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

The information provided in this presentation is provided on an “as is” and “as available” basis and may be amended or changed in the course of the implementation of Shanghai-Hong Kong Stock Connect. It is not a substitute for professional advice which takes account of your specific circumstances.

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Agenda

1. Overview of Shanghai-Hong Kong Stock Connect
2. Trading
3. Clearing and Settlement
4. Risk Management
5. How to Participate
1. Overview of Shanghai-Hong Kong Stock Connect
2. Trading
3. Clearing and Settlement
4. Risk Management
5. How to Participate
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*
Agenda

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

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

* 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**
Detailed Arrangements for SSE Securities

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)
Detailed Arrangements for SEHK Securities

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

<table>
<thead>
<tr>
<th>Key Principles</th>
<th>Northbound Trading of SSE Securities</th>
<th>Southbound Trading of SEHK Securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate Quota (AQ)</td>
<td>RMB 300b</td>
<td>RMB 250b</td>
</tr>
<tr>
<td>Daily Quota (DQ)</td>
<td>RMB 13b</td>
<td>RMB 10.5b</td>
</tr>
</tbody>
</table>

**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
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

<table>
<thead>
<tr>
<th>SSE Trading Session</th>
<th>Time</th>
<th>Time for CSC to accept Northbound orders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Call Auction [開盤集合競價]</td>
<td>09:15 – 09:25</td>
<td>09:10 – 11:30</td>
</tr>
<tr>
<td>Continuous Auction [連續競價] (Morning)</td>
<td>09:30 – 11:30</td>
<td></td>
</tr>
<tr>
<td>Continuous Auction [連續競價] (Afternoon)</td>
<td>13:00 – 15:00</td>
<td><strong>12:55</strong> – 15:00</td>
</tr>
</tbody>
</table>

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
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

<table>
<thead>
<tr>
<th>Date</th>
<th>Hong Kong</th>
<th>Mainland</th>
<th>Shanghai-Hong Kong Stock Connect</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Trading (T-day)</td>
</tr>
<tr>
<td>16 Apr 2014 (Wed)</td>
<td>Business Day</td>
<td>Business Day</td>
<td>✓</td>
</tr>
<tr>
<td>17 Apr 2014 (Thu)</td>
<td>Business Day</td>
<td>Business Day</td>
<td>x^</td>
</tr>
<tr>
<td>18 Apr 2014 (Fri)</td>
<td>Public Holiday</td>
<td>Business Day</td>
<td>x</td>
</tr>
<tr>
<td>21 Apr 2014 (Mon)</td>
<td>Public Holiday</td>
<td>Business Day</td>
<td>x</td>
</tr>
<tr>
<td>22 Apr 2014 (Tue)</td>
<td>Business Day</td>
<td>Business Day</td>
<td>✓</td>
</tr>
</tbody>
</table>

^ 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:

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

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

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

- But with a few exceptions

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

*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:

<table>
<thead>
<tr>
<th></th>
<th>Northbound Trading of SSE Securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Central Trade Feed (CTF)*</td>
</tr>
<tr>
<td>2.</td>
<td>Broker Bulk Cancel Order</td>
</tr>
<tr>
<td>3.</td>
<td>Cross Trading Device Functions</td>
</tr>
<tr>
<td>4.</td>
<td>Price / Consideration Warning</td>
</tr>
<tr>
<td>5.</td>
<td>24-spread rules</td>
</tr>
<tr>
<td>6.</td>
<td>Modify Order</td>
</tr>
<tr>
<td>7.</td>
<td>Trading Support Facility (TSF)</td>
</tr>
</tbody>
</table>

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

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

| Items              | Description                                                                 | Charged by |
|--------------------|-----------------------------------------------------------------------------|            |
| New CCASS Fee      | • A new fee for providing depository and nominee services to CPs for SSE Securities  
                     • Subject to SFC’s approval                                              | HKSCC      |
| Dividend Tax       | • Applicable to cash dividend and bonus issue                               | SAT        |
|                    | • Subject to clarification with SAT                                          |            |
| Capital Gain Tax   | • Applicable to share disposal                                              | SAT        |
|                    | • Subject to clarification with SAT                                          |            |

Note: The above fees and taxes will be collected via day end DDI on T Day.
In principle, follow the same charging scheme as that for trading in AMS/3 (subject to SFC’s approval):

- 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

### Costs of Participating in Northbound Trading

**Throttles and Hardware Charging Scheme**

<table>
<thead>
<tr>
<th>Item</th>
<th>Proposed Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-off Throttle Fee</td>
<td>HKD50,000 per throttle (same as current)</td>
</tr>
<tr>
<td>Throttle Monthly Fee</td>
<td>HKD960 per throttle (HKD480 per backup throttle) (same as current)</td>
</tr>
<tr>
<td>CC OG Hardware</td>
<td>HKD28,000 (Standard) / HKD115,000 (High Availability)</td>
</tr>
<tr>
<td>CC OG Monthly Fee</td>
<td>HKD1,250 per CC OG</td>
</tr>
</tbody>
</table>
Market Information

Market Data for Trading

- **Data feed**
  - 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

* CIIS is the wholly owned subsidiary of SSE InfoNet Ltd., the sole exclusive authorised organisation managing the securities information of SSE
Agenda

1. Overview of Shanghai-Hong Kong Stock Connect
2. Trading
3. Clearing and Settlement
4. Risk Management
5. How to Participate
HKSCC to Bridge the Settlement of Northbound Trades

**Hong Kong**

- SEHK Participants
- SEHK Subsidiary: Order Routing Facilitator
- Order flow

**Mainland**

- SSE Members
- SSE
- SEHK Subsidiary
- SEHK: platform provider
- SSE: Non-member trading participant
- ChinaClear: Clearing agent of SEHK Subsidiary (settlement with ChinaClear)

**HKSCC**

- HKSCC Participants
- HKSCC: Clearing Link (HKSCC: a Clearing Participant of ChinaClear)
- Trade settlement

Note: Being a Clearing Participant of ChinaClear, HKSCC will, on behalf of its CPs, settle Northbound trades with ChinaClear and hold SSE Securities in its omnibus stock account at ChinaClear.
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

CPs enquire money obligations for next day settlement:
- Settled Position Report
- Enquire Money Position

CPs download Statement of Money Ledger for money obligations

T-day

Until 20:30

T+1

08:00

09:30

12:00

After 12:30

Designated Banks receive CHATS Payment Instruction Report

Designated Banks make RTGS payments to HKSCC on behalf of CPs (for CPs with net payable item)

HKSCC makes RTGS payments to CPs (for CPs with net receivable item)
Determine Sellable Shares for Pre-Trade Checking

(1) DCP / GCP serving ONE EP only

CCASS: SSE Securities Balance on T-1 Day end

<table>
<thead>
<tr>
<th>CCASS Stock Accounts of B12345*</th>
<th>SSE Securities Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 Clearing A/C</td>
<td>100</td>
</tr>
<tr>
<td>02 Entitlement A/C</td>
<td>200</td>
</tr>
<tr>
<td>03 Stock Segregated A/C</td>
<td>300</td>
</tr>
<tr>
<td>20 Collateral Control A/C</td>
<td>400</td>
</tr>
<tr>
<td>21 Stock Segregated A/C</td>
<td>500</td>
</tr>
<tr>
<td>22 Stock Segregated A/C</td>
<td>600</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>EP</th>
<th>Sellable Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>12345</td>
<td>1,700</td>
</tr>
<tr>
<td>x,xxx</td>
<td>XXX</td>
</tr>
<tr>
<td>x,xxx</td>
<td>X,XXX</td>
</tr>
<tr>
<td>xxxxx</td>
<td>XXX</td>
</tr>
<tr>
<td>xxxxx</td>
<td>XX,XXX</td>
</tr>
<tr>
<td>xxxxx</td>
<td>XXX</td>
</tr>
</tbody>
</table>

Total Balance, except those in A/C 20

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**

<table>
<thead>
<tr>
<th>CCASS: SSE Securities Balance on T-1 Day end</th>
<th>CSC: Sellable Shares for Pre-Trade Checking on T-day</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CCASS Stock Accounts of B54321</strong>*</td>
<td><strong>SSE Securities Balance</strong></td>
</tr>
<tr>
<td>01 Clearing A/C</td>
<td>100</td>
</tr>
<tr>
<td>02 Entitlement A/C</td>
<td>200</td>
</tr>
<tr>
<td>03 Stock Segregated A/C</td>
<td>300</td>
</tr>
<tr>
<td>20 Collateral Control A/C</td>
<td>400</td>
</tr>
<tr>
<td>21 Stock Segregated A/C – NCP1</td>
<td>500</td>
</tr>
<tr>
<td>22 Stock Segregated A/C – NCP1</td>
<td>600</td>
</tr>
<tr>
<td>23 Stock Segregated A/C</td>
<td>700</td>
</tr>
<tr>
<td>24 Stock Segregated A/C – NCP2</td>
<td>800</td>
</tr>
</tbody>
</table>

* 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.
Transfer SSE Securities within CCASS

A. Within CCASS Participants’ own stock accounts

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

a) ATI to transfer among stock segregated accounts without statements
b) 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

A Shares Trading Sessions

- 09:15: 1st SI matching run
- 11:45: 2nd SI matching run
- 15:00: 3rd SI matching run
- 17:00: 4th SI matching run
- 18:00: Input DI to online settle SI
- 19:30: SI BSR

FOP: Free of Payment
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

- Mainland Investor-1
- Mainland Investor-2
- Mainland Investor-3
- HKSCC Omnibus a/c

CCASS

- CP-1
- CP-2
- CP-3
- CP-n

- CP-1’s Client Records
  - HK investor-1
  - HK investor-2
  - HK investor-3
- CP-2’s Client Records
  - HK investor
  - HK investor
- CP-3’s Client Records
  - HK investor
  - HK investor
- CP-n’s Client Records
  - HK investor
  - HK investor
  - HK investor

- 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
Handling Corporate Actions of SSE Securities

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
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

<table>
<thead>
<tr>
<th>Existing SSE-listed stock codes: 6-digit Start with “60”</th>
<th>SSE Securities code for Northbound Trading: Same as SSE’s</th>
<th>Mapped to CCASS: 5-digit Replace “60” with “9”</th>
</tr>
</thead>
<tbody>
<tr>
<td>60XXXXX</td>
<td>60XXXXX</td>
<td>9XXXXX</td>
</tr>
</tbody>
</table>

### 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
Agenda

1. Overview of Shanghai-Hong Kong Stock Connect
2. Trading
3. Clearing and Settlement
4. Risk Management
5. How to Participate
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

### For Positions in SSE Securities (RMB)

<table>
<thead>
<tr>
<th>ChinaClear</th>
<th>CSRC &amp; MOF*</th>
<th>HKSCC</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Mainland Clearing Risk Fund&lt;br&gt;內地證券結算風險基金</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Today…</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Marks &amp; concentration collateral</td>
</tr>
<tr>
<td>2. Margin</td>
</tr>
<tr>
<td>3. Collateral security</td>
</tr>
<tr>
<td>4. Specific cash collateral</td>
</tr>
<tr>
<td>5. Additional cash collateral</td>
</tr>
</tbody>
</table>

* MOF: Ministry of Finance
Risk Management Measures on Northbound Trades

(1) Mainland Settlement Deposit 内地结算备付金

(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

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 内地證券結算保證金

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

- **(a)** Collect the minimum
- **(b)** Calculate Mainland Security Deposit Requirement
- **(c)** Collect shortfall via day-end DDI
- **(d)** Refund excess via day-end DCI

---

(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

### Calculation
- Based on daily turnover in SSE Securities x 0.003%

### Collection
- Daily via day-end DDI

### Refund
- Non-refundable

### Period
- First year after project launched
- When 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 1\textsuperscript{st} bank day of next quarter

- **Means**
  - Via day-end DCI

- **Reports**
  - Participant report on interest calculation will be available

*Note: All the risk management measures for Northbound trading are subject to the SFC’s approval*
HKSCC Guarantee Fund (HKSCC GF)
Implications of Northbound Trading

Coverage
- 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
- Include positions in both HK stocks and SSE Securities

CP’s Required Contribution
- 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
- No change

Collection / Refund Timetable
- No change

Reports
- No change to format of CP reports
  - 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)

1. CP defaults payment obligation for CNS positions in HK stocks
2. HKSCC declares CP a defaulter under CCASS Rules
3. HKSCC appoints Authorised Brokers to close-out all unsettled CNS positions in HK stocks
4. If loss is incurred after closing-out, apply collateral posted by defaulting CP for CNS positions in HK stocks
5. Remaining loss will be covered by HKSCC GF

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.
Agenda

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

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RMB Settlement Capability</strong></td>
<td>- Ensure its designated bank is able to settle SSE Securities money obligations in RMB via RTGS</td>
</tr>
<tr>
<td></td>
<td>&gt; Initially during Hong Kong business days only</td>
</tr>
<tr>
<td></td>
<td>&gt; At later stage, may extend to HK holidays and typhoon/rainstorm affected days</td>
</tr>
<tr>
<td><strong>Adequate Internal Control</strong></td>
<td>- Internal back office system and operational procedures capabilities (including internal processes,</td>
</tr>
<tr>
<td></td>
<td>control procedures and documentation) to handle the new settlement process</td>
</tr>
<tr>
<td><strong>Risk Management Collateral</strong></td>
<td>- Pay the minimum amount of Mainland Security Deposit of RMB200,000 before commencement of</td>
</tr>
<tr>
<td></td>
<td>trading in SSE Securities</td>
</tr>
<tr>
<td><strong>System Test and Declaration</strong></td>
<td>- Successful completion of system test prescribed by HKSCC or prove to satisfaction of HKSCC of</td>
</tr>
<tr>
<td></td>
<td>their system and operational readiness in clearing Northbound trades</td>
</tr>
<tr>
<td><strong>Access Requirement, Reports &amp; Message Template</strong></td>
<td>- 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</td>
</tr>
<tr>
<td></td>
<td>- Able to process new and modified participant reports, and changes on PG message template (if applicable)</td>
</tr>
</tbody>
</table>

Note: Subject to approval & further requirements from SFC
Implementation – Key Activities for launch in approximately six months

HKEx’s update
- Briefings
- Circulars
- Web corner
- FAQ
- Information Book
- Technical Specification
- Others

EP/CP briefing (1st round) - Announced
EP/CP briefing (2nd round)
EP/CP briefing (3rd round)

April
- EP/CP briefing (1st round)
- Return Form of Indication of Interest
- EP/CP briefing (2nd round)
- Submit application form
- EP/CP briefing (3rd round)
- Participate in market rehearsal

May
- EP/CP briefing (2nd round)

June
- EP/CP briefing (3rd round)

July
- 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

<table>
<thead>
<tr>
<th>Trading of SSE Securities</th>
<th>Mainland Investors (Today)</th>
<th>Hong Kong &amp; Overseas Investors (via Shanghai-Hong Kong Stock Connect)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading on Mainland Holiday</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Trading on HK Holiday</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Market orders during continuous trading session</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Day trade</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Block trade</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Short selling</td>
<td>✓ (restrictive)</td>
<td>Naked short selling not allowed</td>
</tr>
<tr>
<td>Margin Financing and Stock borrowing and lending (SBL)</td>
<td>✓</td>
<td>Not allowed to participate in Mainland’s margin trading and securities lending (融資融券)</td>
</tr>
<tr>
<td>Designated broker trading</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Pre-trade checking</td>
<td>✓ (investor level)</td>
<td>✓ (EP level)</td>
</tr>
</tbody>
</table>
## Southbound Trading:
*Hong Kong and Overseas Investors vs. Mainland Investors*

<table>
<thead>
<tr>
<th>Trading of SEHK Securities</th>
<th>Hong Kong &amp; Overseas Investors <em>(Today)</em></th>
<th>Mainland investors <em>(via Shanghai-Hong Kong Stock Connect)</em></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading on HK Holiday</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Trading on Mainland Holiday</td>
<td>✅</td>
<td>✗</td>
</tr>
<tr>
<td>At auction orders (ie market orders) during pre-opening session</td>
<td>✅</td>
<td>✗</td>
</tr>
<tr>
<td>Order amendment</td>
<td>✅</td>
<td>✗</td>
</tr>
<tr>
<td>Day trade</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>Manual trade</td>
<td>✅</td>
<td>✗</td>
</tr>
<tr>
<td>Short selling</td>
<td>✅</td>
<td>✗</td>
</tr>
<tr>
<td>Margin financing &amp; SBL</td>
<td>✅</td>
<td>✗</td>
</tr>
<tr>
<td>Designated broker trading</td>
<td>Not Applicable</td>
<td>✅</td>
</tr>
<tr>
<td>Pre-trade checking</td>
<td>Not Applicable</td>
<td>✅</td>
</tr>
</tbody>
</table>

*(by SSE)*