

Shanghai - Hong Kong Stock Connect

FIX Trading Community & ASIFMA Implementation Guide

Prepared by:

Asia Pacific Exchanges & Regulatory Subcommittee, FIX Trading Community

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INTRODUCTION and BACKGROUND

Shanghai-Hong Kong Stock Connect, also known as Mutual Market Access or the “through train”, is a pilot programme that signals the continuation of Mainland China’s capital markets’ opening to direct overseas investment. It is the first time offshore investors will be able to access stocks listed on the Shanghai Stock Exchange via their Hong Kong broker without the issues of QFII/RQFII, such as repatriation.

Connect is driven in part by the internationalisation of the RMB. By requiring settlement in RMB, the institutional community has had to seek a sufficient supply of the currency and upgrade relevant systems to deliver by the launch date.

Connect consists of a bi-directional link between the Shanghai Stock Exchange (SSE) and the Hong Kong Stock Exchange (SEHK). This document is focused on the **Northbound** Trading Link of the Connect programme, allowing orders on SSE eligible stocks initiated outside China to enter the SSE order book via SEHK.

FIX Trading Community, ASIFMA, sell-side, buy-side, vendors, and other market participants joined together over a number of working groups to collaborate on implementation plans. While not all participants are tackling the challenges in the same way, FIX Trading Community feels this document is an accurate *initial* representation of the majority of the participants’ expected workflows, both upstream and downstream of their order flow.

As this programme continues to develop, the FIX Trading Community will look to support the buy-side, sell-side and their vendors with constructive suggestions on how to implement the various regulatory requirements. If you would like to be more directly involved with this voluntary work, **please contact:**

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Workflow Implementation - northbound

Example trade flow from buy-side OMS (right) to Connect (left)



Hierarchy	Risk Check / Factor	Details	Exchange/ Connect	Broker	Vendor (EMS)	Vendor (OMS)
Order placement	Eligible trading days and hours (holidays, etc.)	Reject orders on “closed” trading days or outside market hours	Will reject	Varies; some brokers and vendors may offer pre-market queuing		
	Acceptable order types	Only limit orders accepted	Rejects non-limit orders	May block market orders, or accept and convert to marketable limit orders (e.g. “Smart DMA”)	Vendors likely allowing all order types to flow to the brokers. Brokers may accept/reject based on Smart DMA abilities, whether via algo conversion or internal DMA → Smart DMA conversion.	
	Order Amendment	Order amendment rejected; requires cancel/replace	N/A	May reject amends or accept and cancel/replace	May send amend or cancel/replace messages depending on broker<>vendor arrangement	
	Odd Lot handling	<ul style="list-style-type: none"> • Buys: 100 shares • Sells: Odd lot quantities 	Will reject invalid quantity orders	Likely to reject non-board lot for BUYS and accept odd lots for SELLS	Vendors may/may not reject board lots on BUYS, but likely to allow odd lots for all SELL orders.	
	Price Limit	<ul style="list-style-type: none"> • +/- 10% for normal stocks • +/- 5% for risk alert stocks (sell only) • 3% dynamic price check on buys 	Rejects orders submitted outside price limits	Orders likely to go to exchange and reject unless broker utilizing “Smart DMA” style queuing and releasing when in limit	<ul style="list-style-type: none"> • Most vendors likely to pass order to broker regardless of price limits at any given point in time • Automated-strategy vendors may be an exception 	
On-trade pre-allocation messages	Buys	<ul style="list-style-type: none"> • Check against order placers’s position based on T-1 / T morning holding • Most brokers agree tag 1 (account) should be populated for buys and sells 	N/A	Brokers likely to reject BUY order without account unless CFD/swap trade, depending on execution channel (e.g., salestrading vs. DMA)	<ul style="list-style-type: none"> • Some vendors require Account populated prior to trade, others do not 	<ul style="list-style-type: none"> • OMS’s may be able to reject BUYS for accounts with insufficient funds
	Sells	<ul style="list-style-type: none"> • Multiple accounts on single order preferable for best ex purposes / missed fill scenarios 	N/A	Brokers may reject a SELL order without pre-trade allocations due to requirement to check stock position	<ul style="list-style-type: none"> • Support varies by vendor for multi-account allocation on orders 	<ul style="list-style-type: none"> • OMS’s may be able to reject SELLS for accounts without share inventory



Example trade flow from buy-side OMS (right) to Connect (left)



Hierarchy	Risk Check / Factor	Details	Exchange/ Connect	Broker	Vendor (EMS)	Vendor (OMS)
Instrument Level	Eligible Stocks (SSE 180 & SSE 380)	<ul style="list-style-type: none"> Validate stocks are eligible for Northbound trading 	Rejects ineligible securities	Likely to reject ineligible securities	<ul style="list-style-type: none"> Most vendors relying on market data vendors for securities lists, not “scraping” the HKEX website for eligibility lists and building manually 	
	Sell Only Stocks (“Special Securities”)	<ul style="list-style-type: none"> Allow SELLS for <i>Risk Alert Board</i> stocks, even if no longer in eligible BUY universe 	Rejects ineligible securities	Likely to reject ineligible securities	<ul style="list-style-type: none"> If vendors block ineligible symbols, they should concatenate Risk Alert Board stocks to the list of permissible securities in case a user needs to sell a previously eligible BUY security that is now SELL-ONLY 	
Market Quota	Aggregate Quota	<ul style="list-style-type: none"> If aggregate quota hit intra-day, further buy orders will be rejected. Sell orders will be accepted. Buy orders will continue to be rejected until the Aggregate Quota has reduced by at least one times Daily Quota by the start of a trading day 	Rejects buys when aggregate quota has been reached	Likely to reject buys orders when aggregate quota has been reached	<ul style="list-style-type: none"> Vendors may display quota statistics and indicators 	
	Daily Quota	<ul style="list-style-type: none"> Only Sell order allowed if breached Trading will not be reopened if trading falls below Daily Quota level through the day 	Buys rejected for remainder of day EXCEPT when Daily Quota is reached during auction, when cancellations may free up quota	Likely to pass through buy and sell orders regardless of current daily quota figures		
Foreign Ownership	30% Threshold across all programs	<ul style="list-style-type: none"> SSE will check in totality and inform SEHK once foreign ownership (including QFII and RQFII trades) reaches 26% 	Once the market reaches 28% foreign ownership, further Northbound buy orders in security will be rejected until aggregate is sold down below 26%	Brokers will not implement ownership restrictions as unable to see full picture of all programs.	<ul style="list-style-type: none"> Unlikely to restrict orders, but could display ownership statistics 	



FIX implementation notes

Northbound Trading	Supported Features	FIX Support		
Supported Market Routes – QFII/CC	<ul style="list-style-type: none"> China Connect is modeled as a separate market due to different trading calendar, charge rules, risk checks and positions/trade management To determine market route, a group of attributes will be used. 	<ul style="list-style-type: none"> Tag 48 (SecurityID) = SEDOL / ISIN / RIC / Exchange Symbol / BBG Tag 22 (SecurityIDSource): 2=SEDOL, 4=ISIN, 5=RIC, 8=Exchange Symbol, A=Bloomberg Symbol Tag 100 (Exchange Destination) = SHSC (Stock Exchange of Hong Kong Limited) or XSSC (Shanghai Stock Exchange) 		
Supported Security Identifiers	<ul style="list-style-type: none"> China Connect will use separate identifiers from Bloomberg/RIC and within trading platforms No separate ISIN/CUSIP will be created If using ISIN, it will require exchange code qualifiers 	<ul style="list-style-type: none"> Recommended to use SEDOL and RIC Bloomberg has launched new market codes e.g. Shanghai A share code: 601398 CH Equity, Northbound Trading code: 601398 C1 Equity Reuters have launched a new market code , e.g. Shanghai A share code: XXXXXX.SS, Northbound Trading code: XXXXXX.SH China Connect will have unique SEDOL's mapped to the same ISIN. 		
Supported Messages (Order)	<ul style="list-style-type: none"> Single Order FIX messages will be supported Requirement to support Basket level FIX messages 	<ul style="list-style-type: none"> Execution Report <8> Order Cancel Reject <9> New Order - Single <D> Order Cancel Request <F> Order Cancel/Replace Request <G> (queue priority will be lost on exchange) Order Status Request <H> Don't Know Trade <Q> 		
Last Market	<ul style="list-style-type: none"> Execution venue reporting using tag 30 (LastMkt) 	<ul style="list-style-type: none"> Recommend to use Standard MIC code – XSSC 		
Currency	<ul style="list-style-type: none"> Currency codes used for trading and settlement 		Currency (tag 15)	SettlCurrency (tag 120)
		Physicals	CNY	CNH
		Synthetics	CNY	Varies
Allocation/Settlement Instructions	<ul style="list-style-type: none"> Best practice is use of Tag 1 for account pre-allocation on single-account orders See Open Questions for practices involving multiple pre-allocations per single order. 			



Further Considerations and Open Questions

Multi-account, single order allocations:

- Most brokers want repeating fields (78, 79, 366)
- Alternative is to use Parties Block available from FIX 4.3 covering actors and accounts through various roles (field PartyRole tag 452)
- Tag 58 (text) is *not* recommended as a standard, but may be used by some vendors on ad hoc basis

Account (Tag 1)

- Most brokers agree synthetic (CFD/swap) orders will not require tag 1 value, as they can be allocated post-trade
- Lack of consensus on whether account will be required on orders under different scenarios (buys vs. sells, DMA vs. salestrading, etc.)

Pre-allocation mechanisms

- Varied vendor support on submitting T-1 delivery requests; expectation is that most of this will be done manually (email/chat/phone) in early phases

Short sell & locate flags:

- TBC – On hold until further updates are received.

Comments

- For comments and suggestions, **please contact:** barbara.law@fixtrading.org



Useful links

- SFC CSRC Memorandum of Understanding agreement
 - <http://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=14PR127>
- Shanghai Stock Exchange
 - <http://english.sse.com.cn/investors/shhkconnect/introduction/definition/>
- Hong Kong Exchanges and Clearing Limited
 - <http://www.hkex.com.hk/eng/csm/chinaConnect.asp?LangCode=en>
- FIX Trading Community
 - <http://www.fixtradingcommunity.org>
 - [FIX Repository](#)
 - [FIXimate FIX Interactive Message And Tag Explorer](#)
 - [FIXWiki](#)
- ASIFMA
 - <http://www.asifma.org/>
 - [Useful Links](#)