11 May 2018

NEW BUSINESS INITIATIVE TASK FORCE SESSION - HKEX SHARING

20TH ACG CROSS TRAINING SEMINAR

HKEX
香港交易所

Cash & Derivatives Clearing,
HKEX

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AGENDA

1. Stock Connect development
2. Launch of physically settled Gold Futures
3. Q&A

Overview

What is Stock Connect?

A securities trading and clearing links programme developed by Hong Kong Exchanges and Clearing Limited (HKEX), Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE) and China Securities Depository and Clearing Corporation Limited (ChinaClear), aiming to achieve a breakthrough in mutual market access between the Mainland China and Hong Kong.

Shanghai-Hong Kong Stock Connect
Launched in 2014

Shenzhen-Hong Kong Stock Connect
Launched in 2016

Key Features of Stock Connect

Rules	▪ "Home Market" Rules and Laws Apply to the Extent Possible
Trading Link	▪ Investors to trade through local brokers, and orders are routed through the subsidiaries set up by local exchanges to the opposite markets
Nominee structure	▪ HKSCC is the "nominee holder" of the SSE and SZSE securities acquired by Hong Kong and overseas investors through Shanghai and Shenzhen Connect
Quota	▪ No more aggregate quota in Stock Connect ▪ With effect from 1 May 2018, daily quota adjusted as follows ▪ Northbound daily quota: RMB 52 billion for each Shanghai and Shenzhen Connect ▪ Southbound daily quota: RMB 42 billion for each Shanghai and Shenzhen Connect
Regulatory	▪ Cross-boundary regulatory and enforcement cooperation by SFC and CSRC

Recent developments

2017

- MSCI announced on **20 June 2017** to include 222 China A Large Cap shares in the MSCI Emerging Markets Index using a 2-step inclusion process in May and August 2018, as expansion of Stock Connect program considered as ***"Improved market accessibility"*** compared to the QFII and RQFII regimes by Institutional investors

- Further inclusion[1] will be subject to a greater alignment of the China A shares market with international market accessibility standards, the resilience of Stock Connect, the ***relaxation of daily trading limits…***

2018

- Jointly announced by CSRC and SFC on **11 April 2018** to quadruple daily quota from **1 May 2018**

- This decision to expand the daily quota will further facilitate access to the China A shares market for international institutional investors[2]

Stock Connect initiatives enhance market accessibility to Mainland China, increase daily quota further facilitate access to the China's market

[1] Source: MSCI presentation - https://www.msci.com/documents/1296102/1330218/Adding+A-shares+into+Emerging+Markets+Index.pdf/c0561a16-3eed-4bc7-ba8c-3410b769dc8c
[2] Source: MSCI Press Release - https://www.msci.com/documents/10199/276599d3-0a85-4f98-a5ee-3bca9b3ff6ce

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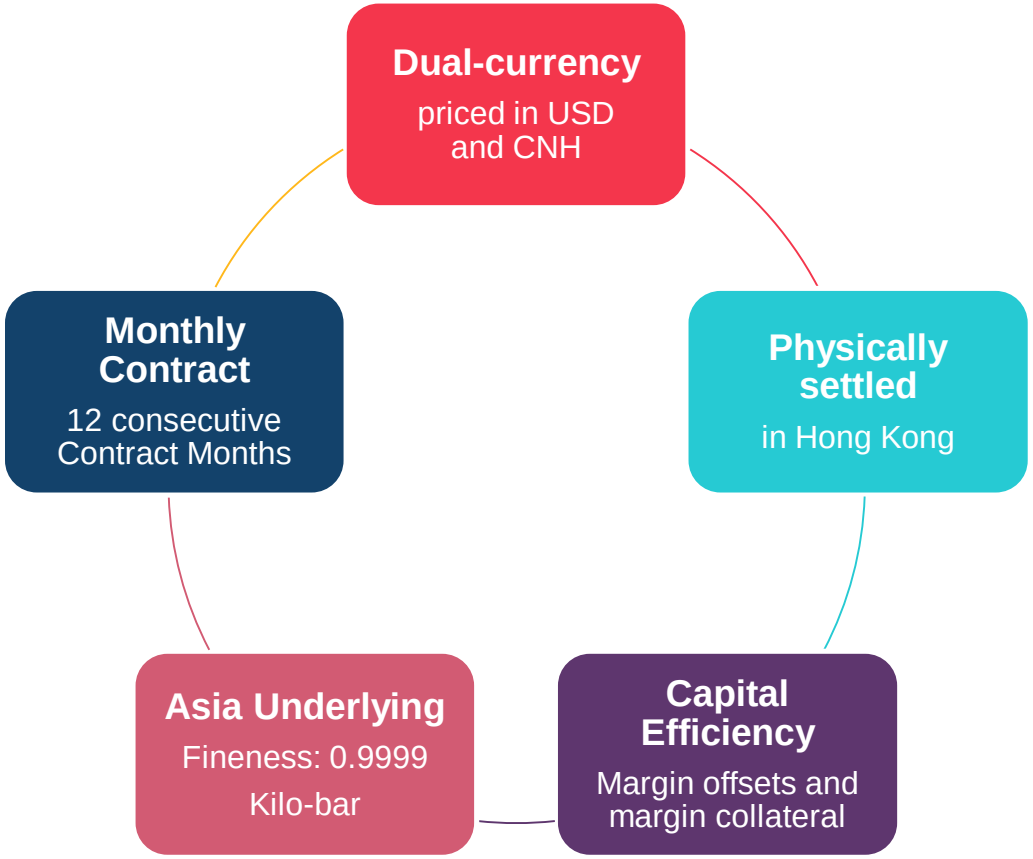
USD & CNH Physically Settled Gold Futures

Key Features and Benefits

Trading commenced on 10 July 2017



Benefits

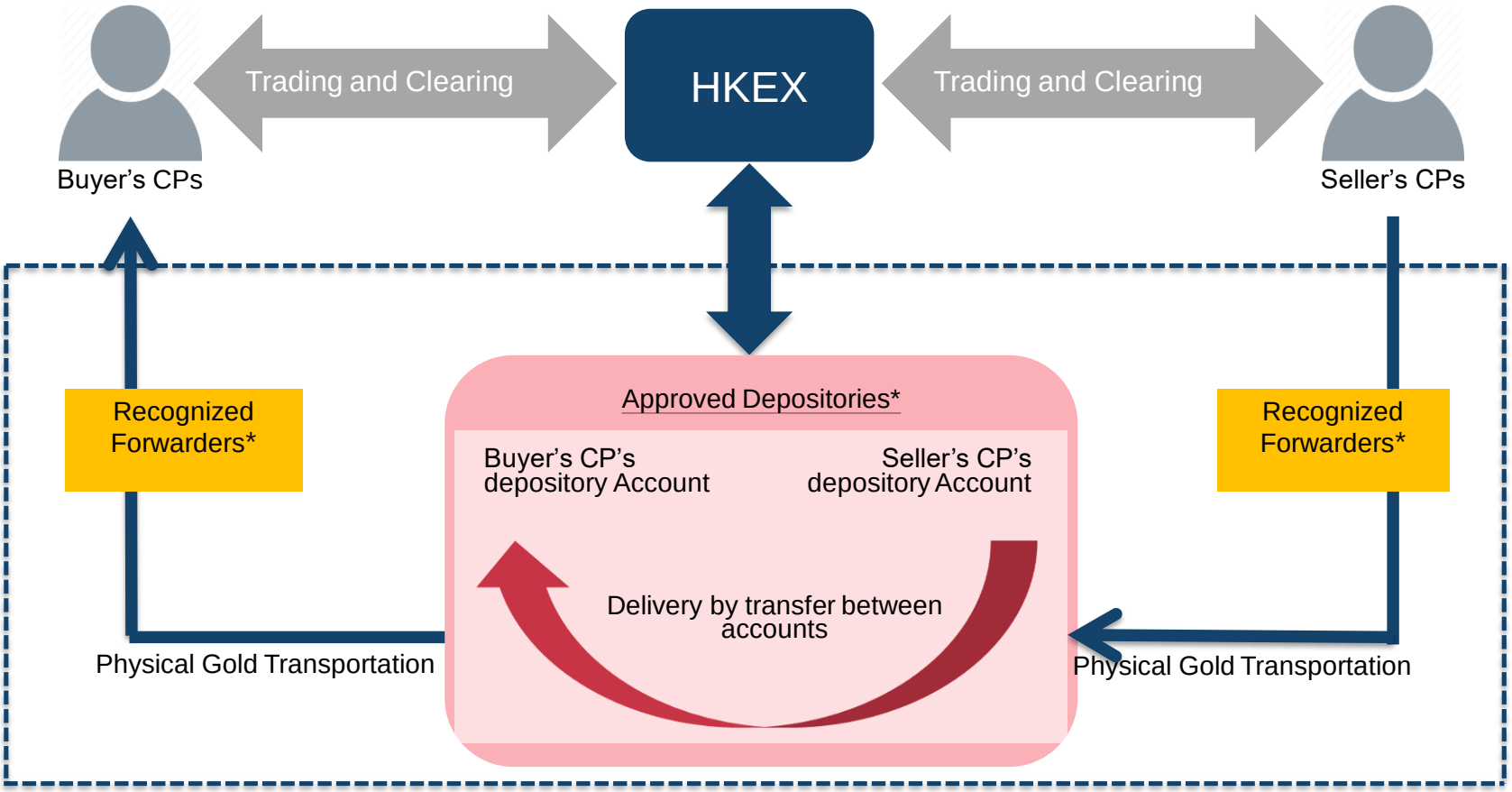
- Enable portfolio diversification
- Hedge gold price risk
- Capture opportunities in physical and derivatives gold markets
- Utilise the USD/CNH FX rate movement from the dual-currency contracts
- Allow margin offset between USD and CNH contracts
- Satisfy CNH margin requirement by any acceptable cash collateral up to CNH 1 billion[1]

Information sheet : http://www.hkex.com.hk/-/media/HKEX-Market/Products/Listed-Derivatives/Commodities/Gold-Futures/HKEX-Gold-futures-Infosheet-2Aug17.pdf

Note 1. Margin above CNH 1 billion must be satisfied by CNH cash.

Gold Trading and Settlement

Delivery Approach



* Lists of Approved Depositories and Recognized Forwarders will be published on HKEX website and updated from time to time.

PHYSICAL GOLD SETTLEMENT

Approved Depositories

Approved Depositories

- A depository for precious metals approved by the Clearing House and included on the list of Approved Depositories published and updated by the Clearing House from time to time

- Brink's Hong Kong Limited is appointed as the first Approved Depository to support physical settlement of the gold futures contracts

- Delivery Participants are required to open storage accounts with Brink's

PHYSICAL GOLD SETTLEMENT

Chain of Integrity

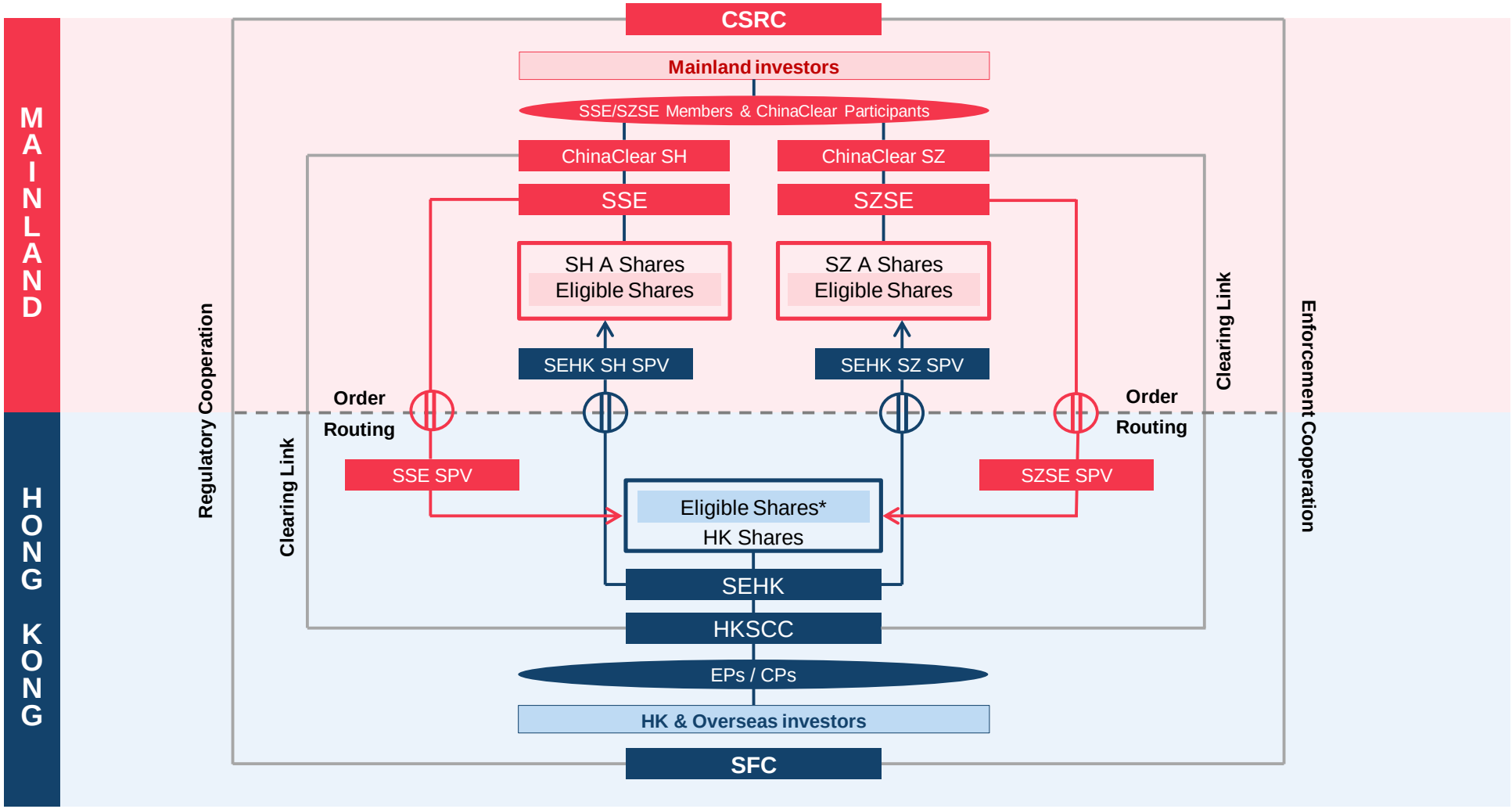
Recognized Refiners	• a precious metal refinery which is included on the list of Recognized Refiners published by the Exchange from time to time
Recognized Depositories	• a depository for precious metals which is included on the list of Recognized Depositories published by the Exchange from time to time
Recognized Forwarders	• a transportation firm specializing in transporting precious metals which is included on the list of Recognized Forwarders published by the Exchange from time to time
Recognized Assayers	• an assayer for precious metals which is included on the list of Recognized Assayers published by the Exchange from time to time

The chain of integrity is maintained throughout gold delivery

* Lists of Recognized Depositories , Recognized Forwarders, Recognized Refiners and Recognized Assayers will be published on HKEX website and updated from time to time.

Q & A

Appendix I – Overview of Stock Connect

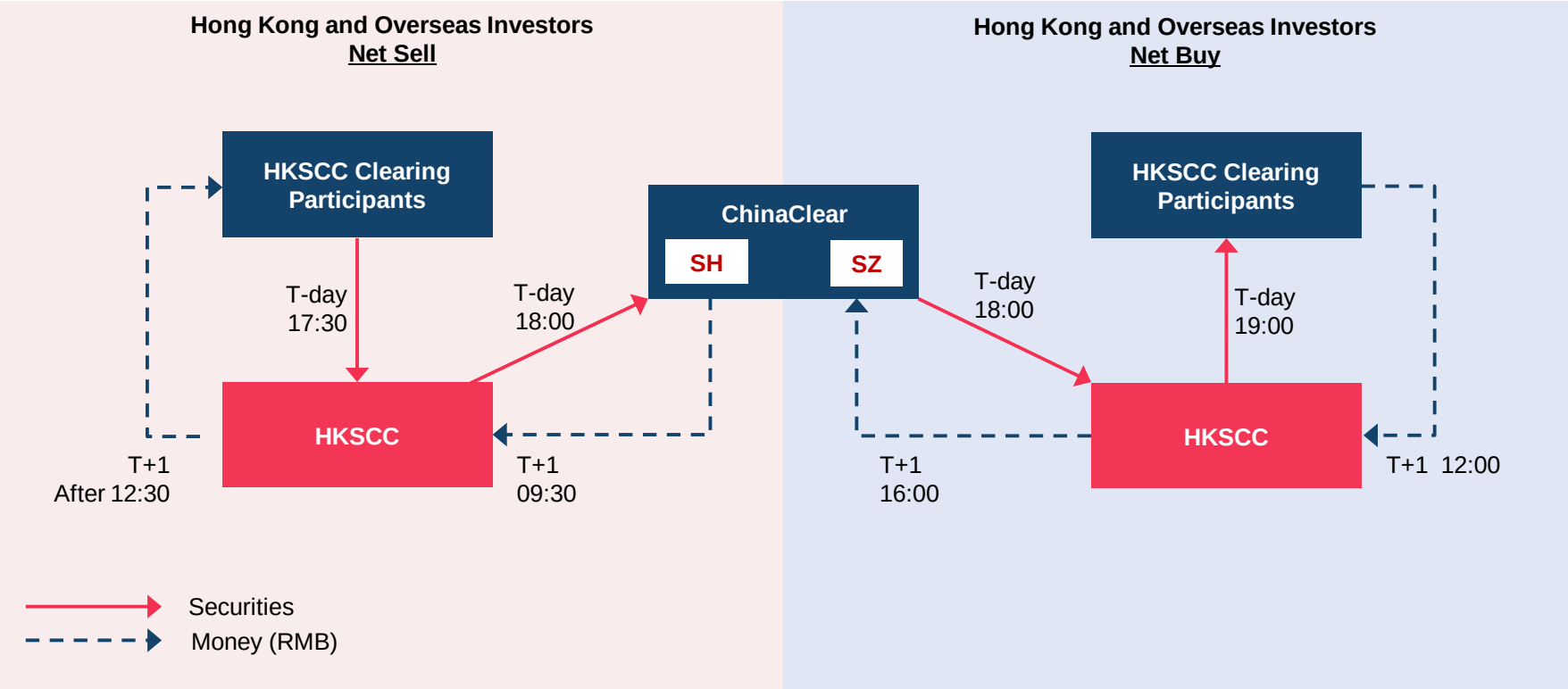


* Eligible shares for the Shanghai & Shenzhen Southbound links are different

Appendix II – Key Features of Stock Connect

Clearing Link

- **HKSCC is a participant of ChinaClear, and clears and settles cross-border trades with ChinaClear for HK & international investors**
- **Risk management measures of ChinaClear applicable to HKSCC are imposed on HKSCC's participants**



Appendix III – Product Overview of Gold Futures

Rationale	• Hong Kong is a major gold trading market connecting the trading times of Asian, European and American markets. • Aiming to establish a local price benchmark for gold in Hong Kong.
Contract Features	• Physical settlement of kilo-bar with 0.9999 fineness • Settlement in dual currencies – USD and CNH • Chain of integrity to help ensure quality of gold
Trading & Clearing Participants	• Physical Delivery Participants (DPs): ➢ Have USD and/or CNH settlement account(s) with Settlement Banks ➢ Opened accounts with each of the Approved Depositories, or signed Delivery Agreement with another CP with delivery capability • Non-delivery Participants (NDPs): ➢ Have USD and/or CNH settlement account(s) with Settlement Banks ➢ Governed by relevant position management requirements and disciplinary actions
Risk Management	• Margin offset and margin collateral • Physical delivery charge • Subject to Cash Compensation and non-delivery charge