



**WHAT IS SHENZHEN STOCK
CONNECT?**

**IS IT THE NEXT CHINA
INVESTMENT OPPORTUNITY?**

**INTERACTIVE BROKERS WEBINAR
NOVEMBER 29, 2016**

HKEX
香港交易所

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Executive Summary

Shenzhen-Hong Kong Stock Connect (Shenzhen Connect) is expected to commence this year, subject to final regulatory approval

More investment choices with expansion of eligible stock universe in both Shenzhen and Hong Kong

Relaxation of access restrictions by removing the aggregate quota

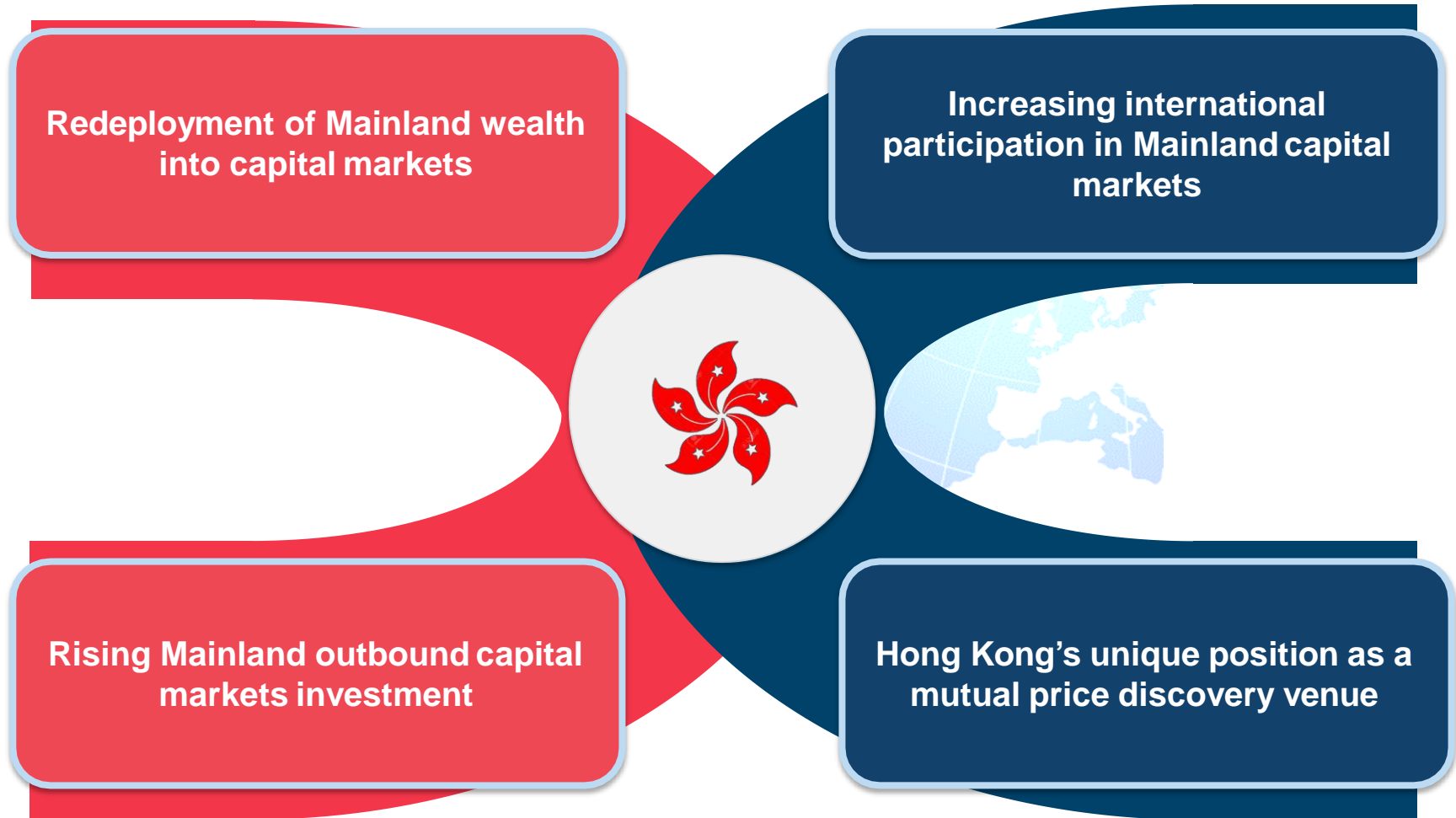
Ease of trading, multi-broker model* and same-day settlement finality adds benefits

Shenzhen Connect programme is a major improvement of the Connect Scheme

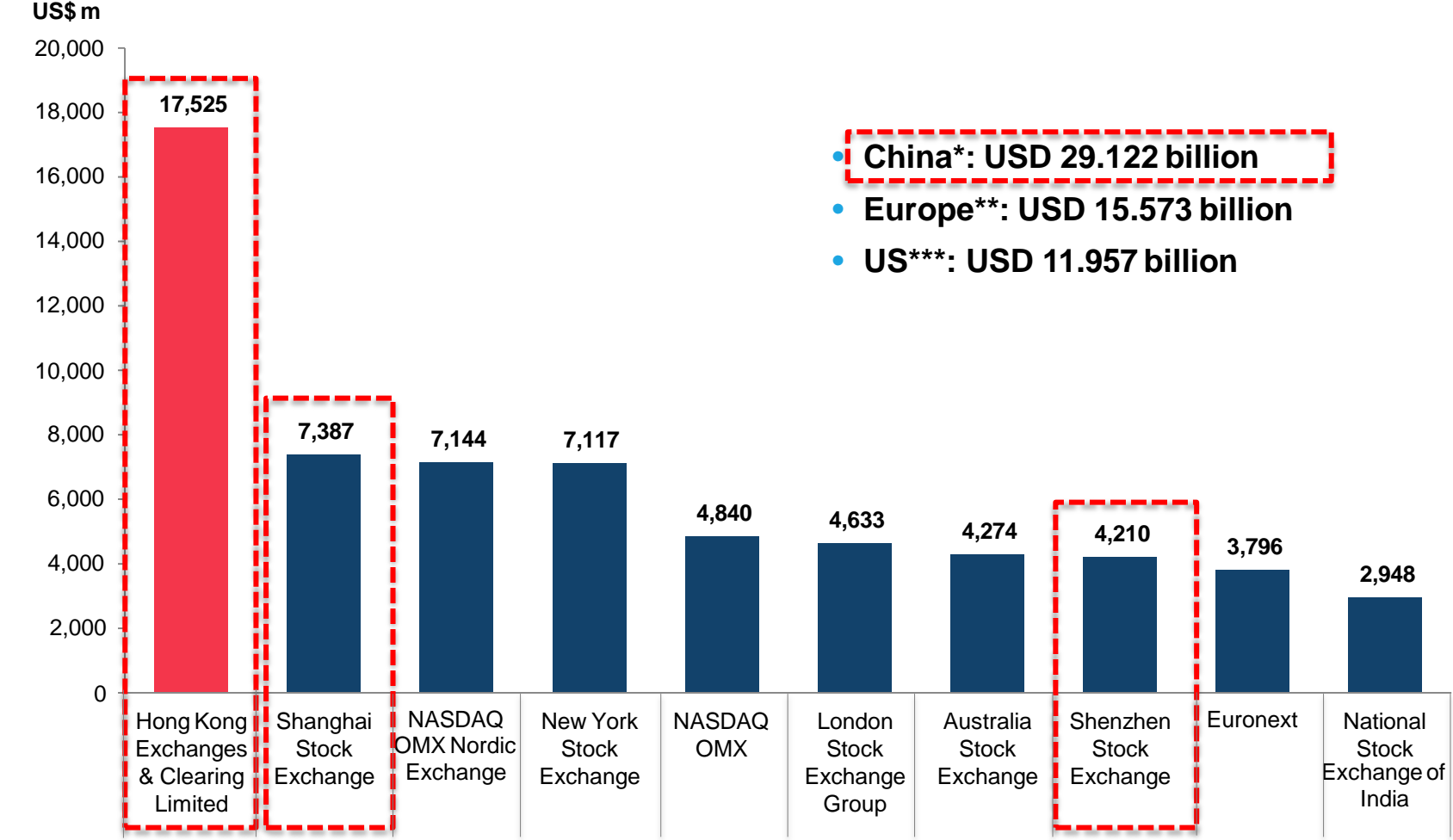


* Special Segregated Accounts (SPSA) model

THE CHINA STORY



China leads globally in IPO funds raised (Jan – Sep 2016)



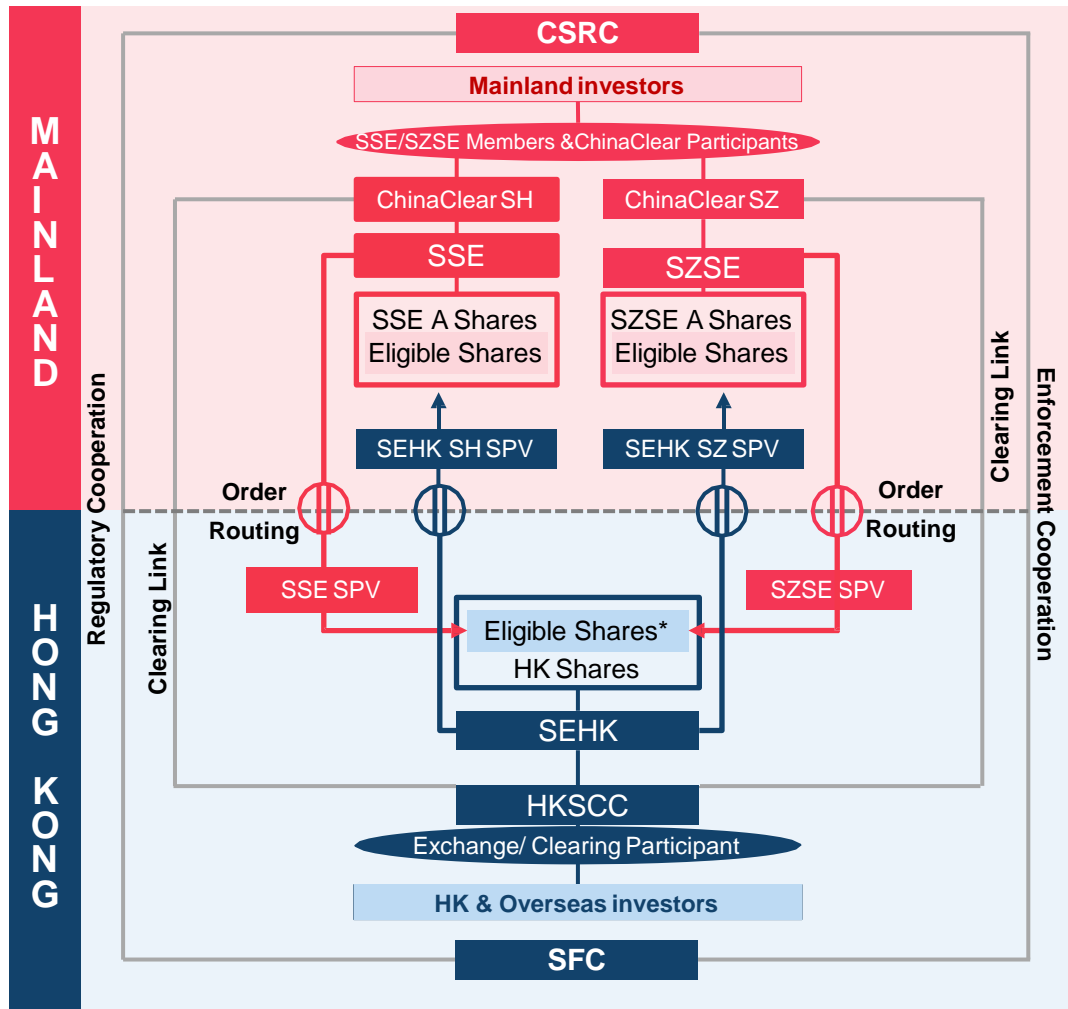
Rank	1	2	3	4	5	6	7	8	9	10
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Source: World Federation of Exchanges (WFE) website (data as of 10 November 2016)

* China: HKEX + SSE + SZSE / ** Europe: Nasdaq OMX Nordic Exch + LSE Group + Euronext / *** US: NYSE + Nasdaq OMX

What is Shenzhen-Hong Kong Stock Connect?



It's an extension of the Shanghai – Hong Kong Stock Connect, based on the same principles, with:

- 1 Expansion of eligible stock universe in both Shenzhen and Hong Kong
- 2 Relaxation of access restrictions by removing the aggregate quota
- 3 Utilisation of existing market infrastructure to minimise implementation and operational costs

Enlarged and enhanced Connect ecosystem



*Eligible shares for the Shanghai Connect & Shenzhen Connect Southbound Trading Links are different

#The official launch date for SZ-HK Stock Connect is pending regulatory announcement.

Note: SEHK is a wholly owned subsidiary of HKEX

Key Features of the Stock Connect Programme

Estimation based on data as of end July 2016

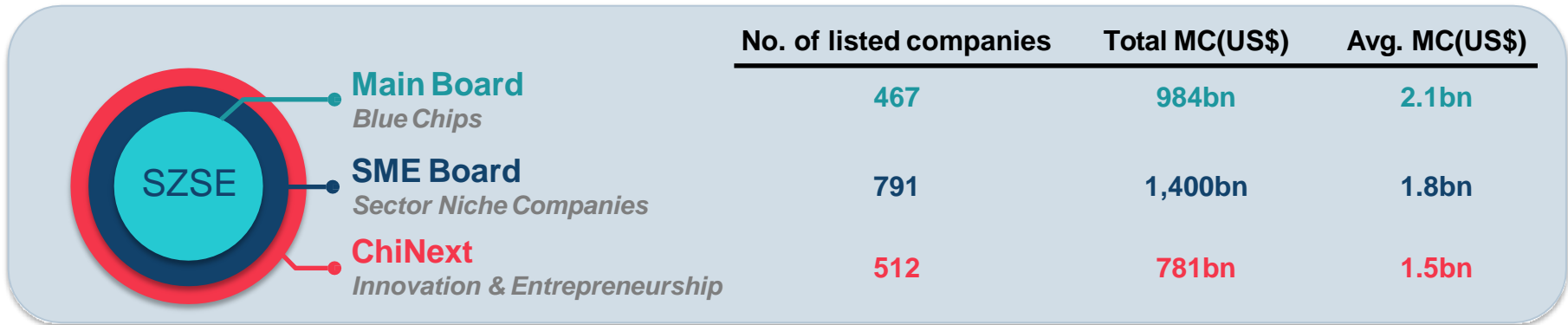
			Shanghai Connect NB Trading	Shenzhen Connect NB Trading
NORTHBOUND	Eligible Stocks	No.	567 (One single board)	~880 ¹ (Main: ~270, SME: ~410, ChiNext: ~200)
		Mkt Cap	RMB 21.8tn (85%)	~RMB 15tn (74%)
		ADT	RMB 137bn (68%)	~RMB 230bn (68%)
Quota	Agg. Quota	Abolished	None	
	Dly. Quota	RMB 13bn	RMB 13bn	
Investors	Eligibility	None	ChiNext participation limited to institutional professional investors initially ³	
			Shanghai Connect SB Trading	Shenzhen Connect SB Trading
SOUTHBOUND	Eligible Stocks	No.	318 (Hang Seng Composite LargeCap, MidCap & A+H shares not in indices)	~417 ² (Hang Seng Composite LargeCap, MidCap, SmallCap & A+H shares not in indices)
		Mkt Cap	HKD 19.8tn (82%)	~HKD 21tn (87%)
		ADT	HKD 37bn (85%)	~HKD 39bn (92%)
Quota	Agg. Quota	Abolished	None	
	Dly. Quota	RMB 10.5bn	RMB 10.5bn	
Investors	Eligibility	RMB 500k	RMB 500k	

(1) Shenzhen Connect Northbound: Constituents of SZSE Component & SZSE Small/Mid Cap Innovation indices with market capitalisation of at least RMB 6 bn, and SZSE-SEHK A+H shares (except shares under “risk alert” or delisting arrangement). Periodic review of eligible stock list inline with half-yearly rebalancing of underlying indices. Methodology: 6-month daily average 1 Nov 2015 till 30 Apr 2016 (review period for end 2016 launch) (2) SZ Southbound: Constituents of Hang Seng Large & Mid-Cap indices, constituents of Hang Seng Small-Cap index with market capitalisation of at least HKD 5 bn, and SSE-SEHK and SZSE-SEHK A+H shares. Periodic review of eligible stock list inline with half-yearly rebalancing of underlying indices. Methodology: 12-month monthly average 1 Jul 2015 till 30 Jun 2016 (review period for end 2016 launch) (3) Subject to resolution of related regulatory issues, other investors can trade ChiNext stocks listed on SZSE



Shenzhen Stock Exchange Market Overview

Three market tiers - serving companies at different stages of development



SZSE's presence in the A-share market:

62% of listed companies (SZ: 1,781)

46% of total market cap (SZ: US\$3.2tn)

60% of equity funds raised¹ (SZ: US\$84.5bn)

62% of trading value¹ (SZ: US\$6.1tn)

- **78%** of SZSE-listed companies are non-SOEs
- **76%** of all A-shares companies in the emerging industries are listed on SZSE
- **70%** of SZSE-listed companies are certified hi-tech companies
- **30%** of SZSE-listed companies' R&D intensity² exceeds **5%**



Source: SZSE

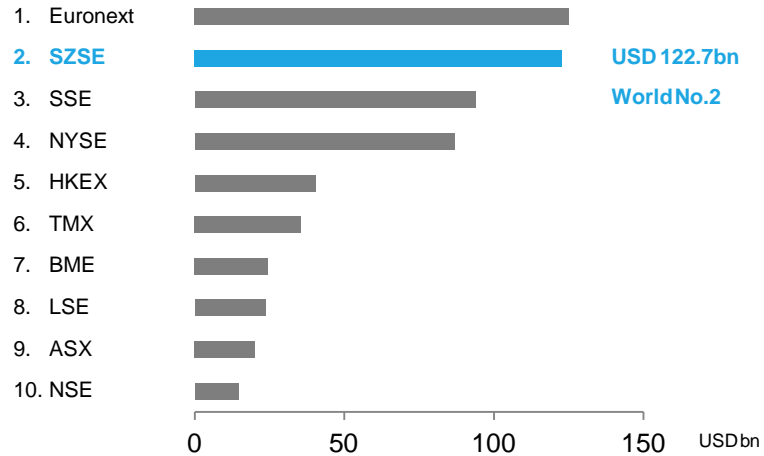
(1) As of 30 June 2016

(2) R&D intensity means the ratio of R&D spending to operating revenue

Shenzhen Stock Exchange Market Overview

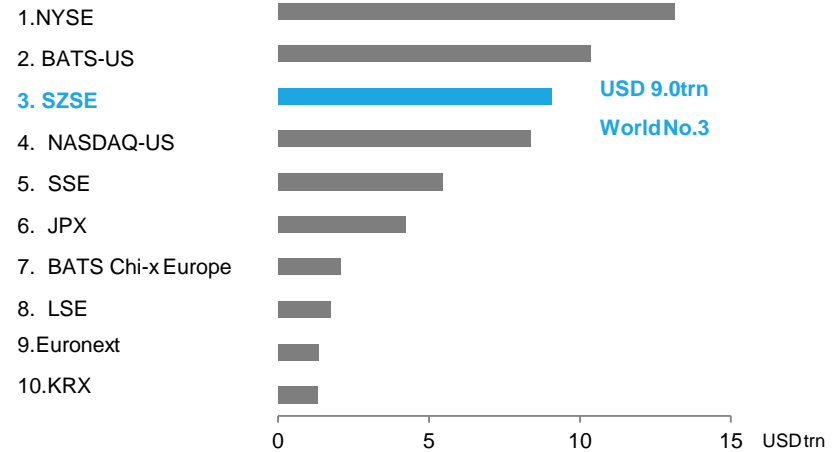
Funds Raised by Equity

January to September, 2016

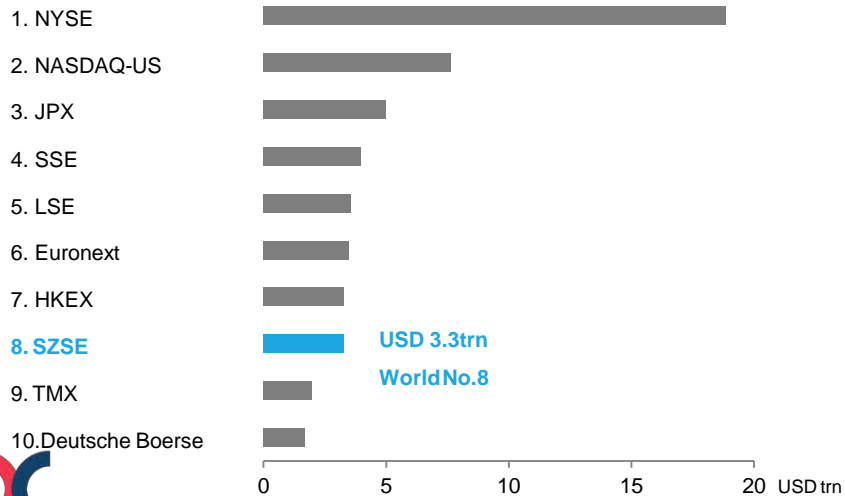


Trading Value

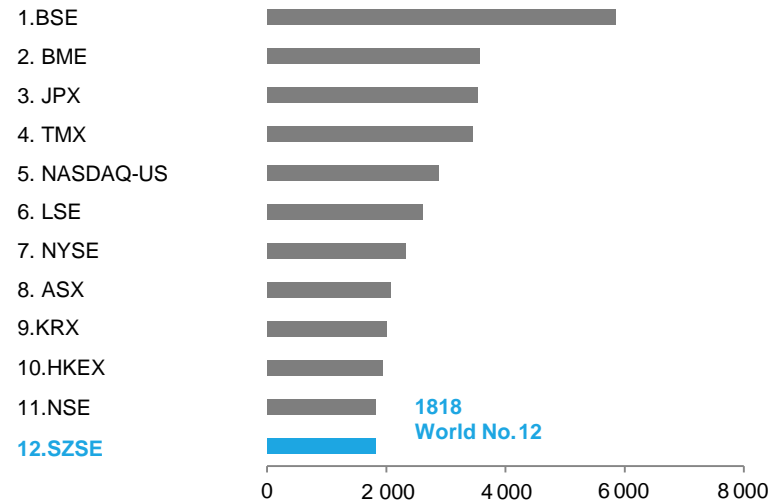
January to September, 2016



Market Cap



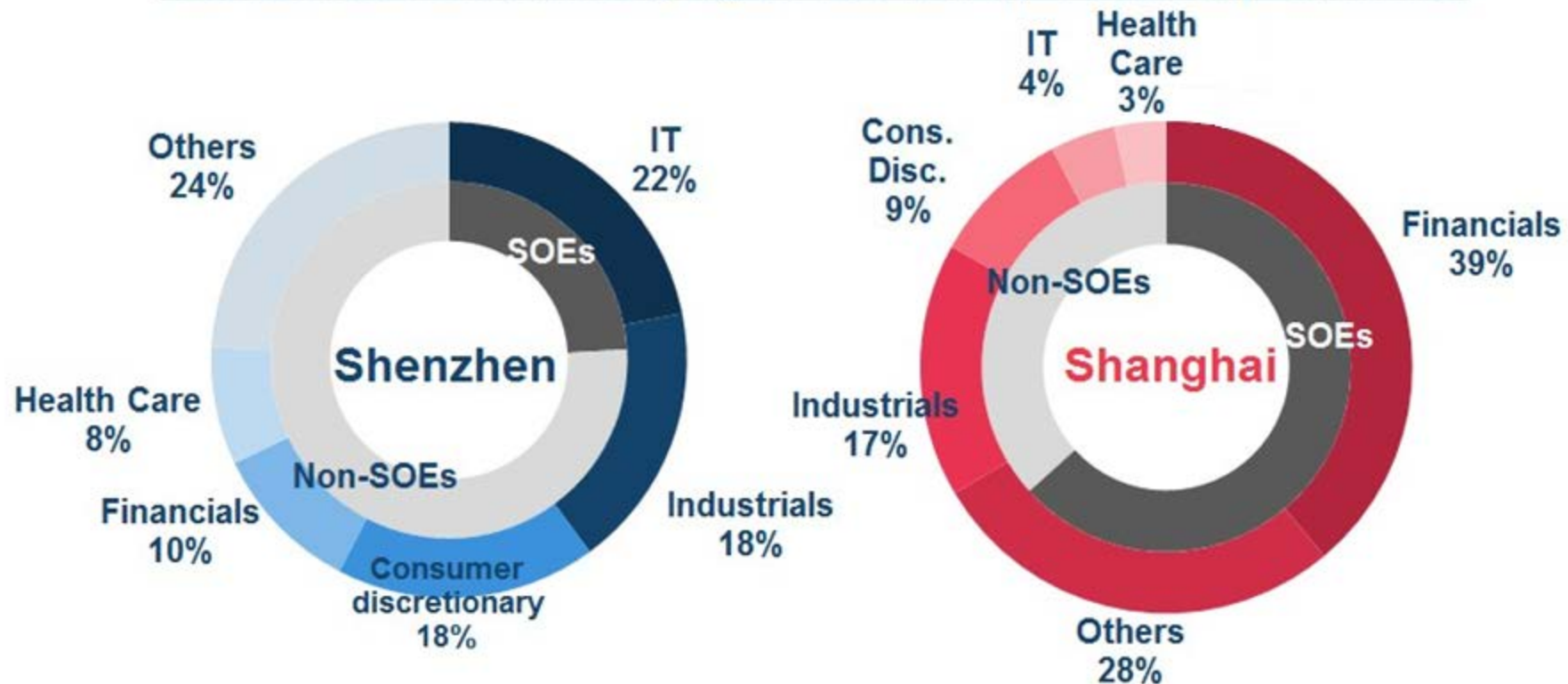
No. of Listed Companies



Source: WFE, as of 30 September 2016

Comparison of Shenzhen and Shanghai Stock Exchanges

Breakdown of Market Cap by Sector and by Ownership Structure

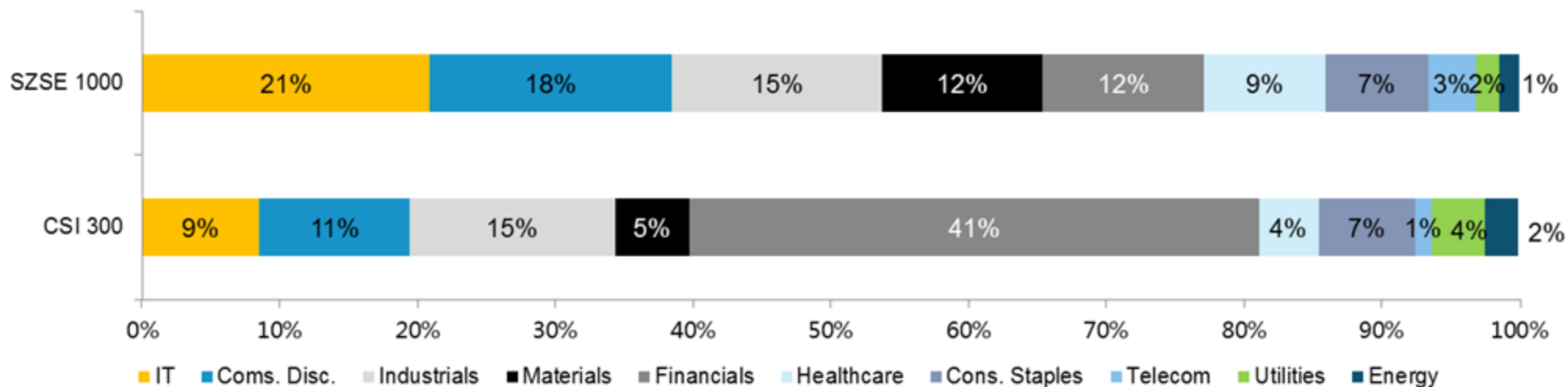


New exposure to Chinese non-SOEs, tech companies and strategic emerging companies



Does Shenzhen Connect offer new investment opportunities?

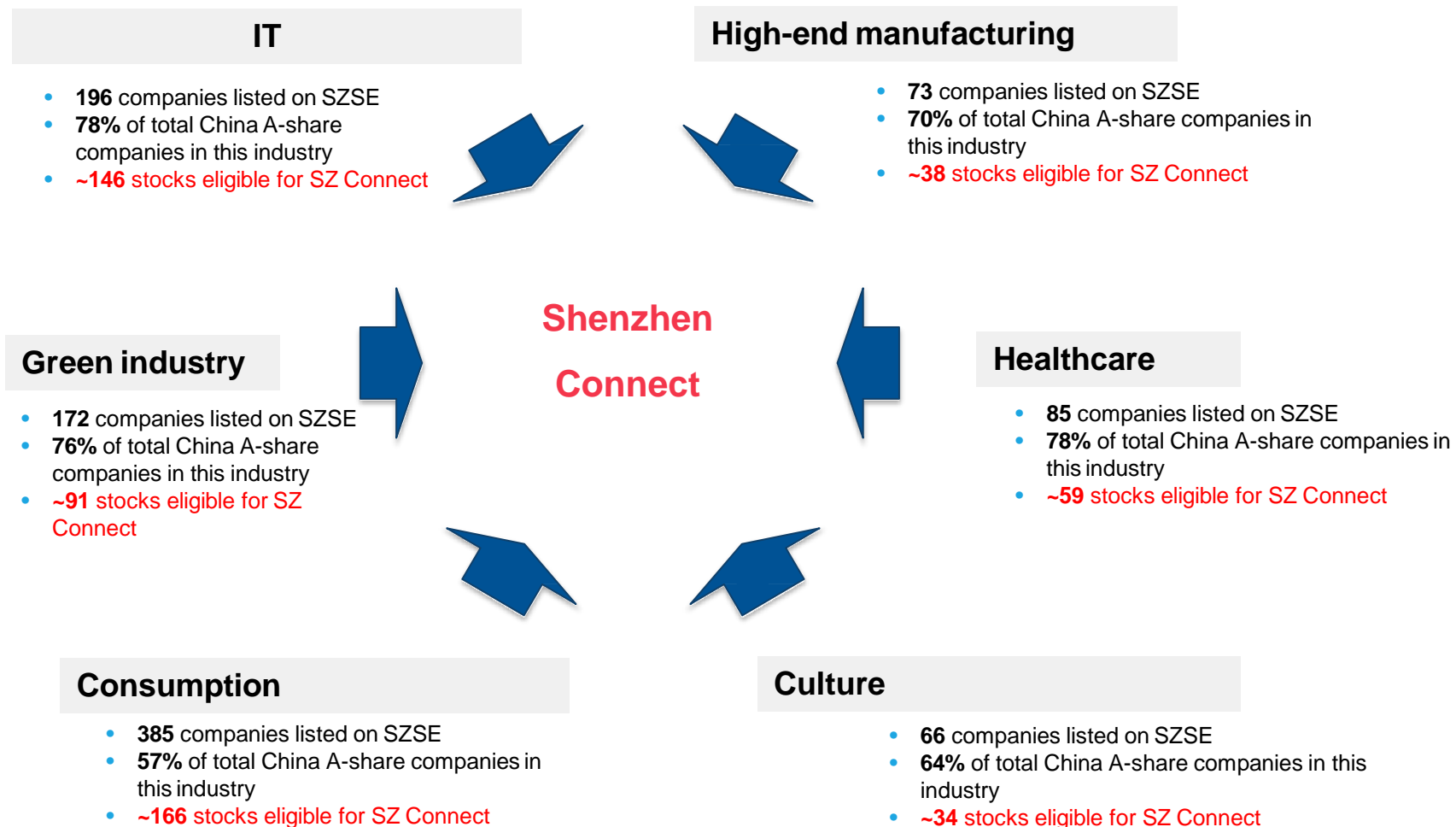
SZSE 1000 and CSI 300: breakdown of market cap for index constituents



Shenzhen connect features access to China's emerging industries



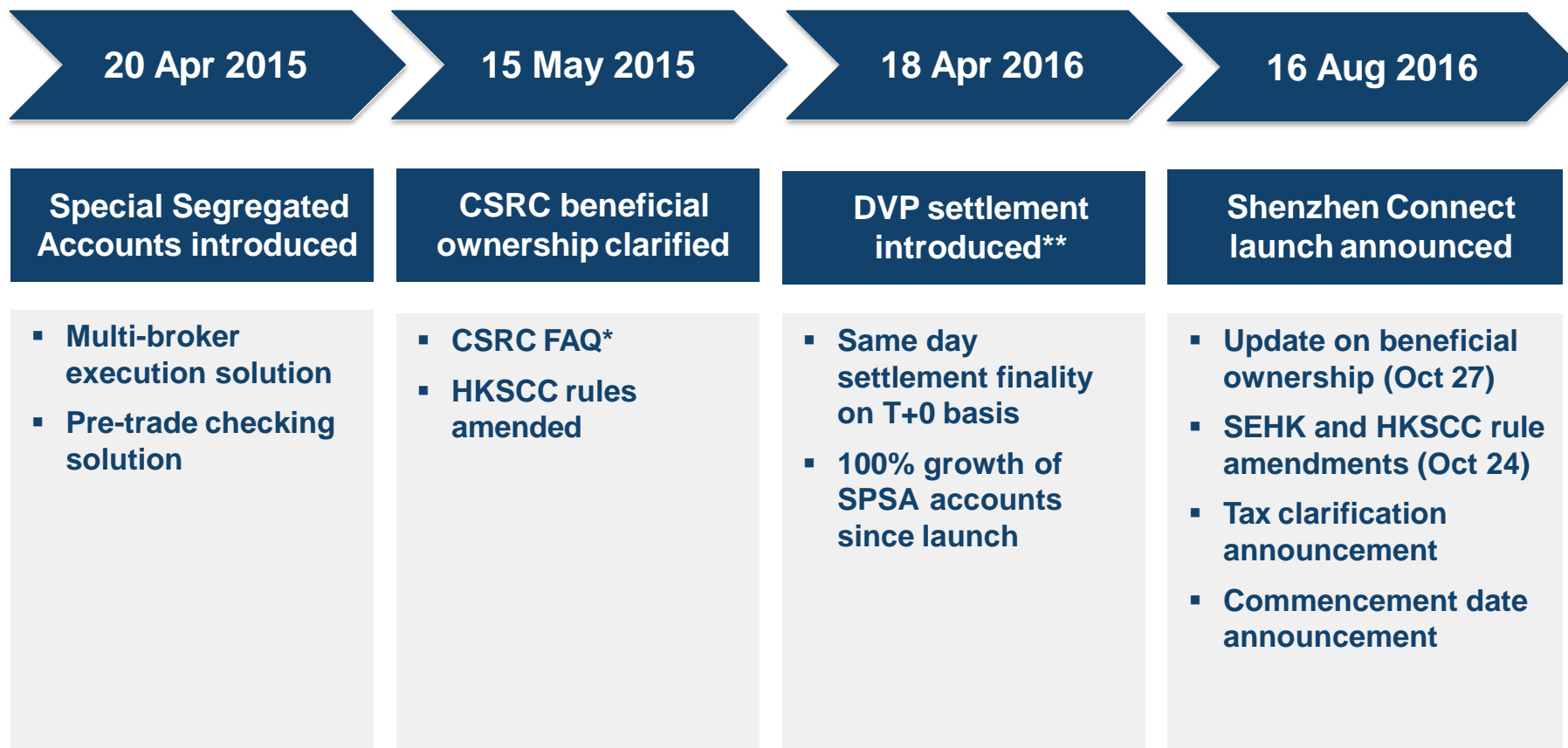
Does Shenzhen Connect offer new investment opportunities?



Shenzhen connect offers China's emerging industries



Major Enhancements in Stock Connect Programme



Enhancements will automatically apply to Shenzhen Connect

* For details, please refer to [link](#) (Simplified Chinese) / [link](#) (English) ** Source: 26 Jan 2016 HKEX Circular: http://www.hkex.com.hk/eng/market/partcir/hkscc/2016/Documents/CE_020_2016.pdf *** Source: HKEX Circular <http://www.hkex.com.hk/eng/market/partcir/sehk/2016/Documents/CT04316E.pdf> / Joint CSRC/SFC Announcement <http://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=16PR81>



Stock Connect Programme Advantages



Stock Connect programme optimises trade execution and post-trade efficiencies



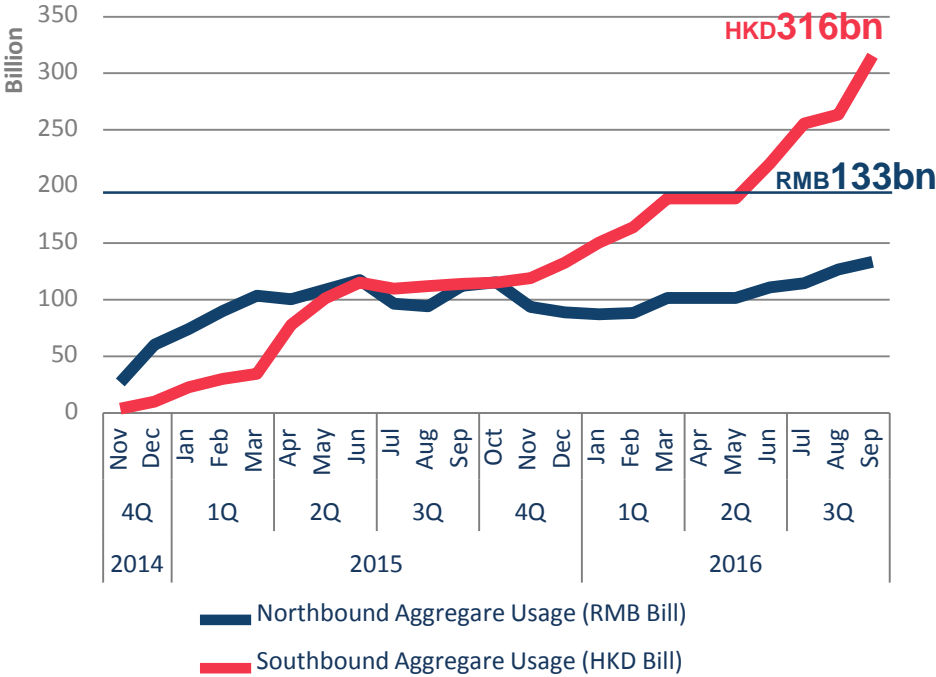
* Source: 16 April 2015 HKEX Circular: <http://www.hkex.com.hk/eng/market/partcir/sehk/2015/Documents/CT02715E.pdf>

** Source: 26 Jan 2016 HKEX Circular: http://www.hkex.com.hk/eng/market/partcir/hksc/2016/Documents/CE_020_2016.pdf

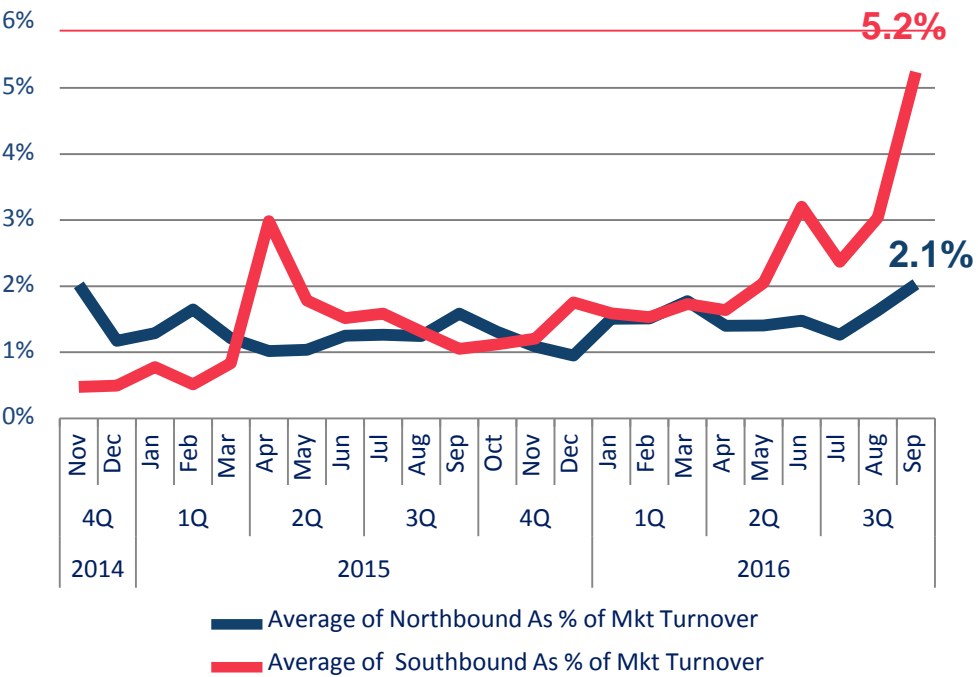
***Settlement obligation in SSE and SZSE markets will be netted as HKSCC will arrange settlement fund transfer of respective markets in ChinaClear

New Trends in Northbound and Southbound Trading Under Shanghai Connect

Stock Connect Aggregate Usage



Stock Connect Turnover as a % of Market Turnover

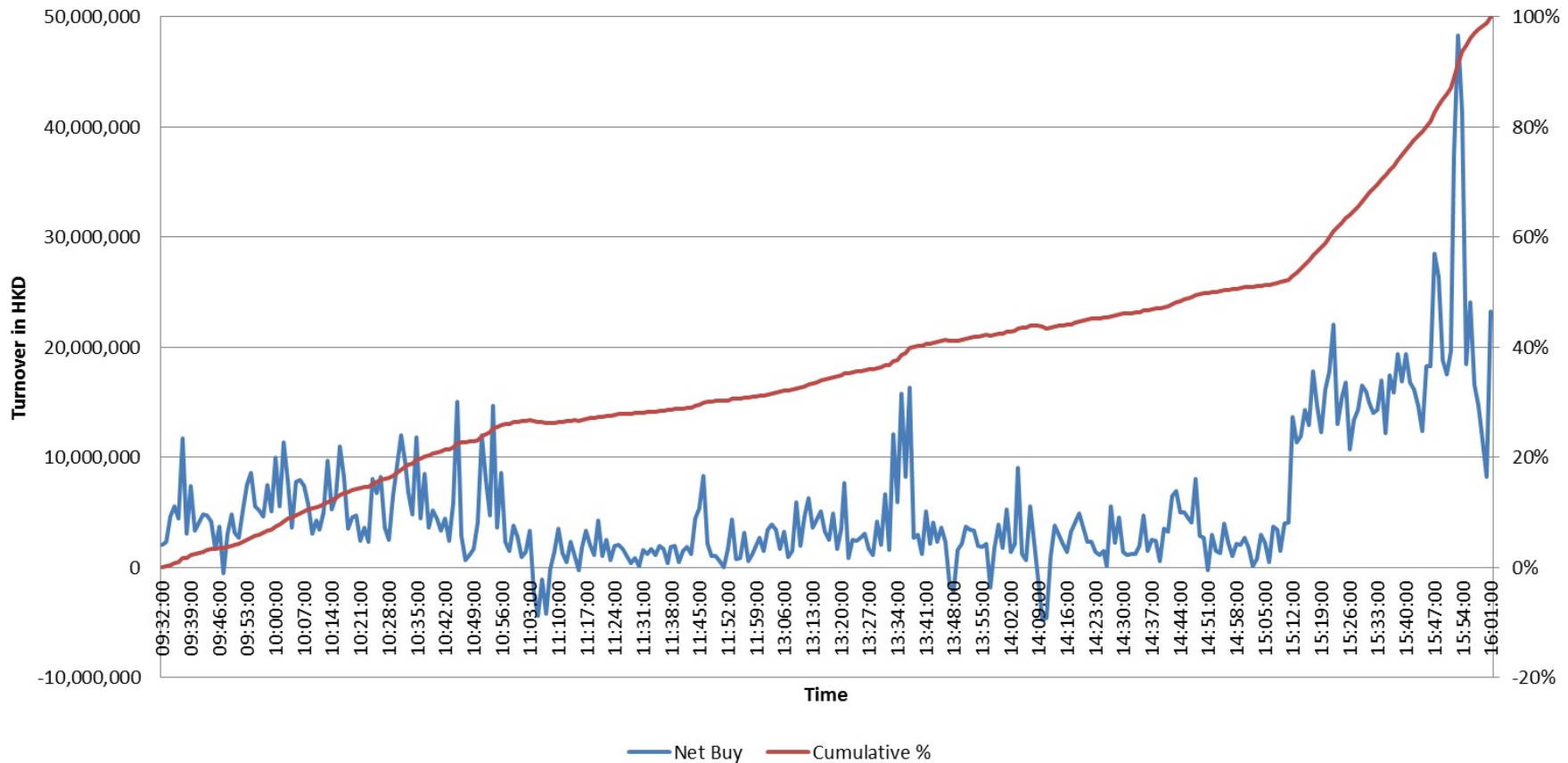


Southbound investment continues to grow while Northbound shows steady increase in recent months



Southbound Trading Analysis Under Shanghai Connect

Net buy throughout the day and cumulative

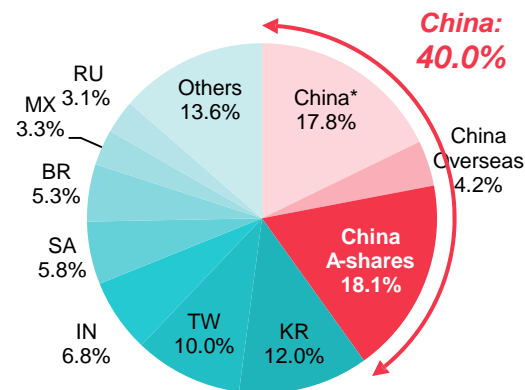
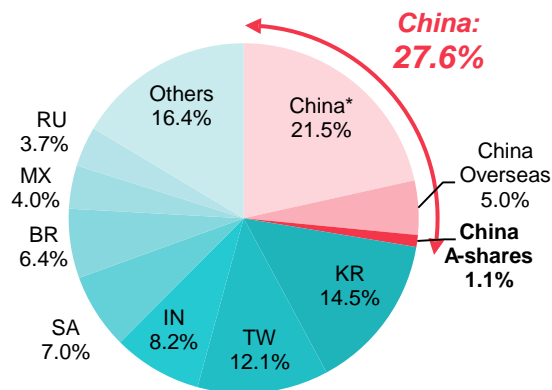
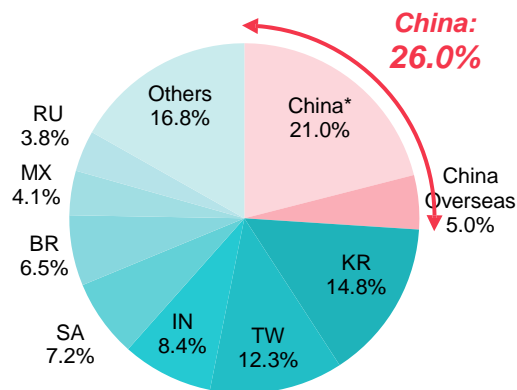


- Southbound (net buy) turnover in SH trading session - 60% of the overall daily SB turnover in HK market
- Final hour of HK market session: Increase in the SB total trading turnover – represented 40% of the total SB trading volume

Source from Bloomberg , 3-days averaged trading volume on 15 Jun 2016, 10 Mar 2016 and 27 May 2016
SH-Shanghai, SB - Southbound



China A-Shares: Projected MSCI Emerging Market Index Inclusion Roadmap



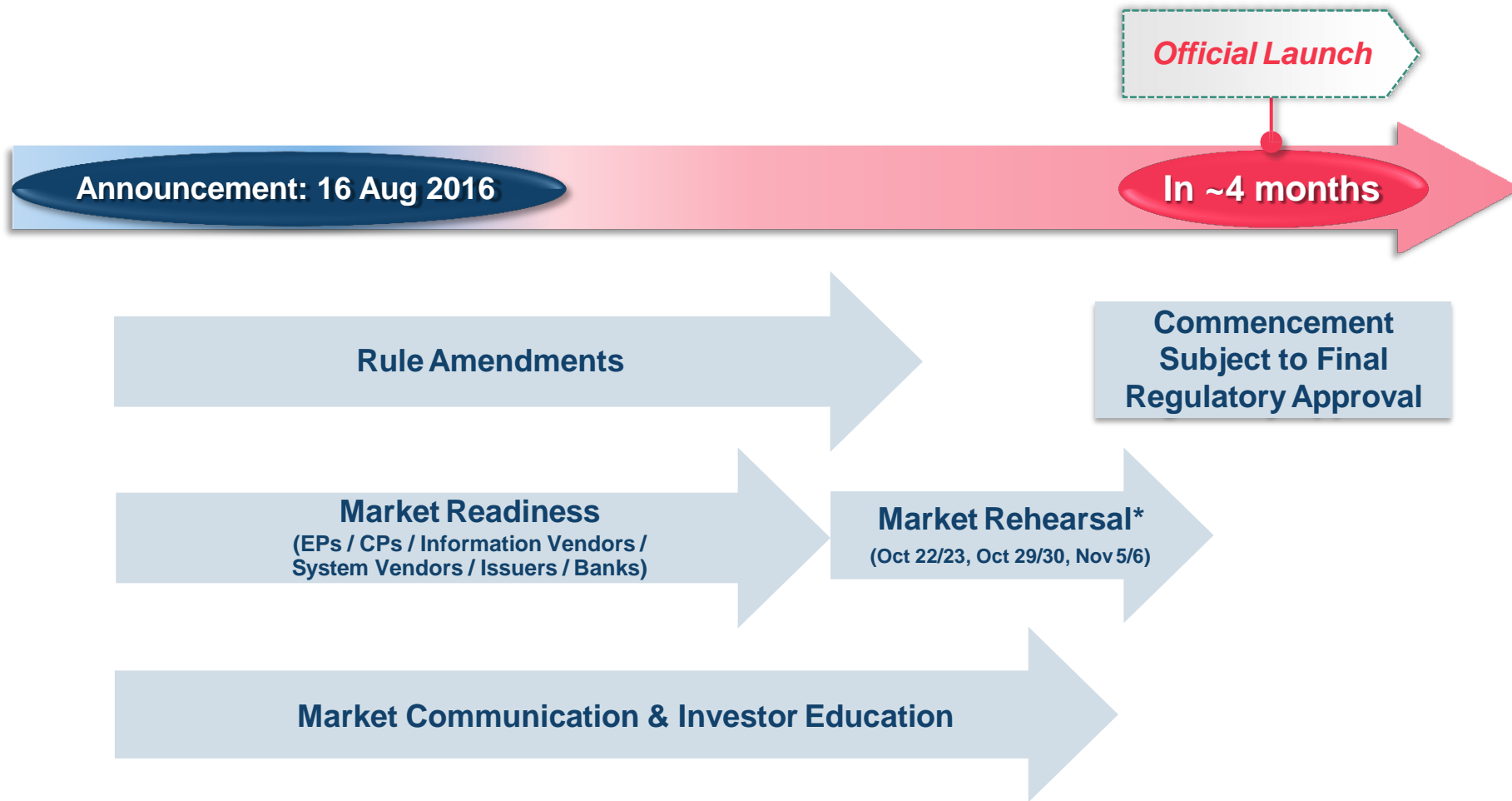
Capital Flow into A-shares market:
 With USD1.5 trillion indexed to the MSCI EM, A-share inclusion may mean ~USD270 billion in institutional investment demand in A-shares from international asset managers with Shenzhen as a potential key allocation market

Shenzhen Connect enhances overall A-Share market access for potential MSCI inclusion



Source: MSCI – Consultation on China A-shares Index Inclusion Roadmap, Jun 2016. Current Status and partial inclusion do not equal 100% due to rounding up. Full inclusion of China shares equals 40.1% * Including H-shares(HK), Red Chip(HK), P Chip(HK) and B-shares(Mainland). ** The percentage number refers to the Inclusion Factor applied to the free-float-adjusted market capitalization of China A-share constituents in the pro forma MSCI China Index. China A-share securities are subject to a foreign ownership limit of 30%. Overseas listed companies included between Nov 2015 to May 2016 as announced early 2015.

High-level Implementation Timetable for Shenzhen Connect



**Market participants are actively preparing for the launch
Commencement of launch date is subject to regulatory approval**



Source: 26 August 2016 SEHK Circular, <http://www.hkex.com.hk/eng/market/partcir/sehk/2016/Documents/CT04516E.pdf>

*Source: 9 September 2015 SEHK Circular, <http://www.hkex.com.hk/eng/market/partcir/sehk/2016/Documents/CT04916E.pdf>

Thank you

www.hkex.com.hk/mutualmarket





APPENDIX

- 1 Trading Arrangements of Stock Connect Securities
- 2 Trading Arrangements of Connect Securities (Daily Quota)
- 3 Comparison of Trading Hours
- 4 Exchange Fees & Charges for Stock Connect Northbound
- 5 Eligible Participants for Northbound
- 6 Shareholding Restrictions and Disclosure Obligations on A-Shares
- 7 FAQ on Beneficial Ownership under Stock Connect



Appendix 1: Trading Arrangements of Stock Connect Securities

Trading Arrangements of Shenzhen Connect and Shanghai Connect Northbound Trading	
Trading on HK Holidays	Not open if trading day and/or settlement day falls on Hong Kong holiday
Order Types	Limit orders only (SSE/SZSE limit orders may be executed at or better than the input price)
Order Modification	Not allowed (must cancel and re-input order)
Board Lot	100 shares (applicable to buy orders only)
Odd Lot	Sell orders only (should be made in one single order)
Max Order Size	1 mn shares
Spread	Uniform at RMB 0.01
Price Limit	<ul style="list-style-type: none"> In general $\pm 10\%$ on previous closing price ($\pm 5\%$ for ST and *ST stocks) Price of buy orders must not be lower than 3% of current best bid price (in its absence the latest trade price; and in the absence of both then previous closing price)
Trading Currency	RMB
Day (Turnaround) Trading	Not allowed
Manual Trade /Block Trade	Not allowed
Pre-trade checking	<ul style="list-style-type: none"> Apply on all sell orders If EP inputs buy/sell orders for clients to sell A-shares in SPSA, it must input the relevant client's Investor ID in the sell order for pre-trade checking
Margin Trading	<ul style="list-style-type: none"> Only eligible A shares are allowed (see List of Eligible SSE/SZSE Securities for Margin Trading) SSE/SZSE may suspend margin trading in specific A-shares if the volume of margin trading in such A-shares exceeds a certain threshold
Stock Borrowing & Lending (SBL)	<ul style="list-style-type: none"> Only allowed for (i) covered short selling and (ii) meeting pre-trade checking Only eligible persons may lend China Connect Securities (refer to EP/CP Info book and FAQ) EPs need to submit undertaking by EPs as lenders and confirmation by EP as borrowers Registered EPs must submit monthly reports on SBL activities (Nil reports are also required)
Short Selling	<ul style="list-style-type: none"> Only eligible A-shares are allowed (see List of Eligible SSE/SZSE Securities for Short Selling) Short selling orders must be (i) flagged; (ii) in multiple of 100 shares and (iii) subject to tick rule (the price of a short selling order must not be lower than the most recent execution price (or the previous closing price if there have been no executed trades on a given day) of the relevant Short Selling Security. Short selling quantity of an eligible A-share is subject to a daily limit (1%) and a 10-day cumulative limit (5%) SSE/SZSE may suspend short selling of specific A-shares if the short selling activities of such A-shares exceed a certain threshold There are reporting requirements (Short Selling Weekly Report, Large Open Short Position Report) Short selling statistics are available on HKEX website to facilitate short selling
Non-trade Transfer	<p>Allowable for:</p> <ul style="list-style-type: none"> SBL for covered short selling purpose (not more than one month duration); SBL for the purpose of satisfying the pre-trade checking requirement (one-day duration which cannot be rolled over); Transfers between EPs and their clients for the purpose of rectifying error trades; Post-trade allocation of shares to different funds/sub-funds by fund managers; Other situations specified by SSE, SZSE and ChinaClear.



Appendix 2: Trading Arrangements of Connect Securities (cont'd)

Daily Quota

Size	<ul style="list-style-type: none">▪ Northbound: RMB 13bn▪ Southbound: RMB 10.5bn
Calculation Frequency	<ul style="list-style-type: none">▪ Real-time during trading hours
Balance	<ul style="list-style-type: none">▪ Daily Quota Balance: Daily Quota – Buy Orders + Sell Trades + Adjustments (e.g. Buy Order cancelled, Buy Order rejected by SZSE, Buy Order executed at a better price)▪ If Daily Quota balance \leq 0:<ul style="list-style-type: none">▪ During opening call auction [開盤集合競價] (Pre-opening): Reject new buy orders until Daily Quota 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▪ During closing auction [收市競價] (for Shenzhen only) : Suspend buy order input for the remaining of the day (i.e. following the mechanism of continuous trading)▪ Buy orders already input in CSC before suspension will not be affected
Quota Info	<ul style="list-style-type: none">▪ Northbound: HKEX website (1-min interval), CC OG (5-seconds interval), OMD Index Feed (5-seconds interval)▪ Southbound: SZSE website



Appendix 3: Comparison of Trading Hours

- Unlike SSE, SZSE has a Closing Call Auction
- Same as Shanghai Connect Northbound, EPs can start inputting Shenzhen Connect Northbound orders into CSC 5 minutes prior to the start of SZSE trading session in the morning and in the afternoon

Trading Sessions	SZSE	SSE	Input orders into CSC
Opening Call Auction [開盤集合競價]	09:15 – 09:25		09:10 – 11:30
Continuous Auction (Morning) [連續競價]	09:30 – 11:30		
Continuous Auction (Afternoon) [連續競價]	13:00 – 14:57	13:00 – 15:00	12:55 – 15:00
Closing Call Auction [收盤集合競價]	14:57 – 15:00	---	

#Notes:

(1) 09:20 – 09:25 and 14:57 – 15:00: SZSE will not accept order cancellation;

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 SZSE and SSE until their market open

(3) Orders that are not executed during the opening call auction session will automatically enter the continuous auction session



Appendix 4: Exchange Fees & Charges for Stock Connect Northbound

	Rate	Charged by																					
Handling Fee (經手費)	<ul style="list-style-type: none"> 0.00487% of the consideration of a transaction per side 	<ul style="list-style-type: none"> SZSE 																					
Securities Management Fee (證管費)	<ul style="list-style-type: none"> 0.002% of the consideration of a transaction per side 	<ul style="list-style-type: none"> CSRC 																					
Transfer Fee (過戶費)	<ul style="list-style-type: none"> 0.002% of the consideration of a transaction per side 0.002% of the consideration of a transaction per side 	<ul style="list-style-type: none"> ChinaClear HKSCC 																					
Stamp Duty (交易印花稅)	<ul style="list-style-type: none"> 0.1% of the consideration of a transaction on the seller 	<ul style="list-style-type: none"> SAT 																					
Portfolio fee¹	<table border="1"> <thead> <tr> <th>Tier Level</th> <th>Proposed Portfolio Value Range</th> <th>Proposed Fee Rate</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>The first HK\$ 50 bn</td> <td>0.008%</td> </tr> <tr> <td>2</td> <td>The next HK\$ 200 bn (portfolio values between HK\$50 b and HK\$ 250 bn)</td> <td>0.007%</td> </tr> <tr> <td>3</td> <td>The next HK\$ 250 bn (portfolio values between HK\$250 bn and HK\$ 500 bn)</td> <td>0.006%</td> </tr> <tr> <td>4</td> <td>The next HK\$ 250 bn (portfolio values between HK\$500 bn and HK\$ 750 bn)</td> <td>0.005%</td> </tr> <tr> <td>5</td> <td>The next HK\$ 250 bn (portfolio values between HK\$750 bn and HK\$ 1,000 bn)</td> <td>0.004%</td> </tr> <tr> <td>6</td> <td>Remainder (portfolio values above HK\$ 1,000 bn)</td> <td>0.003%</td> </tr> </tbody> </table>	Tier Level	Proposed Portfolio Value Range	Proposed Fee Rate	1	The first HK\$ 50 bn	0.008%	2	The next HK\$ 200 bn (portfolio values between HK\$50 b and HK\$ 250 bn)	0.007%	3	The next HK\$ 250 bn (portfolio values between HK\$250 bn and HK\$ 500 bn)	0.006%	4	The next HK\$ 250 bn (portfolio values between HK\$500 bn and HK\$ 750 bn)	0.005%	5	The next HK\$ 250 bn (portfolio values between HK\$750 bn and HK\$ 1,000 bn)	0.004%	6	Remainder (portfolio values above HK\$ 1,000 bn)	0.003%	<ul style="list-style-type: none"> HKSCC
Tier Level	Proposed Portfolio Value Range	Proposed Fee Rate																					
1	The first HK\$ 50 bn	0.008%																					
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3	The next HK\$ 250 bn (portfolio values between HK\$250 bn and HK\$ 500 bn)	0.006%																					
4	The next HK\$ 250 bn (portfolio values between HK\$500 bn and HK\$ 750 bn)	0.005%																					
5	The next HK\$ 250 bn (portfolio values between HK\$750 bn and HK\$ 1,000 bn)	0.004%																					
6	Remainder (portfolio values above HK\$ 1,000 bn)	0.003%																					

- Fees and taxes for both Shanghai Connect and Shenzhen Connect Northbound Trading Links will be the same
- Subject to further regulatory announcement, PRC tax policies in respect of capital gains tax, dividend tax, stamp duty and business tax currently applying to Shanghai Connect Northbound shall also apply to Shenzhen Connect Northbound Trading Link

Source: HKEX (1) Portfolio fee currently imposed for providing DNS services to CCASS Participants on their SSE Securities will be extended to include SZSE Securities as a single portfolio for fee calculation upon the launch of Shenzhen Connect.



Appendix 5: Eligible Participants for Shenzhen Connect Northbound

Exchange and Clearing House Participants

- Existing China Connect EPs/CPs (CCEPs/CCCPs) to participate in Shenzhen Connect Northbound:
 - Submit undertaking to new SEHK SPV in Shenzhen
 - Pass required testing, where applicable
- New CCEPs/CCCPs to participate in both Shanghai Connect & Shenzhen Connect Northbound Trading Links:
 - Meet eligibility and readiness requirement
 - Submit registration form and undertaking to SEHK SPVs
 - Pass required testing

Investors

- Except ChiNext Market of Shenzhen, all investors in Hong Kong market
 - Including institutional and individual investors
 - Including both Hong Kong local and overseas investors

Note:
*ChiNext Market is limited to institutional professional investors initially**
(see next slide)



Appendix 5: Eligible Participants for Shenzhen Connect Northbound (cont'd)

Definition of Institutional Professional Investor

“Institutional Professional Investor”, as defined under paragraph 15.2 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission –means a person falling under paragraphs (a) to (i) of the definition of “professional investors” in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance, as set out below for reference:

- (a) any recognised exchange company, recognised clearing house, recognised exchange controller or recognised investor compensation company, or any person authorised to provide automated trading services under section 95(2) of this Ordinance;
- (b) any intermediary, or any other person carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong;
- (c) any authorised financial institution, or any bank which is not an authorised financial institution but is regulated under the law of any place outside Hong Kong;
- (d) any insurer authorised under the Insurance Companies Ordinance (Cap 41), or any other person carrying on insurance business and regulated under the law of any place outside Hong Kong;
- (e) any scheme which-
 - (i) is a collective investment scheme authorised under section 104 of this Ordinance; or
 - (ii) is similarly constituted under the law of any place outside Hong Kong and, if it is regulated under the law of such place, is permitted to be operated under the law of such place, or any person by whom any such scheme is operated;
- (f) any registered scheme as defined in section 2(1) of the Mandatory Provident Fund Schemes Ordinance (Cap 485), or its constituent fund as defined in section 2 of the Mandatory Provident Fund Schemes (General) Regulation (Cap 485 sub. leg. A), or any person who, in relation to any such registered scheme, is an approved trustee or service provider as defined in section 2(1) of that Ordinance or who is an investment manager of any such registered scheme or constituent fund;



Appendix 5: Eligible Participants for Shenzhen Connect Northbound (cont'd)

Definition of Institutional Professional Investor (cont'd)

(g) any scheme which

(i) is a registered scheme as defined in section 2(1) of the Occupational Retirement Schemes Ordinance (Cap 426); or

(ii) is an offshore scheme as defined in section 2(1) of that Ordinance and, if it is regulated under the law of the place in which it is domiciled, is permitted to be operated under the law of such place, or any person who, in relation to any such scheme, is an administrator as defined in section 2(1) of that Ordinance;

(h) any government (other than a municipal government authority), any institution which performs the functions of a central bank, or any multilateral agency;

(i) except for the purposes of Schedule 5 to this Ordinance, any corporation which is-

(i) a wholly owned subsidiary of-

(a) an intermediary, or any other person carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong; or

(b) an authorised financial institution, or any bank which is not an authorised financial institution but is regulated under the law of any place outside Hong Kong;

(i) a holding company which holds all the issued share capital of-

(a) an intermediary, or any other person carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong; or

(b) an authorised financial institution, or any bank which is not an authorised financial institution but is regulated under the law of any place outside Hong Kong; or

(i) any other wholly owned subsidiary of a holding company referred to in subparagraph (ii);



Appendix 6: Shareholding Restrictions and Disclosure Obligations on A-Shares (per existing PRC Rules)

Foreign Shareholding Restrictions

- Aggregate foreign investors' shareholding in an A-share must \leq 30% of the total issued shares
 - When Aggregate Foreign Shareholding reaches 26%, SSE/SZSE will publish notice
 - When Aggregate Foreign Shareholding exceeds 30%, SSE/SZSE will send notices to the foreign investors concerned for them to sell the shares on a last-in-first-out basis within five days
 - Foreign investors: QFII, RQFII and investors trading A-shares through Shanghai and Shenzhen Connect
 - When Aggregate Foreign Shareholding reaches 28%, HKEX will stop accepting further buy orders on that A-share, until shareholding lowers to 26%
 - If Aggregate Foreign Shareholding exceeds 30%, and the excess is due to Shanghai or Shenzhen Connect, HKEX will identify the relevant EP and require it to follow the force-sell requirements
- Single foreign investors' shareholding in an A-share must \leq 10% of the total issued shares
 - As HKEX does not have individual investor's shareholding information, EPs should remind their clients to comply with the rule

General Disclosure Obligations

- **Who's liable:** If an investor holds or controls up to 5% of the issued shares of a Mainland listed company, he is required to disclose
- **How to disclose:** Report in writing to the CSRC and SSE/SZSE, and inform the listed company within three working days
- **Other restrictions:** The investor is not allowed to buy or sell in that listed company during the three days. When relevant shareholding fall below 5%, the investor has to make the disclosure as well

EPs/CPs can refer to the CCASS Shareholding Information on the HKEXnews website (披露易) for their shareholding percentage and alert their clients for any disclosure obligations if necessary



Appendix 7: FAQ on Beneficial Ownership under Stock Connect

1.Q: Do overseas investors enjoy proprietary rights as shareholders in the securities acquired through Northbound Trading Links under Shanghai Stock Connect and Shenzhen Stock Connect ("Connect Securities") held through Hong Kong Securities Clearing Company Limited ("HKSCC")? Are the concepts of "nominee holder" and "beneficial ownership" recognized under Mainland laws and regulations?

A: Article 18 of the Administrative Measures for Registration and Settlement of Securities (the "Settlement Measures") stipulates that "securities shall be recorded in the accounts of the securities holders, unless laws, administrative regulations or CSRC rules prescribe that the securities shall be recorded in accounts opened in the name of nominee holders". Hence, the Settlement Measures expressly provides for the concept of nominee shareholding. Article 13 of the Provisions states that, among others, "investors are entitled to the rights and interests of the securities acquired through the Northbound Trading Links of the Stock Connect between the Mainland and Hong Kong Stock Markets. ... Securities acquired through the Northbound Trading Links shall be registered in the name of HKSCC. ...". Hence, it has been set out explicitly that in Northbound Trading, overseas investors shall hold Connect Securities in the name of HKSCC and enjoy the proprietary interests as shareholders

2. Q: How do overseas investors exercise their rights over Connect Securities held through HKSCC?

A: Under the Stock Connect, the overseas investors as beneficial owners of Connect Securities shall exercise their shareholder rights in accordance with the laws and regulations of the Hong Kong Special Administrative Region ("HKSAR") regarding nominee holders. Pursuant to the CCASS Rules and the CCASS Operational Procedures issued by HKSCC, beneficial owners of Connect Securities shall exercise their rights over Connect Securities through HKSCC, which is the nominee holder, covering the right to call and participate in shareholders' meetings, the right to propose matters for voting at shareholders' meetings, the right to exercise voting rights at shareholders' meetings and the right to receive dividends and the distribution of earnings from investment, etc.

3.Q: How can overseas investors pursue legal actions or file lawsuits in the Mainland in order to exercise their rights over the Connect Securities?

A: Mainland law does not expressly provide for a beneficial owner under the nominee holding structure to bring legal proceedings, nor does it prohibit a beneficial owner from doing so. In our understanding, under the Stock Connect, HKSCC, as the nominee holder and registered holder of securities acquired by overseas investors through the Northbound Trading Links, may exercise shareholders' rights and pursue legal actions on behalf of overseas investors. In addition, Article 119 of the Civil Procedure Law of the People's Republic of China states that "the claimant in a legal action shall be an individual, legal person, or any other organization that has a direct interest in the relevant case; ...". As long as the overseas investor can provide evidential proof of its beneficial ownership and direct stakeholder status, the investor may take legal actions in its own name in Mainland courts.

4. Q: Does the CSRC recognize the certification of holdings of Connect Securities issued by HKSCC and its participants?

A: Article 3 of the Provisions provides that "the Stock Connect between the Mainland and Hong Kong Stock Markets shall follow the existing laws and regulations governing trading and clearing in the two regions...", confirming the principle that trading and clearing under the Stock Connect shall follow the laws and regulations of the market where trading and clearing take place. Article 13 of the Provisions states that "... investors shall register the securities acquired through the Northbound Trading Links in the name of HKSCC. ...". Accordingly, certification of overseas investors as beneficial owners of the Connect Securities shall comply with laws and regulations in the HKSAR. As long as the certification of holdings issued by HKSCC and its participants for the Connect Securities is treated as lawful proof of a beneficial owner's holding of the Connect Securities under HKSAR law, it would be fully respected by CSRC.

