

Appendix 3:

Guidelines for the Cross-Border Conversion of Depositary Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange

(Draft for Comment)

Chapter I General Provisions

Article 1 [Purpose and Basis]

This *Guidelines* is formulated in accordance with the *Provisions on the Supervision and Administration of Depositary Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange (for trial implementation)* (the “**Supervision and Administration Provisions**”) and the *Interim Measures for the Listing and Trading of Depositary Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange* (the “**Interim Measures**”) to regulate the cross-border conversion of depositary receipts under the stock connect scheme between Shanghai Stock Exchange (the “**SSE**”) and London Stock Exchange (“**depositary receipts under Shanghai-London Stock Connect**”) and specify the related registration requirements and business procedures.

Article 2 [Scope of Application]

This *Guidelines* is applicable to the cross-border conversion of depositary receipts under Shanghai-London Stock Connect and the administration of registration of cross-border conversion institutions and depositaries. Matters not covered herein shall be governed by other related rules of the SSE.

Article 3 [Definition of Cross-Border Conversion Business]

In this *Guidelines*, the “cross-border conversion of depositary receipts under Shanghai-London Stock Connect” is classified into the cross-border conversion of Chinese depositary receipts (“**CDRs**”) under Shanghai-London Stock Connect and the cross-border conversion of global depositary receipts (“**GDRs**”) under Shanghai-London Stock Connect.

“Cross-border conversion of CDR” refers to the business where a depositary, upon receiving the underlying shares of any CDR from a Chinese cross-border conversion institution, which shares were bought or otherwise lawfully acquired in the overseas market by the Chinese cross-border conversion institution, issues the CDR according to the notice of the custodian and the instruction of the Chinese cross-border conversion institution; or where a depositary cancels the CDR according to the instruction of the Chinese cross-border conversion institution and the custodian, according to the notice of the depositary, delivers the underlying

shares of the CDR to the Chinese cross-border conversion institution.

“Cross-border conversion of GDR” refers to the business where a depository, upon receiving the underlying shares of any GDR from a UK cross-border conversion institution, which shares were bought or otherwise lawfully acquired in the domestic market by the UK cross-border conversion institution, issues the GDR according to the notice of the custodian and the instruction of the UK cross-border conversion institution; or where a depository cancels the GDR according to the instruction of the UK cross-border conversion institution and the custodian, according to the notice of the depository, delivers the underlying shares of the GDR to the UK cross-border conversion institution.

Article 4 [Registration Management]

The SSE will handle the registration of Chinese cross-border conversion institutions, UK cross-border conversion institutions, and depositories for GDR related to cross-border conversion of depository receipts under Shanghai-London Stock Connect as well as exercise market self-regulation over their cross-border conversion business, securities trading in the domestic market and other activities in accordance with the *Supervision and Administration Provisions, Interim Measures* and other market rules of the SSE.

Chapter II Cross-Border Conversion of CDR

Section 1 Regulation of Registration of Chinese Cross-Border Conversion Institutions

Article 5 [Registration Requirements]

Any member intending to engage in the cross-border conversion of CDR shall first register with the SSE as a Chinese cross-border conversion institution.

Unless otherwise prescribed by the SSE, any member who applies for registration with the SSE as a Chinese cross-border conversion institution shall have already been certified as a market maker for CDR.

Article 6 [Registration Criteria]

Any member intending to apply to the SSE to become a Chinese cross-border conversion institution shall:

- (1) be licensed to engage in proprietary trading of securities;
- (2) have been classified as a BBB securities company or above in the most recent 2 years;
- (3) have 3 or more years of experience in international securities business;

(4) not have been subject to an administrative penalty over its proprietary business in the past one year; and

(5) meet other requirements so prescribed by the SSE.

Article 7 [Registration Materials]

A member who intends to apply to become a Chinese cross-border conversion institution shall submit the following materials to the SSE:

- (1) application form for the business of cross-border conversion of CDR;
- (2) photocopy of its duplicate business license, and certification of its qualification for proprietary trading of securities;
- (3) implementation plan and management system for the cross-border conversion business;
- (4) documents certifying its 3 or more years of experience in international securities business;
- (5) description of its departments, positions, and personnel for the cross-border conversion business;
- (6) statement on the readiness of its IT systems for the cross-border conversion business;
- (7) declaration that it has not been subject to any administrative penalty over proprietary business in the past one year; and
- (8) other materials so prescribed by the SSE.

The member shall ensure that its application documents are authentic, accurate and complete.

Article 8 [Review of Applications for Registration as Cross-Border Conversion Institutions]

The SSE will accept each duly completed registration application, and reject that of any member who evidently does not meet the registration requirements or submits incomplete application materials.

The SSE shall review the application materials of members and, for those that meet the registration requirements, complete the registration within 10 trading days following application acceptance and announce to the market the list of registered Chinese cross-border conversion institutions.

Article 9 [Application for Cross-Border Conversion of Specific CDRs]

A Chinese cross-border conversion institution shall apply to the SSE to engage in the

cross-border conversion of a specific CDR and announce to the market upon the SSE's confirmation thereof.

Each Chinese cross-border conversion institution shall carry out cross-border conversion of at least one CDR.

Unless otherwise prescribed by the SSE, any Chinese cross-border conversion institution that intends to apply to engage in the cross-border conversion of a specific CDR shall have already been announced by the SSE as a market maker for such CDR.

Article 10 [Application for Voluntary Termination]

Any Chinese cross-border conversion institution intending to voluntarily terminate its status as a cross-border conversion institution or its cross-border conversion of a specific CDR shall send a written notice to the SSE 15 trading days in advance, and announce the termination to the market upon the confirmation thereof by the SSE.

Article 11 [Termination of Registration]

The SSE may terminate the registration of a Chinese cross-border conversion institution and announce the name to the market if:

- (1) the Chinese cross-border conversion institution no longer engages in cross-border conversion of any CDR;
- (2) the Chinese cross-border conversion institution no longer meets the registration requirements set forth in Items (1) to (3) of Article 6 of this *Guidelines*;
- (3) the Chinese cross-border conversion institution has been subject to a self-regulatory measure, disciplinary sanction, administrative regulatory measure, or administrative penalty in the past year over cross-border conversion business;
- (4) the SSE terminates its registration in accordance with the *Interim Measures* and other applicable rules; or
- (5) there is any other circumstance where such termination is deemed necessary by the SSE.

Any Chinese cross-border conversion institution whose registration is terminated under Item (3) of the preceding paragraph may not re-apply for registration within one year.

Section 2 Ongoing Regulation of Chinese Cross-border Conversion Institutions

Article 12 [Creation of Initial Liquidity for CDRs]

A Chinese cross-border conversion institution may, before the listing of a CDR, engage in initial liquidity creation with its proprietary funds or on behalf of investors who meet

suitability management requirements (“**qualified investors**”) in accordance with the provisions of the *Interim Measures*, this *Guidelines*, and other market rules of the SSE as well as the arrangements outlined in the prospectus, depositary agreement, and announcement of initial liquidity creation.

Unless otherwise prescribed by the SSE, where the Chinese cross-border conversion institution has reached an agreement with qualified investors to transfer the CDR through a block trade following the listing, the transfer quantity and price shall comply with the rules of *Interim Measures* on CDR block trades, and the Chinese cross-border conversion institution shall submit the block trade execution order to the SSE on the first day of listing of the CDR.

Particulars concerning the acceptance by Chinese cross-border conversion institutions of cross-border conversion requests from non-specific qualified investors and the subsequent issuance of the corresponding CDRs to such investors by the depositary, or the transfer of initially created CDRs to qualified investors before the listing of such CDRs, shall be governed by rules separately prescribed by the SSE.

Article 13 [UK Partnering Securities Intermediaries]

A Chinese cross-border conversion institution shall authorize and delegate a member of the London Stock Exchange (the “**LSE**”) to trade the underlying overseas shares and conduct related investment activities on its behalf.

A Chinese cross-border conversion institution shall engage a bank licensed to operate as a custodian for securities investment funds to be its domestic custodian, and an overseas custodian in the UK market to be responsible for the custody of its assets.

Article 14 [Filing of Cross-Border Conversion Information]

A Chinese cross-border conversion institution shall file the following information with the SSE before engaging in the cross-border conversion business:

- (1) its dedicated securities account for market making and cross-border conversion (the “**dedicated account**”);
- (2) the names of its domestic and overseas custodians and the custodian agreement entered into with each;
- (3) the name of its partnering LSE member in the UK market, and information on the account opened with such member; and
- (5) any other information required by the SSE.

Any Chinese cross-border conversion institution intending to change its dedicated account shall file such change with the SSE 15 trading days in advance and effect such change only upon the SSE’s confirmation. Any change to the other registration information specified in the preceding paragraph shall be filed with the SSE within 2 trading days.

Article 15 [Ongoing Information Reporting by Cross-border Conversion Institutions]

A Chinese cross-border conversion institution shall, on a weekly basis, report to the SSE the name, trading record, holdings, and asset balance of each product it invests in the overseas market as well as other information required by the SSE.

Article 16 [Ongoing Information Reporting by Domestic Custodians]

Each domestic custodian engaged by a Chinese cross-border conversion institution shall, at the end of each trading day, report to the SSE information on the cross-border flow of funds on that day in connection with the cross-border conversion business of such Chinese cross-border conversion institution, and on a weekly basis, report to the SSE the name, trading record, holdings, and asset balance of each product such Chinese cross-border conversion institution invests in the overseas market as well as other information required by the SSE.

Section 3 Creation and Redemption of CDRs

Article 17 [Creation Applications of Cross-border Conversion Institutions]

A Chinese cross-border conversion institution shall, after delivering the underlying shares of a CDR that it has lawfully acquired in the UK market to the depositary, timely send to the depositary a CDR creation application in accordance with the relevant agreement, containing:

- (1) the name of the Chinese cross-border conversion institution;
- (2) the dedicated account of the Chinese cross-border conversion institution;
- (3) the code of the CDR;
- (4) the quantity of the CDR to be created; and
- (5) other information as stipulated in the relevant agreement.

Article 18 [Submission of Creation Applications to SSE by Cross-border Conversion Institutions]

A Chinese cross-border conversion institution shall, within the prescribed time window of each trading day, submit to the SSE information on the CDR creation applications that it has sent to the depositary within the closest reporting period.

The Chinese cross-border conversion institution shall ensure that such information is authentic, accurate, complete, and fully consistent with the information on the creation applications sent to the depositary.

Article 19 [Reporting of Issuance Information by Depositaries]

Please note: This courtesy translation is furnished for information purposes only.
The original Chinese text is binding in all respects.

Upon receiving the underlying shares of a CDR, the depositary shall check the creation application submitted by the Chinese cross-border conversion institution. If information on the application is accurate, the depositary shall submit to the SSE the following CDR issuance information within the time window prescribed by the SSE:

- (1) the name of the Chinese cross-border conversion institution;
- (2) the dedicated account of the Chinese cross-border conversion institution;
- (3) the code of the CDR;
- (4) the quantity of the CDR issued on the current day; and
- (5) other information as stipulated in the relevant agreement or as required by the SSE.

The depositary shall submit the issuance information in such format and manner and at such time as specified by the SSE, and ensure such information is authentic, accurate, and complete.

Unless otherwise prescribed by the SSE, the depositary may issue the corresponding quantity of the CDR only after the delivery of the underlying shares in full by the Chinese cross-border conversion institution. Issuance of any CDR without receiving the underlying shares in full is prohibited.

Article 20 [SSE's Comparison of Current Day's Balance Available for Sale]

The SSE will compare the CDR issuance information reported by a depositary with the CDR creation application information reported by the Chinese cross-border conversion institution. If the information is consistent, the SSE will, according to the current day's CDR issuance information submitted by the depositary, increase the balance of such CDR available for sale by the Chinese cross-border conversion institution on the current day.

The SSE shall refuse to process the current day's issuance information if the depositary or the Chinese cross-border conversion institution fails to report relevant information to the SSE within the time window prescribed by the SSE or if there is inconsistency between the reported information.

Article 21 [Pre-Opening Verification of CDR Quantity]

A Chinese cross-border conversion institution shall, before the market opens each day, check the quantity of CDR created on the current day against the actual quantity of corresponding underlying shares delivered to the custodian. If there is any inconsistency between the two, the Chinese cross-border conversion institution shall immediately report it to the depositary and the SSE and shall not sell the excess CDR.

Article 22 [End-of-Day Verification of CDR Quantity]

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A depositary for CDR shall authorize and engage a custodian to open a subsidiary account for the Chinese cross-border conversion institution for recording the delivery of the underlying shares of each CDR.

During the prescribed time window of each trading day, a depositary for CDR shall inform the SSE of the outstanding quantity of each CDR on that day, the information on the custody of the underlying shares on that day as provided by the custodian, and the detailed data on the underlying shares delivered by each Chinese cross-border conversion institution for the CDRs created on that day.

A depositary for CDR shall establish a CDR quantity verification mechanism with the China Securities Depository and Clearing Corporation Limited (“CSDC”) to verify information related to the quantity of CDRs.

Article 23 [Redemption of CDRs]

The redemption of CDR shall be conducted by a Chinese cross-border conversion institution and depositary in accordance with the rules of the CSDC and the provisions of the depositary agreement.

Article 24 [Emergency Action 1]

Any error in CDR creation or redemption data arising from such causes as *force majeure*, unforeseen incident, technical failure, or human error may be corrected upon verification by relevant entities including the SSE, the CSDC, and the depositary, custodian, and Chinese cross-border conversion institution concerned.

Relevant entities shall actively cooperate with each other in data verification, and timely correct the error in accordance with the rules of the SSE and the CSDC and the provisions of the relevant agreements.

Article 25 [Emergency Action 2]

If the quantity of the underlying shares corresponding to a CDR issued by a depositary exceeds the actual quantity of the underlying shares under the custody of the custodian, the depositary and the relevant Chinese cross-border conversion institution shall cancel the excess CDR within one trading day.

If the quantity of the CDR held by the relevant Chinese cross-border conversion institution is less than the quantity to be canceled, the Chinese cross-border conversion institution shall timely purchase a sufficient quantity of the CDR and cancel it; if the Chinese cross-border conversion institution fails to purchase the necessary quantity within the time limit prescribed in the preceding paragraph, it shall eliminate the shortfall in the underlying shares on the following trading day.

If the depositary and the Chinese cross-border conversion institution concerned fail to timely

cancel the over-issued CDR or replenish the underlying shares as set forth in the first and second paragraph of this Article, the SSE may request the CSDC to cancel the excess from the Chinese cross-border conversion institution concerned or take other measures based on the custody data on the underlying shares provided by the custodian, and report the situation to the China Securities Regulatory Commission (“CSRC”).

Chapter III Cross-Border Conversion of GDRs

Section 1 Registration of UK Cross-Border Conversion Institutions

Article 26 [Registration Requirements]

Any UK securities institution intending to engage in the cross-border conversion of GDR shall first register with the SSE as a UK cross-border conversion institution.

Article 27 [Registration Criteria]

Any UK securities intermediary intending to apply to the SSE to become a UK cross-border conversion institution shall:

- (1) be a full member firm of the LSE;
- (2) itself or the entity it controls, by which it is controlled, or with which it is under common control be a Qualified Foreign Institutional Investor (“QFII”) or RMB Qualified Foreign Institutional Investor (“RQFII”);
- (3) be financially robust and have a good credit standing and a significant asset size;
- (4) have in place a sound governance structure and well-developed internal control rules, run a compliant operation, and not have received any major sanctions from a regulatory authority in the most recent 3 years;
- (5) be willing and able to comply with the regulatory requirements and relevant rules of the SSE;
- (6) have the corresponding capability to both exchange RMB into foreign currencies and exchange foreign currencies into RMB; and
- (7) meet any other requirements deemed necessary by the SSE.

Article 28 [Registration Materials]

A UK securities intermediary who intends to apply to become a UK cross-border conversion institution shall submit the following materials to the SSE through its partnering member of the SSE:

- (1) application form for the cross-border conversion of GDR;
- (2) certification of the QFII or RQFII status of the applicant or the entity it controls, by which it is controlled, or with which it is under common control;
- (3) photocopy of its business license issued by the country or region where it is domiciled;
- (4) certification of the financial license issued by the financial regulatory authority in the country or region where it is domiciled;
- (5) documents certifying its full membership status at the LSE;
- (6) financial records demonstrating its net capital or the audited balance sheet for the most recent year;
- (7) a written undertaking to abide by Chinese laws, regulations, departmental rules, normative documents, and applicable rules of the SSE; and
- (8) other materials so prescribed by the SSE.

All application materials other than Items (2), (3), (4), (5) and (6) of the preceding paragraph shall be in Chinese.

The partnering member shall prudently examine the qualification, scale, experience, and other pertinent aspects of the UK securities intermediary and ensure its registration documents are authentic, accurate, and complete.

Article 29 [Review of Applications for Registration as Cross-Border Conversion Institutions]

The SSE will accept each duly completed registration application, and reject that of any applicant who evidently does not meet the registration requirements or submits incomplete application materials. The SSE shall, within 10 trading days of application acceptance, announce to the market the list of registered UK cross-border conversion institutions.

Article 30 [Application for Voluntary Termination]

Any UK cross-border conversion institution intending to voluntarily terminate its cross-border conversion business shall send a written notice 15 trading days in advance to the SSE, and announce the termination to the market upon the confirmation thereof by the SSE.

Article 31 [Termination of Registration]

The SSE may terminate the registration of a UK cross-border conversion institution if:

- (1) the UK cross-border conversion institution no longer meets the registration requirements

set forth in Article 27 of this *Guidelines*;

- (2) the SSE terminates its registration in accordance with the *Interim Measures*; or
- (3) there is any other circumstance where such termination is deemed necessary by the SSE.

The SSE will announce the termination of the registration of any UK cross-border conversion institution.

Section 2 Ongoing Regulation of Cross-Border Conversion of GDRs

Article 32 [Trading by Partnering Members]

A UK cross-border conversion institution shall authorize and delegate members of the SSE to trade the domestic underlying shares and conduct related investment activities on its behalf, and open the securities accounts dedicated to the cross-border conversion business.

Article 33 [Supervisory Duties of Members]

The partnering member of a UK cross-border conversion institution shall exercise effective supervision of the trading activities of the UK cross-border conversion institution in the domestic market. If the member detects any domestic securities trading activity that violates or may violate laws, regulations, or rules, it shall stop such activity and promptly report the situation to the SSE.

The member shall, in the service agreement with the UK cross-border conversion institution, specify that if the UK cross-border conversion institution uses the securities account in violation of applicable laws, regulations, or rules in connection with the cross-border conversion business, or engages in any irregular trading activity that may seriously affect the normal course of trading, the member is entitled to refuse the order of the UK cross-border conversion institution, resolve the situation as required by the SSE, or terminate the partnership between them.

Article 34 [Filing of Cross-Border Conversion Information]

A UK cross-border conversion institution shall file the following information with the SSE through its partnering member before engaging in the cross-border conversion business:

- (1) information on its dedicated securities account for the cross-border conversion business;
- (2) information on its domestic custodian and the custody agreement entered into with the custodian; and
- (3) any other information required by the SSE.

Any UK cross-border conversion institution intending to change its dedicated securities

account for cross-border conversion shall file such change with the SSE through its partnering member 15 trading days in advance and effect such change only upon the SSE's confirmation. Any change to the other registration information specified in the preceding paragraph shall be filed with the SSE within 2 trading days.

Section 3 Registration and Ongoing Regulation of Depositories for GDRs

Article 35 [Registration of Depositories]

Any depository for GDR that intends to engage in the creation and redemption of any GDR shall authorize and delegate a member of the SSE to submit a registration application to the SSE before the listing of the GDR.

No depository shall engage in the creation or redemption of GDR without completing the foregoing registration.

Article 36 [Depositories' Registration Materials]

A depository for GDR shall submit the following application materials to the SSE through its partnering member:

- (1) information filing form for the GDR depository business;
- (2) photocopy of its business license issued by the country or region where it is domiciled;
- (3) a written undertaking to abide by Chinese laws, regulations, departmental rules, normative documents, and applicable rules of the SSE; and
- (4) other documents so prescribed by the SSE.

All application materials other than Item (2) of the preceding paragraph shall be in Chinese.

Any change to the registration information, whether due to the addition of depository business for specific GDRs or otherwise, shall be filed with the SSE within 2 trading days.

The partnering member shall ensure the application materials are authentic, accurate, and complete.

Article 37 [Trading on Behalf of Depositories]

A depository for GDR shall authorize and engage a member of the SSE to open a dedicated securities account for the depository business, and file such account with the SSE for record.

Any depository intending to change its partnering member or its dedicated securities account for the depository business shall file such change with the SSE 15 trading days in advance through its partnering member, and effect such change only upon the SSE's confirmation.

Article 38 [Supervisory Duties of Members]

The partnering member of a depository shall exercise effective supervision and constraints over the securities trading activities of the depository in the domestic market. If the member detects any securities trading beyond the prescribed scope or any other irregular trading activity, it shall refuse the order of the depository and promptly report the situation to the SSE.

Chapter IV Supervision and Regulation

Article 39 [Compliance Requirements]

Each cross-border conversion institution and depository shall engage in cross-border conversion business and securities investment activities in a lawful and compliant manner in accordance with the *Interim Measures* and this *Guidelines*, and shall not violate the state rules on cross-border funds regulation; exceed the scope of investment or the maximum asset balance prescribed by the CSRC; or take advantage of the cross-border conversion business to engage in insider trading, market manipulation, or other illegal or rule-breaking activities or seek other illegitimate gains.

Each partnering SSE member shall timely report all pertinent information to the SSE and perform all due administrative duties with respect to the trading activities of its clients in accordance with the *Interim Measures* and this *Guidelines*.

Article 40 [On-Site Inspection by SSE]

The SSE may conduct on-site or off-site inspections on the cross-border conversion business of cross-border conversion institutions, depositories, and their partnering SSE members based on its supervisory needs. Relevant entities shall actively cooperate with such inspections by truthfully providing relevant materials and statements.

Article 41 [Market Self-Regulation]

If any cross-border conversion institution, depository, or partnering member violates this *Guidelines*, the SSE may impose the corresponding regulatory measures or disciplinary sanctions against it in accordance with the *Interim Measures*, report the violation to the CSRC or other related supervision departments, record it in the integrity record, and, in case of a serious violation, request a formal investigation thereof.

Chapter V Ancillary Provisions

Article 42

The SSE reserves the right to interpret this *Guidelines*.

Article 43

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This *Guidelines* shall be implemented as of the date of issuance.

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