

# **PILOT PROGRAMME FOR TRADING US SECURITIES**

## **Informational Documentation For Clients of Exchange Participants**

The material contained herein is for general information and investors should only consider participating in the Pilot Programme if they have sufficient means and resources to acquire and understand the relevant product and market information regarding the Programme which is published on or distributed via the Internet in English.

### **INTRODUCTION**

The Stock Exchange of Hong Kong (the Exchange) is introducing a special arrangement for the trading of global securities in Hong Kong (HK) called the Pilot Programme (PP). Initially, a small number of large established securities with track record listed on the National Association of Securities Dealers Automatic Quotations (Nasdaq) and the American Stock Exchange (Amex) are to be quoted on the Exchange under this arrangement.

The PP securities are aimed at sophisticated investors. You should consult your broker and become familiarised with the PP before trading in the PP securities.

### **MAIN CHARACTERISTICS OF PILOT PROGRAMME SECURITIES**

The PP securities are different from those listed on the Exchange's Main Board or Growth Enterprise Market (GEM). Their main characteristics are: -

- Foreign entities to Hong Kong and Mainland China;
- Have several years of audited profits attributable to shareholders;

- Have obtained a primary listing on the Nasdaq-Amex Market Group and have been registered with the US Securities and Exchange Commission (SEC);
- May also include a number of exchange traded index funds;
- Are not regulated as a primary or secondary listing on the Exchange's Main Board or GEM;
- Regulation of the issuers lies with the primary exchange/market and they are admitted into the Exchange for trading only;
- Trading on the Exchange is regulated by HK law and Exchange rules and in particular, the securities are subject to the market manipulation provisions of the Securities Ordinance;
- In general, suspension and resumption of trading on PP securities will follow that of the home market but the Hong Kong Securities and Futures Commission (SFC) and the Exchange retain the right to suspend, halt trading and remove any security from trading;
- There will be no public offering of PP securities in HK;
- For a full list of the PP securities, you are advised to refer to the Exchange's website (<http://www.sehk.com.hk>).

### **TRADING AND SETTLEMENT ARRANGEMENT**

- **Trading currency**  
In HK, these securities are traded and settled in HK dollars although they are traded and settled in US dollars in the US.
- **Stock codes**  
To differentiate the PP securities from other securities in the Exchange's Main Board and Gem, the stock codes of these securities are within the 4331 to 4430 range.

- **Board lots**

The securities are traded in board lots ranging from ten to one hundred shares per board lot depending on the price of the securities at the time of admission to trading. You can access the Exchange's website for information on board lot sizes when the securities commence trading in HK.
- **Trading spread**

The trading spread follows those of HK securities and you can refer to the Second Schedule of the Rules of the Exchange or the Exchange's website for details.
- **Short selling**

Securities under PP are eligible for short selling with the tick rule.
- **Settlement**

These securities follow the standard T+2 settlement period by Continuous Net Settlement in CCASS, the central clearing and settlement system operated by Hong Kong Securities Clearing Company Limited (HKSCC), for trades concluded on the Exchange. You should note that the US settlement period is T+3.
- **CCASS rules**

All CCASS rules for clearing, settlement, custodian and nominee services apply to the PP securities.
- **Trading mechanism**

As with HK securities, the PP securities are traded through the Exchange's Automatic Order Matching and Execution System (AMS) under an order-driven and automatching mechanism. Designated market makers for PP securities may participate in AMS to provide two-way prices on the AMS order book. Market making is continuous and competitive.
- **Trading by overseas investors**

Overseas investors should note and comply with the applicable regulatory restrictions in their country of domicile governing purchases or sale of overseas securities prior to trading the PP securities on the Exchange.

## **INFORMATION DISSEMINATION AND DISCLOSURE OF FINANCIAL INFORMATION**

You are advised to obtain information on filings relating to the PP issuers from multiple sources as the information / filings are delivered on a best endeavour basis. The following are, among others, information channels for the PP securities:

### **Issuers' disclosure**

- <http://www.nasdaq-amcx.com> is the website address of the Nasdaq-Amex Market Group which will be hyperlinked from the Exchange's website (<http://www.sebk.com.hk>)
- <http://www.sec.gov/edgarhp.htm> is the website for EDGAR, the Electronic Data Gathering, Analysis and Retrieval system, contains the US issuers' filings to the SEC. You can access the filings of all US securities on this website.
- Individual issuers' websites which are hyperlinked from the Exchange's website, contain information and disclosures released by the issuers.
- The Exchange's website also contains useful links to access third party research and news reports on the PP securities in addition to financial reports and information from newspapers, magazines, news vendors and brokers.
- Those in HK who invest and become beneficial owners of PP securities will also receive issuers' documents from HKSCC via their brokers or by being Investor Participants when such documents are made available to HKSCC.

Note: You should note that like its US counterpart, the Exchange is not in a position to verify the accuracy of the information disclosed. In addition, third party reports and analysis reflect the views of their authors or commentators.

### **Market prices of Individual securities in HK**

Market prices and turnover of the PP securities traded on the Exchange can be accessed through brokers, newspapers and other information service providers. In addition to HK market prices, you can also refer to Nasdaq-Amex market statistics available on the Nasdaq-Amex website or the Exchange's joint website with Nasdaq.

US market closing prices and turnovers are disseminated by the Exchange to Exchange Participants and information vendors.

### **SHARE REGISTRATION AND OTHER SERVICES**

In some areas, share registration and related services are substantially different from those of other securities. The following are noteworthy:

- Securities of the PP issuers quoted in HK are fungible to those in the US and shareholders can transfer their securities in the US for sale in HK and vice versa.
- PP issuers do not have to appoint any share registrar in HK and all securities in HK are held under HKSCC's account with US Depository Trust Co. (DTC) registered in the name of Cede & Co. as partnership nominee of DTC. Owners of these securities in HK are not registered shareholders but have beneficial interest in the securities.
- All owners of the securities may request issuance of physical scrip, if available, indirectly through HKSCC. The issuance process normally takes much longer time than for HK securities. In addition, HKSCC does not offer deposit service for these securities and physical scrips can only be deposited through brokers offering such services.
- Similar to HK securities, odd lots may be created during corporate action on share splitting or consolidations.
- Beneficial owners of the securities held under HKSCC participants can collect their dividends, if any, in either HK or US dollars, at their option. However, for dividend collection, HKSCC may require the shareholders to declare whether they are US taxpayers, for reporting to the US authorities.
- As the Exchange is not providing trading counters for warrants, rights or debt issues of the securities quoted under PP beneficial owners of these additional securities, if declared by the issuer, may transfer them to brokers or custodians who are DTC participants or to sell or redeem the securities in the US market on their behalf as part of HKSCC's nominee service.

## ***FEES AND CHARGES***

The following table illustrates the particulars on fees and charges relating to the PP securities. For the latest HKSCC fees and charges, please refer to HKSCC's hotline at 2979-7000

<b>Summary of transaction costs</b>	
Transaction Levy	The same as for HK securities
Stamp Duty	Not applicable
Withholding Tax	To be collected by HKSCC's agent in the US on the dividends paid to HKSCC. However, the withholding tax will be withheld on dividend payments made by HKSCC. Getting a refund on the withholding tax is a complex and time-consuming process. All beneficial owners have to complete a return prior to dividend payment for submission to the US authorities
Capital Gains Tax	Apply to US taxpayers who are beneficial owners of US securities (including the PP securities) but not to non-US taxpayers.
<b>Summary on tariff for Pilot Programme securities</b>	
Standard CCASS tariff applies except for the following, which will be charged to cover the fees payable to DTC.	
Stock Maintenance Fee	Monthly charge of \$0.25 per 100 shares, or fewer. The fee is calculated on the daily average stock balance of PP securities in stock accounts of each Participant for the month and is payable monthly. No stock custody fee will be charged
Stock Withdrawal Fee	\$600 per instruction plus out-of-pocket expenses incurred by HKSCC. The fee also applies to the withdrawal of securities entitlements accruing from PP securities which are not eligible securities
Handling Fee for warrant conversions, voluntary takeovers, tender offers, or open offers	\$600 per instruction plus out-of-pocket expenses incurred by HKSCC
Cross-border Transfer Fee for receipts / deliveries of PP securities*	\$200 per receipt / delivery instruction plus out-of-pocket expenses charged to HKSCC by DTC in which the securities are transferred to or from HKSCC. In addition, HK shareholders may be charged a fee by their appointed agents / brokers offering this service in HK and in the US.

\* The Cross-border Transfer Fee will be charged for the transfer of securities between DTC and CCASS only. This fee will not be charged on the settlement of trades concluded in HK.

**FURTHER INFORMATION**

For further information on the Pilot Programme, please contact us:

**Shanghai Commercial Bank Ltd.**

**Securities Department**

**Hotline: 2207-2388 or 2207-2389**

