

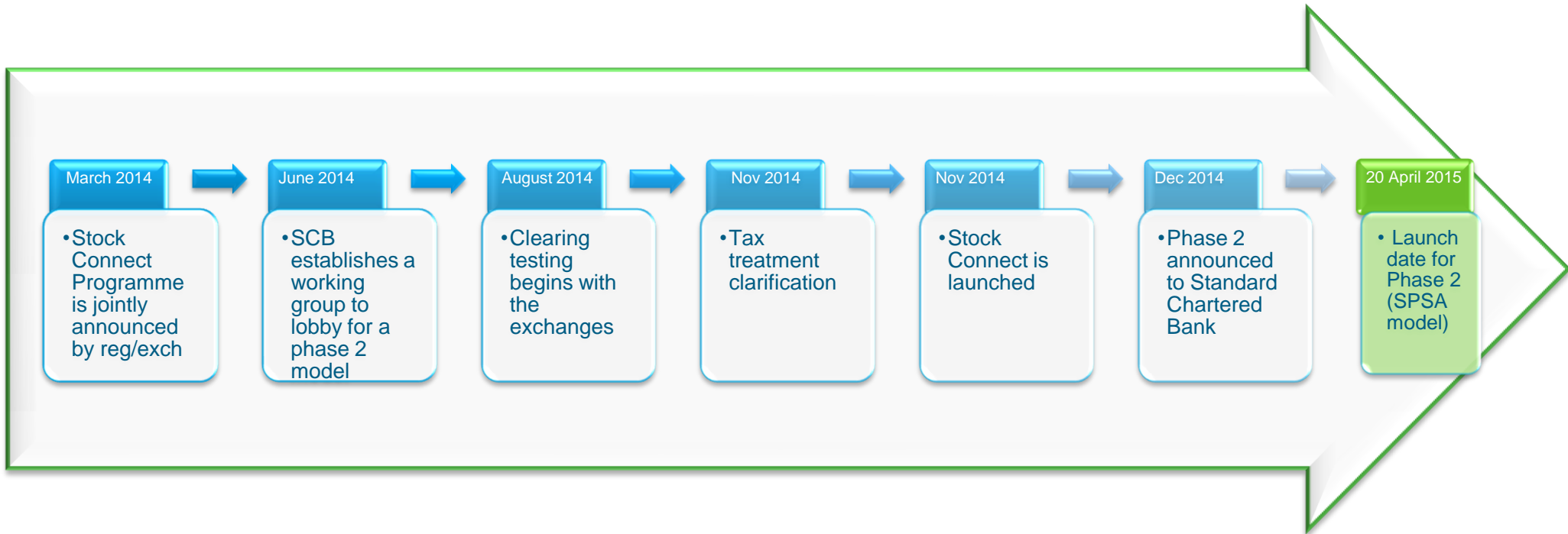


Shanghai-Hong Kong Stock Connect

A Unique Solution for the Future

Hong Kong-Shanghai Stock Connect

The story so far



HK Connect a Significant Step Towards Market Opening

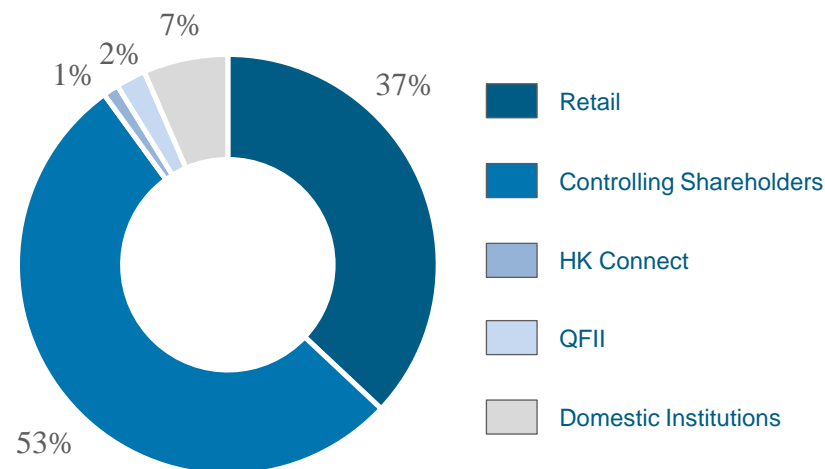
With the Shanghai-Hong Kong Stock Connect as an “open” conduit and future expansion of quota may be likely

- At the end of September 2015, the Northbound investment activity reached a monthly high of RMB 4.1bn despite the Shanghai Composite Index falling 3.2% for that last week. Southbound activity however still remains muted.
- Through 18 September 2015, over RMB 145bn (48% of the total investment limit) was invested in Shanghai and over RMB 89bn (36% of the total investment limit) in Hong Kong.

Key Implications

- If all existing QFII/RQFII quota were invested in it would equates to **5%** of A-share free float.
- HK Connect northbound quota of **RMB 300bn** which if fully invested would add another **3%** to free-float market cap.
- These pilot programs combined would have the potential to expand the foreign share of A-share free float to **8%**.
- It also represents the only “open” conduit (i.e. market quota instead of individual quotas) for investors abroad to participate in the A-share market.

Breakdown of A Share Total Market Cap

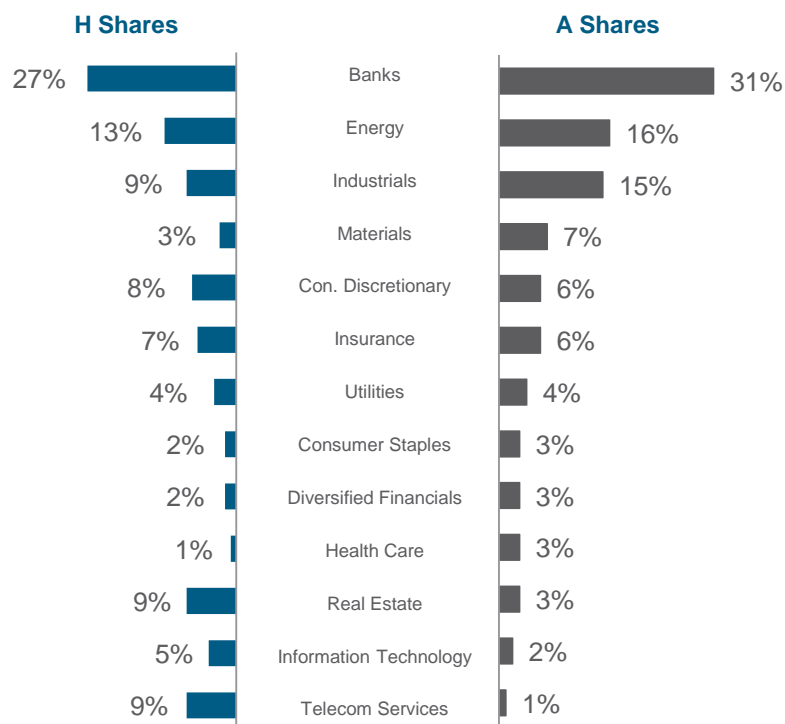


Eligible Stocks for the Stock Connect Program

Both the A & H shares offer a wide variety of investment options across various sectors and market cap sizes.

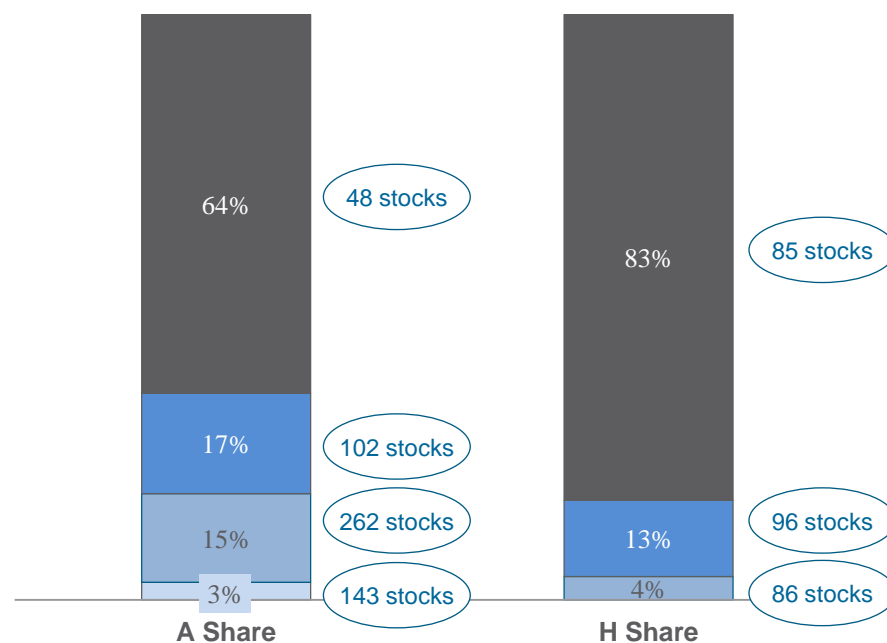
- For northbound trading, overseas investors would have more stocks in the cyclical sectors. And there are also much more stocks with market cap of less than USD 3bn, but high trading turnover (over USD 22mn a day).
- For southbound trading, mainland investors have more choices in the property, tech and telecom sectors. But most of the eligible stocks have market caps of over USD 3bn.

Sector Weights for the Eligible North/Southbound Shares



Market Cap Distribution for the Eligible North/Southbound Shares

Below USD 1.0bn USD 1.0-3.0bn USD 3.0-9.0bn Above USD 9.0bn

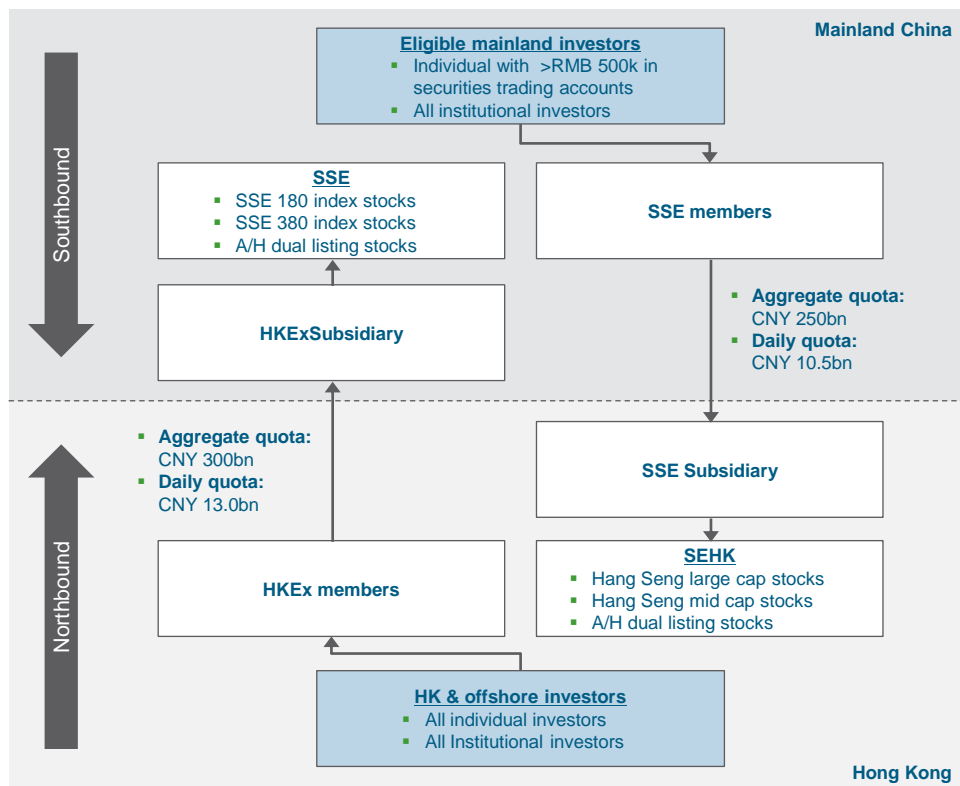


Shanghai-Hong Kong Stock Connect

Overview

Shanghai-Hong Kong Stock Connect is a mutual market access program, through which investors in Hong Kong and Mainland China can trade and settle shares listed on the other market respectively via the exchange and clearing house in their local market.

Key Features



Range of Securities for Northbound and Southbound Trading

	Northbound SSE Securities ¹	Southbound SEHK Securities
Index Constituent Stocks	SSE180 SSE380	HS Large Cap HS Mid Cap
A+H	SSE-SEHK A+H	SSE-SEHK A+H
Excluding	<ul style="list-style-type: none"> Shares under risk alert board Shares that are not traded in RMB 	<ul style="list-style-type: none"> A+H on other Mainland exchange Shares that are not traded in HKD H Share with corresponding SSE A-share under risk alert board
Total No. of Stocks ²	568	266
Market Capitalisation (MC) ²	90%	82%
Average Daily Turnover (ADT) ²	80%	78%

Note: For any SSE security not accepted as an SSE Security upon launch due to its being under risk alert board, if it is subsequently removed from the risk alert board, it will be accepted as an SSE Security if it falls under any of the selection criteria

¹ SSE Securities: securities listed and traded on Shanghai Stock Exchange (SSE) which may be traded by Hong Kong and overseas investors under Shanghai-Hong Kong Stock Connect.

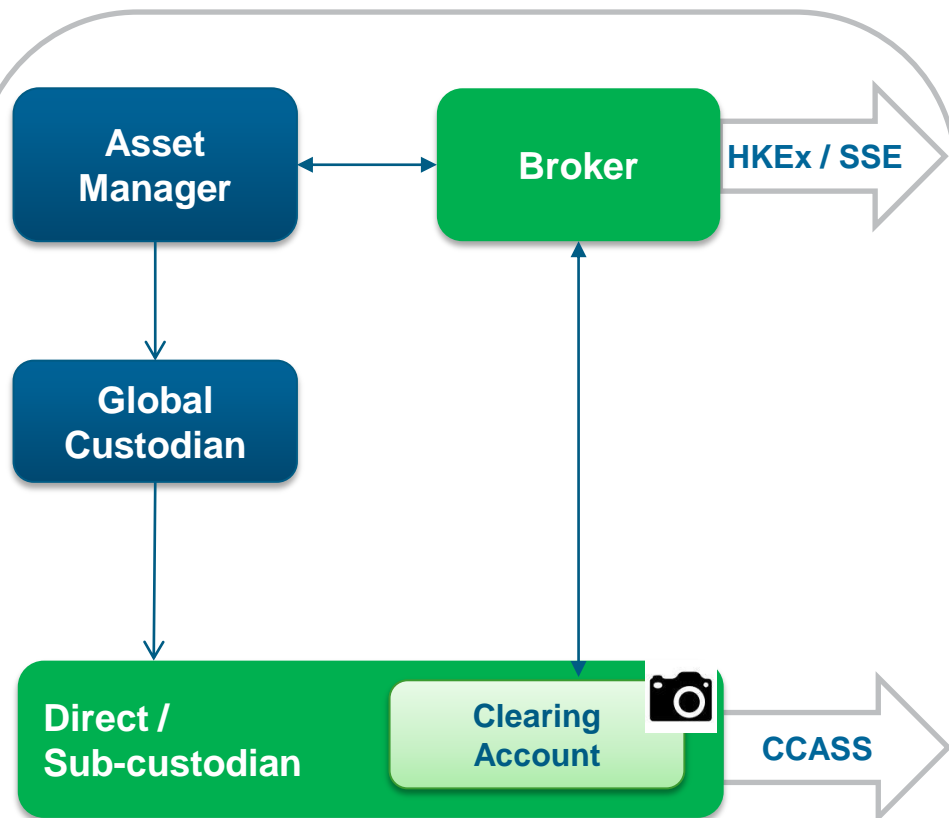
² As of 10-Apr-14 for no. of stocks; as of end of Mar-14 for MC; As of Jan-Mar-14 for ADT

Some of the challenges faced

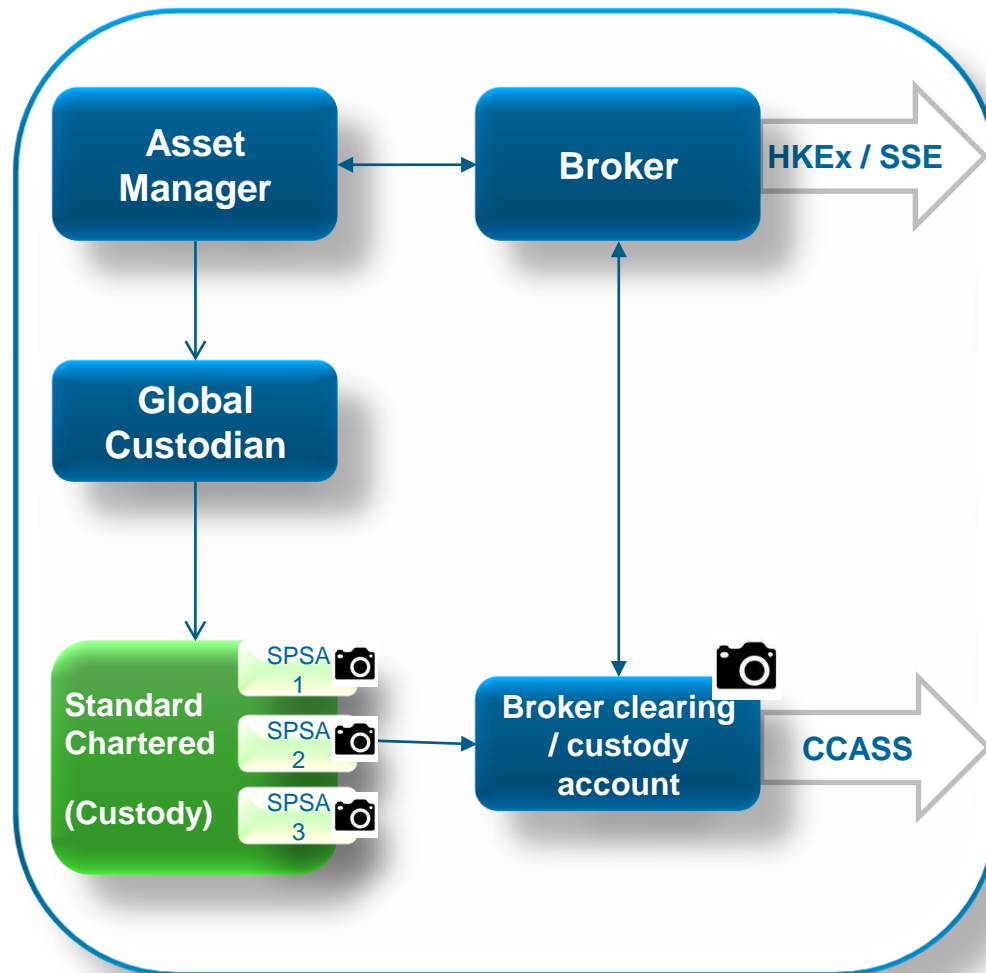
Challenge	Phase I Model	Phase II Model
Best execution	Stocks need to be held under TPC structure to preserve the “line of custody” requirement in 40 Act and UCITS regulations.	Stocks remain under SPSA custody account until settlement (in line with global practice)
Market Snapshot	8:15am Snapshot on broker’s clearing account only (<u>not</u> investor custody account)	8:15am Snapshot on BOTH - broker clearing account - investor custody account (SPSA)
Beneficial Ownership	Low acceptance of this risk by global regulators / depo-banks and many funds	SPSA unique ID numbers have legal bearing in China. See CSRC website: http://www.csrc.gov.cn/pub/csrc_en/newsfacts/PressConference/201505/t20150515_277108.html
Settlement Instruction process	All securities must be delivered a day before (before morning snapshot)and then settled at 6pm	Trades have to be settled within 4 hours of market close. Two modes of settlement: a. “Single-sided settlement” b. SI-based instructions
DVP	There is no market wide solution for DVP today however in H1 2016 we expect to see this from HKSCC	

The Story Today –The SPSA Model explained

Out with the Old...

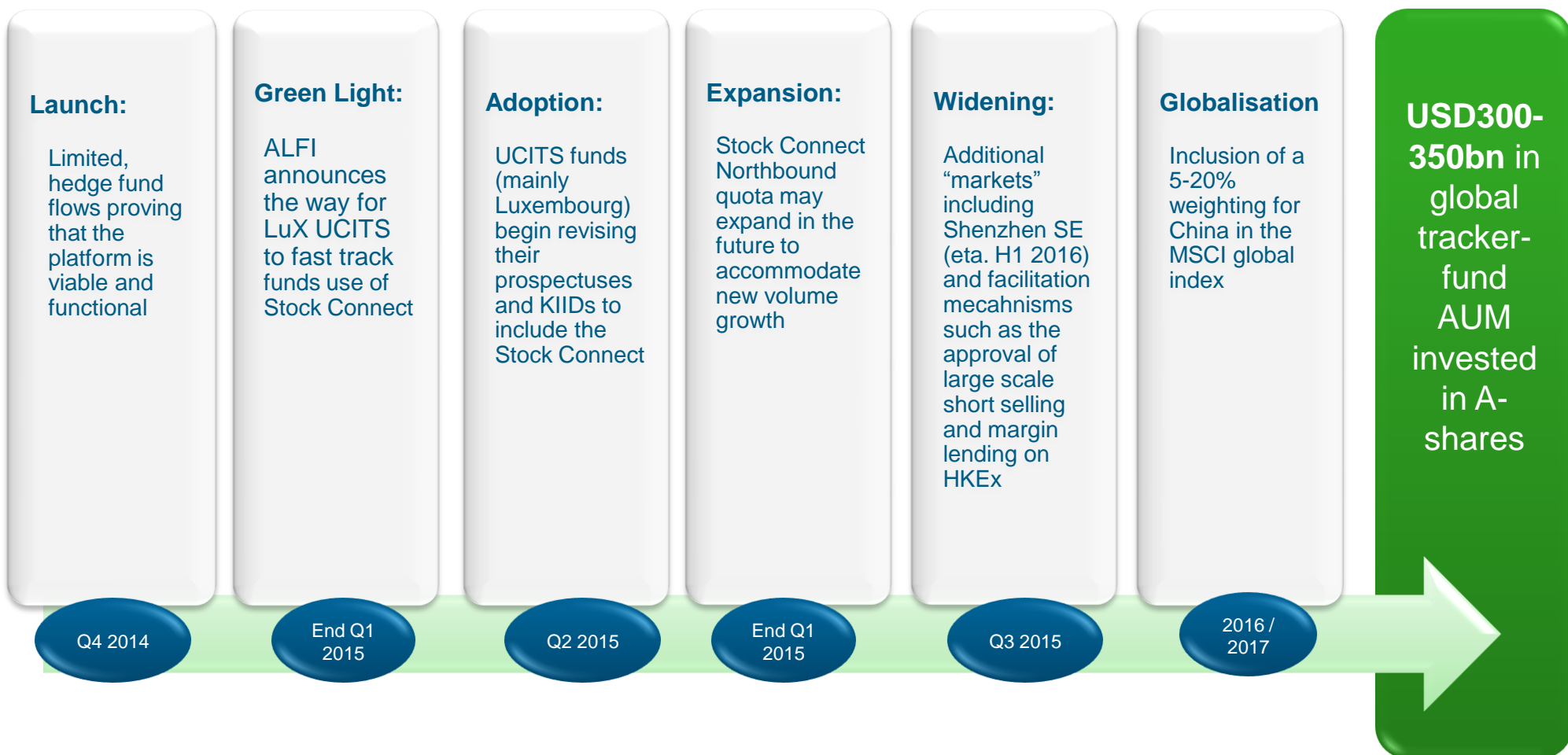


...and in with the New – the SPSA model



Hong Kong-Shanghai Stock Connect

Where do we go from here?



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