

Trading Rules of Shenzhen Stock Exchange

Shenzhen Stock Exchange

April 2016

深圳证券交易所
SHENZHEN
STOCK EXCHANGE



Market Size and Liquidity

- SZSE's market capitalization, number of listed companies and trading value rank at forefront among stock exchanges in the world.

No. 1

Daily Turnover

4.79% in SZ
Market

No. 4

Trading Value

- USD 5 trillion in 2014
- USD 19 trillion in
2015
- USD 2.9 trillion from
Jan. to Mar. in 2016

No. 7

**Market
Capitalization**

USD 3.09
trillion

No.12

**Number of Listed
Companies**

1761 listed
companies

Source: SZSE & World Federation of Exchanges, by the end of March 2016

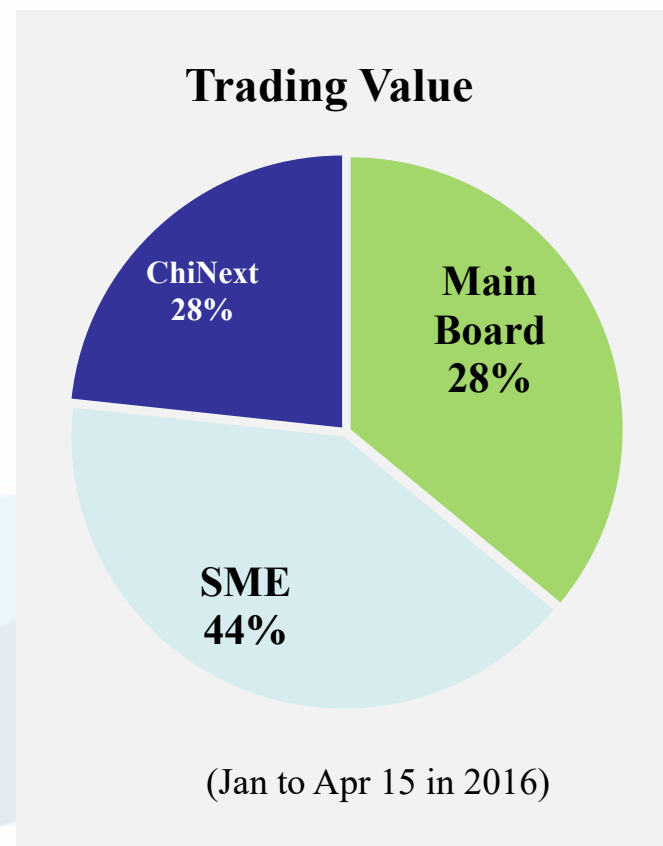
Note: London Stock Exchange is included in the list since March 2016

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Multi-tiered Capital Market System

The SZSE consists of the **Main Board**, the **SME Board** and the **ChiNext Market**. They serve companies at different developing stages and offer investors diversified portfolio.

| | Main Board | SME Board | ChiNext Market |
|-----------------------------|-------------------|-------------------|-----------------------|
| Market Cap | USD 1.03 trillion | USD 1.41 trillion | USD 754.5 billion |
| Listed Companies (#) | 467 | 783 | 501 |
| Average Market Cap | USD 2.2 billion | USD 1.8 billion | USD 1.5 billion |
| Free Float | 80.9% | 67.3% | 58.3% |



Source: SZSE by April 15, 2016

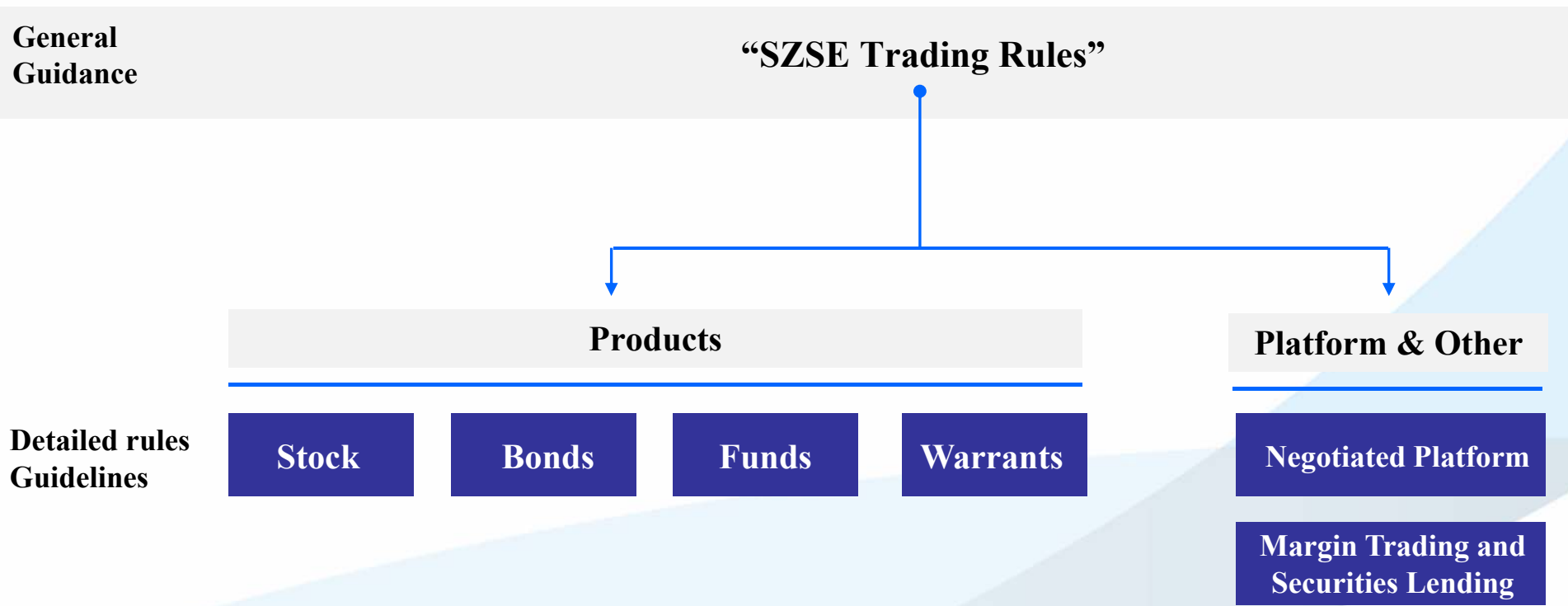
Content

1. Historical Development

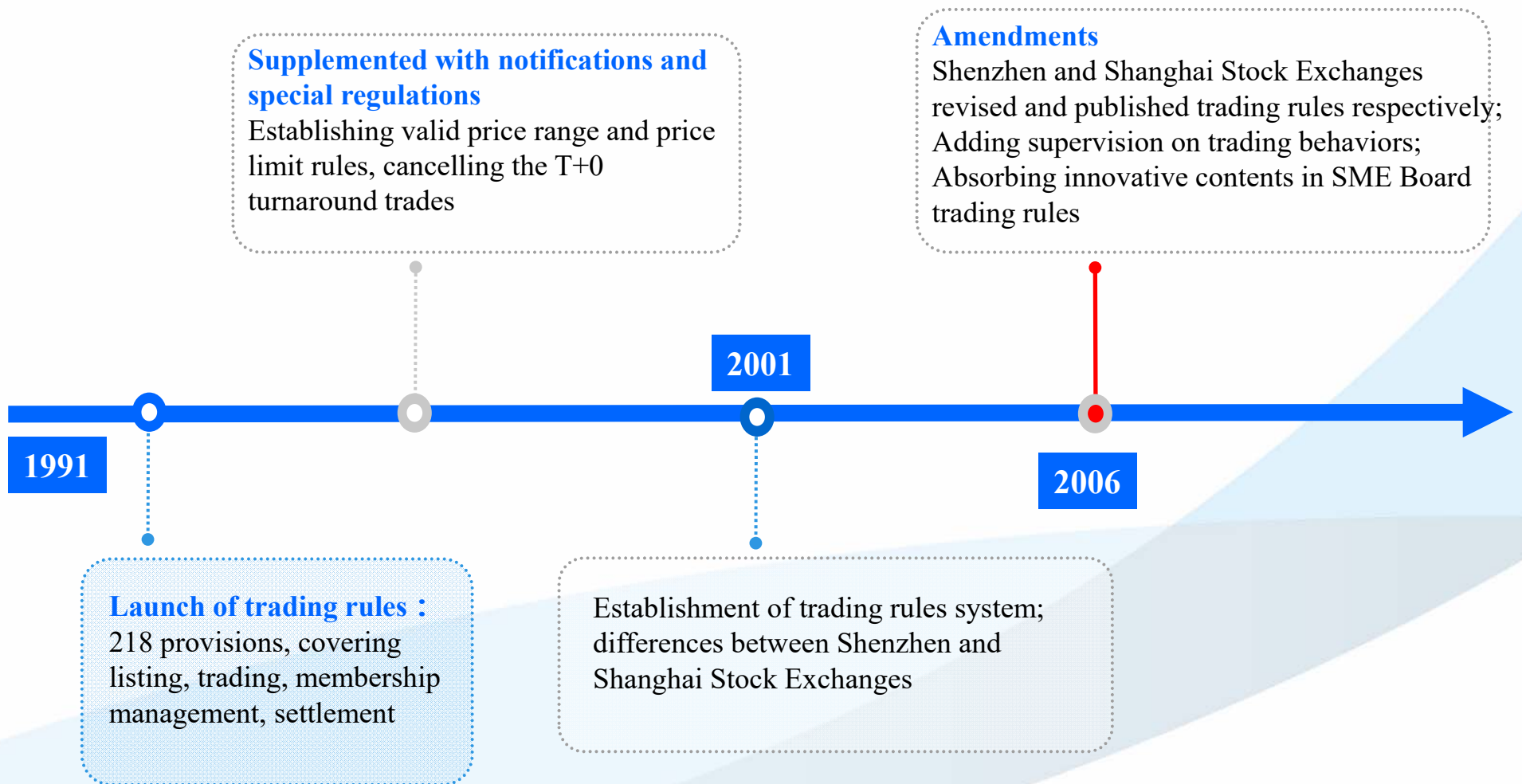
2. Overview of Trading Rules

3. Open Discussion

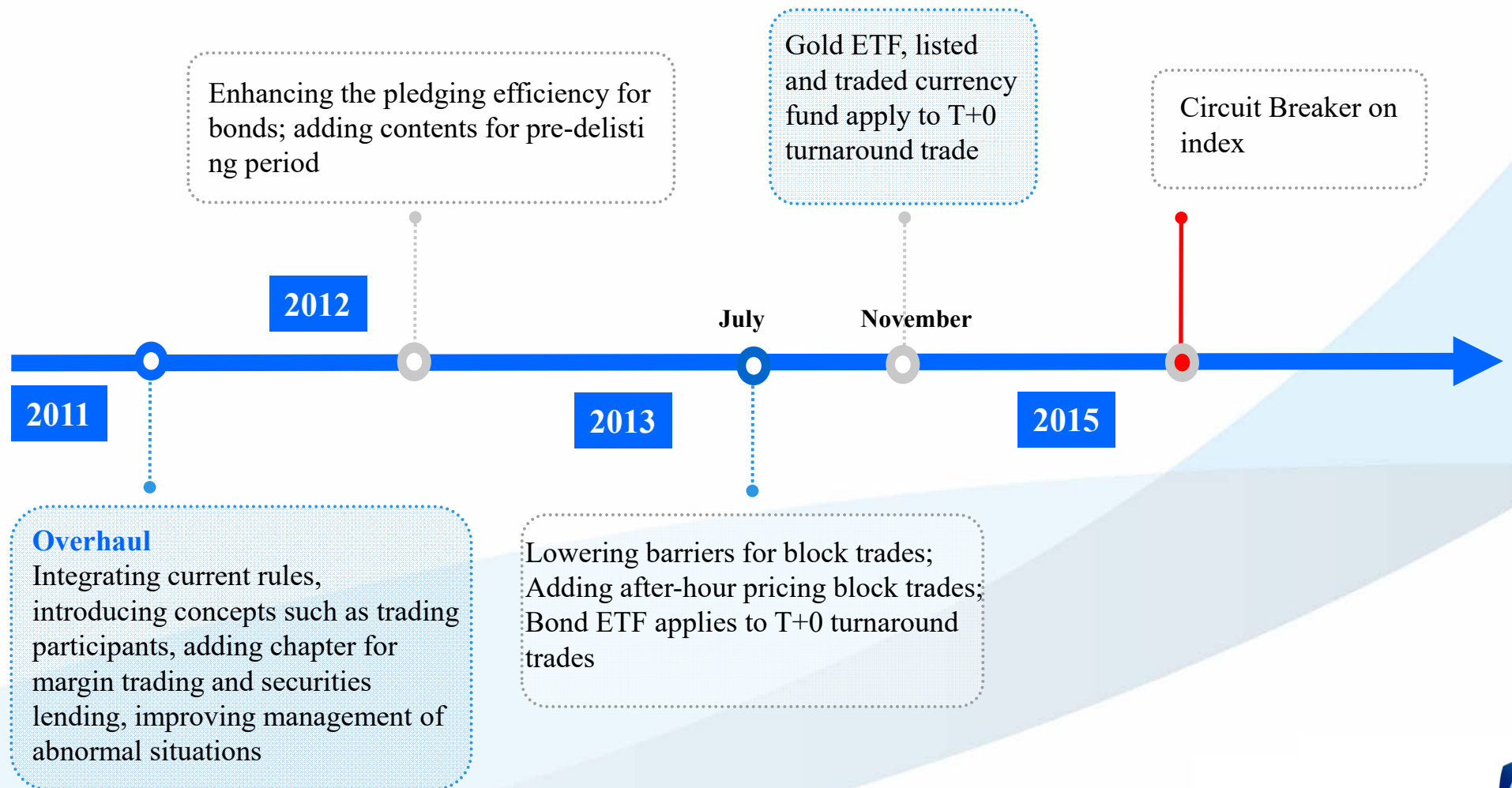
◆ General Framework



◆ Historical Evolution of Trading Rules

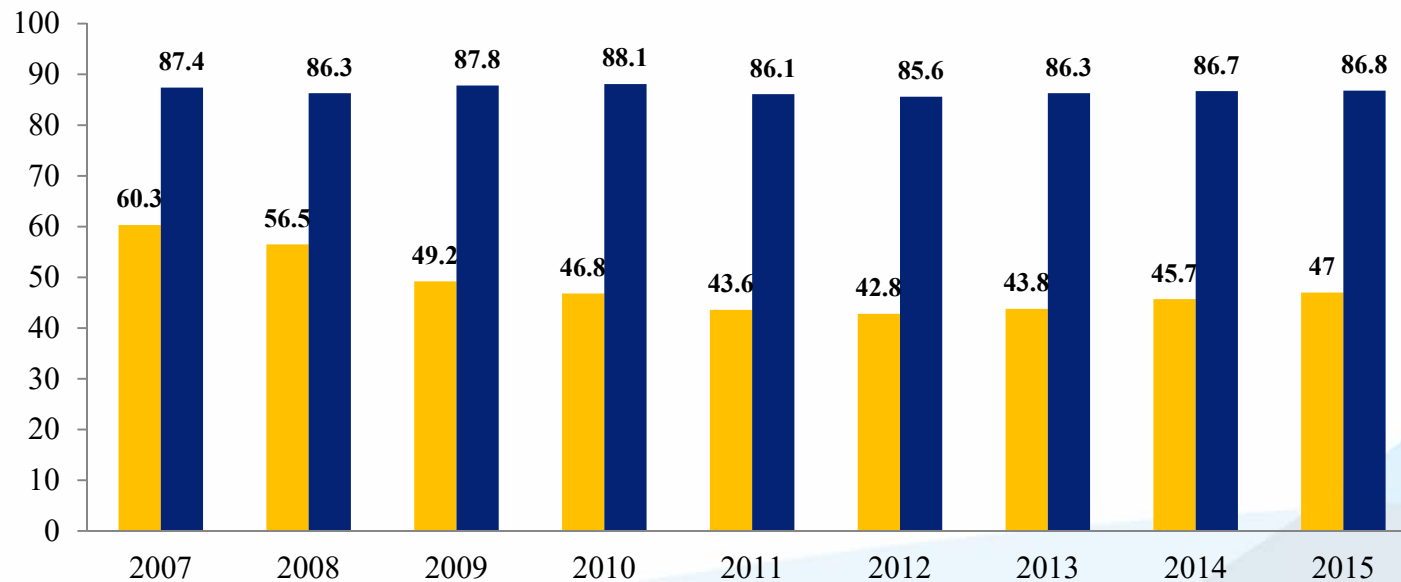


◆ Historical Evolution of Trading Rules



◆ Design Objectives

□ Current situation: **Retail investors dominated**



- Targets of designing trading rules include: liquidity, stability, transparency, efficiency and fairness.

At current stage, **stability and liquidity** are the main focus.

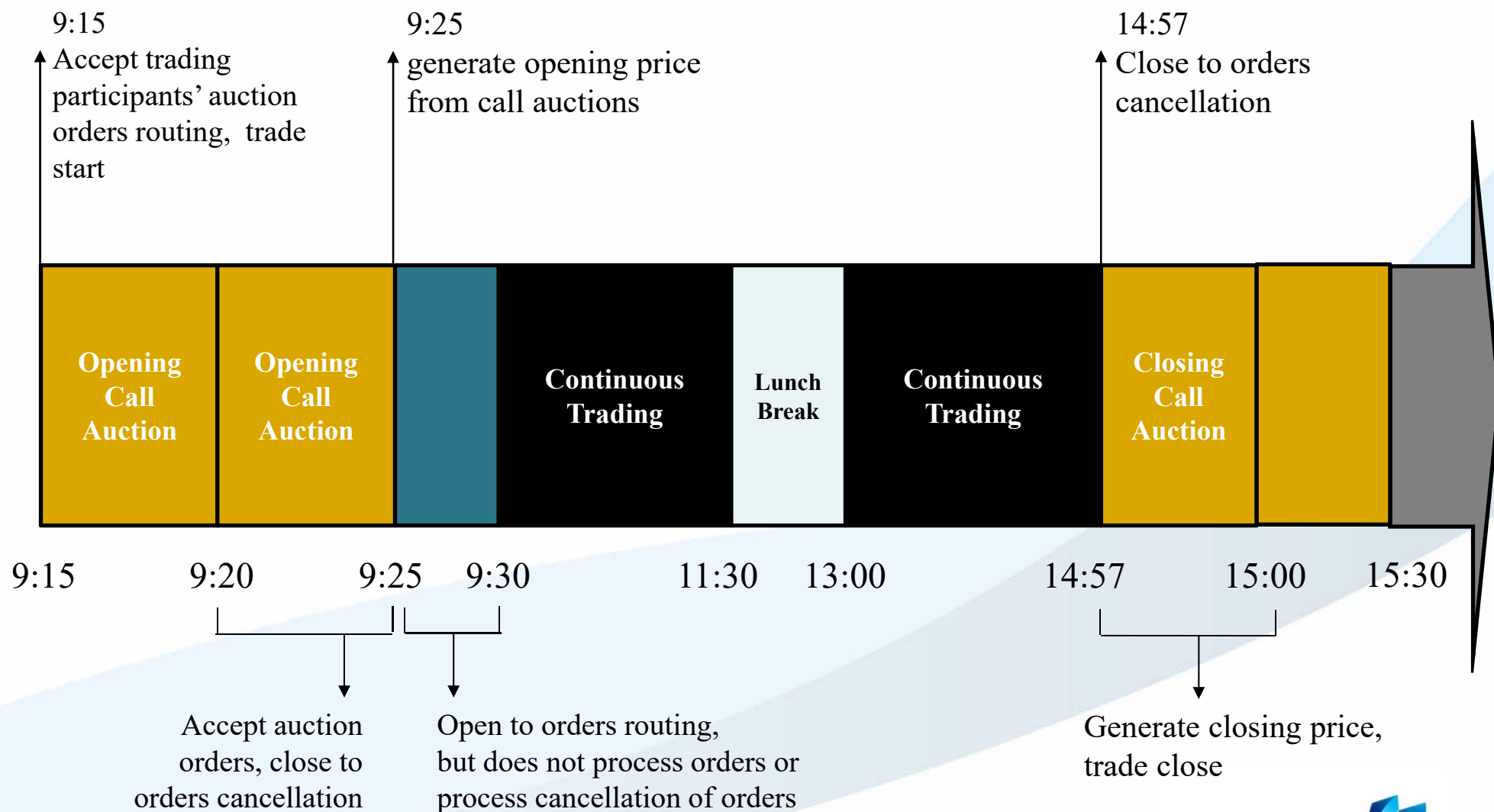
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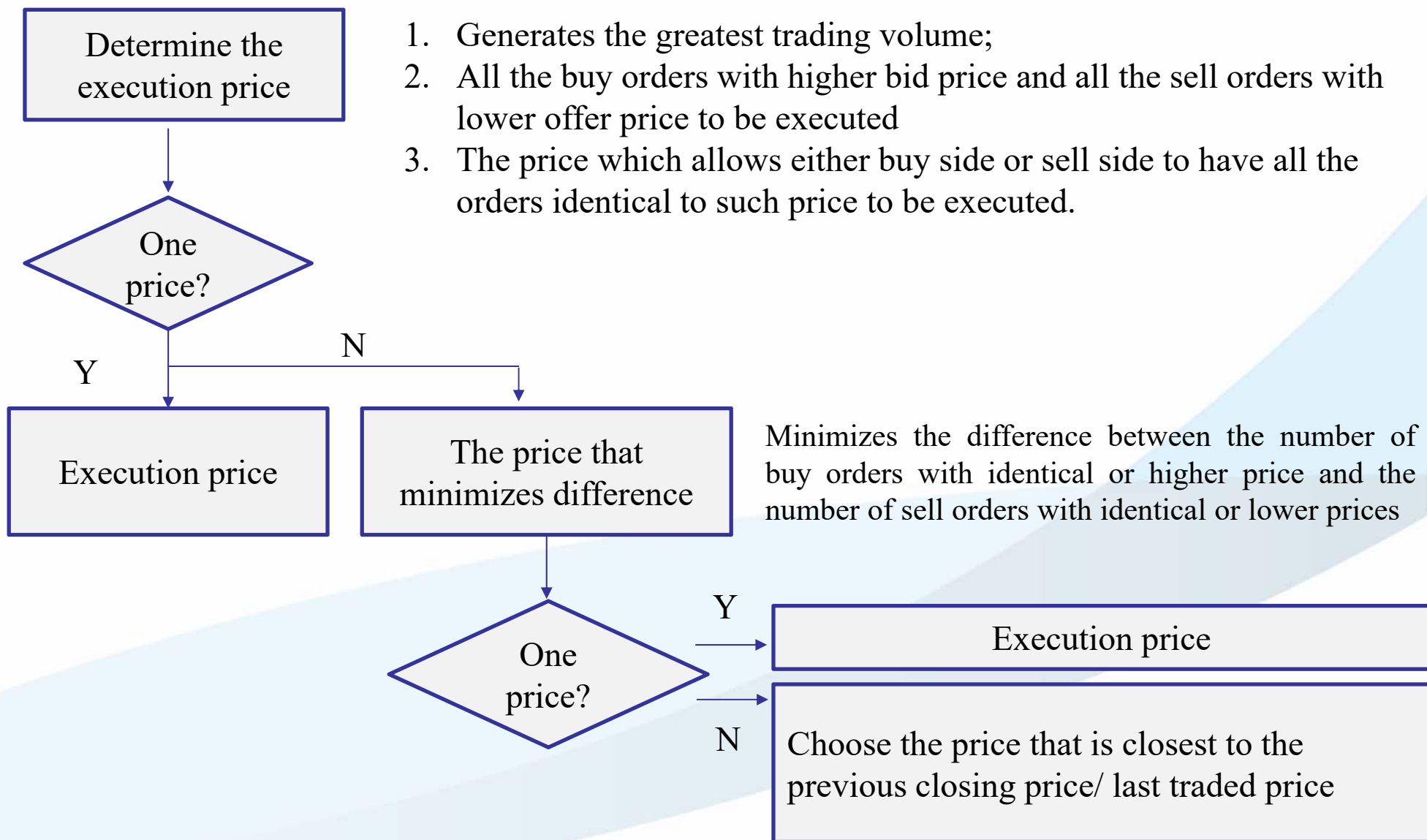
◆ Basic Trading Arrangement



2016: NOT open to orders routing



◆ Call Auction



◆ Closing Call Auction

Shenzhen Market Starts Closing Call Auction from 2006

Mechanism Design:

- From 14:57 to 15:00
- Do not allow order cancellation
- Open Call Auction

Advantages:

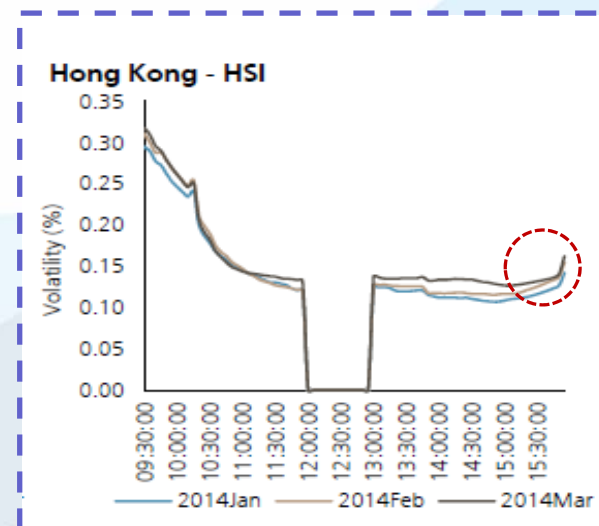
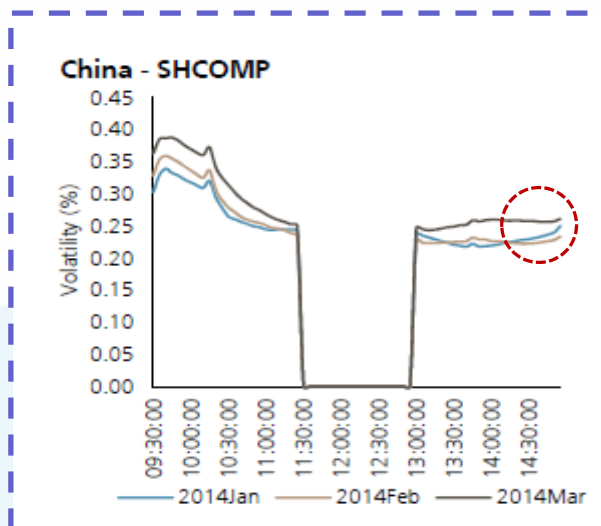
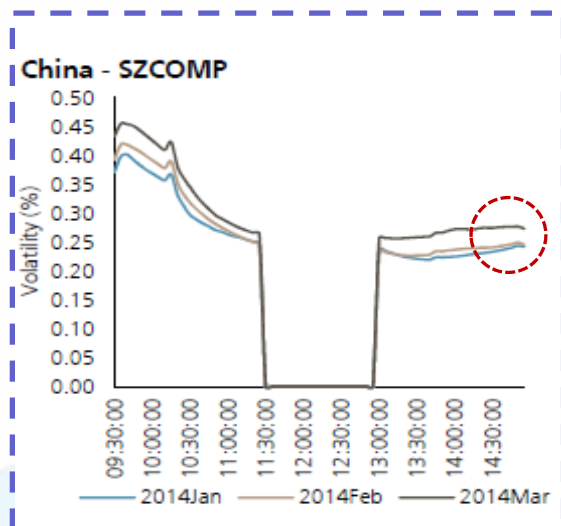
- Difficult to manipulate compared with continuous auction: the liquidity index in Shanghai A shares market (continuous auction) is RMB 3.36 million, while that in Shenzhen A shares market (call auction) is RMB 7.30 million.
- Lower volatility during closing session: compared with Shanghai Market

◆ Closing Call Auction

Shenzhen Market Starts Closing Call Auction from 2006

□ Volatility during Closing Call Auction Session

- Shenzhen Component Index, Shanghai Component Index, Hang Seng Index



◆ Price Stabilization Mechanism (Static)

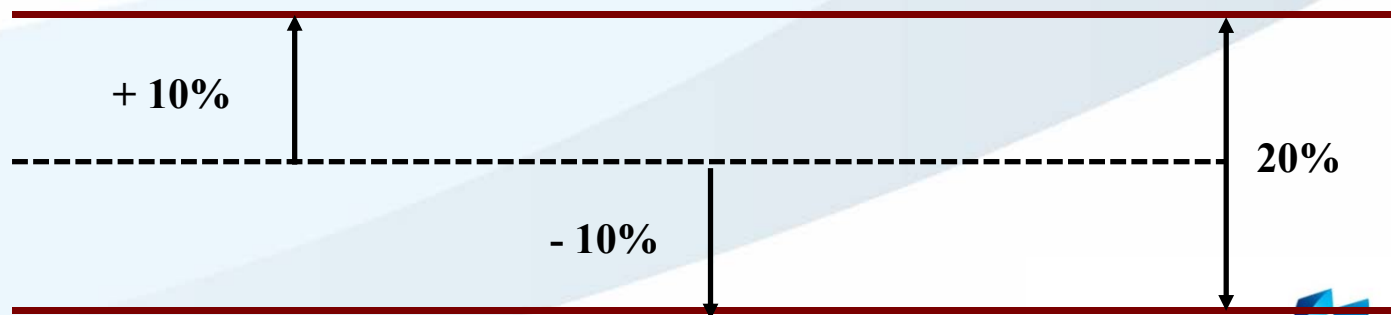
Mechanism Design

- **Upper/Lower Price Limit=Previous Closing Price × (1 ± Price Limit Ratio)**
- Stocks & Funds: +/-10%
- ST & *ST Stocks: +/- 5%
- Bonds: no price limit
- Special Cases (including IPO and Listing Resumption):
No Price Limit for the first trading day of such stocks

Upper Price Limit

Previous Closing Price

Lower Price Limit



◆ Price Stabilization Mechanism (Dynamic)

Valid price range:

| Asset class and trading day | | Opening call auction (previous closing price) | Continuous auction, call auction from resumption, closing call auction (last traded price) |
|-----------------------------|-----------------------------|--|---|
| Stock | First trading day of IPO | [-20%, +20%] (of offering price) | [-20%, +20%] (of opening price) |
| | other | [-10%, +10%] (of previous closing price) | Within price limit band |
| Bond | First trading day | [-30%, +30%] | [-10%, +10%] |
| | Others | [-10%, +10%] | [-10%, +10%] |
| Pledge-style bond repo | Non-first trading day | [-100%, +100%] | |

◆ Day Trading Mechanism

- **A-shares: T+1 turnaround trades**
- **Applying T+0 turnaround trades to:**
 - **Bonds**
 - **Bond ETFs**
 - **Gold ETFs**
 - **Listed Money Market Fund**
 - **Cross-border ETFs**
 - **Cross-border LOFs**

◆ Block Trading Mechanism

➤ Two types of block trades

a1

■ Negotiated block trades

- Accept orders during: 09:15 – 11:30, 13:00 – 15:30
- Confirm execution orders during: 15:00 – 15:30

■ After-hour pricing block trades

- Accept orders during: 15:05 – 15:30



Slide 17

- a1** trading
admin, 1/20/2016
- a2** accpet orders and
admin, 1/20/2016
- a3** execute order
admin, 1/20/2016

◆ Block Trading Mechanism: Negotiated Block Trades

Mechanism Design

- Order accepting period: 09:15-11:30am, 13:00-15:30am
- Execution confirmation period: 15:00-15:30pm
- Trading method: negotiation between two parties

Price Limit:

- Securities subject to price limit: same price limit
- Securities not subject to price limit: +/-30 of closing price

Order Types:

- **Intent orders:** no execution obligations, can be cancelled
- **Execution orders:** execution obligations, specify the price and volume
- **Fixed price orders:** **execution obligations, specified price**

◆ Block Trading Mechanism: Negotiated Block Trades

Threshold for Block Trades of Different Asset Classes:

| Asset Class | Threshold | Execution confirmation period |
|--------------|--|--|
| A-shares | $\geq 300,000$ shares or \geq RMB 2 million | 15:00-15:30 |
| B-shares | $\geq 30,000$ million shares or \geq HKD 0.2 million | 15:00-15:30 |
| Mutual Funds | ≥ 2 million units or \geq RMB 2 million | 15:00-15:30 |
| Bonds | ≥ 5 thousand units or \geq RMB 0.5 million | 9:15-11:30am, 13:00-15:30 pm (real time) |

◆ Block Trading Mechanism

After-hour pricing block trades

Mechanism design

- Order accepting period: 15:05-15:30pm
- execution confirmation period: 15:05-15:30pm, real time execution
- Trading mode: fixed price, continuous order matching
- Types of price:
 - the closing price of securities on the current day;
 - the trading volume-weighted average price of securities on the current day.

Advantages

- No price volatility risk: orders are executed at fixed price, therefore no price volatility risk
- Satisfying the investors' demand for trading at closing price

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◆ Open Discussion

- **Hybrid Trading Rules: continuous trading + market maker**
 - The introduction of market maker can better guarantee market stability

- **Opening and Closing Mechanism: Designated Market Maker (DMM) in NYSE**
 - Forming more representative, efficient prices that are hard to manipulate

Thank you!

◆ Day Trading Mechanism

A-shares: applying to **T+1** turnaround trades

Trading Fees

| | |
|---|---|
| Stamp duty on securities transactions | Charged on the sell-side at 1‰ of the traded value No charge on the buy-side |
| Commissions for securities transactions | 0.03%~0.05% of the traded value (bilateral) |
| SZSE handling fees | 0.0487‰ of traded value (bilateral) 30% discount provided for block trades |
| CSRC regulatory levy for securities transactions | 0.02‰ of the traded value (bilateral) |