

Shanghai-Hong Kong Stock Connect

Media Workshop
8 May 2014



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1 Overview of Shanghai-Hong Kong Stock Connect

2 Trading

3 Clearing and Settlement

4 Risk Management

5 How to Participate

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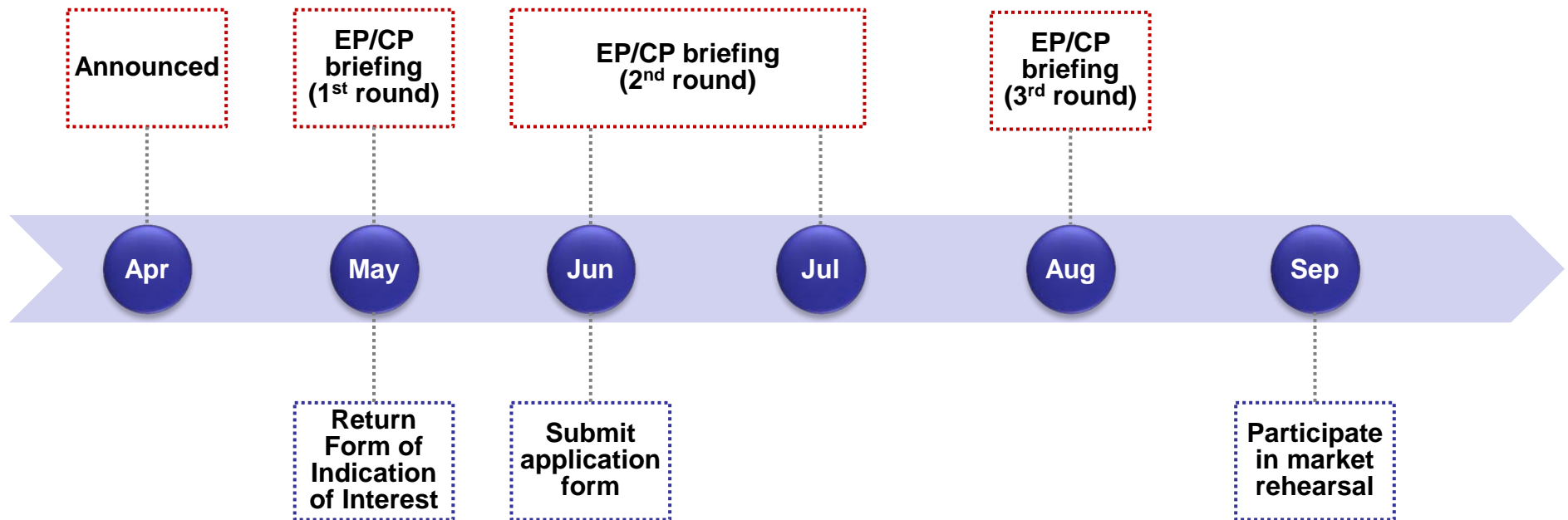
5 How to Participate

Key Market 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

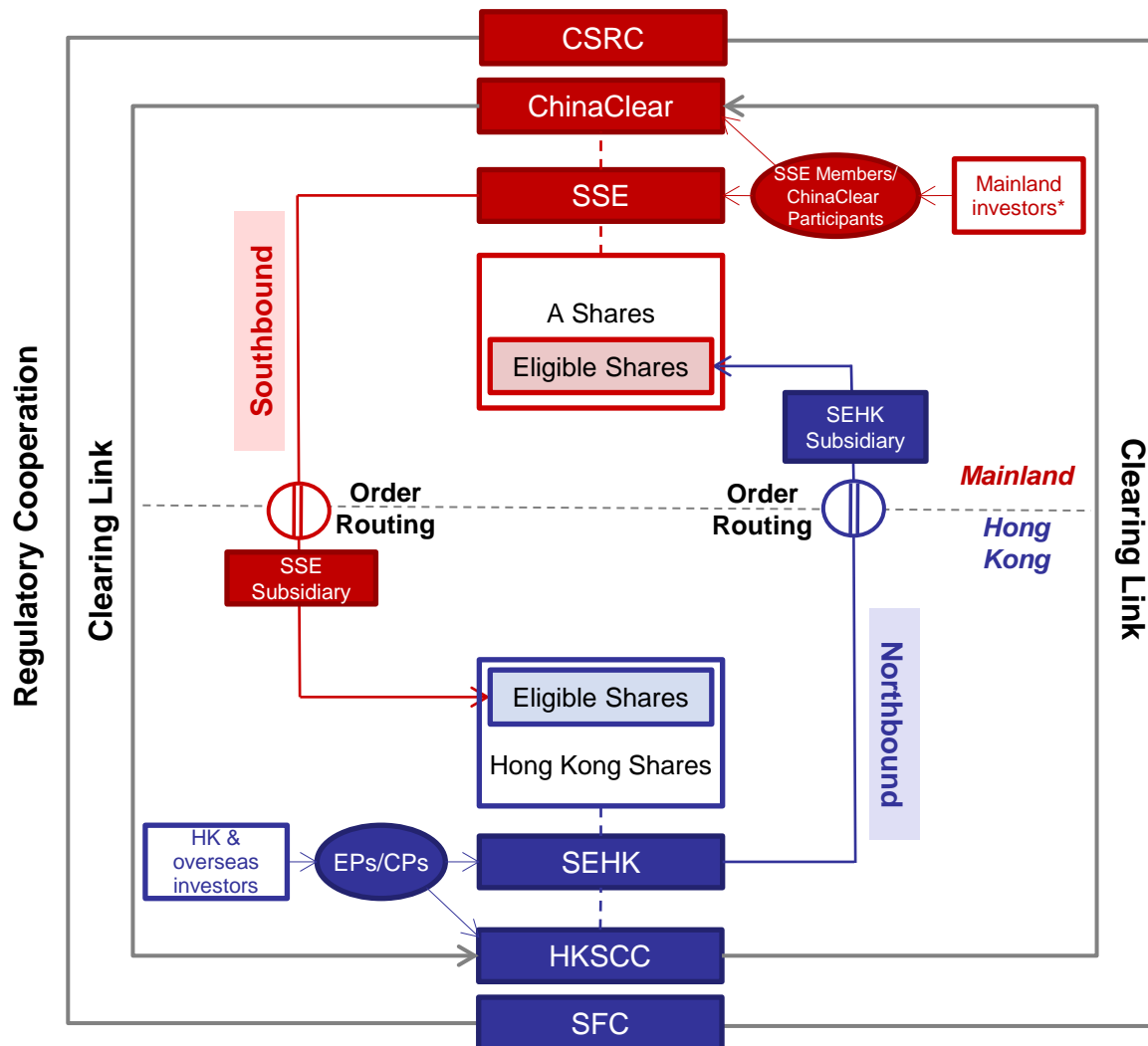
What is Shanghai-Hong Kong Stock Connect?



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

What does it Mean to Investors?



Investors will benefit from...

- A convenient channel for Hong Kong investors to trade across the boundary (through their own brokers) with comparable costs applicable to Mainland investors
- Continue to be protected by the Hong Kong laws, including the Hong Kong Securities and Futures Ordinance (SFO)
- In general enjoy the same shareholders' rights for the same class of shares acquired through Shanghai-Hong Kong Stock Connect

However, investors should note that...

- The business rules and practices are different from those in Hong Kong
- The current Hong Kong Investor Compensation Fund will not cover any of their Northbound trading activities on the Mainland (similar to the situation where investors trade in other foreign stocks through their Hong Kong brokers)

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4 Risk Management

5 How to Participate

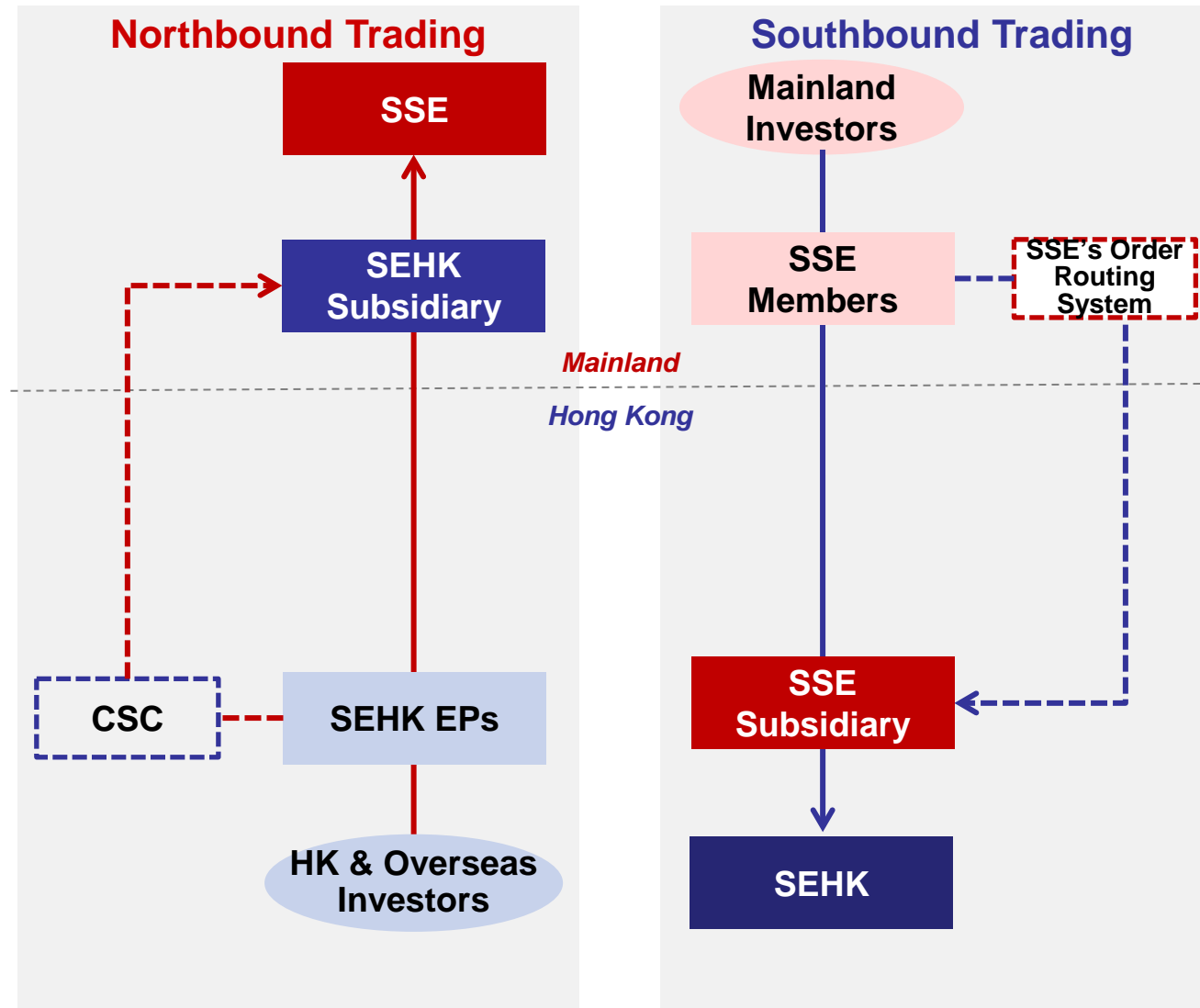
Trading Flow

Northbound Trading

- For secondary market trading only
- Investors place orders with EPs
- Orders input by EPs will be validated by a new system “CSC” (China Stock Connect System, for basic order checking and quota control), and then routed to SSE via SEHK Subsidiary
- For executed trade, SSE will send trade confirmation to SEHK Subsidiary, which will forward the confirmation to EPs

Southbound Trading

- Similar arrangements



CSC: China Stock Connect System

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 on risk alert board 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

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 (Pre-opening): Reject new buy orders until DQ Balance becomes positive (e.g. due to Buy Order cancellation)
 - During continuous auction (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 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	09:15 – 09:25	09:10 – 11:30
Continuous Auction (Morning)	09:30 – 11:30	
Continuous Auction (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
- Based on the above principles, Northbound trading will not open on 12 SSE business days, and Southbound trading will not open on 20 SEHK business days in 2014 (e.g. Southbound trading will not open for 5 days during the Mainland National holidays, Northbound trading will not open for 3 days during the Hong Kong Christmas holidays)

	Mainland	Hong Kong	Northbound Trading Available?	
Day-1	Business Day	Business Day	Open	
Day-2	Business Day	Business Day	Close	Hong Kong public holiday on corresponding money settlement day
Day-3	Business Day	Holiday	Close	Hong Kong public holiday on trading day
Day-4	Holiday	Business Day	Close	Mainland market not open

Going forward, we'll 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: Mainland Investors vs. Hong Kong and Overseas Investors

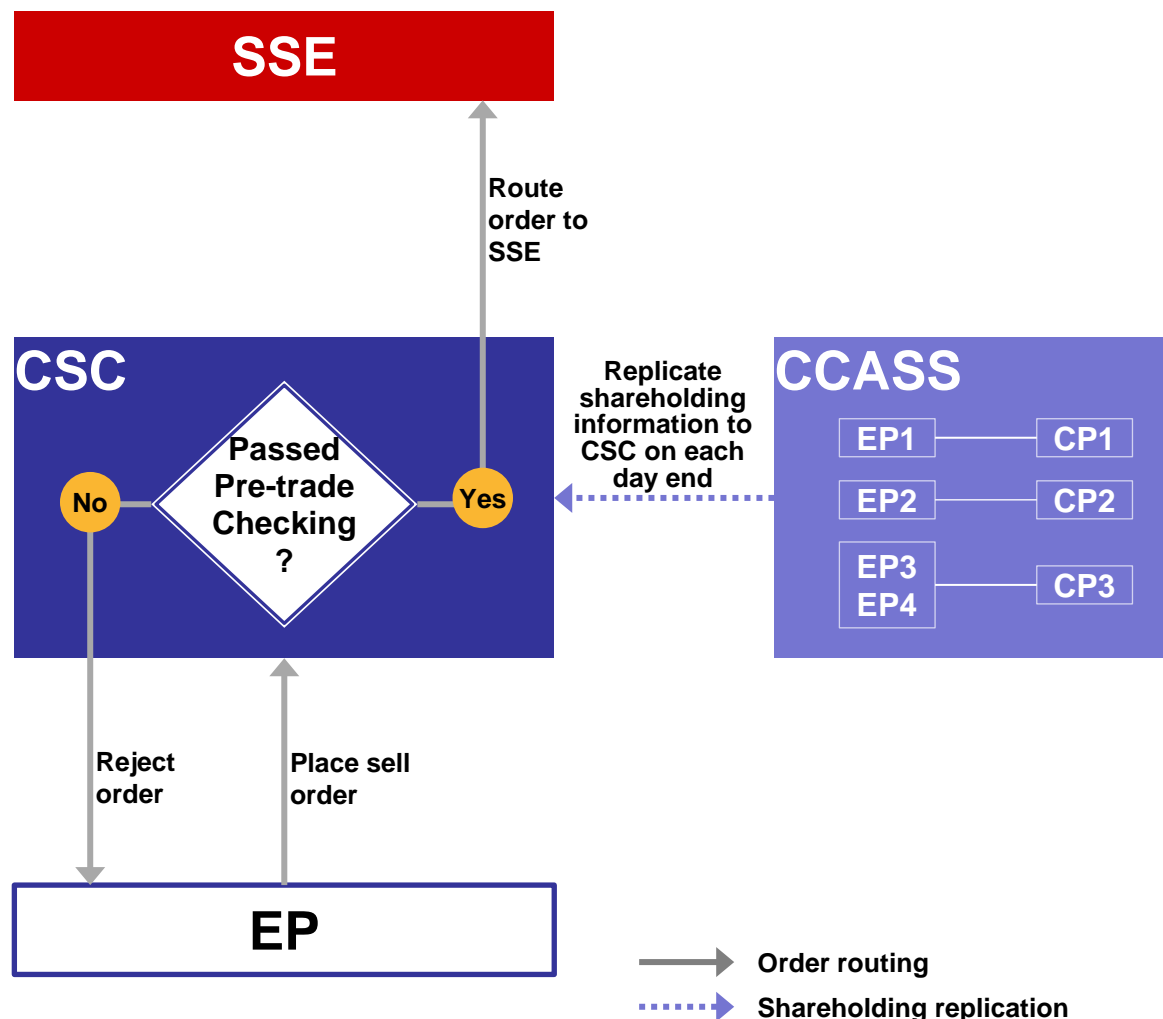


Trading of SSE Securities		
	Mainland Investors (Today)	Hong Kong & Overseas Investors (via Shanghai-Hong Kong Stock Connect)
Trading on Mainland Holiday	x	x
Trading on HK Holiday	✓	x
Market orders during continuous trading session	✓	x
Day trade	x	x
Block trade	✓	x
Short selling	✓ (restrictive)	Naked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



What is Pre-trade checking?

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

How is it done?

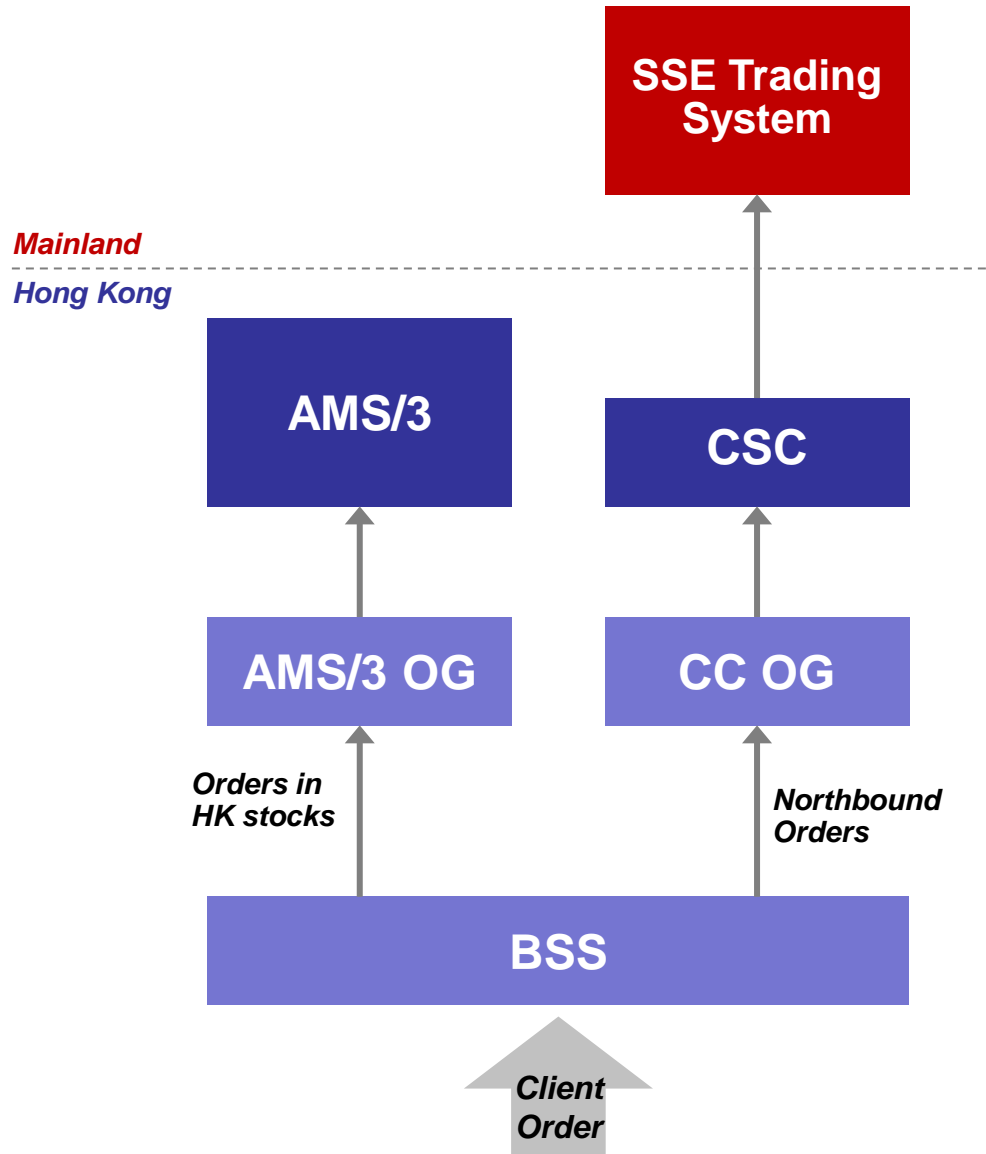
- CCASS will take snapshot of each CP's SSE Securities holdings at the end of each business day and replicate to CSC to facilitate pre-trade checking of SSE Securities on the next day
- Sell orders by an EP will be rejected by CSC if the EP's cumulative sell quantity in that stock for the day is higher 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
 - 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	0.00696% of the consideration of a transaction per side	SSE
Securities Management Fee	0.00200% of the consideration of a transaction per side	CSRC
Transfer Fee	0.06000% on face value per side	ChinaClear
Stamp Duty	0.10000% of the consideration of a transaction on the seller	SAT

■ 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

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**

1 Overview of Shanghai-Hong Kong Stock Connect

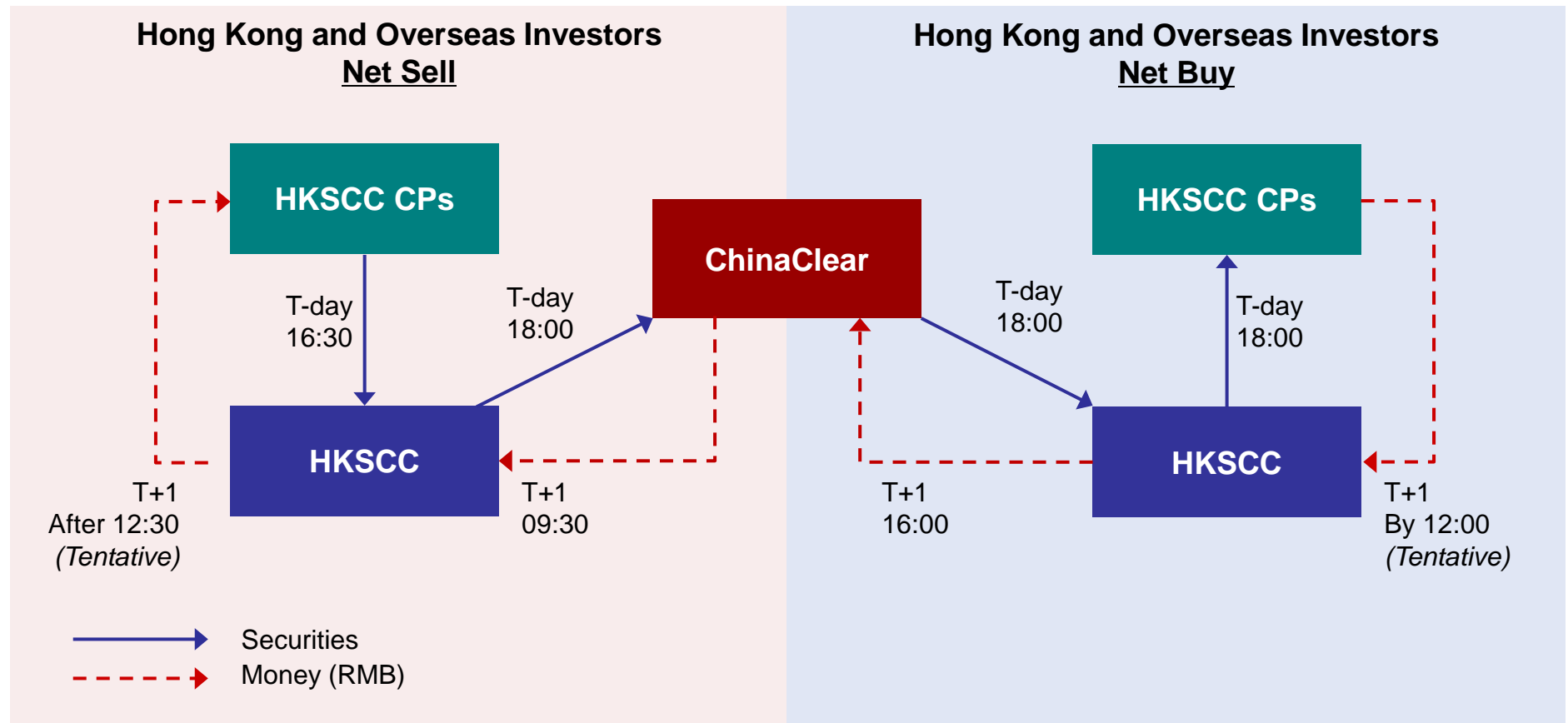
2 Trading

3 Clearing and Settlement

4 Risk Management

5 How to Participate

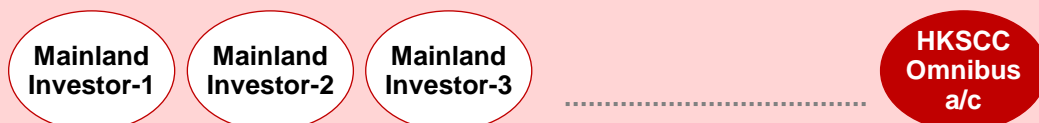
Settlement of Northbound Trades between ChinaClear, HKSCC and CPs



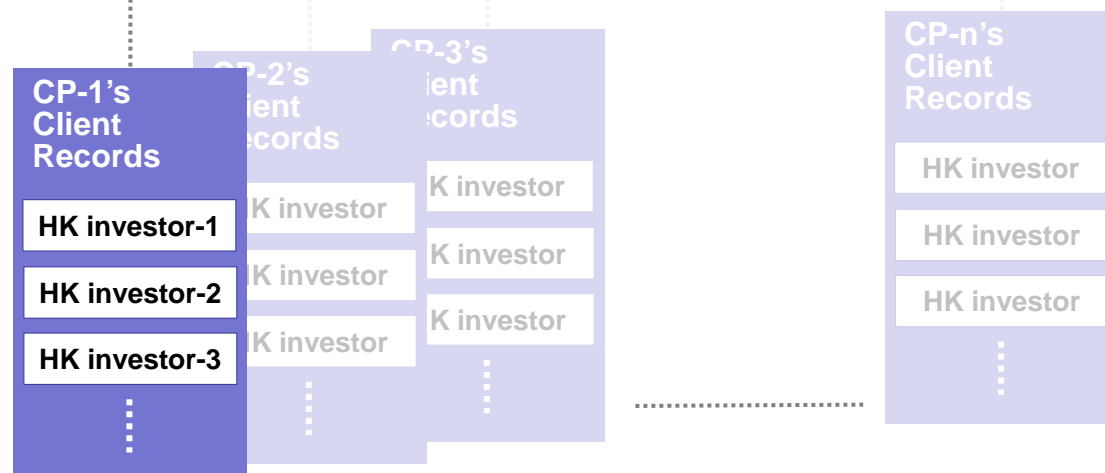
- Stock settlement on T-day, and money settlement on T+1
- HKSCC will collect RMB from ChinaClear and Net Buy CPs before paying RMB to Net Sell CPs and ChinaClear, if applicable
- Detailed money settlement arrangement is subject to discussion with banks

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

- Largely the same as the current arrangements for Hong Kong stocks
- Dividend tax arrangement is subject to discussions with the State Administration of Taxation (tax rate proposed to be standardised at 10%)

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*.

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

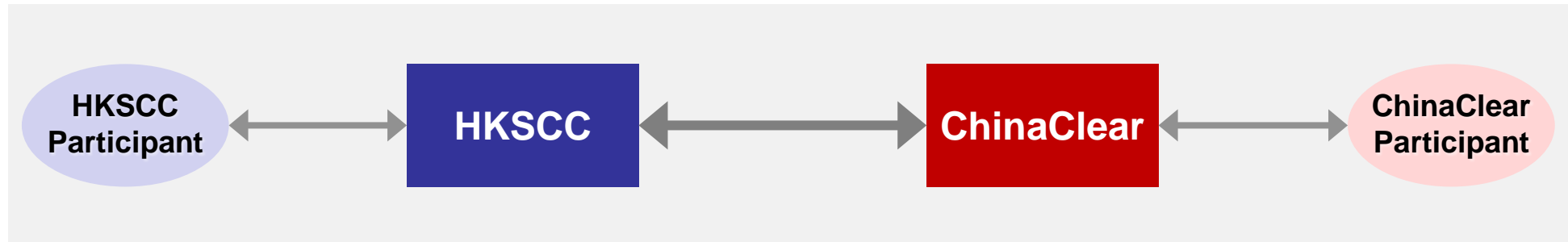
1 Overview of Shanghai-Hong Kong Stock Connect

2 Trading

3 Clearing and Settlement

4 Risk Management

5 How to Participate



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 Deposit2. Mainland Security Deposit (non-mutualised portion)
CSRC & MOF*	<ol style="list-style-type: none">3. Mainland Clearing Risk Fund
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

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 Brokers Participating in Shanghai-Hong Kong Stock Connect



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

Visit the Shanghai-Hong Kong Stock Connect Web Corner for more information:

www.hkex.com.hk/chinaconnect



Questions and Answers