

ALL YOU NEED TO KNOW: MARKET ENTRY FOR STOCK CONNECT

March 2021

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

China's rapid market reforms have made it easier for global investors to access the country's 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 dedicated service provider, BNY Mellon is here to help you expedite your account opening process.

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

We will zoom into the market entry and onboarding process for Stock Connect and discuss the various service models available to help clients access the China A-Share market.

In addition, we will highlight the account framework and address some of the frequently asked questions that you may come across.

Let's first look at the market nuances. Stock Connect is bound by the home rules applicable to the China securities domestic market. So what are some of the rules?

These include same-day trade and settlement cycle, the prohibition of failed trade, and the time lag between cash and securities settlement that gives rise to overnight counterparty risks.

To tackle these operational challenges and to mitigate counterparty risks, BNY Mellon offers three Stock Connect service models to help you access the China A-Share market in an efficient manner.

Let's now take a closer look at these three service models and their key differences.

The SPSA In-Control Settlement is a dual-side settlement for delivery and receipt against payment. This means that market settlement is conditional on receipt of clients' settlement instructions. The receipt vs. payment can occur either on a trade-date (T+0) or T+1 basis, subject to agreement between the client and their appointed brokers, whilst delivery vs. payment transactions can only occur on trade-date basis.

The SPSA Single-Sided Settlement for DVP only was developed to support clients who cannot meet the securities settlement cutoff time. So how does it work? The local custodian will automatically create a settlement instruction based on the broker's trade details available in the depository system. This auto-created instruction will be a match except for the settlement mode. However, BNY Mellon would still require the sales instruction on T+1 for reconciliation purposes. For the purchase transactions, on the other hand, the settlement is subject to receipt of client's settlement instruction.

The SPSA Plus Pershing is an execution-to-custody service that allows clients to place their Stock Connect orders according to their time zone. This is a key differentiator in the market. Upon execution, Pershing will issue the settlement instruction on behalf of the client, and the FX will be automatically executed. The delivery vs. payment and the receipt vs. payment are settled on a trade-date basis.

For details, refer to the comparison table set forth on this slide, or consult your local BNY Mellon representatives for more information.

Before you can commence trading via Stock Connect, you must first select the service model that meets your business requirements prior to account opening.

The overall account opening process will take approximately 5–10 working days if all necessary setup and documents are put in place.

Once you have selected the service model, your BNY Mellon service director or relationship manager will provide you with two sets of documents for review. They are the BNY Mellon legal addendum or the risk disclosure letter and the service-level description.

To provide integrated services, we offer standing instructions for FX and standing instructions for Real Time DVP/RVP Settlement.

The estimated account opening time frame is around three business days. And the Hong Kong Exchange will take approximately five business days to link the appointed brokers to your SPSA account at the depository. BNY Mellon will advise you as to when the broker is tagged to the SPSA account.

Once the account opening and the linkages between the appointed brokers and your SPSA account are completed, you can commence trading.

This slide explains the account framework to support Stock Connect. Stock Connect's eligible securities are held in custody in Hong Kong, and the Hong Kong Securities Clearing Company Limited, a subsidiary of Hong Kong Exchange, in turn, maintains a nominee account with the local depository in China, China Clear.

Each security account can only support one Stock Connect service model. If an asset owner appoints multiple asset managers, each asset manager will have its own securities account at the market level.

In the next section, we've laid out some frequently asked questions you may come across.

Does Stock Connect offer true DVP? What if a client cannot instruct on a trade-by-trade basis in field 22F? What happens if the settlement instruction is unmatched?

Scenarios one, two and three will answer some questions regarding the real-time settlement mode.

Continuing on the FAQ: Can client use more than one service model? What is a Master SPSA account? Please see scenarios four and five on the additional and optional services available for Stock Connect.

The last three FAQs: Are there any China A-Shares listed on the Shanghai Stock Exchange Sci-Tech Innovation Board eligible for trading via Stock Connect? Is there any special account structure for a single-sided settlement service model? What is the account structure for an asset owner appointing multiple investment managers for Stock Connect?

You will find the responses to these questions in scenario six, scenario seven and scenario eight.

Should you have any questions, feel free to contact your local BNY Mellon representatives.

You can also visit our website for further market information about China inbound schemes.

bnymellon.com

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used to reference the corporation as a whole and/or its various subsidiaries generally. This material does not constitute a recommendation by BNY Mellon of any kind. The information herein is not intended to provide tax, legal, investment, accounting, financial or other professional advice on any matter, and should not be used or relied upon as such. The views expressed within this material are those of the contributors and not necessarily those of BNY Mellon. BNY Mellon has not independently verified the information contained in this material and makes no representation as to the accuracy, completeness, timeliness, merchantability or fitness for a specific purpose of the information provided in this material. BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material.

The Bank of New York Mellon is a banking corporation organized pursuant to the laws of the State of New York, whose registered office is at 240 Greenwich St., NY, NY 10286, USA. The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the US Federal Reserve and is authorized by the Prudential Regulation Authority (PRA).

The Bank of New York Mellon operates in the UK through its London branch (UK companies house numbers FC005522 and BR000818) at One Canada Square, London E14 5AL and is subject to regulation by the Financial Conduct Authority (FCA) at 12 Endeavour Square, London, E20 1JN, UK and limited regulation by the Prudential Regulation Authority at Bank of England, Threadneedle St., London, EC2R 8AH, UK. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

The Bank of New York Mellon SA/NV, a Belgian limited liability company, registered in the RPM Brussels with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorized and regulated as a significant credit institution by the European Central Bank (ECB) at Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany, and the National Bank of Belgium (NBB) at Boulevard de Berlaimont/de Berlaimontlaan 14, 1000 Brussels, Belgium, under the Single Supervisory Mechanism and by the Belgian Financial Services and Markets Authority (FSMA) at Rue du Congrès/Congresstraat 12-14, 1000 Brussels, Belgium for conduct of business rules, and is a subsidiary of The Bank of New York Mellon.

The Bank of New York Mellon SA/NV operates in Ireland through its Dublin branch at Riverside II, Sir John Rogerson's Quay Grand Canal Dock, Dublin 2, D02KV60, Ireland and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon SA/NV, Dublin Branch is subject to limited additional regulation by the Central Bank of Ireland at New Wapping Street, North Wall Quay, Dublin 1, D01 F7X3, Ireland for conduct of business rules and registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E.

The Bank of New York Mellon SA/NV is trading in Germany as The Bank of New York Mellon SA/NV, Asset Servicing, Niederlassung Frankfurt am Main, and has its registered office at MesseTurm, Friedrich-Ebert-Anlage 49, 60327 Frankfurt am Main, Germany. It is subject to limited additional regulation by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany) under registration number 122721.

The Bank of New York Mellon SA/NV operates in the Netherlands through its Amsterdam branch at Strawinskylaan 337, WTC Building, Amsterdam, 1077 XX, the Netherlands. The Bank of New York Mellon SA/NV, Amsterdam Branch is subject to limited additional supervision by the Dutch Central Bank ("De Nederlandsche Bank" or "DNB") on integrity issues only (registration number 34363596). DNB holds office at Westeinde 1, 1017 ZN Amsterdam, the Netherlands.

The Bank of New York Mellon SA/NV operates in Luxembourg through its Luxembourg branch at 2-4 rue Eugene Ruppert, Vertigo Building – Polaris, L-2453, Luxembourg. The Bank of New York Mellon SA/NV, Luxembourg Branch is subject to limited additional regulation by the Commission de Surveillance du Secteur Financier at 283, route d'Arlon, L-1150 Luxembourg for conduct of business rules, and in its role as UCITS/AIF depositary and central administration agent.

The Bank of New York Mellon SA/NV operates in France through its Paris branch at 7 Rue Scribe, Paris, Paris 75009, France. The Bank of New York Mellon SA/NV, Paris Branch is subject to limited additional regulation by Secrétariat Général de l'Autorité de Contrôle Prudentiel at Première Direction du Contrôle de Banques (DCB 1), Service 2, 61, Rue Taitbout, 75436 Paris Cedex 09, France (registration number (SIREN) Nr. 538 228 420 RCS Paris - CIB 13733).

The Bank of New York Mellon SA/NV operates in Italy through its Milan branch at Via Mike Bongiorno no. 13, Diamantino building, 5th floor, Milan, 20124, Italy. The Bank of New York Mellon SA/NV, Milan Branch is subject to limited additional regulation by Banca d'Italia - Sede di Milano at Divisione Supervisione Banche, Via Cordusio no. 5, 20123 Milano, Italy (registration number 03351).

BNY Mellon Fund Services (Ireland) Designated Activity Company is registered in Ireland No. 218007, VAT No. IE8218007 W with a registered office at One Dockland Central, Guild Street, IFSC, Dublin 1. BNY Mellon Fund Services (Ireland) Designated Activity Company is regulated by the Central Bank of Ireland.

The Bank of New York Mellon (International) Limited is registered in England & Wales with Company No. 03236121 with its Registered Office at One Canada Square, London E14 5AL. The Bank of New York Mellon (International) Limited is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Regulatory information in relation to the above BNY Mellon entities operating out of Europe can be accessed at the following website:
<https://www.bnymellon.com/RID>.

The Bank of New York Mellon has various subsidiaries, affiliates, branches and representative offices in the Asia-Pacific Region which are subject to regulation by the relevant local regulator in that jurisdiction. Details about the extent of our regulation and applicable regulators in the Asia-Pacific Region are available from us on request. Among others, The Bank of New York Mellon, Singapore Branch is subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch (a banking corporation organized and existing under the laws of the State of New York with limited liability) is subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. The Bank of New York Mellon, Shanghai and Beijing branches are subject to regulation by the China Banking and Insurance Regulatory Commission. The Bank of New York Mellon, Seoul Branch is subject to regulation by the Financial Services Commission, the Financial Supervisory Service and The Bank of Korea.

While The Bank of New York Mellon (BNY Mellon) is authorized to provide financial services in Australia, it is exempt from the requirement to hold, and does not hold, an Australian financial services license as issued by the Australian Securities and Investments Commission under the Corporations Act 2001 (Cth) in respect of the financial services provided by it to persons in Australia. BNY Mellon is regulated by the New York State Department of Financial Services and the US Federal Reserve under Chapter 2 of the Consolidated Laws, The Banking Law enacted April 16, 1914 in the State of New York, which differs from Australian laws.

The Bank of New York Mellon Securities Company Japan Ltd., subject to supervision by the Financial Services Agency of Japan, acts as intermediary in Japan for The Bank of New York Mellon and its affiliates, with its registered office at Marunouchi Trust Tower Main, 1-8-3 Marunouchi, Chiyoda-ku, Tokyo 100-1005, Japan.

If this material is distributed in, or from, the Dubai International Financial Centre ("DIFC"), it is communicated by The Bank of New York Mellon, DIFC Branch, regulated by the DFSA and located at DIFC, The Exchange Building 5 North, Level 6, Room 601, P.O. Box 506723, Dubai, UAE, on behalf of The

Bank of New York Mellon, which is a wholly owned subsidiary of The Bank of New York Mellon Corporation. This material is intended for Professional Clients and Market Counterparties only, and no other person should act upon it.

Past performance is not a guide to future performance of any instrument, transaction or financial structure, and a loss of original capital may occur. Calls and communications with BNY Mellon may be recorded, for regulatory and other reasons.

Disclosures in relation to certain other BNY Mellon group entities can be accessed at the following website: <http://disclaimer.bnymellon.com/eu.htm>.

This document and the statements contained herein are not an offer or solicitation to buy or sell any products (including financial products) or services or to participate in any particular strategy mentioned and should not be construed as such. This material is intended for wholesale/professional clients (or the equivalent only), is not intended for use by retail clients and no other person should act upon it. Persons who do not have professional experience in matters relating to investments should not rely on this material. BNY Mellon will only provide the relevant investment services to investment professionals.

Not all products and services are offered in all countries.

If distributed in the UK, this material is a financial promotion. If distributed in the EU, this material is a marketing communication.

This material, which may be considered advertising, is for general information purposes only and is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter. This material does not constitute a recommendation or advice by BNY Mellon of any kind. Use of our products and services is subject to various regulations and regulatory oversight. You should discuss this material with appropriate advisors in the context of your circumstances before acting in any manner on this material or agreeing to use any of the referenced products or services and make your own independent assessment (based on such advice) as to whether the referenced products or services are appropriate or suitable for you. This material may not be comprehensive or up to date and there is no undertaking as to the accuracy, timeliness, completeness or fitness for a particular purpose of information given. BNY Mellon will not be responsible for updating any information contained within this material and opinions and information contained herein are subject to change without notice. BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material.

This material may not be distributed or used for the purpose of providing any referenced products or services or making any offers or solicitations in any jurisdiction or in any circumstances in which such products, services, offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements.

© 2021 The Bank of New York Mellon Corporation. All rights reserved.

