

# **Implementing Rules of Shanghai Stock Exchange for Exchange-Traded Funds**

## **Disclaimer Statement**

The English version of this Rule is for reference purpose only. The SSE and/or its subsidiaries assume no liability for any form of loss or damage, and make no warranty, guarantee, undertaking or representation (whether expressly or implicitly) in relation to the accuracy, reliability, availability, accessibility or completeness of the English version of this Rule.

# Implementing Rules of Shanghai Stock Exchange for Exchange-Traded Funds

## Chapter I General Provisions

**Article 1** These *Implementing Rules* are formulated in accordance with the *Securities Law*, *Securities Investment Fund Law*, the *Measures for the Administration of Distribution of Securities Investment Funds*, the *Measures for the Administration of Operation of Securities Investment Funds*, the *Measures for the Administration of Information Disclosure by Securities Investment Funds*, the *Trading Rules of Shanghai Stock Exchange*, *Rules Governing the Listing of Securities Investment Funds on Shanghai Stock Exchange*, the *Measures for the Administration of Outbound Securities Investments by Qualified Domestic Institutional Investors (Trial)*, and other applicable laws, administrative regulations, and ministry-level rules to regulate the operation of exchange-traded funds and maintain an orderly market.

**Article 2** In these *Implementing Rules*, an “exchange-traded fund” (“ETF”) means a lawfully offered open-ended fund which invests in portfolio securities (“portfolio securities”) underlying a specific index or other underlying products as agreed in the fund contract and whose units are created and redeemed by portfolio securities, cash, or any other consideration as agreed in the fund contract and are listed on the Shanghai Stock Exchange (the “SSE”).

**Article 3** These *Implementing Rules* are applicable to the offering, creation, redemption, and trading of the units of ETFs (“units”) on the SSE. Matters not covered by these *Implementing Rules* shall be governed by the *Trading Rules of Shanghai Stock Exchange* (the “*Trading Rules*”) and other applicable rules.

The offering, creation, and redemption of units through any venue other than the SSE shall be governed by the fund contract, the prospectus, and the rules of such venue.

**Article 4** The registration, custody, and settlement of units listed on the SSE shall be conducted by a securities registration and clearing institution designated by the SSE (“securities registration and clearing institution”).

## Chapter II Offering, Creation, Redemption, and Trading

### Section 1 General Rules

**Article 5** The SSE will, upon the application of an ETF management company, provide the ETF with a code for the online offering, creation, redemption, and trading on the SSE as well as the short name of the ETF, which shall be published by the ETF management company to the market.

**Article 6** In the event of the online offering of units through the SSE, any of the SSE’s members who are authorized to engage in the distribution of funds may accept subscription orders from investors, except as otherwise provided for under the fund contract, the prospectus, or the business rules of the SSE.

**Article 7** An ETF management company shall, from the list of Exchange’s members authorized to engage in the distribution of funds, select and authorize securities companies (each an “authorized participant”) to handle the creation and redemption of units on its behalf.

**Article 8** An ETF management company shall submit the list of its authorized participants to the SSE and, following confirmation by the SSE, finalize it and publish it through the SSE.

An ETF management company shall enter into a participant agreement with each of the authorized participants to specify their rights and obligations, and in particular such risk control measures as available quota to the authorized participant for the creation and redemption of units, payment of settlement price difference margin as required by the securities registration and clearing institution, and the circumstances for the termination of creation or redemption authorizations.

**Article 9** Investors who intend to trade the units listed on the SSE may place their orders through the authorized participants and any other members of the SSE.

**Article 10** Units shall be traded on the trading days of the SSE. The fund contract and the prospectus shall specify the schedule of the open days for creation and redemption of units.

The *Trading Rules* shall govern the hours for the submission of unit creation, redemption, and trade orders.

**Article 11** The transaction fee for units shall be subject to the prevailing fee schedule for securities investment funds. The fee schedule for unit creation and redemption will be separately prescribed by the SSE.

## **Section 2      Offering**

**Article 12** An ETF management company may offer units online or offline. In case of an online offering, investors shall, through their securities account created at the securities registration and clearing institution, place their orders in accordance with the online offering and subscription method specified in the fund contract, the prospectus and the offering announcement.

In case of an offline offering, investors shall place their orders in accordance with the fund contract, the prospectus, and the offering announcement.

**Article 13** An ETF management company shall submit the time of online unit offering to the SSE and, following confirmation by the SSE, finalize and announce it.

**Article 14** The fund contract, prospectus, and offering announcement of an ETF shall explicitly provide for, with respect to both online and offline offering, the acceptable types of consideration from investors for subscription of units, the offering cap, and the conditions for early termination of the offering.

**Article 15** If a member of the SSE authorized to engage in the distribution of funds accepts an online unit subscription order from an investor, the member shall require the investor to deliver the subscription payment, portfolio securities, and other agreed consideration in full.

In case of an online offering, if an investor subscribes for units by portfolio securities, the SSE shall, in accordance with the fund contract and the prospectus, verify whether the investor has the sufficient

amount of the underlying portfolio securities. If there is any shortfall, the subscription order will be deemed void in its entirety.

In case of an online offering, if an investor subscribes for units by cash, the member accepting the order shall immediately freeze the subscription payment and not divert it for any other purpose.

### **Section 3      Creation, Redemption, and Trading**

**Article 16** A creation or redemption order shall be submitted in the minimum creation or redemption unit as specified in the fund contract, or an integral multiple thereof.

**Article 17** Units shall be created and redeemed by portfolio securities, cash, or another consideration agreed in the fund contract.

**Article 18** A creation or redemption order shall include securities account number, Participant Business Unit code, codes of the securities, side (buyer in the case of creation and seller in the case of redemption), quantity, among other things, and be transmitted in the format prescribed by the SSE.

No creation or redemption order may be canceled.

**Article 19** Any investor intending to place a unit creation order shall have the sufficient amount of underlying portfolio securities, cash, or other agreed consideration.

Any investor intending to place a unit redemption order shall have the sufficient amount of such units.

**Article 20** An authorized participant shall provide a comprehensive description of business rules to investors the first time they place a creation or redemption order, fully disclose the potential risks, and require them to sign the risk disclosure statement prepared by the ETF management company.

**Article 21** An authorized participant shall, upon acceptance of an investor's unit creation order, verify whether the investor have the sufficient amount of available portfolio securities, cash, or other agreed consideration; and shall, upon acceptance of an investor's unit redemption order, verify whether the investor has the sufficient amount of available units, immediately update the available quota, and take effective measures to lock up the units corresponding to each submitted redemption order prior to the completion of the clearing and settlement of such units.

No authorized participant may divert investor funds for any other purposes.

An authorized participant shall, upon accepting a change of designated authorized participant application for the securities account of an investor who cannot perform payment delivery obligations, strictly comply with the rules of the SSE on change of designation and control the related risks.

An authorized participant shall pay the settlement price difference margin in accordance with the terms of the participant agreement and the rules of the securities registration and clearing institution and effectively control the net creation quota.

If an authorized participant violates any provision of the four preceding paragraphs, the ETF management company may terminate its authorization for unit creation and redemption in accordance with the participant agreement, and submit the decision of termination to the SSE for confirmation.

**Article 22** The following rules shall apply to the trading, creation, and redemption of ETF units the underlying index of which is a SSE index or cross-market index:

- (1) units created on a given day may be sold but not redeemed on that day; if the underlying index is a cross-market index, units created but not sold on a given day may be sold and redeemed only after clearing and settlement;
- (2) units purchased on a given day may be redeemed but not sold on that day;
- (3) securities redeemed on a given day may be sold but not used to create new units on that day;
- (4) securities purchased on a given day may be used to create units but not sold on that day; and
- (5) other requirements prescribed by the SSE.

The following rules shall apply to the trading, creation, and redemption of ETF units the underlying index of which is a cross-border index:

- (1) units created on a given day may be sold and redeemed only after clearing and settlement;
- (2) units purchased on a given day may be redeemed but not be sold on that day;
- (3) if the total amount of units created or redeemed on a given day exceeds the quota set by the ETF management company, the orders in excess shall be void; and
- (4) other requirements prescribed by the SSE.

The principles governing the trading, creation, redemption, and use of units of other types of ETF will be separately prescribed by the SSE.

**Article 23** The SSE processes qualified creation and redemption orders in accordance with the provisions of the relevant fund contract and prospectus as well as the portfolio composition file (“portfolio composition file”) and cash-in-lieu method provided by the ETF management company concerned.

Each participant in the clearing and settlement of creation or redemption orders shall fulfill its clearing and settlement obligations. Any participant that fails to perform such obligations shall be handled by the securities registration and clearing institution in accordance with its business rules.

**Article 24** The SSE will suspend the acceptance of creation and redemption orders if, during the trading hours:

- (1) the creation and redemption of the units cannot proceed due to any extraordinary event;
- (2) temporary market closure of the SSE;
- (3) the ETF management company concerned fails to publish the portfolio composition file prior to the market open;
- (4) the ETF management company concerned suspends unit creation and redemption pursuant to the terms of the fund contract or the prospectus; or

(5) there is any other special circumstance so identified by the SSE.

If the SSE suspends the acceptance of creation and redemption orders, the ETF management company concerned shall announce such suspension to the market.

Once the circumstances set out in the first paragraph have been eliminated, the ETF management company shall apply to the SSE for resuming the acceptance of creation and redemption orders. The SSE will make a decision based on market conditions and announce the decision.

**Article 25** The suspension or resumption of trading of units, if required, shall be governed by the rules of the SSE governing the listing of securities investment funds.

**Article 26** The trading of units shall be governed by the *Trading Rules* with respect to, among others, buy and sell orders, auction, order execution, opening price, closing price, and price limit for funds.

**Article 27** The previous closing price displayed in the market data on the first day of listing of an ETF shall be the net asset value per unit or unit reference value calculated by the ETF management company according to the formula specified in the legal documents for the listing of the ETF and provided to the SSE. The ETF management company shall be responsible for the accuracy and handling of errors of such values.

### **Chapter III Transmission and Disclosure of Information**

**Article 28** An ETF management company shall, prior to market open on each trading day, provide the SSE with the ETF's portfolio composition file, and announce the same via an information publication channel designated by the SSE. The portfolio composition file shall include:

- (1) the name, code, and quantity of each portfolio security underlying the minimum creation or redemption unit;
- (2) the type of cash-in-lieu, cash-in-lieu amount, and cash-in-lieu premium ratio;
- (3) the estimated cash component and actual cash component for the minimum creation or redemption unit;
- (4) the net asset value per unit calculated as of the date specified in the prospectus; and
- (5) other information required by the SSE.

The SSE may modify the contents to be included in the portfolio composition file as appropriate.

**Article 29** An ETF management company may, during trading hours, delegate the SSE or any institution recognized by the SSE to calculate or publish the indicative optimized portfolio value ("IOPV") for reference by investors in unit trading, creation, or redemption.

The ETF management company shall timely announce the establishment or modification of the IOPV calculation method after it is submitted to and confirmed by the SSE.

**Article 30** The method for using cash in-lieu of portfolio securities shall be established by the ETF management company, and announced by the same after it is submitted to and confirmed by the SSE.

Any modification of the cash-in-lieu method shall be submitted to the SSE for confirmation and timely announced thereafter.

#### **Chapter IV Disciplinary Sanctions**

**Article 31** The SSE may impose one or a combination of the following disciplinary sanctions or supervisory measures on any member who violates these *Implementing Rules*:

- (1) circulating a notice of criticism;
- (2) issuing a public censure;
- (3) suspending the handling of all or part of the member's ETF-related businesses;
- (4) suspending the ETF trading privileges of the member's Participant Business Unit;
- (5) restricting the purchase or creation of ETF units by the member; or
- (6) taking other measures prescribed in the business rules of the SSE.

Depending on the circumstances, the SSE may report the situation to the China Securities Regulatory Commission ("CSRC") or its regional office when taking the above measures.

**Article 32** If an ETF management company or an ETF custodian violates these *Implementing Rules*, the SSE may order it to make corrections and, depending on the severity of the violation, impose any of the following disciplinary sanctions:

- (1) circulating a notice of criticism; or
- (2) issuing a public censure.

Depending on the circumstances, the SSE may report the situation to the CSRC or its regional office when imposing the above disciplinary sanctions.

**Article 33** The SSE may, in view of the request of the securities registration and clearing institution, impose any of the following disciplinary sanctions or supervisory measures on any member in material violation of the settlement rules of the securities registration and clearing institution:

- (1) suspending the handling of all or part of the member's ETF-related businesses;
- (2) suspending the ETF trading privileges of the member's Participant Business Unit; or
- (3) restricting the purchase and creation of ETF units by the member.

#### **Chapter V Supplementary Provisions**

**Article 34** The following terms in these *Implementing Rules* shall have the meanings given below:

- (1) Portfolio securities: a basket of securities held by an ETF in order to track a specific index.
- (2) Cash-in-lieu: a specified amount of cash used by investors in accordance with the fund contract and the prospectus during the creation or redemption of units to substitute for the securities specified in the portfolio composition file.
- (3) Cash-in-lieu premium ratio: the ratio of the cash-in-lieu premium to the market value of the substituted securities. The cash-in-lieu premium refers to the difference between (i) the cost and related expenses of purchasing the substituted securities by the ETF, and (ii) the market value of the substituted securities at the creation of units, and shall be paid by the investor to the ETF in accordance with the fund contract and the prospectus for effecting a cash-in-lieu. The calculation method for the market value of substituted securities shall be prescribed and published by the ETF management company.
- (4) Estimated cash component: the cash amount calculated by an ETF management company to facilitate the computation of the IOPV and of the funds to be frozen in advance by authorized participants with respect to investors who submit creation or redemption orders.
- (5) Extraordinary event: a force majeure event, sudden technical failure, unauthorized system access, and any other incident identified by the SSE.
- (6) SSE index: an index whose constituent securities include only those listed on the SSE or related assets.
- (7) Cross-market index: an index whose constituent securities include those listed on the SSE and the Shenzhen Stock Exchange or related assets.
- (8) Cross-border index: an index whose constituent securities include those listed on stock exchanges outside mainland China or related assets.

**Article 35** These *Implementing Rules* and its amendments shall take effect following adoption by the Board of Governors of the SSE and approval of the CSRC.

**Article 36** The SSE reserves the right to interpret these *Implementing Rules*.

**Article 37** These *Implementing Rules* shall be implemented as of the date of release.