

Memorandum of Understanding
China Securities Regulatory Commission
and United Kingdom Financial Conduct Authority concerning
Supervisory and Enforcement Cooperation
under China-UK Stock Connect

INTRODUCTION

The China Securities Regulatory Commission (“CSRC”), with its power and responsibility conferred by laws and regulations, such as the *Securities Law of the People’s Republic of China* and the State Council to supervise and regulate the national securities and futures markets, is mandated to maintain market order and sound market operation under the rule of law. The CSRC’s main functions include: proposing and formulating policies and guidelines, holistic planning for market development, and normative rules and regulations; supervising and regulating investment instruments offered in the securities and futures markets, as well as the issuers including the listed companies; supervising and regulating market intermediaries and market professionals; investigating and penalizing misconduct in

the securities and futures markets in accordance with laws and regulations.

The Financial Conduct Authority of the United Kingdom (“FCA”), with the power and responsibility conferred by the Financial Services and Markets Act 2000, and as amended by the Financial Services Act 2012; the Competition Act 1998; and the Enterprise Act 2002. The FCA’s strategic objective is to ensure that the relevant markets function well. Three operational objectives support this strategic objective: securing an appropriate degree of protection for consumers; protecting and enhancing the integrity of the UK financial system; and, promoting effective competition in the interest of consumers in the markets for financial services.

With consensus in respect of securities regulation, the CSRC and the FCA (collectively referred to as “the Parties”) will support Shanghai Stock Exchange (“SSE”), Shenzhen Stock Exchange (“SZSE”) and London Stock Exchange (“LSE”) to establish a reciprocal arrangement to enable eligible companies listed on the exchange(s) in each country to list depository receipts (“DR”) on the other market (hereinafter referred to as “Stock Connect”).

The Stock Connect will enable eligible companies listed on the SSE or SZSE and listed on the LSE to list DR representing their underlying

shares on the other market. The Stock Connect will comprise “eastbound” and “westbound” limbs. Under the eastbound limb, eligible companies listed on the LSE will be able to issue Chinese Depository Receipts (CDRs) to Chinese investors and apply for them to be listed on the Main Board of the SSE or SZSE. Under the westbound limb, eligible companies listed on the SSE or SZSE will be able to issue Global Depository Receipts (GDRs) to UK and global investors and apply for them to be listed on the LSE.

The SSE and SZSE will require eastbound CDR issuers to be admitted to the Main Market of the LSE and the premium segment of the FCA’s Official List. The LSE will include a requirement that westbound GDR issuers be companies with A-shares listed on the SSE or SZSE and for the GDRs to also be admitted to the FCA Official List. In the future, the range of eligible issuers could be adjusted having regard to the operation of the Stock Connect and the demands of the market.

In the initial stage, only qualified securities companies in each of the two markets may conduct cross-border conversion business in relation to CDRs and GDRs. Eventually, the range of eligible market participants could be adjusted having regard to the operation of the Stock Connect and the demands of the market.

Qualified securities companies in each of the two markets shall conduct cross-border conversion business in relation to CDRs and GDRs according to the rules and regulations of cross-border fund management stipulated by the People's Bank of China and the State Administration of Foreign Exchange. Initially, capital flow under Stock Connect will be subject to a maximum cross-border quota, which includes eastbound aggregate quota of RMB 250 billion (the quota includes all the overseas securities markets conducting DR business with Chinese securities market) and westbound aggregate quota of RMB 300 billion (the quota includes all the overseas securities markets conducting DR business with Chinese securities market). Securities companies conducting cross-border conversion can hold cash and other specific classes of assets with the amount of more than 500 million in the other market for the purpose of shortening the conversion cycle and hedging market risk. The quotas and upper limit on the balance of the assets in the other market could be adjusted having regard to the operation of the Stock Connect and the demands of the market.

The offering and listing of DRs issued as a result of the scheme shall be governed by laws and regulations of the jurisdiction of the place where DRs are to be issued and listed. In addition, Stock Connect companies, being already listed on one of the participating exchanges,

will remain subject to the obligations in their place of registration and the place where their underlying securities are listed. The clearing and settlement of the securities under the Stock Connect shall be governed by laws and regulations of the jurisdiction of the place where clearing and settlement shall take place.

By mutual agreement, the Parties enter into the MoU to establish a framework for regulatory cooperation, under which the Parties will enhance regulations on securities offering and listing, information disclosure, cross-border trading activities, and supervision over market participants, improve the mechanism for the identification and notification of suspected cross-border Misconduct, and collaborate on investigations, so as to step up investor protection and maintain market order for the sound development of both markets.

I. Definitions

For the purposes of this Memorandum of Understanding:

1. **"Parties"** refer to China Securities Regulatory Commission and Financial Conduct Authority of the United Kingdom;
2. **"Information"** includes information and documents;
3. **"Stock Connect Company"** refers to a company listed on one exchange with depository receipts listed on the other pursuant to the Stock Connect;
4. **"Stock Connect Security" or "security"** refers to any depository receipts or the underlying shares represented by such depository receipt listed pursuant to the Stock Connect;
5. **"Stock Connect Intermediary"** refers to any intermediary who is directly or indirectly involved in the offering, listing, trading, cross-border conversion, depository and settlement of DRs under the Stock Connect, including but not limited to depository banks, custodians, sponsors, brokers, dealers, market makers, investment and trading advisers, financial advisers, assets appraisal firms, law firms and accounting firms;
6. **"Laws and Regulations"** refer to (1) Effective laws, regulations, rules, normative documents, and relevant provisions, as well as

judicial interpretations promulgated by and in the Chinese Mainland; (2) Laws, regulations, rules and judicial interpretations in force in the UK at the time.

7. "**Misconduct**" for the purposes of this MoU means serious misconduct:

1) relating to the trading of Stock Connect Securities; or

2) involving the participation of either:

i) Stock Connect Companies and/or their controlling shareholders, actual controllers, directors and senior management, appointees, as well as other relevant participants; or

ii) Stock Connect Intermediaries.

The types of misconduct include but are not limited to:

a. market manipulation;

b. insider dealing;

c. misrepresentation, misleading statements, major omission;

d. undertaking a regulated activity when not authorized;

e. unauthorized marketing activities;

- f. fraud;
- g. systems and controls failings;
- h. other serious misconduct defined by the Parties.

The Parties shall update the above list as needed through bilateral consultation. Whether conduct appears to constitute suspected serious misconduct will be a judgement made by the Party making the notification according to standards in place in its jurisdiction and any understanding it may have developed about the other Party's jurisdiction.

II. Purposes and Principles

1. This MoU sets ground for the Parties to initiate regulatory and investigatory cooperation under the Stock Connect to ensure optimum regulatory outcomes in both jurisdictions. This MoU does not restrict or modify existing agreements and practices in relation to enforcement and supervisory cooperation between the Parties, including the International Organization of Securities Commissions Multilateral Memorandum of Understanding ("IOSCO MMoU") or the MoU Regarding Securities and Futures Regulatory Cooperation previously entered into between the CSRC and UK HM Treasury and

the Securities and Investments Board. Where the IOSCO MMoU, to the extent relevant to Stock Connect, differs from this MoU, this MoU shall take priority.

2. Based on mutual trust, understanding, and respect, the Parties shall provide each other with the fullest enforcement assistance within the MoU, and their respective statutory powers and the existing legislation. While any request for assistance shall be made in accordance with this MoU, the fulfillment of the provisions of this MoU (including but not limited to providing assistance) shall be consistent with domestic laws, regulations and conventions of the respective countries of the Parties, and shall not be contrary to the public interests of the country of the requested Party. This MoU does not create any binding international legal obligations, nor does it modify or supersede any laws, regulations or regulatory requirements in force in or applying to China and/or to UK.

III. Scope of Regulatory Cooperation

The Parties agree to provide assistance to the other and exchange information as permitted by applicable Laws and Regulations for the purpose of fulfilling their respective regulatory and enforcement

functions, which include the following purposes (which are not exhaustive):

1. To supervise and monitor information disclosure by Stock Connect Companies and their associated entities and to ensure fair treatment of the DR holders and shareholders;
2. To assist with implementing the Parties' respective Laws and Regulations applicable to the offering of, dealing in, merger and acquisitions, management and advisory services for the Stock Connect Securities;
3. To promote regulatory compliance by Stock Connect Intermediaries, especially depository banks and custodians, and to advance high standards of fair dealing and integrity in the conduct of business of these institutions and professionals;
4. To supervise and monitor the offering, listing, trading, cross-border conversion, merger and acquisitions and clearing and settlement, and other activities in relation to Stock Connect Securities, and their compliance with relevant Laws and Regulations;
5. To investigate and penalize Misconduct arising in relation to the Stock Connect.

6. Other matters agreed upon by the Parties.

IV. Information Exchange

Under the Stock Connect, the Parties agree to assist each other in the performance of regulatory and enforcement functions by way of information sharing to the extent practicable and feasible.

1. If a Party requires information from the other Party, it should request the information following the process outlined in paragraph 8 of the IOSCO MMoU.
2. Where disclosure to the other is constrained by agreements with third parties, the Parties will take reasonable steps to secure any necessary consents from third parties to disclose the relevant information.
3. Where there is any change to the Laws and Regulations of one Party which may have a material or adverse impact on a Stock Connect Company and its associated entities, such Party will take the initiative to inform the other Party.
4. Where one Party decides that it is necessary to take administrative measures and penalties against a Stock Connect Company and its associated entities, it will inform the other Party in a timely

manner and coordinate regulatory actions under certain circumstances.

5. The Parties will alert one another immediately to any information concerning suspected Misconduct in the other's market once it is identified including: (i) the source of the information giving rise to the alert; (ii) the nature of the suspected Misconduct; and (iii) relevant information in the Party's possession related to the suspected Misconduct.
6. Each of the Parties will notify the other when it commences an investigation on Misconducts with a cross-border element. The notification shall include: (i) the nature of the case and related legal basis; (ii) the source or sources of information relating to the suspected Misconduct; (iii) relevant information including information known, believed, or suspected to exist; and (iv) any other relevant information.
7. Nothing in this MoU is intended to alter the general position that both Parties remain liable for any losses or liabilities incurred due to their own or their personnel's actions and neither Party intends that the other Party shall be liable for any loss it suffers as a result of this MoU.

V. Regulatory and Enforcement Assistance

1. The Parties will collaborate on the investigation and enforcement of Misconduct in relation to Stock Connect, including agreeing when it is appropriate to allow only one Party to take action (rather than, for example, both proposing to take action). Each Party reserves the right to apply its own powers to address Misconduct in its market.
2. The Parties agree to provide the other timely, sufficient and effective assistance within their respective statutory powers on request. Types of assistance include but are not limited to provision of documentary evidence, witness statements, expert opinions (to the extent that these have been obtained), interview records of persons involved.
3. Where urgent assistance is required, the requesting Party shall provide reasons for the urgency in the request. The requested Party shall use its best endeavours to satisfy the time limit.
4. In respect of significant and urgent cases relating to both jurisdictions, or where any of the suspects, witnesses or evidence are located in both jurisdictions, the Parties may commence a co-ordinated investigation on basis of applicable Laws and Regulations. Co-ordinated investigations refer to the close co-

operation by the Parties in relation to individual investigations in their respective jurisdictions, for the purpose of complementing each other's regulatory advantages, enforcing against Misconduct harmful to the markets, and protecting the legitimate rights and interests of investors.

5. In deciding whether to commence a co-ordinated investigation, the Parties shall take into account all of the following factors: (i) location of the Misconduct; (ii) location of the adverse consequences; (iii) location of the investors; (iv) location of evidence; (v) location of witnesses; (vi) location of suspects; (vii) location of assets; (viii) possible sanctions and remedies available to both parties; and (ix) any other relevant factors relating to the suspects and the Misconduct.
6. The Parties acknowledge the importance and necessity of mutual assistance for the operation of the Stock Connect, and will therefore strengthen cooperation in this area and calibrate cooperation strategy accordingly. The Parties will jointly examine and promote assistance in executing the administrative penalties issued by one Party.

VI. Permissible Use and Confidentiality

1. The Requesting Party may use the information or assistance furnished under this MoU for the purposes set forth in the request for assistance. Assistance or information will be provided by the Parties only for the purposes of assisting the other Party in the performance of its regulatory and enforcement functions and shall not be used in any other proceedings or for any other litigation-related purposes.
2. The Parties are obliged to protect and keep safe the confidentiality of non-public documents and information obtained from each other regarding requests made, related matters under this MoU, and arising from the fulfillment of this MoU to the extent permitted by law. The Parties shall take effective controls to minimize risk of leaks. Any information or assistance provided under the MoU will not be disclosed by the recipient to any third parties without the prior written consent of the Party providing the assistance or information, unless required by laws.
3. In the event of a legally enforceable demand, the requesting Party will notify the requested Party prior to complying with the demand, and will assert such appropriate legal exemptions or privileges with respect to such information as may be available.

4. With prior consent of the requested Party for the requesting Party to provide information or assistance provided under the MoU to a third party, the requesting Party is obliged to ensure that the third party concerned is covered by equal confidentiality requirements and use the information in accordance with the MoU.

VII. Investor Protection

1. Under the Stock Connect, when taking enforcement action against suspected Misconduct, the Parties will take full consideration of the potential impact on the interests of investors in both markets and address investor protection as a key priority.
2. The Parties should use all powers at their disposal to ensure, as far as possible, that investors in both markets are protected equally. When making a claim for any redress, including civil compensation, to the extent legally possible, the Parties shall endeavour to support the inclusion of the investors in the other market in the redress scheme, in order to provide generally equal protection to these investors.
3. According to market needs and within respective regulatory and legal frameworks, the Parties will seek to ensure there is provision of educational information targeted at specific investor groups in

various ways. Such means as investor protection web portals, thematic activities, training, seminars, and media outlets could be utilized to disseminate investment know-how related to Stock Connect, encourage rational investment, and raise risk management awareness.

VIII. Knowledge Sharing in relation to Cross-Border Market

Surveillance and Analysis

1. In order to promote best practice in market surveillance and the analysis of risk, the Parties acknowledge and support the sharing and exchange of data and information between SSE, SZSE and LSE on basis of applicable Laws and Regulations.
2. The Parties may hold discussions on global macro-economic landscape and major economic events of worldwide implications, as well as on risk transmission across the international financial market and its impact on their respective markets.
3. The Parties may hold regular exchanges of views on cross-border and cross-market surveillance on market risks, trading (clearing) mechanisms, ideas on regulating abnormal trading behavior, legal issues and specific measures, as well as management of price volatility and other matters.

IX. Consultation

1. The Parties will consult in the event of a dispute over the meaning of any term used in this MoU.
2. The Parties may consult, at any time, about a request or proposed request.
3. In the event of a substantial change in the Laws and Regulations or practices affecting the operation of the MoU, the Parties may consult and revise the terms of the MoU in the form of a written agreement.
4. To improve the cooperation under this MoU, the Parties will conduct consultations and discussions on the implementation of the MoU periodically or when necessary.

X. Ancillary Texts

Pursuant to this MoU, the Parties may, in future, enter into ancillary agreements to address specific issues requiring detailed cooperation or co-ordination. Any such ancillary agreements shall represent undertakings by the Parties under this MoU.

XI. Entry into Effect

This MoU will take effect from the date of its signature.

XII. Termination

Termination of the MoU shall be proposed by either Party in writing to the other. This MoU will be automatically terminated as of the 30th day when one party receives such written notice. This MoU will continue to have effect with respect to all requests for assistance that are made before the effective date of termination. Terms on confidentiality remain valid after the termination of the MoU.

The Memorandum of Understanding concerning Supervisory and Enforcement Cooperation signed by the China Securities Regulatory Commission and United Kingdom Financial Conduct Authority on 17 October 2018 will be terminated and replaced by this MoU. All requests for assistance that were made before the effective date of termination will still be valid.

THIS MOU WAS SIGNED ON THE _____ IN
THAILAND IN DUPLICATE, IN CHINESE AND ENGLISH, BOTH
VERSIONS BEING EQUALLY AUTHENTIC.

ON BEHALF OF CHINA
SECURITIES REGULATORY
COMMISSION

ON BEHALF OF UNITED
KINGDOM FINANCIAL
CONDUCT AUTHORITY

Signed:

Signed: