



Hong Kong Law

April 2014

## LINKING OF SHANGHAI AND HONG KONG STOCK EXCHANGES

The China Securities Regulatory Commission (**CSRC**) and Hong Kong's Securities and Futures Commission (**SFC**) published a joint announcement on 10 April 2014 of their approval, in principle, of a pilot programme – the Shanghai-Hong Kong Stock Connect (**Pilot Programme**) – for establishing mutual stock market access between Mainland China and Hong Kong. This followed comments by China's Premier Li Keqiang that China will put in place mechanisms to link the Hong Kong and Shanghai stock exchanges made earlier in the day at the Boao Forum for Asia Annual Conference 2014.

The long-awaited establishment of the so-called “through train” was welcomed by Hong Kong Exchanges and Clearing as an important milestone in the further opening up of Mainland China's capital markets and the internationalisation of Renminbi.

It is anticipated that preparatory work for formal launch of the Pilot Programme will take approximately six months.

### FRAMEWORK OF THE PILOT PROGRAMME

#### 1. Operation of the Pilot Programme

The Pilot Programme will operate between the Shanghai Stock Exchange (**SSE**), the Stock Exchange of Hong Kong Limited (**SEHK**), China Securities Depository and Clearing Corporation Limited (**ChinaClear**) and Hong Kong Securities Clearing Company Limited (**HKSCC**).

#### 2. Permitted Share Trading

The Pilot Programme comprises a “Northbound Trading Link” and a “Southbound Trading Link”.

Under the Northbound Trading Link, investors, through their Hong Kong brokers and a securities trading service company to be established by SEHK, will be able to place orders to trade eligible shares listed on SSE by routing orders to SSE.

Under the Southbound Trading Link, eligible investors, through Mainland securities firms and a securities trading service company to be established by SSE, will be able to place orders to trade eligible shares listed on SEHK by routing orders to SEHK.

#### 3. Eligible Shares

Through the Northbound Trading Link, shares eligible to be traded will comprise:

- all the constituents of the SSE 180 Index;



- all the constituents of the SSE 380 Index; and
- shares of all SSE-listed companies which have issued both A shares and H shares.

Through the Southbound Trading Link, eligible shares include:

- all the constituents of the Hang Seng Composite LargeCap Index;
- all the constituents of the Hang Seng Composite MidCap Index; and
- shares of all companies listed on both SSE and SEHK.

The scope of the Pilot Programme is subject to further adjustment.

SEHK has issued an indicative list of 266 SEHK-listed shares eligible to be traded through the Southbound Trading Link.

#### 4. Quotas

Initially, the Northbound Trading Link will be limited to an aggregate quota of **RMB300 billion** and a daily quota of **RMB13 billion**, and the Southbound Trading Link will be limited to an aggregate quota of **RMB250 billion** and a daily quota of **RMB10.5 billion**. Quotas may be adjusted in future.

#### 5. Eligible Investors

The SFC requires Mainland investors participating in the Southbound Trading Link to be limited to:

- institutional investors; and
- individual investors who hold an aggregate balance of not less than RMB500,000 in their securities and cash accounts

#### 6. Rules and Regulations

##### *Applicable trading, clearing and listing rules*

Trading and clearing arrangements will be subject to the regulations and operational rules of the market where trading and clearing take place. Listed companies will continue to be subject only to the listing and other rules and regulations of the

markets where they are listed. The Pilot Programme will only operate on a day which is a trading day of both SSE and SEHK and where the clearing arrangements are in order.

##### *Clearing*

ChinaClear and HKSCC will establish a direct link for the cross-border clearing. Each of them will become each other's clearing participant to provide clearing services for the Pilot Programme.

#### 7. Cross-border Regulatory and Enforcement Cooperation

The SFC and the CSRC will take steps necessary to implement an effective regime under the Pilot Programme to respond to misconduct in either or both markets on a timely basis. The two regulators will improve their current bilateral agreement to strengthen enforcement cooperation in the following areas:

- referral and information exchange mechanisms concerning improper activities;
- investigatory cooperation in relation to cross-border illegal activities including disclosure of false or misleading information, insider dealing and market manipulation;
- bilateral enforcement exchange and training; and
- enhancement of general standards of cross-border enforcement cooperation.

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**Hong Kong Office**

Dominion Centre

12th Floor

43-59 Queen's Road East

Hong Kong

**Tel:** + (852) 2905 7888

**Fax:** + (852) 2854 9596

[www.charltonslaw.com](http://www.charltonslaw.com)