

China Access Schemes: A Closer Look at the Opportunities and Challenges for Foreign Institutional Investors (Part 3)

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What are the latest developments in the Connect schemes?

In the Stock Connect program, real-time Delivery-versus Payment (DVP) implementation in November 2017 was an important milestone. Now with real-time DVP, many investors are embracing multi-broker execution on China Connects, in particular Stock Connect. And we are now preparing to work with the industry for 2018 MSCI Inclusion. With daily quota and CNH funding as key elements of consideration for many global investors, we are working very closely with the investment community and regulators to further improve the program in these two areas.

In terms of Bond Connect, we are still working towards real-time DVP for China bonds, China Clearing Depository Co. Ltd (CCDC) settlement as well as working with Hong Kong Monetary Authority (HKMA) to further clarify guidelines on FAQs as well as FX guidelines. Our important subsidiary, Bond Connect Company Limited (BCCL) is an important joint venture that we have with Mainland authority.

How does Stock Connect compare to the other China access schemes?

Stock Connect differs greatly from QFII and RQFII insofar it is not a quota-based scheme. From the manager's point of view, it's a plug and play, and a cost efficient solution, where there is no requirement to receive a license from CSRC, nor requirement to receive a quota from SAFE, or appoint a sub-custodian in the PRC. Basically, you just have to appoint a counterparty in Hong Kong and start directly managing A Shares.

The only constraint with Stock Connect is that you are somewhat limited with the securities you may access with the scheme - with only selected securities on the Shanghai Stock Exchange and Shenzhen Stock Exchange.

QFII and RQFII require a little bit more infrastructure and a little bit more formality. But at the end of the day, you are then unrestricted as to the type of securities you may access with those schemes, including fixed income securities, which you can't with Stock Connect.

This is why QFII, RQFII and to an extent CIBM Direct, will remain very relevant for managers having China or Greater China focused strategies, together with Stock Connect and very soon the Bond Connect.

Stock Connect is by far the most accessible, straight-forward path for foreign investors to gain direct access to the securities markets. It is truly a gateway into China. The Stock Connect scheme has been embraced by foreign investors as it helps them navigate market nuances. Taking stock of the scheme as it stands today, this has been an innovative market entry approach from Asia in the recent years and the sustained increase in transaction volumes is testament to its success. Accordingly to HKEX, northbound volumes totaling USD 620 billion (RMB 4 trillion) as of 31 October 2017, and international investors held USD 76 billion (RMB 492 billion) worth of shares in China securities market.

What will be the next tri-party product development?

Building on our successful launch of the tri-party solution for Stock Connect, we are commencing due diligence on offering a similar, market unique, collateral management solution for Bond Connect. This will harness similar processes to those adopted for HK Stock Connect addressing the differences in market infrastructure.

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