint multiple proxies to attend a meeting on his behalf. Hong Kong investors cannot attend meetings of SSE Securities in person or as proxy.
- Hong Kong investors may exercise their voting rights by giving their voting instructions to HKSCC through CCASS participants. Such voting instructions will be consolidated and HKSCC will submit a combined single voting instruction to the relevant issuers of SSE Securities via on-line voting platform*.

* New Mainland rules will be promulgated such that all Mainland issuers will be required to provide on-line voting as an alternative to on-site voting

Holiday arrangement on Handling Corporate Actions of SSE Securities



Shareholding Date

- Shareholding date of benefit entitlement / voting will be set on the day before HK holiday if the record date announced by the listed issuer of SSE Securities is a HK holiday.

Payable Date

- If the payable day of the distribution from SSE Securities falls on a HK holiday, HKSCC will credit the cash / scrip entitlements to relevant CCASS Participants on the following business day in HK.

Stock Code for Northbound Trading

- EPs need to input **6-digit** SSE Securities codes in their orders
- CCASS will use **5-digit** stock codes in its reports and on-line function

General Rules

Existing SSE-listed stock codes:	SSE Securities code for Northbound Trading:	Mapped to CCASS:
6-digit Start with "60"	Same as SSE's	5-digit Replace "60" with "9"
<u>60</u>XXXX	<u>60</u>XXXX	<u>9</u>XXXX

Exceptions

- There may be exceptions, for example, in cases of benefit entitlement stocks with stock code not starting with "60" may be distributed
- Participants will be informed of the detailed arrangement via circulars when that happens

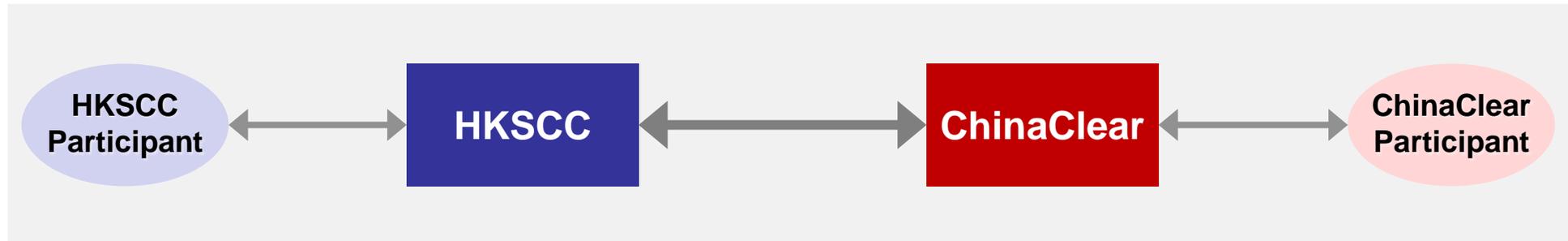
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1

Apply “home risk management regime” to the extent possible:

- ❑ Risk management measures to be imposed by a clearing house on its participants regarding cross-boundary trades will generally be similar to those imposed by the home clearing house on its participants
- ❑ According to this arrangement, investors trading across the boundary are subject to comparable risk management costs as those trading in their own market

2

Insulate against risk spill-over across markets:

- ❑ Participants of one market not exposed to risk of participant default of the other market. Each clearing house not to participate in the other market’s mutualised risk management pools (e.g. default funds)

Risk Management Measures Imposed on CPs who Clear Northbound Trades



New...

For Positions in SSE Securities (RMB)

ChinaClear	<ol style="list-style-type: none">1. Mainland Settlement Deposit 內地結算備付金2. Mainland Security Deposit (non-mutualised portion) 內地證券結算保證金
CSRC & MOF*	<ol style="list-style-type: none">3. Mainland Clearing Risk Fund 內地證券結算風險基金
HKSCC	<ol style="list-style-type: none">4. Additional cash collateral

Today...

For Positions in HK Stocks (HKD/RMB/USD)

1. Marks & concentration collateral
2. Margin
3. Collateral security
4. Specific cash collateral
5. Additional cash collateral

* MOF: Ministry of Finance

Risk Management Measures on Northbound Trades

(1) Mainland Settlement Deposit 內地結算備付金



(a) Calculate

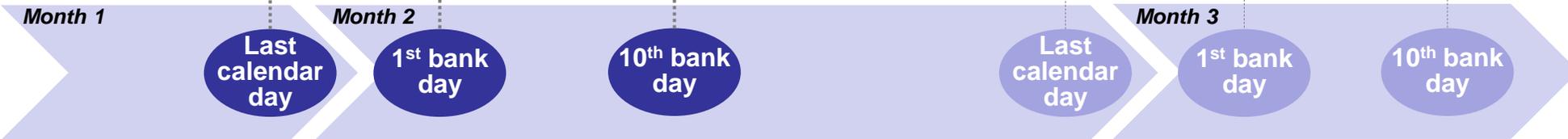
20% x Daily average of current month:
(Purchase turnover +
Overdue short positions in SSE Securities)

(b) Collect

- If shortfall
- Via day-end DDI

(c) Refund

- If excess
- Via day-end DCI



(a) Calculate

(b) Collect

(c) Refund

Also, on a daily basis...

(a) Calculate: based on daily purchase turnover and overdue short positions in SSE Securities

(b) Collect: if daily amount required > amount on hand

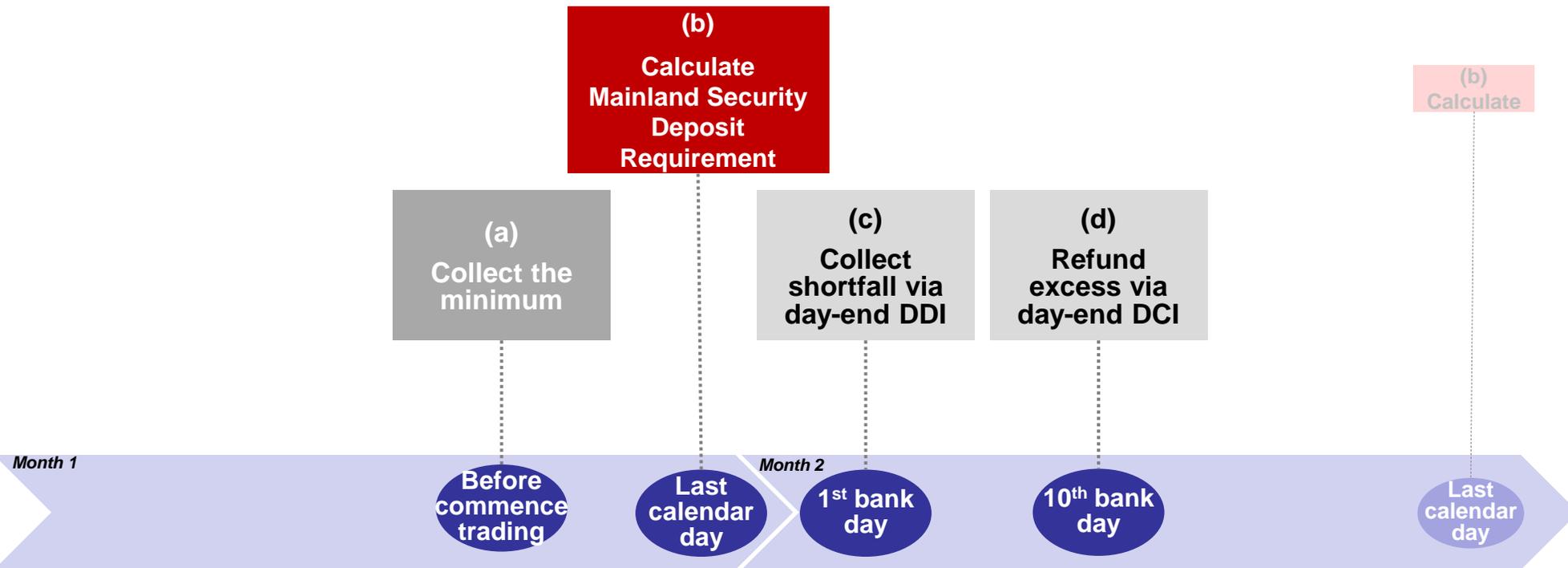
Note: All the risk management measures for Northbound trading are subject to the SFC's approval
DDI: Direct Debit Instruction
DCI: Direct Credit Instruction

Risk Management Measures on Northbound Trades

(2) Mainland Security Deposit 內地證券結算保證金



- Minimum⁽¹⁾: RMB 200,000
- Required amount⁽²⁾:
Daily Average (Net Settlement Amount in SSE Securities of previous 6 months) x [16%]



(1) Each DCP/GCP participating in Northbound trading will be subject to the RMB 200,000 minimum requirement

(2) Non-mutualised contribution; 16% is pending confirmation

Note: All the risk management measures for Northbound trading are subject to the SFC's approval

Risk Management Measures on Northbound Trades

(3) Mainland Clearing Risk Fund 內地證券結算風險基金



Calculation	<ul style="list-style-type: none">Based on daily turnover in SSE Securities x 0.003%
Collection	<ul style="list-style-type: none">Daily via day-end DDI
Refund	<ul style="list-style-type: none">Non-refundable
Period	<ul style="list-style-type: none">First year after project launchedWhen the net asset of the Fund falls below RMB 3 billion, contribution will be resumed upon request from ChinaClear

Note: HKSCC is working with ChinaClear to either (i) seek exemption from contributing to the Mainland Clearing Risk Fund and instead contribute to a slightly higher level of Mainland Security Deposit or (ii) ring-fence HKSCC's contribution from loss sharing. Updates on the results of discussion with our Mainland counterparts will be shared with CPs in due course

Subject to the consideration of the relevant Mainland authorities, CPs may or may not be required to pay the Mainland Clearing Risk Fund

Risk Management Measures on Northbound Trades

(4) Interest on collateral for positions in SSE Securities



Calculation

- Interest will be calculated on a quarterly basis (follow ChinaClear's practice)

Payment

- Paid on 1st bank day of next quarter

Means

- Via day-end DCI

Reports

- Participant report on interest calculation will be available

HKSCC Guarantee Fund (HKSCC GF)

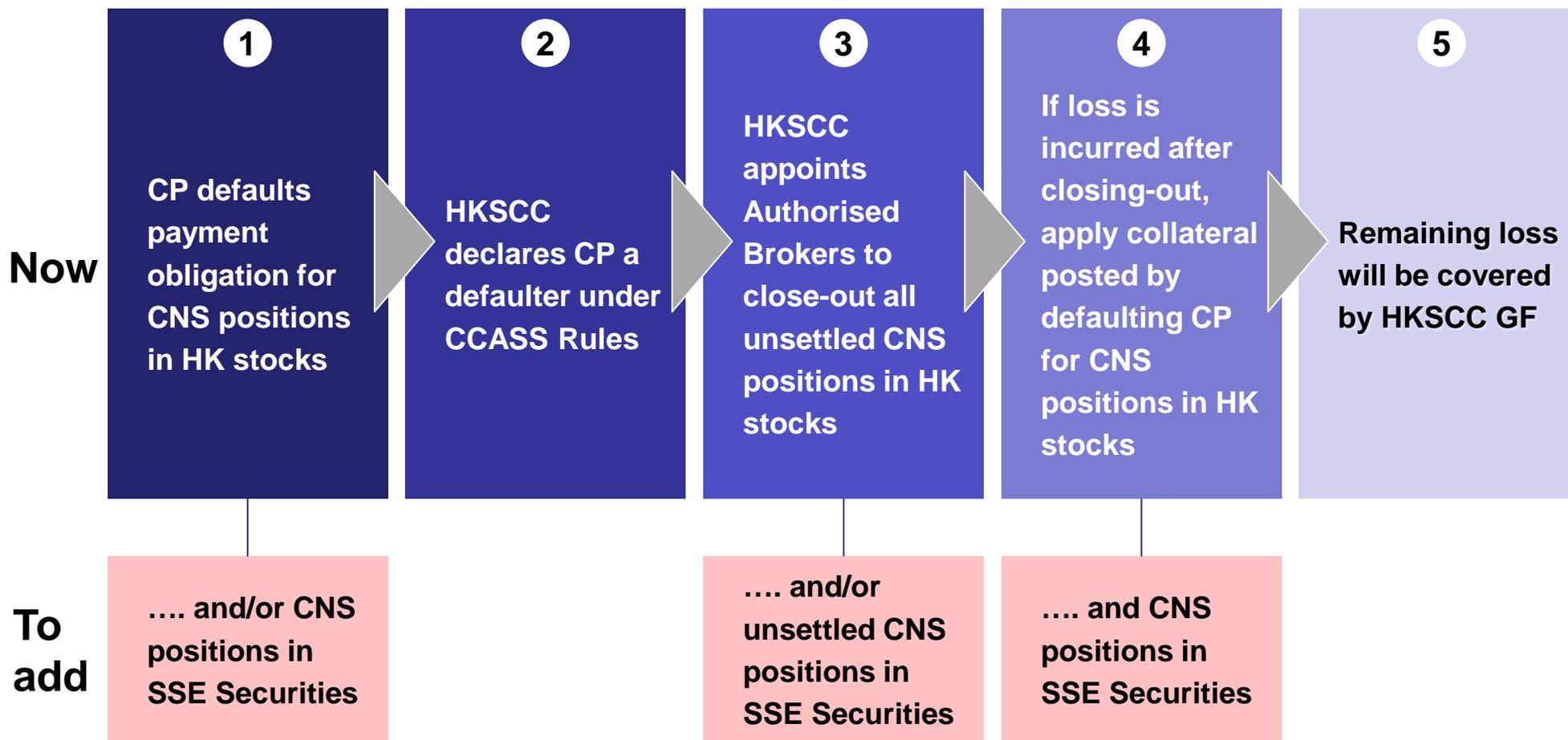
Implications of Northbound Trading



Coverage	<ul style="list-style-type: none">■ Extend to cover any residual loss in closing out a defaulting CP's positions in SSE Securities■ Will not cover losses from ChinaClear's default
Fund Size Determination	<ul style="list-style-type: none">■ Include positions in both HK stocks and SSE Securities
CP's Required Contribution	<ul style="list-style-type: none">■ Calculated based on a CP's positions in both HK stocks and SSE Securities■ No change to Dynamic Contribution Credit: HK\$1 million per CP
Frequency of GF Review	<ul style="list-style-type: none">■ No change
Collection / Refund Timetable	<ul style="list-style-type: none">■ No change
Reports	<ul style="list-style-type: none">■ No change to format of CP reports<ul style="list-style-type: none">➢ Statement of Guarantee Fund Contributions➢ NCP(s) Guarantee Fund Contribution Projection by Position

Note: All the risk management measures for Northbound trading are subject to the SFC's approval

Default Management (HKSCC CP Defaults)



All collateral posted by the defaulting CP, whether for its CNS positions in HK stocks or SSE Securities, will be viewed as one single pool to cover any default loss

1 Overview of Shanghai-Hong Kong Stock Connect

2 Trading

3 Clearing and Settlement

4 Risk Management

5 How to Participate

Who can Participate in Northbound Trading?



Market Participants

- All EPs and CPs*
- Subject to Participants meeting certain eligibility and readiness requirements
- List of eligible EPs and CPs will be published on HKEx website

Investors

- All investors in Hong Kong market
 - including institutional and individual investors
 - Including both Hong Kong local and overseas investors

* Except Investor Participants (IPs) at the initial stage

Eligibility and Readiness Requirements for EPs

Trading of SSE Securities



RMB Capability

- Confirmation of readiness in dealing with RMB securities

Internal Readiness

- Sign an undertaking with SEHK Subsidiary
- Re-examine risk management measures
- Staff education on trading of SSE Securities
- Procedures on issuing client documents (e.g. contract notes)
- Amend client agreements in relation to trading of SSE Securities
- Inform their clients of relevant policies/procedures/measures regarding the trading and settlement of SSE Securities

System Test and Readiness

- Install CC OG and communication line and ensure readiness of all relevant systems (e.g. 6-digit stock code for SSE Securities, no day trading of SSE Securities)
- Successfully complete End-to-End test and Market Rehearsal

Clearing Support

- Be a DCP to handle the clearing and settlement of its HK stocks as well as SSE Securities; or
- For an NCP, appoint the same GCP to handle the clearing and settlement of its HK stocks as well as SSE Securities and ensure that the GCP is ready to support clearing of SSE Securities

Eligibility and Readiness Requirements for CPs

Clearing and Settlement of SSE Securities



RMB Settlement Capability

- Ensure its designated bank is able to settle SSE Securities money obligations in RMB via RTGS
 - Initially during Hong Kong business days only
 - At later stage, may extend to HK holidays and typhoon/rainstorm affected days

Adequate Internal Control

- Internal back office system and operational procedures capabilities (including internal processes, control procedures and documentation) to handle the new settlement process

Risk Management Collateral

- Pay the minimum amount of Mainland Security Deposit of RMB200,000 before commencement of trading in SSE Securities

System Test and Declaration

- Successful completion of system test prescribed by HKSCC or prove to satisfaction of HKSCC of their system and operational readiness in clearing Northbound trades

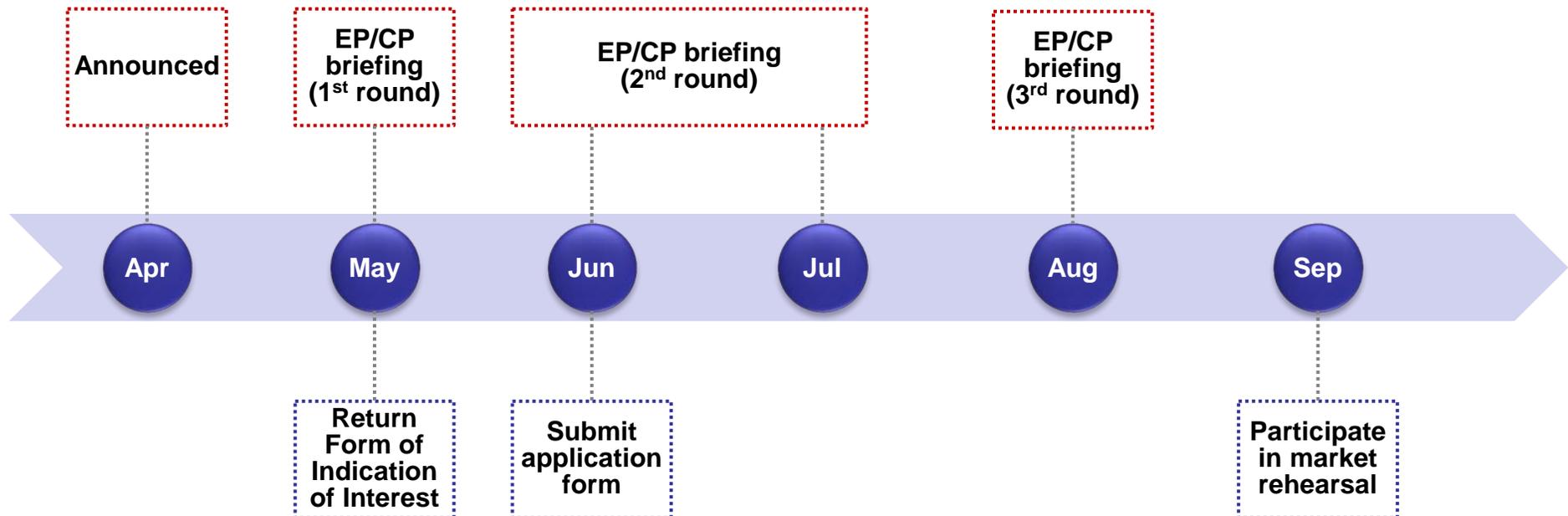
Access Requirement, Reports & Message Template

- Capacity of existing technical set-up (CCASS/3 Terminal, Participant Gateway (PG) and SDNet/2 lines) is sufficient to support the clearing and settlement of Northbound trades
- Able to process new and modified participant reports, and changes on PG message template (if applicable)

Implementation – Key Activities for launch in approximately six months

HKEx's update

- Briefings
- Circulars
- Web corner
- FAQ
- Information Book
- Technical Specification
- Others



EP/CP's preparation

- Internal approval
- CC OG & related set-up
- System & testing
- Procedures & documentations
- Banking support
- Staff and client education

EPs/CPs who are not ready to join on day-1 can participate at a later stage

More Information on the Website



Visit Shanghai-Hong Kong Stock Connect Web Corner at

www.hkex.com.hk/chinaconnect



Questions and Answers



Appendix

Northbound Trading: Mainland Investors vs. Hong Kong and Overseas Investors



Trading of SSE Securities		
	Mainland Investors (Today)	Hong Kong & Overseas Investors (via Shanghai-Hong Kong Stock Connect)
Trading on Mainland Holiday	x	x
Trading on HK Holiday	✓	x
Market orders during continuous trading session	✓	x
Day trade	x	x
Block trade	✓	x
Short selling	✓ (restrictive)	Naked short selling not allowed
Margin Financing and Stock borrowing and lending (SBL)	✓ margin trading and securities lending (融資融券)	Not allowed to participate in Mainland's margin trading and securities lending (融資融券)
Designated broker trading	✓	x
Pre-trade checking	✓ (investor level)	✓ (EP level)

Southbound Trading: Hong Kong and Overseas Investors vs. Mainland Investors



Trading of SEHK Securities		
	Hong Kong & Overseas Investors (Today)	Mainland investors (via Shanghai-Hong Kong Stock Connect)
Trading on HK Holiday	x	x
Trading on Mainland Holiday	✓	x
At auction orders (ie market orders) during pre-opening session	✓	x
Order amendment	✓	x
Day trade	✓	✓
Manual trade	✓	x
Short selling	✓	x
Margin financing & SBL	✓	x
Designated broker trading	Not Applicable	✓
Pre-trade checking	Not Applicable	✓ (by SSE)