

Annex 2-2

Notes on the *Guidelines No.1 for Depository Receipts under the Stock Connect Scheme of Shenzhen Stock Exchange: Cross-Border Conversion of Depository Receipts Depository*

To regulate the cross-border conversion business of depository receipts (“*depository receipts*”) under the Stock Connect Scheme between Shenzhen Stock Exchange (the “SZSE”) and Overseas Exchanges and maintain the smooth operation of the connect mechanism, SZSE has formulated the *Guidelines No.1 for Depository Receipts under the Stock Connect Scheme of Shenzhen Stock Exchange: Cross-Border Conversion of Depository Receipts Depository* (the “*Cross-border Conversion Guidelines*”), the relevant situation is now explained as follows:

I. Drafting Background

The cross-border conversion mechanism of depository receipts refers to the mechanism by which depository receipts and underlying shares can be converted into each other in a predetermined ratio. The cross-border conversion mechanism, a common practice in the international depository receipt market, is a common means to realize the interconnection of domestic and overseas markets. The cross-border conversion mechanism can maintain the price linkage between depository receipts and the underlying shares. Such a mechanism is conducive to improving the pricing efficiency of the depository receipts and promoting sound development of the market. The *Provisions on the Supervision and Administration of Depository Receipts under the Stock Connect Scheme between Domestic and Overseas Stock Exchanges* promulgated by China Securities Regulatory Commission and the *Interim Measures for the Listing and Trading of Depository Receipts under the Stock Connect Scheme between Shenzhen Stock Exchange and Overseas Stock Exchange* have established the rule basis and institutional framework for the cross-border conversion of depository receipts. In order to further refine the requirements for cross-border conversion of depository receipts and standardize the cross-border conversion of depository receipts, the SZSE has formulated the *Cross-border Conversion Guidelines*.

II. Drafting Principles and Ideas

The first is to implement filing mechanism to reduce market costs. In order to improve market efficiency and reduce the cost of participants in cross-border conversion, the SZSE implements the filing mechanism for participants in cross-border conversion, and qualified institutions can launch cross-border conversion business once completing the filing. Depositories only need to file with the SZSE for the creation and redemption of global depository receipts (“GDRs”).

The second is to improve pricing efficiency and promote market development. Pricing efficiency is the basis for market function. Improving the efficiency of cross-border conversion is the key to maintain pricing efficiency of depository receipts. In order to balance supply and demand for depository receipts and avoid substantial deviations in the price of depository receipts from the underlying shares, the *Cross-border Conversion Guidelines* determines the creation and redemption

processes with higher efficiency and shorter cycles under current conditions, to ensure the efficiency of cross-border conversion and maintain the smooth operation of the market.

The third is to implement rigorous supervision and maintain market stability. The cross-border conversion business involves securities trading activities of Chinese cross-border conversion institutions in overseas market and securities trading activities of overseas cross-border conversion institutions in domestic market. In order to reduce the market impact of cross-border conversion business and maintain market stability, the *Cross-border Conversion Guidelines* implements rigorous supervision of cross-border conversion participants, and stipulate the account filing of cross-border conversion entities, information submission of custodian and supervision, etc. At the same time, it is clarified that the members entrusted by overseas cross-border conversion institutions and global depositories shall have the supervision and administration obligations to ensure the compliance of cross-border conversion business.

III. Main Contents

The *Cross-border Conversion Guidelines* consists of five chapters and forty-three articles, mainly including three aspects: the first is the filing administration of cross-border conversion entities, including the filing application and termination of domestic cross-border conversion institutions, overseas cross-border conversion institutions and global depositories; the second is cross-border conversion administration, including the process of cross-border conversion of Chinese depository receipts (“CDRs”) and ongoing information submission of cross-border conversion, etc.; the third is the supervision and administration of cross-border conversion, which mainly includes compliance requirements, inspections, self-regulation, etc.

(1) General Provisions. This chapter clarifies the purpose and basis for the *Cross-border Conversion Guidelines*, defines the scope of application, explains the definition of the cross-border conversion business of CDRs and GDRs, and stipulates that the cross-border conversion business should be subject to filing administration.

(2) Cross-Border Conversion of CDRs. The cross-border conversion of CDRs includes filing administration and ongoing administration of Chinese cross-border conversion institutions, and the administration of the creation and redemption of CDRs. The first is the filing administration of Chinese cross-border conversion institutions. Applicants should meet certain conditions and file application materials to the SZSE, and the SZSE will file for the record after review. The SZSE shall terminate filing in accordance with the application of the Chinese cross-border conversion institutions and the conditions for the termination. The second is the ongoing administration of Chinese cross-border conversion institutions, including the establishment of initial liquidity, the ongoing submission of cross-border conversion information. The third is the creation and redemption process of CDRs, including the basic requirements for creation and redemption and error correction mechanisms.

(3) Cross-Border Conversion of GDRs. It includes filing administration of overseas cross-border conversion institutions, the ongoing administration of the cross-border conversion business of GDRs, and the registration and ongoing administration of overseas depositories. The filing

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administration of overseas cross-border conversion institutions includes filing application and termination of filing of overseas cross-border conversion institutions. The administration of cross-border conversion of GDRs includes overseas cross-border conversion institutions entrusting members of SZSE for transaction, members' supervision responsibilities, and cross-border conversion business accounts filing and ongoing information submission, etc. The registration and ongoing administration of global depositories include application materials for filing, entrusting members of SZSE for transaction, and members' supervision responsibilities, etc.

(4) Self-Regulation. The *Cross-border Conversion Guidelines* clarifies that the SZSE can conduct on-site and off-site inspections of cross-border conversion institutions, depositories, and entrusted members, and has the right to conduct relevant self-regulatory measures or disciplinary on cross-border conversion institutions, depositories, and entrusted members in accordance with relevant rules.

IV. Opinions Received and Reviewed

Over the course of soliciting opinions, we have received a total of 3 comments on the *Cross-border Conversion Guidelines*. In general, market participants responded positively to draft rules for depository receipts under the Stock Connect Scheme of the SZSE. The comments are mainly focused on improving the requirements of information submission, etc. Relevant opinions and suggestions have been incorporated with careful consideration and the *Cross-border Conversion Guidelines* has been enhanced accordingly. For comments regarding the understanding and interpretation of the articles, SZSE has provided explanation through consultation symposiums and policy Q&A, etc.