IN FOCUS

A&L Goodbody

Shanghai-Hong Kong Stock Connect Central Bank Q&A updates

On 15 July 2015, the Central Bank of Ireland (the **Central Bank**) updated its UCITS and AIFMD Q&As (the **Q&As**)[1] to allow Irish authorised UCITs and AIFs to acquire Chinese shares via the Shanghai-Hong Kong Stock Connect (**Stock Connect**). These developments have helped pave the way to opening up Chinese capital markets to Irish domiciled funds.

What is Stock Connect?

Stock Connect, which launched on 17 November 2014, is a joint collaboration between the Hong Kong Stock Exchange and Clearing Limited (**HKEx**) and Shanghai Stock Exchange (**SSE**). It offers mutual market access between mainland China and Hong Kong and acts as an additional route for investors to gain access to the China A market, along with the existing QFII and RQFII licensing regime. The programme comprises a Northbound Trading Link and a Southbound Trading Link. Under the Northbound Trading Link, Hong Kong and overseas investors (including Irish funds) may trade eligible China A Shares listed on the SSE, by directing orders through the SSE.

Position of the Central Bank

Since the launch of Stock Connect, the Central Bank has been liaising with Irish depositaries to determine whether custody arrangements for Stock Connect fulfil the depositary requirements within the UCITS and AIFMD frameworks. Until recently, the Central Bank considered submissions to Stock Connect on a case by case basis, with particular emphasis on the depositary's safe-keeping of assets and whether they were compliant with regulations imposed by the Central Bank.

The Central Bank has now clarified its position with regard to Stock Connect, in its updated Q&As. In brief, it has set out the following conditions which must be considered before an Irish authorised fund initially acquires China A shares through Stock Connect:

- The depositary needs to satisfy itself that the manner in which the China A shares are to be held comply with requirements within the UCITS and AIFMD framework;
- Each entity within a fund's custodial network (i.e. sub-custodian) must retain control over the China A shares at all times;
- The depositary (or its sub-custodian) must be a participant in Hong Kong Securities Clearing Company Limited (**HKSCC**)[2];
- The depository (or its sub-custodian) must determine their level of participation in HKSCC, if any. The level of participation will depend on the scale of their envisaged activity and must be in line with their legal obligations as a depositary. The levels of participation arGeneral Clearing Participant, Direct Clearing Participant or Custodian Participant;
- The depository must keep up-to-date with Stock Connect infrastructure arrangements to ensure that it is in compliance with its legal requirements.

How A&L Goodbody can help you

Stock Connect represents an exciting opportunity for Irish domiciled UCITS and AIFs to add China A share capabilities to existing funds and to launch new funds. We will be working closely with our clients in relation to the impact of these changes. In the meantime, if you have any queries, please contact one of the partners listed below or your usual contact at A&L Goodbody.

[1]6th edition of UCITS Q&A (Ref: 1D1015) and the 14th edition of AIFMD Q&A (Ref: 1094).
[2]HKSCC is a wholly owned subsidiary of HKEx.

KEY CONTACTS

Brian McDermott
Partner and Head of Asset Management & Investment Funds
+353 1 649 2307
bmcdermott@algoodbody.com

Michael Barr
Partner
+353 1 649 2327
mbarr@algoodbody.com

Stephen Carson
Partner
+44 20 7382 0820
scarson@algoodbody.com

Mary McKenna
Partner
+353 1 649 2344
mmckenna@algoodbody.com

Nollaig Greene
Knowledge Lawyer
+353 1 649 2359
ngreene@algoodbody.com