

ALL YOU NEED TO KNOW: MARKET ENTRY FOR BOND CONNECT

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Hi, my name is Shirley Chieu. I am a Global Network Consultant at BNY Mellon who is responsible to provide clients with market intelligence and support.

With China's rapid market reforms, it has made it easier for global investors to access its equity and bond markets, but there is still an extensive web of applications, documentation and approvals that requires a significant amount of your time and dedication.

As your trusted service provider, BNY Mellon is here to help you expedite your account opening process.

In this session, we will focus on Bond Connect scheme, an offshore scheme which allows foreign investors to access the China Interbank Bond market via Hong Kong.

We will zoom in into the market entry and on-boarding process for Bond Connect. In addition, we will highlight the account framework for CNH and onshore CNY, the documents required for Bond Connect application, as well as address some of the frequently asked questions that you may come across.

Without further adieu, let's look at the market entry process for Bond Connect. Before you can commence trading via Bond Connect, you need to go through: Account opening, Bond Connect application and trading account activation.

This 3-stage process will take approximately 20 working days if all documents are in good order. However, based on our experience and depending on your internal policies, the completion of the application forms and supporting documentation may take up to several months.

Let's now take a closer look at the first stage - Account Opening.

BNY Mellon will provide you with 3 sets of documents for review. They are BNY Mellon risk disclosure letter, FX representation letter (if the client chooses CNY FX services) and the Service Level Description (SLD).

In parallel, you shall instruct BNY Mellon to open accounts and initiate CMU ID. The estimated time to open a segregated account at CMU is about 10 business days. CMU ID is required for the submission of Bond Connect applications.

The next stage is the Bond Connect application process.

Upon receiving the account details from BNY Mellon, you or your investment manager must complete and submit the Bond Connect application form directly through the Bond Connect Company Limited (BCCL)'s e-filing portal. Paper filing has been discontinued as of May 1, 2020. All applications must now be submitted directly via e-filing.

Given that all Bond Connect applications must be submitted through the e-filing portal, let's take a look at the steps required.

Once you are in the Bond Connect e-filing portal, the first step is for each eligible incorporated entity to register as a user admin. Once the registration is approved by BCCL, a unique BC code will be provided. Each eligible incorporated entity shall only have one user admin account to manage all users under the same entity. They will be able to offer access rights to eligible users, and lock or unlock user accounts.

Then, the next step is to register as a user with BC code obtained from user admin. User account is mainly used to submit application and supporting documentations through the e-filing portal. Once the user account has been set up, user can start the application process on the portal.

When user initiates a new e-filing application, the screenshot shown on this slide will appear. Applicant user will need to indicate whether the applicant is a US resident or not. If the applicant is not a US resident, select "No" and "Continue" to proceed to the next step. If the applicant is a US resident, select "Yes" and check the box to indicate that you have read and accepted the reminder. You will need to insert an email address of a broker. For example, TBA@broker.com and then select "Continue" to proceed to the next step. Please note that applicant domiciled in the US will need to engage a licensed US broker-dealer when submitting their applications. But this does not prevent a US investment manager to process the bond application.

Upon submission, BCCL will review and assess the application, which can take between 3 weeks to 2 months to complete, depending on the client's or its investment manager's and BCCL's response time, respectively.

Once the eligibility assessment is completed, BCCL will then submit the documents to People's Bank of China (PBOC) for approval. The turnaround timeframe to obtain PBOC's approval is about 20 business days. You can view the PBOC approval status through the BCCL portal.

The third stage is the trade account activation process.

After the approval is obtained, PBOC will submit the request to CFETS to set up a CFETS trading ID, which is a 21-digit trading ID. You will need to log into the trading platform - Tradeweb or Bloomberg - to obtain the trading ID. Please note that the trading ID is not disclosed to BCCL, BNY Mellon or the local custodian.

The CMU (Central Money Market Unit) will only be advised of the trading ID and activate the CMU ID accordingly. CMU will inform the local custodian of the activation, who will in turn advise BNY Mellon of the same. BNY Mellon will then inform you accordingly. This process is estimated to take about 5 business days from CMU ID activation.

Finally, once the global trading platform is connected, you will need to perform due diligence on the CFETS' approved trading counterparties before you commence trading. BNY Mellon and the local

custodian are not involved here. As China interbank bond market is an over-the-counter market, you will need to set up relationships with your intended counterparties. In short, you can start trading via Bond Connect when all the above steps are completed including the execution of the risk disclosure letter and the FX representation letter if applicable.

Due to the co-existence of CNH and CNY currencies, I will now walk you through the account framework to support trading through these currencies. For clients who choose CNH, the existing main custody account with BNY Mellon shall be used, and linked to the segregated Bond Connect account at the local custodian and the corresponding CMU ID at CMU. The client cash account with BNY Mellon will be set up under the cash currency code 1568.

For client who chooses onshore CNY, a new custody BNY Mellon account will be set up. This new BNY Mellon custody account will be linked to the segregated Bond Connect account at the local custodian and the corresponding CMU ID at CMU. The client cash account with BNY Mellon will be set up under the cash currency code 1567, with a corresponding new USD cash currency code 8400 or EUR 9780.

In addition, an FX representation letter must be executed and be on file with BNY Mellon. Clients who are interested in participating in CNY Forwards must obtain prior approval from the BNY Mellon FX APAC team through their service director or relationship manager.

As per market requirements, there are specific instruction formatting guidelines to process Bond Connect. You must adhere to the prescribed instruction format for Bond Connect to achieve straight-through processing. Details can be found in the Service Level Description.

Depending on the investor type, the documentation required for Bond Connect application varies. Please refer to the checklist on this slide. We have guidelines on the Bond Connect application to assist you in completing the applications.

For your information, Annex 2 is pre-populated with BNY Mellon's name, address, date of establishment, and linked to the AUM as well as local custodian's name and details. Annex 3 is also pre-populated with BNY Mellon's omnibus CNH cash account information.

Next, we have listed out some of the frequently asked questions that clients may come across. For example, you may want to know whether you can have both CNH and CNY currencies settlement for Bond Connect or if you have an existing account, can you switch from CNH currency to CNY currency or vice versa. Scenario 1 and scenario 2 on this slide will answer these questions.

Continuing on the FAQ. Scenario 3 and 4 will provide various weblinks to assist you in determining the criteria of an incorporated entity versus unincorporated entity as well as provide you the weblink to obtain BNY Mellon financial details via our BNY Mellon website. Please click on the weblink for full details.

Scenario 5 will outline the specific US regulations for US-domiciled investors. You can read the full details by clicking on the BCCL weblink to the document for investors from specific jurisdiction.

Should you have any questions, feel free to contact your local BNY Mellon representatives. You can also visit our website for the latest market information about China inbound schemes.

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