

The Shanghai-London Stock Connect

A Joint Announcement by the China Securities Regulatory Commission and the UK Financial Conduct Authority

17 June 2019

The China Securities Regulatory Commission (the CSRC) and the Financial Conduct Authority of the United Kingdom (the FCA) have approved the launch by the Shanghai Stock Exchange (the SSE) and London Stock Exchange (the LSE) of a new scheme, the **Shanghai-London Stock Connect** (the Stock Connect), aimed at providing investors and listed companies in the UK and China with mutual access to each other's capital markets for investment and financing activities.

The Shanghai-London Stock Connect is a landmark in cooperation between UK and China in the sphere of financial markets. The programme will strengthen connectivity between UK and China capital markets, deepen capital markets in both countries and enhance the status of Shanghai and London as global financial centres, to the mutual benefit of both countries.

This announcement describes the principles under which it is expected that Shanghai-London Stock Connect will operate:

- I. The Shanghai-London Stock Connect is a two-way arrangement between the Shanghai Stock Exchange and London Stock Exchange. It will comprise 'eastbound' and 'westbound' limbs:
 - a) Under the eastbound limb, eligible companies listed on the London Stock Exchange will be able to issue Chinese Depositary Receipts (CDRs) to Chinese investors and apply for them to be listed on the Main Board of the Shanghai Stock Exchange. In the initial stages of the Stock Connect scheme, eastbound companies may issue CDRs representing existing shares.
 - b) Under the westbound limb, eligible companies listed on the Shanghai Stock Exchange will be able to issue Global Depositary Receipts (GDRs) to UK and global investors and apply for them to be listed on the London Stock Exchange's Main Market. Westbound companies may issue GDRs representing both existing and newly issued shares.
- II. The two exchanges will establish, through their respective rule books, the conditions companies need to meet to participate in the scheme. Shanghai Stock Exchange rules will require eastbound CDR issuers to be admitted to the Main Market of the LSE and the premium segment of the FCA's Official List. The rules of the London Stock Exchange will include a requirement that westbound GDR issuers be companies with A-shares listed on the Main Board of the SSE and for the GDRs to also be admitted to the FCA Official List. In the future, the

range of eligible issuers could be adjusted having regard to the operation of the Shanghai-London Stock Connect and the demands of the market.

- III. In the initial stage, only qualified securities institutions in each of the two markets may conduct cross-border conversion business in relation to CDRs and GDRs. Eventually, the range of eligible market participants could be adjusted having regard to the operation of the Shanghai-London Stock Connect and the demands of the market.
- IV. Qualified securities institutions in each of the two markets shall conduct cross-border conversion business in relation to CDRs and GDRs according to the rules and regulations of cross-border fund management stipulated by the People's Bank of China and the State Administration of Foreign Exchange. Initially, capital flow under Shanghai-London Stock Connect will be subject to a maximum cross-border quota, which includes eastbound aggregate quota of RMB 250 billion and westbound aggregate quota of RMB 300 billion. Securities institutions conducting cross-border conversion can hold cash and other specific classes of assets with the amount of no more than RMB 500 million in the other market for the purpose of shortening the conversion cycle and hedging market risk. The quotas and upper limit on the balance of the assets in the other market could be adjusted having regard to the operation of the Shanghai-London Stock Connect and the demands of the market.
- V. The offering and listing of the depository receipts (DRs) issued as a result of the scheme shall be governed by laws and regulations of the jurisdiction of the place where DRs are to be issued and listed. In addition, Stock Connect companies, being already listed on one of the two participating exchanges, will remain subject to the obligations in their place of registration and the place where their underlying securities are listed. The clearing and settlement of the securities under the Stock Connect shall be governed by laws and regulations of the jurisdiction of the place where clearing and settlement shall take place.
- VI. The CSRC and the FCA, under the premise of mutual respect for each other's jurisdiction of enforcement, have agreed to enhance cross-border supervisory and enforcement co-operation by entering into *the Memorandum of Understanding concerning Supervisory and Enforcement Cooperation under Shanghai-London Stock Connect*. This aims to help each regulator protect the legitimate interests and rights of investors, maintain the orderly functioning of securities markets, and together promote the healthy development of securities markets in both countries.