



# Stock Connect Handbook

A Transformational Breakthrough in China Market Access

July 2016 | For Institutional Clients

Email [StockConnect@citi.com](mailto:StockConnect@citi.com) for more information

Markets and Securities Services



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# 1. Our Vision

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Dear Valued Clients,

The launch of Shanghai-Hong Kong Stock Connect on November 17, 2014 has propelled Hong Kong and Mainland China into new era of mutual market connectivity. 2016 is looking to be another milestone for China market access with the removal or relaxation quota for Stock Connect, RQFII, QFII and China Interbank Bond Market (CIBM) access and the imminent launch of Shenzhen – Hong Kong Connect.

The enhanced connectivity and interactions between Mainland China and Hong Kong authorities and a more stable market environment provide a good platform to expand China market access for funds and other asset classes such as equity derivatives, commodities, bonds, etc.

- January 25, 2016, HKEx announced plans to setup “Bond Connect” to provide foreign investors wider and easier access to CIBM through Hong Kong
- February 4, 2016, the State Administration of Foreign Exchange (SAFE) has simplified the QFII scheme to address quota allocation and capital mobility restrictions
- February 24 2016, Introduced the Overseas Institutional Investors (OII) scheme to access CIBM
- May 27, 2016, Shanghai and Shenzhen stock exchanges enhanced regulations on share suspension to limit suspension to a maximum of three months
- August 16, 2016, SFC and CSRC jointed announcement on Shenzhen Connect
- September 5, 2016, SAFE has simplified RQFII rules to allow for easier access and daily inward and outward remittance for all funds and shortened the lock up period

The RQFII/QFII simplification, enhanced regulations on trading suspension and Shenzhen-Hong Kong Connect are significant steps toward the eventual inclusion of China A-shares in global indices.

Our vision is to be the go-to bank for China market access for international investors, providing industrial strength, client oriented and market leading solutions for our clients to access these new opportunities and more importantly remain in compliance with relevant home and China regulations.

Thank you for the opportunity to be your partner in this exciting journey. We hope you will find this handbook useful and look forward to your valuable feedback.



**Cindy Chen**  
Country Head, Hong Kong Securities Services

# What's New? | Shenzhen-HK Stock Connect

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## Overview

On August 16, 2016, Hong Kong Securities and Futures Commission (SFC) and the China Securities Regulatory Commission (CSRC) jointly approved the establishment of the Shenzhen-Hong Kong Stock Connect. The target launch date will be approximately four months from the announcement date, tentatively November or December 2016. The program will be established by the Shenzhen Stock Connect (SZSE), the Stock Exchange of Hong Kong Limited (SEHK), China Securities Depository and Clearing Corporation Limited (ChinaClear) and the Hong Kong Securities Clearing Company Limited (HKSCC).

## Same Trading and Clearing Link

The Shenzhen-Hong Kong Stock Connect ("Shenzhen Connect") will employ the same trading and clearing links as that of Shanghai-Hong Kong Stock Connect ("Shanghai Connect"). Investors continue to trade through their local brokers, and the orders are routed through the subsidiaries set up by local exchanges to the opposite markets. A new SEHK order-routing subsidiary has been established in Qianhai to foster greater Guangdong-Hong Kong cooperation. HKSCC as a participant of ChinaClear will clear and settle cross-border trades with ChinaClear for Hong Kong and international investors. Risk management measures of ChinaClear, Shenzhen Branch, that are applicable to HKSCC will be imposed on HKSCC's participants.

## Eligible Shares under Shenzhen Connect

Shenzhen Connect expands the eligible investments for Northbound investors by adding approximately 880 stocks from the constituents of the SZSE Component Index and SZSE Small/Mid Cap Innovation Index with market capitalization of RMB 6 billion or above, as well as all SZSE-SEHK A+H shares. Exception is on ChiNext securities which will initially be limited to professional institutional investors (as defined in Hong Kong rules and regulations). Southbound channel allows Chinese investors to invest in approximately 417 stocks including constituent stocks of the Hang Seng Composite LargeCap /MidCap Index, and Hang Seng Composite SmallCap Index with market capitalization above HKD 5 billion, as well as H shares of SEHK-listed companies which have A shares listed on SZSE. Shares not traded in RMB, under "risk alert", and IPOs are currently not eligible under the Connect schemes.

## Other Financial Products

Exchange-traded funds (ETFs) are expected to be included as eligible securities in 2017. Launch date will be announced separately after Shenzhen Connect runs for a period of time. Additionally, to facilitate both international and Mainland Chinese investors to manage price risks of the opposite markets, the SFC and CSRC have in principle agreed to study and introduce other financial products as eligible securities as well.



# What's New? | Shenzhen-HK Stock Connect (Cont'd)

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## Aggregate Quota & Daily Quota

Aggregate quota will not be applicable to Shenzhen Connect. For Shanghai Connect, aggregate quota has been removed immediately following the announcement on August 16, 2016. Daily quota of the Shenzhen Connect remains the same as Shanghai Connect, i.e. RMB 13 billion for Northbound and RMB 10.5 billion for Southbound. SZSE has a closing call auction period at 14:57 to 15:00. If daily quota is used up during the closing call auction, buy order input for the remaining of the day will be suspended.

## Market Fees

Subject to further regulatory approvals, Shenzhen Connect's trading fees, capital gain taxes, dividend taxes, stamp duties, and business taxes are expected to be the same as that of the Shanghai Connect. Existing HKSCC Portfolio Fees charged to CCASS Participants on Shanghai Connect will be extended to include Shenzhen Connect shares as a single portfolio for fee calculation. HKSCC Clearing Participants should also note that collaterals including Mainland Settlement Deposit, Mainland Securities Deposit, Intra-day Mainland Settlement Deposit and Additional Cash Collateral imposed by ChinaClear and HKSCC will be separately calculated for Shenzhen and Shanghai Connects Northbound trades. Mainland Security Deposit from ChinaClear will have different Securities Deposit Rate for Shenzhen and Shanghai Connect. Shenzhen Connect rate will be 18.5% where current Shanghai Connect rate is 16.4%.

## Stock Code

Existing SZSE main board and SME board stock codes starting with "00" ("00XXXX") will be mapped into CCASS as "7XXXX". Existing SZSE ChiNext stock codes starting with "300" ("300XXX") will be mapped into CCASS as "77XXX".

## Citi's Solutions

Citi's unique multi-broker true DVP ("Model C" and "Citi SPSA+") solutions are also extended to Shenzhen Connect. Existing clients under Model C and SPSA can use their safekeeping accounts and Investor IDs to invest in Shenzhen Connect. In general, the operational flow will be the same as Shanghai Connect, i.e. cutoff times, instruction format, fee schedule, account opening process and documentation will remain no change (subject to any changes in related regulations or rules).

# What's New? | Shenzhen-HK Stock Connect (Cont'd)

## Key differences between Shanghai and Shenzhen Northbound Flow

Northbound	SSE (Shanghai)	SZSE (Shenzhen)
Eligible Investors	<ul style="list-style-type: none"> <li>No restrictions; open to all Hong Kong, overseas institutional and individual investors</li> </ul>	<ul style="list-style-type: none"> <li>No restrictions; open to all Hong Kong, overseas institutional and individual investors, except for ChiNext which is limited to institutional professional investors initially</li> </ul>
Eligible Securities	<ul style="list-style-type: none"> <li>Constituent stocks of the SSE 180 and 380</li> <li>All dual-listed shares i.e. SSE-SEHK A+H (68)</li> <li>Exceptions: (1) Shares that are not traded in RMB; (2) Shares under “risk alert”; (3) No IPOs</li> </ul>	<ul style="list-style-type: none"> <li>Constituent stocks of the SZSE Component and SZSE Small/Mid Cap Innovation with market capitalization <math>\geq</math> RMB 6billion</li> <li>All dual-listed shares SZSE-SEHK A+H</li> <li>Exceptions: (1) Shares that are not traded in RMB; (2) Shares under “risk alert”; (3) No IPOs</li> </ul>
Trading Hours	<ul style="list-style-type: none"> <li>Opening call auction: 9:15-9:25 (SEHK will accept orders at 09:10)</li> <li>Continuous auction: 9:30-11:30; 13:00-15:00</li> </ul>	<ul style="list-style-type: none"> <li>Opening call auction: 9:15-9:25 (SEHK will accept orders at 09:10)</li> <li>Continuous auction: 9:30-11:30; 13:00-14:57</li> <li>Closing call auction: 14:57-15:00</li> </ul>
Order Cancellation	<ul style="list-style-type: none"> <li>Unexecuted orders: can be cancelled during trading hours except 09:20-09:25</li> <li>Confirmed Orders: Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Unexecuted orders: can be cancelled during trading hours except 09:20-09:25 and 14:57-15:00</li> <li>Confirmed Orders: Order may be cancelled by SZSE trading system after it has been confirmed due to the unsuccessful order validation</li> </ul>
Trade Order Type	<ul style="list-style-type: none"> <li>Limit order only</li> </ul>	<ul style="list-style-type: none"> <li>Limit order only</li> </ul>
Risk Management Measures	<ul style="list-style-type: none"> <li>ChinaClear Shanghai Branch will apply its risk management measures on the HKSCC's unsettled positions on the SSE securities e.g. Mainland Settlement Deposit (MSTD), Mainland Security Deposit (MSCD)</li> </ul>	<ul style="list-style-type: none"> <li>ChinaClear Shenzhen Branch will apply its risk management measures on the HKSCC's unsettled positions on the SZSE securities</li> </ul>
Stock Code	<ul style="list-style-type: none"> <li>SSE stock codes: “<u>60</u>XXXX” → “<u>9</u>XXXX”</li> </ul>	<ul style="list-style-type: none"> <li>SZSE Main Board &amp; SME Board: “<u>00</u>XXXX” → “<u>7</u>XXXX”</li> <li>ChiNext: “<u>300</u>XXXX” → “<u>77</u>XXXX”</li> </ul>

## 2. Stock Connect Insights



# Shanghai- and Shenzhen- Hong Kong Stock Connect

## Introduction

The Shanghai-Hong Kong Stock Connect trading and clearing link is a significant breakthrough and creates a real time, scalable and expandable channel for foreign investors to access Mainland China securities and for Mainland China investors to access investments available in the Hong Kong market.

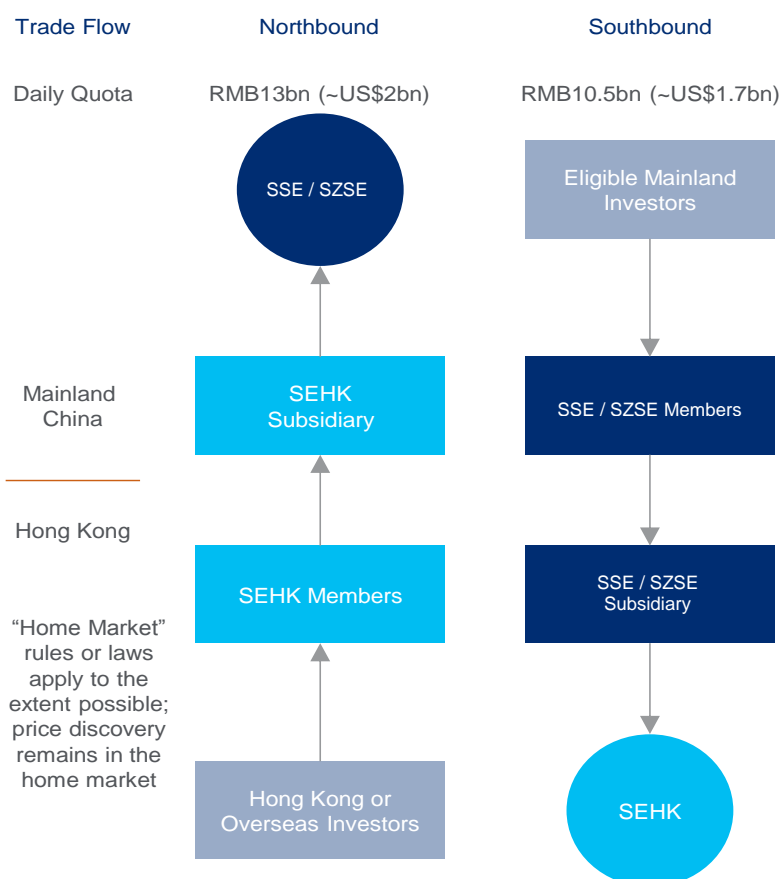
On April 10, 2014, the China Securities Regulatory Commission (CSRC) and the Hong Kong Securities and Futures Commission (SFC) jointly announced a transformational pilot program known as Shanghai-Hong Kong Stock Connect (Shanghai Connect). Also commonly called the “Through Train” or “Mutual Market Access”, it sets to redefine the dynamics of both markets and the capital flows between them.

The Stock Connect program will provide Hong Kong and Mainland China investors with mutual access to each other’s markets without the need to go through any protracted, formal approval process. This provides a straightforward, scalable and practical alternative for Mainland investors seeking direct Hong Kong market access outside of the Qualified Domestic Institutional Investor (QDII) or Renminbi Qualified Domestic Institutional Investor (RQDII) scheme. Similarly, it helps Hong Kong investors seeking direct Shanghai market access outside of the Qualified Foreign Institutional Investor (QFII) or Renminbi Qualified Foreign Institutional Investor (RQFII) schemes.

Stock Connect was successfully launched on November 17, 2014, which was a strong indication of China policy makers’ desire and readiness to accelerate the opening of Mainland China’s capital markets, the shift towards a more market-oriented economy, and the internationalization of the Renminbi (RMB).

On August 16, 2016, the SFC and CSRC jointly announced the establishment of Shenzhen-Hong Kong Stock Connect (Shenzhen Connect), which will be launched in mid-November 2016. Aggregate quota will not be applicable to the Shenzhen Connect; at the same time, aggregate quota for the Shanghai Connect has been removed effective August 17, 2016. Exchange-traded funds (ETFs) will be added as eligible securities in 2017.

Over time, Stock Connect could potentially become the primary channel for global investors to access the China A-share market. It is therefore important to understand the expected operation of the scheme, key operation and regulatory challenges, and contemplate the potential broader implications.



# Breakthrough in China Market Access

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## How does it work?

The northbound channel allows Hong Kong and foreign investors to place trade orders with any eligible Hong Kong Stock Exchange (SEHK) Participant (EP) to purchase or sell eligible securities listed on the Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE). The southbound channel allows Mainland China investors to invest in eligible securities listed on the SEHK through a participating member of the SSE and SZSE. These trades can occur with no requirement to hold QDII, QFII or RQFII quota or licenses.

Trading under the Stock Connect is subject to a daily quota in order to control the pace and size of cross-border fund flows. These quotas are assigned to the exchanges rather than to individual investors, as with QDII, QFII and RQFII. The SSE/SZSE and SEHK will perform pre-trade checking to ensure trading volumes adhere to the respective quota limits and to ensure participants have sufficient shares to settle their sell trades. These quotas are applied on a net basis (net of buy and sell for the entire market). Northbound trades must be settled in RMB and RMB conversion must occur in Hong Kong or other off-shore RMB markets.

Over time, many of the elements and restrictions relating to Stock Connect are expected to be further relaxed or removed eventually. An example of which is the removal of aggregate quota starting August 17, 2016. Such changes will help expedite the inclusion of China A-shares into the global indices and the internationalization of RMB.

Key principal elements on Stock Connect include:

## Regulation

“Home Market” rules and regulations will apply in both markets. This means that trading and clearing arrangements will be subject to the regulations and operational rules of the market in which trading and clearing takes place.

Listed companies will continue to be subject only to the listing rules and other regulations of the markets in which they are listed. This principal avoids the need to significantly alter home rules and regulations, which could be a very lengthy process.

## Trading Days

Stock Connect only operates on days that are trading days of both the SSE/SZSE and the SEHK and where the clearing is available in both markets. RQFII and QFII could trade during any SSE/SZSE trading day even if SEHK and banks in Hong Kong are closed. Therefore, Stock Connect has approximately ten less trading days than QFII or RQFII. This gap is expected to be closed eventually as the exchanges are working with the banks in Hong Kong and Mainland to align Stock Connect trading with the local exchange’s trading schedule.

## Clearing and Settlement

China Securities Depository and Clearing Corporation Limited (CSDCC), also known as ChinaClear, and the Hong Kong Securities Clearing Company Limited (HKSCC) have established a direct link for cross-border clearing. Each has become the other’s clearing participant to provide clearing services for Stock Connect. Cross-border trades are cleared on a net basis between ChinaClear and HKSCC.

# Breakthrough in China Market Access (Cont'd)

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## Eligible Shares

**Northbound:** Hong Kong and foreign investors are able to trade the following securities through the northbound trading link: constituents of the SSE 180 Index, the SSE 380 Index, SZSE Component Index, SZSE Small/Mid Cap Innovation Index with market capitalization of RMB 6 billion or above, and shares of all SSE-/SZSE-listed companies that have issued both A-shares and H-shares.

This amounts to ~569 SSE shares representing 85% of market capitalization and 68% of average daily turnover<sup>1</sup>, as well as ~880 SZSE shares representing 74% of market capitalization and 68% of average daily turnover<sup>1</sup>.

**Southbound:** Mainland investors are able to trade the constituents of the Hang Seng Composite LargeCap Index, the Hang Seng Composite MidCap Index, and shares of all companies listed on both the SSE and the SEHK.

This amounts to ~318 shares for Shanghai Connect, representing 82% of market capitalization and 85% of average daily turnover<sup>1</sup>, as well as ~417 shares for Shenzhen Connect, representing 87% of market capitalization and 92% of average daily turnover<sup>1</sup>.

## Eligible Investors

**Northbound:** No restrictions, except that shares listed on the ChiNext Board of SZSE will initially be limited to institutional professional investors only, as defined in the relevant Hong Kong rules and regulations.

**Southbound:** Mainland retail investors will need to hold a minimum aggregate balance of RMB500,000 (~US\$80,000) in their securities and cash accounts.

## Quotas

Trading will be subject to a daily quota that will be calculated and monitored in “real time” and consumed on a “first-come, first served” basis.

- **Northbound:** Daily quota of RMB13 billion, calculated separately for Shanghai Connect and Shenzhen Connect
- **Southbound:** Daily quota of RMB10.5 billion, calculated separately for Shanghai Connect and Shenzhen Connect

*Stock Connect is the first mutual market access program that facilitates investment flows both into and out of China. All previous schemes are one way only and operate under distinct, separate trading regimes.*

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<sup>1</sup> Market Cap as of 31 July 2016, and Average Daily Turnover as of Jan-July 2016, Stock Connect - Another Milestone (16 August 2016, HKEx)

# Breakthrough in China Market Access (Cont'd)

	Northbound	Southbound
Eligible Investors	<ul style="list-style-type: none"> <li>No restrictions, all Hong Kong and overseas institutional and retail investors</li> <li>ChiNext shares are initially limited to institutional professional investors</li> <li>Co-exist with QDII, QFII or RQFII schemes (However, not fungible)</li> </ul>	<ul style="list-style-type: none"> <li>All Mainland Institutional Investors</li> <li>Individual Investors holding a minimum aggregate balance of RMB500,000 in their securities and cash accounts</li> </ul>
Eligible Brokers	<ul style="list-style-type: none"> <li>SEHK Participants subject to meeting certain requirements</li> </ul>	<ul style="list-style-type: none"> <li>SSE/SZSE Members subject to meeting certain requirements</li> </ul>
Eligible Securities <sup>1</sup>	<p>~569 SSE shares (Shanghai Connect) ~85% market capitalization ~68% average daily turnover</p> <p>~880 SZSE shares (Shenzhen Connect) ~74% market capitalization ~68% average daily turnover</p> <ul style="list-style-type: none"> <li>All constituent stocks of the SSE180 and 380, SZSE Component Index, SZSE Small/Mid Cap Innovation Index with market capitalization <math>\geq</math> RMB 6 billion</li> <li>All dual-listed shares i.e. SSE-SEHK A+H and SZSE-SEHK A+H</li> <li>Exceptions <ul style="list-style-type: none"> <li>Shares that are not traded in RMB</li> <li>Shares under "risk alert"</li> <li>No IPOs</li> </ul> </li> </ul>	<p>~318 SEHK shares (Shanghai Connect) ~82% market capitalization ~85% average daily turnover</p> <p>~417 SEHK shares (Shenzhen Connect) ~87% market capitalization ~92% average daily turnover</p> <ul style="list-style-type: none"> <li>All constituent stocks of the HS Large/Mid Cap</li> <li>All dual-listed shares</li> <li>Via Shenzhen Connect only: Constituent stocks of the Hang Seng Composite SmallCap Index with market capitalization <math>\geq</math> HKD 5 billion</li> <li>Exceptions <ul style="list-style-type: none"> <li>Shares that are not traded in HKD</li> <li>A+H shares on any other mainland exchange</li> <li>No IPOs</li> </ul> </li> </ul>
Quota (Net Basis)	<ul style="list-style-type: none"> <li>Quota only applies to buy trades</li> <li><b>Daily quota:</b> RMB13 billion (calculated on real-time basis)</li> <li>First-come, first-served basis</li> <li>Aggregate quota has been removed for Shanghai Connect, effective August 17, 2016</li> </ul>	<ul style="list-style-type: none"> <li>Quota only applies to buy trades</li> <li><b>Daily quota:</b> RMB10.5 billion (calculated on real-time basis)</li> <li>First-come, first-served basis</li> <li>Aggregate quota has been removed for Shanghai Connect, effective August 17, 2016</li> </ul>
Trading Restrictions	<ul style="list-style-type: none"> <li>Day trading not permitted (no same day turnaround)</li> <li>Sell trade is subject to pre-trade checking</li> </ul>	<ul style="list-style-type: none"> <li>No restriction on day trading</li> <li>No pre-trade checking</li> </ul>
Price Limit	<ul style="list-style-type: none"> <li><math>\pm 10\%</math> on previous closing price; any orders with price beyond the price limit will be rejected</li> </ul>	<ul style="list-style-type: none"> <li>No price limit</li> </ul>

<sup>1</sup> Market Cap as of 31 March 2014, and Average Daily Turnover as of Jan-March 2014, Stock Connect Introduction (29 April 2014, HKEx)

# Breakthrough in China Market Access (Cont'd)

	Northbound	Southbound
Trading Day/Hours	<ul style="list-style-type: none"> <li>• Open when both markets are trading and banking services available on corresponding settlement days</li> <li>• Shanghai Connect follows trading hour of SSE               <ul style="list-style-type: none"> <li>– Opening Call Auction: 09:15-09:25 (SEHK will accept orders at 09:10)</li> <li>– Continuous Auction: 09:30-11:30 (Morning), 13:00-15:00 (Afternoon)</li> </ul> </li> <li>• Shenzhen Connect follows trading hour of SZSE               <ul style="list-style-type: none"> <li>– Opening Call Auction: 09:15-09:25 (SEHK will accept orders at 09:10)</li> <li>– Continuous auction: 09:30-11:30; 13:00-14:57</li> <li>– Closing call auction: 14:57-15:00</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Open when both markets are trading and banking services available on corresponding settlement days</li> <li>• Follows trading hour of SEHK               <ul style="list-style-type: none"> <li>– Opening Call Auction: 09:00-09:30</li> <li>– Continuous Auction 09:30-12:00 (Morning), 13:00-16:00 (Afternoon)</li> </ul> </li> </ul>
Settlement	<ul style="list-style-type: none"> <li>• Cycle: T for securities, T+1 for cash</li> <li>• Currency: Off-shore RMB (CNH); however, trade will be quoted in CNY</li> </ul>	<ul style="list-style-type: none"> <li>• Cycle: T+2 for both securities and cash</li> <li>• Currency: On-shore RMB (CNY); however, trade will be quoted in HKD</li> </ul>

# Stock Connect vs. RQFII and QFII

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## How is it different from RQFII and QFII?

Stock Connect is the first program facilitating bilateral flows or mutual market access into and out of China.

Stock Connect is complementary to the existing QFII or RQFII scheme. However, the shares are not considered fungible across different schemes.

Although Stock Connect, QFII and RQFII schemes all provide foreign investors with direct access to the A-share market, there are significant differences between them.

## Eligible Investors

Under QFII or RQFII, asset managers or other qualified institutions require approval by the CSRC, before applying to the State Administration of Foreign Exchange (SAFE) for a quota. The schemes are available to institutional investors only and have eligibility requirements around minimum business experience, capital, and assets under management.

In addition, QFII is only available to qualified institutions domiciled in countries which have a MOU with China. Likewise, RQFII scheme is only available to qualified institutions in the approved RQFII jurisdictions.

Conversely, the Stock Connect program is free from any eligibility and approval requirements, allowing previously prohibited investors (e.g. hedge funds, retail investors) direct access to the A-share market. In addition, investors located in jurisdictions that do not qualify for the QFII or RQFII can now access A-shares through Hong Kong. The only exception to Stock Connect is that shares listed on ChiNext of the Shenzhen Stock Exchange will initially be limited to institutional professional investors only.

## Quota

The approval process for QFII or RQFII involves applying for a particular amount of associated quota, and the holder is responsible for trading within the limits and disclosing all required information.

Under Stock Connect, however, the quota is set at the total market level, thus requiring no additional approval or separate quota allocation at the investor level. The program is open to investors outside Hong Kong, and the only requirement is to execute trades through a participating local broker in Hong Kong. Investors may buy as long as quota is available and sell anytime as long as they own the underlying shares.

## Eligible Investments

Currently, Stock Connect northbound trading link offers access to various stocks traded in SSE and SZSE, and it will take time for Stock Connect to expand into other asset classes, such as ETFs (to be included in 2017), as well as convertible bonds and listed bonds (with no target date).

QFIIs and RQFIIs are able to access a much broader range of on-shore investments including stocks listed in Shanghai and Shenzhen exchanges; fixed income products such as corporate, government, and interbank bond market; securities investment funds including closed-end, open-ended and ETFs; and others such as warrants, index futures, IPOs, and bond issuances.

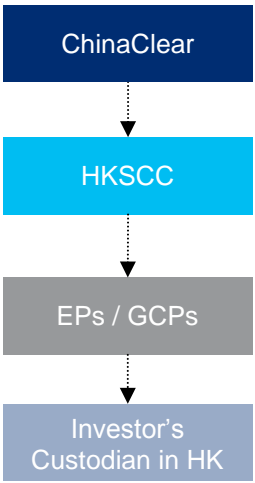
*RQFIIs or QFIIs are early adopters of Stock Connect since they are familiar with the A-share market and understand the importance of leveraging all available channels to build their desired portfolio.*



## Stock Connect vs. RQFII and QFII (Cont'd)

	Stock Connect Northbound	RQFII (Began in 2011)	QFII (Began in 2002)
Eligible Investors	<ul style="list-style-type: none"> <li>Available to everyone from day 1</li> <li>All Hong Kong and overseas investors (including retail and hedge funds) will be allowed to trade eligible A-shares (SSE/SZSE Securities) via local brokers in Hong Kong i.e. SEHK Exchange Participants (EPs)</li> <li>Exception on ChiNext shares which is only eligible to institutional professional investors initially</li> <li>No approval or license required at the investor level</li> </ul>	<ul style="list-style-type: none"> <li>Only available to approved RQFII jurisdictions (17 markets currently)</li> <li>Subsidiaries of PRC fund management companies, securities companies, domestic commercial banks, insurance companies based in the RQFII jurisdiction</li> <li>Other institutions registered and mainly operated in the RQFII jurisdictions and possess asset management license from the relevant regulators of their jurisdictions</li> </ul>	<ul style="list-style-type: none"> <li>Only available to qualified institutions in markets which have MOU with China (55 markets)</li> <li>Commercial Banks (<math>\geq</math> 10yrs in operation, US\$5 billion AUM, US\$300mm Tier 1 Capital)</li> <li>Securities Companies (<math>\geq</math> 5yrs in operation, US\$5 billion AUM, US\$500mm Capital)</li> <li>AMC, insurance companies and other institutions (experience of 2+ years, and AUM <math>\geq</math> US\$500mm)</li> </ul>
Eligible Investments	<ul style="list-style-type: none"> <li>All constituent stocks of the SSE180 and 380, SZSE Component Index, SZSE Small/Mid Cap Innovation Index with market capitalization <math>\geq</math> RMB 6 billion</li> <li>All dual-listed shares i.e. SSE-SEHK A+H and SZSE-SEHK A+H</li> <li>Exceptions: Shares that are not traded in RMB, Shares under "risk alert", IPOs</li> </ul>	<ul style="list-style-type: none"> <li>All stocks in Shanghai and Shenzhen Stock Exchanges</li> <li>Fixed Income: Corporate, government, enterprise, convertible and interbank bond market</li> <li>Securities investment funds including closed-end, open-ended and ETFs</li> <li>Others such as warrants, index futures, IPOs</li> </ul>	<ul style="list-style-type: none"> <li>Same as RQFII</li> <li>However, QFII needs to maintain no less than 50% in equity and no more than 20% in cash</li> </ul>
CCY	<ul style="list-style-type: none"> <li>Off-shore RMB</li> </ul>	<ul style="list-style-type: none"> <li>Off-shore RMB</li> </ul>	<ul style="list-style-type: none"> <li>USD or other major foreign currency</li> </ul>
SL	<ul style="list-style-type: none"> <li>Securities lending and borrowing permitted with restrictions</li> </ul>	<ul style="list-style-type: none"> <li>Not available</li> </ul>	<ul style="list-style-type: none"> <li>Not available</li> </ul>

# Stock Connect vs. RQFII and QFII (Cont'd)

	Stock Connect Northbound	RQFII (Began in 2011)	QFII (Began in 2002)
Liquidity	<ul style="list-style-type: none"> <li>• <b>Daily</b> and no restriction for sell trades</li> <li>• Buy trades are subject to quota</li> <li>• Trading and settlement flow are subject to a closed-loop mechanism under which income from securities sales shall be returned to origin instead of being deposited with local market</li> </ul> <p><u>Fund Flow Example:</u> Investor sells SSE shares</p>  <pre> graph TD     A[ChinaClear] --&gt; B[HKSCC]     B --&gt; C[EPs / GCPs]     C --&gt; D[Investor's Custodian in HK]   </pre>	<ul style="list-style-type: none"> <li>• Quota shall be used within 1 year upon approval</li> <li>• Open-ended funds           <ul style="list-style-type: none"> <li>– <b>Daily</b> injection and repatriation</li> <li>– No lock-up period</li> </ul> </li> <li>• All other RQFIIs           <ul style="list-style-type: none"> <li>– 3 months (instead of 1 year) lock-up period from the date that accumulative principal injection reaches RMB100MM</li> <li>– Daily injection and repatriation (instead of six months injection period and Monthly repatriation)</li> <li>– Net amount of investment capital remitted to China shall be within the investment quota (instead of quota will be reduced according for principal repatriation)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Quota shall be used within 1 year upon approval</li> <li>• <b>Monthly repatriation capped at 20%</b> of its total QFII investments at the end of prior year</li> <li>• Open-ended funds           <ul style="list-style-type: none"> <li>– <b>Daily</b> injection and repatriation</li> <li>– <b>3 months</b> lock-up period from date of the US\$20mm principal injection</li> </ul> </li> <li>• All other QFIIs           <ul style="list-style-type: none"> <li>– 3 months lock-up period from date of the US\$20mm principal injection</li> <li>– For principal repatriation, principal can be re-injected, but the net amount of capital remitted into China must be within the investment quota. No need to file with SAFE</li> <li>– For profit repatriation, audit reports issued by domestic accounting firm and evidence of relevant tax payments evidence are required</li> </ul> </li> </ul>
Funding	<ul style="list-style-type: none"> <li>• Prefunding not required</li> </ul>	<ul style="list-style-type: none"> <li>• RQFII custodian must confirm available cash before trade occurs</li> </ul>	<ul style="list-style-type: none"> <li>• QFII custodian must confirm available cash before trade occurs</li> </ul>

Source: HKEx, SSE, CSRC, Citi.

# Stock Connect vs. RQFII and QFII (Cont'd)

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## Broker and Custodian Agreement

Stock Connect is subject to closed-loop regulation under which income from the sale of securities shall be returned to the point of origin instead of being deposited in the local market. All trades will be settled on a net basis using off-shore RMB ("CNH"). The Hong Kong clearing house and depository will provide custodial and depository services for their respective members, thus investors do not need to appoint a Mainland China broker or a QFII/RQFII custodian for the purpose of investing in the A-share market.

Hong Kong is a common law jurisdiction, thus broker and custodian agreements will be subject to Hong Kong law instead of People's Republic of China (PRC) law.

## Liquidity

With Stock Connect, foreign investors may sell their A-shares any time and receive their cash proceeds in Hong Kong on the same day or on T+1. RQFIIs or QFIIs are subject to various lockup periods and restrictions on repatriation. Currently, only open-ended RQFII funds are allowed to do daily injection and repatriation.

## Covered Short Sell and Securities Lending and Borrowing

QFIIs or RQFIIs are not permitted to participate in covered short sell or securities lending and borrowing activities on A-shares. Conversely, covered short selling and securities lending and borrowing are available to foreign investors through Stock Connect, albeit subject to tight restrictions.

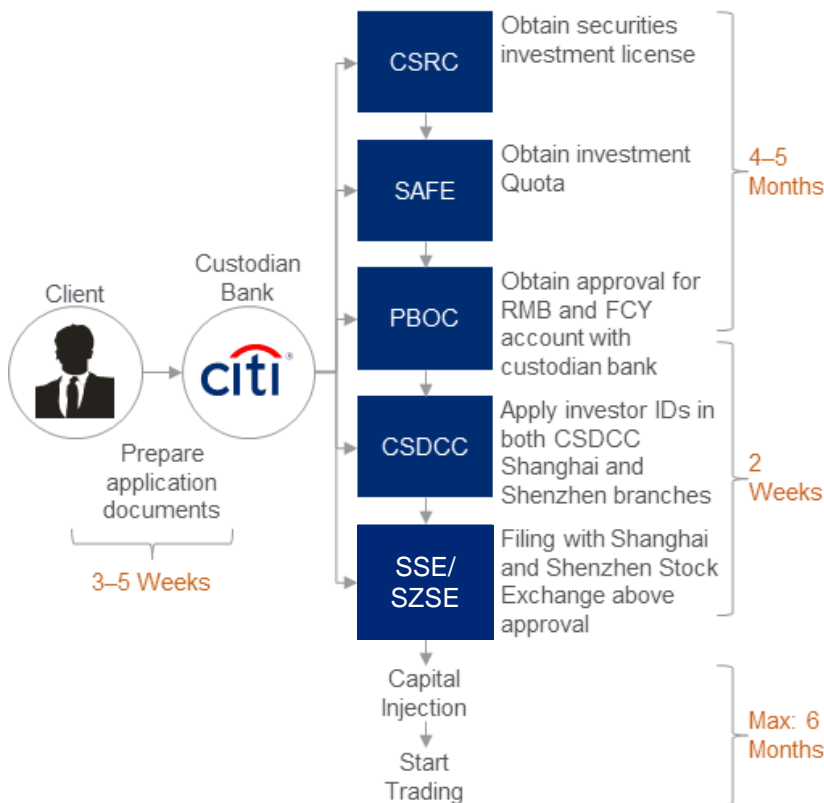
## Time to Market

With Stock Connect, foreign investors may conveniently trade A-shares with their existing account used for trading Hong Kong listed shares. This is the quickest way to access A-shares for foreign investors.

The process for QFIIs and RQFIIs takes longer since they need to apply for relevant licenses, quota or seek approval from the mainland authorities e.g. CSRC, SAFE and PBOC.

# Stock Connect vs. RQFII and QFII (Cont'd)

## QFII and RQFII Application Process



On February 4, 2016, SAFE has simplified the QFII scheme to allow easier access and improve liquidity for QFII funds by introducing the following:

- Basic Quota - QFII can make a filing with SAFE for a “basic investment quota” based on certain % of its total asset or AUM. The Basic Quota is set within a range of US\$20 million to US\$5 billion (increased from the previous upper limit of US\$1 billion)
- Special QFIIs - For certain types of QFIIs such as SWFs, central banks and monetary authorities, the Basic Quota will not apply and they may apply a quota up to US\$5 billion through filing process
- SAFE’s approval is only required when the quota being applied for exceeds the Basic Quota

On September 5, 2016, SAFE has simplified the RQFII scheme to further relax the RQFII quota application and control requirements by introducing the following:

- Basic Quota - RQFII can make a filing with SAFE for a basic quota based on certain % of its total asset or AUM
  - For RQFII or its group company’s asset/AUM mostly outside Mainland, the Basic Quota is USD 100 million equivalent in RMB + 0.2% of average asset size in past 3 years - approved QFII quota
  - For RQFII or its group company’s asset/AUM mostly within Mainland, the Basic Quota is RMB 5 billion + 80% of asset size in 1 year - approved QFII quota
- SAFE’s approval is only required when the quota being applied for exceeds the Basic Quota

## Key Application Documentation Requirement

Regulator	Purpose of Application	Required Documentation
CSRC	License	<ul style="list-style-type: none"> <li>• Application statement</li> <li>• Photocopy of registration certificate</li> <li>• Photocopy of the financial business permit</li> <li>• Certificate of proof that key personnel of applicant satisfy requirements for qualification of practice in the country where the applicant is domiciled</li> <li>• Certificate of proof that applicant has not been punished by local regulators in previous three years or since inception</li> <li>• Statement on fund sources and domestic securities investment plan</li> <li>• Audited financial statements for the last year</li> <li>• Power of attorney signed with PRC custodian</li> <li>• Other documents required by CSRC</li> </ul>
SAFE	Quota	<ul style="list-style-type: none"> <li>• Application statement</li> <li>• Photocopy of the securities investment business license issued by CSRC</li> <li>• Notarized power of attorney to the PRC custodian</li> <li>• Other documents required by SAFE</li> </ul>

# Stock Connect vs. RQFII and QFII? (Cont'd)

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## Account Structure

QFII/RQFII is required to open a segregated account in ChinaClear. Stock Connect northbound investors will not be required nor be able to open a segregated account in ChinaClear. Similar to available account structures for HK listed shares and other developed markets such as US and UK, northbound investors may maintain an omnibus or segregated account with their custodians or service provider.

## Stock Connect Account Structure

Investors may open omnibus or segregated accounts for SPSA and non-SPSA accounts. Omnibus arrangements may be preferred for clients who may not desire to have their entire holding segregated at the central securities depository, to better avoid potential information leakage related to their portfolio or trades.

If investors want to use an SPSA account, then each SPSA account opened by the custodian will be assigned with a unique Investor ID. This Investor ID will need to be provided to the broker when placing the sell orders. Investors may transfer shares between different accounts as long as it complies with non-trade transfer rules.

## QFII Account Structure

There is no restriction on the number of accounts opened by QFIIs; however the QFII's foreign currency account needs to match with QFII Special RMB account on a one-to-one basis. Three QFII account structures for RMB special deposit accounts (securities trading) are allowed under SAFE's QFII regulation. In general, no transfer is permitted between the named account, client account and the fund account.

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### Non Open-end Fund Account

#### In Name of "QFII—Clients" Fund/Name or QFII's Name"

- Can be client account for QFII's underlying client, or for QFII's proprietary trading
- No injection period
- 3 month lock-up starting from US\$20 million injection ( *apply to QFII level, initial quota only*)
- Monthly repatriation, but quota will be reduced subsequently
- Daily injection/repatriation allowed
- Monthly Cap: No monthly repatriation cap at account level, but at QFII entity level, monthly net repatriation amount <20% of the total domestic assets of the QFII at the end of last year
- No filing or approval needed for repatriation. For profit repatriation, need to provide tax supporting documents

### Public Open-end Fund Account

#### In Name of "QFII—Open-end Fund Name"

- Criteria for open-ended Fund remains the same i.e. publicly raised outside of China mainland
- No injection period
- 3 month lock-up starting from US\$20 million injection ( *apply to QFII level, initial quota only*)
- Daily injection/repatriation for open-end fund based on the daily subscribed or redeemed net amount
- Monthly cap: Monthly net repatriation amount <20% of the fund's total domestic assets at the end of last year

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QFII now can freely re-allocate its quota among different accounts via instructing custodian bank, and no need to do filing with SAFE

However, onshore fund transfer among different QFII accounts is still not allowed



# Stock Connect vs. RQFII and QFII (Cont'd)

## RQFII Account Structure

RQFII is required to open separate RMB special accounts for different sources of funds, e.g. Proprietary fund, Client fund, each of the Open-end fund.

Non Open-end Fund Account	Public Open-end Fund Account
<p><b>In Name of “RQFII-Client’s Fund” or RQFII’s Name</b></p> <ul style="list-style-type: none"><li>• Can be nominee account for RQFII’s underlying client, or for RQFII’s proprietary trading</li><li>• Injection and repatriation<ul style="list-style-type: none"><li>– Injection period: 6 months</li><li>– Lock-up period: 3 months</li><li>– Monthly repatriation, but quota will be reduced subsequently</li></ul></li></ul>	<p><b>In Name of “RQFII – Fund Name”</b></p> <ul style="list-style-type: none"><li>• Usually approved for open-end fund</li><li>• Criteria for open-end fund<ul style="list-style-type: none"><li>– An open-end fund</li><li>– Publicly raised outside of Mainland China</li></ul></li><li>• Injection and repatriation<ul style="list-style-type: none"><li>– No injection period and lock-up period requirement</li><li>– Daily injection/repatriation for open-end fund based on the daily subscribed or redeemed net amount</li></ul></li></ul>

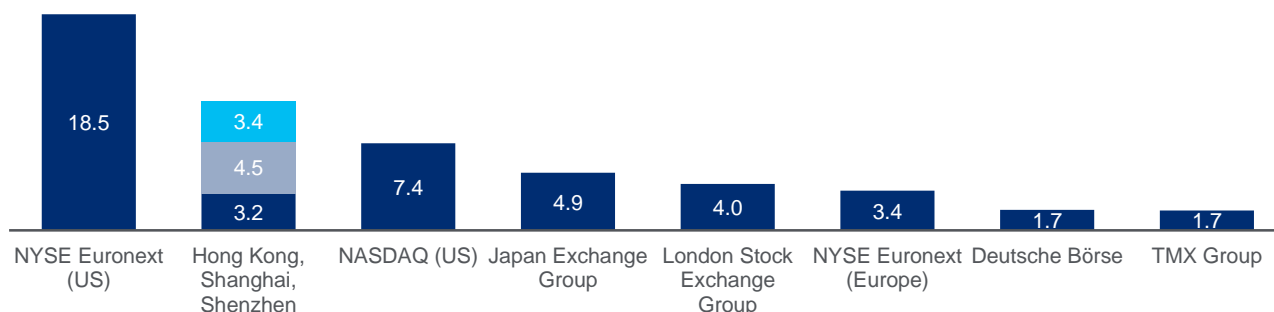
## Quota Re-allocation

- SAFE re-defines quota types as two categories: “Open-end Fund” and “Non Open-end Fund”
- Within the “Open-end Fund” category, RQFII can adjust the quota allocation without seeking further approval from SAFE
- Across the two categories, if a RQFII want to re-allocate the quota, the RQFII shall submit a form provided by SAFE. SAFE will review the form during their panel meeting. Upon SAFE’s approval, a RQFII can re-allocate its quota accordingly

# What are the Broader Implications?

Shanghai-Hong Kong Stock Connect will effectively integrate the world's fourth and sixth largest stock markets by market capitalization. At an estimated \$7.7 trillion, this propels the combined entity into the second largest market in the world by market capitalization. With the eventual addition of the Shenzhen Stock Exchange, the combined market capitalization would be over US\$11 trillion.

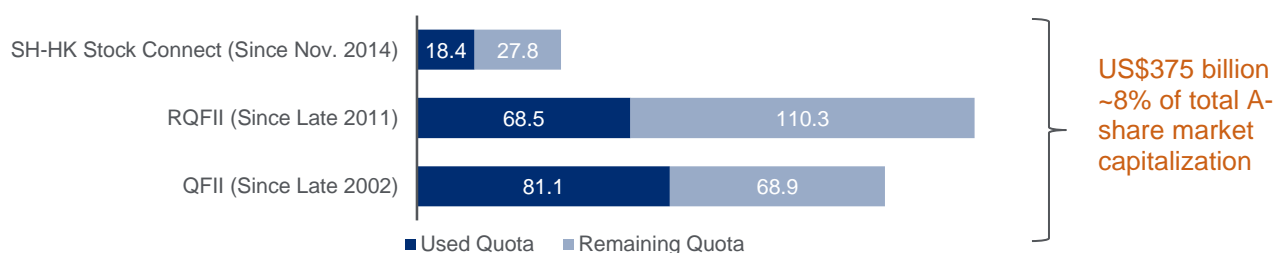
## World's Largest Stock Exchanges—Equity Market Capitalizations (US\$ in Trillions)



Source: World Federation of Stock Exchanges as of November 2015.

Thus, there is little doubt that the implementation of this program will have significant broader implications, not all of which are identifiable at this point. Market participants will only be able to assess these completely after a few years. At this stage, we can highlight some observations and identify certain potential outcomes, both positive and negative.

## China Market Access Quota Under Different Schemes (US\$ in Billions) as of Dec.2015



Source: HKEx, SAFE, Citi.

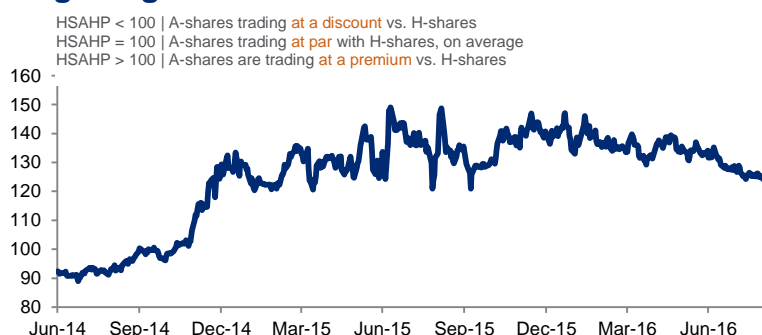
Due to ease of access, after thirteen months of the launch, Stock Connect Northbound aggregate quota usage has already reached RMB120 billion (~US\$18.5 billion), which is equivalent to approximately 20–30% of the approved quota of the traditional channels, QFII and RQFII, which were launched in 2002 and 2011 respectively. However, the combined available quota of these China access schemes still only represents approximately 8% of the total A-share market capitalization, which is far below the aggregated foreign investor limit of 30%. By comparison, portfolio investment by foreign investors account for 33% of Korea market, 37% of Taiwan market, 21% of India market.

# What are the Broader Implications? (Cont'd)

## A-H-Share Discount/Premium

Historically, there has typically been a spread between the A-H share prices of dual-listed Chinese companies. For example, the A-shares of banks and brokerages, which account for approximately 30% of the SSE total market capitalization, were trading at a discount versus their H-shares prior to the Stock Connect launch. Stock Connect was expected to result in a narrowing of the A-H-share discount/premium by providing better access to both markets; however, due to the rapid rally of the A-share market after the launch of Stock Connect, the A-shares started to trade at a significant premium over H-shares, causing the A-H spread to further widen.

## Hang Seng China A-H Premium Index



Source: Bloomberg

Among the reasons for the A-shares' rapid rally was the increased margin trading from Mainland retail investors and the series of PBOC easing and stimulus measures to combat slowing economic growth and achieve Premier Li Keqiang's 2015 growth target of about 7%.

When the regulator tried to rein in excessive leveraging, the A-share markets started to experience extreme volatility, drawing significant international attention. The regulator intervened and is estimated to have spent a few trillion RMB to stabilize the A-share markets. Coordinated across regulatory agencies, such intervention is expected to be temporary and will not derail China's path or pace towards greater integration with international markets. Volatility is expected to continue for the rest of the year.

As China continues its market reforms to strengthen its financial market and improve cross-border flows, the A-H spread should eventually narrow due to improved market efficiency. This may impact any market participants who either trade or create products around that historical spread.

## PBOC Easing Measures

**LR:** 1-yr Benchmark Lending Rate

**DR:** 1-yr Benchmark Deposit Rate

**RRR:** Reserve Requirement Ratio

Date	1-yr LR (%)	1-yr DR (%)	RRR (%)
Since 2012	6.00	3.00	20.0
Nov 23, 2014	5.60	2.75	20.0
Feb 4, 2015	5.60	2.75	19.5
Mar 1, 2015	5.35	2.50	19.5
Apr 20, 2015	5.35	2.50	18.5
May 11, 2015	5.10	2.25	18.5
Jun 28, 2015	4.85	2.00	18.5
Aug 11, 2015	4.85	2.00	18.5
Aug 25, 2015	4.60	1.75	18.5
Sep 7, 2015	4.60	1.75	18.0
Oct 23, 2015	4.35	1.50	17.5

## Easing Measures Highlights

**November 23, 2014** | PBOC reduces interest rates for the first time since July 2012

**February 4, 2015** | RRR reduced by 0.5% to 19.5%, first reduction since May 2012

**May 11, 2015** | Third rate cut in six months

**August 11, 2015** | Daily fixing rate is now set based on previous day's closing value and market demand. Trading is still restricted to the daily fixing rate  $\pm$  2%  
Daily fixing rate initially reduced by 1.9% and further fell by an additional 1.6% the following day.

**October 23, 2015** | Sixth rate cut in less than a year and fourth RRR cut in 2015

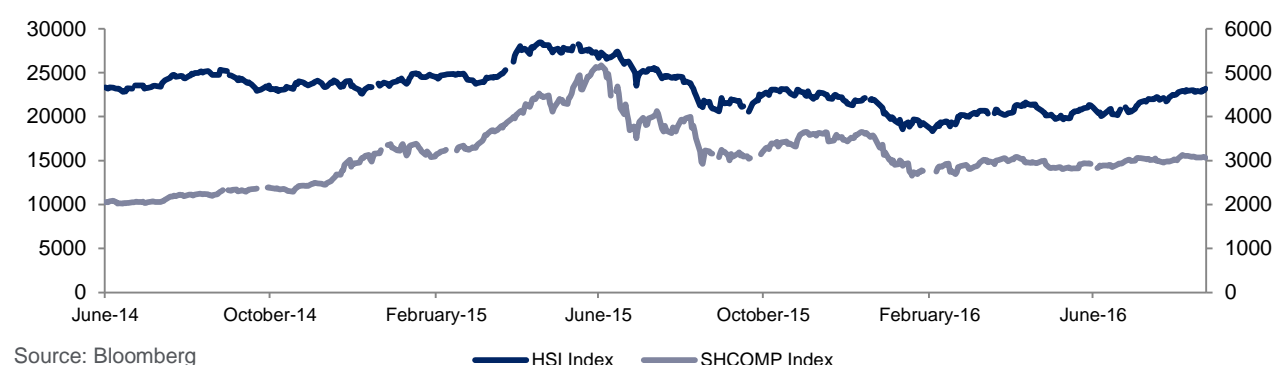
**December 10, 2015** | Further reduced the fixing rate by 0.1%

## What are the Broader Implications? (Cont'd)

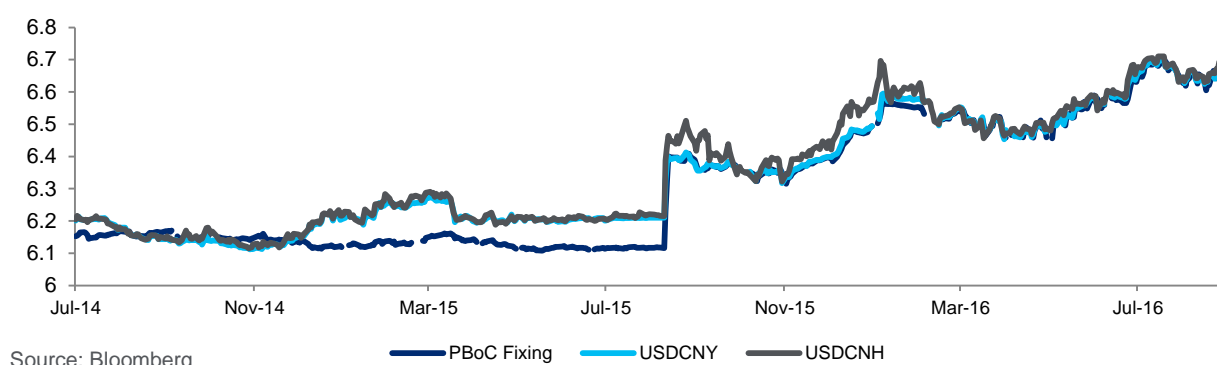
Please note that A-shares and H-shares are not fungible. Below are the key differences.

	Hong Kong Market (H-shares)	Mainland Market (A-shares)
<b>Tax</b>	<ul style="list-style-type: none"> <li>Capital Gains Tax and Business Tax temporarily waived with unknown end date</li> </ul>	<ul style="list-style-type: none"> <li>Capital Gains Tax and Business Tax temporarily waived for gains on November 17, 2014 onward with unknown end date</li> </ul>
<b>Accessibility</b>	<ul style="list-style-type: none"> <li>Accessible to all investors; turnover in Hong Kong market is much lower than A-shares market but has a more balanced investor base</li> </ul>	<ul style="list-style-type: none"> <li>A-shares are a high turnover market dominated by Mainland retail investors</li> <li>Foreigners could only access through Stock Connect and approved QFII and RQFII and subject to quota</li> </ul>
<b>Settlement Cycle</b>	<ul style="list-style-type: none"> <li>T+2; Same day turnaround trades permitted</li> </ul>	<ul style="list-style-type: none"> <li>T+0 for securities and T+1 for cash; No same day turnaround trades permitted</li> </ul>
<b>Covered Short Permitted?</b>	<ul style="list-style-type: none"> <li>Yes (this helps avoid upward bias)</li> </ul>	<ul style="list-style-type: none"> <li>Not permitted for QFII / RQFII (foreign investors)</li> <li>Restriction on short-selling of all A-shares until March 2010</li> </ul>
<b>Currency</b>	<ul style="list-style-type: none"> <li>HKD</li> </ul>	<ul style="list-style-type: none"> <li>RMB</li> </ul>

Hong Kong and China Market Indices are more coordinated after launch of Stock Connect



Off-shore and on-shore RMB rates have mainly converged as PBOC allows on-shore RMB to trade in a wider band. However, the spread has widened since the yuan devaluation on August 11, 2015



# What are the Broader Implications? (Cont'd)

## Market Fundamentals

In the longer term, we can expect improvement in A-share market fundamentals and efficiency through an increasingly balanced and diversified investor base, as Chinese authorities continue to ease access to A-share markets for foreign institutions. Foreign investors currently account for less than 2% of A-share market turnover, a small fraction given that more than 80% are domestic retail investors. In comparison, foreign investors account for over 60% of Hong Kong market turnover.

## Investors

Not all institutional investors meet the criteria for QFII or RQFII scheme. For QFII, the qualified institution must be based in markets which have an MOU with China. Currently CSRC has signed MOUs with 55 markets.

For RQFII, the qualified institution must be based in an approved RQFII market. Currently, there are 17 approved RQFII markets.

Stock Connect provides a more scalable way to effectively open access to A-shares for all investors globally and enable them to invest in A-shares. Retail investors globally will have the ability to trade SEHK and SSE/SZSE securities via Stock Connect, though China retail investors must fulfill some eligibility requirements.

Hedge fund managers, who are currently not a preferred investor type for QFII / RQFII, now have direct access to the A-share market, supplementing existing QFII / RQFII-based access products (i.e. P-notes) offered through securities firms.

## A-shares Inclusion

Global index companies such as MSCI and FTSE regularly cite investability constraints as barriers to the inclusion of A-shares in applicable indices. The launch of Stock Connect has triggered serious review by these global index companies on timing of A-share inclusion to their global and emerging market indices.

On May 26, 2015, FTSE announced the inclusion of A-shares in two new emerging market indexes to enable managers who are ready to start using these indexes. This marks the beginning of the transition to include A-shares in the global indexes. The initial weighting in the FTSE Emerging Markets China A Inclusion Indexes is ~5% and expected to reach 32% over time.

On June 14, 2016, MSCI announced that it will delay the inclusion of A-shares in its benchmark index citing some remaining accessibility issues; however, MSCI also indicates they may conduct a review outside the regular annual schedule, likely after the launch of the Shenzhen-Hong Kong Connect.

Forecasted Index Weight	Potential A-shares Inclusion	
	Partial	Full
MSCI EM Index	1.3%	20.5%

Source: Consultation on China A-shares Index Inclusion (2015)

## Issuers

- ▲ The prospect of increased access to Mainland capital through Stock Connect should improve Hong Kong's ability to attract international issuers to HKEx e.g. primary listing or depository receipts. The benefit to issuers will be an increasingly diversified shareholder base and the ability to raise capital from both Mainland China and global investors.

# Is it all Good News?

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We have canvassed some of the obvious positive implications of Stock Connect; however, there are aspects of the design of Stock Connect that could create issues for certain investors. Furthermore, it is unlikely that larger investors will be able to rely exclusively on Stock Connect in the current form to implement their desired portfolio. Thus, for the time being, the existing QFII or RQFII schemes will remain as the core frameworks through which large institutions manage their China allocation, as they retain full control and transparency on the amount of quota available to their firm.

## Pre-delivery of Shares or Pre-trade Checking

Stock Connect imposes a pre-trade checking requirement to ensure the exchange participant (broker) has sufficient shares to settle their sell trades.

**Implication:** Investors are only allowed to sell A-shares reflected in their broker's sellable position at the local depository or in their Special Segregated Account (SPSA) account opened by the local custodian during evening of T-1. The introduction of SPSA offers an alternative to avoid pre-delivery of shares; however, it also creates new challenges since it introduces an extra step in a very compressed post-trade environment which may increase the risk of fail trades.

Such arrangement also does not fully eliminate the counterparty risk with the local broker since the cash transfer between broker and investor's custodian is not true DVP or guaranteed. For sell trades, the shares will need to be delivered to the broker for settlement by 17:30 to 19:30 on T+0; however, the settlement of cash proceeds for the sell trade is not guaranteed and could only be confirmed at 20:25 on T+0 in the best case scenario.

## Restricted Trading Environment

The daily and aggregate quota limits, combined with the unavailability of some common order maintenance options, reduce an investor's ability to trade freely under Stock Connect.

For example, existing orders cannot be modified; instead, investors are required to cancel the original order and create a new order. The new order is moved to the back of the quota queue, at which point quota may no longer be available for that day. This situation will be exacerbated by the fact that only "limit" orders are permitted under Stock Connect.

The mismatch in trading times could also be an issue. Different holidays on both sides of the border can cost trading opportunities as Stock Connect is only available on days when both markets are open for trading and banking services are available on the corresponding settlement days. - Thus, investors will have approximately ten less trading days compared to the RQFII/QFII investors in a given year.



# Is it all Good News? (Cont'd)

## China Capital Gains Tax

On November 14, 2014, the Ministry of Finance (MOF), CSRC, and the State Administration of Taxation (SAT) jointly announced a temporary exemption for foreign investors on the taxation of capital gains (CGT) deriving from the trading of A-shares on November 17, 2014 or after.

Therefore, Stock Connect participants are currently not subject to CGT; however, these authorities have not clarified the length of temporary exemption. Hence, it is important to monitor the CGT developments.

The clarification on the CGT arising from the trading of A-shares has been a critical concern with investors utilizing the QFII or RQFII programs, with QFIIs typically provisioning 10% of their investment gains for the potential tax.

This temporary exemption from CGT will also be applied to QFIIs or RQFIIs deriving A-share gains on or after November 17, 2014; however, the realized capital gains derived by QFIIs or RQFIIs prior to November 17, 2014 would remain subject to Corporate Income Tax.

### How Can Citi Help?

#### China Market Access

<b>Prime</b> Margin Financing SBL	<b>Delta One</b> P-Note SWAP	<b>Stock Connect</b> Model C SPSA	<b>QFII</b> <b>RQFII</b>
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#### Research, Execution, Asset Servicing, FX, Hedging Financing

Citi is committed to support the successful launch and expansion of Stock Connect as an alternative access channel to the China A-share market. Since the launch, we have been facilitating our clients' activities across the key market segments, including execution, clearing, settlement, FX and custody.

Citi supports investor clients' trading activity, irrespective of how they choose to trade, and leverage the broad resources of the bank to provide a comprehensive suite of China access solutions.

- ✓ **Cash Trading:** Our execution to custody solution combines our execution and custody capabilities in a straight through process, reducing the operational burden on the client.
- ✓ **Synthetic Exposure to China:** Clients can gain this exposure via swap or P-Note

The pre-delivery requirement, exposure to broker counterparty risk, ability to comply with best execution and operating under T+0 are the most challenging aspects of Stock Connect.

Pre-delivery eliminates an investor's ability to sell intra-day. This prevents effective portfolio management in response to stock-specific or market-wide events.

Citi has mitigated this bottleneck and other key challenges by leveraging the strength of our local broker membership and the market-leading capabilities of our large local clearing and custody business to deliver a front-to-back operational solution.

- ✓ Prevents the need to pre-deliver shares to the local broker account for sale
- ✓ Facilitates true RVP / DVP settlement
- ✓ Enables real time, pre-trade validation of the number of shares available for sale
- ✓ Allows Citi clients to sell shares at any time while remaining in full compliance with Stock Connect rules and relevant funds requirements

# What Happens Next?

The Stock Connect trading link is a significant breakthrough and creates a real-time, scalable and expandable channel for foreign investors to access Mainland China liquidity and investment and for Mainland China investors to access investments available in the Hong Kong Market. Over time, Stock Connect may become the primary channel for global investors to access the A-share markets.

		Potential Merger of RQFII / QFII Scheme	
Stock Connect		RQFII	QFII
Eligible Investors	<ul style="list-style-type: none"> <li>RMB 500,000 in securities and cash holding requirement will eventually be removed for Southbound Investors</li> </ul>	<ul style="list-style-type: none"> <li>Only one license will be required (QFII or RQFII)</li> <li>Expected to expand to more markets including Taiwan soon to promote expansion of RMB investment products globally</li> </ul>	<ul style="list-style-type: none"> <li>Only one license will be required (QFII or RQFII)</li> </ul>
Quota	<ul style="list-style-type: none"> <li>Daily quota may be eliminated</li> <li>Aggregate quota of RMB300 billion has been eliminated since August 17, 2016</li> </ul>	<ul style="list-style-type: none"> <li>Interbank Bond Market Access: PBOC may remove approval requirement for both qualification and quota and simply just require a filing</li> <li>Dual currency quota application (US\$ and RMB) for one entity</li> </ul>	<ul style="list-style-type: none"> <li>Dual currency quota application (US\$ and RMB) for one entity</li> </ul>
Investment Scope	<ul style="list-style-type: none"> <li>Expand to equity derivatives such as CSI 300 index futures</li> <li>ETFs to be included in 2017</li> <li>May expand to bonds and IPOs</li> </ul>	<ul style="list-style-type: none"> <li>PBOC is considering to allow derivatives products such as CD, repo, PPN and interest SWAP</li> </ul>	<ul style="list-style-type: none"> <li>PBOC is considering to allow derivatives products such as CD, repo, PPN and interest SWAP</li> </ul>

No official announcements on these changes yet. These are Citi's expectation based on various discussions or industry sharing sessions.

# What Happens Next? (Cont'd)

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## Expansion of Stock Connect

The exchanges have engaged key market participants and regulators on potential future enhancements to Stock Connect:

- Potential expansion or removal of quota
- Eligible securities to include equity derivatives, ETFs, and other financial products
- Further down the road, we are expecting fixed income and commodities to also be included

There is also discussion underway to align the Stock Connect trading schedule with the A-share trading calendar. Currently, investors can only trade via Stock Connect on days when both the SEHK and SSE/SZSE are open and banking services of both markets are available on the corresponding money settlement days.

## Other Market Linkages

The remarkable success of the Stock Connect has sparked a series of mutual market connectivity initiatives between Hong Kong, Mainland China, and beyond.

**July 1, 2015:** Mutual Recognition of Funds (MRF) between Mainland and Hong Kong

- Second mutual market access program launched after Stock Connect
- Permits qualified Mainland China and Hong Kong-domiciled investment retail funds to be sold reciprocally in each other's markets.
- Initial investment quota: **RMB300 billion** each way. The quota represents the upper limit of fund flow by Mainland China / Hong Kong investors respectively

Additionally, Stock Connect has inspired a number of regional projects and discussions:

**November 18, 2015:** Deutsche Boerse launched a Frankfurt-based joint venture with SSE and China Financial Futures Exchanges for European investors to trade RMB denominated instruments (ETFs and bonds) based on underlying Chinese shares.

Additionally, the Singapore-Taiwan Stock Connect is expected to be launched in 2016 while SSE is also conducting feasibility studies with both the London Stock Exchange and the Korea Exchange regarding separate market linkages.

The success of these new linkages will take time to observe. However, it is important to note that the success of Stock Connect is not just about market infrastructure linkages, but rather making hard to access markets more easily accessible. In fact, the technology linkage part is relatively easy. The real challenge lies with aligning the interests between the two markets, ensuring commitment from both markets' regulators to make the necessary changes required for Stock Connect to operate smoothly.

## RMB Internationalization

**Stock Connect is an important milestone for the internationalization of RMB as it creates, for the first time, a significant daily cross border RMB settlement flow between Hong Kong and Mainland China for the purpose of investment.**

Off-shore RMB liquidity has also improved significantly with launch of Stock Connect:

- Off-shore RMB deposits can be utilized to invest in A-shares for higher return
- **November 3, 2014:** HKMA introduced RMB10 billion intraday facility for Authorized Institutions to support launch of Stock Connect
- **November 3, 2014:** HKMA also announced the appointment of seven banks as the Primary Liquidity Providers (PLPs) for off-shore RMB. Each PLP has access to a dedicated repo facility of RMB2 billion to facilitate more efficient liquidity management when they carry out more market-making and other business activities in the CNH market.

## What Happens Next? (Cont'd)

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In addition, significant changes to move toward full convertibility of RMB are underway including:

- **July 14, 2015:** PBOC has broadened the access to its interbank bond markets with no quota limits for foreign central banks, sovereign wealth funds and supranational investors
- **August 11, 2015:** PBOC reduced the daily fixing rate by 1.9% in effort to make its exchange rate more market-oriented. The daily fixing rate will now be set based on previous day's closing value and market demand. Trading is still restricted to 2% above or below the daily fixing
- **September 14, 2015:** PBOC opens the onshore FX market to central banks
- **October 8, 2015:** First phase of China International Payment System (CIPS) started. CIPS is the new RMB settlement infrastructure designed to support cross-border RMB payment worldwide between off-shore and on-shore institutions
- **November 30, 2015:** The IMF agreed to add the RMB as the fifth currency into its Special Drawing Rights (SDR) basket. The new SDR basket will become effective on October 1, 2016.
- **February 4, 2016,** SAFE has simplified the QFII scheme to allow easier access and improve liquidity for QFII funds.
- **February 17, 2016,** PBOC broadened access to CIBM no quota limits for medium and long term foreign institutional investors including insurance companies, securities firms and asset management companies
- **June 7, 2016,** China expanded RQFII quota of RMB 250 billion (USD 38 billion) to the United States
- **September 5, 2016,** SAFE has simplified the RQFII scheme to allow easier access and improve liquidity for RQFII funds.

Clearly, the China access channels continue to evolve rapidly and Stock Connect is a new, exciting opportunity for international investors and issuers to leverage Hong Kong's new unique platform to access mainland securities markets.

However, the unique requirements resulting from this new channel and the evolving nature of Stock Connect also introduce degrees of complexity and challenges for international investors. Thus it is important to keep abreast of the changes and engage providers who specialize in Stock Connect and other China market access programs to better access the required RMB liquidity, minimize settlement risk as there will be no buy-in exemption for A-shares, ensure compliance with relevant Stock Connect rules, and most importantly remain in compliance with the relevant home and China regulations.

Citi will continue to collaborate with regulators and exchanges in order to contribute to a successful expansion of Stock Connect and other China market access programs. Citi is appointed by HKMA as the Primary Liquidity Provider for CNH to support global investors in accessing Stock Connect and support development of the off-shore RMB market.

We look forward to discuss these developments with you, providing a better understanding of how Stock Connect and other China market access programs will impact your business and what opportunities will arise from this transformational change in accessing the Mainland China market.

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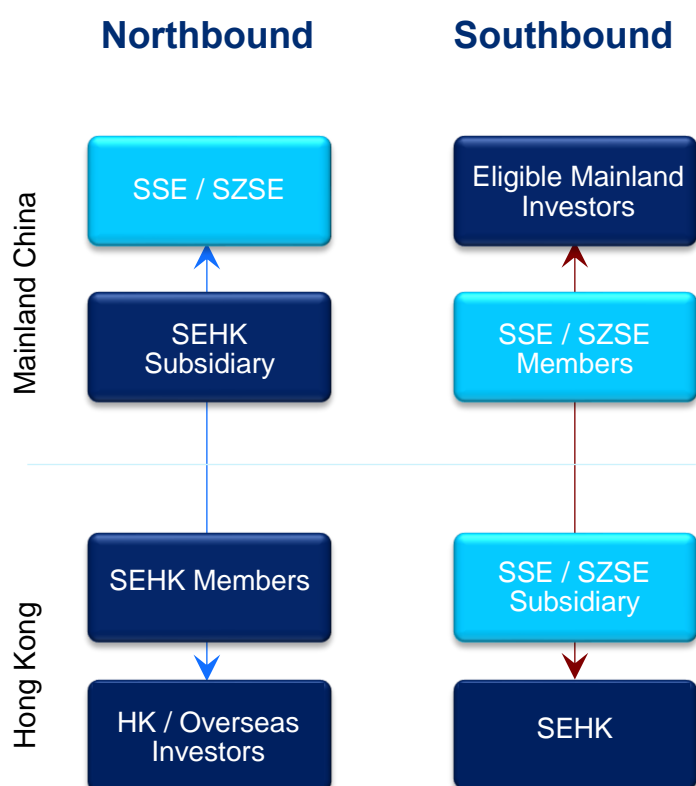
We welcome your feedback on this document, please email [cindy.t.chen@citi.com](mailto:cindy.t.chen@citi.com)

### 3. Stock Connect Market Information

# Overview of Stock Connect

- On April 10, 2014, the China Securities Regulatory Commission (CSRC) and the Hong Kong Securities and Futures Commission (SFC) jointly announced Stock Connect, 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
- The northbound channel allows Hong Kong and global investors to place trade orders with any participating Hong Kong Stock Exchange (SEHK) member to purchase or sell eligible securities listed on the Mainland exchanges
- The southbound channel allows eligible Mainland China investors to invest in eligible securities listed on the SEHK through a participating member of the Mainland exchanges
- All trades occur with no requirement to hold QDII, QFII or RQFII quota or licenses

## Order Flow



## Key Milestones

- April 10, 2014**  
SFC & CSRC announced the SH-HK Stock Connect scheme
- November 14, 2014**  
Announcement on the exemption of A-shares capital gain tax
- November 17, 2014**  
Launch of SH-HK Stock Connect
- February 2015**  
UCITs fund based in Luxembourg started to trade A-shares through Stock Connect
- March 2, 2015**  
Short-Selling of eligible A-shares launched
- March 30, 2015**  
Launch of SPSA model  
Clarifications on nominee concept included in HKEx and CCASS Rules
- May 15, 2015**  
CSRC releases FAQ on Beneficial Ownership
- July 15, 2015**  
The Central Bank of Ireland has announced it will permit Irish funds to access SH-HK Stock Connect
- April 18, 2016**  
Launch of optional T+0 RMB Settlement
- August 16, 2016**  
SFC and CSRC announced the of SZ-HK Stock Connect



# Overview of Stock Connect (Cont'd)

## Northbound Trading – Key Features

Eligible Investors	<ul style="list-style-type: none"> <li>All Hong Kong and overseas institutional and individual investors</li> <li>Co-exist with QDII, QFII or RQFII schemes (not fungible)</li> </ul>
Eligible Brokers	<ul style="list-style-type: none"> <li>SEHK Participants (EPs) subject to eligibility and readiness requirements <a href="http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/EligiblePart.htm">http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/EligiblePart.htm</a></li> </ul>
Eligible Securities	<ul style="list-style-type: none"> <li>All constituent stocks of the SSE180, SSE380, SZSE Component Index, SZSE Small/Mid Cap Innovative Index with market capitalization <math>\geq</math> RMB 6 billion</li> <li>All dual-listed shares on SSE/SZSE and SEHK (A+H shares)</li> <li>Exceptions: (1) Shares that are not traded in RMB; (2) Shares under “risk alert board”; (3) IPOs <a href="http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Eligiblestock.htm">http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Eligiblestock.htm</a></li> </ul>
Stock Code	<ul style="list-style-type: none"> <li>ISIN remains the same; Separate SEDOL codes for eligible SSE/SZSE Securities</li> <li>HKEx Exchange Code: 6 digits, start with “60” (for order input)</li> <li>Reuters: New RIC structure: &lt;exchange code&gt;+&lt;.SH&gt;. E.g.: 600000.SH</li> <li>New Bloomberg codes: <ul style="list-style-type: none"> <li>SEHK routing through SSE: C1</li> <li>Primary Ticker: 600050 CH Equity (China Composite), 600050 CG Equity (SSE)</li> <li>Ticker with new Exchange Code: 600050 C1 Equity</li> </ul> </li> </ul>
Quota (Net Basis)	<ul style="list-style-type: none"> <li>First come, first served basis; no restriction on sell orders</li> <li>Daily quota (DQ): RMB13 billion (calculated real-time)</li> <li>Aggregate quota (AQ): removed effective August 17, 2016</li> </ul>
Trading Day/ Hours	<ul style="list-style-type: none"> <li>Available when both markets are trading and banking services available on corresponding settlement days</li> <li>Shanghai Connect follows trading hours of SSE <ul style="list-style-type: none"> <li>Opening Call Auction: 09:15–09:25 (SEHK will accept orders at 09:10)</li> <li>Continuous Auction: (Morning) 09:30–11:30; (Afternoon): 13:00–15:00</li> </ul> </li> <li>Shenzhen Connect follows trading hour of SZSE <ul style="list-style-type: none"> <li>Opening Call Auction: 09:15–09:25 (SEHK will accept orders at 09:10)</li> <li>Continuous auction: 09:30–11:30; 13:00–14:57</li> <li>Closing call auction: 14:57–15:00</li> </ul> </li> </ul>
Currency	<ul style="list-style-type: none"> <li>Trade orders are quoted in CNY (on-shore RMB), Settlement currency is CNH</li> </ul>
Order Type and Size	<ul style="list-style-type: none"> <li>Limit orders only (can be matched at the specified or better price)</li> <li>Maximum order size of 1 million shares</li> <li>Board Lot size of 100 shares (buy only). Odd Lot size of 1 share (sell only)</li> <li>Tick Size of 0.01RMB</li> <li>Day trading <b>not</b> permitted (no same day turnaround)</li> <li>Order cancellations are allowed; however, modifications are <b>not</b> allowed</li> </ul>
Price Limits	<ul style="list-style-type: none"> <li><math>\pm 10\%</math> on previous closing price (<math>\pm 5\%</math> for stocks under special treatment (i.e. ST and *ST stocks) in the risk alert board); any orders with price beyond the price limit will be rejected</li> </ul>
Dynamic Price Check (by SEHK)	<ul style="list-style-type: none"> <li>Buy orders with input prices lower than the current best bid beyond 3% will be rejected</li> <li>In absence of current best bid, last traded price will be used, or previous closing price in the absence of both current best bid and last traded price</li> <li>The percentage may be adjusted from time to time subject to market conditions</li> </ul>

# Overview of Stock Connect (Cont'd)

## Northbound Trading – Key Features

Non-Trade Transfer	<ul style="list-style-type: none"> <li>Off-exchange change of beneficial ownership transfer is generally not permitted except for SBL activities, post trade allocation, to rectify error trade or other situations specified by SSE or Chinaclear</li> <li>Stamp duty (if required) for these non-trade transfer in SSE securities is still in discussion</li> </ul>
Market or Depository Fees	<ul style="list-style-type: none"> <li>Market fees and levies applicable to A-share market (usually pass back by broker)   Handling Fee: 0.487 bps   Securities Management Fee: 0.2 bps   Transfer Fee: 0.4 bps (Aug 15, 2016 onwards)   Stamp Duty: 10bps of consideration of the seller</li> <li>Depository Fees (pass back by custodian)   CCASS Portfolio fee ranging from 0.3 to 0.8bps</li> </ul>
Pre-Trade Checking	<ul style="list-style-type: none"> <li>HKEx imposes a mechanism to ensure broker will have sufficient shares to settle sell trades</li> <li>Brokers are responsible to have processes to prevent their clients from day trading and overselling</li> </ul>
Enhanced Pre-Trade Checking (Optional)	<ul style="list-style-type: none"> <li>Enhanced Pre-trade Checking (SPSA) was launched in April 2015 to provide investors an option avoid need for pre-delivery of shares</li> <li>Investor could open a Special Segregated Account (SPSA) with the local custodians or Non-EP General Clearing Participants and informs the appointed selling broker its investor ID (assigned by CCASS) when placing sell order</li> <li>Investor can appoint up to 20 selling brokers per SPSA; pre-trade checking performed by China Stock Connect (CSC) on first come, first served basis</li> </ul>
Margin Financing	<ul style="list-style-type: none"> <li>May be conducted within certain parameters similar to on-shore practice e.g. Mainland investors can only conduct margin trading in certain A-shares that the SSE has determined are eligible for margin trading and SBL</li> <li>SSE may suspend margin trading activities in a specific A-shares when volume of margin trading exceeds threshold set by SSE</li> <li>The list of eligible securities for margin financing and <b>covered short sell</b> is available at <a href="http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Eligiblestock.htm">http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Eligiblestock.htm</a></li> </ul>
Covered Short Sell	<ul style="list-style-type: none"> <li>Covered short selling is allowed subject to requirements such as: Multiples of 100 shares; Price restrictions (tick rule); Quantity restrictions (i.e. short selling ratio limit: 1% daily limit, 5% cumulative limit for a rolling period of 10 CSC trading days); Pre-trade checking; Reporting requirement on Exchange Participants</li> </ul>
Stock Borrowing and Lending (SBL)	<ul style="list-style-type: none"> <li>Allowed for covered short selling (up to one month) and meeting the pre-trade checking requirement (no longer than one day)</li> <li>SBL will be restricted to certain types of persons (e.g. EPs, HKSCC participants, type 9 funds) and SBL activities must be reported to SEHK</li> </ul>
Taxes	<ul style="list-style-type: none"> <li>Capital Gains Tax and Business Tax temporarily waived with no known end date</li> <li>Seller Stamp Duty of 0.1%</li> <li>Dividend Withholding Tax of 10% withheld at source</li> </ul>
Risk Management	<ul style="list-style-type: none"> <li>ChinaClear will apply its risk management measures on HKSCC's unsettled positions on SSE Securities. HKSCC will apply ChinaClear's risk management measures on counterparties trading SSE Securities. To avoid risk spill-over, HKSCC and ChinaClear will not participate in each other's mutualized risk management pools</li> </ul>

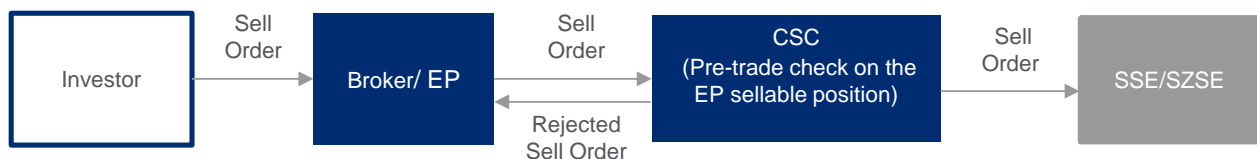
# Pre-trade Checking

Purpose of pre-trade checking is to avoid overselling by market participants since A-share is a no fail market. Brokers are responsible to have processes to prevent their clients from day trading and overselling. How does it work?

## Standard Pre-trade Checking

HKEx imposed a mechanism to ensure broker will have sufficient shares to settle sell trades at the broker level. HKSCC will take a snapshot of each EP's SSE Securities holdings at the end of the day and in the morning before trading begins and upload to China Stock Connect (CSC) to facilitate pre-trade checking of SSE/SZSE Securities during the trading session

- 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 the time of the snapshot
- EP's responsibility to ensure they have in place procedures and systems to prevent their clients from day trading and overselling of SSE/SZSE securities since the pre-trade checking is done at the broker level
- As such, investors need to transfer shares, free of payment (FOP) to the selling EP on T-1 day **unless** the EP is a Non-Clearing Participant (NCP) and partnered with a custodian bank to offer an integrated broker-custody or Model C solution to avoid pre-delivery



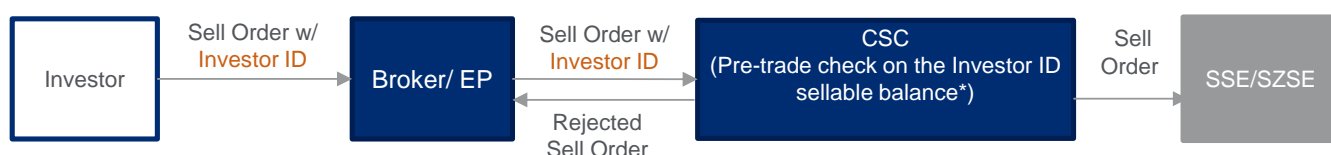
- Once the EP sold the SSE/SZSE Securities, they will be responsible for delivering the shares to HKSCC by 19:00 on T-day. Any short positions in SSE/SZSE Securities overdue are subject to compulsory buy-in and penalty charges on T+1 morning
- In addition to the buy-in penalty charges, pursuant to CCASS Rule 1003 where HKSCC determines that a broker or its clearing participant has a shortfall in a particular SSE stock, HKSCC shall apply an on hold mechanism for holding settlement of the participants' delivering settlement instruction (SI) in relation to such line of stock. Thus this would delay broker or its clearer in effecting the settlement of other customers who may hold the same stock

## How Citi can help?

Citi offers Model C solution to avoid the need for pre-delivery of shares to the broker. With Model C, Citi as the general clearing participant and the custodian bank will ensure the investors' SSE/SZSE securities are reflected as the EP (NCP) sellable position at the time of the snapshot, **without the need to pre-deliver** the shares to the EP.

# Enhanced Pre-Trade Checking | SPSA

**Enhanced Pre-trade Checking** or Special Segregated Account (SPSA) was introduced by HKEx in April 2015 to provide investors an **optional** arrangement to avoid pre-delivery of shares. Upon request, the investor's custodian will open a SPSA, and apply for Investor ID to be assigned by CCASS. Investor can appoint up to 20 selling brokers per SPSA or Investor ID.



HKSCC will take snapshots of each SPSA's SSE/SZSE securities holdings at the end of the day and in the morning before trading begins and upload to CSC to facilitate pre-trade checking\* of SSE/SZSE Securities during the trading session against each Investor ID. When placing sell order, the investor will need to provide the Investor ID to the appointed selling broker. Sell orders by an EP will be rejected by CSC if the

1. EP is not one of the 20 appointed brokers;
2. Cumulative sell quantity in that stock for the day is higher than the stockholdings under the Investor ID at the time of the snapshot.

\*Please note for pre-trade checking purposes, HKSCC determines a sellable balance in respect of an SPSA based on the actual securities balance of that SPSA as adjusted by, among other things, failed delivery of China Connect Securities into or out of the SPSA. Therefore, the available Sellable Balance of China Connect Securities from an SPSA as determined by HKSCC for the purpose of pre-trade checking may be higher or lower than the actual securities balance of that SPSA.

In particular, if there has been a failure (for whatever reason) to deliver SSE/SZSE Securities from an SPSA to settle a Northbound sell order, HKSCC may deduct those SSE/SZSE Securities from the Sellable Balance of that SPSA on subsequent trading days, notwithstanding the actual securities balance of that SPSA. **Therefore, investor's ability to trade China Connect Securities may not be based on the actual holding of such securities in the Relevant SPSA.**

Since SPSA allows the EP to sell SSE/SZSE securities without having control over these shares and provides a very short settlement timeframe, the risks of failed trades and triggering the "on hold" mechanism under CCASS Rule 1003 may heighten. Thus, HKSCC introduced the "SPSA Model—Adjustment of sellable balance and release of on-hold Settlement Instructions (SIs) due to failure of stock delivery from SPSA".

Source:

[https://www.hkex.com.hk/eng/market/partcir/hksccl/2015/Documents/CE088\\_2015.pdf](https://www.hkex.com.hk/eng/market/partcir/hksccl/2015/Documents/CE088_2015.pdf)

# SPSA | Adjustment of Sellable Balance

## How Does it Work?

### Potential Scenarios (Not Exhaustive)

### Process

1. **Sell Trade—SPSA Delivery Failure** | After a sell order is executed, if the correct number of shares sold is not transferred from the selling SPSA to the selling broker for any reason, causing the broker to deliver insufficient shares to HKSCC:

- The broker concerned is required to submit a sellable balance adjustment request by T day 19:00 to HKSCC
- Subject to HKSCC's approval, the sellable balance of the selling SPSA will be adjusted downward by the failed delivery amount, and such adjustment will only apply to the next trading day
- The broker will be subject to compulsory buy-in on T+1 with no exemption, hence the investor may face the broker's potential claim on relevant buy-in costs and penalty
- The broker will also be subject to lock up of delivery settlement instructions (SI) of that stock. HKSCC may grant exemption on this and release the locked up instructions
- Investor and broker should follow up on the issues arising from the delivery failure

2. **Sell Trade—Broker Delivery Failure** | After a sell order is executed, if the correct number of shares sold has been delivered from the selling SPSA to the selling broker, but due to broker's error the shares fail to deliver to HKSCC:

- No impact to the selling investor as this is purely a broker error, and the SPSA delivery has been completed. No sellable balance adjustment is required
- The selling broker will be subject compulsory buy-in and lock up of delivery SI of that stock per CCASS Rule 1003 with no exemption

# SPSA | Adjustment of Sellable Balance (Cont'd)

## Potential Scenarios (Not Exhaustive)

## Process

<p>3. <b>Buy Trade—Broker Delivery Failure</b>   If an investor has bought A-shares, but the broker fails to deliver the purchased shares to the buying investor due to SPSA delivery failure from the broker's other clients:</p>	<ul style="list-style-type: none"> <li>• Affected buying investor will not be able to receive the shares on T day</li> <li>• The broker can apply for sellable balance adjustment to the broker itself or the affected buying SPSA, such request is subject to HKSCC's approval</li> <li>• Subject to HKSCC's approval, the sellable balance of the broker itself or the buying SPSA will be adjusted upward so that even the shares are not delivered successfully on T, the buying investor will still be able to sell the shares on T+1. Please note such adjustment will only apply to the next trading day</li> <li>• Buying investor and the broker should follow up on the issues arising from the delivery failure</li> </ul>
<p>4. <b>Broker Error</b>   If the selling broker uses a wrong Investor ID when placing a sell order (e.g. broker uses the Investor ID of SPSA A erroneously instead of correct Investor ID of SPSA B):</p>	<ul style="list-style-type: none"> <li>• Broker is required to report to HKEx on such trade error as soon as possible upon discovery</li> <li>• Broker is responsible for the coordination among the affected parties on the remedial actions</li> <li>• Broker may use SPSA B's shares to meet the delivery obligation instead of shares from the wrongly quoted SPSA A, provided that the broker has: <ul style="list-style-type: none"> <li>- Notified the parties involved;</li> <li>- Agreed with all parties on the proposed remedial action;</li> <li>- Notified and reported the error to HKEx; and</li> <li>- Confirmed such remediation is consistent with the correct original instruction from client</li> </ul> </li> <li>• Broker and affected parties should follow up on the issues arising from the use of wrong Investor ID</li> </ul>

Sources:

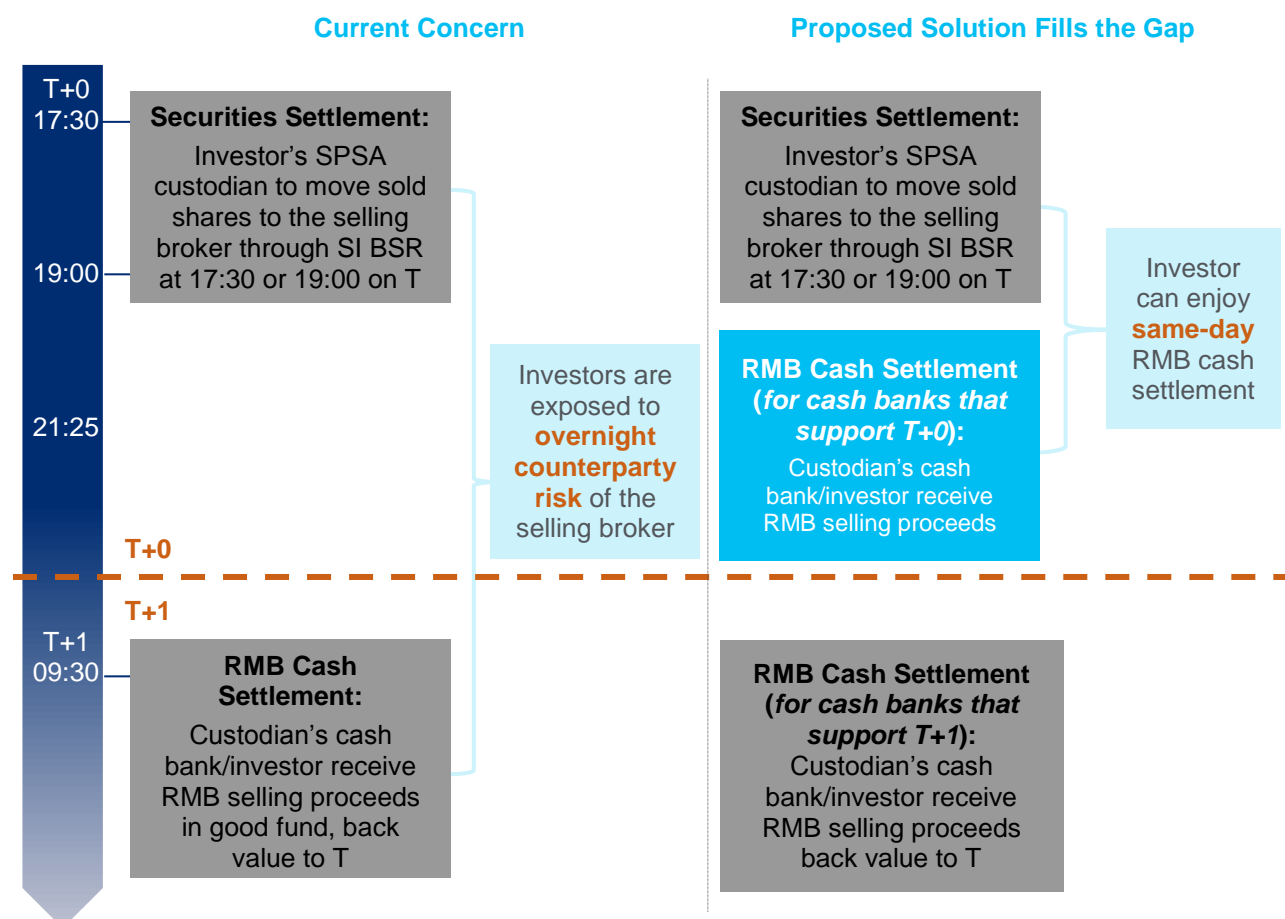
[http://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/Documents/EP\\_CP\\_FAQ\\_En.pdf](http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Documents/EP_CP_FAQ_En.pdf)  
[http://www.hkex.com.hk/eng/market/partcir/hksc/2015/Documents/CE088\\_2015.pdf](http://www.hkex.com.hk/eng/market/partcir/hksc/2015/Documents/CE088_2015.pdf).



# T+0 RMB Settlement

## Overview

On April 18, 2016, HKSCC introduced an additional RMB cash settlement batch on T+0 to soften investors' concerns regarding overnight counterparty risk with the selling broker, which originates from the current T+1 09:30 RMB cash settlement process.



## Remaining Concerns

HKSCC's proposal provides an option for cash to settle on same day, it is not reliable way to ensure T+0 cash finality at all times and include certain limitations:

- **Only available for RMB settlements.** Settlement using USD or HKD could only be confirmed on T+1.
- **Counterparty risk still exists** between the securities settlement (by 19:00) and cash settlement (after 21:25). Therefore, it is still NOT a true RVP/DVP model. If the broker's cash clearing bank decides to reject the cash transfer due, the investor's custodian will not receive the cash on T+0.
- **Same day cash finality is not guaranteed :**
  - It is up to the cash clearing bank to choose T+0 or T+1 cash settlement. Investor's custodian can only receive cash on T+0 if the cash clearing bank for the broker and investor's custodian agree to settle on T+0
  - Even if the broker's cash clearing bank elected to support T+0 cash settlement, it still has the ability to hold back payments if the broker did not maintain sufficient cash or line with the cash clearing bank
  - In case of broker's cash clearing bank is short of RMB or miss the payment deadline

# Quota

In order to ensure a smooth and steady operation of the Stock Connect scheme, trading will initially be subject to quota control, which consists of Aggregate Quota and Daily Quota mechanisms. Effective August 17, 2016, the Aggregate Quota has been removed. Daily quotas are set at the market level, and are calculated and controlled by HKEx.

Aggregate Quota	<ul style="list-style-type: none"> <li>Removed with effective August 17, 2016</li> </ul>
Daily Quota <div>RMB 13 Billion</div>	<ul style="list-style-type: none"> <li>Daily Quota Balance (DQB) is calculated on a real-time basis by:</li> </ul> <p><b>Daily Quota—Buy Orders + Sell Trades + Adjustments</b></p> <ul style="list-style-type: none"> <li>If <math>DQB \leq 0</math> <ul style="list-style-type: none"> <li>During opening call auction (Pre-opening): Reject new buy orders until it becomes positive (e.g. due to Buy Order cancellation)</li> <li>During continuous auction (Continuous Trading): Suspend buy order input for the remainder of the day</li> <li>Buy orders already input in CSC before suspension will not be affected</li> </ul> </li> </ul>
Key Principles	<ul style="list-style-type: none"> <li>Quota control only applies to buy orders, i.e. sell orders are always allowed</li> <li>Quota is used on a first-come, first-served basis</li> <li>Quota may be adjusted in the future</li> </ul>
Quota Information	<ul style="list-style-type: none"> <li>Available on HKEx website. Daily Quota Balance is refreshed every minute</li> <li><a href="http://www.hkex.com.hk/eng/csm/chinaConnect.asp?LangCode=en">http://www.hkex.com.hk/eng/csm/chinaConnect.asp?LangCode=en</a></li> <li>Also available on HKEx's Orion Market Data Platform at five second intervals</li> </ul>

# Trading Hours / Days / Calendar

Northbound trading is only available on days where SEHK and SSE/SZSE markets are both open for trading (T), and banking services are available in both markets on the corresponding settlement days (T+1).

	Mainland China	Hong Kong	Trading Day?	Money (T-1) Settlement	Securities (T) Settlement	Remark
Monday	Trading Day	Trading Day	✓	✓	✓	
Tuesday	Trading Day	Trading Day	✗	✓	✗	As Wednesday is a HK holiday, Northbound Trading will be closed on Tuesday. However, money settlement still occurs for the executed trades on prior day
Wednesday	Trading Day	Public Holiday	✗	✗	✗	Due to HK holiday, Northbound Trading is closed.
Thursday	Public Holiday	Trading Day	✗	✗	✗	Due to Mainland holiday, Northbound Trading is closed.
Friday	Trading Day	Trading Day	✓	NA	✓	

Note: if SEHK is closed for half day (morning or afternoon) and SSE/SZSE is opened for full day, then northbound trading will continue until SSE/SZSE closes. Trading calendar can be found here:

[http://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/Calendar.htm](http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Calendar.htm)

Northbound trading will follow **SSE and SZSE's trading hours**. However, northbound orders from EPs will be accepted five minutes before the Mainland market session opens in the morning and in the afternoon. Once northbound orders are accepted by SSE/SZSE, they will be matched in strict price-time priority with all other SSE/SZSE orders.

Trading Session	SSE Trading Hours	SZSE Trading Hours	Time for Northbound orders input
Opening Call Auction	09:15–09:25	09:15–09:25	09:10–11:30
Continuous Auction (Morning)	09:30–11:30	09:30–11:30	
Continuous Auction (Afternoon)	13:00–15:00	13:00–14:57	12:55–15:00
Closing Call Auction		14:57–15:00	

- 09:20–09:25: SSE/SZSE will not accept order cancellations
- 09:10–09:15; 09:25–09:30; 12:55–13:00: orders and cancellations can be accepted by SEHK but will not be processed by SSE/SZSE until market opens
- 14:57–15:00: SZSE will not accept order cancellations
- Orders that are not executed during the opening call auction session will automatically enter the continuous auction session

# Severe Weather Arrangement

When the Hong Kong Observatory issues Typhoon Signal No.8 (T8) or above on a Stock Connect trading day, the following arrangements will take place

Issue Time	Discontinued Time	Northbound Trading	Settlement	
			Money for T-1 positions	Securities for T positions
Before 09:00	At or Before 12:00	Trading resumes after 2 hours	Postponed to 15:00	✓
	After 12:00	Not Open	✗	NA
09:00 to 09:15	At or Before 12:00	Trading resumes after 2 hours	Postponed to 15:00	✓
	After 12:00	Not Open	✓	NA
After 09:15	At or Before 12:00	Trading continues for 15 minutes after issuance and stops, but resumes 2 hours after signal is dropped	Postponed to 15:00	✓
	After 12:00	Trading continues for 15 minutes and closes for the day (only order cancellation is allowed until SSE market closes)	✓	✓

When the Hong Kong Observatory issues Black Rainstorm (BR) Warning on a Stock Connect trading day, the following arrangements will take place:

Issue Time	Discontinued Time	Northbound Trading	Settlement	
			Money for T-1 positions	Securities for T-1 positions
Before 09:00	At or Before 12:00	Trading resumes after 2 hours	Postponed to 15:00	✓
	After 12:00	Not Open	✗	NA
After 09:00	NA	Trading continues as normal	✓	✓

## Market Fees

The market fees relating to trading of A-shares were recently reduced for all investors trading A-shares including Stock Connect and QFII/RQFII as a measure to lower A-shares transaction costs and attract more investments into A-shares market. HKSCC also introduced a new fee for Stock Connect which does not apply to QFII / RQFII.

Stock Connect northbound investors are subject to similar fees to those applicable to local investors.

Items	Rate	Charged by
Handling Fee	0.00487% of the consideration of a transaction per side	SSE
Securities Fee	0.002% of the consideration of a transaction per side	CSRC
Transfer Fee	0.002% of the consideration of a transaction per side	ChinaClear
	0.002% of the consideration of a transaction per side (50% waiver from 15 February – 12 August 2016)	HKSCC (new)
Stamp Duty	0.1% of the consideration of a transaction on the seller	SAT

The following is an example illustrating the calculation of the trading fees. Assume that on T day, a clearing participant has to clear the following northbound sell trades:

- Trade Quantity: 300 shares
- Trade Price: ¥ 10 per share

Items	Rate	Formula	Amount (rounded to nearest cent)
Handling Fee	0.00487% of the consideration	$300 \times \text{RMB } 10 \times 0.00487\% =$	RMB 0.15
Securities Fee	0.002% of the consideration	$300 \times \text{RMB } 10 \times 0.002\% =$	RMB 0.06
Transfer Fee	0.002% of the consideration	$300 \times \text{RMB } 10 \times 0.002\% =$	RMB 0.06
	0.002% of the consideration	$300 \times \text{RMB } 10 \times 0.002\% =$	RMB 0.06
Stamp Duty	0.1% of the consideration	$300 \times \text{RMB } 10 \times 0.1\% =$	RMB 3.00
Total Transaction Cost to Settle the Sell Trade			RMB 3.33

# Risk Management Fees

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HKSCC will apply ChinaClear risk management measures on Hong Kong brokers or CPs.

ChinaClear will apply its risk management measures on HKSCC's unsettled positions on SSE/SZSE Securities. To avoid risk spill-over, HKSCC and ChinaClear will not participate in each other's mutualized risk management pools.

## Risk Management Measures by HKSCC on its CPs

Mainland Settlement Deposit (MSTD)	<ul style="list-style-type: none"><li>Requirement   20% of a CP's previous month average daily purchase turnover, overdue short positions and sell turnover for SPSA</li><li>Frequency<ul style="list-style-type: none"><li>Monthly calculation at month end and collection at day end on the first business day of each month in Hong Kong</li><li>Daily calculation based on CP's daily purchase turnover, overdue short positions and sell turnover for SPSA. When the daily required amount is larger than the amount of MSTD posted with HKSCC, the shortfall will be collected at day end</li><li>Intra-day calculation based on CP's MSTD requirement using the snapshot at mid-day. When the intra-day required amount is larger than the amount of MSTD posted with HKSCC by more than RMB5 million, the shortfall needs to be topped up by 15:30 on the same day</li></ul></li></ul>
Mainland Security Deposit (MSCD)	<ul style="list-style-type: none"><li>Requirement   Non-mutualized contribution on CP's positions. Formula for Shanghai Connect: Past six-month average daily CNS positions of CPs × 16.4%; Formula for Shenzhen Connect: : Past six-month average daily CNS positions of CPs × 18.5%</li><li>Minimum   RMB200,000 for each CP before commencement of trading, applicable to Shanghai Connect only</li><li>Frequency   Monthly calculation at month end with collection at day end on the first business day of each month in Hong Kong</li></ul>
HKSCC Guarantee Fund (GF)	<ul style="list-style-type: none"><li>The existing HKSCC GF will be used as the last line of defence to cover CP's residual default loss regarding their positions in SSE/SZSE Securities. CP's positions in SSE/SZSE Securities will be included in the HKSCC GF contribution calculation</li></ul>



## CCASS Portfolio Fees

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- HKSCC is charging Portfolio Fee on providing depository and nominee services for A-shares
- Formula: Daily stock portfolio of A-shares in CCASS \* Portfolio fee (% p.a.)/365 at sliding scales shown below

Portfolio Value Range	Portfolio Fee
1. The First HK\$50 Billion	0.008%
2. The Next HK\$200 Billion (Portfolio Values between HK\$50 Billion and HK\$250 Billion)	0.007%
3. The Next HK\$250 Billion (Portfolio Values between HK\$250 Billion and HK\$500 Billion)	0.006%
4. The Next HK\$250 Billion (Portfolio Values between HK\$500 Billion and HK\$750 Billion)	0.005%
5. The Next HK\$250 Billion (Portfolio Values between HK\$750 Billion and HK\$1,000 Billion)	0.004%
6. Remainder (Portfolio Values Above HK\$1,000 Billion)	0.003%

# Buy-in/Default Fees

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A-share market is a no fail market, thus any net short position after the final on-exchange settlement run at 7pm on T-day will be subject to compulsory buy-in and default fees. In the event of the net short position after 7pm, the broker or its clearer (CP) will be subject to the following:

**Default Fee** | 1.00% x Market Value (based upon the closing price quoted on the relevant China Connect Market on the due date) of the corresponding short stock position in SSE/SZSE securities, subject to a maximum fee of HK\$200,000 for each corresponding short stock position in SSE/SZSE securities.

**Buy-in Cost** | HKSCC will execute buy-in at what it determines to be the best prevailing market price and terms available and pass back all the costs and expenses incurred with regards to the buy-in to the short CP.

## Process

- HKSCC generates a Buy-in Notification Report for the CP
- HKSCC will effect buy-in on T+1 (or any time later if T+1 is not practicable)
- After effecting such buy-in on T+1, relevant details will be available to the short CP
- Once HKSCC receives the cost of buy-in from the short CP, buy-in securities will be delivered to the CP

## On-hold SI

- Delivering SI for the stock that is subject to the buy-in will be on hold if no on-hold exemption is granted. Thus CP may not transfer any shares related to that line of stock during T+0 evening SI BSR and T+1 morning SI BSR
- SI on hold can be released during evening of T+1 if the short position is covered by the CP or HKSCC is delivering the buy-in shares to the CP by the 7pm on T+1

*Source: <http://www.hkex.com.hk/eng/rulesreg/clearrules/ccassop/documents/sec21.pdf>.*

# Margin Trading

Hong Kong and overseas investors cannot participate in the Margin Trading and Securities Lending Program provided by SSE / SZSE in Mainland China. In February 2015, margin trading for Hong Kong and overseas investors who trade A-shares through Stock Connect was introduced. For the first time, margin trading in SSE/SZSE Securities for foreign investor may be conducted subject to conditions.

General Principle	<ul style="list-style-type: none"> <li>Hong Kong and overseas investors including QFII or RQFII, cannot participate in the Margin Trading and Securities Lending Program provided by SSE / SZSE in Mainland China</li> <li>Hong Kong and overseas investors through Stock Connect are only allowed to use funds provided by China Connect EPs and EPs who are registered with SEHK to conduct trading in SSE/SZSE Securities via any form of securities margin financing arrangement to buy SSE/SZSE Securities through Stock Connect</li> </ul>
Eligible Stocks	<ul style="list-style-type: none"> <li>Mainland investors can only conduct margin trading in certain A-shares that the SSE/SZSE have determined are eligible for margin trading and stock borrowing and lending. Hong Kong and overseas investors conducting margin trading in SSE/SZSE Securities via the Stock Connect will be subject to a similar restriction</li> <li>A complete list of eligible SSE/SZSE Securities for margin trading is posted on the HKEx website for reference. Only those SSE/SZSE Securities that are eligible for both buy orders and sell orders through the Stock Connect will be included in the List  <a href="http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Eligiblestock.htm">http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Eligiblestock.htm</a> </li> </ul>
Margin Trading Suspension	<ul style="list-style-type: none"> <li>SSE/SZSE will suspend further margin trading in a stock eligible for margin trading when the “margin trading indicator” for the stock reaches 25%</li> <li>When the “margin trading indicator” drops below 20%, SSE/SZSE will allow margin trading to resume</li> <li>List of stocks suspended for margin trading in China:  <a href="http://www.sse.com.cn/disclosure/disclosure/margin/">http://www.sse.com.cn/disclosure/disclosure/margin/</a>  <a href="http://www.szse.cn/main/disclosure/news/tfpts/">http://www.szse.cn/main/disclosure/news/tfpts/</a> </li> <li>The suspension and resumption of margin trading in eligible SSE/SZSE Securities through the Stock Connect will follow the suspension and resumption of margin trading activities in SSE/SZSE after SSE has duly notified SEHK</li> </ul>
Margin Trading Flagging	<ul style="list-style-type: none"> <li>Not required at the initial launch of Stock Connect, but SSE/SZSE has reserved the right to require margin trading orders to be flagged in the future</li> </ul>

# Covered Short Sell

In February 2015, covered short sell rules were also introduced for Hong Kong and overseas investors who trade A-shares through Stock Connect. For the first time, covered short sell of SSE/SZSE securities by foreign investors can be conducted subject to the following requirements:

Eligible Securities	<ul style="list-style-type: none"><li>Published on HKEx website: <a href="http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Eligiblestock.htm">http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Eligiblestock.htm</a></li></ul>
Eligible Sessions	<ul style="list-style-type: none"><li>Short selling orders can be inputted during the opening call auction session and continuous auction sessions on each CSC trading day</li></ul>
Order Flagging	<ul style="list-style-type: none"><li>Required when inputting orders into the system</li></ul>
Price Restrictions	<ul style="list-style-type: none"><li>Tick Rule—the input 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)</li><li>For any borrowed securities for short selling that remain outstanding and have not yet been returned, China Connect EPs and their relevant clients are required to comply with the above Tick Rule in respect of any instructions for the sale of that security, except for those instructions that exceed the number of the outstanding and unreturned shares</li><li>SEHK may impose additional price restriction to block the input of Short Selling orders at an artificially high price which has the effect of using up the short selling limits. This additional price restriction will not be applicable at launch</li></ul>
Quantity Restrictions	<ul style="list-style-type: none"><li>Orders must be submitted in multiples of 100 shares</li><li>Short Selling Ratio limit is applied based on HKSCC's holding of that security in the omnibus account maintained in ChinaClear<ul style="list-style-type: none"><li>Daily limit: 1%</li><li>Cumulative limit: 5% for a rolling period of 10 CSC trading days</li></ul></li><li>Daily limit usage is calculated in real time throughout the trading day. Any short selling order that will cause the daily limit to be exceeded if executed will be rejected</li><li>The cumulative limit will be calculated at the end of each CSC trading day</li></ul>
Mandatory Reporting	<ul style="list-style-type: none"><li>China Connect EPs are required to submit Short Selling Weekly Report and Large Open Short Position Report</li></ul>
Pre-Trade Checking	<ul style="list-style-type: none"><li>Applies to short selling order (i.e. borrowed stocks should be held in selling broker's CCASS account before commencement of trading)</li></ul>

# Stock Borrowing and Lending (SBL)

SBL is currently permitted for covered short selling or meeting pre-trade checking requirement. It is subject to restrictions including:

	Covered Short Selling	Meeting Pre-trade Checking Requirement
Duration	<ul style="list-style-type: none"> <li>Cannot be longer than a month</li> </ul>	<ul style="list-style-type: none"> <li>Cannot be longer than one day (roll-over not allowed)</li> </ul>
Eligible Securities	<ul style="list-style-type: none"> <li>Limited to securities which are eligible for both buy and sell orders through Stock Connect</li> </ul>	<ul style="list-style-type: none"> <li>All securities including those that are only eligible for sell orders through Stock Connect</li> </ul>
Reporting to SEHK	<ul style="list-style-type: none"> <li>Required</li> </ul>	

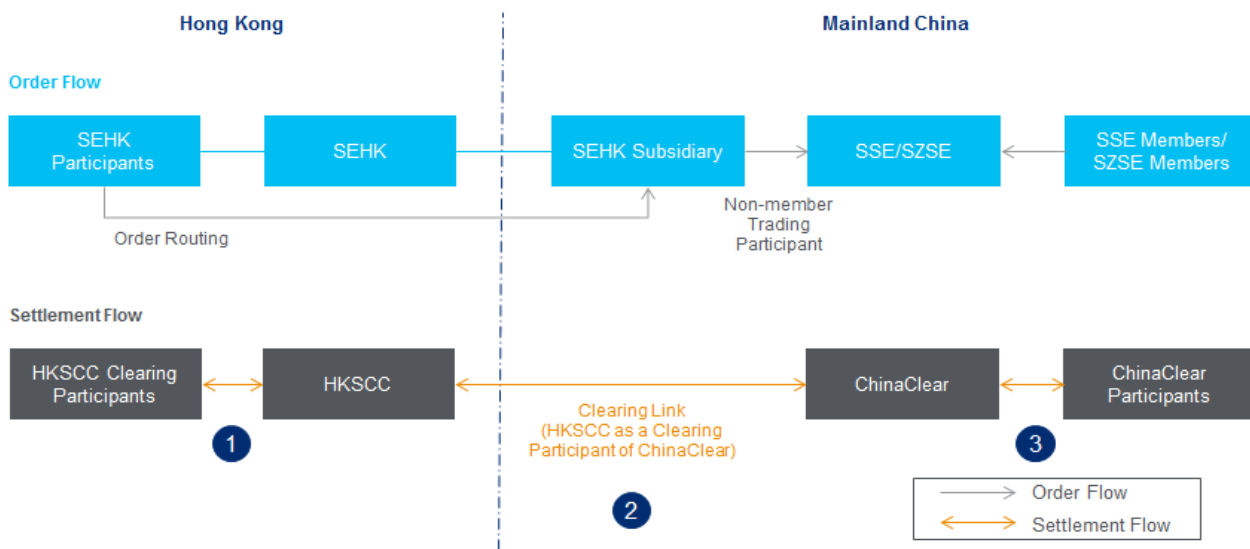
Eligible Lenders and borrowers are also restricted to the following entities.



Eligible Lenders	Eligible Lendees		
	Clients	China Connect EPs	Trade-Through EPs
China Connect EPs	✓	✓	✓
Trade-Through EPs i.e. EPs Registered with SEHK to Conduct Trading in SSE/SZSE Securities through China Connect EPs for the Account of their Clients	✓	✓	✓
Non-Registered EPs i.e. Other EPs Who Own or Hold SSE/SZSE Securities for their Own Account or on a Propriety Basis	✗	✓	✓
Qualified Institutions i.e. HKSCC Participants other than Investor Participants; Funds, Unit Trusts or Collective Investment Schemes Which are Managed by Persons Licensed or Registered to Carry Out Type Nine (Asset Management) Regulated Activity Under the Securities and Futures Ordinance; other Persons Accepted or Specified by SSE/SZSE)	✗	✓	✓

# Overview Clearing and Settlement

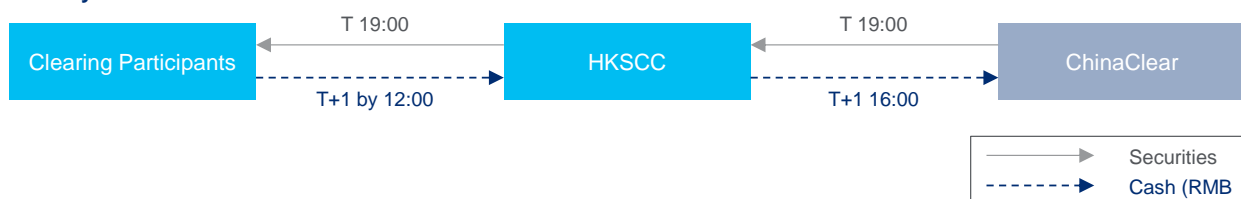
HKSCC and ChinaClear have entered into an agreement to establish clearing links, whereby the two parties will undertake to the other to perform their settlement obligations in respect of the northbound and southbound trades. For northbound trades, ChinaClear will act as the host central counterparty (CCP) and HKSCC will be a participant of ChinaClear. HKSCC will take up settlement obligations of its clearing participants (CPs) in respect of northbound trades and settle the trades directly with ChinaClear.



Under this arrangement,

- Hong Kong brokers or clearing participants will continue to clear and settle against HKSCC
- HKSCC will clear and settle with ChinaClear
- ChinaClear will settle with the ChinaClear Participants

## Net Buy



## Net Sell



- 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



# Overview of Clearing and Settlement (Cont'd)

## 1. On Exchange Settlement | Settlement between HKSCC and its Clearing Participants

### Securities Settlement

HKSCC will conduct securities settlement on northbound trades for its Hong Kong Clearing Participants (CPs) via two rounds of Continuous Net Settlement Batch Settlement Runs (CNS BSR) at around 17:30 and 19:00 on T day. Any CNS short positions in SSE/SZSE securities overdue after the second CNS BSR at around 19:00 on T-day are subject to compulsory buy-in and penalty charges on T+1 morning.

### Money Settlement

For CPs that have a net payable position, they will need to make pre-payment to HKSCC on T (from 16:00 to 18:00) to release their allocated shares on T, or they can choose to pay to HKSCC on T+1 latest by noon and their CNS allocated shares will be released after payment is received.

- CPs will be in default if payment is provided by noon
- CPs with a net receivable position will receive the cash payment from HKSCC after 12:30 on T+1

## 2. Settlement Between CPs and Custodian

Stock Connect securities can be transferred between CCASS participants by way of Settlement Instructions (SI). Two rounds of SI Batch Settlement Runs (17:30 and 19:00) are created specifically for delivering shares out of SPSA.

SI can be executed in FOP or DVP/RVP basis. Three settlement currencies can be supported: RMB, USD, and HKD. Securities settlement will be conducted before 19:45; cash settlement will be conducted only on T+0 21:25 the earliest, provided that counterparty's CNH CCASS cash bank supports T+0 finality, otherwise cash settlement will be on T+1 09:30 with back value to T+0. USD and HKD cash settlement are conducted on T+1 09:30 with back value to T+0.

	SI Settlement Time	Delivering a/c	Receiving a/c	Cash Confirmation Time (DVP / RVP)
All SI*	17:30	SPSA	Any	T+1 09:30* (Back Value to T)
	19:00	SPSA	Any	
	19:45	Any	Any	

\*Morning SI has been removed effective July 18, 2016.

\*HKSCC has introduced an additional RMB cash settlement batch after 21:25 on T+0, effective April 18, 2016; however, it is still not a true DVP / RVP model as counterparty risk still exists given the time gap between securities settlement (19:45) and cash settlement (21:25).

In addition, investors can receive same-day cash finality only if the cash clearing bank(s) of both counterparties support T+0 RMB settlement.

Non-trade or off-exchange transfers are generally not allowed except for 1) permitted SBL activities; 2) transfers between EPs and their clients for the purpose of rectifying error trades; 3) post-trade allocation of shares to different funds/sub-funds by fund managers; and 4) other situations specified by SSE/SZSE and ChinaClear.

# Asset Servicing

- HKSCC will extend its existing nominee services to CCASS Participants/investors for their Stock Connect securities held in CCASS
- HKSCC will keep CCASS Participants informed of the corporate actions of Stock Connect securities, in particular those that require investors to take actions
- Investors should note that the time to take actions for some corporate actions may be as short as one business day only. Investors should also note and comply with their brokers'/custodians' deadline and arrangement on Stock Connect corporate actions

<b>Cash Entitlements</b>	<ul style="list-style-type: none"> <li>• Upon receipt of the cash dividend amount on payment date, HKSCC will (to the extent practicable) arrange distribution to the relevant CCASS Participants on the same day</li> </ul>
<b>Scrip Entitlements</b>	<ul style="list-style-type: none"> <li>• Scrip entitlement will normally be credited to CCASS Participants stock account on the day before its listing date</li> <li>• If entitled security is               <ul style="list-style-type: none"> <li>– An eligible security, both buy and sell are allowed</li> <li>– Not an eligible security but listed on SSE/SZSE, only sell is allowed</li> <li>– Not listed on SSE/SZSE, HKSCC to announce arrangement separately</li> </ul> </li> </ul>
<b>Voting</b>	<ul style="list-style-type: none"> <li>• Investors can vote via CCASS participants.</li> <li>• HKSCC will consolidate the voting instructions from CCASS Participants and submit a combined single voting instruction (with 'For' and/or 'Against' votes together with 'Abstain' and/or cumulative votes if applicable)</li> </ul>
<b>Shareholder Meeting</b>	<ul style="list-style-type: none"> <li>• HKSCC, as the shareholder on record, can attend shareholders' meeting</li> <li>• HKSCC will make arrangements to appoint one or more investors as its proxies or representatives to attend shareholders' meetings when instructed (where the articles of association of a listed company do not prohibit the appointment of proxy/multiple proxies by its shareholder)</li> </ul>
<b>Take-over Offer</b>	<ul style="list-style-type: none"> <li>• HKSCC will inform CCASS Participants of the take-over offer details such as offer rate and the subscription period</li> <li>• Offer may be in the form of cash or securities</li> <li>• Offer period is normally 30 days</li> <li>• Investors can accept take-over offers via CCASS participants. HKSCC will consolidate and submit one consolidated acceptance instruction to the relevant company via electronic platform</li> </ul>
<b>Rights Issue/Open Offer</b>	<ul style="list-style-type: none"> <li>• HKSCC will inform CCASS Participants of the rights issue/open offer details such as subscription price and the subscription period</li> <li>• Subscription period is normally one week, can be as short as one day</li> <li>• Rights/open offer are non-tradable</li> <li>• Investors can accept/subscribe for rights/open offers via CCASS participants. HKSCC will consolidate and submit one consolidated subscription instruction to the relevant company via electronic platform</li> </ul>

# Tax Framework

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The tax treatment on investments through Stock Connect is a key question for Hong Kong and international investors before the launch.

Shortly before the official launch of Shanghai-Hong Kong Stock Connect on November 17, 2014, the Ministry of Finance (MOF), the State Administration of Taxation (SAT) and China Securities Regulatory Commission (CSRC) jointly announced the China taxation rules regarding Stock Connect (Notice 81) on November 14, 2014.

According to Notice 81, Corporate Income Tax (CIT), Individual Income Tax (IIT) and PRC Business Tax (BT) will all be temporarily exempted on gains derived by Hong Kong and foreign investors on the trading of A-shares through Stock Connect programme.

Notice 81 states that dividends from A-shares will continue to be subject to 10% withholding tax (withheld at source). Stamp Duty (SD) will also apply to Stock Connect transactions.

Subject to further regulatory announcement, capital gain tax, dividend tax, stamp duty and business tax currently applying to Shanghai Connect may apply to Shenzhen Connect.

Tax	Hong Kong and Foreign Investors (Individuals and Corporates)
Corporate Income Tax (CIT) /Individual Income Tax (IIT)	<ul style="list-style-type: none"><li>Temporarily Exempted</li></ul>
PRC Business Tax (BT)	<ul style="list-style-type: none"><li>Temporarily Exempted</li></ul>
Dividend Withholding Tax	<ul style="list-style-type: none"><li>10%, deducted at source According to the notice jointly issued by MOF, SAT, and CSRC on November 14, 2014, Hong Kong and overseas investors are required to pay tax on cash dividend and/or bonus shares of SSE/SZSE Securities at a standard rate of 10%, which will be withheld and paid to the relevant tax authority by the respective listed companies</li><li>Investors who are residents of countries with tax treaties signed with China stipulating a dividend tax rate lower than 10% will be refunded the difference between the tax treaty rate and the 10% withholding tax upon review and approval by the relevant tax authorities on their tax treaty relief application</li></ul>
Stamp Duty (SD)	<ul style="list-style-type: none"><li>0.1% on seller, collect by HKSCC Hong Kong and overseas investors are also required to pay stamp duty arising from the sale of SSE/SZSE Securities and the transfer of SSE/SZSE Securities by way of succession and gift in accordance with existing Mainland taxation regulations</li></ul>

# Stock Connect Legal and Contractual Framework

- Hong Kong market participants will continue to be governed and protected by the regulations and rules of the Hong Kong market
- Cross-boundary (northbound) trades executed through Stock Connect will have to follow the business rules of the A-share market, vice versa for southbound trades
- A dedicated liaison mechanism between the CSRC and the SFC is established to deal with any issues regarding Stock Connect that may require joint resolution



Source:

[http://www.hkex.com.hk/eng/rulesreg/traderules/sehk/Documents/Chap-14a\\_eng.pdf](http://www.hkex.com.hk/eng/rulesreg/traderules/sehk/Documents/Chap-14a_eng.pdf)

<https://www.hkex.com.hk/eng/rulesreg/clearrules/ccassgr/ccassrule.htm>

# General Disclosure Obligation

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## Mainland China

- According to Article 13 of the Certain Provisions on Shanghai-Hong Kong Stock Connect Pilot Program (the “CSRC Stock Connect Rules”) and the SSE China Connect Rules (Articles 34 and 36), the disclosure of interests obligation for Stock Connect will be same as QFIIs / RQFIIs. This means the investor will need to aggregate both domestically and overseas issued shares of the same listed company held or controlled by the investor irrespective of investment channels (e.g. Stock Connect, RQFII / QFII scheme)
- An investor (either a single investor or aggregating holding of other parties “acting in concert”) **holding up to 5%** of a listed Mainland China incorporated company’s shares, whether holdings are through Stock Connect, QFII / RQFII or other investment channels, must disclose in writing to the CSRC and SSE, and inform the company within **three working days**. Every subsequent increase or decrease in such holdings by 5% triggers further disclosure to be made within three days
- When notice requirement is triggered, the investor cannot trade that listed company during the three days period. When relevant shareholding **< 5%**, the investor has to make another disclosure
- Same disclosure requirements applies to Shenzhen-Hong Kong Stock Connect

## Hong Kong

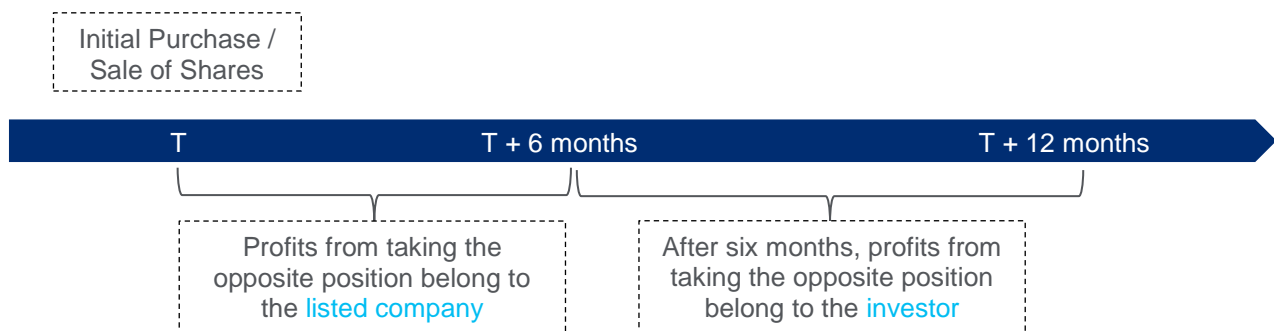
- Where a Mainland China incorporated company has both H-shares listed on the SEHK and A-shares listed on the SSE, if an investor is interested in more than a certain threshold (as may be specified from time to time) of any class of voting shares (including A-shares purchased through Stock Connect) in such Mainland China incorporated company, the investor is under a duty of disclosure pursuant to Part XV of the SFO. Part XV of the SFO does not apply where the Mainland China incorporated company has not listed any shares on the SEHK

# Short-Swing Profit Rule

Under Article 47 of the PRC Securities Law, the short-swing profit rule is triggered if:

1. A director, supervisor, senior manager or shareholder holds > 5% of the shares of a listed company AND
2. Sells shares of that company within 6 months after purchasing them / Purchases shares of that company within 6 months after selling them

If triggered, the short-term proceeds shall go to the listed company.





# Foreign Ownership Limits

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Northbound investors will be subject to similar foreign ownership limits as QFIIs or RQFIIs.

## Individual Limits

Per Article 12 of CRSC China Connect Rules, a single overseas investor's total shareholding in a listed company **must not exceed 10%** of the listed company's total issued shares.

The foreign investor should take into consideration both domestic and overseas issued shares (e.g. H-shares) of the listed Mainland China incorporated company.

## Aggregate Limits

- Per current Mainland China rule, aggregate foreign investors' shareholding in the A-shares of a listed company must not exceed 30% of the company's total issued shares. If aggregate foreign shareholding of an individual A-share
  - Reaches **26%**, SSE/SZSE will publish notice on their website  
<http://www.sse.com.cn/disclosure/disclosure/qfii>  
<http://www.szse.cn/main/disclosure/news/qfii/>
  - Reaches **28%**, Northbound buy orders in that security will not be allowed until aggregate foreign shareholding <26%
  - Exceeds **30%**, the foreign investors concerned will be requested to sell the shares on a last-in-first-out basis within five trading days
- A-shares purchased through Stock Connect will be considered together with those purchased by QFII and RQFII, and be subject to the same foreign shareholding restriction. Once the aggregate foreign shareholding of an individual A-share company reaches 28%, SEHK will not allow further Northbound buy orders in that company, until the aggregate foreign shareholding of that security is sold down to 26%. If the 30% threshold is exceeded due to Stock Connect buy trades, SEHK will contact the relevant EPs for the forced-sale requirements
- Please note that foreign investors can continue to sell the A-share when aggregate foreign shareholding has reached the 30% threshold. If such selling activities cause the aggregate foreign shareholding to drop below the 30% threshold within 5 trading days, EPs who were subject to the forced-sale requirement may submit application to the SEHK for forced-sale exemption

## Foreign Ownership Limits (Cont'd)

Aggregate Foreign Shareholding on an Individual A-share	Actions Required
>26%	<ul style="list-style-type: none"> <li>SSE will publish notice on its website  <a href="http://www.sse.com.cn/disclosure/disclosure/qfii/">http://www.sse.com.cn/disclosure/disclosure/qfii/</a>  <a href="http://www.szse.cn/main/disclosure/news/qfii/">http://www.szse.cn/main/disclosure/news/qfii/</a> </li> </ul>
>28%	<ul style="list-style-type: none"> <li>Further Northbound buy orders in that security through Stock Connect will not be allowed by HKEx, until the aggregate foreign shareholding is sold down to 26%</li> <li>HKEx will publish a notification on its website about the suspension of buy orders if the shareholding limit goes beyond 28% and about the resumption of buy orders if the shareholding drops below 26%</li> </ul>
>30%	<ul style="list-style-type: none"> <li>If the 30% threshold is exceeded due to Stock Connect, HKEx (upon receiving the notice from SSE/SZSE) will identify the relevant EP (who will inform the relevant investor) and require them to follow the forced-sale requirement</li> <li>Forced-sale will be requested by HKEx on EP(s) on a last-in-first-out basis and the forced-sale must be conducted within 5 trading days</li> <li>Last-in-first-out means that the EP who placed the last buy order for that security is the first one subject to the forced-sale requirement</li> <li>Normal selling can still be conducted even if the aggregate foreign shareholding of the security has exceeded the 30% threshold</li> <li>If normal selling activities cause the aggregate foreign shareholding to drop below the 30% threshold within 5 trading days, EPs who were subject to the forced-sale requirement may submit application for forced-sale exemption</li> </ul>

Please note the custodian is required to transfer or arrange for the transfer of any quantity of China Connect Securities held on the Client's behalf to the account of another Clearing Participant (as such term is defined under the rules of CCASS) or custodian if the Custodian receives instructions from a Stock Connect Authority or a China Connect Exchange Participant requiring the Custodian to arrange for a transfer in order to comply with any Applicable Stock Connect Law, including without limitation, to assist with any forced-sale procedure arising from a breach of any applicable foreign shareholding limit without requiring any additional Instruction from the client.

# Beneficial Ownership Concern Explained

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One key difference between QFII/RQFII and Stock Connect is that QFII/RQFII investors are required to open onshore, segregated accounts at ChinaClear, while Stock Connect northbound investors are not required or able to do so. Currently, the Mainland authorities allow HKSCC to maintain an omnibus account at ChinaClear for holding all SSE/SZSE Securities purchased through Stock Connect. The CSRC rules state that HKSCC is the “nominee holder”, holding the SSE/SZSE Securities on behalf of northbound investors (the beneficial owners of the SSE/SZSE Securities).

Since its launch, there have been market concerns on such holding structure with regards to whether investors have any proprietary rights or beneficial ownership in the SSE/SZSE Securities.

Northbound investors can open an omnibus or segregated accounts with their broker or custodian bank in Hong Kong.

## 1. Stock Connect Account and Holding Structure

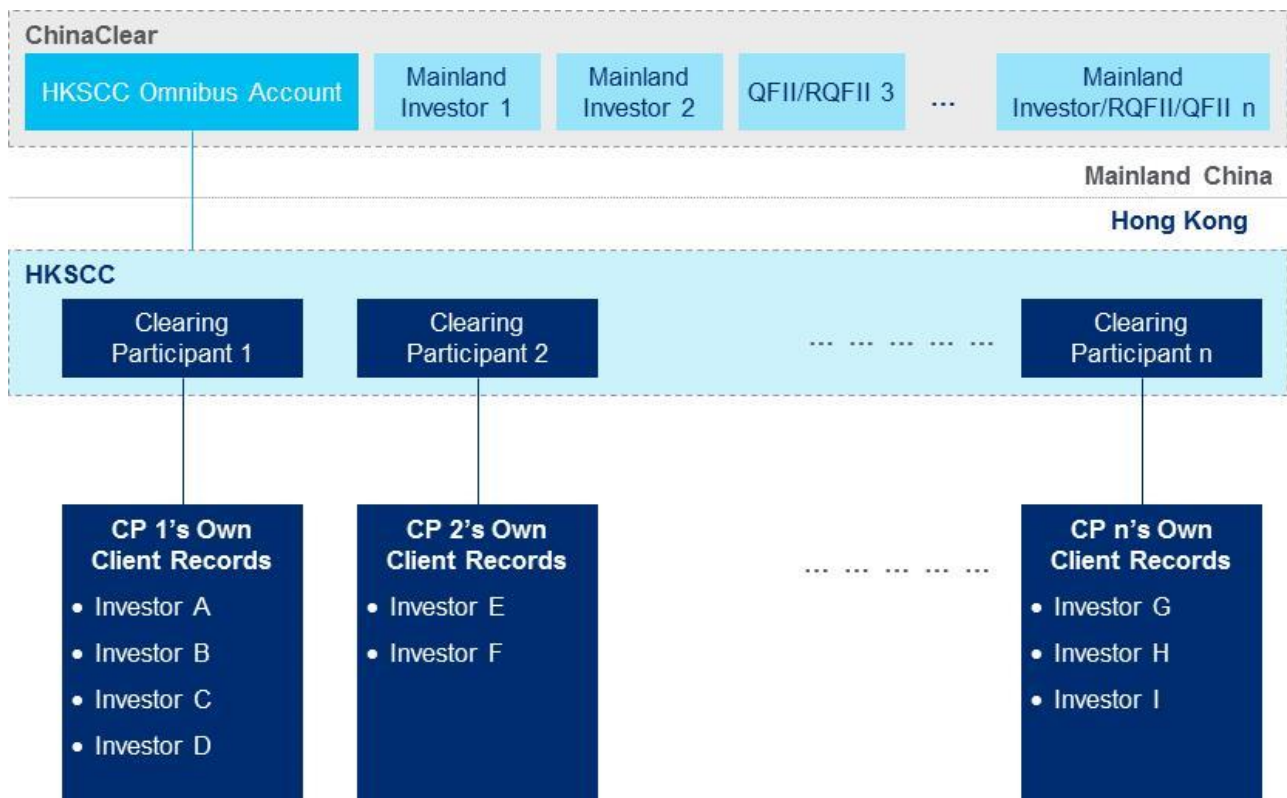
With reference to the Clearing Link between HKSCC and ChinaClear, any Stock Connect northbound purchase orders will first be cleared, meaning the investor or HK broker will face HKSCC directly as the seller without the need to face ChinaClear or Mainland China brokers directly. Similarly, ChinaClear will see HKSCC as the buyer and Mainland China broker as the seller for this order.

According to Article 13 of the Certain Provisions on Shanghai-Hong Kong Stock Connect Pilot Program (the “CSRC Stock Connect Rules”), shares acquired under Stock Connect northbound trading shall be registered in the name of HKSCC.

In addition, with reference to General Rules of CCASS Rule 824, it has also been stipulated that SSE/SZSE Securities are held by HKSCC for the account of its participants in an omnibus account maintained by HKSCC with ChinaClear.

As there is no other alternative holding structure, HKSCC is taking the role of a Central Securities Depository (CSD) instead of a custodian, sub-custodian or safe-keeping agent in respect of the SSE/SZSE Securities. This has also been elaborated in an FAQ prepared by the HKEx.

## Beneficial Ownership Concern Explained (Cont'd)



## 2. Recognition of Nominee Concept under PRC law

With the nominee concept under Stock Connect depicted above, the key question is whether investors enjoy beneficial ownership and proprietary rights in the Stock Connect shares held under such nominee structure.

The concern that PRC law does not recognize the nominee concept or beneficial ownership was initially highlighted by some legal opinions.

However, China and some legal firms later clarified that the nominee concept is not novel in China. It is recognized by the mainland authorities and found in various PRC regulations dating back to 2006. Some of the examples include

- Article 12 of the Takeover Regulation issued by CSRC states that shares held by an investor in a listed company include not only those registered in the name of the investor, but also those not registered under its name for which it actually controls voting rights
- The CSRC's Administrative Measures for Registration and Settlement of Securities (the "Settlement Measures") issued in 2006 and amended in 2009, defines a nominee holder as an entity that is designated by and represents another person to hold securities

## Beneficial Ownership Concern Explained (Cont'd)

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- The Settlement Measures also states 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
- ChinaClear Securities Registration Rules state that securities may be registered in the name of a nominee holder who enjoys the rights and benefits of a securities holder, but at the same time has obligations to the actual owners of the securities held through it. Those rules further provide that the **actual securities owners shall realize their rights through their nominee holder**, who shall act in accordance with the instruction of such owner

### 3. Stock Connect Rules—Nominee Concept

With the arrival of Stock Connect, the recognition of nominee concept has again been highlighted and defined in relevant Stock Connect laws and regulations.

#### Mainland China Rules and Regulations

- Article 7 and Article 13 of Certain Provisions on Shanghai-Hong Kong Stock Connect Pilot Program (“CSRC Stock Connect Rules”) reinforces the fact that
  - HKSCC is the nominee holder of shares purchased by overseas investors
  - Investors are legally entitled to the rights and benefits of shares acquired through the Northbound Trading Link
- Shanghai Stock Exchange Shanghai-Hong Kong Stock Connect Pilot Program Provisions (issued and effective as of September 26, 2014) also states that HKSCC
  - Shall exercise rights against the issuer of shares listed on the SSE in accordance with the instructions of the northbound investors (Article 118); and
  - As nominee holder does not have any disclosure obligation which resides with the actual investors (Article 115)
- In response to the concerns expressed by market participants, CSRC further released an FAQ on beneficial ownership on May 18, 2015, stating
  - The concepts of “nominee holder” and “beneficial owner” are recognized under Mainland law
  - Beneficial owners of SSE Securities shall exercise their rights over such securities through HKSCC as the nominee holder
  - As long as an overseas investor can provide evidential proof of direct interest as a beneficial owner, the investor may take legal actions in its own name in Mainland courts
  - If certification issued by HKSCC is treated as lawful proof of a beneficial owner’s holding of SSE Securities under HKSAR law, it would be fully respected by CSRC

The FAQ can be access via this link:

[http://www.csrc.gov.cn/pub/csrc\\_en/newsfacts/PressConference/201505/t20150515\\_277108.html](http://www.csrc.gov.cn/pub/csrc_en/newsfacts/PressConference/201505/t20150515_277108.html)

# Beneficial Ownership Concern Explained (Cont'd)

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## Hong Kong Rules and Regulations

In response to the concerns expressed by market participants, HKSCC rules and regulations have been amended and approved by SFC to make it clear that

- CCASS rules 824 (Charter 8) | HKSCC (as the nominee holder) has the obligation to
  - Provide certificate to the relevant China authority/Chinaclear for purpose of providing evidential proof of the relevant participants' or its clients' holdings in the China Connect securities at the relevant times and
  - HKSCC will assist the participants or its clients in bringing any legal action in Mainland China in the manner as may be required under Mainland law (subject to conditions as HKSCC may reasonably require including payment of fees, and costs upfront, and indemnities)
  - Ensure there are daily reconciliation procedures with the relevant China Connect Clearing House and within CCASS to ensure that the credits and debits of China Connect Securities to and from each Participant's Stock Accounts are accurate
- HKSCC provides services to Participants as set out in Chapters 8, 11 and 41 of the Rules and the related CCASS Operational Procedures to enable them and their clients (as appropriate) to exercise their rights as owners of proprietary interests in SSE Securities, including the right to receive dividends and other distributions and the power to exercise voting rights.
  - Unless specifically provided for in the Rules, HKSCC will not exercise any rights arising from or in relation to any SSE Securities without the instruction of the Participants
- HKEx has published an FAQ discussing the beneficial ownership under Stock Connect. The link can be found here:

<http://www.hkex.com.hk/eng/newsconsul/hkexnews/2015/Documents/Issues%20concerning%20Shanghai-Hong%20Kong%20Stock%20Connect.pdf>



# Beneficial Ownership Concern Explained (Cont'd)

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## Enforcement of Beneficial Ownership Rights

- As the beneficial owner of SSE/SZSE Securities under the nominee structure, investors enjoy the ability to assert, exercise and enforce its rights over such securities, and the rights are also clearly written:
- As provided in Chapter 11 of the CCASS Rules and Section 8 of the CCASS Operational Procedures, HKSCC will assert or exercise the above rights for or on behalf of HKSCC Participants and the underlying beneficial owners of SSE Securities under the Stock-Connect pilot scheme. These cover HKSCC's obligations to distribute company announcements and communications, attend shareholders' meetings and obtain voting instructions and instructions to deal with entitlements, dividends, distributions, and various kinds of corporate actions of listed companies
- Mainland China law does not prohibit a beneficial owner of shares from directly suing a company, its directors or management in Mainland China
- If beneficial owner of SSE/SZSE Securities (invested through Stock Connect) would like to take legal action directly in the Mainland courts against a listed company to enforce its rights, as set out in CCASS Rule 824, HKSCC is prepared to provide assistance to the beneficial owners of SSE/SZSE Securities where necessary, upon request and after receiving the necessary information
  - Provide certification to ChinaClear for the purpose of providing evidential proof of the holding in SSE Securities at the relevant time
  - Assist beneficial owner in bringing the legal action in Mainland China, after having regard to its statutory duties and subject to such conditions as HKSCC may reasonably require (including payment of fees and cost up-front and indemnities to the satisfaction of HKSCC)

As seen from above, nominee concept and beneficiary ownership has been clearly defined in both Mainland China and Hong Kong related rules and regulations, which offered additional assurance to northbound investors in this regard.

# UCITS Requirement

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## Central Bank of Ireland

On July 15, 2015, the Central Bank of Ireland published an important update to its UCITS and AIFMD Q&A permitting Irish authorized investment funds to acquire Chinese shares via the Stock Connect program.

Key conditions are:

1. The depositary or an entity within its custodial network (i.e. a sub-custodian) must ensure that it retains control over the shares at all times
2. The depositary or its sub-custodian must be a participant in HKSCC.  
The arrangements where the broker of the investment fund is a participant of HKSCC but not an entity within the depositary's custodial network, will not satisfy the provisions of the relevant legislation
3. The depositary or a member of its custodial network can be a General Clearing Participant, Direct Clearing Participant or Custodian Participant as appropriately determined by the depositary in fulfilment of its legal obligations
4. The depositary must review the Stock Connect infrastructure arrangements to ensure that its legal obligations can be met
5. The depositary needs to satisfy itself that the manner in which the shares are to be held meet with the requirements of the UCITS / AIFM Regulations and any conditions imposed by the Central Bank  
[https://www.centralbank.ie/regulation/marketsupdate/Documents/150715\\_FINAL%20FULL%20UCITS%20QA%20DOC.pdf](https://www.centralbank.ie/regulation/marketsupdate/Documents/150715_FINAL%20FULL%20UCITS%20QA%20DOC.pdf)

ID 1015 Q: What are the regulatory considerations around Irish authorized UCITS seeking to acquire Chinese shares through the Shanghai-Hong Kong Stock Connect infrastructure?

A: Before an Irish authorised UCITS acquires Chinese shares through the Shanghai Hong Kong Stock-Connect infrastructure for the first time, its depositary would need to satisfy itself that the manner in which the shares were to be held allowed that depositary to meet its legal obligation under the UCITS Regulations and any conditions imposed by the Central Bank.

The Shanghai-Hong Kong Stock Connect infrastructure ('Stock Connect') is a joint collaboration between Hong Kong Stock Exchanges and Clearing Limited and the Shanghai Stock Exchange. The Stock Connect infrastructure involves two central securities depositaries—Hong Kong Securities Clearing Company Limited ('HKSCC') and China Securities Depository and Clearing Corporation Limited ('ChinaClear').

If an Irish authorised UCITS proposes to acquire Chinese shares through Stock Connect, in order to meet the legal obligations on a depositary, the depositary of the investment fund, or an entity within its custodial network (i.e. a sub-custodian), **must ensure that it retains control over the shares at all times**. The relevant legislation does not provide for the Central Bank to recognise eligible clearing structures. This obligation rests on the depositaries in the first instance.

However, from the information provided by the relevant authorities, it is evident to the Central Bank that the **legal obligations of a depositary cannot be met without at least being a participant in HKSCC**. It is also clear that in all cases, at the present time, **arrangements where the broker of the investment fund is a participant of HKSCC but not an entity within the depositary's custodial network will not satisfy the provisions of the relevant legislation**. Depositaries will need to consider both the terms on which they or a sub-custodian could become participants in HKSCC and the arrangements in place from time to time between HKSCC and ChinaClear and the applicable law.

It is incumbent on the depositary to review and keep under review the Stock Connect infrastructure arrangements to ensure that its legal obligations can be met. This is the case with reliance on all such systems around the world.

## 4. Citi Stock Connect Solutions

# Why Citi?

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- ✓ 4<sup>th</sup> largest custodian in the world
- ✓ US\$15 trillion of assets under custody
- ✓ Largest proprietary network providing clients unique access to local market expertise and global reach
- ✓ Leading provider of integrated RMB/CNH banking and FX services
- ✓ **Citigroup Global Markets** offers premier execution capability including integrated research, high-touch and electronic execution for cash and synthetic trading
- ✓ **Citi Investment Research and Analysis (CIRA)** offers independent, thorough market and stock analysis covering over 100 Stock Connect shares

## Hong Kong Securities Services (Citibank NA)



### Shanghai-Hong Kong Stock Connect 1<sup>st</sup> Anniversary Trading and Investor Education Awards

- ✓ Top 3 Largest SPSA Portfolio Value
- ✓ Top 3 Highest Number of SPSA Accounts Opened

- Offers the most comprehensive suite of solutions for investors to access Stock Connect
- Local Market Expertise on Stock Connect, QFII, RQFII and other China market access channels
- Leading provider of clearing services for brokers and uniquely capable of supporting a multi-broker arrangement
- Citi also developed unique **Model C** and **Citi SPSA+ solutions** specifically to allow regulated funds to use multiple brokers for execution and most importantly remain in compliance with relevant fund regulations such as UCITS, 40Act and MPFA or SFC regulated funds. Citi's Model C and SPSA solutions allow the funds to
  - Utilize multiple brokers and transact under true DVP / RVP environment to eliminate counterparty risk with the broker
  - Ensure proper segregation of assets throughout the entire custodian chain
  - Ensure the depositary bank and the sub custodian bank maintain full control over the securities at all times
  - Ensure shares are held by custodian bank (instead of the broker affiliate of the custodian bank) in the entire chain instead of using a broker as a sub-custodian which may trigger requirements for the trustee or global custodian to perform diligence on the broker

## Why Citi? (Cont'd)

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### Overview of the Stock Connect Model and Solutions

<b>Model A</b> Agency Broker Model	<ul style="list-style-type: none"><li>• Model A refers to the standard agency broker model. Investors trade A-shares through any eligible China Connect brokers and safe keep A-shares with eligible HK custodians</li><li>• Citi provides both Cash Equity and Securities Services solutions for clients who are interested in trading A-shares via Model A</li></ul>
<b>Model B</b> Prime Brokerage Model	<ul style="list-style-type: none"><li>• Model B is the prime brokerage model. Broker also acts as the custodian to the China Connect securities and provides asset servicing. Citi Prime Finance offers full execution, custody and synthetic trading (high touch and EE) to clients such as hedge funds</li></ul>
<b>Model C</b> Unique Execution + Custody Solution	<ul style="list-style-type: none"><li>• A unique end-to-end solution designed to overcome limitations of Model A such as pre-delivery and counterparty risk with brokers. Citi is the pioneer to offer Model C solution in the market through collaboration of its Markets and Securities Services businesses</li></ul>
<b>Citi SPSA+</b> Special Segregated Account (SPSA) Model	<ul style="list-style-type: none"><li>• SPSA launched in April 2015 by HKEx to solve the pre-delivery issue. Investor can open SPSA through their custodian</li><li>• Citi launched “SPSA+” solution by combining the advantages of both SPSA and Model C to overcome key limitation of SPSA such as true RVP / DVP and potential fail trades</li></ul>

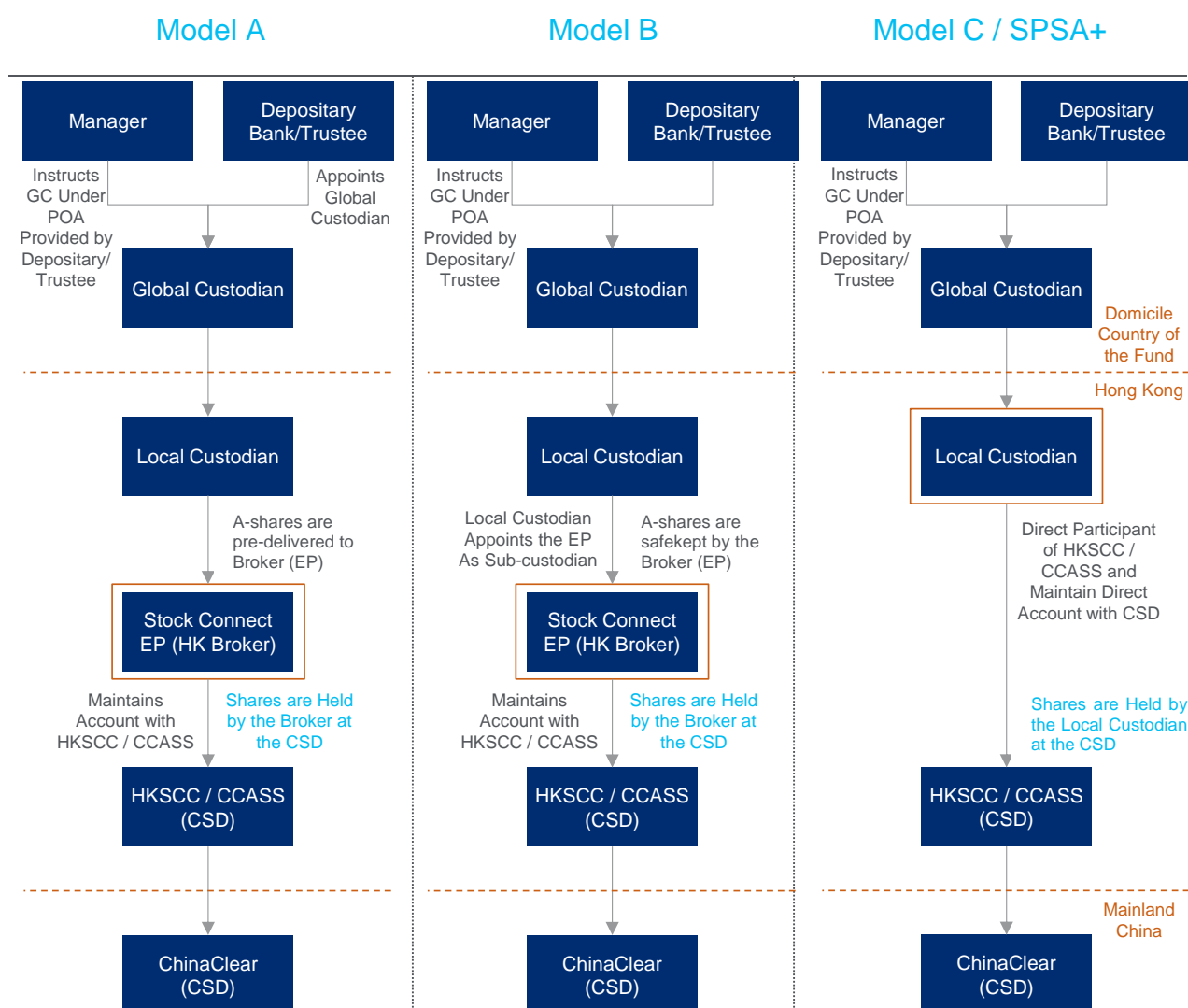
Auto-creation of settlement instruction by broker for sell only, buy only, or both buy and sell trades are available for Model C and Citi SPSA+

## Why Citi? (Cont'd)

Model A	Model B	Model C / SPSA+
<b>Benefits</b> <ul style="list-style-type: none"> <li>Highest number of providers</li> </ul> <b>Limitations</b> <ul style="list-style-type: none"> <li>Investors need to make trading decision in advance and pre-deliver shares from their custodian to local broker in order to sell</li> <li>Regulatory issues e.g. mainly regulated funds may not be able to leave shares with broker overnight (e.g. '40 Act Funds, MPF / SFC Funds, UCITS etc.)</li> <li>Counterparty risk with local broker since shares settle on T and cash settle on T+1</li> <li>Shares must be delivered FOP (Free of Payment) between brokers and custodians which is an issue for many institutional investors (broker will know the entire sellable position of the investors)</li> <li>Depository fees will increase due to transfer of shares between broker and custodian</li> <li>Investors will need to deliver CNH to the broker by 5pm on Trade Date which is a challenge due to limited same day offshore RMB liquidity</li> </ul>	<b>Benefits</b> <ul style="list-style-type: none"> <li>Shares ready to sell anytime</li> <li>Reduces fees (no shares transfer between broker/custodian depository accounts)</li> </ul> <b>Limitations</b> <ul style="list-style-type: none"> <li>Investors must use the broker exclusively for A-Shares (i.e. broker will know the entire sellable position of the investors)</li> <li>Regulatory issues e.g. regulated funds may not be able to leave shares with their broker overnight (e.g. '40 Act Funds, MPF / SFC Funds, UCITS etc.)</li> <li>Counterparty risk with the broker concerned remains</li> <li>Raises control concerns i.e. no separation of duties since shares are not safe kept with an independent custodian</li> <li>Limited ability for brokers to provide RMB financing or FX</li> <li>Limited ability for brokers to provide full asset servicing and custodial services</li> </ul>	<b>Benefits</b> <ul style="list-style-type: none"> <li>Shares ready to sell anytime (NO pre-delivery required)</li> <li>Reduces fees and operational burdens (avoids transferring shares between broker and custodian)</li> <li>Minimize information leakage</li> <li>Investors may use multi-brokers</li> <li>Shares will be safe kept with CBNA Hong Kong (full licensed bank regulated by HKMA, HKSCC, OCC) as the independent custodian</li> <li>Supports true RVP and DVP for simultaneous cash and securities settlement (eliminates principal risk and avoids exposure to counterparty risk with local brokers)</li> <li>Access to full suite of banking services including RMB and FX services</li> <li>Access RMB liquidity</li> </ul> <b>Limitations</b> <ul style="list-style-type: none"> <li>Brokers must appoint CBNA Hong Kong as service provider</li> <li>Investors or their global custodians must appoint CBNA Hong Kong as custodian</li> </ul>



# Why Citi? (Cont'd)



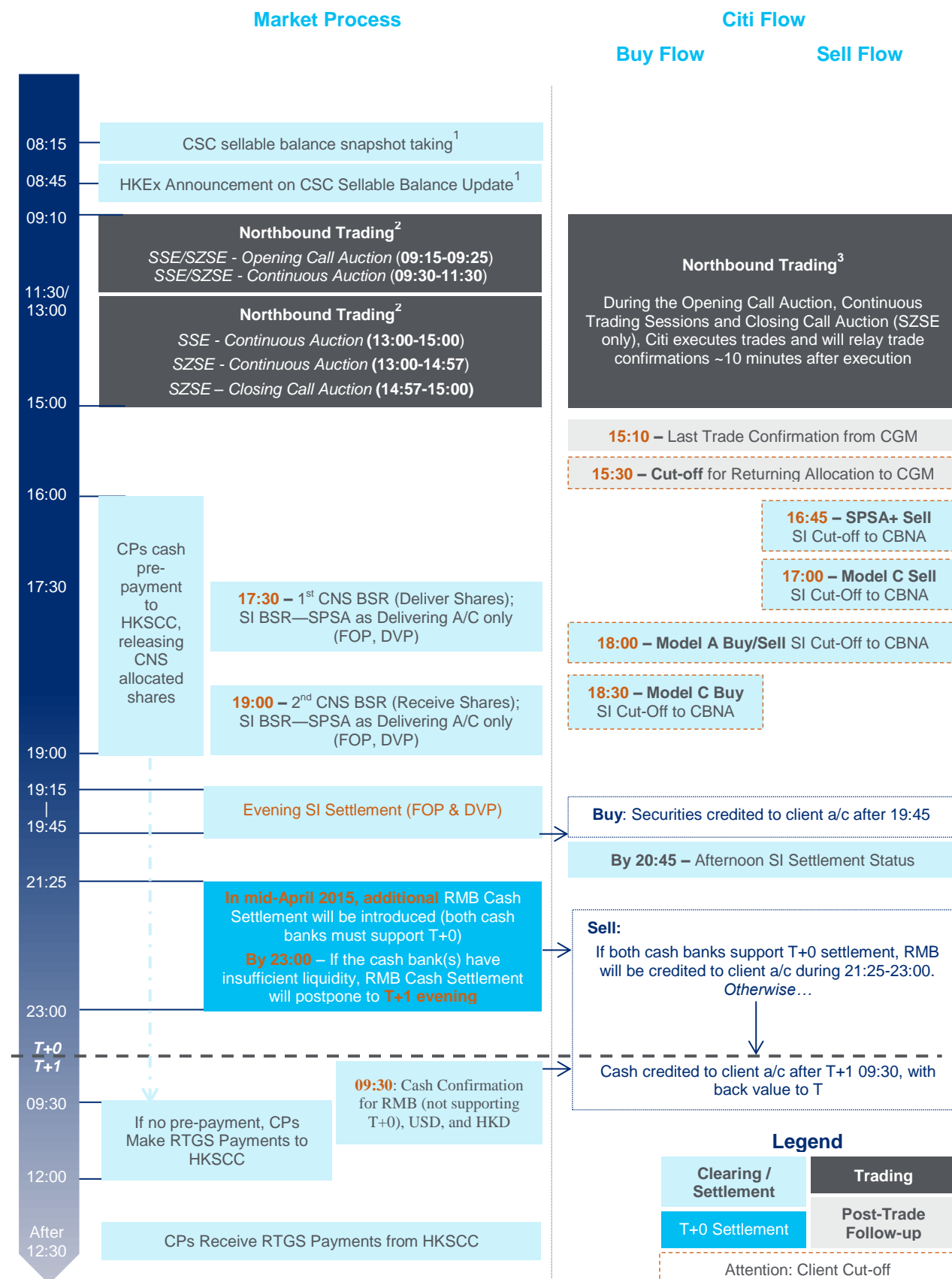
Please note that under SPSA, if the fund uses a broker who has not appointed CBNA HK as a third party clearer or settlement agent, then the shares will not be settled in true DVP method (i.e. shares settled between 17:30-19:00 on T+0 HKT and cash will only be received or confirmed around 21:25 the earliest on T+0 HKT).

HKEx/HKSCC introduced in April 2016, an option to allow the broker and investor's custodian to settle both cash and securities of RVP/DVP on the same day, if settling in RMB. Under this arrangement, once the designated clearing bank confirms the payment, cash will be credited to investor's custodian starting 21:25 on T+0. Please note that there is still an intraday exposure under this option, settlement is not guaranteed, and new risks may potentially arise.

**Example:** If any one designated cash clearing banks for the brokers are short of funds, HKICL (Hong Kong cash clearing company) will try to process the money settlement batch, the Bulk Clearing Settlement Run, until the final cut-off time. If the available balance in the settlement account of any designated cash clearing bank is still insufficient for money settlement, the whole money settlement batch will be cancelled. In this case, HKICL will re-process the money settlement batch around 18:00 on next business day, meaning cash is not final on T+0 under this scenario.

# Overview of Trading and Market Flows

## Northbound Trading, Market Process and Citi Flow



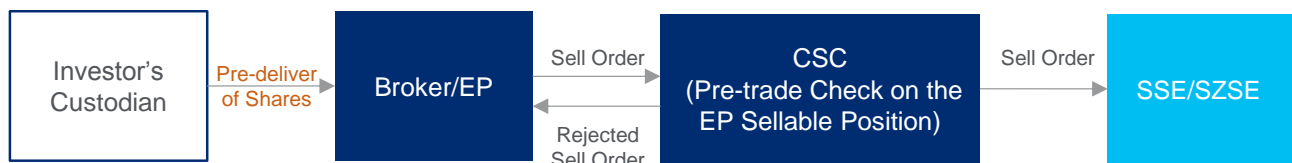
1. If CSC is unsuccessfully updated, then CSC sellable balance will be based on previous day's end snapshot.

2. EPs can start inputting Northbound orders into CSC 5 minutes prior to the start of SSE/SZSE trading session in the morning and in the afternoon

3. 15:00-17:00: After Northbound Trading ends, queuing through Citi Algorithmic Trading is unavailable for two hours

# Detail Operation Flow

## Model A Solution



## Model A | Settlement Flow for Buy Trade

No	Market Cut-off	Citi Custodian Cut-off	Process
1	By T 15:00		<ul style="list-style-type: none"> <li>Investor places buy order with Broker</li> </ul>
2	T 09:10–15:00		<ul style="list-style-type: none"> <li>Broker submits trade order to SEHK CSC for execution (subject to quota availability, Investor should book FX for same day value if needed)</li> </ul>
3	T 16:00		<ul style="list-style-type: none"> <li>HKSCC Final Clearing Statement for A Shares is available</li> </ul>
4	By T 16:00–18:00		<ul style="list-style-type: none"> <li>Broker's designated RMB cash bank to make the cash prepayment to HKSCC</li> </ul>
5	T 17:30–19:00		<ul style="list-style-type: none"> <li>Broker receives shares in its CCASS clearing account from HKSCC / ChinaClear</li> </ul>
6 <sup>1</sup>	T 19:45	18:00 (STP) 17:30 (structured)	<ul style="list-style-type: none"> <li>Broker sends DVP / DF to move shares to Citi (custodian)</li> <li>Investor sends RVP / RF to receive shares from Broker</li> </ul>
7	T+1 08:45		<ul style="list-style-type: none"> <li>CSC take snapshot of the EP or NCP A Shares Position for pre-trade checking purposes</li> </ul>

1. If broker does not pre-pay on T, settlement between broker and investor (step 6) will be delayed to T+1 onwards.

## Model A Solution | Settlement Flow for Sell Trade (FOP)

No.	Market Cut-off	Citi Cut-off	Process
1	By T 07:45	06:00 (STP)	<ul style="list-style-type: none"> <li>Investor sends DF to move shares to Broker</li> <li>Broker sends RF to receive shares from Citi (custodian)</li> </ul>
2	T 08:45		<ul style="list-style-type: none"> <li>CSC take snapshot of the EP or NCP A Shares Position for pre-trade checking purposes</li> </ul>
3	By T 15:00		<ul style="list-style-type: none"> <li>Investor places sell order with Broker (NCP)</li> </ul>
4	T 09:10–15:00		<ul style="list-style-type: none"> <li>Broker submits trade order to SEHK CSC for execution (subject to pre-trade checking)</li> </ul>
5			<ul style="list-style-type: none"> <li>Broker and Investor arrange separate cash transfer for money settlement purpose</li> </ul>
6	T 16:00		<ul style="list-style-type: none"> <li>HKSCC Final Clearing Statement for A Shares is available</li> </ul>
7	T 17:30–19:00		<ul style="list-style-type: none"> <li>Broker delivers sold shares in its CCASS clearing account to HKSCC / ChinaClear</li> </ul>

## Detail Operation Flow (Cont'd)

### Model C Solution

Key Challenges of Model A	Citi Model C helps?
<ul style="list-style-type: none"> <li>Does not comply with regulated fund requirements (e.g. UCITS)</li> <li>Pre-delivery of shares to brokers</li> <li>Not RVP / DVP settlement</li> <li>Counterparty risk</li> <li>Trader cannot react immediately to market news</li> </ul>	<ul style="list-style-type: none"> <li>Avoid the need to pre-deliver shares to brokers for Sell trades: Shares are available to Sell anytime without the need to make a trading decision on T-1 or before the SSE / SZSE opens for trading</li> <li>Supports true DVP / RVP, meaning cash and securities are settled simultaneously, thus reducing counterparty risk with brokers</li> <li>Shares are held securely with a custodian at all times, meaning reduced counterparty risk from leaving shares with brokers</li> <li>Avoid the need to take collateral from brokers</li> <li>Reduced need for transfer of assets in CCASS, leading to reduced transaction costs/fees</li> </ul>

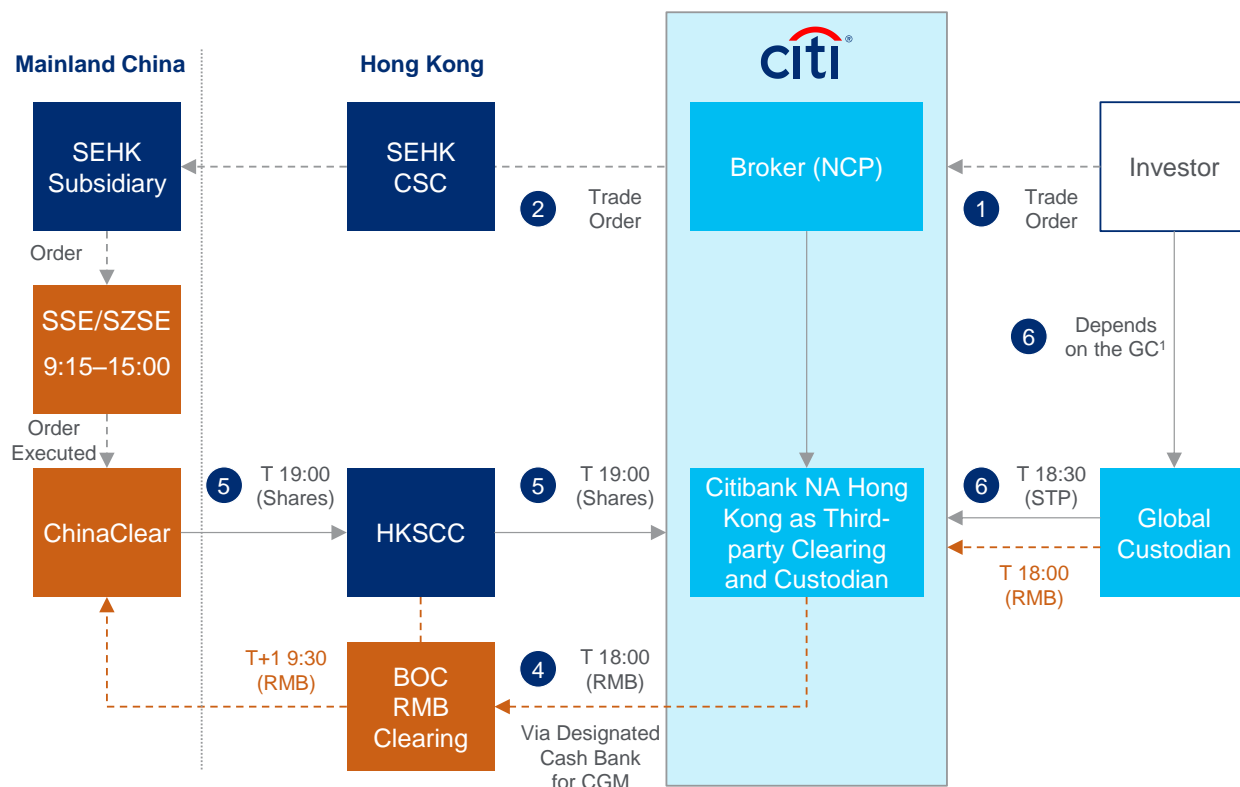
### Citi SPSA+ Solution

Key limitation of SPSA Model:	Citi SPSA+ helps
<ul style="list-style-type: none"> <li>Not true DVP / RVP. For sell trades, shares will be transferred on T+0, but cash will only be confirmed during morning of T+1 for value T. There is overnight counterparty risk with the broker</li> </ul>	<ul style="list-style-type: none"> <li>Offers true DVP / RVP settlement, allowing both securities and cash to be settled simultaneously on T+0 which eliminates overnight counterparty risks with brokers as long as the investors transact through any one of the Citi brokers partners<sup>1</sup></li> </ul>
<ul style="list-style-type: none"> <li>Settlement involves an extra step of moving shares to an external broker, which could increase the risk of a fail trade or compulsory buy-in for the broker due to the very tight settlement cycle</li> </ul>	<ul style="list-style-type: none"> <li>Eliminates the extra step in the post trade process and therefore helps investors reduce the risk of the fail trades and potential buy-in claims from their brokers</li> </ul>

<sup>1</sup> Subject to broker's agreement to settle with clients on T+0.

## Detail Operation Flow (Cont'd)

### Model C Solution | Settlement Flow for Buy Trade (RVP on T+0)

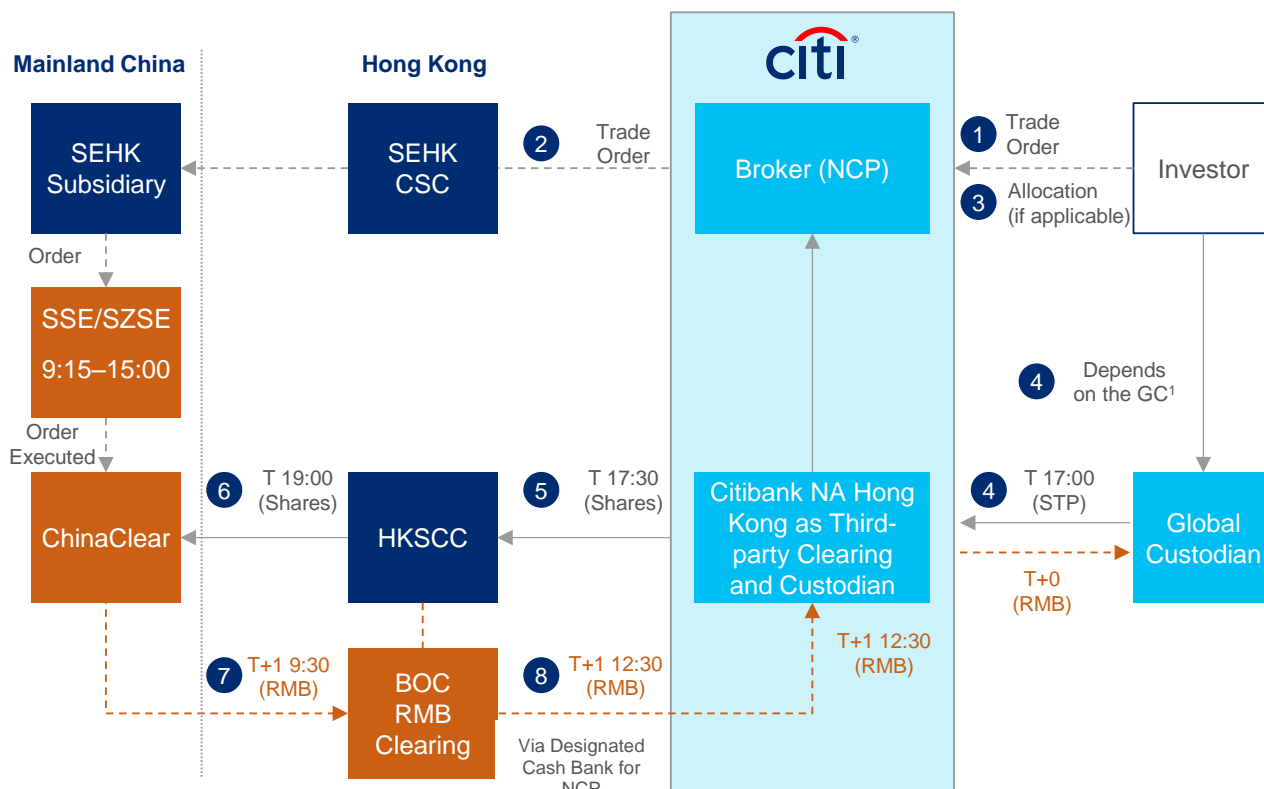


1. T 18:30 (STP) if using Citi HK as GC.

No	Market Cut-off	Citi Cut-off	Process
1	By T 15:00		• Investor places buy order with Broker (NCP)
2	T 09:10–15:00		• Broker submits trade order to SEHK CSC for execution (subject to quota availability, Investor should book FX for same day value if needed)
3	By T 15:30		• Investor sends allocation to the Broker (if applicable and per agreed between Broker and Investor)
4	By T 16:00–18:00		• Citi as designated RMB cash bank to make the cash prepayment to HKSCC
5	T 17:30–19:00		• Citi receives shares in its CCASS clearing account from HKSCC / ChinaClear
6	T 19:00	18:30 (STP) 18:00 (structured)	<ul style="list-style-type: none"> <li>• Broker sends RVP (MT541) to receive shares from Citi</li> <li>• Cash will be post on T</li> <li>• Broker sends DVP (MT543) to move shares to Investor</li> <li>• Cash will be post on T</li> <li>• Investor to send RVP (MT541) to receive shares from NCP</li> <li>• Cash will be post on T</li> </ul>
7	T+1 08:45		• CSC take snapshot of the EP or NCP A Shares Position for pre-trade checking purposes

# Detail Operation Flow (Cont'd)

## Model C Solution | Settlement Flow for Sell Trade (DVP on T+0)

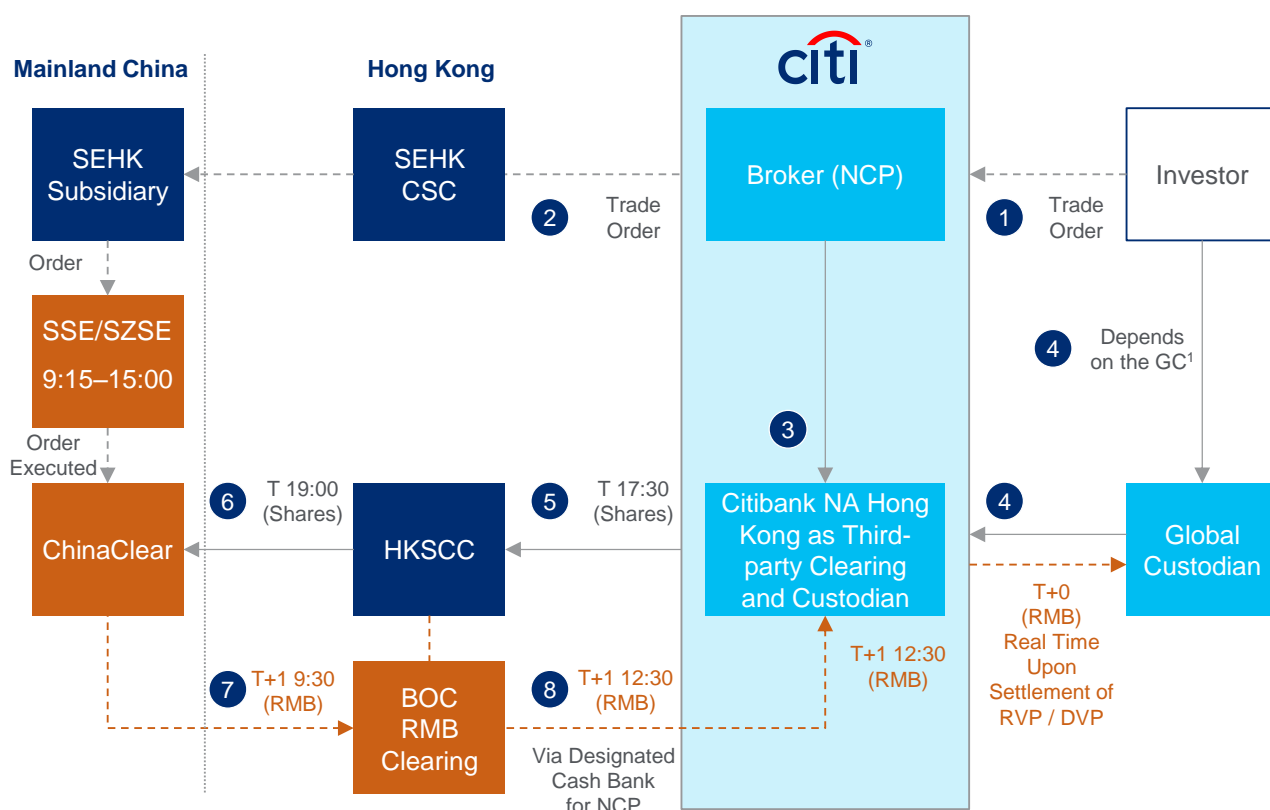


No	Market Cut-off	Citi Cut-off	Process
1	By T 15:00		<ul style="list-style-type: none"> <li>Investor places sell order with the broker (NCP)</li> </ul>
2	T 09:10–15:00		<ul style="list-style-type: none"> <li>Broker performs pre-trade checking and submits trade order to CSC for execution and send trade confirmation</li> </ul>
3	T 15:30		<ul style="list-style-type: none"> <li>Investor sends allocation to the Broker (if applicable and per agreed between Broker and Investor)</li> </ul>
4	By T 17:30	17:00 (STP) 16:30 (structure)	<ul style="list-style-type: none"> <li>If sell order is executed, then move shares from investor -&gt; broker subaccount -&gt; Citi CCASS clearing account <ul style="list-style-type: none"> <li>Investor to send DVP (MT543) to move shares to broker (value date T for both securities and cash)</li> <li>Broker sends RVP (MT541) to receive shares from Investor (value date T for both securities and cash)</li> <li>Broker sends DVP (MT543) to move shares to Citi Clearing Account (01) (value date T for both securities and cash)</li> </ul> </li> </ul>
5	T 17:30		<ul style="list-style-type: none"> <li>HKSCC debits Citi (01) clearing account for the shares</li> </ul>
6	T 19:00		<ul style="list-style-type: none"> <li>HKSCC delivers shares to ChinaClear</li> </ul>
7	T+1 09:30		<ul style="list-style-type: none"> <li>ChinaClear delivers CNH to HKSCC</li> </ul>
8	T+1 12:30		<ul style="list-style-type: none"> <li>HKSCC delivers CNH to Citi</li> </ul>



# Detail Operation Flow (Cont'd)

## Citi SPSA+ Solution | Settlement Flow for Sell Trade (DVP on T+0)



	Market Cut-off	Citi Cut-off	Process
1	By T 15:00		<ul style="list-style-type: none"> <li>Investor places sell order with the broker (NCP) via SPSA model</li> </ul>
2	T 09:10–15:00		<ul style="list-style-type: none"> <li>Broker submits trade order to CSC for execution, CSC performs pre-trade checking for the submitted trade order</li> <li>Broker sends trade confirmation if trade filled</li> </ul>
	T 16:00		<ul style="list-style-type: none"> <li>HKSCC Final Clearing Statement for A Shares is available</li> </ul>
3 4	By T 17:30	16:45 (STP) 16:30 (structure)	<ul style="list-style-type: none"> <li>If sell order is executed, then move shares from investor -&gt; broker subaccount -&gt; Citi CCASS clearing account</li> <li>Investor to send DVP (MT543) to move shares to broker (both securities and cash settle on T)</li> <li>Broker sends RVP (MT541) to receive shares from Investor (both securities and cash settle on T); Citi will earmark cash/credit facility of Broker</li> <li>Broker sends DVP (MT543) to move shares to Citi Clearing Account (both securities and cash settle on T)</li> </ul>
5	T 17:30		<ul style="list-style-type: none"> <li>HKSCC debits Citi clearing account for the shares</li> </ul>
6	T 19:00		<ul style="list-style-type: none"> <li>HKSCC delivers shares to ChinaClear</li> </ul>
7	T+1 09:30		<ul style="list-style-type: none"> <li>ChinaClear delivers CNH to HKSCC</li> </ul>
8	T+1 12:30		<ul style="list-style-type: none"> <li>HKSCC delivers CNH to Citi</li> </ul>

# AutoFX/Standing Instruction

## Available for Model C/SPSA, irrespective of broker

Subject to the standards set below, Citibank will execute foreign exchange (“FX”) transactions for the Client for settlement of securities transactions and conversion of redemption proceeds and corporate action related cash flows back to the Client’s designated base currency.

Booking Location	HK
FX Rate	Quoted/Benchmark Rate (against a fixing)*—default model
FX Cut Off	<b>**Below cut off will be followed subject to market liquidity</b>
USD	5:30 PM HKT(Fixing)/3:00 PM HKT (Quoted)
GBP	5:30 PM HKT(Fixing)/3:00 PM HKT (Quoted)
EUR	5:30 PM HKT(Fixing)/3:00 PM HKT (Quoted)
AUD	9:30 AM HKT (Fixing/Quoted)
JPY	2:30 PM HKT (Fixing)/2:30 PM HKT (Quoted)
HKD	5:30 PM HKT(Fixing)/3:00 PM HKT (Quoted)
SGD	11:30 AM HKT (Fixing/Quoted)
FX Booking Post Cut-Off	FX with Next Day Value subject to Market Liquidity
Supported Fixings for Same Day FX	Citibank Fixing (10:00 Sydney) Citibank Fixing (08:55 HK/09:55 Tokyo) Citibank Fixing (10:00 HK/11:00 Tokyo) Citibank Fixing (12:00 HK/13:00 Tokyo) Citibank Fixing (13:00 HK/14:00 Tokyo) Citibank Fixing (14:00 HK/15:00 Tokyo) Citibank Fixing (09:00 London) Citibank Fixing (10:00 London) Citibank Fixing (11:00 London)
Supported Fixings for Next Day FX	All of the above Citibank Fixing (12:00 London)
FX Criteria	RVP trades   FX is triggered on instruction receipt with VD= same day DVP trades   FX is triggered upon settlement with VD = Next available value For CA—FX is triggered on actual Settlement Date with next available value
Currency /USD Holiday	Holiday on FX Settlement date: FX will be booked for next available value
FX Reporting	Swift MT300/FX Transactions report in Citidirect for Securities
FX Code Words****	Accepted (please mention this in the instruction format to activate it)
Settlement Instruction	Settlement instruction should to be sent prior to the FX cut off

**Exceptions**—It should be noted that receipt of instructions within the time frame indicated by the applicable cut-off time schedules does not guarantee that value will be obtained on the relevant settlement date. This is due to scenarios that include, but are not limited to, market illiquidity, currency devaluation or any other economic instabilities. As such, Citi will not accept liability for either this or any other delays in processing or execution of the FX deals. In addition, Citi does not accept responsibility for any intra-day fluctuations in FX rates that may cause a potential gain or loss to the client from the timing of execution of the FX deal. Clients should be mindful of the complexities of the use of FX code words where the booking time of the FX is not based upon the receipt of instruction, but based upon a further trade status within the trade life cycle. Clients should check to ensure that an FX has been executed prior to using suppression code words on cancellations and rebooks. Clients should also note that Citi reserves the right to decline to act on AutoFX instructions in particular currencies due to requirements of local law, applicable market regulations, market restrictions or market conditions (including those detailed above) upon reasonable notice to the client, where practicable. Clients must acknowledge that in certain markets, while foreign exchange may be possible, there are operational requirements and documentation or other conditions precedent that must be complied with by the client or supplied to Citi or the relevant sub-custodian in order for currencies to be exchanged. Under no circumstances will Citi accept responsibility for any consequential losses borne by our client.

# Direct FX/Voice Calls

## Available for Model A<sup>2</sup> and Model C/SPSA+<sup>3</sup> (For Citi Custody Client only)

Booking Location	HK
FX Rate	Quoted
FX Cut Off	<sup>2</sup> Below cut off will be followed subject to market liquidity
USD	6:00 PM HKT(Model C/SPSA+)/4:00PM HKT(Model A)
GBP	6:00 PM HKT(Model C/SPSA+)/4:00PM HKT(Model A)
EUR	6:00 PM HKT(Model C/SPSA+)/4:00PM HKT(Model A)
AUD	11:00 AM HKT (Both)
JPY	10:00 AM HKT (Both)
HKD	6:00 PM HKT(Model C/SPSA+)/4:00PM HKT(Model A)
SGD	11:30 AM HKT (Both)
	Note: The extended cut off (4.00 PM–6.00 PM for applicable currencies) is for Model C customers who use CGM for Stock Connect trades. CNH FX for other purpose cannot be booked in that time window. Please note that for same day valued CNH FX, there is no guarantee of time of settlement, as the funds are awaited from the other bank.
FX Booking Post Cut Off	FX with Next Day Value subject to Market Liquidity
Citi Contacts	Email: <a href="mailto:fx.citihk@citi.com">fx.citihk@citi.com</a> Tel: +852 2868 8136
FX Criteria	For RVP trades/Buy trades: Please book buy CNH deal with VD = SD of securities trade For DVP trades: Please book sell CNH deal with VD = SD + 1 of securities trade
Currency Holiday and USD Holiday	Holiday on FX Settlement date: FX will be booked for next available value.
FX Reporting	Swift MT300
Queries	Please ensure to provide the name of the authorized traders as a one-time set up. Contact the contacts above for further detail

1. Benchmark Rate—Benchmark rates consist of a set of mid-rates drawn directly from the interbank markets at fixed times during the day. These mid-rates are derived from a proprietary algorithm that takes into account liquidity pools and monitors live trading prices from a number of electronic trading platforms and other price-reporting services. The method behind the process places a higher weighting on the most liquid sources for each currency pair and combines currency rates to determine accurate fixes in less liquid cross-rates where necessary. All prices, moreover, are checked continuously and multiple price sources are checked against each other to detect and filter unusual rates or price distortions at the time of fixing. The mid-rates are then published on Reuters and Bloomberg within five minutes of the fixing time. When dealing with the bank and opting for the benchmark rates, you will be given these mid-rates plus or minus the spreads. Benchmark rates are independently audited by the external auditor.
2. Model A—Standard Agency Broker Model (Investor need pre-deliver shares to local broker on T-1 or morning of T).
3. Model C—Third party clearing model (CBNA HK as TPC and Custodian).

## How to Get Ready?

Review Fund Prospectus	<ul style="list-style-type: none"> <li>Review and assess whether any amendment or approval required on the fund strategy. Does Prospectus allow use of A-shares?</li> </ul>
Check with Trustee	<ul style="list-style-type: none"> <li>Unit trust or UCITS, check with trustee or depositary bank and ensure compliance with relevant fund regulation</li> </ul>
Equity and Custody Solutions	<ul style="list-style-type: none"> <li>Evaluate and decide on the execution and custody solution</li> <li>Execution solution, e.g. High Touch, Electronic</li> <li>Prime and Synthetic access, e.g. P-note and D1 (swap)</li> <li>Regulated funds should use Model C or Citi SPSA+ Solution</li> <li>Advise your global custodian to choose Citi as their sub custodian to get unique benefits of Model C and Citi SPSA+</li> <li>Establish CNH FX and funding arrangement with custodian or broker</li> </ul>
Operations	<ul style="list-style-type: none"> <li>Review operation specifics and cut-off times</li> <li>Decide whether auto-settle support may be required by the custodian</li> </ul>
Custody Documentation	<ul style="list-style-type: none"> <li>Stock Connect General Terms and Conditions</li> <li>For SPSA   HKEx SPSA form</li> <li>Custody Stock Connect Fee agreement (if applicable)</li> </ul>
Broker Documentation (If Applicable)	<ul style="list-style-type: none"> <li>For US based clients   CGMI—Disclosure Statement, Broker tax document; or</li> <li>For clients based in EMEA   CGML—Disclosure Statement</li> <li>Prime Brokerage (if applicable)—Prime Brokerage Agreement, PB Supplement in relation to Shanghai Hong Kong Stock Connect</li> <li>Delta 1 (if applicable)—ISDA / CSA, Prime Finance Swap Confirmation, Counterparty Information Form (CPC Form), China Tax Letter</li> </ul>

For the full benefit of Citi Solutions, please appoint Citibank NA Hong Kong as Custodian, or ask your existing custodian(s) to appoint Citibank NA Hong Kong's as sub-custodian.

Use Citigroup Global Markets (CGM) as the execution broker, or other brokers who appointed Citibank NA Hong Kong's as their TPC or custodian for the flexibility to transact with multi brokers and benefit from true RVP/DVP settlement.

# Onboarding Process and Documentations<sup>1</sup>

Please contact your relationship manager (RM), Client Sales Manager (CSM) or Client Executive (CE) to initiate the process or email [StockConnect@citi.com](mailto:StockConnect@citi.com)

	Model C	SPSA
<b>Estimated Time Frame</b>	<ul style="list-style-type: none"> <li>2 weeks upon receipt of required documentation and instruction</li> </ul>	<ul style="list-style-type: none"> <li>2–3 weeks upon receipt of required documentation and instruction</li> </ul>
<b>Step 1 Specify Requirements</b>	<ol style="list-style-type: none"> <li>Client to specify the “Relevant Account(s)” for Model C and purpose of pre-trade checking</li> <li>Clarify other requirements e.g. <ul style="list-style-type: none"> <li>Is auto-settle required (sell only or for all trades)?</li> <li>Is AutoFX required?</li> <li>Is CNH credit lines required?</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>Client instructs Citi to open new SPSA account or convert an existing account (including Model C account) to SPSA</li> <li>Clarify other requirements, e.g. <ul style="list-style-type: none"> <li>Is auto-settle required (sell only or for all trades)?</li> <li>Is AutoFX required?</li> <li>Is CNH credit lines required?</li> </ul> </li> </ol>
<b>Step 2 Documentation and Setup</b>	<ul style="list-style-type: none"> <li>Client to sign and return the Model C Custody Supplement<sup>2</sup></li> <li>Citi will map the relevant safekeeping accounts to corresponding TPC broker trading position ID and setup pre-trade checking for A Shares only</li> </ul>	<ul style="list-style-type: none"> <li>Client to sign and return the SPSA Custody Supplement<sup>2</sup></li> <li>Arrange with executing broker(s) to complete and return the HKEx SPSA Form to Citi HK <a href="http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Documents/Special%20Segregated%20Account%20and%20Designated%20Executing%20Broker%20Maintenance%20Final.pdf">http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Documents/Special%20Segregated%20Account%20and%20Designated%20Executing%20Broker%20Maintenance%20Final.pdf</a></li> <li>Citi setup the SPSA through CCASS, and submits SPSA Form(s) to CCASS</li> </ul>
<b>Step 3 Trading</b>	<ul style="list-style-type: none"> <li>Upon completion of setup, client will be notified on <ul style="list-style-type: none"> <li>Completed setup of the Relevant Account(s) under Model C</li> <li>the cut-off time for the settlement instruction, FX, and cash instruction for the relevant custody location</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Upon confirmation from CCASS, client will be notified on <ul style="list-style-type: none"> <li>The completion of SPSA setup</li> <li><b>Their Investor ID</b></li> <li>Effective date to trade through the SPSA</li> <li>The cut-off time for the SPSA settlement instruction, FX and cash for the relevant custody location</li> </ul> </li> </ul>

1. Assuming client already established trading relationship with the broker(s).

2. For new clients | Citi will assist to complete the standard on-boarding documentation to set-up custody and cash accounts.

# Citi Investment Research and Analysis

Citi Research focuses on delivering the highest quality company, sector, economic and geographic insights to our clients globally. The unit includes equity and fixed income research, economic and market analysis and product-specific analysis to help individual and institutional clients navigate a complex global marketplace. Citi Research is committed to maintaining the highest level of independence and objectivity in its proprietary products and insights. For Stock Connect, Citi Research has extended coverage to over 80+ shares and will also expand coverage to the shares traded in the Shenzhen exchange soon.

Company Name	Ticker	Bloomberg Code	Company Name	Ticker	Bloomberg Code
ABC	601288.SS	601288 CH	Hengrui	600276.SS	600276 CH
Air China	601111.SS	601111 CH	HG Tech	000988.SZ	000988 CH
Angang	000898.SZ	000898 CH	Hikvision	002415.SZ	002415 CH
Avicopter	600038.SS	600038 CH	HNPIT	600011.SS	600011 CH
Avionics Systems	600372.SS	600372 CH	Hongdu Avia	600316.SS	600316 CH
Baoshan Steel	600019.SS	600019 CH	HTSC	601688.SS	601688 CH
BBMG Corp	601992.SS	601992 CH	Huace Film & TV	300133.SZ	300133 CH
Bj Capital	600008.SS	600008 CH	Huayi Brothers	300027.SZ	300027 CH
BoBJ	601169.SS	601169 CH	Huayu Automotive	600741.SS	600741 CH
BOC	601988.SS	601988 CH	ICBC	601398.SS	601398 CH
BoCom	601328.SS	601328 CH	INDB	601166.SS	601166 CH
CCB	601939.SS	601939 CH	Inovance	300124.SZ	300124 CH
CEB Bank	601818.SS	601818 CH	Jiangsu Exwy	600377.SS	600377 CH
CFLD	600340.SS	600340 CH	Jiangxi Copper	600362.SS	600362 CH
Chalco China	601600.SS	601600 CH	JJIH	600754.SS	600754 CH
China COSCO	601919.SS	601919 CH	JUNEYAO	603885.SS	603885 CH
China Eastern	600115.SS	600115 CH	Kalends	300418.SZ	300418 CH
China Jushi	600176.SS	600176 CH	KDX	002450.SZ	002450 CH
China Life-A	601628.SS	601628 CH	Leshi	300104.SZ	300104 CH
China Pacific-A	601601.SS	601601 CH	Lonsen	600352.SS	600352 CH
China Railway	601390.SS	601390 CH	Lujiazui Devel	600663.SS	600663 CH
China Shenhua	601088.SS	601088 CH	Luxshare	002475.SZ	002475 CH
China Ship	600026.SS	600026 CH	Maanshan Iron	600808.SS	600808 CH
ChinaNetCenter	300017.SZ	300017 CH	Midea Group	000333.SZ	000333 CH
Chongqing Water	601158.SS	601158 CH	MSB	600016.SS	600016 CH
CITIC Securities	600030.SS	600030 CH	Nari-Tech	600406.SS	600406 CH
CITS	601888.SS	601888 CH	Offshore Oil Eng	600583.SS	600583 CH
CMB	600036.SS	600036 CH	Ourpalm	300315.SZ	300315 CH
CMST	600787.SS	600787 CH	PAB	000001.SZ	000001 CH
CN Coal Energy	601898.SS	601898 CH	Ping An-A	601318.SS	601318 CH
CN Railway Const	601186.SS	601186 CH	Pinggao Elec	600312.SS	600312 CH
CNCB	601998.SS	601998 CH	Poly Real Estate	600048.SS	600048 CH
Conch Cement	600585.SS	600585 CH	Qingdao Haier	600690.SS	600690 CH
CRR	601766.SS	601766 CH	RObam	002508.SZ	002508 CH
CRT	600125.SS	600125 CH	SAIC Motor	600104.SS	600104 CH
CSCEC	601668.SS	601668 CH	Sanju	300072.SZ	300072 CH
CSCL	601866.SS	601866 CH	Shanghai Elec	601727.SS	601727 CH
CSN	600029.SS	600029 CH	Shanghai Shimao	600823.SS	600823 CH
Dahua	002236.SZ	002236 CH	Shenzhen Gas	601139.SS	601139 CH
Daqin Railway	601006.SS	601006 CH	SIA	600009.SS	600009 CH
Datang Power	601991.SS	601991 CH	SIASUN	300024.SZ	300024 CH
Enlight Media	300251.SZ	300251 CH	Sinoair	600270.SS	600270 CH
Financial St	000402.SZ	000402 CH	SPDB	600000.SS	600000 CH
First Tractor	601038.SS	601038 CH	Spring Airlines	601021.SS	601021 CH
Gemdale	600383.SS	600383 CH	TBEA	600089.SS	600089 CH
GF Securities	000776.SZ	000776 CH	Vanke	000002.SZ	000002 CH
Gree Electric	000651.SZ	000651 CH	Wanhua Chemical	600309.SS	600309 CH
GSRC	601333.SS	601333 CH	Yonyou Network	600588.SS	600588 CH
Haitong Sec	600837.SS	600837 CH	Yutong Bus	600066.SS	600066 CH
Han's Laser Tech	002008.SZ	002008 CH	Zijin	601899.SS	601899 CH
HDPI	600027.SS	600027 CH			



# Execution | Cash Equity

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In November 2014, Citi was the first broker to offer our clients a full suite of execution capabilities for the launch of Stock Connect. Among industry peers and our clients, Citi was recognized as a leader when it came to providing execution and custody solutions for the Connect scheme.

## Why Citi?

- One of the first brokers to offer High Touch, Electronic, Portfolio Trading and Delta One products on launch date
- Widely viewed as one of the market-leading solution providers for the Connect scheme
- Dedicated execution quants responsible for the build-out and recalibration of the quantitative models (algos) that Citi uses internally for the majority of our executions as well as giving direct access to our clients (DSA)
- To date, strong execution performance across a large data set of client order flow
- Exceptional market knowledge among our Sales Traders and Electronic Execution personnel in order to assist our clients to navigate the challenges and nuances of this market place

**Citigroup Global Markets (“CGM”)** offers a full range of execution services for the Connect scheme:

- High Touch (both cash and swap)
- Electronic Execution DMA/DSA (both cash and swap)
- Program Trading
- Delta One products (Swap and P-Notes)

## Algorithms offered for China Connect:

- VWAP
- PARTICIPATE
- IS
- ICEBERG
- MOC
- DMA
- TWAP
- SCALING
- DAGGER
- SMARTPEG
- MOO

CGM Contacts	Name	Phone	Email
Stock Connect / Electronic Execution	Ben Valentine	+852 2501 2884	ben.valentine@citi.com
High Touch	Phil Shaw	+852 2501 2383	phil.shaw@citi.com
Program Trading	Ryan Clendenny	+852 2501-2313	ryan.clendenny@citi.com
Delta One	Dylan Halterlein	+852 2501-2213	dylan.halterlein@citi.com
Middle Office	Edna Chan	+852 2501 2221	cconnect@citi.com

## Execution | Cash Equity (Cont'd)

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### Documentation

Cash Equities: CGMI Clients	<ul style="list-style-type: none"><li>• Tax Indemnity letter</li><li>• Risk Disclosure Document (Execution not required)</li></ul>
Cash Equities: CGML Clients	<ul style="list-style-type: none"><li>• Risk Disclosure Document (Execution not required)</li></ul>
Cash Equities: Additional for SPSA Clients	<ul style="list-style-type: none"><li>• Special Segregated Account and Designated Executing Broker Maintenance Form</li></ul>
Delta One Clients	<ul style="list-style-type: none"><li>• ISDA</li><li>• CSA</li><li>• China Tax Letter</li><li>• For Portfolio swap client: Prime Finance Swap Confirmation</li></ul>

### Position Checking and Visibility

Model C	<ul style="list-style-type: none"><li>• CGM* will retrieve client positions from the Citibank custodian securities account and store in the default compliance system. The Citi trading system will perform position checking to ensure the client has sufficient shares to sell.</li><li>• Given the Chinese Wall in place between CGM and Citibank NA, CGM Operations are the only authorized party with visibility to client positions. Front office Sales and Trading staff of CGM <b><u>do not</u></b> have access to the positions database.</li></ul>
SPSA	<ul style="list-style-type: none"><li>• Position checking will be performed by CCASS.</li><li>• CGM <b><u>does not</u></b> maintain client position information</li></ul>

*\*CGM is defined as the Citi broker dealer entity which the client has their brokerage account with i.e. Citigroup Global Markets Limited or Citigroup Global Markets Inc.*

### Allocations and Trade Confirmations

- Trade allocation Cut off time: 15:30 HK Time
- Trade confirmations will be sent within 15-30min after allocations are received.
- Confirmations will show CNY (since SWIFT does not support CNH) as the currency

# Execution | Cash Equity (Cont'd)

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## SPSA Onboarding

- Clients should request their custodian to setup the SPSA account and apply for investor ID.
- Once the SPSA account and invest ID is setup, clients can send CGM the “Special Segregated Account and Designated Executing Broker Maintenance Form” and CGM will fill in Section III: “DESIGNATED EXECUTING BROKER DETAILS”.
- In addition, 5 general conditions will be sent for clients to affirm during the SPSA onboarding processes:
  1. Clients to confirm they will be using the “Single Sided Instruction” service with their custodian.
  2. In case Investor ID information is not provided with any Connect sell order, CGM will use the existing position checking model to check if clients have shares in the relevant Citi custodian account. If not, the order will be rejected.
  3. For SPSA orders, trades must be settled with the securities in the related SPSA accounts. If clients need to settle with another account other than the original one used for position checking, clients will need to provide the valid reason(s) in writing to CGM and we will report the same to the exchange on client's behalf.
  4. If there is an SPSA order for short selling, clients need to confirm that borrowing has been pre-arranged by either indicating in the FIX message or informing CGM manually. In either case, if borrowing has been confirmed, clients are also representing that the borrowed Short Selling Securities are held in the relevant Special Segregated Account and that the order will be able to meet the pre-trade checking requirements.
  5. If clients need to allocate average price across orders for different SPSA accounts, client will need to send CGM an initial email confirmation to specify the list of SPSA accounts that will be authorized to allocate average prices.

## FIX message testing

For FIX orders, CGM engages in testing with each client in order to ensure the Investor IDs can be successfully retrieved prior to trading.

# Execution | Cash Equity (Cont'd)

## Shanghai Hong Kong Stock Connect Market Guide for Trading

LOCAL TIME	TRADING SESSION	EXCHANGES*		DMA		DSA			Notes
		Input	Cancel	Input	Cancel	Input	Modify	Cancel	
09:10 – 09:15	Opening Call Auction	Q	Q	Q		Q			DSA queuing in C4 and released to CS at 9:15
09:15 – 09:20		✓	✓	✓	✓	✓	✓	✓	
09:20 – 09:25		✓		✓		✓			
09:25 – 09:30		Q	Q	Q	Q	Q	Q	Q	Order pending new, then cancellation will be rejected
09:30 – 11:30	Continuous Trading	✓	✓	✓	✓	✓	✓	✓	
11:30 – 13:00	Lunch Break			Q		Q			New order queuing in C4. Cancel allowed for queue order
12:55 – 13:00		Q	Q	Q	Q	Q	Q	Q	Order pending new, then cancellation will be rejected
13:00 – 15:00	Continuous Trading	✓	✓	✓	✓	✓	✓	✓	
15:00	Market close								

### Legend

Q- Queuing in Citi or HKEx;

✓ Processed by SSE;

\* No native order amendment supported. Any order which is queued to be acknowledged cannot be modified or cancelled; Information for Shenzhen will be included soon.

## Execution | Cash Equity (Cont'd)

TYPE	EXCHANGE-HARD BLOCK	Citi- HARD BLOCK	Citi - SOFT BLOCK
<b>Restricted Stock</b>		Category 4	Category 1,2,3 (SWAP only)
<b>Price Limit</b>	<ul style="list-style-type: none"> <li>+/- 10% Previous Close for Normal Stock</li> <li>+/- 5 % Previous Close for Special Treatment Stock</li> <li><b>Buy orders</b> with input prices 3% lower than the current best bid (or last traded price in the absence of current best bid, or previous closing price in the absence of both current best bid and last traded price.) During Opening Call Auction, current bid or previous close price is used if no bid price i.e. - 3% dynamic price</li> </ul>	<b>DMA &amp; DSA</b> <ul style="list-style-type: none"> <li>+/- 5 % Previous Close for Special Treatment Stock (LS &amp; SS)</li> </ul> <b>CitiSmart</b> Open Auction <ul style="list-style-type: none"> <li>Buy/Sell Aggressive : +/- 5% Previous Close</li> <li>Buy Passive: +/- 2.5% Indicative Price Continuous Trading –</li> <li>Buy / Sell Aggressive: +/- 1.5 %Last Traded Price</li> <li>Buy Passive: +/- 2.5% Last Traded Price</li> </ul>	<b>DMA</b> <ul style="list-style-type: none"> <li>2.5% Aggressive Last Traded Price</li> <li>3% Passive Last Traded Price</li> <li>+/-10% Previous Close for Normal Stock (B, LS &amp; SS)</li> </ul> <b>DSA</b> <ul style="list-style-type: none"> <li>+/- 10% Last Traded Price or Previous Close for Normal Stock (B, LS &amp; SS) <i>Last Traded Price, then Previous Close (whichever price is first available in this sequence)</i></li> </ul>
<b>Quantity – ADV</b>			DMA - 30%, DSA – 40%
<b>Quantity - % Outstanding</b>		DMA & DSA – 5%	DMA & DSA - 3%
<b>Notional Principal</b>		DMA – 10M USD , DSA – 50M USD	DSA 10M USD, DMA 2M USD Daily Limit per client

### TRADING RULES

<b>Bloomberg Code</b>	C1	Side	Long buy, long sell and Short-sell
<b>Order Type</b>	Market and Limit Order DMA market order routed for CitiSmart Notes: Exchange only supports native Limit Order Type	Order Book & Mix Lot Order Splitting	Same order books for main board and odd lot Only sell odd lot available No parent child orders created
<b>Order Expiry</b>	Day only	Synthetic DMA Order Amendment	No Support
<b>C4 order reroute to COMET</b>	No Support (will be delivered shortly)	Pre-open Order Queuing	Supported
<b>Holiday Arrangement</b>	SEHK is on holiday while SSE / SZSE is open; order will be queuing into Citi System if PDB is enabled; Open only if both exchanges open; If HK is holiday next day, market will close today	Algo Strategies	VWAP, TWAP, PARTICIPATE, SCALING, IS, DAGGER, ICEBERG, SMARTPEG, MOC, MOO & DMA
<b>Max shares</b>	1 mm shares. C4 routes to CS for splitting	Up-tick Rule	Must confirm borrow (SS & SL with borrowed); last traded price or previous close price
<b>Client position Validation</b>	Support SPSA model and no day trading allowed	Investor ID or Enhanced Pre-Trade Checking Model	Optional - Sell or short-selling order Custodians must open Special Segregated Accounts (SPSA) in CCASS

# Execution | Cash Equity (Cont'd)

## Citi Algo Guide

Strategy	Description	Will Complete	Price Limit	Post on Board	Open Auction	Closing Auction	Citi Match Access
VWAP	Trades according to historical volume curve. Seeks to minimize paying spread vs. VWAP benchmark	Yes	Optional	Yes	Yes	Yes	Yes
TWAP	Orders trade evenly over time	Yes	Optional	Yes	Yes	Yes	Yes
Participate	Executes according to a targeted volume level.	No	Optional	Yes	Yes	Yes	Yes
Scaling	Participate with scaling option which adjusts participation rate relative to price movement within range. (See below)	No	Optional	Yes	Yes	Yes	Yes
Implementation Shortfall (IS)	Trades in line along an optimized trading horizon. Balances market impact vs. market risk. Default benchmark is arrival price.	No	Optional	Yes	Yes	Yes	Yes
Iceberg	Display a partial at the specified price limit each time. Reloads the next split once it is filled. Display Quantity can be specified.	No	Required	Yes	Yes	No	Yes
Pegging	Float on bid for buy order and offer for sell order. Peg offset level can adjust which level to peg on.	No	Optional	Yes	Yes	No	Yes
Close	Executes at or near the closing price while minimizing market impact.	Yes	Optional	Yes	N/A	(See below)	Yes
Citi Match <sup>SM</sup>	Anonymous access to our non-displayed pool of retail, institutional, principal, and broker-dealer order flow. Includes substantial anti-gaming protection.	No	Optional peg + Optional limit	No	No	No	Yes
Dagger	(See below)	No	Variable	Variable	Variable	Variable	Yes

## Execution | Cash Equity (Cont'd)

	Dagger	Description	Dark Posting	Light Posting	Limit Required*	Crossing the Spread	Open Target	Close Target
Aggressive	Dagger 1	Passive	Near Touch	Near Touch	No	Never	0%	0%
	Dagger 2	Post + Take	Mid	Near Touch	No	Take when opposite size is larger than 1.3 x average touch size while leaving 50% to 60% of the opposite queue size	10%	10%
	Dagger 3	Post + Take	Mid	Near Touch	No	Take when opposite size is larger than 0.7 x average touch size while leaving 50% to 60% of the opposite queue size	20%	20%
	Dagger 4	Post + Aggressive Take	Mid	Near Touch	No	Take when opposite size is larger than 0.25 x average touch size while leaving 10% to 20% of the opposite queue size	30%	30%
	Dagger 5	Take now, Dark	Far Touch	No	Yes	Always	40%	40%

\*Customization for Dagger Limit Benchmark is available.

Parameter	Applicable Strategies	Description
Completion Price	All	A "trigger price" which shifts an existing algorithmic order to an aggressive trading profile. Also called 'I-Would'
Opportunistic	VWAP, IS, Participate, and TWAP	Sometimes referred to as "I Would Dark". Allows a schedule or volume based strategy to search for block liquidity across Citi Match and other non-displayed venues
Scaling	Scaling	Changes participation rate based on following modes: <b>Value</b> = Mean Reversion, <b>Momentum</b> = Trend following
Pivot Price (Benchmark)	Scaling	Reference benchmark for scaling. The specific price can be selected from benchmarks ( <b>Open, Close, Arrival, PWP, FairValue, VWAP, Index Relative, Order Average Px</b> ); otherwise, arrival price will be used
Trading Style	Close	Order allocated between closing auction and BECS <sup>TM</sup> Reverse IS (RIS). Close target: <b>Passive</b> 25%; <b>Active</b> 50%; <b>Aggressive</b> 75% of predicted close volume
Minimum cross quantity	Citi Match	Minimum number of shares required if crossed in Citi Match

### Strategy Mapping

Common Name	VWAP	TWAP	IS	Volume Inline, PVol	Sniper, Snipe	Float	Float Sniper	Reserve	Close
Citi Name	VWAP	TWAP	Scaling	Participate	Dagger (level 5)	Pegging	Dagger (level 4)	Iceberg	Close



# Execution | Delta 1 and Prime Brokerage

Prime Brokerage offers settlement and custody services. We may offer margin financing and /or securities borrowing/lending which are subject to rules and regulations. Delta 1 covers synthetic trading that includes equity swap and P-note trading. Stock Connect requires pre-trade checking thus requires clients to pre-deliver stock to the execution broker. However, with Citi's innovative clearing and custodian model, Citi PB can support normal DVP/RVP settlement allowing PB clients to avoid pre-deliver of shares and trades Stock Connect shares as regular buys and sells. In addition, Citi PB could also provide Model A and SPSA+ solutions for clients who wish to trade with external brokers.

Trading models available are:

- **Done-Away Trade** | Widely available agency broker model - Pre-delivery of shares to local broker required pre-trade.
- **Done-With Trade** | Shares ready to sell anytime and can support RVP/DVP.
- **SPSA+** | SPSA model involves establishing a unique investor ID account at a custodian to eliminate pre-delivery requirements. SPSA eliminates the need for pre-deliver of shares; however there are key limitations or risks associated with the standard SPSA model. Citi is uniquely able to offer solutions (Citi SPSA+) to address, including the ability to provide true DVP/RVP to our clients as long as the execution brokers appointed CBNA Hong Kong as third party clearer or settlement agent.

Clients wishing to trade with external brokers should follow the below table as securities or cash must be pre-delivered before trade execution.

Offshore CNY Pre-Funding – Clients need to ensure FX executed to cover the offshore CNY. **Citi offers same day value FX execution to accommodate T+0 trading.**

**Below outlines the trade flows for clients' reference:**

Trade Type	Broker: CGM	Broker External – Trade Booking (Model A)	Broker External – Cash (Model A)
BUY	BUY	TFI – Receive securities purchased	Client enters offshore CNY payment via Citi Velocity to pre deliver cash
HK DEADLINE	T+0 16:30	T+0 – 16:00	CNY cash T+0 16:00 (T+0 FX executed before 16:30)
SELL	SELL	TFO – Pre-deliver securities before trade execution	Client enters offshore CNY pre-advice via Citi Velocity to receive proceeds of executed trade Note: Please ensure Broker references client fund name & PB a/c for CNY reconciliation purposes
HK DEADLINE	T+0 16:00	T-1 - 16:00 Unsold positions TFI T+0 16:00	Pre-advise Cash T+0 16:00
US & UK clients DEADLINE (BUY/SELL)	05:00 HKT (T)	05:00 HKT (T)	

Note: Clients are responsible to upload a TFI to receive back any unsold positions from brokers. Clients are responsible to book a pre-advice for any excess cash as a result of pre-delivering cash prior to trade execution.

# Execution | Delta1 and Prime Brokerage (Cont'd)

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## Margin Options

- **Margin Financing** | A-shares will be incorporated into Citi Margin and margined on a portfolio basis.
- **Margin Trading** | When Stock Connect first launched in Q4 2014, Margin Trading was omitted from the launch as the rules were not clear. Rules have since been released from the exchange in Q1 2015 allowing margin trading on Connect stocks. At this time Citi will only offer margin trading in non-restricted currencies on Stock Connect. Re-hypothecation of Connect stocks and block trading are not yet supported.
- **Synthetic Financing** | P-notes and swaps complete Stock Connect offering by allowing clients to access the market synthetically. Clients looking for simple economic exposure can use these products to reduce some of the complications of Stock Connect, and it allows clients to gain exposure on the short side as well.
  - Limited to 568 stocks on the SSE only. List available on request.
  - All constituent stocks of the SSE 180 and 380.
  - All dual-listed shares i.e. SSE-SEHK A+H (68).
  - Exceptions: Shares that are not traded in RMB; Shares under 'risk alert'; No IPOs; No CBs.
  - Follows trading hour of SSE but SEHK will accept orders five minutes before SSE opens, both in the morning and afternoon sessions.

## Implementation & Documentation

Delta 1	<ul style="list-style-type: none"><li>• ISDA/CSA</li><li>• Master Confirmation to PFS</li><li>• China Tax Letter with HK Connect wording</li><li>• Master Representation Letter (it is required for P-note trading only)</li><li>• Portfolio Margining Agreement (Optional)</li></ul>
Prime Brokerage	<ul style="list-style-type: none"><li>• Prime Brokerage Agreement</li><li>• PB Supplement for HK Connect</li></ul>
Electronic Execution	<ul style="list-style-type: none"><li>• Electronic Trading Agreement</li></ul>

**For more information contact** | [Jacqueline.Fan@Citi.com](mailto:Jacqueline.Fan@Citi.com)

## Servicing and Reporting

- A dedicated coverage person will manage your relationship within Citi providing full connectivity with the rest of the firm
- Robust client portal provides interactive toolset and flexible reporting solutions.

**For more information contact** | [Ginny.Cheok@Citi.Com](mailto:Ginny.Cheok@Citi.Com)

## 5. Custody Quick Operations Guide

# Custody Quick Operation Guide

## SWIFT Code (Stock Connect Northbound)

- PSET code **XHKCHKH1**

## Settlement

- Model A: FOP / DVP / RVP transfer on T
- Model C: RVP / DVP settlement for shares and cash on T

## RMB Cash Cut-off Times (Citibank Hong Kong Only)

- Book Transfer/Local Outward remittance: VD 22:30 for RTGS (structured), VD 15:00 for RTGS (manual)

## CNH FX Cut-off Times (HK Global Custody and Direct Custody, London Global Window and American Global Window Clients)

- Model C clients only: 18:00 HKT (Deal Direct), 17:30 (Auto-FX) for same day value (USD, GBP, EUR, HKD)
- Model A clients only: 16:00 HKT for same day value (USD, GBP, EUR)
- After cut-off time, FX will be booked for next day value

## CNH FX Cut-off Times (SG Global Custody Clients)

- Model A and C clients: 16:00 SGT (Deal Direct), 15:30 (Auto-FX) for same day value (USD, GBP, EUR, HKD), subject to market liquidity
- After cut-off time, same day FX on best efforts basis

## Account Structure

- Citi supports omnibus or segregated accounts for cash and securities. This account can be used for A-shares, HK listed shares and other securities
- With Model C, only A-shares position will be sent to the broker compliance checking system for purpose of pre-trade checking

## Documentation for Stock Connect

- Stock Connect Custody Terms and Conditions
- Model C Supplement
- Stock Connect Fee Schedule

## Corporate Action

- CA advices will be sent to current holders of records based on traded positions, within one business day of the receipt of the announcement by Citi from CCASS.
- Voluntary CA Instruction: Cut-off time for receipt of client's CA instructions is generally one business day prior to the CCASS deadline. When available, specific instruction cut-off time will be included in the corporate action message for Client's action
- Shareholders Meeting: CCASS will advise its participants of the general meeting details. Citi as a CCASS participant can vote via its CCASS terminal on behalf of the investors. Unlike QFII / RQFII, Stock Connect investors will not be able to attend meetings in person

## Model C Instruction Cut-off Times in HKT<sup>1</sup> (Unless Agreed Otherwise)

		Hong Kong Global Window / Direct Custody	Singapore Global Window	American Global Window	London and Luxembourg Global Window
Internal DVP	STP	SD 17:00	SD 16:00	SD 15:30	SD 15:30
	Structured Inst	SD 16:30	SD 15:30	NA	NA
	Unstructured	SD 15:00	SD 15:00	NA	NA
Internal RVP (If No SI Transfer During Afternoon SI)	STP	SD 18:30	SD 16:00	SD 17:00	SD 17:00
	Structured Inst	SD 18:00	SD 15:30	NA	NA
	Unstructured	SD 17:00	SD 15:00	NA	NA
Internal RVP (If Client Needs SI Transfer During Afternoon SI)	STP	SD 18:00	SD 16:00	SD 17:00	SD 17:00
	Structured Inst	SD 17:30	SD 15:30	NA	NA
	Unstructured	SD 16:00	SD 15:00	NA	NA

NB: "Model C" here assumes CBNA as Custodian and a broker which uses CBNA for Third Party Clearing, such as Citigroup Global Markets.

# Custody Quick Operation Guide (Cont'd)

## Citi SPSA Sell Trade Instruction Cut-Off Times in HKT<sup>1</sup>

(Unless Agreed Otherwise)

		Hong Kong Global Window / Direct Custody	Singapore Global Window	American Global Window	London and Luxembourg Global Window
SPSA Sell (DVP)	STP	SD 16:45	SD 16:00	SD 15:45	SD 15:45
	Structured Inst	SD 16:30	SD 15:30	NA	NA
	Unstructured Inst	SD 15:00	SD 15:00	NA	NA
For Buy Trades, see Model C or Model A	Structured Cancellation	SD 16:30	SD 15:30	NA	NA

Note: "Citi SPSA" here assumes CBNA as Custodian, and if the broker which uses CBNA for Third Party Clearing, such as Citigroup Global Markets, then client will benefit with better cut-off time which is same as Model C.

## Model A: Instruction Cut-off Times in HKT<sup>1</sup>

(Unless Agreed Otherwise)

		Hong Kong Global Window / Direct Custody	Singapore Global Window	American Global Window	London and Luxembourg Global Window
Afternoon SI (18:00– 19:45) FOP / DVP / RVP Transfer to/from Broker/Custodian	Structured FOP	SD 18:00	SD 17:30	SD 17:00	SD 17:00
	Unstructured FOP	SD 17:00	SD 16:00	NA	NA
	Structured Cancellation	SD 17:30	SD 17:00	SD 17:00	SD 17:00
Afternoon SI Settlement Status Update		By SD 20:45			

NB: "Model A" here assumes CBNA as Custodian and is broker agnostic.

1. All cut-off time and service provision are for information only and is not considered as service agreement. Service or cut-off time may vary for different service windows or clients please check with your custody client service team to confirm. All information provided on this document is subject to change.

2. Morning SI has been removed with effective Jul 18, 2016

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## 6. Glossary

## Glossary

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A-shares	except where the context requires, references to A-shares in this information book refers to all A-shares listed and traded on the SSE and SZSE
A-shares market	SSE's and SZSE's A-share market
CCASS	the Central Clearing and Settlement System, operated by HKSCC, for the clearing of securities listed or traded on SEHK
CCASS Participant	a person registered as a participant of HKSCC under one of the categories of participantship specified in the CCASS Rules
CCASS Rules	the Rules and Operational Procedures of HKSCC, as amended from time to time
CCP	central counterparty
CNS	Continuous Net Settlement
ChinaClear	China Securities Depository and Clearing Corporation Limited
ChinaClear Participant	a person who is registered as a clearing participant of ChinaClear
Clearing Links	the linkage established between HKSCC and ChinaClear under which HKSCC and ChinaClear will act as participating CCPs and provide clearing and settlement, depository and nominee services to their respective participants in respect of A Shares and SEHK Securities executed through the Trading Links
CP	a CCASS Participant admitted to participate in CCASS as a DCP or GCP
CSC	China Stock Connect System, the open gateway through which EPs may place orders for A Shares to the SEHK Subsidiary
CSRC	China Securities Regulatory Commission
EP	a person registered as an Exchange Participant of SEHK
GCP	a CCASS Participant admitted to participate in CCASS as a General Clearing Participant
HKEx	Hong Kong Exchanges and Clearing Limited
HKICL	Hong Kong Interbank Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of HKEx
HKSCC GF	the HKSCC Guarantee Fund
H-shares	a specific class of shares of certain companies incorporated in the Mainland, which are approved for listing on SEHK
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Mainland, PRC, or China	the People's Republic of China. Except where the context requires, geographical references in this information book refer to the PRC; Mainland; or China, and exclude Hong Kong; Macau; and Taiwan



MOU	Memorandum of Understanding
NCP	Non Clearing Participant, an EP of SEHK which is not a CP of HKSCC
Northbound	the trading of A Shares by Hong Kong and overseas investors through the Trading Link
PRC Law	the laws of the PRC, as amended from time to time
QDII	Qualified Domestic Institutional Investor
QFII	Qualified Foreign Institutional Investor
RQFII	Renminbi Qualified Foreign Institutional Investor
SEHK	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of HKEx
SFC	the Securities and Futures Commission of Hong Kong
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shanghai-Hong Kong Stock Connect or Pilot Programme	a securities trading and clearing links programme developed by SEHK, SSE, SZSE, HKSCC and ChinaClear for the establishment of mutual market access between Hong Kong and Shanghai / Shenzhen
SSE	the Shanghai Stock Exchange
SSE Member	a person who is registered as a broker member of SSE
SSE Securities	securities listed and traded on SSE, which may be traded by Hong Kong and overseas investors under Shanghai-Hong Kong Stock Connect
SZSE	the Shenzhen Stock Exchange
Southbound	the trading of SEHK Securities by Mainland investors through the Trading Links
Special Segregated Account or SPSA	means a Stock Segregated Account within the range of account codes specified by HKSCC which is designated by a Custodian Participant or a GCP which is not an Exchange Participant for one of its clients for the purpose of maintaining holdings of China Connect Securities of this client and for facilitating the determination of the maximum amount of China Connect Securities that may be sold by this client on a particular Trading day
Trading Links	the linkage established between SEHK and SSE / SZSE under which Hong Kong and international investors may trade A Shares through the SEHK Subsidiary and under which Mainland investors may trade SEHK Securities through the SSE / SZSE Subsidiary

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