

# **Memorandum of Understanding between the CSRC and the SFC on Strengthening of Regulatory and Enforcement Cooperation under Shanghai-Hong Kong Stock Connect**

For the launch of a pilot programme for the establishment of mutual access between Shanghai and Hong Kong stock markets (hereinafter referred to as Shanghai-Hong Kong Stock Connect, comprising a Northbound Trading Link and a Southbound Trading Link), and the corresponding needs for enhancing investor protection and facilitating the sound development and effective operations of both stock markets, the China Securities Regulatory Commission (hereinafter referred to as the “**CSRC**”) and the Securities and Futures Commission of Hong Kong (hereinafter referred to as the “**SFC**”, and together with the CSRC, collectively as the “**Parties**” or the “**Authorities**”) have decided to further strengthen their regulatory and enforcement cooperation. Pursuant to the Joint Announcement dated 10 April 2014 made by the SFC and the CSRC, the Parties have agreed to enter into this Memorandum of Understanding (hereinafter referred to as the “**MoU**”).

## **Part I General Provisions**

### **1. Purpose of the MoU**

By signing the MoU, the Parties aim to further improve the mechanism for identification and notification of suspected misconduct and initiate effective investigatory cooperation to combat cross-boundary suspected misconduct including disclosure of misleading information, insider dealing, market manipulation and other fraudulent activities, etc. The Parties shall enhance bilateral enforcement staff exchange and training as well as cross-boundary enforcement cooperation, thereby ensuring optimum enforcement outcomes in both jurisdictions.

### **2. Validity of the MoU**

The MoU complements all existing practices in relation to enforcement cooperation between the Parties, and only applies to enforcement cooperation under the Shanghai-Hong Kong Stock Connect.

Based on mutual trust, understanding and respect, the Parties shall provide each other with the fullest enforcement assistance to the greatest possible extent within their respective statutory powers.

## **Part II Alerts and Exchange of Investigatory Information**

The Parties have agreed to establish a joint mechanism between their respective Enforcement Divisions for notification of alerts and exchange of investigatory information concerning suspected misconduct.

### **3. Notification of suspected misconduct and alerts**

The Parties will alert one another immediately to any information concerning suspected misconduct in the other's market once it is identified including:

- i. the source of the information giving rise to the alert;
- ii. the nature of the suspected misconduct; and
- iii. relevant information in the Party's possession related to suspected misconduct.

### **4. Notification of investigation**

Each of the Parties will notify the other when it commences an investigation with a cross-boundary element.

The notification will include:

- i. the nature of the case, including the relevant legal provisions relating to the suspected misconduct;
- ii. the source or sources of information relating to the suspected misconduct;
- iii. relevant information including information known, believed or suspected to exist; and
- iv. other relevant information.

The informed Party may take appropriate action pursuant to its laws and regulations, and notify the other Party of the action taken in a timely manner.

## **Part III Investigation**

### **5. Investigatory assistance**

The Parties have agreed to provide each other with timely, sufficient and effective assistance within their respective statutory powers. Types of assistance include provision of documentary evidence, witness statements, interview records of persons involved, and forensic opinions, etc.

Where urgent assistance is required, the Party requesting will provide reasons for the urgency in the request. The requested Party will on receipt of the request provide urgent assistance.

## **6. Joint investigation**

In respect of significant and urgent cases relating to both jurisdictions, or where any of the suspects, witnesses or evidence are located in both jurisdictions, the Parties may commence a joint investigation. Through joint investigation, the Parties are able to make full use of their respective investigatory powers, complement each other's enforcement strengths and combat suspected misconduct in both markets, and more effectively protect the interests of investors.

In deciding whether to commence a joint investigation, the Parties shall take into account all of the following factors: location of the misconduct, location of the adverse consequences, location of the investors, location of evidence, location of witnesses, location of suspects, location of assets, possible sanctions and remedies available to both parties, and other relevant factors relating to the suspects and the misconduct.

Once the Parties have commenced a joint investigation, the Parties shall set up a joint task force and decide on its membership with a view to ensuring efficient exchange of information and coordination. The joint investigation task force shall normally convene an initial coordination meeting, within three weeks of the decision to commence the joint investigation, to formulate investigation plans and determine investigatory responsibilities, to coordinate the collection of evidence, and to consult on possible sanctions and remedies.

## **Part IV Use of Information**

### **7. Scope of use**

When engaging in cross-boundary enforcement cooperation, the Parties must comply with the existing laws and regulations in their respective jurisdictions. The Parties may use the non-public information and documents furnished by the other Party for the purposes stated in the request for assistance or the purposes within the general framework of use stated in the request for assistance.

If either Party intends to use the information obtained by the requested Party for purposes other than those set out above, consent of the requested Party is required. The Parties will actively facilitate, provide support and coordinate with each other in respect of the use of information.

### **8. Confidentiality of information**

The Parties are obliged to safe keep the documents and information obtained in a proper manner, and will keep confidential requests made under this MoU as well as other related matters.

## **Part V Service of documents**

### **9. Service of relevant documents**

#### **(I) Types of documents**

The Parties may serve or deliver legal or other documents for each other.

#### **(II) Conditions of request for service**

The requesting Party shall make the request for service in writing by providing the Chinese/English name, detailed contact information and address of the person to be served.

#### **(III) Outcome of service**

The requested Party shall inform the requesting Party in writing, of the outcome of the service process, and the original copies of proof of service shall be provided. If service cannot be effected, an explanation shall be given.

## **Part VI Execution**

### **10. Execution**

The Parties acknowledge the importance and necessity of mutual assistance in execution of orders under Shanghai-Hong Kong Stock Connect, and will therefore strengthen cooperation in this area. The Parties will enhance the scope of cooperation in the recognition and execution of administrative sanctions imposed by one another, and will jointly study the mutual recognition of the measures taken by self-regulatory organisations in both jurisdictions.

The Parties will use their best efforts and fullest collaboration to combat cross-boundary suspected misconduct and prevent wrongdoers from taking advantage of regulatory arbitrage, circumventing regulatory actions and obtaining improper benefits.

## **Part VII Miscellaneous**

### **11. Investor compensation**

When taking enforcement action against suspected misconduct that is or may be prejudicial to the interests of investors in both markets, the Parties will first and foremost take into consideration the protection of these investors.

The Parties should use all powers at their disposal to ensure, as far as possible, investors in both markets are protected under the law. When making a claim for any compensation, including civil compensation, the Parties shall support the inclusion of the investors in both markets in the compensation scheme, in order to provide equal protection to these investors.

**12. Publication of information**

With respect to publication of information such as media releases concerning enforcement cooperation, the Parties shall ensure that the timing and contents of the media releases are consistent.

**13. Consultation and regular liaison**

The Parties will hold liaison meetings every three months to discuss the progress of cross-boundary enforcement cooperation, matters of mutual concern or common interests. Further, depending on the progress of implementation of cross-boundary enforcement cooperation, the Parties may hold ad hoc discussions so as to further promote the implementation of the MoU.

If working level staff cannot reach consensus on any matter arising from this MoU, the Heads of Enforcement of the Parties will make the decision.

**14. Internship, training and secondment programmes**

The Parties will broaden internship, training and secondment programmes for enforcement staff.

**15. Contact persons**

The Parties should make formal requests for assistance and information exchange through designated contact persons. The Parties should notify each other in writing if there is any change to the contact persons.

**16. Language and commencement**

This MoU is written in both Chinese and English. The Chinese version is the official version. The English version has been agreed by both Parties.

This MoU shall take effect on the date when it is signed by the CSRC and the SFC. This MoU is signed on 17 October 2014.

CHINA SECURITIES  
REGULATORY COMMISSION

HONG KONG SECURITIES AND  
FUTURES COMMISSION

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XIAO Gang  
Chairman

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Carlson TONG  
Chairman