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# Shanghai-Hong Kong Stock Connect

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**Shanghai Stock Exchange**

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1

**Overview of Foreign Investor in Shanghai Stock Exchange**

2

Briefing on Shanghai-Hong Kong Stock Connect

# The Largest Emerging Capital Market

*Total market cap ranked **No.7***

*Trading volume ranked **No.5***

*Financing amount ranked **No.6***

*Number of listed companies **955***

*Number of investors' account **114.4 million***

*Total market cap **USD2.5 trillion***

***100** Chinese companies listed in 2014 Fortune 500 rank, **44** of them listing in SSE*

*After 23 years of development, SSE tops the global ranking in terms of market cap, trading volume, financing amount and etc.*

# Milestone of Opening of SSE market

## Milestone of Opening of SSE market

First B-share  
Vacuum  
Electronics  
Listed in  
SSE

1992

QFII  
scheme  
released

2002

RQFII  
scheme  
released

2009

2012

- Signed MOU with 34 exchanges in the world
- Set up China-Brazil Forum, China-Africa Forum
- Joint WFE、AOSEF
- Nominated as the broad member of WFE

## Cooperation with HKEX

1993

First  
A+H  
share  
Qingdao  
Beer  
listed in  
HKEx

2002

Signed  
agreement  
of  
exchange  
and  
training of  
administrati  
on staff  
with HKEx

2009

Signed  
agreement  
of  
regular  
meeting of  
senior  
management  
with HKEx

2011

Set up  
Joint  
Venture  
"China  
Exchanges  
Service  
Company"

2014

Joint  
Announc  
ement of  
Shangha  
i-Hong  
Kong  
Stock  
Connect

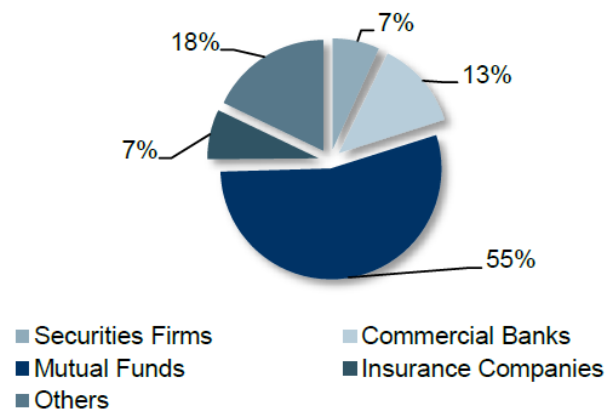
till 2014

# Fact of QFII's investments

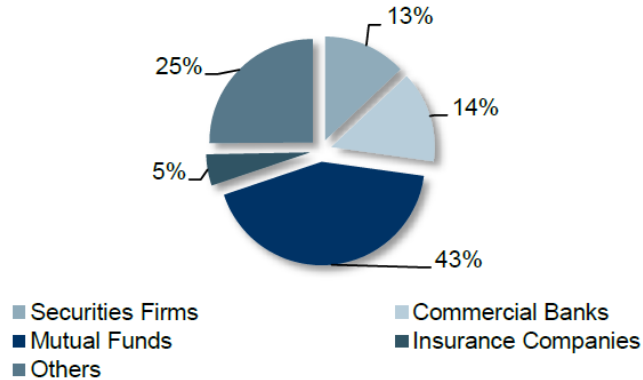
## Key Figures

- QFII APPROVED : 264
- TOTAL INVESTMENT QUOTA : US\$ 150 billion
- QFII INVESTMENT QUOTA ALLOCATED : US\$ 56.548 billion
- CURRENT QFII'S INVESTMENT VALUE : US\$ 40 BILLION
  - equities:84% non-equities : 12%, cash 4%
- MARKET CAPITALIZATION (percentage of A share market capitalization):**1.6%**

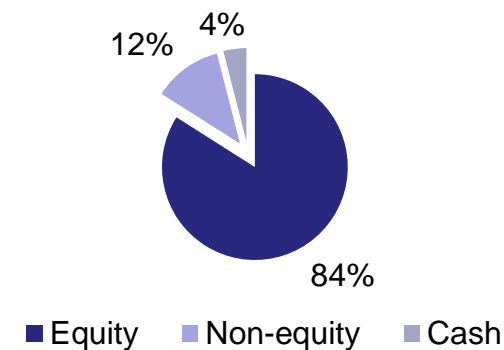
Breakdown of Different Types of QFIIs (in terms of quantity)



Breakdown of Different Types of QFIIs (in terms of quota)



QFII Investment Allocation



## Characters

- Prefer blue chip stocks.
  - QFII's total holding of CSI300 index component stocks accounts for 87%, above the market average of 67%.
- Prefer long term investment. QFII's average turnover ratio is 184% per annum, below the market average.
- Impressive investment return.
  - As of June 2014, QFII's total asset value reached US\$43.5 billion from initial investment of US\$20.5 billion

## Contribution

- Positive impact on China's capital market
- Improved corporate governance of listed companies
- Emphasized on value investing and long-term investment philosophy

***Our Vision: To expand the proportion of foreign investors in SSE market***

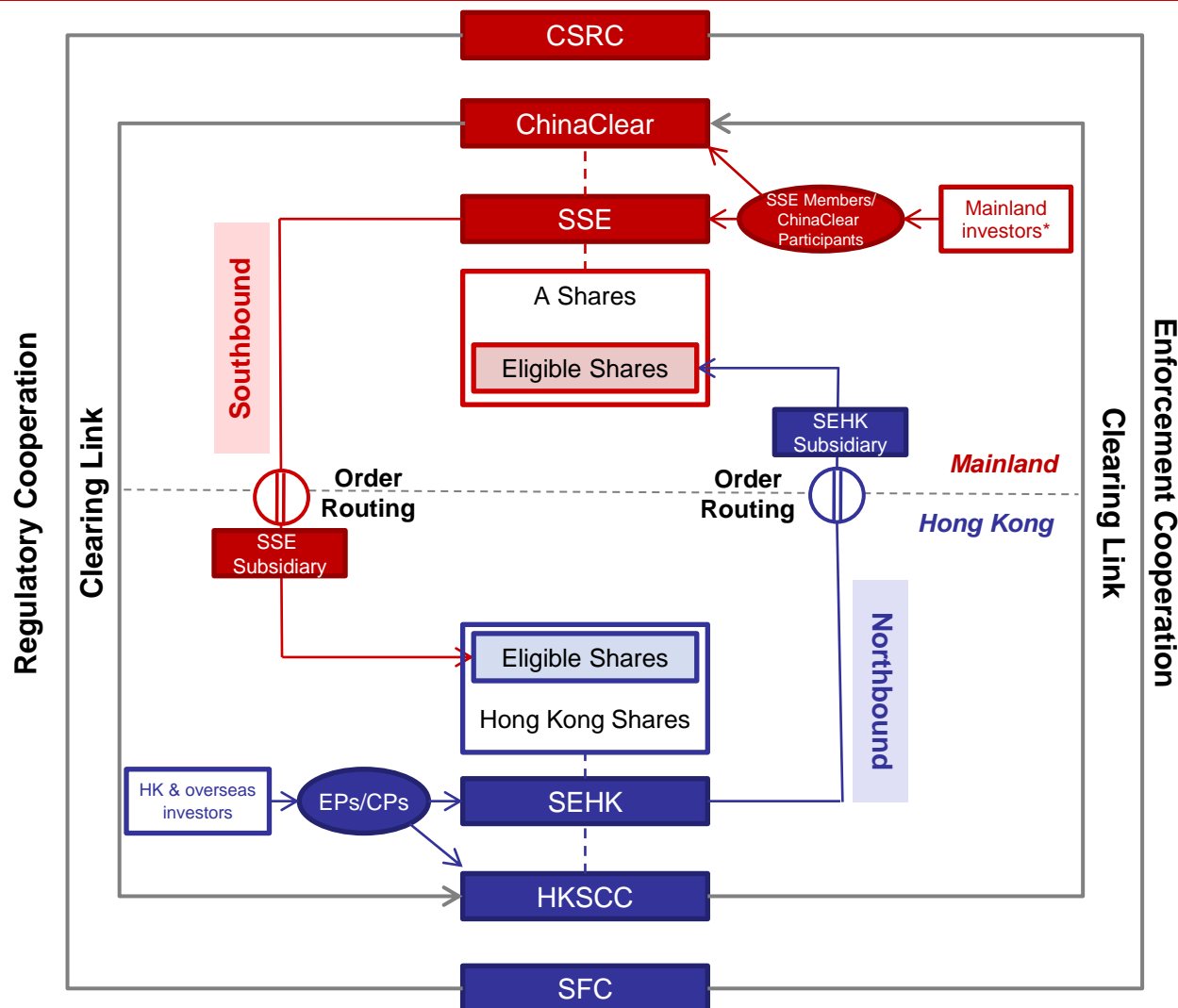
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# Key Features of Stock Connect



- 1 All RMB trading in both direction
- 2 Quota control on a net basis
- 3 Clearing and settlement in net to minimize the exchange cost
- 4 Localized Clearing and settlement to isolate default risk
- 5 Close loop cross-board cashflow with Bidirectional opening of investment
- 6 Blue-chip stocks as eligible scope
- 7 Equal Revenue Sharing to Achieve Win-win Solution

Note: Only eligible Mainland investors can participate with minimum securities and cash asset value of RMB 500,000 in Southbound trading

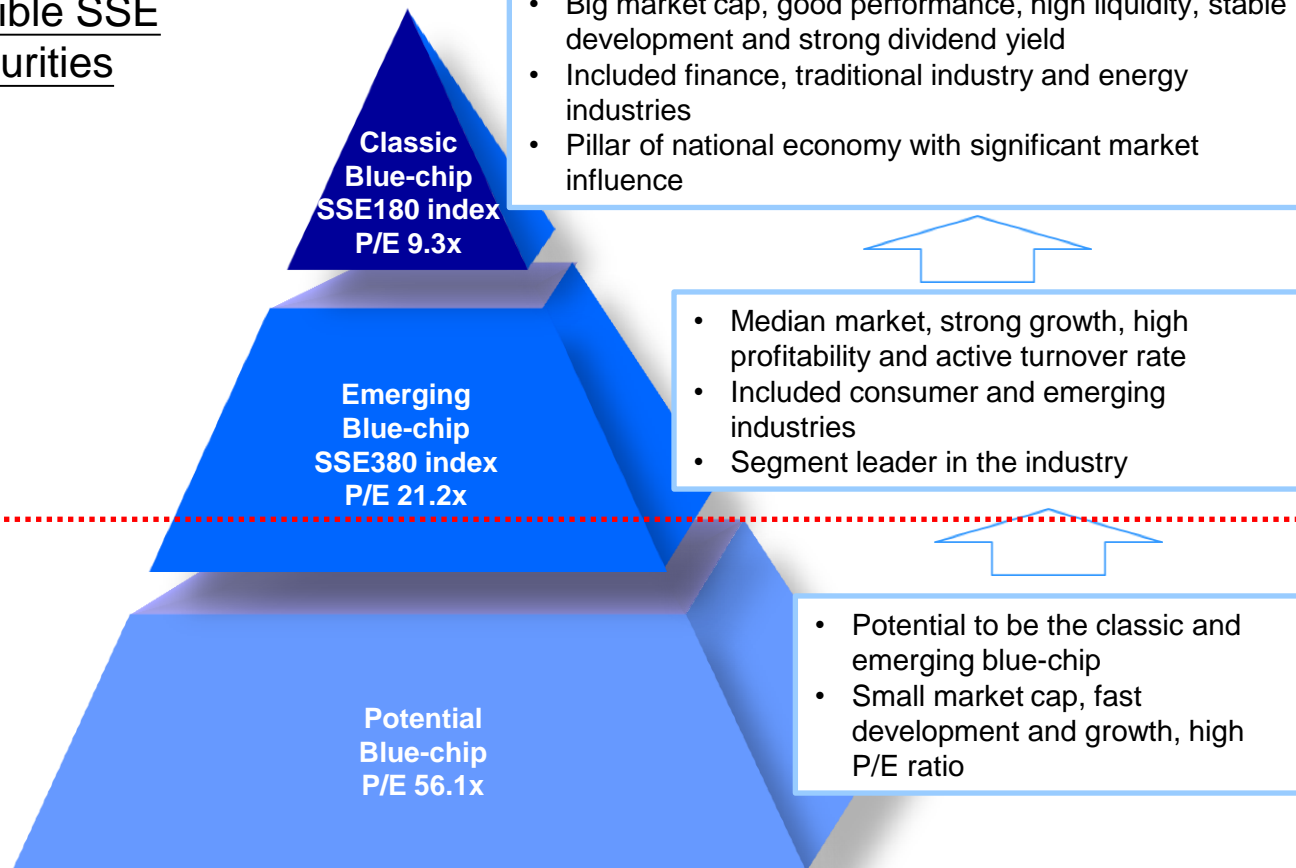


# Eligible Securities

	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 <sup>1</sup>	Shares under risk alert board [風險警示板] Shares that are not traded in RMB	H share which corresponding A share under risk alert board A+H on other Mainland exchange Shares that are not traded in HKD
Total No of Stocks <sup>2</sup>	568	266
Market Capitalisation <sup>2</sup>	90%	82%
Average Daily Turnover <sup>2</sup>	80%	78%

*Note: 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*

## Eligible SSE Securities



# Quota Control

	Northbound Trading of SSE Securities	Southbound Trading of SEHK Securities
Aggregate Quota (AQ)	RMB 300b (USD 48.8b)	RMB 250b (USD 40.6b)
Daily Quota (DQ)	RMB 13b (USD 2.1b)	RMB 10.5b (USD 1.7b)

## 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

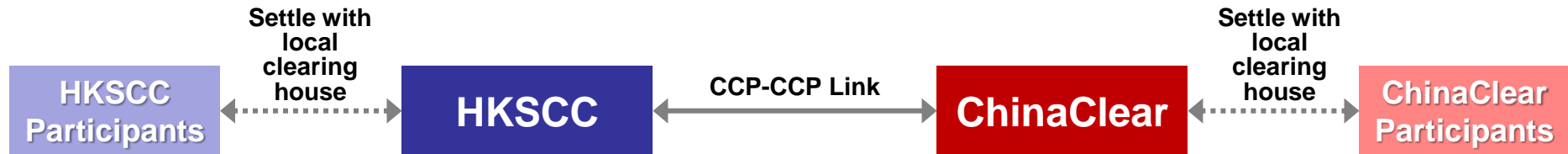
## Aggregate Quota

- **When to calculate:** At the end of each trading day
- **Aggregate Quota Balance:** Aggregate Quota – Aggregate **Buy Trades** + **Aggregate Sell Trades**
  - **Aggregate Sell Trades:** calculated at the weighted average cost
- **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
- **Prevention of quota hogging:** SEHK intends to set the dynamic price checking at 3% during the initial phase of the connect

# Clearing Links Between HKSCC and ChinaClear



- Clearing houses become each other's special clearing participant
- Responsible for the clearing and settlement of the trades executed by its market participants and investors on the other's market
- CCP-CCP Link:
  - Each clearing house settles with the Home CCP\* on behalf of its local participants for their cross-boundary trades
  - Subject to Home CCP's clearing and risk management rules
- Settlement between CCP and own participants:
  - Home CCP imposes risk management measures on the other clearing house, the other clearing house generally imposes the same on its own participants
- Each clearing house will provide nominee services to own participants for their securities acquired through Shanghai-Hong Kong Stock Connect

## Margin Trading

- Margin trading via the Shanghai-Hong Kong Stock Connect may be conducted within certain parameters
  - The eligible A share in which the investors could conduct margin trading and securities borrowing is determined by the SSE.
  - If the balance of volume of margin financing or securities lending for one single stock is over 25% of free float of the stock, SSE will suspend the margin financing or securities activity next day and make disseminate the information to the market
  - If the balance of volume of margin financing or securities lending for one single stock is less than 20% of free float of the stock, SSE will resume the activity next day

## Covered Short Sell

- Hong Kong and overseas investors could conduct covered short sell via the Shanghai-Hong Kong Stock Connect within certain parameters
  - Only eligibility of SSE Securities that can be short sold;
  - Flagging of short selling orders
  - The input price of a short selling order must not be lower than the last traded price
  - Short selling activities may be suspended when
    - (1) Covered-short volume in 1 day > 1% of stock in HKCSS's omnibus account
    - (2) Covered-short volume in 10 days > 5% of stock in HKCSS's omnibus account

## Cash/Script Entitlement

- Distribution of cash entitlements follows current timeline for Hong Kong market
- Subject to Dividend Tax (subject to discussion with relevant authorities)
- Trading of scrip entitlements:

Type of Scrip Entitlement	Can HK & overseas investors buy/sell the scrip entitlement distributed by Northbound Eligible Securities?
Northbound Eligible Securities	Allowed to buy and sell
Northbound non-eligible Securities but listed on SSE	Only allowed to sell
Non-SSE Listed Securities	Not allowed to buy or sell to announce the arrangement on a case by case basis

## Voting

- Under the existing Mainland rules and nominee structure, Hong Kong and overseas investors cannot attend meetings of SSE Securities in person or as proxy
- Hong Kong and overseas investors may exercise their voting rights by giving their voting instructions to HKSCC. Such voting instructions will be consolidated and submitted via on-line voting platform by HKSCC

## Takeover Offer

- Available to Hong Kong and overseas investors

# Other Clauses of the Rules

## Securities Borrowing and Lending(SBL)

- To be allowed in the following situations:
  - For covered short selling
  - For meeting the pre-trade checking requirement in certain circumstances

## Pre-trade Checking

- Pre-trade checking of sharing only (Northbound)
- Additional transfer process for custodians to transfer shares before 7:30 on T-day
- To study the feasibility of establishing the look-through system for the shares in custodian account

## Rights issuance

- To provide the service of right issuance for both southbound and northbound
- The stock which could not issue right for the Connect participants would be excluded from the scope of eligible stock

## Regulatory Enforcement

- CSRC and the SFC will establish regime to respond to all misconduct respectively and build collaboration to enhance the cross-boundary enforcement.

## Tax Issues

- Close to resolution on clarity

# Thank You

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