

# Shenzhen-Hong Kong Stock Connect Officially Announced

Along with the PRC State Council's approval of the plan to implement the Shenzhen-Hong Kong Stock Connect programme, the China Securities Regulatory Commission (CSRC) and the Hong Kong Securities and Futures Commission (SFC) issued a joint announcement on 16 August 2016 to introduce the Shenzhen-Hong Kong Stock Connect and to set out the framework and principles for its operation. This is another major milestone following the launch of the Shanghai-Hong Kong Stock Connect in 2014 which enables investors in both Mainland China and Hong Kong to directly and mutually access each other's stock markets.

## Main framework

The main framework of the Shenzhen-Hong Kong Stock Connect closely resembles that of the Shanghai-Hong Kong Stock Connect, and is subject to existing laws and regulations as well as operational models governing trading and clearing under the Shanghai-Hong Kong Stock Connect.

Under the Shenzhen-Hong Kong Stock Connect, Hong Kong and international investors will be able to trade directly in eligible shares listed on the Shenzhen Stock Exchange (SZSE) through The Stock Exchange of Hong Kong (SEHK). This is done via the Northbound Shenzhen Trading Link and will not require regulatory approval from any PRC authorities. Likewise, Mainland investors will be able to trade directly in eligible shares listed on the SEHK through SZSE via the Southbound Hong Kong Trading Link. The key arrangements for

trading under the Shenzhen-Hong Kong Stock Connect are set out below.

## Eligible shares

### ■ Northbound Shenzhen Trading Link

Shares that could be traded include any constituent stock of the SZSE Component Index and SZSE Small/Mid Cap Innovation Index which has a market capitalisation of RMB6 billion or above, and all SZSE-listed shares of companies which have issued both "A" shares and "H" shares.

At the initial stage, shares listed on the ChiNext Board of SZSE may only be traded by eligible Hong Kong institutional professionals through the Northbound Shenzhen Trading Link. The investor scope for such shares may be expanded in the future upon resolving relevant regulatory issues.

### ■ Southbound Hong Kong Trading Link

In addition to the constituent stocks of the Hang Seng Composite LargeCap Index and the Hang Seng Composite MidCap Index, the eligible shares also include any constituent stock of the Hang Seng Composite SmallCap Index which has a market capitalisation of HK\$5 billion or above, and the SEHK-listed shares of companies which have issued both "H" shares and "A" shares.

The SZSE and SEHK will specify the detailed formulae and methods for calculating the market capitalisation requirements in due course. The scope of eligible shares may also be adjusted in light of market development and actual operational performance.

## Investment quota

- No aggregate market quota

No cap on the aggregate market quota has been imposed under the Shenzhen-Hong Kong Stock Connect. The previous cap on the aggregate market quota for the Shanghai-Hong Kong Stock Connect is also removed.

■ *Daily quota*

The Shenzhen-Hong Kong Stock Connect is subject to a daily quota of RMB13 billion for the Northbound Shenzhen Trading Link and RMB10.5 billion for the Southbound Hong Kong Trading Link. The above quotas are the same as those which currently apply under the Shanghai-Hong Kong Stock Connect, and may be further adjusted by regulators.

The daily quota for the Southbound Hong Kong Trading Link under each of the Shenzhen and Shanghai Stock Connect will be independently monitored by SZSE and SSE respectively and cannot be shared between each other.

**Other operational issues**

Other issues concerning the Shenzhen-Hong Kong Stock Connect, such as applicable trading, clearing and listing rules, clearing arrangements, investor eligibility, and cross-border regulatory and

enforcement cooperation and liaison mechanisms will be regulated by reference to the relevant arrangements under the Shanghai-Hong Kong Stock Connect as set out in the joint announcement of the CSRC and SFC on 10 April 2014.

**Timeframe**

Regulators estimate it will take approximately four months to prepare for the formal launch of the Shenzhen-Hong Kong Stock Connect. Before its launch, the SEHK, the SZSE, the China Securities Depository and Clearing Corporation (CSDCC) and the Hong Kong Securities Clearing Company Limited (HKSCC) will formulate or adjust related rules on trading and clearing, necessary regulatory approvals, technical systems, applications for operational qualifications, investor education, cross-border regulatory and enforcement cooperation, etc.

**What next**

■ *More financial products*

CSRC and SFC have agreed to include exchange-traded funds (ETFs) as eligible securities under both the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock

Connect, which is expected to roll out in 2017. Other financial products may also be introduced to meet investors' needs to manage price risks in both stock markets.

■ *Mutual funds as participants*

According to the FAQ released by CSRC on the same day as the joint announcement, mutual funds registered with CSRC may also participate in trading under the Shenzhen-Hong Kong Stock Connect, and relevant detailed arrangement will be specified in rules and regulations to be further issued by CSRC.

■ *Changes to the Shanghai-Hong Kong Stock Connect*

Except for the abolition of the aggregate market quota, the current regulation and operation of the Shanghai-Hong Kong Stock Connect remain the same.

We will stay close to latest developments on the stock connect. In the meantime, if you wish to receive an English translation of CSRC's FAQ on the Shenzhen-Hong Kong Stock Connect, please let us know.

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