



Regulatory Update – Exchange Traded Funds to be Included in Mainland China and Hong Kong Stock Connect Programme

On 27 May 2022, the Securities and Futures Commission (“SFC”) and the China Securities Regulatory Commission (“CSRC”) (jointly “regulatory bodies”) released a statement outlining the long-awaited details for the implementation of plans to include eligible exchange-traded funds (“ETFs”) in Stock Connect between eligible exchanges in both Hong Kong and Mainland China. Following the inclusion of ETFs in Stock Connect, investors in Mainland China and Hong Kong will be able to trade eligible ETFs listed on each other’s exchanges.

The formal implementation of ETFs in Stock Connect is likely to take 2 months from the date of the announcement subject to the outcomes listed below. This regulatory update outlines the key details of the recent announcement.

Key Details:

To provide a greater variety of products and to increase investment opportunities for domestic and overseas investors, in 2016 both regulatory bodies reached an agreement to include ETFs as eligible securities under the Stock Connect programme. In December 2021, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Stock Exchange of Hong Kong, the China Securities Depository and Clearing Corporation Limited and the Hong Kong Securities Clearing Company Limited reached an agreement on a proposal to achieve this.

Broadly the arrangements for the inclusion of ETFs in Stock Connect are the same as the existing procedures for Stock Connect and the various laws, regulations and operational models governing trading and clearing in both the Mainland China and Hong Kong markets.

The eligibility of an ETF to be included in Stock Connect is based on various factors such as fund size and whether the index tracked by the fund comprises mainly eligible stocks under Stock Connect. Stock exchanges in Hong Kong and the Mainland will publish detailed eligibility criteria in due course. As part of the agreement, exchanges in both Hong Kong and the Mainland can vary eligibility requirements for ETFs after the launch of the programme.

Investors will only be allowed to trade ETFs on secondary markets and no direct subscriptions or redemptions will be allowed. Investment quotas for ETFs and stocks will be aggregated for calculation and administrative purposes.

The rules applicable to trading and clearing, investor eligibility, cross-boundary regulatory and enforcement cooperation and liaison mechanisms will be the same as for existing securities in the Stock Connect programme.

Initial preparatory work will be undertaken on the Mainland and in Hong Kong on development and testing of technical systems and investor education. ETFs will officially be included in Stock Connect after the following outcomes have been met:

- Trading and clearing rules and systems have been finalised;
- Regulatory approvals are granted in Mainland China and Hong Kong;
- Market participants have sufficiently updated their operational and technical systems;
- All necessary arrangements for cross-boundary regulatory and enforcement cooperation are in place; and
- Investor education measures have been determined.



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