

China Securities Depository and Clearing Corporation Limited

Legal Task Force Group Meeting

H-share Full Circulation Program of CSDC

Legal Affairs Department

CSDC

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Background of nominal holding structure in China



□ Immobilization and dematerialisation innovation

- In China's securities market, we have already completed the immobilization and dematerialisation innovation of physical securities in very early stage.

Therefore, in China's current practice, direct holding is the main securities holding model and nominal holding is the supplement, which is different from the international approach of most countries and regions who adopt securities indirect holding system.

□ Transparent direct holding model

- **Direct holding model:** In most cases, investors use their own name to open securities accounts and hold securities directly.
- **Nominal holding model:** Only under some specific circumstances, the securities shall be registered in the name of the nominal holder.

CSDC, as the central securities depository(CSD), sets up securities accounts for investors, and the securities are registered in the name of individual investors, which can be described as **transparent direct holding model**.

□ Cross-border business: nominal holding structure

- CSDC is working on relevant measures to further expand opening-up in accordance with the central government's decision to promote a new-round of higher-level opening-up to the outside world.
- CSDC have launched Hong Kong Stock Connect, London Connect, H-share full circulation, and other programs, which operate under the nominal holding structure.

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H-share full circulation Basics



□ H-share

- **Foreign shares:** tradable shares issued in Hong Kong.
- **Domestic shares:** shares held by pre-IPO Mainland investors that were previously non-tradable.

H-share: H-share is the share issued in Hong Kong Stock Exchange and by companies registered in mainland China.

□ H-share full circulation program

- The H-share full circulation program, made previously non-tradable shares available for trading on the Hong Kong market.

Non-tradable shares: include the remaining shares held by domestic shareholders prior to the offshore listing, domestic shares offered after the offshore listing, and the unlisted foreign shares transferred from domestic shareholders to foreign shareholders.

➤ **A pilot program:**

- In December 2017, the CSRC announced to launch a pilot program of H-share full circulation.

➤ **Full roll-out:**

- In November 2019, a full roll-out of the program was achieved.
- By the end of 31 August 2021, the non-tradable shares of 28 Hong Kong listed companies have been approved by CSRC to convert into floating H-shares on Hong Kong Stock Exchange.

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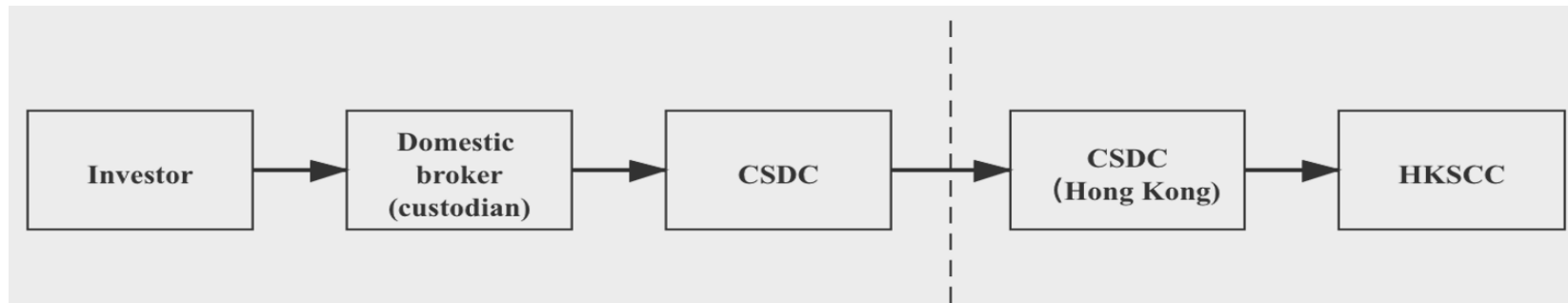
Clearing and settlement

□ Legal framework of H-share full circulation

| | In the Pilot Program | Full Roll-out |
|-------------------------|---|--|
| Departmental regulation | / | Guidelines on Applying for “Full Circulation” Business for H-share Companies’ Domestic Unlisted Shares |
| Business rule | Implementation Rules for the Pilot Project on “Full Circulation” of H-Share (Trial) | Implementation Rules for H-share “Full Circulation” Business |
| Business guide | H-share “Full Circulation” Pilot Business Guide (Trial) | H-share “Full Circulation” Business Guide |

□ Custody and depository

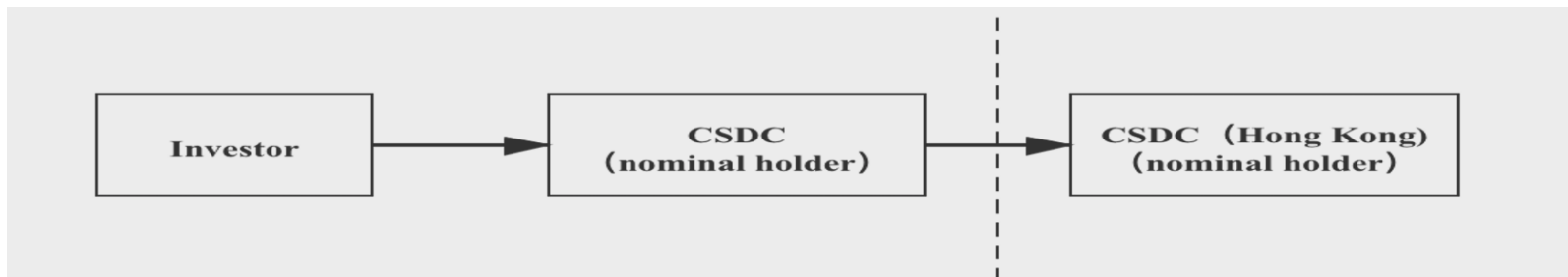
- **In Hong Kong side:** the relevant shares are in custody in CSDC(Hong Kong) by CSDC.
- **In mainland side:** shares are in custody in domestic brokers by investors, and domestic brokers shall deposit shares in CSDC.



□ Registration: nominal holding structure

- Securities are eventually recorded on the shareholders' register in the name of HKSCC Nominees Limited, not the individual investors.
- H-share listed companies shall register the relevant securities which were previously registered in CSDC, in Hong Kong securities transfer agents or other registration institutions.

□ Registration: nominal holding structure



- Among these nominal holding relationships, the cross-border linkage happens between CSDC and CSDC (Hong Kong).

Nominal holder services: include share delivery, voting, cash dividend distribution, share offering, acquisition of the company and so on.

□ Registration: nominal holding structure

- Given the Hong Kong capital market adopts a multi-level indirect holding model, securities are eventually reflected in the register of shareholders in the name of HKSCC Nominees Limited, which shall have the legal title of all the shares.
- Although the investors' names are not reflected in the shareholders' register, their rights can be proved by CSDC's securities holding records. .

□ **Clearing and settlement**

- CSDC(Hong Kong) completes the settlement of securities with the Hong Kong brokers in accordance with the rules of HKSCC.
- CSDC(Hong Kong) completes the settlement with CSDC.
- CSDC shall complete the settlement with the domestic settlement participants on basis of the settlement data.

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The significance of H-share full circulation reform



1. Increase the overall liquidity of H-share listed companies.
2. Better alignment of shareholders' interests to improve corporate governance.
3. New financing possibilities brought by pledging of H-shares converted from domestic shares.

□ Increase the overall liquidity of H-share listed companies

- The H-share full circulation reform makes previously non-tradable shares of Hong Kong-listed Mainland Chinese companies available for trading on the offshore market, which increases the overall liquidity of relevant shares, and helps domestic companies gain development by making use of both domestic and overseas markets and their resources.

□ Better alignment of shareholders' interests to improve corporate governance.

- The reform facilitates the marketization of the prices of H-shares by reducing the variation between the share values in mainland China and Hong Kong, furthermore the reform is favorable for unifying various shareholders benefits of H-share companies and improving corporate governance.

- **New financing possibilities brought by pledging of H-shares converted from domestic shares**
 - Before the reform, the shareholders can hardly achieve their interests by selling and pledging their domestic securities, and the domestic shares can only perform the function of financing for the issuers. The full circulation reform provides new possibilities and opportunities for the holders of domestic shares to achieve their rights.

Thank you!

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