



NOTICE OF AUTHORIZATION TO PROVIDE AUTOMATED TRADING SERVICES

ISSUED TO SHANGHAI STOCK EXCHANGE 《上海證券交易所》

UNDER SECTION 95 OF THE SECURITIES AND FUTURES ORDINANCE

INTRODUCTION

Background

1. On 10 April 2014, the China Securities Regulatory Commission (**CSRC**) and the Securities and Futures Commission (**SFC**) issued a joint announcement noting that they had approved, in principle, the development of a pilot programme (**Shanghai-Hong Kong Stock Connect** 《滬港股票市場交易互聯互通機制》) for establishing mutual stock market access between Mainland China and Hong Kong, which would operate among the following entities –
 - (1) Shanghai Stock Exchange 《上海證券交易所》 (**SSE**), which is regulated by the CSRC under the Measures for the Administration of Stock Exchanges 《證券交易所管理辦法》,
 - (2) The Stock Exchange of Hong Kong Limited 《香港聯合交易所有限公司》 (**SEHK**), which is a recognized exchange company under the Securities and Futures Ordinance (Cap 571, **SFO**),
 - (3) China Securities Depository and Clearing Corporation Limited 《中國證券登記結算有限責任公司》 (**CSDC**), which is regulated by the CSRC under the Securities Depository and Clearing Rules 《證券登記結算管理辦法》, and
 - (4) Hong Kong Securities Clearing Company Limited 《香港中央結算有限公司》 (**HKSCC**), which is a recognized clearing house under the SFO.
2. On 4 September 2014, SSE, SEHK, CSDC and HKSCC entered into an agreement 《四方協議》 which sets out the parties' agreed framework for establishing Shanghai-Hong Kong Stock Connect. The detailed arrangements for the operation of Shanghai-Hong Kong Stock Connect will be set out in rules and procedures, in the case of SSE and CSDC as approved by the CSRC and in the case of SEHK and HKSCC as approved by the SFC.
3. The CSRC and SFC are parties to the following which will also apply in relation to Shanghai-Hong Kong Stock Connect –
 - (1) the Multilateral Memorandum of Understanding of the International Organization of Securities Commissions which provides for consultation, cooperation, and exchange of information for the purpose of regulatory enforcement regarding securities markets, and to which the CSRC and SFC are signatories, and
 - (2) the Memorandum of Understanding (dated 17 October 2014) between the CSRC and the SFC on the strengthening of regulatory and enforcement cooperation under Shanghai-Hong Kong Stock Connect.



Shanghai-Hong Kong Stock Connect

4. Under Shanghai-Hong Kong Stock Connect –

- (1) SEHK and SSE will establish mutual market connectivity and related technical infrastructure (**Trading Links**) to enable investors trading through Mainland securities firms that are participants of SSE (**Southbound investors**) to trade certain securities listed on the SEHK (**SEHK securities**), and investors trading through Hong Kong brokers that are participants of SEHK (**Northbound investors**) to trade certain securities listed on the SSE (**SSE securities**).
 - (a) Orders from Northbound investors to trade SSE securities will be routed through Gangsheng Information Services (Shanghai) Limited 《港盛信息服務（上海）有限公司》 (a wholly owned subsidiary of SEHK established in Shanghai, **SEHK-subsi-dary**) for execution on SSE.
 - (b) Orders from Southbound investors to trade SEHK securities will be routed through China Investment Information Services Limited 《中國投資信息有限公司》 (a wholly owned subsidiary of SSE established in Hong Kong, **SSE-subsi-dary**) for execution on SEHK.
- (2) HKSCC and CSDC will establish mutual connectivity and related technical infrastructure to provide arrangements for the clearing and settlement of trades executed through the Trading Links (including the provision of depository, nominee and other related services).
 - (a) For trades of Northbound investors executed on SSE, CSDC will act as the host central counterparty (**CCP**), and HKSCC will become a participant of CSDC. HKSCC will take up the settlement obligations in respect of all such trades, and settle them directly with CSDC.
 - (b) For trades of Southbound investors executed on SEHK, HKSCC will act as the host CCP, and CSDC will become a participant of HKSCC. CSDC will take up the settlement obligations in respect of all such trades, and settle them directly with HKSCC.

5. The trading services and facilities provided by SSE under Shanghai-Hong Kong Stock Connect constitute the provision of automated trading services (as defined in the SFO, **ATS**). In addition, the trading services and facilities provided by SSE-subsi-dary under Shanghai-Hong Kong Stock Connect also constitute the provision of **ATS**.

Application submitted

6. SSE has applied to be authorized under section 95(2) of the SFO to provide **ATS** in connection with its provision of services and facilities under Shanghai-Hong Kong Stock Connect. Separately, SSE-subsi-dary has applied to be authorized under section 95(2) of the SFO to provide **ATS** in connection with its provision of services and facilities under Shanghai-Hong Kong Stock Connect.



AUTHORIZATION

7. In view of the matters described in paragraphs 1 to 6 above, and pursuant to section 95(2) of the SFO, the SFC hereby authorizes SSE to provide ATS for the purposes of facilitating the conduct of trading under Shanghai-Hong Kong Stock Connect which has been routed as described in paragraph 4(1) above, and subject to the conditions set out in paragraphs 8 to 15 below.

CONDITIONS

General

8. In providing ATS, SSE must conduct its business, operations and affairs in a manner that is honest, fair and consistent with the principles, procedures and standards reflected in the SFC's Guidelines on the Regulation of Automated Trading Services.

Operations

9. SSE shall only provide ATS for the purposes of facilitating the conduct of trading under Shanghai-Hong Kong Stock Connect which has been routed as described in paragraph 4(1) above.
10. With respect to the trading of SSE securities under Shanghai-Hong Kong Stock Connect, SSE shall only accept orders for such trading from Northbound investors if they are submitted through SEHK subsidiary. (It is noted in this regard that SEHK subsidiary is only authorized to submit to SSE orders received from participants of SEHK that are permitted, under the rules of SEHK, to participate in Shanghai-Hong Kong Stock Connect.)

Reporting and disclosure requirements

11. SSE must inform the SFC of the following as soon as practicable after becoming aware of the same –
- (1) any material change to information provided in connection with its ATS application,
 - (2) any system or operational failures or defects arising in connection with its provision of services or facilities under Shanghai-Hong Kong Stock Connect, and remedial steps taken, and
 - (3) any breach, or potential breach, of any of the conditions of SSE's authorization to provide ATS.
12. SSE must provide to the SFC monthly reports relating to its business and operations, and to any trading conducted through Shanghai-Hong Kong Stock Connect. Such reports should be provided within two weeks after the end of the relevant month, and should include such information as the SFC may from time to time specify.
13. SSE must provide to the SFC, within the time and in the manner specified, such information and documents relating to its business and operations or to any trading conducted through Shanghai-



Hong Kong Stock Connect as the SFC may at any time, and from time to time, reasonably request.

SSE-subsiary

14. By notice dated 24 October 2014, the SFC authorized SSE-subsiary under section 95(2) of the SFO to provide ATS for the purposes of the provision of certain services and facilities under Shanghai-Hong Kong Stock Connect. SSE must supervise SSE-subsiary in order to ensure that it complies with the conditions of that authorization. SSE must also immediately inform the SFC of any breach, or potential breach, by SSE-subsiary of any of the conditions of that authorization upon becoming aware of the same.

Service

15. Any notice or other document issued or served by the SFC on SSE in connection with this authorization shall be regarded as duly served if served in any of the following ways –
 - (1) delivered by hand to, left at, or sent by post to, SSE's last known address as notified to the SFC in writing or to its registered address in Hong Kong,
 - (2) sent by facsimile transmission to its last known facsimile number as notified to the SFC in writing, or
 - (3) sent by electronic mail transmission to its last known electronic mail address as notified to the SFC in writing.

SECURITIES AND FUTURES COMMISSION
DATED: 24 October 2014