Legal Commentary

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Beijing Stock Exchange Opens – A QFI Perspective

Authors: TieCheng YANG | Yin GE | Ting ZHENG | Eryin YING[1]

Preface

On 12 November 2021, the Beijing Stock Exchange (the "**BSE**") issued the trading rules and filing guidelines for qualified foreign investors ("**QFIs**") to trade securities on the BSE, namely the *Rules for the Implementation of Securities Trading on the Beijing Stock Exchange by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors* (《北京证券交易所合格境外机构投资者和人民币合格境外机构投资者证券交易实施细则》) and the *Information Filing Guidelines for Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors of Beijing Stock Exchange* (《北京证券交易所合格境外机构投资者和人民币合格境外机构投资者信息报备指南》). Both sets of rules took effect on 15 November 2021, the date the BSE officially opened for trading (the "**Launch Date**").

Background

On 2 September 2021, President Xi Jinping announced the creation of the BSE in his speech at the Global Trade in Services Summit at the 2021 China International Fair for Trade in Services. The BSE is intended to further China's capital market reforms, and specifically to serve innovative small and medium-sized enterprises ("**SMEs**") as part of a larger national plan to enhance innovation. Traditionally, SMEs have experienced greater difficulty in accessing capital, especially debt financing, as compared to larger, state-owned enterprises. The BSE thus serves as an alternative venue through which innovative SMEs may secure capital. The BSE is fully funded and established by the National Equities Exchange and Quotation Corporation Limited ("**NEEQ**") and will serve to reform the existing over-the-counter trading system for SMEs, the NEEQ Boards, namely the NEEQ Select Board, NEEQ Innovation Board, and NEEQ Basic Board (also collectively referred to as "Three New Boards").

Highlights

The BSE rules are largely drawn from equivalent rules of the Shanghai Stock Exchange ("**SSE**") and Shenzhen Stock Exchange ("**SZSE**"). Thus, there are no material differences from a QFI perspective to trade securities on the BSE compared to the SSE and the SZSE. While no material differences exist for

1 Jonathan Wu has contributed to this article.

QFI trading, there are several points to highlight:

- *Scope of Listed Companies.* All existing companies trading on the NEEQ Select Board as of the Launch Date will be transferred to the BSE. Companies listed on the NEEQ Innovation Board may apply for BSE listing if they have been quoted on the NEEQ Innovation Board for at least twelve (12) months and satisfy other listing requirements. Also, companies listed on the BSE may elect to transfer to other exchanges for listing, namely the SSE and SZSE, for listing upon meeting the relevant listing requirements.

- *Price Fluctuation Ratios*. The BSE allows for greater fluctuations in share prices, setting the daily fluctuation ratio at thirty (30) percent as opposed to the ten (10) percent limit for the A-Share Main Board and the twenty (20) percent limit for the STAR Board and ChiNext Board. Limits will not apply on the first day of trading when new shares are listed. This greater latitude for price fluctuation is intended to leverage the market's price discovery mechanisms for greater pricing efficiency.

Outlook

The BSE represents another landmark in China's ongoing capital market reforms, further upgrading and diversifying investment opportunities for investors. Overall, while the BSE is open to QFIs for trading, the China Securities Regulatory Commission has yet to indicate whether the BSE will be incorporated into the Stock Connect Program, which is currently the most common venue through which foreign investors access China's stock markets; this would serve to open SME shares to foreign individual and non-QFI foreign investors. We will continue to follow the latest developments of the BSE from a QFI perspective and share our views in a timely manner.

Important Announcement

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If you have any questions regarding this publication, please contact:

TieCheng YANG

Tel: +86 10 8516 4286
Email: tiecheng.yang@hankunlaw.com

Yin GE

Tel: +86 21 6080 0966
Email: yin.ge@hankunlaw.com

Ting ZHENG

Tel: +86 21 6080 0203
Email: ting.zheng@hankunlaw.com