

## Annex 1-2:

### **Drafting Notes on the Interim Measures for the Listing and Trading of Depositary Receipts under the Stock Connect Scheme between Shenzhen Stock Exchange and Overseas Stock Exchanges (Draft Proposal for Public Consultation)**

In order to regulate the listing, trading, cross-border conversion, and information disclosure of or in relation to depositary receipts under the stock connect scheme between Shenzhen Stock Exchange (the “**Exchange**”) and overseas stock exchanges, the Exchange drafted the *Interim Measures for the Listing and Trading of Depositary Receipts under the Stock Connect Scheme between Shenzhen Stock Exchange and Overseas Stock Exchanges (Draft proposal for public consultation)* (the “**Interim Measures**”). Some explanations regarding the drafting are given as follows:

#### I. Background and road map

Recently, China Securities Regulatory Commission (the “**CSRC**”) solicited public comments on the *Provisions on the Supervision and Administration of Depositary Receipts under the Stock Connect Scheme between Domestic and Overseas Stock Exchanges (Draft proposal for public consultation)* (the “**Provisions**”). As the basic rules governing the depositary receipts under the Stock Connect Scheme, the *Interim Measures* made targeted and adaptive arrangements concerning activating financing function for Chinese depositary receipts, reducing the threshold for investors, realizing mutual recognition of information disclosure to certain extent, and establishing a cross-border conversion mechanism after taking into account the revision of the Provisions and the practice and experience of the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange.

(1) Adopting a comprehensive mode of basic rules supported by the guidelines. The rules on depositary receipts under Stock Connect cover a wide range of contents: on the one hand, they realize two-way opening-up, and both the eastbound China depositary receipts (“**CDRs**”) and the westbound global depositary receipts (“**GDRs**”) have financing functions; on the other, the depositary receipts under Stock Connect cover various business areas including listing, ongoing supervision, information disclosure, trading and cross-border conversion. Therefore, the Exchange intends to take the *Interim Measures* as broad and comprehensive basic rules and formulate relevant supporting guidelines for detailed implementation, covering preliminary review of listing, market making and cross-border conversion.

(2) Paying equal attention to supervision and development and promoting high-quality capital circulation. The depositary receipts under Stock Connect are of great significance to promote the two-way opening-up of the capital market. With regard to institutional design, we need to attach equal importance to supervision and development, coordinate internationalization and localization, and at the same time pay attention to the connection arrangement of regulatory systems of domestic and foreign regulators. Based on the practice of the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange, the *Interim Measures* made targeted institutional arrangements for the relevant business areas of eastbound and westbound depositary receipts and enhanced the regulatory mechanism while improving the market allocation capacity, such as the system of preliminary review of listing of CDRs; introduced the hybrid trading system of competitive market making under the auction trading system; relaxed the restrictions on price changes of financing CDRs on the first day of listing so as to be consistent with the trading mechanism on the first day of listing of IPO shares on the Main Board; and clarified the closing price before the first day of listing of financing CDRs.

(3) Strengthening investor protection and risk prevention arrangements. The *Interim Measures* address investor protection and risk prevention with a focus on the following aspects: in terms of information disclosure, overseas issuers are required to ensure that the protection of the rights and interests of Chinese domestic investors is generally no less than the requirements of Chinese laws, administrative

regulations and the rules of the CSRC; In terms of trading, the investor suitability management system is introduced and material abnormalities in local market liquidity and prices are prevented through special trading mechanism arrangements.

## II. Main contents of the *Interim Measures*

The *Interim Measures* include 129 articles in eight chapters, i.e. Chapter I the General Provisions, Chapter II Listing of CDRs, Chapter III Ongoing Information Disclosure for CDRs, Chapter IV Trading of the CDRs, Chapter V Delisting of CDRs, Chapter VI Matters Related to the GDRs, Chapter VII Market Self-Regulation and Chapter VIII Ancillary Provisions. The main contents of these eight chapters are as follows:

### (1) General provisions

This chapter contains provisions on the purpose, basis, and scope of application of the *Interim Measures*, parties subject to self-regulation, protection of investors' rights and interests, registration and settlement and other basic matters.

### (2) Listing of CDRs

This chapter addresses the preliminary review of listing, establishment of initial liquidity and listing of CDRs. First, it defines the listing criteria, including public offering requirements, market capitalization standards (retaining the market capitalization threshold of no less than RMB 20 billion for Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange), listing history (have been listed on the overseas stock exchange for at least 3 years), and initial size (no less than 50 million units of CDRs representing no less than RMB 500 million of corresponding underlying shares). Second, this chapter provides the matters relating to preliminary review of listing, including the application documents for preliminary review of listing and the period for preliminary review. Third, this chapter clarifies the relevant requirements for the establishment of initial liquidity of CDRs, listing application documents and disclosure matters.

### (3) Ongoing information disclosure for CDRs

This chapter provides the basic requirements and principles for ongoing information disclosure of CDRs, periodic reports, *ad hoc* reports and other relevant matters. First, it provides that overseas issuers and relevant information disclosure obligors shall follow the principles of fair disclosure, simultaneous disclosure and consistent disclosure. Second, it provides the contents, formats and audit of periodic reports, clarifies the disclosure standards for material transactions and related party transactions, and enumerates major non-trading matters. Third, it makes special provisions on the exercise and disclosure of the rights of CDR holders, ongoing disclosure of depositary plans, disclosure of equity changes, disclosure of domestic market concentration, suspension and resumption of trading, etc.

### (4) Trading of the CDRs

This chapter addresses the investor suitability management system for CDRs as well as the trading and cross-border conversion mechanism. First, it specifies the investor suitability conditions and requirements for trading CDRs. Second, it clarifies the differentiated trading mechanism for CDRs, such as market maker system, daily price limit, price benchmark on the first day of listing, etc. Third, it clarifies the operation and regulatory requirements for cross-border conversion, and made specific provisions on the business process of cross-border conversion, the registration and compliance requirements for cross-border conversion institutions, the error correction mechanism and the handling of excess CDRs.

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#### (5) Delisting of CDRs

This chapter addresses matters related to the delisting of CDRs. First, it makes differentiated arrangements for different types of termination of listing such as voluntary termination of listing and compulsory termination of listing, and clarifies the delisting process, hearing, review and other issues. Second, it makes special provisions on the protection arrangements for CDR investors.

#### (6) Matters related to GDRs

This chapter addresses GDRs matters related to the Exchange. First, it defines the requirements for domestic listed companies to apply for the listing of underlying shares as well as the matters related to GDRs that must be disclosed on the Exchange. Second, it clarifies the registration and regulatory requirements for cross-border GDRs conversion institutions and GDRs depositaries.

#### (7) Market self-Regulation

This chapter provides that the Exchange may impose day-to-day supervisory measures on market entities that participate in the business of depositary receipts under Stock Connect, and may impose self-regulatory measures or disciplinary sanctions on relevant violators.

#### (8) Ancillary provisions

This chapter defines the procedures for the entry into force and amendment of the *Interim Measures*, the party responsible for interpretation of the *Interim Measures*, and the date of implementation of the *Interim Measures*.