Shanghai-London Stock Connect Sees Its Second IPO

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INTRODUCTION

China Pacific Insurance, the first insurance company to be listed in Shanghai, Hong Kong and London, is set to become the second Chinese company to list global depositary receipts ("GDRs") on the London Stock Exchange (the "LSE") under the recently established Shanghai-London Stock Connect ("Stock Connect") scheme. The listing represents the latest example of a trend for Chinese companies to seek an LSE listing, and thereby obtaining greater access to the international investor pool. Huatai Securities became the first Chinese company to list on the LSE under the Stock Connect scheme in June 2019 with its US$1.54 billion raising through the sale of its GDRs.

Stock Connect is a new scheme launched on 17 June 2019 connecting the LSE with the Shanghai Stock Exchange (the "SSE") so that companies listed on one market may now issue, list and trade depositary receipts on the other market. The initiative marks a clear relaxation of the Chinese domestic restrictions, allowing non-Chinese companies to trade under Chinese national rules for the first time. Stock Connect has also opened up an opportunity for Chinese companies to reach out to a new pool of investors in London. Currently, there are only five Chinese companies listed on the Main Market of the LSE, including Air China, one of the major Chinese airline companies, oil and gas company China Petroleum & Chemical Corporation, and infrastructure company Zhejiang Expressway.

The scheme is available to "westbound businesses" – namely, companies listed on the SSE which issue GDRs on the relevant segment of the LSE, and to "eastbound businesses" – LSE-listed companies issuing so called "Chinese depositary receipts" ("CDRs") on the SSE Main Board. CDRs and GDRs are fungible with the securities they represent, being exchanged by a limited number of designated brokers from both markets.

Historically, companies listed on the SSE have struggled to tap into foreign capital pools due to a number of barriers that apply to non-China residents seeking to invest directly in SSE-listed securities, including the need to qualify as a "Qualified Foreign Institutional Investor" or "RMB Qualified Foreign Institutional Investor". As a result of the new initiative, Shanghai-listed companies will now have greater access to foreign investors who are looking to benefit from the growth of Chinese companies, and can raise funds by trading their GDRs admitted to trading on the Stock Connect segment of the Main Market of the LSE. A GDR listing on the LSE will also help with raising the public profile of Chinese issuers, as well as giving issuers greater exposure to international research analysts. The inverse of this is that LSE-listed companies also have the opportunity to diversify their investor base by selling CDRs on the SSE.

In order to benefit from the scheme, participating companies must meet the relevant requirements of each market. SSE-listed companies looking to list in London must be approved by the UK Financial Conduct Authority (the "FCA"), while LSE-listed companies must be approved by the China Securities Regulatory Commission (the "CSRC") when listing in Shanghai.

Although the scheme is in its early days, market confidence in the potential of the Stock Connect is evident from the upcoming listing of China Pacific Insurance, which is expected to issue GDRs representing 628.67 million A shares with a nominal value of RMB 1 (roughly 10 percent of the A shares of the company prior to the issuance). With an estimated flotation of RMB 20 billion, the issuance is expected to be the biggest IPO of 2019 in London.

ELIGIBLE COMPANIES

Westbound businesses

The LSE has published its requirements for GDR issuers listing on the Stock Connect segment. In addition to the eligibility criteria for being admitted to the Official List maintained by the FCA, a Chinese issuer will need to comply with applicable Chinese law requirements and:

- have a minimum market capitalisation of RMB 20 billion (approx. US$ 2.9 billion);
- be listed on the Shanghai Stock Exchange;
- obtain CSRC approval;
- have any newly issued shares admitted to listing on the Shanghai Stock Exchange; and
- satisfy the LSE's free float requirement by having at least 25% of the GDRs held in public hands in the EEA (subject to any derogation granted by the FCA).

Eastbound businesses

The SSE has published the Interim Measures for the Listing and Trading of Depositary Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange, which contain the requirements for a first time listing by an overseas company of CDRs on the SSE. As well as complying with the general SSE requirements, LSE-listed issuers must:

- have an average market capitalisation of RMB 20 billion (roughly US$ 2.9 billion)[1];
- have been listed on the LSE for at least three years and have obtained a premium listing for at least one year;
- issue 50 million units or more of CDRs with an aggregate market value of at least RMB 500 million; and
- meet the Chinese requirements for depositary receipts and public offerings, and obtain approval from the CSRC.

However, CDRs may not be used to raise additional capital and are only available to investors with at least 3 million RMB (roughly US$421,000) in financial assets.

PROCESS

Trading

Stock Connect GDRs are admitted to a new “Shanghai-London Stock Connect” segment (the “Shanghai Segment”) of the Main Market of the LSE (whether with a premium listing or a standard listing), and traded through the LSE’s International Order Book. The Shanghai Segment is open for trading from 09:00 to 16:30 (GMT/BST), which means that trading takes place during London trading hours and under London trading rules. Clearing and settlement take place through LCH and Euroclear Bank, respectively.

Stock Connect CDRs are listed on the Shanghai Stock Exchange Main Board. Chinese trading hours apply, and clearing and settlement takes place in China Clear.

Designated brokers

Designated brokers enable cross-border trading of GDRs and underlying A Shares, or CDRs and underlying securities, respectively.

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1 This is calculated on the basis of the closing price of the underlying shares, over the 120-trading-day period prior to the date on which the public offering is submitted to the CSRC for approval (the “offering application date”), calculated at the mid-price of RMB exchange rate announced by the People’s Bank of China on the day prior to the offering application date.

The SSE manages the process of approving GDR designated brokers. In order to qualify, a firm must have full LSE membership, comply with the SSE rules, and be a "Qualified Foreign Institutional Investor" or "RMB Qualified Foreign Institutional Investor" (or under their control). CDR designated brokers are SSE firms specially approved for this purpose.

Under applicable CSRC regulations, designated brokers (as well as investors in Stock Connect GDRs generally) will not be able to redeem any GDRs in the first 120 calendar days from the listing. The CSRC also applies certain other restrictions, including caps on cross-border capital flows, caps on the size of issuances, and restrictions on holdings by individual investors and on pricing of the GDRs.

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Please do not hesitate to contact us with any questions.

LONDON

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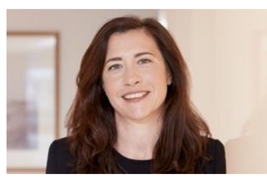

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