

Revision Notes on the *Provisions on the Supervision and Administration of Depository Receipts under the Stock Connect between Domestic and Overseas Stock Exchanges*

I. Background and Necessity for Revision

Since the issuance of the *Provisions on the Supervision and Administration of Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange (for trial implementation)* (hereinafter referred to as the "*Provisions*"), four listed companies on Shanghai Stock Exchange (SSE) including Huatai Securities have offered Global Depository Receipts (GDR) and listed on London Stock Exchange (LSE), raising funds of 5.84 billion US dollars, which played an important role in expanding two-way cross-border financing channels and serving the stable and healthy development of the real economy.

In the practice of business under the Shanghai-London Stock Connect, the emergence of new demand from market institutions and potential issuers called for revision of the *Provisions* due to the following reasons. **Firstly**, the scope of application is limited. The *Provisions* only allow listed companies on the SSE and LSE to engage in depository receipt business under stock connect schemes, while listed companies on other markets cannot participate even if interested. **Secondly**, no arrangements are in place for financing through CDR offerings. The *Provisions* do not yet allow overseas issuers to raise capital from the domestic market, falling short to meet their financing needs. **Thirdly**, improvements are needed in ongoing supervision. Considering the differences in the regulatory rules and practices of listed companies between domestic and overseas markets, it is necessary to adjust the ongoing supervision requirements such as those about information disclosure. **Fourthly**, certain contents of the *Provisions* need to be amended to implement the revised *Securities Law* which has entered into effect.

II. Major Revision

The revision focuses on expanding the scope of the *Provisions*, allowing for financing through CDR offerings, and optimizing ongoing supervision. The original *Provisions* includes 30 articles and the revised *Provisions* contains 47 articles. Major contents of the revision are as follows:

(1) Expanding the scope of application. In the domestic market, eligible listed companies on Shenzhen Stock Exchange are included. In the overseas market, after considering factors such as market development, investor protection and regulatory capacity, the scope of application is expanded to Switzerland, Germany, and potentially other major markets in Europe.

(2) Making arrangements for financing through CDR offering. Firstly, the *Provisions* introduces arrangement for allowing overseas issuers to raise capital in the domestic market through CDR offerings. Secondly, establishing a market-driven book-building mechanism under the main board issuance and underwriting rules with reference to the registration-based IPO segment. Thirdly, it clarifies that in principle the proceeds raised shall be used for principal business and that the use of proceeds shall conform to Chinese regulations regarding foreign capital and foreign exchange administration.

(3) Adjusting the disclosure requirements on financial information and internal control. Firstly, it clarifies that an overseas issuer that adopts equivalent accounting standards does not need to make additional disclosure of the differences between the accounting standards it adopts and the Chinese Accounting Standards for Business Enterprises; nor does it need to disclose the difference adjustment information according to the Chinese accounting standards. The aforesaid issuer may calculate financial indicators based on the financial data prepared according to equivalent accounting standards. If the issuer adopts other accounting standards, it shall disclose the material differences between the accounting standards it adopts and the Chinese

accounting standards along with the difference adjustment information according to the Chinese accounting standards. Secondly, the accounting firm is allowed to issue assurance report on the internal control of the overseas issuer according to the rules of overseas listing place.

(4) Improving annual report disclosure requirements. It clarifies that an overseas issuer that discloses its overseas annual report in the domestic market shall review and disclose the main differences in its overseas annual report compared with requirements of *the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.2 — Format and Content of the Annual Report* and whether such differences exert a material impact on investors' value judgment and investment decisions, and shall engage a lawyer to issue legal opinions on the aforementioned differences.

(5) Requiring disclosure of changes in share holding. It clarifies that investors holding CDRs shall fulfill obligations including reporting and disclosure according to domestic rules while overseas shareholders who do not hold CDRs shall fulfill reporting and disclosure obligations according to overseas rules. The scope of disclosure in the domestic market is limited to the disclosure in the overseas market.

(6) Clarifying applicable rules for material asset restructuring. It clarifies that the *Administrative Measures for Material Asset Restructuring of Listed Companies* is not applicable to material asset restructuring by an overseas issuer if the restructuring does not involve CDR offerings in the domestic market or domestic purchase of assets with cash.

III. Opinions Received and Reviewed

Over the course of soliciting opinions, we have received a total of more than 70 comments. Market participants responded positively to the *Provisions* and expressed their anticipation for the roll out of it. The comments are mainly on specifying the

board where GDR issuers are listed, improving the GDR offering price discount and lock-up period, improving the requirements for sponsorship and due diligence for the offering and listing of CDRs, simplifying the pre-listing tutoring for CDR issuers, lowering the ratio of the high bids to be excluded in CDR issuance and underwriting, etc. Following careful consideration of these suggestions, most reasonable ones have been incorporated and the *Provisions* has been adjusted accordingly. For the comments to do with the understanding and interpretation of the articles, the CSRC will give further explanation through policy Q&A.