Annex 2

**Drafting Notes on the *Implementing Measures of the Shanghai Stock Exchange for the Shanghai-Hong Kong Stock Connect (2024)***

To further expand the scope of eligible securities for the Shanghai-Hong Kong Stock Connect and optimize the stock connect scheme, the Shanghai Stock Exchange (“SSE”) has revised the *Implementing Measures of the Shanghai Stock Exchange for the Shanghai-Hong Kong Stock Connect* (the “*Implementing Measures*”). This document provides an overview of the revision.

**I. Background**

Since the inclusion of ETFs in the Northbound and Southbound Trading Links on July 4, 2022, the market has been stable and orderly with a steady rise in trading volume, providing greater convenience and cross-border opportunities for investors from Shanghai and Hong Kong. To further optimize the stock connect scheme and expand the range of ETFs covered by the scheme, changes have been made to the *Implementing Measures*.

**II. Changes**

This round of revision primarily involves six articles of the *Implementing Measures* to update the scope of eligible ETFs offered through the Northbound and Southbound Trading Links.

First, Article 26 and Article 76 have been revised in regard to the scale and weighting requirements for the inclusion of ETFs in the Northbound and Southbound Trading Links.

* For the Northbound Trading Link, the daily average asset under management (AUM) requirement for the inclusion of an ETF is lowered from not less than RMB 1.5 billion to not less than RMB 500 million; the weighting requirement is changed to “the total weighting of stocks listed on SSE or on the Shenzhen Stock Exchange (‘SZSE’) in the benchmark index is not less than 60% and the total weighting of Northbound Stocks and SZHSC Northbound Stocks in the benchmark index is not less than 60%.”
* For the Southbound Trading Link, the AUM threshold for inclusion is changed from not less than HKD 1.7 billion to not less than HKD 550 million; the weighting requirement is now uniform: “the total weighting of SEHK-listed stocks in the benchmark index is not less than 60%, and that the total weighting of Southbound Stocks in the benchmark index is not less than 60%.” There will no longer be a separate standard for each index.

Second, Article 27 and Article 77 have been updated in regard to the scale and weighting thresholds for the removal of ETFs from the Northbound and Southbound Trading Links.

* For the Northbound Trading Link, the daily average AUM threshold for removal is lowered from less than RMB 1 billion to less than RMB 400 million; the weighting threshold for the removal has been changed to “the total weighting of SSE-listed stocks and SZSE-listed stocks in the benchmark index is below 55% or the total weighting of Northbound Stocks and SZHSC Northbound Stocks in the benchmark index is below 55%.”
* For the Southbound Trading Link, the daily average AUM threshold for removal is changed from less than HKD 1.2 billion to less than HKD 450 million; the weighting threshold for removal is also made uniform rather than index-specific: “the total weighting of SEHK-listed stocks in the benchmark index is below 55%, or the total weighting of Southbound Stocks in the benchmark index is below 55%.”

Third, Articles 80 and 146 have also been revised to reflect changes in the numbering and from the removal of provisions.

**III. Public Consultation**

In the interest of greater transparency, SSE invited public comments on the revised *Implementing Measures* from April 19 to May 5, 2024. Eight were received during this period. One suggestion was to further reduce the weighting requirement; this would require further research in light of market realities. The other suggestions were unrelated to expanding the scope of eligible ETFs for the Shanghai-Hong Kong Stock Connect scheme and, accordingly, will be considered later based on market needs.