

China Access Schemes: A Closer Look at the Opportunities and Challenges for Foreign Institutional Investors (Part 2)

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Stock Connect Scheme: What is the uptake from UCITs Luxembourg perspective?

For many years, UCITs managers have been willing to implement China access channels including Stock Connect in their investment strategies, as to allow their institutional clients, which have a large allocation to UCITs, to increase their exposure in China.

At the same time, the progress made in relation to the inclusion of China A Shares in the MSCI Emerging Markets index also created a very big demand for an easy to implement China access channel, such as Stock Connect.

What are the benefits that continue to attract investors to Stock Connect?

Stock Connect is now very frequently used by global managers, with their UCITs platforms, in order to access China A Shares listed in Shanghai and Shenzhen.

For those managers who do not have a China or Greater China focus strategy, actually Stock Connect is very sufficient in order for them to implement their strategies that they are offering their clients.

Well, the most important benefit really is all about Hong Kong, leveraging on Hong Kong's market structure, the Hong Kong Exchange's market structure and the benefits of its services that are provided by financial intermediaries in the Hong Kong system. The key element of that is repatriation of funds, flexibility of it, and also expertise in the Hong Kong community providing global investors settlement services on that.

Capital mobility is another example. Hong Kong's market is really providing the key element of enhancement for global investors to be able to move funds both onshore and offshore through connect programs.

Development on the Chinese access programs are closely watched by BNY Mellon and our clients. Our Stock Connect SPSA+ model is built for institutional investors

(including Luxembourg UCITs) to access in China, while mitigating counterparty risk. Recently, we have successfully moved a large global (fund) manager to the platform. We continue to see a lot of interests from our clients looking to tap into the China market.

How can BNY Mellon help investors finance their Stock Connect assets?

The announcements by MSCI in June 2017, that some of the China A Shares will be included in the MSCI emerging market index, has not only seen increased market investment of Stock Connect assets but it has also increased unencumbered asset pools.

With these asset pools, banks and brokers dealers now have an additional avenue to optimise collateral pools and reduce funding costs via tri-party collateral management. Buy-side clients have the ability to focus on key investment strategies, generating revenue from stock lending, repo and other financing transactions, whilst outsourcing collateral settlement, mark-to-market and management of income and corporate events to collateral agents like BNY Mellon.

Currently, BNY Mellon is the only global tri-party collateral agent for Hong Kong Stock Connect assets.

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