

More room for foreign investments on the Shanghai stock exchange

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Stock Connect, a new programme between the Shanghai and Hong Kong stock exchanges launched on 17 November 2014, creates the opportunity to trade A-shares listed in Shanghai through the Hong Kong stock exchange. The opportunities for non-Chinese investors to trade A-shares were previously strictly limited to a number of specific quotas. Stock Connect is expected to provide much more room for foreign investors to trade Chinese securities.

On 4 September 2014, the Shanghai Stock Exchange (SSE) and China Securities Depository and Clearing Corporation Limited (China Clear) entered into an agreement with the Stock Exchange of Hong Kong Limited (SEHK) and Hong Kong Securities Clearing Company Limited (HKSCC) for the establishment of Shanghai-Hong Kong Stock Connect. Stock Connect creates a link between the SSE and the SEHK that enables investors with access to one market to buy and sell shares listed on the other's market. ChinaClear and HKSCC will be responsible for the clearing and settlement and other services related to the trading.

Some companies listed on one of the Chinese stock exchanges offer two classes of shares: A-shares and B-shares. B-shares are quoted in foreign currencies (US dollars in Shanghai; Hong Kong dollars in Shenzhen) and are open to both domestic and foreign investment. The market for B-shares, however, has remained stagnant for many years. By contrast, most companies issue only A-shares, which are only quoted in Chinese Renminbi. Before 17 November 2014, foreign investors could only buy and sell A-shares through one of the schemes that were specifically set up for that purpose: the Qualified Foreign Institutional Investor (QFII) and the Renminbi Qualified Domestic Institutional Investor (RQFII) schemes. Stock Connect is an addition to these existing schemes. The most important advantage of Stock Connect is that it is open to the whole market rather than to only a select number of approved investors under QFII and RQFII. Any investor that has a brokerage account with an eligible broker in Hong Kong will also have access to the SSE. One of the disadvantages of Stock Connect is that the trading by foreign investors of A-shares listed on the SSE will be subject to a daily quota of RMB 13 billion (approximately EUR 1.7 billion) and an aggregate quota of RMB 300 billion (approximately EUR 38.8 billion). If the amount of buy and sell orders exceeds either the daily or aggregate quota, then further buy orders will be rejected, but sell orders will always proceed. Also, Stock Connect will be limited to secondary trading and will not support IPOs.

Similarly, from a Chinese perspective, Stock Connect will provide a much wider platform for Chinese investors to trade securities listed on the SEHK, in addition to the existing Qualified Domestic Institutional Investor (QDII) scheme.

It had been announced that Stock Connect would launch on 27 October 2014, but the launch finally took place on 17 November 2014. As many investors seem to wait to see which way the wind blows, it is questionable whether Stock Connect will really hit the ground running. But Stock Connect does have the potential of providing access for foreign investors to PRC equity markets at an unprecedented scale. We will keep you informed of future updates regarding Stock Connect. For more detailed information and latest news, please visit either the [SSE](#) or the [SEHK](#) websites, where an [information book](#) and an [FAQ](#) can be found.