THE OPENING OF CHINESE CAPITAL MARKET

Wang Xian
Dec, 2021
The Opening of Chinese Capital Market

2. Listing abroad: From B shares to N shares
3. Intermediaries: From Joint Venture to 100% Controlled
4. Secondary Market: From QFII to Direct Investment
1. AN OUTLINE OF CHINESE CAPITAL MARKET AND THE PROCESS OF OPENING
The Number of Chinese A-share Listed Companies (2000-2020)

Source: Wind, as of 23 Nov, 2021
Percent Change in the Number of Listed Companies for Selected Markets Around the World

Sources: World Federation of Exchanges, World Bank and Wind
### Ranking by IPO fund-raising

<table>
<thead>
<tr>
<th>Rank</th>
<th>Stock Exchange</th>
<th>IPO funds-raised (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nasdaq – US</td>
<td>51,314</td>
</tr>
<tr>
<td>2</td>
<td>Hong Kong Exchanges and Clearing</td>
<td>51,284</td>
</tr>
<tr>
<td>3</td>
<td>Shanghai Stock Exchange</td>
<td>50,601</td>
</tr>
<tr>
<td>4</td>
<td>NYSE</td>
<td>33,866</td>
</tr>
<tr>
<td>5</td>
<td>Shenzhen Stock Exchange</td>
<td>18,595</td>
</tr>
<tr>
<td>6</td>
<td>LSE Group</td>
<td>13,396</td>
</tr>
<tr>
<td>7</td>
<td>Euronext</td>
<td>7,315</td>
</tr>
<tr>
<td>8</td>
<td>Hochiminh Stock Exchange</td>
<td>4,985</td>
</tr>
<tr>
<td>9</td>
<td>Nasdaq Nordic and Baltics</td>
<td>4,668</td>
</tr>
<tr>
<td>10</td>
<td>The Stock Exchange of Thailand</td>
<td>4,168</td>
</tr>
</tbody>
</table>

### Ranking by Market Cap

<table>
<thead>
<tr>
<th>Rank</th>
<th>Stock Exchange</th>
<th>Market Cap (USD billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NYSE</td>
<td>26,233</td>
</tr>
<tr>
<td>2</td>
<td>Nasdaq - US</td>
<td>19,060</td>
</tr>
<tr>
<td>3</td>
<td>Shanghai Stock Exchange</td>
<td>6,976</td>
</tr>
<tr>
<td>4</td>
<td>Japan Exchange Group</td>
<td>6,718</td>
</tr>
<tr>
<td>5</td>
<td>Hong Kong Exchanges and Clearing</td>
<td>6,130</td>
</tr>
<tr>
<td>6</td>
<td>LSE Group</td>
<td>4,046</td>
</tr>
<tr>
<td>7</td>
<td>Euronext</td>
<td>2,608</td>
</tr>
<tr>
<td>8</td>
<td>National Stock Exchange of India</td>
<td>2,552</td>
</tr>
</tbody>
</table>
Trading Activities Across Global Exchanges

ADT & Velocity (1) of Major Global Exchanges (US$ billion)

Source: WFE and Bloomberg (Aug 2021)

1. ADT and turnover velocity take into account both on-exchange and block trading. For Nasdaq, NYSE and Cboe, trades executed on their trading platforms include those listed on other US exchanges, hence their turnover velocity covers the whole US market.

2. HKEX ADT includes equities only, excluding ETPs and structured products.
A Brief History of Opening of Chinese Capital Market
2. LISTING ABROAD: FROM H SHARES TO N SHARES
B-shares

The official name for B-share is Domestic listed foreign investment shares, which face value are in CNY, purchased in USD or HKD, traded at SHEX or SZEX issued by foreign entities.

The B-share market opened in 1992 for foreign investors. The Shanghai B-share market is traded in USD while the Shenzhen B-share market is traded in HKD.

Between 1992-2000, a total number of 114 listed companies issued B-shares, raised fund of c. CNY20.7bn.

There is no new issuance of B-share since 2000.

Currently there are only 90 listed B-shares on SHEX and SZEX, total market cap of CNY130bn.
2. FROM B SHARES TO H SHARES AND N SHARES

In July 1993, Tsingtao Beer became the first mainland company listed on HKEX.
Currently, there are 290 companies listed on HKEX, total market cap of HKD6.7trn.

There are 283 companies listed in the US, among which 85 are listed on NYSE, 191 on NASDAQ, 7 on AMEX, total market cap of USD1.6trn.
There are 9 companies listed on LSE, total market cap of CNY230.9bn.
There are 66 companies listed on SGX, total market cap of CNY32.4bn.
3. INTERMEDIARIES: FROM JOINT VENTURE TO 100% CONTROLLED
JV Investment Companies and Investment Advisers

The first joint-holding investment bank CICC was founded in 1995 according to the Administrative Measures on Foreign Joint venture Investment Bank by PBC.

In June 2002, CSRC released the Administrative Measures on Foreign Joint venture Securities Company, which setted the upper limit of the shareholding of foreign investors at 49%.

In April 2018, CSRC established the Administrative Measures on Foreign-Invested Securities Companies, which increased the upper limit of the shareholding of foreign investors in securities companies to 51%.
In October 2019, CSRC clarified the timing of lifting foreign shareholding restrictions for securities and asset management companies.

On April 1st 2020, CSRC nullified all restrictions on foreign shareholding for securities, asset management and future companies. And the foreign intermediaries are treated and regulated equally with domestic firms.

In July 2020, CSRC and CBIRC announced the Administrative Measures on Custodian Business for Securities Investment Funds, allowing branch and sub-branch of foreign banks to apply for custodian banks of securities investment funds.

On Dec 8th 2020, Goldman Sachs announced to acquire the shares from the other shareholders of Goldman Sachs Gaohua Securities, and transfered it into a 100% controled investment bank in China.
Foreign Intermediaries

Currently, CSRC has issued licenses to a bunch of wholly- or jointly-owned foreign intermediaries, including:

- 9 jointly-owned securities companies with foreign investor as the majority shareholder
- 3 wholly-owned foreign asset management companies, including BlackRock, Fidelity and Neuberger Berman
- 1 wholly-owned futures company, JP Morgan Futures
- The Chinese subsidiaries of Standard Charted, Citi and Deutsche Bank get licenses of custodian banks.
4. SECONDARY MARKET:
FROM QFII TO FOREIGN DIRECT INVESTMENT
QFII （Qualified Foreign Institutional Investor）

In November 2002, the CSRC released the Interim Measures for the Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors. The QFIsI must apply for quotas from SAFE and there are lock-up period restrictions on QFII.

In September 2009, the quota limit was increased and the lock-up period was relaxed;

In September 2020, the quota was cancelled

In 2021, there are 600 QFIIs.
The Pilot Shanghai and Hong Kong Stock Market Trading Interconnection Mechanism, referred to as "Shanghai and Hong Kong Stock Connect (SHSC)". The market access between the Mainland and Hong Kong is established, and investors are able to trade shares on the other market through their local brokers.
Framework of The Stock Connect

Three circles:
Order routing;
Clearing link;
Regulatory cooperation

*All cross-border orders are collected by exchanges and routed to the respective markets.
*Quota can be calculated on real time basis.
*Closed Loop Cross-Border Fund Flow
Clearance and Settlement

T+0, Securities settlement; T+1 Money settlement.

Existing Administrative Measures of Hong Kong market is applied to Southbound.
Foreign Shareholding Restriction

- Aggregate foreign investors’ shareholding in an A share must ≤ 30% of the total issued shares
- When Aggregate Foreign Shareholding reaches 24%, SSE/SZSE will publish notice
- When Aggregate Foreign Shareholding exceeds 30%, SSE/SZSE will send notices to the foreign investors concerned for them to sell the shares on a last-in-first-out basis within five days
- Foreign investors: QFII, RQFII and investors trading A shares through Shanghai and Shenzhen Connect
  - When Aggregate Foreign Shareholding reaches 28%, HKEX will stop accepting further buy orders on that A share, until shareholding lowers to 26%
  - If Aggregate Foreign Shareholding exceeds 30%, and the excess is due to Shanghai or Shenzhen Connect, HKEX will identify the relevant EP and require it to follow the force-sell requirements
- Single foreign investors’ shareholding in an A share must ≤ 10% of the total issued shares
- As HKEX does not have individual investor’s shareholding information, EPs should remind their clients to comply with the rule
ChinaClear establishes direct holding system to local investors and each investor opens an securities account at ChinaClear;
- HKSCC opens separate omnibus accounts to hold A-shares;
HKSCC establishes indirect holding system and Participants open accounts at HKSCC;
- ChinaClear open separate omnibus accounts in HKCSS;

Hong Kong and overseas investors’ ownership of A-shares is reflected in their brokers or custodians’ client records.
Nominee Services and Corporate Actions

- **ChinaClear and HKSCC provide nominee services** to Participants/investors.
- As ChinaClear and HKSCC are the shareholders on record of listed companies, they can attend shareholders’ meeting as shareholder.
- ChinaClear and HKSCC keep their Participants informed of the corporate actions, including cash dividend, bonus issues, voting, take-over offers and rights issue etc., in particular those that require Participants/investors to take actions.
- The investors receive relative information from their brokers and submit their instructions via Brokers.
- ChinaClear and HKSCC **consolidate the instructions** from their Participants and submit a combined single voting instruction (with ‘For’ and/or ‘Against’ votes together with ‘Abstain’ and/or cumulative votes if applicable), in accordance with the relevant issuers or authorized agents.
The milestone of integration

Stock Connect Average Daily Turnover (HKD bn)

- Northbound turnover exceeded Southbound most of the time.
- Southbound turnover picked up after the announcement of Shenzhen-Hong Kong Stock Connect (2) and the approval of onshore insurance funds to trade through Shanghai-Hong Kong Stock Connect (3).

Source: HKEX, SSE and SZSE, data as of 31 Aug 2018
(1) Northbound (NB) trading is conducted in RMB; the NB figures in the chart are converted to HKD based on the month-end exchange rate.
(2) CSRC and SFC jointly announced the approval of Shenzhen-Hong Kong Stock Connect on 16 Aug 2016.
(3) China Insurance Regulatory Commission (CIRC) published the notice on 8 September 2016.
THANK YOU!