

Notice on Issuing the *Guidelines No. 1 for Depository Receipts under the Stock Connect Scheme of Shanghai Stock Exchange — Cross-Border Conversion of Depository Receipts*

No.38 [2022] of the Shanghai Stock Exchange

To All Market Participants,

To further regulate the cross-border conversion business of depository receipts of the Shanghai Stock Exchange, in accordance with the *Provisions on the Supervision and Administration of Depository Receipts under the Stock Connect Scheme between Domestic and Overseas Stock Exchanges* and the *Interim Measures for the Listing and Trading of Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and Overseas Stock Exchanges*, the Shanghai Stock Exchange has revised the *Guidelines for the Cross-Border Conversion of Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange* and renamed it the *Guidelines No. 1 for Depository Receipts under the Stock Connect Scheme of Shanghai Stock Exchange — Cross-Border Conversion of Depository Receipts*. This *Guidelines* is hereby issued and shall be implemented as of the date of issuance.

The *Guidelines for the Cross-Border Conversion of Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange* (No.89 [2018] of the Shanghai Stock Exchange) issued by the Shanghai Stock Exchange shall be repealed at the same time.

Annex:

Guidelines No. 1 for Depository Receipts under the Stock Connect Scheme of Shanghai Stock Exchange — Cross-Border Conversion of Depository Receipts

Shanghai Stock Exchange
March 25, 2022

Annex:

Guidelines No. 1 for Depository Receipts under the Stock Connect Scheme of Shanghai Stock Exchange — Cross-Border Conversion of Depository Receipts

Chapter I General Provisions

Article 1 This *Guidelines* is formulated in accordance with the *Provisions on the Supervision and Administration of Depository Receipts under the Stock Connect Scheme between Domestic and Overseas Stock Exchanges* (“**Provisions**”) and the *Interim Measures for the Listing and Trading of Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and Overseas Stock Exchanges* (“**Interim Measures**”) for the purposes of regulating the cross-border conversion of depository receipts under the stock connect scheme between Shanghai Stock Exchange (the “**Exchange**”) and overseas stock exchanges and specifying the related registration requirements and business processes.

Article 2 This *Guidelines* is applicable to the cross-border conversion of depository receipts listed on the Exchange or the underlying shares of which are listed on the Exchange as well as to the administration of registration of cross-border conversion institutions and depositories. Any matter not covered herein shall be governed by other relevant rules of the Exchange.

Article 3 For the purpose of this *Guidelines*, the term “cross-border conversion of depository receipts” includes the cross-border conversion of Chinese depository receipts (“**CDRs**”) and the cross-border conversion of global depository receipts (“**GDRs**”).

The cross-border conversion of CDRs refers to the process by which a domestic securities company engaged in cross-border conversion of CDRs (each a “**Chinese cross-border conversion institution**”) purchases or otherwise lawfully acquires the underlying shares of the CDRs in the overseas market and delivers the same to a depository which, in turn, issues the CDRs pursuant to the notice of the custodian and the instruction of the Chinese cross-border conversion institution; or a depository cancels the CDRs pursuant to the instruction of the Chinese cross-border conversion institution, and the custodian delivers the underlying shares of the CDRs to the Chinese cross-border conversion institution pursuant to the notice of the depository.

The cross-border conversion of GDRs refers to the process by which an overseas securities company engaged in cross-border conversion of GDRs (each an “**overseas cross-border conversion institution**”) purchases or otherwise lawfully acquires the underlying shares of the GDRs on the Exchange and delivers the same to a depository which, in turn, issues the GDRs pursuant to the notice of the custodian and the instruction of the overseas cross-border conversion institution; or a depository cancels the GDRs pursuant to the instruction of the overseas cross-border conversion institution, and the custodian delivers the underlying shares of the GDRs to the overseas cross-border conversion institution pursuant to the notice of the depository.

For the purpose of this *Guidelines*, the term “cross-border conversion” refers to either the conversion of underlying shares into depository receipts (“**creation**”) or the conversion of depository receipts into underlying shares (“**redemption**”).

Article 4 The Exchange will, in accordance with the *Provisions*, the *Interim Measures*, this *Guidelines* and other market rules of the Exchange, register on file the Chinese cross-border conversion institutions, overseas cross-border conversion institutions, and

depositories engaged in the cross-border conversion of depository receipts, and exercise self-regulation over their activities including cross-border conversion and securities trading on the Exchange.

Chapter II Cross-Border Conversion of CDRs

Section 1 Registration of Chinese Cross-Border Conversion Institutions

Article 5 Any member intending to perform cross-border conversion of CDRs on the Exchange shall first register with the Exchange as a Chinese cross-border conversion institution.

Unless otherwise provided by the Exchange, a member seeking to register as a Chinese cross-border conversion institution shall have obtained the status as a market maker for CDRs.

Article 6 A member applying to the Exchange to become a Chinese cross-border conversion institution shall meet the following requirements:

- (1) having been licensed to engage in brokerage and proprietary trading of securities;
- (2) having been classified as a BBB-level securities company or above in the most recent two years;
- (3) having three or more years of experience in international securities business;
- (4) having not been subject to any administrative penalty in the most recent one year over its brokerage or proprietary business; and
- (5) meeting other requirements as prescribed by the Exchange.

Article 7 A member seeking to become a Chinese cross-border conversion institution shall submit the following documents to the Exchange:

- (1) application form for cross-border conversion of CDRs;
- (2) photocopy of the duplicate of its business license, and certificate of its qualification for brokerage and proprietary trading of securities;
- (3) implementation plan and management system for the cross-border conversion business;
- (4) documents certifying it possesses three 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 in the most recent one year over its brokerage or proprietary business; and
- (8) other documents as prescribed by the Exchange.

The member shall ensure that its registration documents are true, accurate and complete.

Article 8 The Exchange will accept a member's application if it contains all the required documents and will reject it if the member evidently does not meet the registration requirements or if its registration documents are incomplete.

The Exchange will review the registration documents of members. For any member that meets the registration requirements, the Exchange will complete its registration within 10 trading days following the acceptance of its application and announce the list of registered Chinese cross-border conversion institutions to the market.

Article 9 A Chinese cross-border conversion institution shall apply to the Exchange for

the cross-border conversion of each specific CDR. Upon confirming this request, the Exchange will issue an announcement to the market.

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

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

Article 10 Any Chinese cross-border conversion institution seeking to terminate its status as a cross-border conversion institution or its cross-border conversion of a specific CDR shall notify the Exchange in writing 15 trading days in advance; upon confirming this request, the Exchange will issue an announcement to the market.

Article 11 The Exchange may terminate the registration of a Chinese cross-border conversion institution and make the announcement to the market if:

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

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

Section 2 Ongoing Administration of Chinese Cross-Border Conversion Institutions

Article 12 A Chinese cross-border conversion institution may, before the listing of a CDR, complete the initial creation of the CDR with its own funds or as instructed by 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 Exchange as well as the arrangements under the prospectus, the depository agreement, and the initial creation announcement.

Before the listing of the CDRs, if the Chinese cross-border conversion institution has reached an agreement with qualified investors to transfer the CDR through block trades after the listing of the CDR, the transfer quantity and price shall meet to the provisions of the *Interim Measures* governing CDR block trades and the Chinese cross-border conversion institution shall submit the block trade execution order to the Exchange on the first day of listing of the CDR, unless otherwise provided by the Exchange.

Particulars concerning Chinese cross-border conversion institutions’ acceptance of cross-border conversion instructions from non-specific qualified investors and the depository’s issuance of the corresponding CDRs to such investors, and the transfer of the initially created CDRs to qualified investors before the listing of such CDRs, shall be governed by rules separately prescribed by the Exchange.

Article 13 A Chinese cross-border conversion institution shall appoint an institution qualified to trade on an overseas stock exchange (an overseas stock exchange as mentioned in this *Guidelines* refers to the stock exchange on which the relevant underlying overseas shares are listed) to trade the underlying overseas shares and conduct related investment activities on its behalf.

A Chinese cross-border conversion institution shall appoint a bank licensed to operate as a custodian for securities investment funds as its domestic custodian. The custodian shall be responsible for the custody of the relevant assets of the Chinese cross-border conversion institution in line with the *Trial Administrative Measures for Overseas Securities Investment by Qualified Domestic Institutional Investors*, and appoint an overseas asset custodian for the custody of the relevant overseas assets of the Chinese cross-border conversion institution.

Article 14 A Chinese cross-border conversion institution shall file the following information with the Exchange before conducting cross-border conversion:

- (1) its dedicated securities account for market making and cross-border conversion (“**dedicated account**”);
- (2) the names of its domestic and overseas custodians and the custodian agreement entered into with its domestic custodian;
- (3) the name of its appointed institution in the overseas market qualified to trade on the overseas stock exchange, and the information on the account(s) opened with the institution; and
- (4) other information as required by the Exchange.

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

Article 15 A Chinese cross-border conversion institution shall, on a weekly basis, report to the Exchange the name, trading record and holdings of each product it has invested in, its asset balance in the overseas market, and any other information required by the Exchange.

Article 16 The domestic custodian appointed by a Chinese cross-border conversion institution shall, at the end of each trading day, report to the Exchange the information on the daily cross-border funds flows in connection with the Chinese cross-border conversion institution’s cross-border conversion business on that day, and on a weekly basis, report to the Exchange the name, trading record and holdings of each product in which the Chinese cross-border conversion institution has invested the asset balance in the overseas market, and any other information required by the Exchange.

Section 3 Creation and Redemption of CDRs

Article 17 After delivering the underlying shares legitimately acquired in the overseas market to the depository, a Chinese cross-border conversion institution shall timely send to the depository in accordance with the relevant agreement an application for the creation of CDR, which shall contain:

- (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 A Chinese cross-border conversion institution shall, within the prescribed time window of each trading day, submit to the Exchange the information on the CDR creation application that it has sent to the depository within the latest reporting period.

The Chinese cross-border conversion institution shall ensure that such information is true, accurate, complete, and consistent with the creation application sent to the depository.

Article 19 Upon receiving the underlying shares, the depository for a CDR shall check them against the creation application submitted by the Chinese cross-border conversion institution. If information on the application is correct, the depository shall submit to the Exchange the following CDR issuance information within the time window prescribed by the Exchange:

- (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 or as required by the Exchange.

The depository for the CDR shall submit the issuance information in such format and manner and at such time as specified by the Exchange, and ensure such information is true, accurate, and complete.

Unless otherwise provided by the Exchange, the depository may issue the corresponding quantity of the CDR only after the Chinese cross-border conversion institution has delivered the underlying shares in full; the issuance of any CDR without receiving the underlying shares in full is prohibited.

Article 20 The Exchange will compare the CDR issuance information submitted by the depository with the CDR creation application submitted by the Chinese cross-border conversion institution. If the information is consistent, the Exchange will, according to the CDR issuance information submitted by the depository, increase the balance of such CDR available for sale on the current day by the Chinese cross-border conversion institution accordingly.

The Exchange will refuse to process the current day's issuance information if the depository or the Chinese cross-border conversion institution fails to submit relevant information to the Exchange within the time window prescribed by the Exchange or if the information submitted is inconsistent.

Article 21 A Chinese cross-border conversion institution shall, before the market opens each day, check the quantity of CDRs created on the current day against the actual quantity of the corresponding underlying shares it has delivered to the custodian. If any inconsistency is found between the two, the Chinese cross-border conversion institution shall immediately report the situation to the depository and the Exchange and shall not sell the excess CDRs.

Article 22 The depository for a CDR shall prepare for the Chinese cross-border conversion institution a detailed record of the delivery of the underlying shares each day.

During the prescribed time window of each trading day, the depository for a CDR shall provide the Exchange with information on the outstanding quantity of the CDR on that day, the custody information for 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 CDR created on that day.

The depository for a CDR shall establish a CDR quantity verification mechanism with the China Securities Depository and Clearing Corporation Limited (“CSDC”) to verify the quantity of the CDR.

Article 23 The redemption of a CDR shall be conducted by a Chinese cross-border conversion institution and the depository in accordance with the applicable rules of the CSDC and the depository agreement.

The Chinese cross-border conversion institution and the depository shall, within the prescribed time window of each trading day, submit to the Exchange information on the redemption of the CDR within the latest reporting period.

Article 24 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 Exchange, the CSDC, the depository, the custodian, and Chinese cross-border conversion institution concerned.

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

Article 25 If the quantity of the underlying shares corresponding to a CDR issued by a depository exceeds the actual quantity of the underlying shares under the custody of the custodian, the depository and the relevant Chinese cross-border conversion institution shall cancel the excess CDR within one trading day.

Unless otherwise provided by the Exchange, 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 the same; failing which, the Chinese cross-border conversion institution shall make up for the shortfall in the underlying shares on the following trading day, or purchase a sufficient quantity of the CDR and cancel the same.

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

Chapter III Cross-Border Conversion of GDRs

Section 1 Registration of Cross-Border Conversion Institutions

Article 26 Any overseas securities company intending to perform cross-border conversion of GDRs the underlying shares of which are listed on the Exchange shall first register with the Exchange as an overseas cross-border conversion institution.

Article 27 An overseas securities institution applying to the Exchange to become an overseas cross-border conversion institution shall meet the following requirements:

- (1) it is qualified to trade on the stock exchange on which GDRs are listed;
- (2) it or the entity it controls, is controlled by, or is under the common control with is a Qualified Foreign Institutional Investor (“QFII”) or RMB Qualified Foreign Institutional Investor (“RQFII”), except as otherwise provided by the Exchange;

- (3) it is financially robust and has a good credit standing and a significant asset size;
- (4) it has in place a sound governance structure and internal control system, runs a compliant operation, and has not received any major penalties from a regulatory authority in the most recent three years;
- (5) it is willing and able to comply with the regulatory requirements and relevant rules of the Exchange;
- (6) it has the corresponding capability to exchange RMB into foreign currencies and vice versa; and
- (7) it meets any other requirements deemed necessary by the Exchange.

Article 28 An overseas securities company applying to become an overseas cross-border conversion institution shall appoint a member of the Exchange to submit the following documents to the Exchange on its behalf:

- (1) application form for cross-border conversion of GDRs;
- (2) certificate of the QFII or RQFII status of the applicant or of the entity that controls, is controlled by, or is under the common control with the applicant;
- (3) photocopy of its business license issued by the country or region of its domicile;
- (4) certificate of the financial license issued by the financial regulatory authority in the country or region of its domicile;
- (5) Documents certifying it is qualified to trade on the stock exchange on which GDRs are listed;
- (6) financial documents certifying 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 Exchange; and
- (8) other documents as prescribed by the Exchange.

All documents other than those specified in (2) to (6) of the preceding paragraph shall be in Chinese.

The member appointed by the applicant shall prudently examine the qualification, scale, experience, and other pertinent aspects of the overseas securities company and ensure its registration documents are true, accurate, and complete.

Article 29 The Exchange will accept an applicant's application if it contains all the required registration documents, and will reject it if the applicant evidently does not meet the registration requirements or if its registration documents are incomplete. The Exchange shall, within 10 trading days of acceptance of an application, announce to the market the list of registered overseas cross-border conversion institutions.

Article 30 Any overseas cross-border conversion institution seeking to terminate its status as a cross-border conversion institution shall notify the Exchange in writing 15 trading days in advance. Upon confirming this request, the Exchange will issue an announcement to the market.

Article 31 The Exchange may terminate the registration of an overseas cross-border conversion institution if:

- (1) the overseas cross-border conversion institution no longer meets the registration requirements set forth in Article 27 of this *Guidelines*;
- (2) the Exchange terminates its registration in accordance with the *Interim Measures*; or
- (3) the overseas cross-border conversion institution is in any other circumstance where termination of its registration is deemed necessary by the Exchange.

The termination of registration of any overseas cross-border conversion institution will be announced by the Exchange.

Section 2 Ongoing Administration of Cross-Border Conversion of GDRs

Article 32 An overseas cross-border conversion institution shall appoint a member of the Exchange to trade the domestic underlying shares and conduct related investment activities on its behalf, and open securities accounts dedicated to the cross-border conversion business.

Article 33 The member appointed by an overseas cross-border conversion institution shall exercise effective supervision over the trading activities of the overseas cross-border conversion institution on the Exchange. If the member finds that the overseas cross-border conversion institution has violated or may violate laws and regulations in its securities trading activities, it shall stop such activities and report them to the Exchange in a timely manner.

The member shall stipulate in the service agreement with the overseas cross-border conversion institution that if the overseas cross-border conversion institution uses the securities account in violation of laws and regulations in the course of cross-border conversion, or engages in any abnormal trading activity that may seriously affect the normal course of trading, the member is entitled to reject any order from the overseas cross-border conversion institution, handle the situation as required by the Exchange, or terminate the appointment relationship between them.

Article 34 Before conducting cross-border conversion, an overseas cross-border conversion institution shall file the following information with the Exchange through the member it has appointed to trade on its behalf:

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

Any overseas cross-border conversion institution intending to change its dedicated securities account for cross-border conversion shall file such change with the Exchange through its appointed member 15 trading days in advance and effect such change only upon the Exchange's confirmation. Any change to other registration information specified in the preceding paragraph shall be filed with the Exchange through its appointed member within two trading days.

Section 3 Registration and Ongoing Administration of Depositories for GDRs

Article 35 Any depository intending to create or redeem GDRs representing the underlying shares which are listed on the Exchange shall appoint a member of the Exchange to submit a registration application to the Exchange before the listing of the GDR.

No depository shall create or redeem any GDR without completing the registration process.

Article 36 The depository for a GDR shall submit the following registration documents to the Exchange through the member it has appointed to trade on its behalf:

- (1) information registration form for the GDR depository business;
- (2) photocopy of its business license issued by the country or region of its domicile;
- (3) a written undertaking to abide by Chinese laws, regulations, departmental rules, normative documents, and applicable rules of the Exchange; and
- (4) other documents as prescribed by the Exchange.

All documents other than that specified in (2) of the preceding paragraph shall be in Chinese.

Any change to the registration information, whether due to any newly added depository service for specific GDRs or otherwise, shall be filed by the depository with the Exchange within two trading days.

The appointed member shall ensure the registration documents are true, accurate, and complete.

Article 37 A depository for a GDR shall open a dedicated securities account for the depository business and file such account with the Exchange for record.

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

Article 38 The appointed member shall exercise effective supervision and constraints over the securities trading activities of the depository on the Exchange. If the member finds that the depository conducts securities transactions beyond the prescribed scope or engages in any other irregular trading activity, it shall reject the order of the depository and report the situation to the Exchange in a timely manner.

Chapter IV Self-Regulation

Article 39 Each cross-border conversion institution and depository shall conduct lawful and compliant cross-border conversion and securities investment activities in accordance with the *Interim Measures* and this *Guidelines*, and shall not violate the state policies on cross-border funds administration; nor exceed the scope of investment or the maximum asset balance prescribed by the CSRC; nor take advantage of the cross-border conversion business to engage in insider trading, market manipulation, or other illegitimate or rule-breaking activities or seek other improper benefits.

Each appointed member shall report all pertinent information to the Exchange in a timely manner and duly exercise oversight of the trading activities of its clients in accordance with the *Interim Measures* and this *Guidelines*.

Article 40 For regulatory purposes, the Exchange may conduct on-site or off-site inspections on the cross-border conversion business of cross-border conversion institutions, depositories, and the members appointed for trading. Relevant entities shall provide active cooperation in such inspections and truthfully provide relevant documents and explanations.

Article 41 If any cross-border conversion institution, depository, or member appointed for trading violates this *Guidelines*, the Exchange will impose the corresponding self-regulatory measures or disciplinary sanctions against it in accordance with the *Interim Measures* and other applicable rules, report the violation to the CSRC or relevant regulatory authorities, and record it in the integrity record, and, in the case of a serious violation, request a formal investigation thereof.

Chapter V Ancillary Provisions

Article 42 This *Guidelines* is subject to the interpretation of the Exchange.

Article 43 This *Guidelines* shall be implemented as of the date of issuance.