



China Capital Market - Two Way Flows

Sep 2018



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The background features a high-angle, blue-tinted aerial photograph of a dense city skyline, likely New York City, with numerous skyscrapers and buildings. The image is overlaid with large, diagonal, semi-transparent geometric shapes in shades of blue and white, creating a modern, architectural aesthetic. A prominent blue diagonal line runs from the top-left towards the bottom-right, intersecting the text.

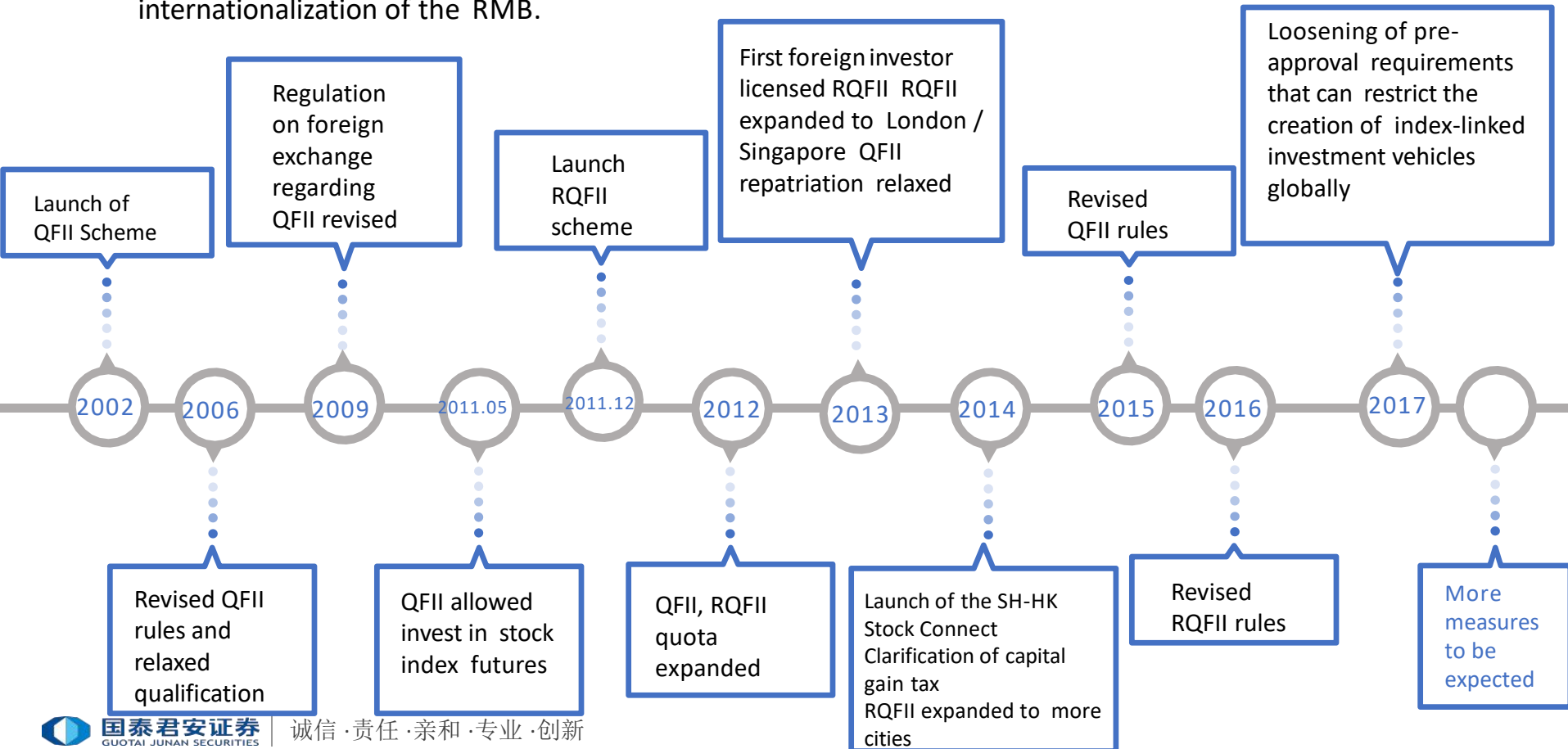
inbound capital flows

QFII & RQFII

Key Milestones

QFII and RQFII are transitional international investment policy arrangement before China's capital market is fully open.

- **QFII** : Qualified Foreign Institutional Investor, allowing overseas institutional investors to invest in China's capital market in foreign currency.
- **RQFII**: RMB Qualified Foreign Institutional Investor, in order to promote the internationalization of the RMB.



QFII & RQFII

QFII & RQFII Qualification Application Process

QFII & RQFII Qualification Application

2. Apply to CSRC for Investment License

- Submit QFII / RQFII application to CSRC via Custodian
- CSRC will assess and resolve within 20 working days upon receipt of final application.

4. Open Account

- Open special RMB and FX accounts.
- Open securities accounts in China Securities Depository and Clearing Company (SH / SZ).

6. Invest

- Appoint local broker.
- Finalize agreement among Custodian, QFII / RQFII and Broker.



1. Apply through Custodian

- Appoint a Custodian.
- Prepare application documents.



3. Apply to SAFE for Investment Quota

- Apply investment quota within one year after receiving QFII / RQFII license.
- Submit quota application to SAFE via Custodian.



5. Transfer Funds

- Inject funds within 6 months after receiving quota approval.
- Final quota is subject to actual paid-in amount.
- Investment is allowed after the accumulative total investment principal remitted inbound reaches USD 20 Million



Information mentioned above is only for reference. Corresponding regulations issued by CSRC and SAFE prevail.



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QFII & RQFII

Products Available to QFII & RQFII



Bond Collateral Repo

Bond collateral repo is a kind of repo that securities company provide bonds as collateral, offer different fixed income products to their customers, when customers accept the repo rates, securities company borrow money from the customers, and returns money to the customers on maturity date with the corresponding returns.



A-Shares

The official name of the A-shares is RMB Common Stocks. It is issued by the company registered in mainland China, subscribed and traded by institutions, organizations, or individuals within the territory (excluding Taiwan, Hong Kong, Macao investors).



Warrant

Warrant is issued by its securities issuer or a third party, entitles the holder to buy the underlying stock of the issuing company at a fixed exercise price until the expiry date, or settled by cash with settlement price difference.



IPO

An initial public offering (IPO) is a type of public offering where shares of stocks in a company are sold to the general public for the first time.



Seasoned Equity Offering

A seasoned equity offering or secondary equity offering (SEO) is a new equity issue by an already publicly traded company.

Products Available to QFII & RQFII



Rights Issue

A rights issue is an issue of rights to buy additional securities in a company made to the company's existing security holders. When the rights are for equity securities, such as shares, in a public company, it is a way to raise capital under a seasoned equity offering.



Open-ended Funds

An open-ended fund is in contrast with a closed-ended fund. The scale of the fund is unfixed with a collective investment scheme which can issue and redeem shares at any time. Investors may purchase fund units during its issuing period or through other authorized channels after issuing.



Closed-ended Funds

Closed-ended funds are with a Exchange Traded Fund fixed number of shares (or units). (abbreviates as ETF) which is an Unlike open-ended funds, new investment fund traded in units in a closed-ended fund are stock exchanges. ET tracks the not created by managers to fluctuation of an index, such as a meet demand from investors. stock index or bond Instead, the shares can only be index. ETFs may be attractive purchased (and sold) in the as investment products exchange market.



ETF

Issuance of Bonds because of their stock-like features. ETFs are the most popular type of Exchange Traded Product (ETP).



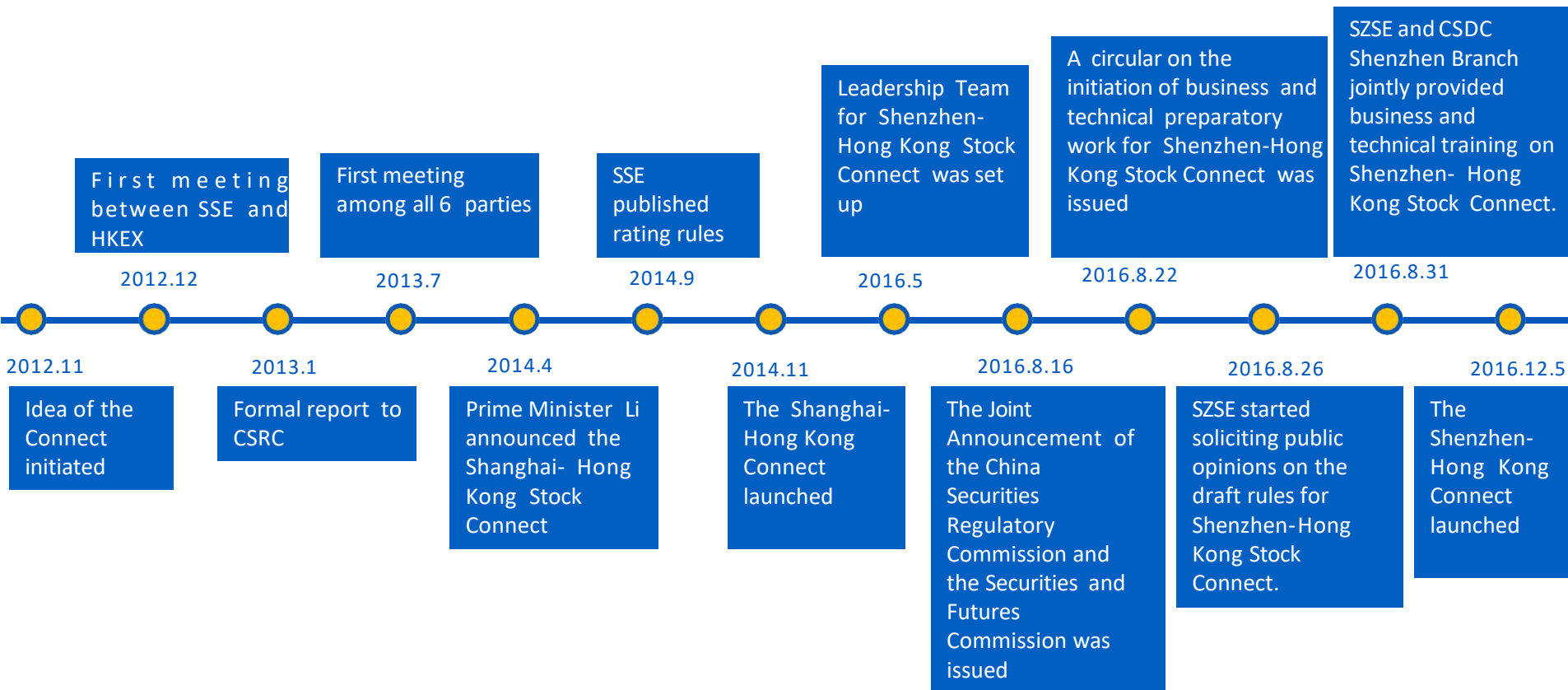
Tradable Fixed Income Products Listed on the Exchange and China Interbank Bond Market

Stock Connect

Key Milestones

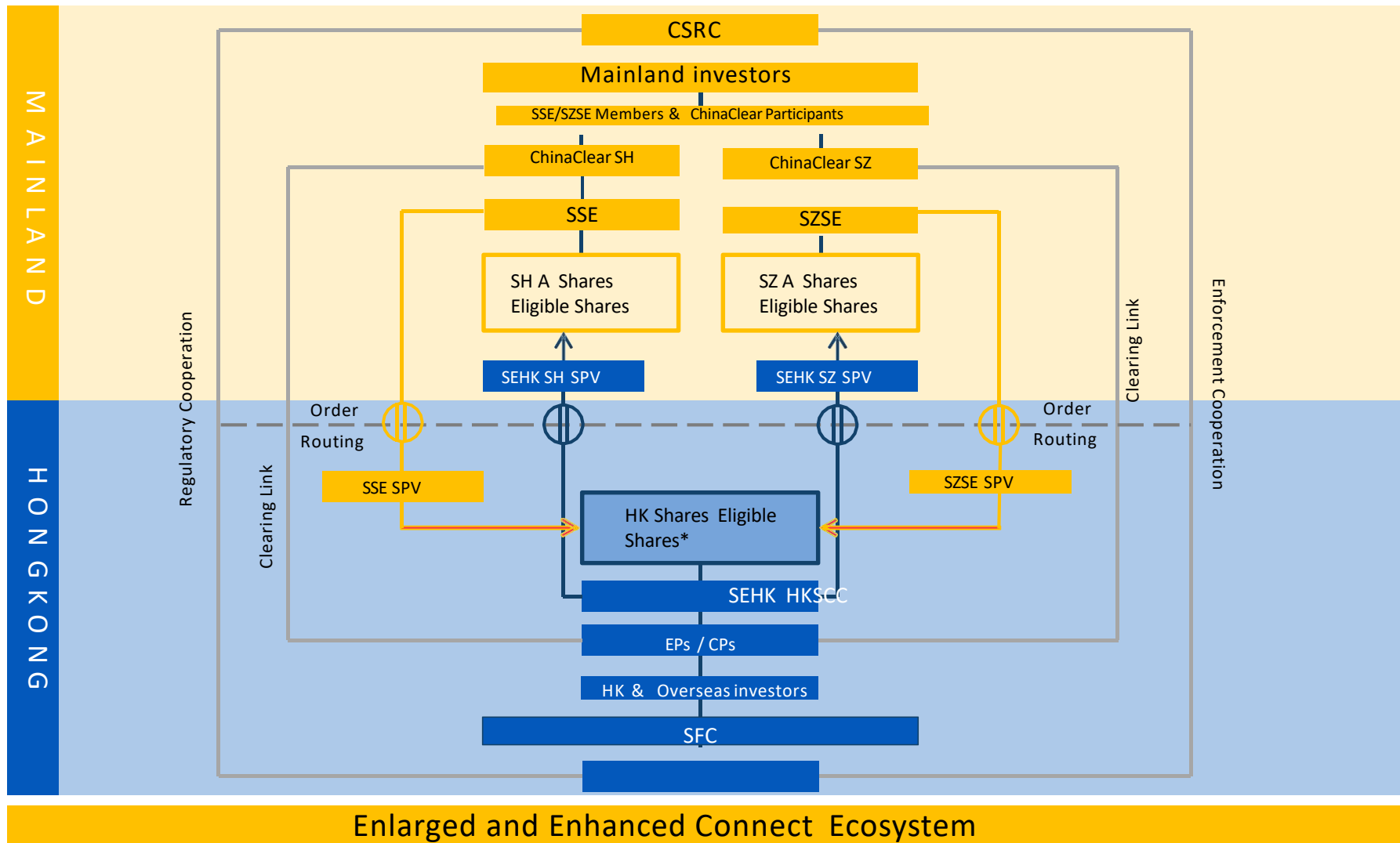
What is stock connect

- A unique collaboration between the Hong Kong, Shanghai and Shenzhen Stock Exchanges, Stock Connect allows international and Mainland Chinese investors to trade securities in each other's markets through the trading and clearing facilities of their home exchange.
- First launched in November 2014, the scheme now covers a total of over 2977 eligible equities, including 1117 in Shanghai, 1360 in Shenzhen and 500 in Hong Kong.



Stock Connect

Enlarged and Enhanced Connect Ecosystem

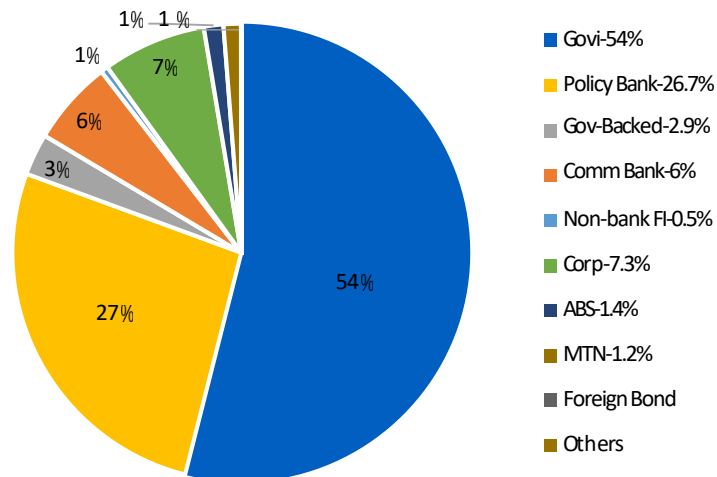


* Eligible shares for the Shanghai & Shenzhen Southbound links are different

International Business

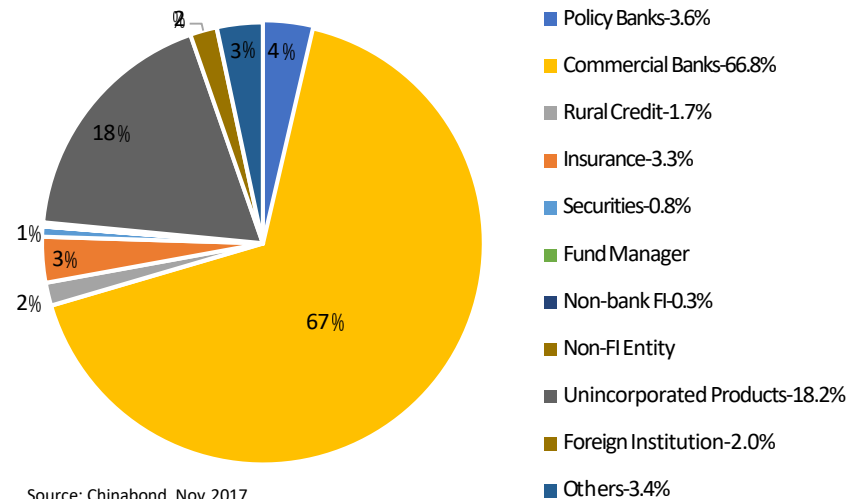
China Bond Market - Good Variety of Instruments

Product types



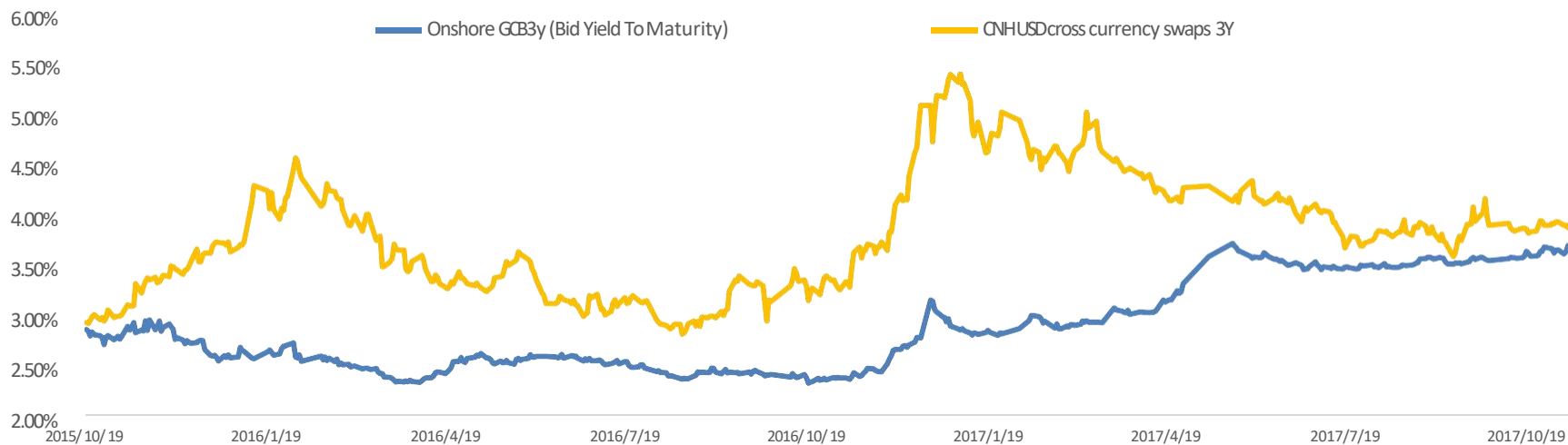
Source: Chinabond, Nov 2017

Investor types



Source: Chinabond, Nov 2017

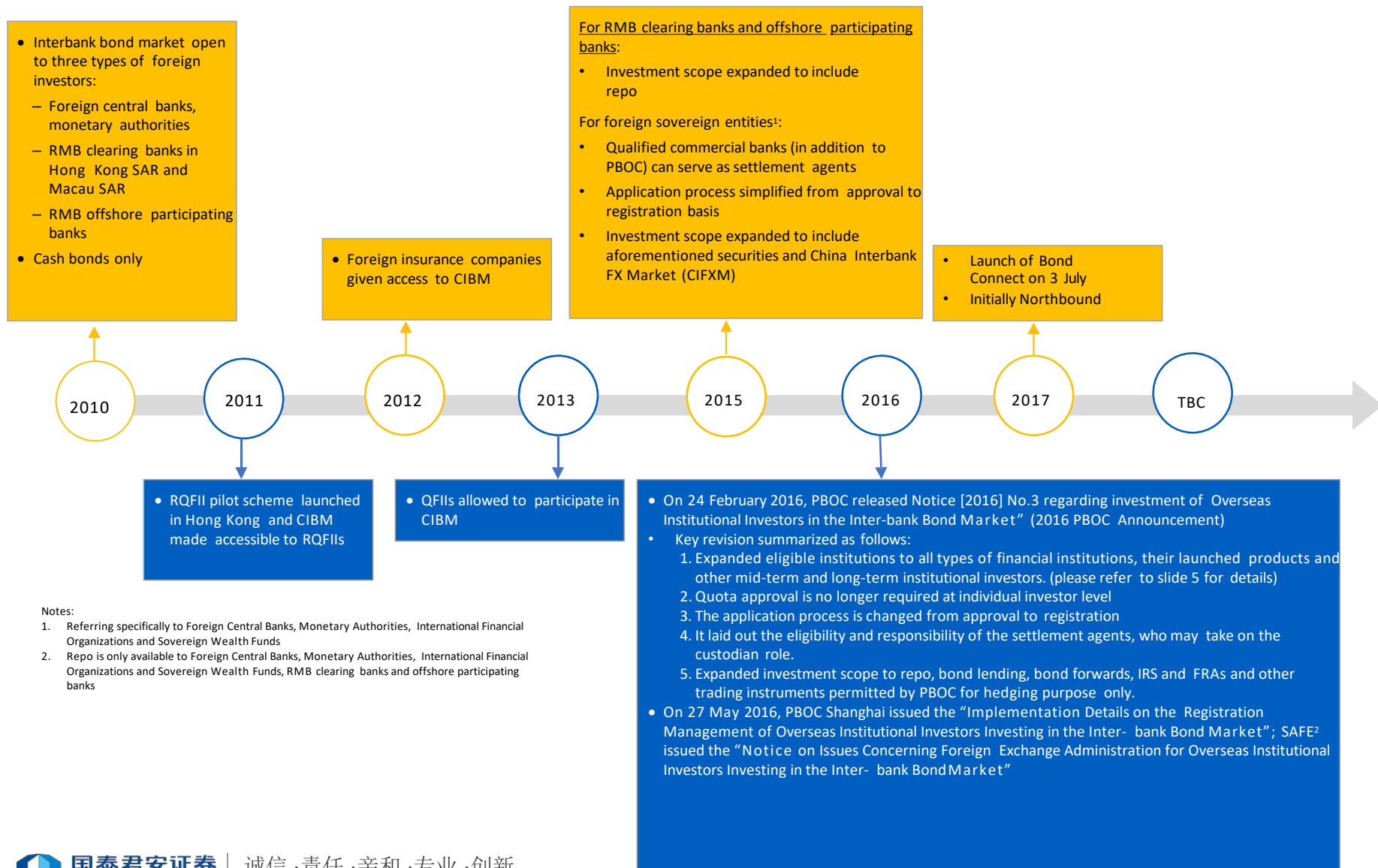
Onshore and offshore funding levels— 3Y Chinese Government Bonds



Source: Bloomberg

International Business

China Bond Market Internationalization Milestones



Bond Connect Overview

01

Bond Connect Launch

Jul 03, 2017, Bond Connect officially launched

02

What is bond connect

The connected market infrastructures of the two bond markets, through which Mainland and overseas investors may buy and sell bonds trading in Mainland China and Hong Kong SAR. Bond Connect includes the Northbound trading and the Southbound Trading. So far Bond Connect only supports “Northbound”.

03

Trading Protocol: Request-for-quote (RFQ)

Trading protocol is RFQ, investors could send a request for quote via TradeWeb to 24 market makers. Market makers will provide quotes in response to the request and wait for the overseas investors to confirm the trade. Bloomberg platform may support bond connect in the future.

04

Depository Arrangement: multi-level depository

In Northbound trading, the China Central Depository & Clearing Co., Ltd. (CCDC) and Shanghai Clearing House (SHCH) are the direct depositories; CMU is a secondary depository. Foreign investors open account at CMU and CMU opens nominee holder accounts at CCDC and SHCH.

05

Clearing Service

CCDC and SHCH provide clearing service to onshore market maker and CMU.

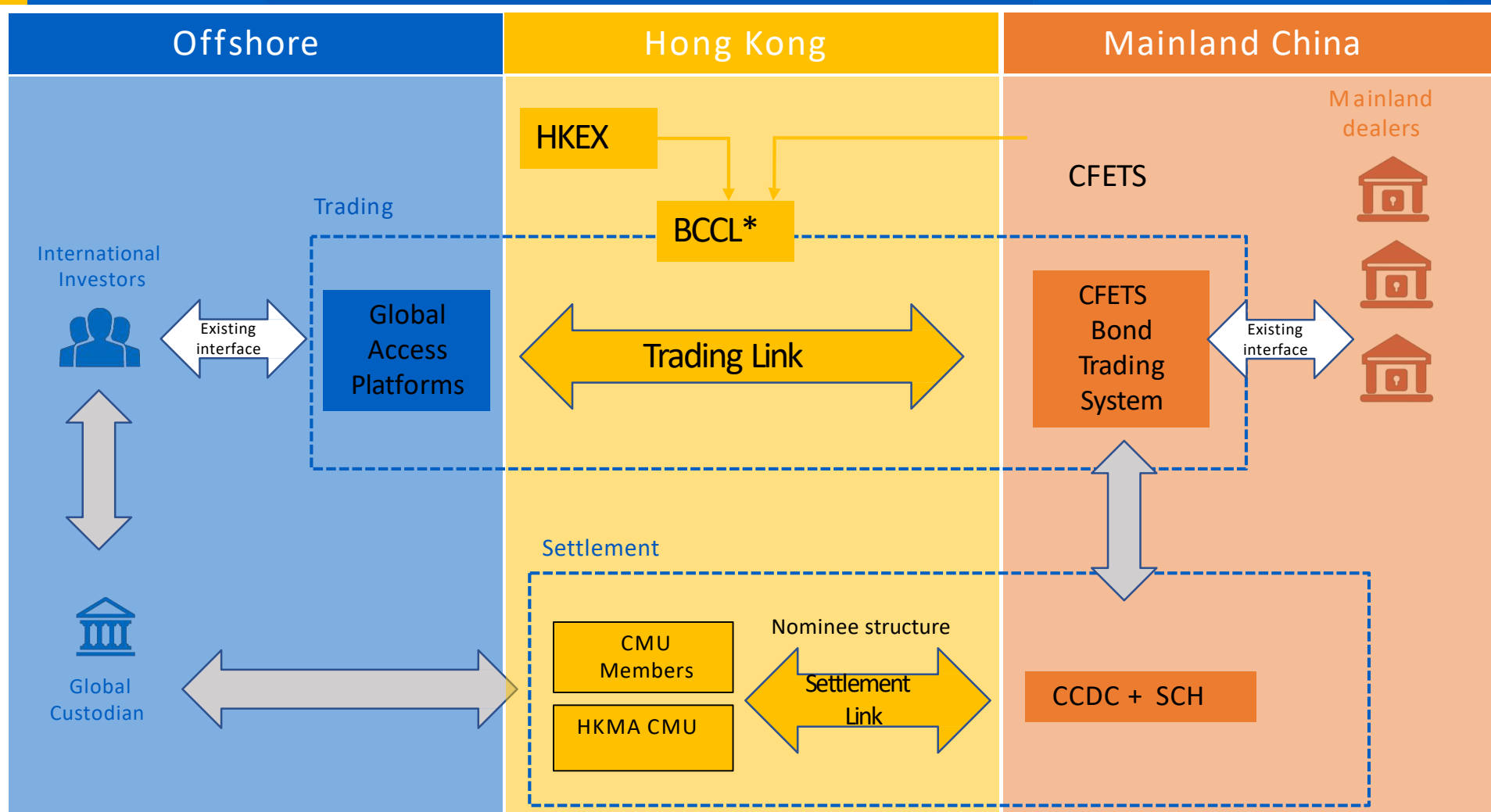
06

Foreign Exchange

Overseas investor could conduct foreign currency exchange with HK RMB Business Clearing Bank (BOCHK) or Bond Connect HK Settlement Bank (18 banks).

Bond Connect

Northbound Operating Model



- International investors trade via global platforms with assets held in custody via a Hong Kong (CMU) nominee structure
- Mainland regulators fulfil their requirements for transparency and control

* Bond Connect Company Limited, jointly owned by CFETS and HKEX, will support and assist admission and registration for Northbound investors, and liaise closely with the international access platforms under Bond Connect Source: HKEX

International Business

Comparison between Various Investment Schemes

	QFII	RQFII	Interbank Bond Market	Stock Connect
Regulator	<ul style="list-style-type: none"> • CSRC, SAFE 	<ul style="list-style-type: none"> • CSRC, SAFE 	<ul style="list-style-type: none"> • PBoC, SAFE 	<ul style="list-style-type: none"> • CSRC, SH / SZ Stock Exchange
Criteria of Applicants	<ul style="list-style-type: none"> • Commercial Banks <ul style="list-style-type: none"> » In operation for more than 10 years » Securities AUM no less than USD 5 billion » Tier 1 Capital no less than USD 300 million • Securities Companies <ul style="list-style-type: none"> » In operation for more than 5 years » Securities AUM no less than USD 5 billion » Capital no less than USD 500 million • AMC, insurance companies and other institutions <ul style="list-style-type: none"> » Business experience of more than 2 years » Securities AUM no less than USD 500 million 	<ul style="list-style-type: none"> • Affiliates of qualified China mainland fund management companies, securities companies, commercial banks or insurance companies in Hong Kong/UK/Singapore/France/South Korea/Germany/Switzerland/Australia/Canada/Luxembourger/Thailand/US/Malaysia, or financial institutions registered and mainly operated in above counties and regions. • Obtained asset management license from Hong Kong/UK/Singapore/France/South Korea/Germany/Switzerland/Australia/Canada/Luxembourger/Thailand/US/Malaysia regulators and already conducted asset management business. 	<ul style="list-style-type: none"> • Off-shore RMB clearing participating banks for cross-border trades • Off-shore central banks and monetary authorities • Other off-shore RMB clearing financial institutions for cross-border service and trade pilots 	<ul style="list-style-type: none"> • Northbound: All Hong Kong and overseas institutional/individual investors • Southbound: All mainland institutional investors/Qualified individual investors (with minimum securities and cash asset value of RMB500,000)

International Business

Comparison between Various Investment Scheme (cont'd)

	QFII	RQFII	Interbank Bond Market	Stock Connect
Investment Scope	<ul style="list-style-type: none"> • Stocks, bonds, funds, warrants, IPOs, bond issuance, government bond preissuance trading and index futures 	<ul style="list-style-type: none"> • Stocks, bonds, funds, warrants, IPOs, bond issuance, government bond preissuance trading and index futures 	<ul style="list-style-type: none"> • Limited to bond issued/trade in interbank market 	<p>Northbound: SSE 180 SSE 380(total number of stock 568, excluding stocks under risk alert)</p> <p>Southbound: HS large cap and Midcap (total number of stock 266,HK shares that are not traded in HKD, A+H on any other mainland exchange)</p>
FX	<ul style="list-style-type: none"> • Required 	<ul style="list-style-type: none"> • Not required 	<ul style="list-style-type: none"> • Not required 	<p>Northbound: Trading and settlement: RMB</p> <p>Southbound: Trading currency: HKD</p> <ul style="list-style-type: none"> • Between Mainland brokers & Chinaclear: RMB • Between China Clear & HKSCC: HKD
Market Accessible	<ul style="list-style-type: none"> • Stock Exchange • Interbank Bond Market • CFFEx 	<ul style="list-style-type: none"> • Stock Exchange • Interbank Bond Market • CFFEx 	<ul style="list-style-type: none"> • Interbank Bond Market 	<ul style="list-style-type: none"> • Stock Exchange(SSE/SZE/SE HK A+H)

International Business

QDII , WFOE & QDLP



Qualified Domestic Institutional Investors (QDII)

QDII means institutions such as domestic securities institutions, fund management companies and securities companies that meet the requirements by China Securities Regulatory Commission (CSRC) and that raise funds within the territory of China upon approval by the CSRC, to conduct overseas securities investment management in the form of asset portfolios.



Wholly Foreign Owned Enterprise (WFOE)

AMAC confirms that a wholly foreign owned enterprise (WFOE) can conduct privately-raised fund management business in China by registering with AMAC. Based on the national treatment principle, a WFOE must obey the law and local regulation in China, and must satisfy the common requirements for China's private fund managers.



Qualified Domestic Limited Partnership (QDLP)

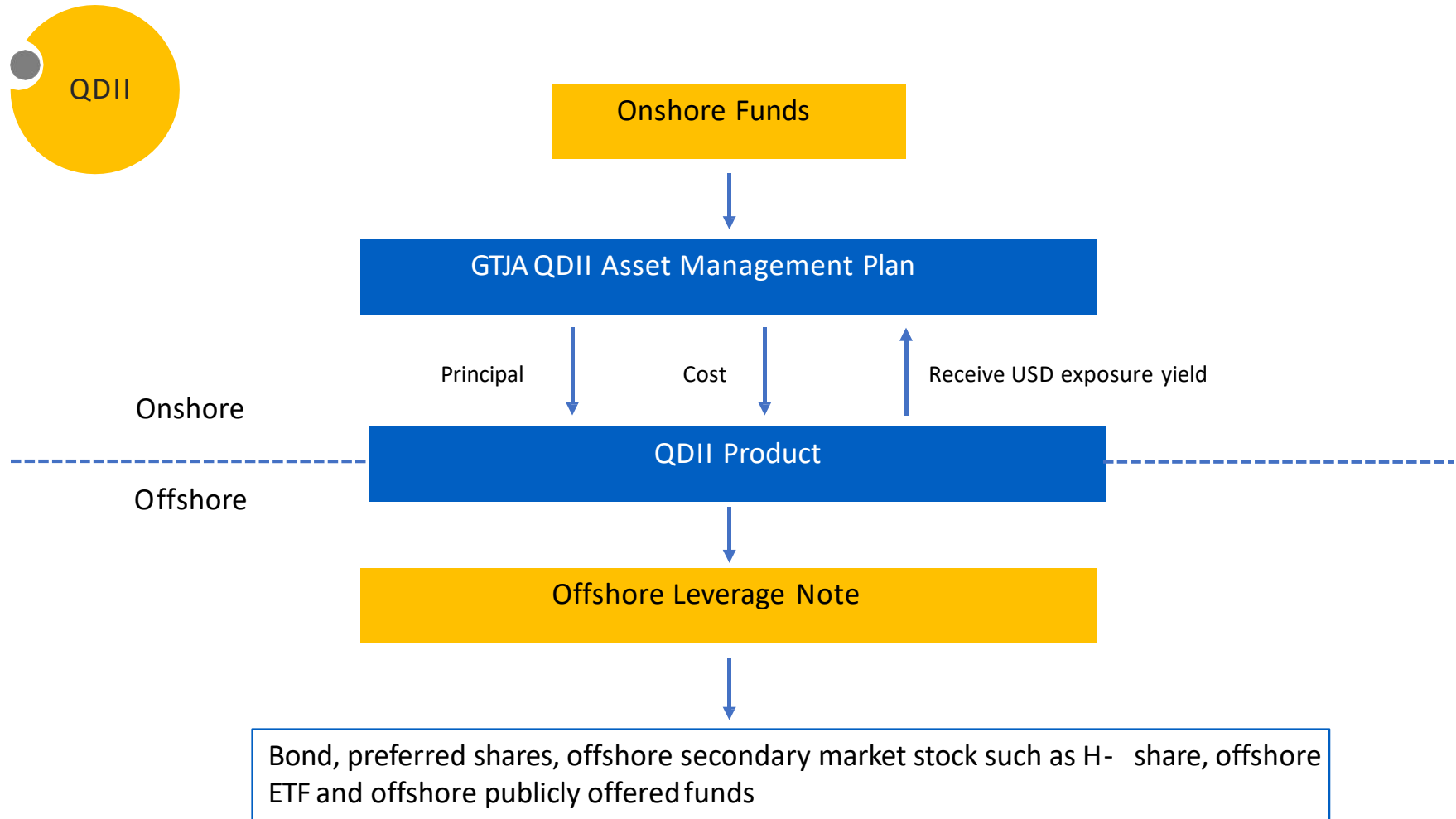
The QDLP program allows foreign fund managers to raise money within a set quota from high net-worth Chinese investors through a wholly-owned onshore fund management company and invest the cash overseas.



Outbound capital flows

International Business

QDII Investment Framework

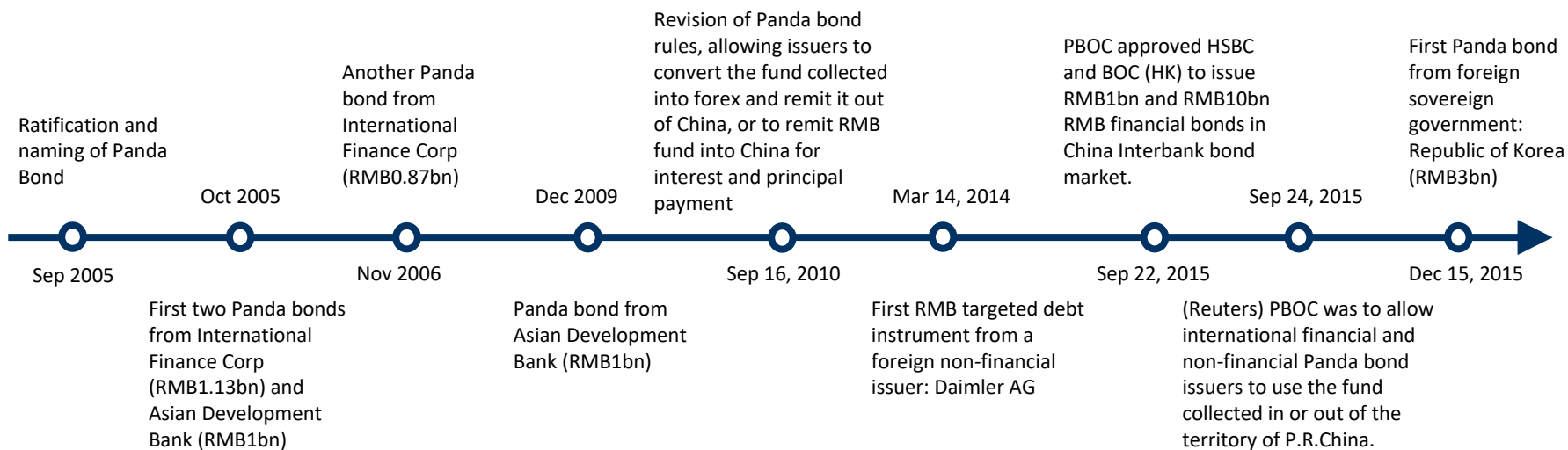


Note: QDII quota approval has been suspended since March 2015

Panda bond

- Panda Bond is a Chinese RMB-denominated bond issued by a non-Chinese issuer, sold in the People's Republic of China.

Panda Bond since Sep 2005





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THANK
YOU