

Investor Opportunities: China Stock Connect

A&L Goodbody has become the first Irish law firm to successfully obtain approval of an Irish UCITS to trade in China A Shares via both the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect platforms. The Shenzhen-Hong Kong Stock Connect platform, which launched on 5 December 2016, is an extension of the Stock Connect trading link which launched via the Shanghai-Hong Kong Stock Connect in November 2014.

The revision and extension of China's Stock Connect scheme presents a significant opportunity for investors to establish and use Irish domiciled funds to gain direct exposure to mainland China securities. The new share trading link between Shenzhen and Hong Kong is being heralded as "a milestone that will strengthen Hong Kong's role as a "super-connector" between China and the world" and provides direct access for the first time to the stock market in the Chinese city of Shenzhen, giving global investors an opportunity to bet on a tech-heavy clutch of private companies on an exchange often referred to as China's Nasdaq.

On 19 December 2016, the Central Bank of Ireland issued an amended UCITS Questions & Answers which permitted UCITS investment funds to invest in China A shares, subject to meeting certain conditions, via the Shenzhen-Hong Kong Stock Connect platform. A key consideration for clients looking to incorporate the ability to invest in China A shares via the Shenzhen-Hong Kong Stock Connect platform is to ensure that their depositary or a sub-custodian appointed by the depositary must ensure that it retains control over the shares at all times and is a participant in the relevant Stock Connect platform. Furthermore, 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 and each entity within a fund's custodial network (i.e. sub-custodian) must retain control over the China A Shares at all times. In addition, the depositary (or its sub-custodian) must be a participant in Hong Kong Securities Clearing Company Limited (HKSCC)² and 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 depositary must keep up-to-date with Stock Connect infrastructure arrangements to ensure that it is in compliance with its legal requirements.



Shane Coveney



Elaine Keane

Prior to the extension of the Stock Connect trading link, the Central Bank of Ireland permitted direct investment in mainland China securities via the Renminbi Qualified Foreign Institutional Investor Scheme (RQFII), China A Shares Access Products and/or the Shanghai-Hong Kong Stock Connect platform. The limited nature of the access to mainland China securities or "China A Shares" proved to be restrictive as access to the RQFII regime (which has restrictions on the holdings which may be kept in a portfolio by foreign investors) required offshore investors to obtain RQFII licenses and qualifications, to enter into an investment management agreement with an RQFII license holder or to invest into an open-ended fund issued and managed by an RQFII. Notably the Central Bank of Ireland has not permitted investment via the Qualified Foreign Institutional Investor (QFII) scheme due to the challenges posed by the inherent lock-up and liquidity issues of the QFII scheme.

Elaine Keane, Partner and Shane Coveney, Associate, are part of A&L Goodbody's Asset Management & Investment Funds Group. A&L Goodbody is internationally recognised as one of Ireland's leading law firms delivering the full range of corporate legal services. With a staff of over 700, A&L Goodbody has offices in Dublin, Belfast, London, New York, San Francisco and Palo Alto. Through the Firm's Chinese Lawyers programme, its lawyers have a deep understanding of China's legal and business environment. A&L Goodbody continues to support Chinese companies looking at business or investment opportunities in Ireland and assists Irish clients in relation to their business interests in China.

For further information please contact Elaine Keane, Partner, or Shane Coveney, Associate, at A&L Goodbody.

Elaine Keane

Partner

T: +353 1 649 2544

E: elkeane@algoodbody.com

Shane Coveney

Associate

T: +353 1 649 2543

E: scoveney@algoodbody.com

Web: www.algoodbody.com