



A Brief Analysis of the Impact of the New Short Swing Trading Rules on Foreign Investors

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On March 6, 2026, the China Securities Regulatory Commission (“CSRC”) issued the *Provisions on the Regulation of Short Swing Trading* (“**Short Swing Trading Provisions**”), which will come into effect on April 7, 2026. The issuance of these provisions marks an important step by the CSRC to implement the short swing trading regulatory requirements under the *Securities Law of the People’s Republic of China* (“**Securities Law**”), address evolving market needs, and encourage the participation of medium- and long-term funds. The provisions also respond to market concerns by providing clear rules on key matters, including the applicable subjects of short swing trading, scope of securities, calculation of shareholding and trading timing, exemption circumstances, and separate calculation rules for accounts of professional institutions.

This article briefly analyzes the key contents of the Short Swing Trading Provisions and their impact on foreign investors as follows:

1. Clarification of the Definition of Short Swing Trading, Applicable Subjects, Scope of Securities, and Calculation of Shareholding and Trading Timing

Short swing trading: refers to the act whereby investors with specific status sell securities of the same listed company or NEEQ-admitted company within six months after purchasing them, or purchase such securities again within six months after selling them.

Subjects of short swing trading: It shall fall within the regulatory scope where an investor holds the status of a major shareholder (a shareholder holding more than 5% of the shares), or he/she serves as a director, supervisor, or senior management member both at the time of purchase and sale, or where it does not hold the specific status at the time of purchase but acquires such status by the time of sale.

Scope of securities: the scope of securities involved includes stocks and depositary receipts, exchangeable corporate bonds, convertible corporate bonds, and other securities with equity nature.

Trading timing: the timing of purchase or sale shall be determined based on the date of registration of securities transfer.

Calculation of shareholding ratio of a major shareholder: shares issued domestically and overseas by the same listed company (for example, A shares and H shares) shall be aggregated for calculation.

2. No Aggregation Across Different Securities Types

According to Article 7 of the Short Swing Trading Provisions, the securities involved in the determination of short swing trading shall be calculated separately according to the holdings of stocks, depositary receipts, exchangeable corporate bonds, convertible corporate bonds, and other types.

Prior to the implementation of the Short Swing Trading Provisions, the market players held differing views on whether position calculations for short swing trading shall follow the regulations of disclosure of interests and involve aggregation across different securities types, due to the absence of explicit statutory guidance. The Short Swing Trading Provisions now explicitly provide those positions across different types of securities shall not be aggregated when determining short swing trading.

3. Exemption Circumstances

Article 6 of the Short Swing Trading Provisions specifies 13 circumstances in which short swing trading restriction shall not apply: (a) share conversion of preferred shares; (b) exchange, redemption, or put option of exchangeable corporate bonds; (c) conversion, redemption, or put option of convertible corporate bonds; (d) initial subscription, subsequent subscription or redemption of exchange traded funds (ETFs). For funds that invest in securities strictly according to the composition ratio of the relevant index, change in the quantity of securities caused by index-tracking adjustments or investor initial or subsequent subscriptions or redemptions; (e) non-trading acts such as judicial enforcement, inheritance, donation; (f) gratuitous transfer of state-owned shares pursuant to a decision by a governmental authority administering state-owned shares; (g) grant, registration, or exercise of options over restricted stocks under equity incentive plans of listed companies or NEEQ-admitted companies; (h) securities companies purchasing remaining stocks after underwriting; (i) relevant trading activities conducted by securities companies and other entities in accordance with laws and regulations for the lawful and compliant conduct of stocks market-making business and the fulfillment of market-making quotation obligations; (j) repurchase acts conducted pursuant to a mandatory repurchase order issued by CSRC under Article 24 of the Securities Law (*i.e. mandatory repurchase order due to fraudulent issuance*); (k) repurchase activities conducted pursuant to CSRC regulatory measures requiring repurchase of shares that were unlawfully reduced, or voluntary repurchases conducted by the violating party; (l) trading acts conducted in accordance with laws and regulations to address major financial risks or maintain financial stability; (m) other circumstances prescribed by the CSRC.

Among these, items (a) to (d) and (g) to (i) are circumstances arising from product or business design where the market has clear expectations regarding relevant business procedures and where business development needs to be supported; Items (e) to (f) are circumstances where changes in shareholding occur due to objective non-trading factors; Items (j) to (m) are trading

acts conducted in accordance with regulatory requirements or in accordance with laws and regulations to address major financial risks or maintain financial stability.

To prevent the abuse of exemption circumstances to circumvent regulation, the Short Swing Trading Provisions clarify that the above shall not be exempted where they involve obtaining illegal profits by taking advantage of information superiority or other means.

4. Application Arrangements for Foreign Institutions

(1) Aggregation

The same foreign investor shall aggregate the quantity of securities held through the mechanisms of Qualified Foreign Investors, foreign strategic investors, and/or the Stock Connect.

(2) Exemption under the Nominee Holder Mechanism of the Stock Connect

Under the Stock Connect, the Hong Kong Securities Clearing Company Limited holding shares exceeding 5% as a nominee holder shall not be deemed as a major shareholder.

(3) Separate Calculation for Foreign Publicly Offered Funds

The Short Swing Trading Provisions uphold the principle of “equal treatment of domestic and foreign investors” and respond to the reasonable expectations of foreign investors. They allow eligible foreign publicly offered funds to calculate their shareholdings separately, in accordance with applicable laws and regulatory requirements. Accordingly, foreign and domestic publicly offered funds are afforded equal treatment under the short swing trading rules.

Specifically, the following may calculate their shareholdings separately if they open segregated securities accounts and conduct investment independently in accordance with relevant regulatory requirements: (i) publicly offered funds of the Qualified Foreign Investor that open securities accounts domestically by each fund product; and (ii) publicly offered funds under the Stock Connect that obtain northbound investor identification codes by each fund product.

For publicly offered funds that calculate their holdings separately by product under the Stock Connect, fund managers are required to report to the stock exchanges on a monthly basis the investment positions in terms of the quantity of securities held through the Stock Connect. Meanwhile, in accordance with the prevailing regulatory requirements applicable to the Qualified Foreign Investors, the PRC custodians of Qualified Foreign Investors shall

also report to the CSRC on a monthly basis the investment operations of the Qualified Foreign Investors.

In addition, in order to prevent the abuse of the above to circumvent regulation, the Short Swing Trading Provisions also specify circumstances in which products or portfolios shall not be calculated separately:

- (a) where products or portfolios are subject to unified decision-making by the same fund manager and unable to operate independently and in a standardized manner;
(Regarding specific identification criteria—for example, whether publicly offered funds managed by the same portfolio manager fall within this category—further consultation with regulatory authorities and stock exchanges may be necessary, and the matter will also be subject to verification in practice.)
- (b) where products or portfolios are under the actual control of the same investor and unable to operate independently and in a standardized manner; or
- (c) where conflicts of interest, violations of laws or regulations, or other irregularities arise while trading.

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