Securities Services

China Compass

The comprehensive guide to investing in China

Deutsche Bank

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Foreword

China as an investment destination has undergone significant transformation since China first opened the door to international investments back in 1978. As the world's second-largest economy and as well as having the second largest stock market by market capitalisaation, China's importance in the world economic stage cannot be overlooked, and it remained a critical piece to the global asset allocation strategy.

Deutsche Bank's root in China dated back to 1872 as one of the first overseas branches for the bank. We are proud to be the Global Hausbank in serving our clients' needs on the ground in China for more than 150 years.

We are delighted to present this all about investment in China guidebook as a tool of reference for investors, analysts, and anyone who are interested about investing in China. Information contained in this guidebook should clarify some of the mysteries regarding local regulations and guidelines, in addition to offer a concise explanation on the various access channels to the China markets.

China continues to be one of the core countries to our global growth strategy. Despite its recent challenges and uncertainties, we believe China's capacity to generate sustainable growth and as one of the global leaders in technology innovation should not be discounted.

We hope this guidebook will serve you as a reliable reference when comes to investing in China.

Tony Chao
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Deutsche Bank

This is an interactive edition of China Compass 2024.
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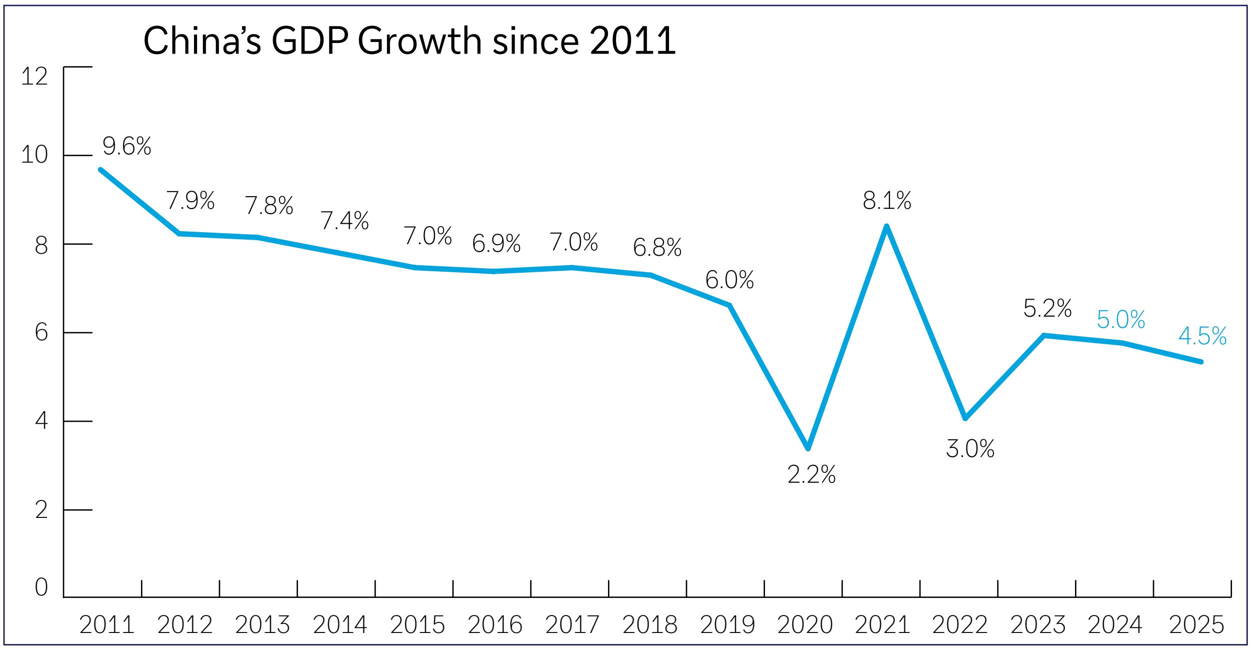
1 Securities Market in China – Overview

1.1 Market Landscape

The People's Republic of China (PRC) has been the world's second-largest economy by Gross Domestic Product (GDP) since 2010, larger than Japan, Germany, the United Kingdom and India combined. As of September 2024, China's foreign exchange reserves have reached USD 3,316 billion[1], making China the largest holder of foreign exchange reserves in the world.

In the recent decade, China has posted positive GDP growth. Following a moderate post-pandemic growth of 5.2% in 2023, the Chinese government has pegged the country's GDP growth at 'around 5%' in 2024[2].



Data source: DB Research, National Bureau of Statistics of China (as of July 2024)

As stated by Chinese President Xi Jinping in the 20th CPC National Congress in October 2022, China will continue promoting high standard opening up by 'leveraging the strengths of its enormous market, attract global resources and production factors with its strong domestic economy, and amplify the interplay between domestic and international markets and resources'[3]. According to the latest figures, the total value of imports and exports of goods in 2023 reached USD 5,762 billion,

1 SAFE.gov.cn (https://www.safe.gov.cn/safe/2024/1006/25113.html)
2 Gov.cn (https://www.gov.cn/yaowen/liebiao/202403/content_6939153.htm)
3 Gov.cn (https://english.www.gov.cn/news/topnews/202210/25/content_WS6357df20c6d0a757729e1bfc.html)

beating market expectations by a 0.2% annual increase. In 2023, China's total trade in services was USD 907 billion, annually higher by 10%[4].

The paid-in Foreign Direct Investment (FDI) exhibited a strong performance in 2023 at USD 156 billion. To break down, investment in high-tech industries accounted for 37.3%, a 1.2% increase to a record high of USD 58 billion. Meanwhile, 53,766 foreign-invested enterprises were established until 2023, up by 39.7% compared to a year ago[5].

According to the data released by the World Bank in October 2022, China contributed an average of 38.6% to world economic growth between 2013 and 2021[6], exceeding the combined number of G7 countries. Preliminary calculations show that, in 2023, China contributed about 32% to the global economic growth[7], emphasising China as the 'crucial engine for global economic growth and a major force of stability'. When China's growth rate rises by 1%, growth in other countries increases by around 0.3%, according to a recent International Monetary Fund (IMF) staff analysis[8].

China has Asia's largest stock market and second-largest stock market in the world (by market capitalisation) following the United States of America. As of September of 2024, the total market capitalisation of the Chinese stock market has exceeded USD 12,000 billion[9]. Currently, China A-shares have been included in the three major global indices. In 2019, MSCI increased the inclusion ratio of China A-shares from 5% to 20% in the MSCI indexes. In the same year, S&P Dow Jones indices included China A-shares in its global benchmark indexes with a 25% inclusion factor. Also, in June 2020, the FTSE Russell completed the Phase 1 of the inclusion of China A-shares in the FTSE Global Equity Index Series (FTSE GEIS). According to FTSE Russell, China A constituents represent approximately 7.07% of the FTSE Emerging All Cap Index, as of March 31, 2023[10].

The China Interbank Bond Market (CIBM), formed in 1997, has grown steadily in scale with enhanced financing function. China has the second-largest bond market in the world, with a depository balance above USD 20 trillion as of August 2024, forming a market dominated by interbank and exchange markets and supplemented by the over-the-counter (OTC) market. CIBM is the most important constituent of China's bond market and stands to be the main trading venue for Chinese Government Bonds (CGBs), policy bank bonds and non-convertible debentures (NCDs) which are popular among overseas investors.

Exchange Market

There are currently three stock exchanges on the mainland. Shanghai and Shenzhen exchanges were opened by the Chinese government in 1990 to modernise China's economy while the Beijing Stock Exchange (BSE) was established in 2021, aiming to help serve innovative small and medium-sized enterprises (SMEs).

In November 2014, the Chinese government linked Shanghai Stock Exchange (SSE) with Hong Kong Exchanges and Clearing Limited (HKEX) through Shanghai-Hong Kong Stock Connect program and later launched Shenzhen-Hong Kong Stock Connect in 2016. The Stock Connect program has encouraged foreign investors to buy Chinese shares more smoothly.

	SSE	SZSE	BSE	Total
Stock Market Capitalisation (USD billion)	7,422.0	4,617.4	57.4	12,096.8
Number of Listed Companies	2,271	2,839	253	5,363
Average Daily Stock Trading Volume (USD billion)	49.0	64.4	0.6	114.0

Data source: Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE) and Beijing Stock Exchange (BSE)

(as of September 30, 2024)

4 Stats.gov.cn (https://www.stats.gov.cn/xxgk/sjfb/tjgb2020/202402/t20240229_1947923.html)
5 MOFCOM.gov.cn (http://www.mofcom.gov.cn/article/xwfb/xwrcxw/202401/20240103467642.shtml)
6 Gov.cn (https://english.www.gov.cn/news/topnews/202210/27/content_WS6359c2b3c6d0a757729e1d01.html)
7 IFF.cn (http://enupload.iff.org.cn/uploads/report/IFF-Global-Finance-and-Development-Report-2023-en20231023.pdf)
8 IMF (https://www.imf.org/en/News/Articles/2023/02/02/cf-chinas-economy-is-rebounding-but-reforms-are-still-needed)
9 SSE, SZSE, BSE (https://www.sse.com.cn/market/view/,http://www.szse.cn/English/siteMarketData/marketStatistics/overview/index.html, https://www.bse.cn/static/statisticdata.html)
10 MSCI (https://www.msci.com/cn), S&P (https://www.spglobal.com/en), FTSE Russell (https://www.lseg.com/en/ftse-russell)

China Interbank Bond Market (CIBM)

China bond market continues to evolve in a market-oriented, law-based, and internationalised manner with its global influence increasing significantly in recent years. With the support of overseas investors, Chinese bonds have been successively included in the three major international bond indexes. Chinese bonds were included in Bloomberg Barclays Global Aggregate Index (BBGA) and the JPMorgan Government Bond Index-Emerging Markets (GBI-EM) in April 2019 and February 2020, respectively. In March 2021, FTSE Russell announced the phased inclusion of Chinese government bonds in its World Government Bond Index (WGBI) over a 36-month period, starting from October 2020.

	CIBM	Exchange	OTC	Total
Trading Volume of August (USD billion)	4,049.3	435.8	8.2	4,493.3
Bond Depository Balance (USD billion)	20,710.3.6	2,896.3.3	–	23,606.6

Data source: PBOC (as of August 2024)

As of August 2024, foreign investors hold USD 641.1 billion of Chinese bonds, accounting for 2.7% of the total bond depository. In particular, foreign holding in CIBM is USD 635.5 billion[11].

In terms of bond types, foreign investors hold USD 320.5 billion of treasury bonds (50.4%), and USD 133.5 billion of policy financial debt (21%)[12].

1.2 Regulatory Framework

1.2.1 Key Financial Regulators and Continued Reforms at the Central Level

Since China's opening up in 1978, the country's financial regulatory framework has undergone multiple rounds of further reforms. Initially, there was a single regulator; this later evolved into a system with separate agencies based on different types of financial institutions. Eventually, some of these agencies were consolidated, with decisions made by either the PRC State Council or the National People's Congress (NPC), as outlined below.

11 PBC.gov.cn (https://www.gov.cn/lianbo/bumen/202409/content_6977183.htm)
12 PBC.gov.cn (https://www.gov.cn/lianbo/bumen/202409/content_6977183.htm)

Key Developments of Regulatory Framework

Stage 1
Prior to 2017

One bank and three commissions

- People's Bank of China (PBOC) as China's central bank
- China Securities Regulatory Commission ("CSRC") as regulator over securities and futures markets
- China Insurance Regulatory Commission ("CIRC") to regulate the insurance industry
- China Banking Regulatory Commission ("CBRC") to regulate the banking industry

Stage 2
2017 - 2023

One committee, one bank and two commissions

- In 2017, the Financial Stability and Development Committee was set up as decision-making office of the PRC State Council
- In 2018, CBRC and CIRC were consolidated into the China Banking and Insurance Regulatory Commission ("CBIRC") to regulate both the banking and insurance industries, marking the beginning of "one committee, one bank and two commissions" framework, i.e., the Financial Stability and Development Committee, PBOC, CSRC and CBIRC

Stage 3
2023 - Present

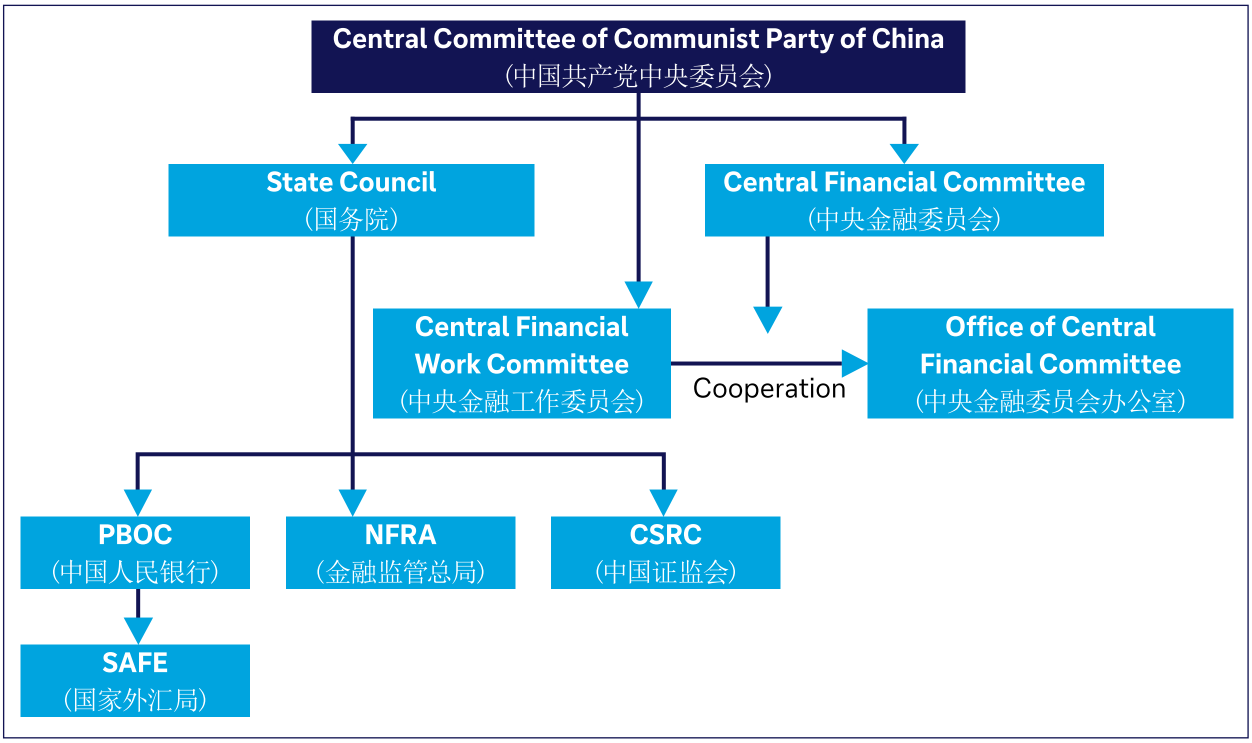
One bank, one commission and one bureau

In March 2023, Reform Plan of the Party and State Institutions issued by the Central Committee of the Chinese Communist Party ("CPC") and the State Council, with major changes including:

- National Financial Regulatory Administration ("NFRA") established to replace CBIRC and to regulate all financial sectors, excluding the securities industry
- Central Financial Committee established to strengthen leadership of the CPC over financial work
- Office of the Central Financial Committee established as the administrative office of the Central Financial Committee. The Financial Stability and Development Committee was dissolved, with its duties assigned to the Office of Central Financial Committee
- Central Financial Work Committee was established to lead the CPC in the financial system and to cooperate with the Office of the Central Financial Committee

The latest reform that was undertaken by China in 2023 as above is a vital step towards a more comprehensive financial regulatory framework, which resulted in a framework where there is 'one bank, one commission and one bureau' (i.e., PBOC, CSRC and NFRA). The chart below shows the governance and authorisation relations among the current key financial regulators:

Structure Chart of Key Financial Regulators



Key functions of Each Authority

Authorities	Key Functions
Central Financial Committee	As the decision-making agency of the Communist Party of China (CPC), the Central Financial Committee is responsible for the top-level design, overall co-ordination, overseeing financial stability, and the study of major policies and issues in the financial sector. It also has the mandate to manage financial planning and take actions against systemic risks.
National Financial Regulatory Administration (NFRA[13])	NFRA is responsible for implementing the policies and decisions of the CPC Central Committee on financial work. Its major functions include (but not limited to) the following: — Conducting unified supervision and regulation of the financial industry except for the securities sector — Conducting systematic research on issues concerning the reform and opening-up, drafting laws and regulations on banking, insurance, and financial holding companies — Conducting and co-ordinating work concerning the protection of financial consumers' rights and interests — Regulating banking institutions, insurance institutions, financial holding companies and others
China Securities Regulatory Commission (CSRC[14])	CSRC implements the policies, principles, decisions, and plans of the CPC Central Committee on financial work. CSRC's major functions include (but not limited to) the following: — Regulating and supervising the securities industry — Regulating and supervising the issuance, listing, trading, custody and settlement of stocks, convertible bonds, depository receipts and other equity securities; supervising activities of investment funds in securities, equities — Regulating and supervising the issuance, listing, admission, trading, custody, and settlement of corporate (enterprise) bonds, asset-backed securities (ABS) and other fixed-income securities on the exchange-traded market — Regulating and supervising the securities market behaviours of market players — Regulating securities and futures exchanges
People's Bank of China (PBOC[15])	As the central bank, and a cabinet-level constituent department of the State Council, the major functions of PBOC include (but not limited to) the following: — Regulating the financial markets, including the interbank lending market, the interbank bond market, foreign exchange market and gold market — Maintaining the RMB exchange rate at an adaptive and equilibrium level, holding and managing the state foreign exchange and gold reserves — Providing guidance on anti-money laundering in the financial sector
State Administration of Foreign Exchange (SAFE[16])	SAFE is the foreign exchange administrative body under the leadership of PBOC. Its major functions include (but not limited to) the following: — Supervising and developing the foreign exchange market — Managing risk and monitoring the balance of payments and the external credit and external deb — Setting RMB convertibility/exchange rate policy — Managing foreign exchange reserves, gold reserves, and other foreign exchange assets of the state

13 NFRA (https://www.cbirc.gov.cn/en/view/pages/ItemList.html?itemPId=974&itemId=975&itemUrl=About/Mandates.html&itemTitle=-Mandates&itemPTitle=About%20the%20NFRA)
14 CSRC (http://www.csrc.gov.cn/csrc_en/c102023/common_zcnr.shtml?channelid=e9958c689bef4d468d81dc93c8d3479f)
15 PBC (http://www.pbc.gov.cn/en/3688066/3688080/index.html)
16 SAFE (https://www.safe.gov.cn/en/MajorFunctions/index.html)

1.2.2 System and Hierarchy of Applicable Rules

The Legal Framework for the PRC Capital Market

1		
Laws issued by the NPC and its standing committee	The PRC Securities Law was last revised on December 28, 2019, and came into effect on March 1, 2020. The PRC Securities Law governs shares, corporate bonds and other securities recognized by the State Council. The goal of the law is to ensure standardisation of issuing and trading in securities, protection of lawful rights and interests of the investors, and to promote the development of the securities market in China **The key areas:** Issuing, listing and trading of securities; disclosure of information; prohibited trading acts; takeover of listed companies; investor protections; stock exchanges, securities companies; securities registration and clearing institutions, securities trading service organisations	The PRC Futures and Derivatives Law entered into force on August 1, 2022. The law is the first comprehensive law in China which regulates futures and derivatives trading. In addition, the law is intended to protect the legitimate rights and interests of transaction parties, maintain market order, promote the futures and derivatives market to serve the national economy, guard against financial risks, and protect national economic security **The key areas:** Trading, clearing and settlement of futures and derivatives; framework for the supervision of institutions and participants in the futures and OTC derivatives markets; extraterritorial application and cross-border regulatory mechanisms; regulation of market misconduct offenses

2	
Administrative regulations and departmental rules issued by CSRC, PBOC, SAFE and other regulators	Administrative regulations are issued by the State Council and contain market administration rules on products, market participants, and other market features. Departmental rules are promulgated by regulators (such as CSRC, PBOC and SAFE) and are also categorised as administrative regulations **The regulations formulated by CSRC** — Substantive rules, covering all aspects of securities market activities, including securities issuance, trading and related services — Procedural rules, including formatting and detailed requirements, normative requirements of information disclosure materials and various rules of execution procedures, etc. **The regulations formulated by PBOC** — Basic rules for financial holding companies and other financial groups and major financial institutions — Basic rules for asset management products, corporate credit bond markets and the derivatives markets in conjunction with relevant departments — Policies and regulations on anti-money laundering and anti-terrorist financing **The regulations formulated by SAFE** — Comprehensive, current account foreign exchange management, capital account foreign exchange management, foreign exchange business supervision of financial institutions, RMB exchange rate and foreign exchange market, balance of payments and foreign exchange statistics, foreign exchange inspection and application of regulations, and scientific and technological management of foreign exchange

3 Self regulatory rules and exchange rules	Self-regulatory and industry rules are set by self-regulatory organisations, such as the Asset Management Association of China (AMAC), Securities Association of China, China Futures Association and the stock and futures exchanges, including Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE), Beijing Stock Exchange (BSE), Zhengzhou Commodity Exchange (ZCE), Dalian Commodity Exchange (DCE), Shanghai Futures Exchange (SHFE), Shanghai International Energy Exchange (INE), China Financial Futures Exchange (CFFEX), and Guangzhou Futures Exchange (GFEX)

1.2.3 Recent Regulatory Trends

The year 2023 marked a significant milestone in China's financial regulation. Institutional reforms that were implemented focussed on achieving comprehensive financial regulation, prevention of financial risks and strengthening the financial stability protection system. Building on the continuous improvement of the regulatory framework, stringent supervision has been further enhanced.

On this basis, the Central Financial Work Conference was held in Beijing in October 2023, which clarified the direction for the future reform, development, and opening of China's financial sector[17]. The key take-aways from the conference were: (i) to accelerate the building of a nation with a strong financial sector; (ii) to promote high-quality financial development with an emphasis placed on capital markets; and (iii) to pursue higher-standard opening up.

— Accelerating the building of a nation with a strong financial sector

This is the first time China has articulated its goal to 'accelerate the building of a nation with a strong financial sector', highlighting the growing significance and role of finance in the national economy. To achieve this goal, President Xi Jinping emphasised that a country with great financial strength should also boast of six key elements: i) a strong currency, ii) a strong central bank, iii) strong financial institutions, iv) strong international financial centres, v) strong financial supervision and regulation, and vi) a strong financial talent pool[18].

The path also follows the principles of promoting financial innovation and development on the track of marketisation and rule of law, deepening supply-side structural reform of the financial sector, co-ordinating financial opening-up and security, and seeking progress while maintaining stability. The ability of financial innovation is embodied in the ability of financial product and service innovation, the ability of science and technology application and the ability of modern financial risk management. For example, in the era of the digital economy, financial powers are in the leading position in the emerging financial science and technology fields such as big data, cloud computing, blockchain and artificial intelligence. An ardent team with financial talents is in demand to provide support for financial innovation[19].

— Promoting the high-quality development of the financial sector, especially capital markets

In order to implement the requirement of strengthening regulation and risk prevention to promote the high-quality development of capital markets, on April 12, 2024, the State Council issued the Several Opinions on Strengthening Supervision and Preventing Risks to Promote the High-quality Development of Capital Markets, which consists of nine parts, referred to as the new 'National Nine Articles', following the two earlier 'National Nine Articles' issued in 2004 and 2014 respectively[20].

Unlike the previous regulatory pronouncements, which focused on the stable and healthy

17 Gov.cn (https://english.www.gov.cn/news/202311/02/content_WS65430bb8c6d0868f4e8e0e33.html)
18 SCIO (http://english.scio.gov.cn/topnews/2024-01/17/content_116946046.htm)
19 Theory (http://theory.people.com.cn/n1/2024/0131/c40531-40170008.html)
20 Gov.cn (https://jrj.beijing.gov.cn/jrgzdt/202404/t20240415_3617680.html)

development of the capital markets, the new 'National Nine Articles' emphasise on regulation and enhancing access to listing, continuous supervision of listed companies, intensified delisting supervision, strengthened supervision of securities fund institutions, as well as strengthened trading supervision, aiming at promoting high-quality liberalisation of capital markets. CSRC has issued several draft rules with more stringent provisions to supervise and regulate the capital markets to implement the new 'National Nine Articles', and exchanges have concurrently revised their respective regulations.

CSRC has also issued its legislative work plan for 2024 on April 12, 2024, which includes 14 regulatory projects, categorised into nine 'key projects' for this year (such as the *Interim Measures for the Supervision and Administration of Private Investment Funds and the Measures for the Supervision and Administration of Derivatives Trading*). There are five other projects that require further study and may be introduced in the future. The focus of these rules is to strengthen the supervision of key areas of the capital market, maintain the steady and healthy development of the market, and effectively protect the legitimate rights and interests of small and medium-sized investors. On May 11, 2024, CSRC also released the *Provisions on Program Trading Management in Securities Markets* (for trial implementation), which are intended to address a series of critical issues relating to program trading in China's securities markets.

— Pursuing higher-standard opening up

China also vows to expand its high-level opening up of the financial sector, enhance the facilitation of cross-border investment and financing, and attract more foreign financial institutions and long-term capital.

It is noteworthy that the General Office of the State Council issued on February 28, 2024, the Action Plan to Solidly Promote High-Level Opening Up and Make Greater Efforts to Attract and Utilise Foreign Investment, which outlines various measures to attract foreign investment[21]. According to the Action Plan, China will refine the negative list for foreign investment and carry out pilot programs to ease access to foreign investment in scientific and technological innovation. Among others, the policies to promote the development of the financial sector and capital markets include allowing wider participation by foreign financial institutions in banking and insurance, expanding the business scope of foreign financial institutions participating in the domestic bond market, and deepening the Qualified Domestic Limited Partnership (QDLP) pilot scheme.

The Action Plan also emphasises the improvement of cross-border data transfer rules, which echoes the *Provisions on Promoting and Regulating Cross-Border Data Flows* (released on March 22, 2024). These provisions are not just aimed at promoting the orderly and free flow of data but also at reducing compliance burdens to facilitate high-level opening up and cross-border investment.

21 Gov.cn (https://english.www.gov.cn/policies/latestreleases/202403/19/content_WS65f954f4c6d0868f4e8e539a.html)

1.3 Trading Environment

1.3.1 Stock Exchanges

There are three stock exchanges in China, namely the Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE) and Beijing Stock Exchange (BSE). These three exchanges are not linked, and the securities listed on each exchange are mutually exclusive. An electronic system matches all orders automatically.

	Shanghai Stock Exchange (SSE)	Shenzhen Stock Exchange (SZSE)	Beijing Stock Exchange (BSE)
Website	http://english.sse.com.cn/	http://www.szse.cn/English/index.html	https://www.bse.cn/index.html
Key Instruments[22]	A-share, B-share, government bonds, financial bonds, corporate/ enterprise, and convertible bonds, repurchase, Asset-Backed Security (ABS), close-ended funds, Exchange-Traded Funds (ETF), REITS, equity options	A-share, B-share, government bonds, corporate/ enterprise, and convertible bonds, repurchase, ABS, closed-end Funds, ETFs, Listed Open-end Funds (LOFs), REITS, equity options	A-share, government bonds, corporate and convertible bonds
Segments	Main Board, STAR Market	Main Board, ChiNext Board	NA
Key Indexes	SSE Composite Index, SSE 50 Index, STAR 50 Index, SSE180 Index, SSE 380 Index, SSE 100 Index, SSE 150 Index	SZSE Composite Index, Shenzhen TRI, SZSE 100 Price Index, SME 100 Index, ChiNext Index, SZSE 300 Index, SME 300 Index, etc.	BSE 50 Index

Trading Hours
Markets are closed on weekends and public holidays.

Trading Days	Opening Call Auction (GMT+8)	Continuous Auction (GMT+8)	Closing Call Auction (GMT+8)
Monday to Friday	09:15 – 09:25 hours	Morning Session 09:30 – 11:30 hours Afternoon Session 13:00– 14:57 hours	14:57– 15:00 hours

For further information, please refer to **http://english.sse.com.cn/, http://www.szse.cn/English/index.html, https://www.bse.cn/index.html**

1.3.2 China Interbank Bond Market

The China Foreign Exchange Trade System (CFETS), also known as the National Interbank Funding Center, established in 1994, is a sub-institution affiliated to the PBOC.

China Foreign Exchange Trade System (CFETS)	
Website	https://www.chinamoney.com.cn/english/
Segments	Interbank FX market, Interbank RMB Market (Money Market, Bond Market, Derivatives Market)

22 All the securities in China market are scripless.

Services Offering	Providing trading, information, benchmark, and training facilities to the interbank lending, bond and FX markets Monitoring market transactions Providing services for the operation and transmission of the central bank's monetary policies Engaging in other businesses authorised by the PBOC
Market Benchmarks	RMB Central Parity Rate, CFETS RMB Indices, Shanghai Interbank Offered Rate (Shibor), Depository Institutions Repo Rate (DR), Loan Prime Rate (LPR), RMB Reference Rates, etc.

Trading Hours

Trading Days	Trading Hours (GMT+8)
Monday to Friday and swap working day (including Saturdays and Sundays) as announced by relevant mainland authorities and/ or depositaries	T+0: 09:00 – 12:00 hours 13:30– 16:50 hours T+1 (and others as applicable): 09:00– 12:00 hours 13:30– 20:00 hours

For further information, please refer to https://www.chinamoney.com.cn/english/

1.3.3 Futures Market

	Shanghai Futures Exchange (SHFE)	Dalian Commodity Exchange (DCE)	Zhengzhou Commodity Exchange (ZCE)	Shanghai International Energy Exchange (INE)	China Financial Futures Exchange (CFFEX)
Website	https://tsite.shfe.com.cn/eng/	http://www.dce.com.cn/DCE/	http://english.czce.com.cn/	https://www.ine.cn/eng/	http://www.cffex.com.cn/en_new/index.html
Key Future Contracts	Gold, Silver, Copper, Aluminium, Zinc, Steel Rebar, Hot Rolled Coils	No. 1 Soybean, No. 2 Soybean, Soybean Meal, Soybean Oil, RBD Palm Olein, Iron Ore, Linear Low-Density Polyethylene (LLDPE)	Purified Terephthalic Acid (PTA), Methanol, White Sugar, Rapeseed Oil, Polyester Staple Fiber	Crude Oil, TSR20, Low Sulphur Fuel Oil, Bonded Copper,	CSI 300 Index Futures, CSI 500 Index Futures, CSI 1000 Index Futures, SSE 50 Index Futures

Note: Above are the 27 Futures' contracts available to QFIs, and those with corresponding options are highlighted in blue (19 Options). For full list of the available products, please refer to the official website of respective futures exchange.

Trading Hours

	Trading Days	Opening Call Auction (GMT+8)	Continuous Auction (GMT+8)
SHFE DCE ZCE INE	Monday to Friday	08:55 – 08:59 hours	09:00 – 10:15 hours 10:30 – 11:30 hours 13:30 – 15:00 hours
CFFEX		09:25 – 09:29 hours	Stock Index Futures and Options: 09:30 – 11:30 hours 13:00 – 15:00 hours

For night session and further information, please refer to the official website of respective futures exchange.

1.4 Central Depositories and Safekeeping

The use of China Securities Depository and Clearing Corporation Limited (CSDCC) (for the exchange market) and China Central Depository & Clearing Co., Ltd. (CCDC)/ Shanghai Clearing House (SCH) (for CIBM market) for settlement and clearing is mandatory.

	Exchange Market	China Interbank Bond Market (CIBM)	
Central Depositories	China Securities Depository & Clearing Corporation Limited (CSDCC)	China Central Depository & Clearing Co., Ltd. (CCDC)	Shanghai Clearing House (SCH)
Website	http://www.chinaclear.cn/english/index.shtml	https://www.ccdc.com.cn/ccdc_en/	https://www.shclearing.com.cn/en/?xyz=0.7933142512404088
Eligible Securities	A-share, B-share, Government Bonds, Corporate Bonds, Enterprise Bonds, Convertible Bonds, Securities Investment Funds, etc.	Government Bonds, Corporate Bonds, Asset-backed Securities, other Financial Bonds, etc.	Short-term Financing, Medium-term Bills, Private Placement Notes (PPN), Credit Bonds, etc.
Delivery vs Payment	No Securities are settled on the T-day while cash is settled on T+1	Yes Fixed income instruments traded in CIBM are settled on a DvP basis with primary settlement cycle being T+0, T+1 T+2 and T+3 (T+2 or T+3 can apply as long as one of the trade counterparts is foreign institutional investor) Flexible settlement cycle (T+N, N ≤ 10) on cash bond is made available for foreign investors to cater for overseas holiday arrangement Rolling settlement (within three business days of the original SD) is permitted if CIBM cash bond trade if failed due to insufficient bond/ fund when at least one of the trade counterparts is foreign institutional investor	
Net Settlement	Most securities are under guaranteed net settlement mode	Gross settlement (trade by trade)	

Dematerialised	Yes	
Pre-matching/ Matching	No official pre-matching mechanism in the market	
Fails and Buy-in	Failed trades are not allowed, except for instruments under non-guaranteed settlement mode. Upon trade execution, the settlement becomes mandatory. In case of an erroneous trade, the clearing participant (e.g. custodian) must first settle the trade with CSDCC and then seek an adjustment through a non-trade transfer on an ex post facto basis. Sell-out/ buy-in rules do not exist for the A-share market.	Failed trades are allowed in CIBM. Trades are considered failed if not affirmed in CCDC/SCH system by either the buyer's or seller's settlement agent before 17:00 hours, China time or being affirmed in CCDC/ SCH system but does not settle on SD. Even though failed trades are allowed, failed trade filing shall be made with CFETS/ CCDC/ SCH accordingly Buy-in is not applicable in CIBM
Turnaround Trade	Same day turnaround is not permitted, except for certain instructions e.g. warrants, cross-border listed open-ended funds, bond/ gold/ money market/ commodity/ cross-border ETFs	Same day turnaround is subject to support of the custodian

1.5 Key Restrictions to Note for Securities Trading

Securities trading in mainland China is subject to certain requirements such as disclosure of interest, a rule on short-swing profits, and foreign ownership limits. Additionally, the focus is on preventing market manipulation, insider trading, and abnormal trading activities to ensure ongoing compliance and market integrity.

i Disclosure of interest requirement

An investor who acquires 5% or more voting equity interest in a PRC listed company must disclose this information within three business days to CSRC and relevant stock exchanges via a notice to the listed company. Attribution of ownership applies to both domestically and overseas-issued shares of the same PRC listed company, whether the relevant holdings are through the Stock Connect, QFI regime, or other investment channels. The acquiring investor must not buy or sell any shares in the listed company within the above reporting period. Each subsequent increase or decrease of 5% in voting equity interest in the listed company through securities traded on the relevant mainland stock exchange triggers this disclosure obligation, and the investor may not buy or sell any such shares during the reporting period and within three days after the report and announcements are made. After the investor's holding reaches 5%, each subsequent increase or decrease by 1% of voting equity interest in the listed company held by such investor must be reported to the listed company on the next day of the occurrence for a public announcement.

An investor will need to aggregate the shares held by any 'persons acting in concert' with such investor for the purpose of disclosures of interest (unless there exists evidence to the contrary to rebut the concerted parties presumption).

ii Short Swing Profit Rule (SSPR)

An SSPR applies to 5% or more shareholders of a PRC listed company, including those acting in concert. SSPR requires the disgorgement of profits from the acquisition and sale of shares in the investee company if both transactions occur within a six-month period.

iii Foreign ownership limit

Any single foreign investor can only hold up to 10% shares in a Chinese-listed company. In aggregate all foreign investors can hold only up to 30% shares of a Chinese listed company. These foreign ownership limits are applied on an aggregate basis, although shares held by regulator-approved strategic investors are not subject to these limits.

iv Other restrictions on trading activities

- No market manipulation - as a general principle, any activity that has or intends to have an impact on the trading price or volume of securities and disrupts market order via unfair means is prohibited as market manipulation
- No insider trading - as a general principle, an insider who has access to any 'inside information' on securities trading or any person who has unlawfully obtained any inside information shall refrain from, before such information becomes public, dealing in the relevant securities, divulging such information, or advising any other person to trade such securities
- Abnormal trading activities - besides the activities that would be captured by market manipulation or insider trading, as a 'catch-all' approach, other abnormal trading activities that may affect the securities trading price or volume will be subject to close monitoring and potentially intervention from the stock exchange and may cause inquiries from the stock exchange and requests for explanation

1.6 Cash Management

1.6.1 Overall Features

Cash Management Highlights	
Currency/ Convertibility	Investments are denominated in Renminbi Yuan (RMB)/ Not fully convertible Foreign investors may choose currencies and the timing of fund injection at their own discretion
Local Payment Systems	CNAPS, CIPS
Overdraft Facilities	Not permitted
Credit Interest	Yes. Credit interest is paid into investor's account on 21st of the third month of each quarter
Debit Interest	Not permitted
Types of FX Contracts	Spot (T+0/1/2), FX derivatives for hedging purpose (Forward, Swap and Option, etc.) FX spot and FX hedging can be made with onshore custodian banks and/ or other qualified domestic financial institutions (i.e. third-party FX is permitted)

1.6.2 Payment Systems

China's national payment system has progressed remarkably over decades. The payment systems in China can be broken down into two main variants: the Cross-border Interbank Payment System (CIPS), designed by PBOC to process cross-border RMB transactions nationwide, and the China National Advanced Payment System (CNAPS), applied to process domestic payments.

China National Advanced Payment System (CNAPS):

Through the implementation of CNAPS, the PBOC aims to make domestic payments in RMB more efficient between banks and facilitate international banking exchanges. The CNAPS is divided into two subsystems: High-Value Payment System (HVPS) and Bulk Electronic Payment System (BEPS).

- HVPS is an RTGS system that performs real-time processing of inter-city and local credit transfers above a given value as well as urgent low-value transfers electronically on a gross amount basis. It consists of a vast network of connected banks in over 800 cities in China
- BEPS is a low-value clearing system, which deals with local and non-local paper-based debit payments as well as low-value credit transfers below a given value. Payment instructions are sent in bulk and cleared on a netting basis

Cross-border Interbank Payment System (CIPS):

With the growing demand for RMB for cross-border transactions and the expanding scale of RMB cross-border business, it is imperative to put in place a RMB cross-border payment and clearing system. Therefore, CIPS was launched in 2015 as a financial telecommunications and payment system to facilitate the clearing and settlement of cross-border transactions in RMB. In 2016, SWIFT and CIPS entered in a strategic collaboration, allowing CIPS to expand its global reach and enhance China's growing financial power through SWIFT's extended network. CIPS operates 24 hours x 5 (business days) + 4 hours (over weekends) to accommodate global business hours. As of May 2024, CIPS has over 1,530 direct and indirect participants, including banks and financial institutions in major cities and regions around the world.[23]

23 CIPS (https://www.cips.com.cn/en/2024-06/27/article_2024062719530595091.html)

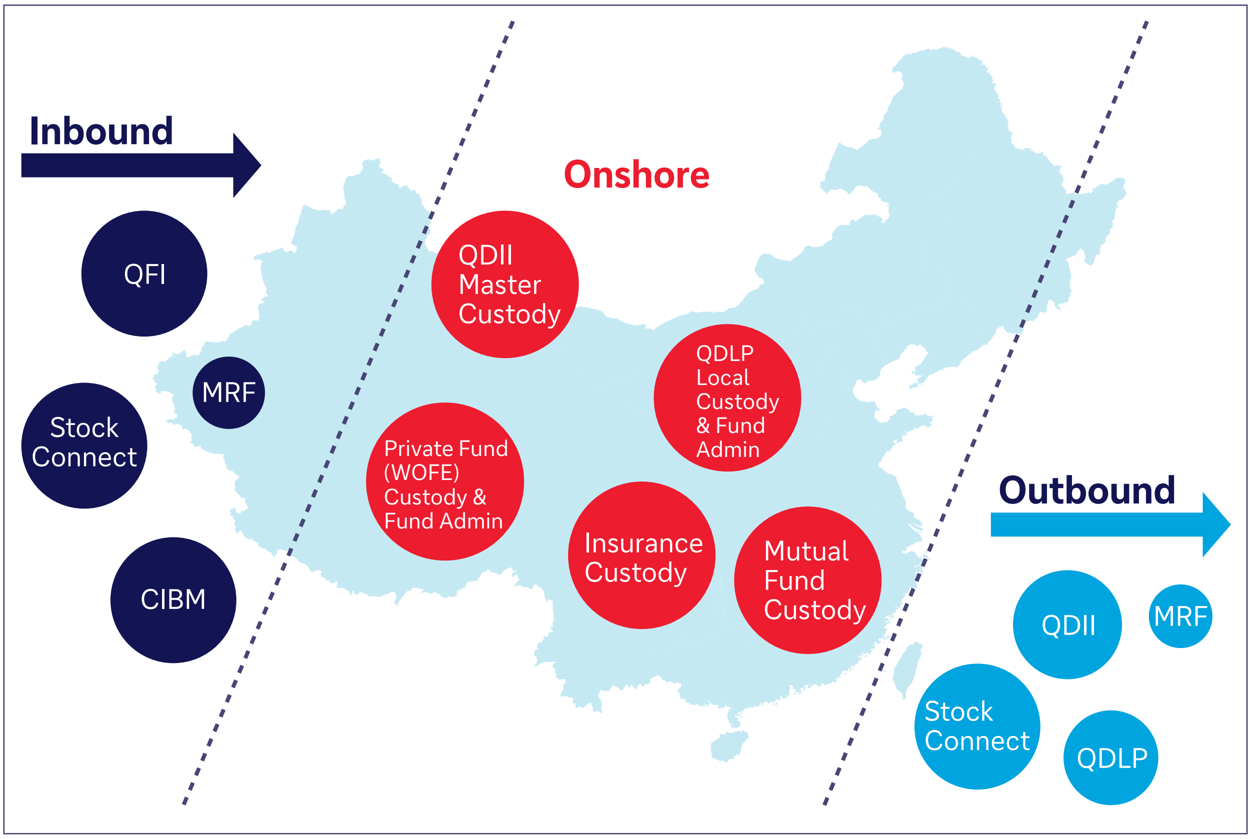
2 Foreign Investment Avenues

In recent years, China's financial derivatives market has experienced rapid growth, expanding to include a wide range of products such as commodity futures, financial futures, and stock options. As China continues to integrate more deeply into the global economy and assume a more significant role, international investors are increasingly focused on the Chinese financial market, which is progressively becoming more accessible to global participants.

To further boost foreign participation, the Chinese government has announced a series of measures at the central and local levels to expand access to international investors, in bid to facilitate foreign investment in relevant industries such as asset and wealth management.

The main investment channels for foreign participation in Chinese financial markets for your reference:

2.1 Options to Access to Chinese Securities Markets



2.1.1 QFI Regime

The Qualified Foreign Institutional Investor (QFII) scheme was introduced in 2002, which was followed by the 2011 launch of its sibling scheme, the RMB Qualified Foreign Institutional Investor (RQFII). Both QFII and RQFII schemes enable qualified foreign investors to access Chinese onshore securities markets within a quota granted by SAFE. With PRC regulators' efforts over the years and with the intent to reinvigorate interest in the R/QFII scheme, the QFII and RQFII schemes went through several substantial developments and liberalisation in 2020 and were officially merged into the Qualified Foreign Investor (QFI) regime as of November 1, 2020.

Since 2020, the QFI quota restrictions have been abolished and QFIs may now freely choose the amount, timing, and currency of investment capital to be remitted into China. The process for repatriation has also been simplified to remove the need for a special audit report for routine repatriations. The QFI scheme, upon its merger, lowered the bar for investor eligibility by removing the track record and AUM requirements. Most notably, the investment scope has been expanded to include, among others, private investment funds, commodity futures, financial futures, options, margin trading and securities lending, while some specific products under these newly available categories still await regulatory approval or market testing in practice.

2.1.2 Stock Connect

In addition to the QFI regime, Stock Connect was launched between Hong Kong SAR and Shanghai in 2014 and between Hong Kong SAR and Shenzhen in 2016. The Northbound Stock Connect enables foreign investors to invest in shares listed in SSE and SZSE via the HKEX. Compared with the QFI scheme, which gives foreign investors a wider selection of investable shares (i.e., all listed shares in mainland China), foreign investors under the Stock Connect scheme may only invest in listed shares that are constituents of certain indices or that have H-share counterparts listed in Hong Kong SAR. However, many foreign investors prefer the Stock Connect because they are more used to the funding, clearing, and settlement processes in Hong Kong SAR, which is aligned with their global processes.

Following the reform of the IPO system in Hong Kong SAR and mainland China, the eligible stocks under the Stock Connect continue to expand. For example, in January 2021, SSE amended its rules to include shares listed on the Sci-Tech Innovation Board (STAR) for Northbound Stock Connect for institutional professional investors. In July 2022, the exchange-traded funds (ETFs) were officially included for northbound trading. And in April 2024, CSRC decided to further expand mutual access between the capital markets of mainland China and Hong Kong SAR by expanding the eligible product scope of stock ETFs under Stock Connect, and including REITs under the Stock Connect, etc.

2.1.3 Bond Market Specific Access Channels

China's bond market comprises two major markets – the China Interbank Bond Market (CIBM) and the Exchange-traded Bond Market – with the former representing about 85% of the total market share. The two markets have distinct characteristics and apply different sets of rules. As of today, in addition to the QFI scheme, China has launched two additional cross-border investment schemes particularly for overseas investors to participate in China's bond market, the Bond Connect scheme and the CIBM Direct scheme.

CIBM Direct

The CIBM Direct scheme refers to the China interbank bond market (direct investment mode), which is an innovative channel that facilitates overseas investors to directly complete quotations without involving settlement agents. Compared to the traditional CIBM transaction mode, where the quotation process must be initiated through a settlement agent. CIBM Direct has removed the steps of communicating with the domestic settlement agents, which is convenient and efficient.

Since September 1, 2020, overseas investors can directly send quotation requests to domestic market makers and achieve spot trading under CIBM Direct. They can also use convenient functions such as trading division and package trading. The CIBM Direct scheme allows overseas investors to invest in cash bonds in the CIBM and engage in bond lending, bond forwards, interest rate swaps and forward rate agreements for hedging purposes.

Bond Connect

The Bond Connect scheme, comprising northbound trading and southbound trading, is a co-operative scheme to connect the bond markets between mainland China and Hong Kong SAR by the China Foreign Exchange Trade System (CFETS), the China Central Depository & Clearing Co., Ltd (CCDC), the Shanghai Clearing House (SCH), together with HKEX and the Central Moneymarkets Unit (CMU). Overseas investors have been able to access fixed-income markets in mainland China under the northbound trading system since July 3, 2017. Different from mainland China's single-tier custody system and the look-through supervision of real-name account opening, the northbound trading system adopts the multi-tier custody arrangement, where CCDC and SCH may open the nominee accounts for CMU (on behalf of the overseas investors). In addition, overseas investors may provide quotes on the commonly used international trading platforms (such as Tradeweb, Bloomberg, and MarketAxess) and send such information to the PRC market makers via CFETS.

It is noteworthy that on January 20, 2022, the Interim Measures for Interconnection Services between the China Interbank Bond Market and the Exchange-Traded Bond Market were jointly issued by China's bond market infrastructures, i.e., SSE, SZSE, CFETS, the China Securities Depository Clearing Corporation (CSDCC) and SCH. All investors (including overseas investors) that are qualified to access either the CIBM or the exchange-traded bond market may trade bonds of the other market through the connecting link between the infrastructures of the two bond markets. China's bond market infrastructures are expected to issue detailed operating rules to launch a connected regime in due course after necessary system and technology tests.

2.1.4 Access to the Chinese Futures Market

On March 26, 2018, China launched RMB-denominated crude oil futures on the domestic futures exchange and for the first time designated it as a futures product available for trading by foreign investors, which was a milestone for the Chinese futures market. Following crude oil, China has been accelerating the opening of its commodity futures market. As of today, China has launched and designated 15 futures contracts and 9 options contracts[1] available for trading by foreign investors, whose general eligibility requirements are specified by domestic futures exchanges.

In addition to the above futures products in which foreign investors can directly invest, kindly note QFIs are allowed to trade onshore commodity futures, financial futures, as well as stock index futures for hedging purposes. The PRC's futures exchanges have issued detailed rules on the permissible investment products for QFIs.

2.1.5 Access to Chinese Foreign Exchange Derivatives Markets

With the opening-up of Chinese securities markets and the holding of RMB-denominated assets by foreign investors, China has noticed an increase in demand for foreign asset managers to hedge their foreign exchange risk exposures and has taken several measures to

1 Shanghai Futures Exchange: crude oil futures and options on the futures; TSR 20, LSFO, copper (BC), SCFIS(Europe) futures; Dalian Commodity Exchange: No. 1 soybean, No. 2 soybean, soybean meal, soybean oil, RBD palm olein futures and options on these futures; iron ore futures; Zhengzhou Commodity Exchange: rapeseed oil, rapeseed meal, peanut kernel futures and options on these futures; PTA futures.

better facilitate risk management.

- On February 14, 2020, Chinese financial regulators permitted the use of internationally prevalent ISDA master agreements to document onshore foreign exchange derivatives transactions as an alternative to the previously required master agreement prepared by the National Association of Financial Market Institutional Investors (NAFMII), which may be more familiar to foreign investors
- Separately, foreign investors, either under the QFI regime or CIBM Direct scheme, have been given a wider selection of their counterparties to conduct foreign exchange derivatives transactions since 2020, which were previously limited to their respective custodian/ settlement agent. Further, foreign investors under the CIBM Direct scheme have obtained access to the China interbank foreign exchange market through prime brokers since February 1, 2020
- In addition, the Swap Connect scheme was officially launched on May 15, 2023, which is a new mutual access scheme between Hong Kong SAR and China's interbank interest rate swap (IRS) markets through a connection between financial infrastructure institutions in both sides for trading, clearing and settlement. As foreign investors have increased their exposure to China's onshore bond market, their need for effective risk management tools has also risen. The introduction of Swap Connect provides a streamlined way for foreign investors to access the onshore interest rate swap (IRS) market, enhancing their ability to manage bond investments. Under this, foreign investors can execute IRS trades through a more familiar Hong Kong SAR market, as well as complete trades offshore simply using prevalent international trading platforms, such as the Tradeweb and Bloomberg

With the above measures, foreign asset managers have been given easier access to onshore foreign exchange hedging instruments and at more competitive prices.

2.1.6 Other Channels

i. Hong Kong Mutual Recognition of Funds (MRF)

The MRF scheme was jointly launched by CSRC and Hong Kong Securities and Futures Commission (SFC) in July 2015. Under the MRF scheme, eligible mainland China and Hong Kong SAR funds can be distributed in each other's market through a streamlined vetting process. The MRF framework is based on the principle that a fund authorised or registered with the relevant authority in one jurisdiction (the home jurisdiction) is considered to have met the substantive requirements of another jurisdiction (the host jurisdiction). As a result, the fund benefits from a streamlined authorisation process for public offering in the host jurisdiction

ii. Foreign Direct Investment (FDI)

FDI refers to the establishment of enterprises or projects by foreign investors through new establishment, merger and acquisition, etc., and obtaining ownership, control, business management rights and other rights and interests. Since January 1, 2020, the PRC Foreign Investment Law has become the uniform legislative basis for various foreign-invested enterprises, FDI or indirect foreign investment activities. According to the World Investment Report 2023, issued by the United Nations Conference on Trade and Development, the global flows of FDI fell by 12% to $1.3 trillion in 2022, while China, the second largest FDI destination in the world, saw a 5% increase to a record of $189 billion[2]

iii. Strategic investment

Foreign investors may also invest in PRC-listed companies through strategic investment in accordance with the Administrative Measures for Strategic Investment by Foreign investors in Listed Companies promulgated by the Ministry of Commerce in 2005 and revised in 2015. Unlike short-term financial investments such as QFI investment, the foreign strategic investment must be held for no less than three years. This requirement ensures the investment and financing parties maintain long-term cooperation to optimise the performance of Chinese enterprises and improve the long-term competitiveness of PRC-listed companies. In addition, there are recent reports stating that the measures may be

2 The report is available at (https://unctad.org/publication/world-investment-report-2023)

revised to further relax restrictions on foreign investors' strategic investment in listed companies

2.2 Setting up an Onshore Presence to Conduct Business Locally

In addition to cross-border investment, China has also put in place measures to attract foreign asset managers to set up onshore presences, conduct local-to-local asset management business, and bring in international talent and best practices.

2.2.1 Onshore Private Fund Managers

i. Wholly Foreign-owned Private Securities Investment Fund Managers (WFOE PFMs)

In 2016, foreign asset managers were allowed to set up Wholly Owned Onshore Subsidiaries (WFOEs) to register as private securities investment fund managers (WFOE PFMs), which may raise capital from domestic qualified investors and invest in domestic securities markets. As of April 2024, there have been more than 30 WFOE PFMs registered with AMAC.

It is noteworthy that since September 2020, QFIs are allowed to invest in private securities funds issued by WFOE PFMs registered with AMAC (but the investment of such funds shall fall within the QFI investment scope), which means QFIs may invest in private securities funds issued by their affiliated WFOE PFMs among others. Affiliated WFOE PFMs may leverage the assets invested by QFIs as seed capital to help kick off the fundraising activities at the initial business stage.

ii. Qualified Domestic Limited Partnership (QDLP)

As a local pilot scheme, QDLP was first introduced in Shanghai in 2011. Over the years, the scheme has been available in other areas such as Beijing, Shenzhen (referred to as Qualified Domestic Investment Enterprise/ QDIE[3]), Hainan and a few Tier-2 cities in China. This scheme is intended to permit foreign asset managers to set up onshore qualified investment managers (i.e., QDLP fund managers) to launch onshore QDLP funds and to raise capital from domestic qualified investors for investing in offshore markets. The QDLP scheme is subject to investment quotas granted by SAFE. According to AMAC rules, the QDLP fund managers that conduct private investment fund business in China should be registered with AMAC as private fund managers.

Notably, a recent practice trend is to have one WFOE obtain both QDLP and PFM licenses as appropriate.

2.2.2 Regulated Financial Institutions

On July 20, 2019, the Measures for Further Opening up the Financial Sector was issued to further open-up Chinese financial markets, which laid the foundation to further promote inbound investment by foreign asset managers. As various foreign ownership limits have been lifted mainly between 2019 and 2020, increasing number of foreign asset managers have established wholly foreign-owned regulated financial institutions or assumed majority ownership of joint ventures in China, for example:

— Fund Management Company (FMC): foreign ownership restrictions were withdrawn with effect from April 1, 2020, and Blackrock FMC is the first WFOE FMC approved by CSRC in August 2020. Currently, there are nine WFOE FMCs in the market

— Joint Venture Wealth Management Company (JV WMC): majority foreign ownership has

3 In December 2014, Shenzhen launched a similar QDIE scheme in Qianhai that allows foreign or domestic investment managers to set up QDIE funds and to raise domestic capital onshore to invest offshore. The QDIE scheme is generally similar to the QDLP scheme.

been permitted since July 20, 2019, and Amundi BOC Wealth Management Co. Ltd. is the first foreign-controlled JV WMC that has started the business in September 2020. Currently, there are five JV WMCs in the market

- Securities Company: foreign ownership restrictions were removed as of April 1, 2020, and J.P. Morgan Securities (China) Company Limited became the first WFOE securities company through the transfer of shares in 2021. Currently, there are three WFOE securities companies in the market, and the fourth one (BNP Paribas China Securities Company) was approved by CSRC in April 2024
- Futures Company: foreign ownership restrictions were removed as of January 1, 2020, and J.P. Morgan Futures Company Limited became the first WFOE futures company through a share transfer route in 2021. Currently, there are two WFOE futures companies in the market

2.2.3 Unregulated Entities

Other than the above-regulated entities, foreign investors may also consider establishing unregulated entities in China. Unregulated entities refer to those that are not regulated by any financial regulator in China but only subject to general foreign investment laws, regulations and certain administrative rules applicable to WFOEs on foreign exchange, tax, etc.

Unregulated entities include consulting WFOEs, service WFOEs, trading WFOEs, etc. Among them, consulting WFOEs are one of the basic types of foreign entities in China, referring to WFOEs whose main business activities are to provide consulting services. The common services provided by consulting WFOEs include commercial information consulting, technological information consulting, corporate management consulting, human resources consulting, marketing, and sales consulting, etc.

3 Key Investment Channels

3.1 Qualified Foreign Investor (QFI)

QFI represents Qualified Foreign Investors, a collective regime that includes Qualified Foreign Institutional Investor (QFII) and RMB Qualified Foreign Institutional Investor (RQFII) schemes which merged into QFI scheme in November 2020. The QFI scheme allows foreign investors to use offshore RMB or convert their foreign currency into onshore RMB through China Foreign Exchange Trade System (CFETS) designated banks, for investing in the mainland securities/ futures market.

Key Developments of QFI Scheme

Dec 2002
QFII interim measures published by CSRC and PBOC.

2010
CSRC announced rules on asset allocation which requires stock index futures for hedging purpose.

May 2011
QFII is allowed to invest in stock index futures for hedging purpose.

Dec 2011
RQFII scheme was introduced, HK being the test pilot region with RMB 20 billion quota.

Apr/ Jun 2012
In April, additional USD 50 billion QFII quota was approved, with total quota up to USD 80 billion

In July, CSRC lowed the eligibility criteria of QFII, expanded the investment scope and uplift QFII's shareholding limit from 20% to 30%.

Feb 2016
SAFE relaxed individual QFII investment quota and shortened principal lock-up period from 1yr to 3 months.

Sep 2016
CSRC removed asset allocation restrictions on QFIIs and RQFIIs.

Jun 2018
Removed 20% monthly repatriation cap under QFII.

Removed 3-month lock-up periods under both QFII and RQFII.

Allowed onshore FX hedging for QFIIs and RQFIIs.

May/ Sep 2020
CSRC/PBOC/SAFE:
- Removed quota restriction
- Merged QFII and RQFII scheme ("QFI")
- Expanded investment scope including commodity futures/ options and stock index options
- Removed quantitative qualification requirements and simplified application process
- Removed restriction on number of custodians/ brokers
- Further eased repatriation requirement

Oct/ Nov 2021
CSRC/PBOC/ SAFE joint announcement:

QFIs are eligible to trade commodity futures, commodity options and stock index options, effective November 1, 2021.

In Nov, commodity exchanges published related rulebook.

Sep 2022
DCE/ZCE/SHEF/ INE/CFFEX announced 41 futures and options contracts that are available to QFIs.

Jul 2024
PBOC/SAFE jointly released the revised *Provisions on Capital Administration of Foreign Institutional Investors for Domestic Securities and Futures Investment* to simplify administrative requirements, optimise the efficiency of cross-border capital flow, and better facilitate QFIs participation in Chinese capital market. The provisions have become effect from August 26, 2024.

3.1.1 Market Features and Entry Requirements

QFIs (Qualified Foreign Investors)	
Eligible investors	Foreign asset management institutions, commercial banks, insurance companies, securities companies, futures companies, trust companies, government investment management companies, sovereign funds, pension funds, charity funds, endowment funds, international organisations, etc. with sound financial conditions, good credit standing and not subject to major penalties in the latest three years, or since establishment
Investment scope	— All exchange-traded instruments, including stocks, depository receipts, bonds, bond repo, ABS, IPO, additional issuance, rights issues, etc. — National Equities Exchange and Quotations (NEEQ) - listed shares — Products and derivatives on bonds, interest rates and FX in CIBM — Mutual funds — Financial futures, commodity futures and options, stock index options — Options listed and traded on stock exchanges — FX derivatives for hedging purpose — Margin trading and securities financing, securities lending to securities finance company — Private investment funds
Depository	CSDCC, CCDC, SCH
Legal entitlement	— Segregated account structure — Beneficial ownership is recognised as belonging to the Investor ID/ Bond Account holder — The beneficial owner of client's assets is the client or the fund which shall be segregated from the assets of the QFI or custodian
Trading arrangement	— QFIs shall open Investor ID(s) at CSDCC and place trade orders via PRC brokers — No limitations on number of PRC brokers that the QFI can appoint — For CIBM investments, please refer to Section 3.2
Repatriation	— Nil lock-up requirements and quota restrictions — Daily repatriation
Market status	Total approved QFIs: 848 (as of August 2024)[1]

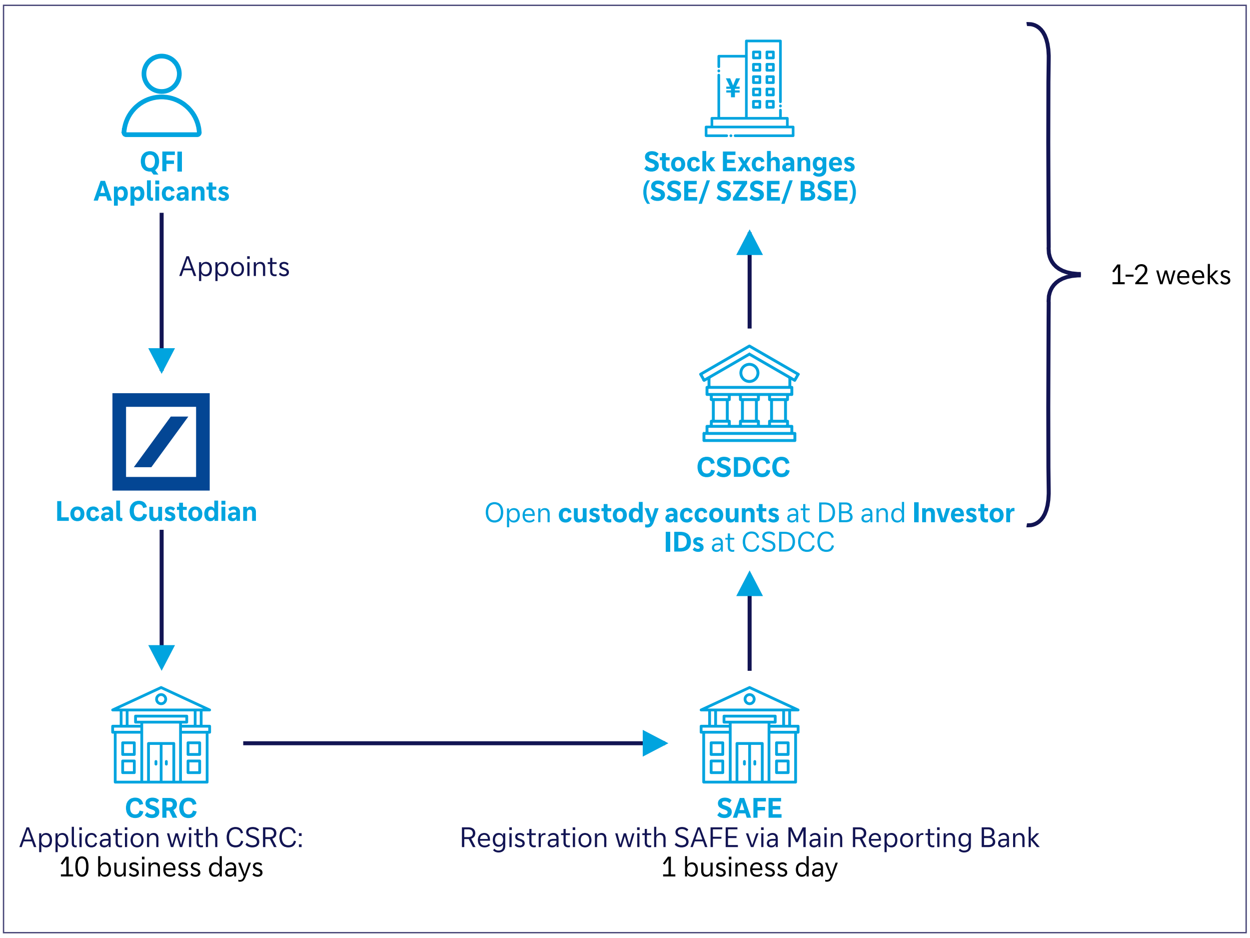
1 CSRC.gov (http://www.csrc.gov.cn/csrc/c101900/c1029652/content.shtml)

3.1.2 Application Process

QFI applicant shall submit its application to CSRC via an appointed local custodian[2] in China. CSRC shall, within 10 business days of accepting the application, examine and decide to approve or deny it. Upon receipt of the QFI license, the Main Reporting Bank shall assist the QFI to register with SAFE via online platform.

For the QFI's access to CIBM, a separate registration should be made with PBOC through the QFI custodian. For CIBM access, please refer to Section 3.2.

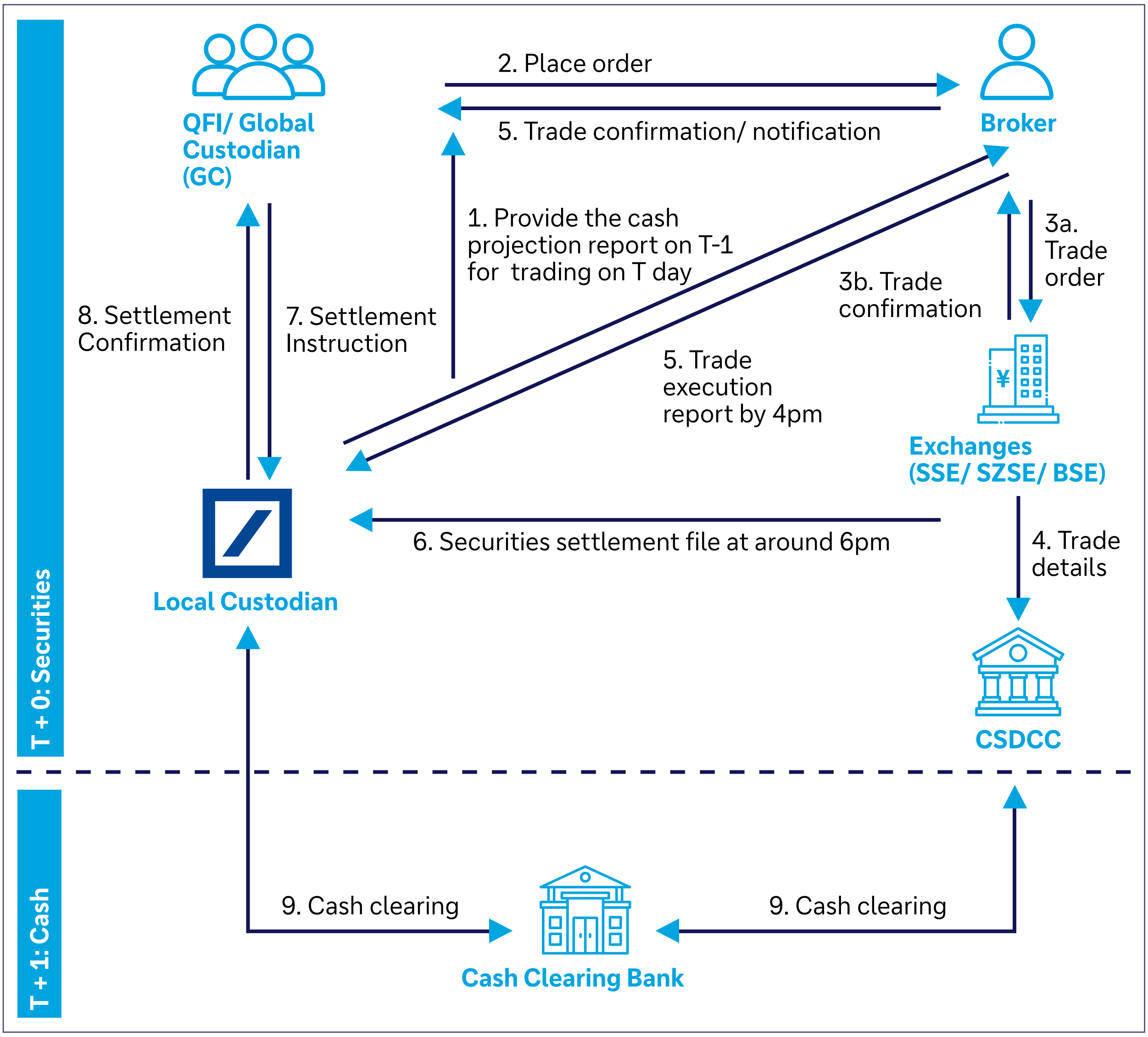
QFI application flowchart



2 In case of multiple QFI custodians, a Main Reporting Bank shall be designated.

3.1.3 Trading and Settlement Flow

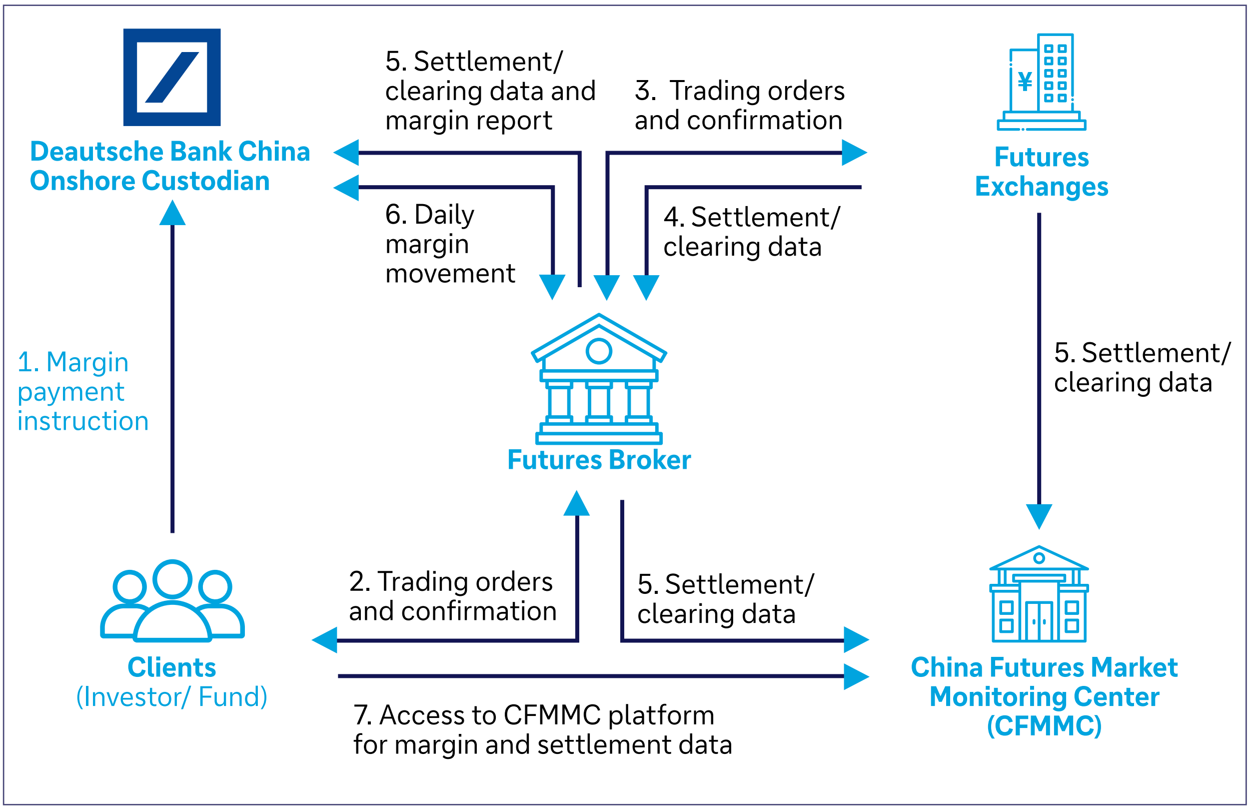
For China A-share Market



Note:

1. *Securities are settled on T-day, while cash is settled on T+1*
2. *No limit on the number of PRC Equity Brokers that QFIs can appoint*

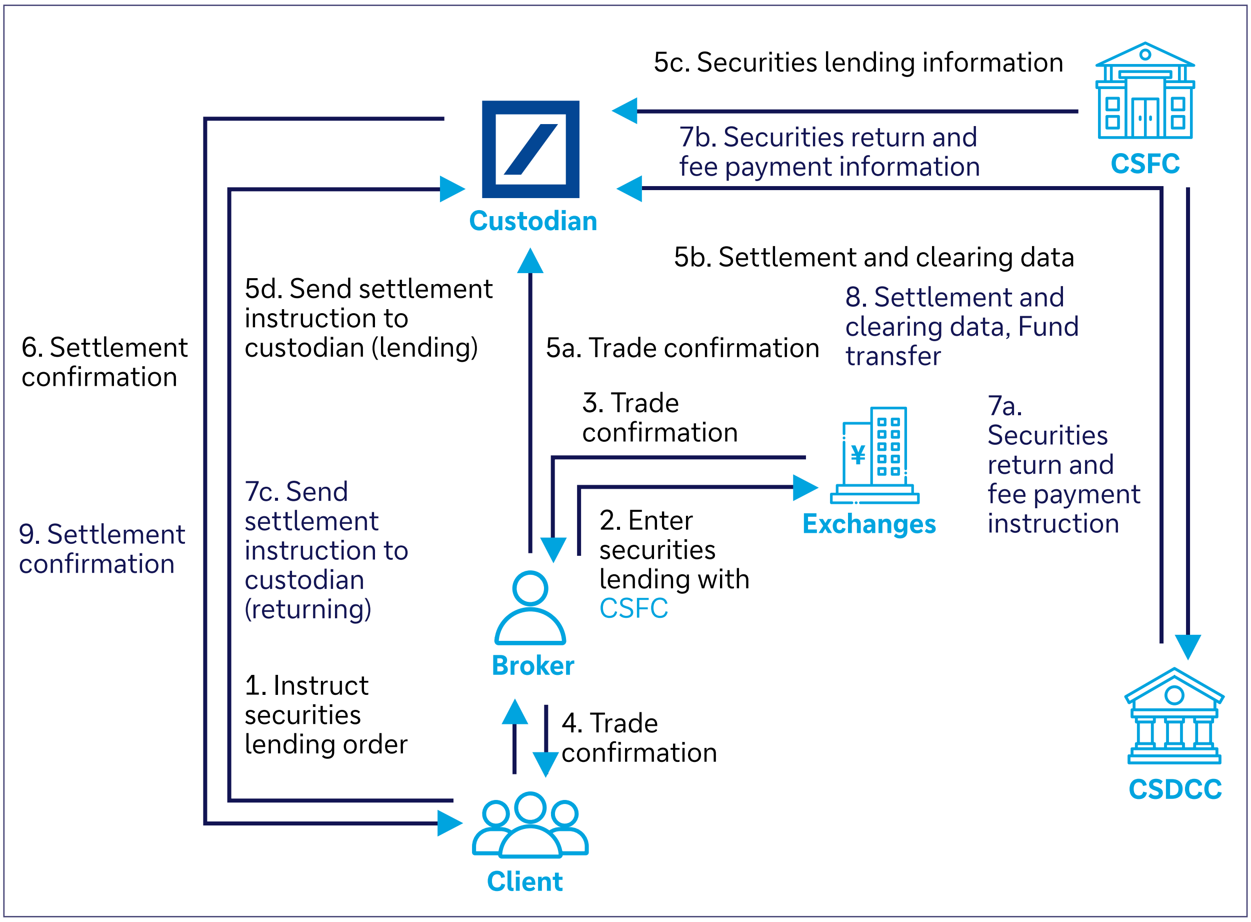
For Futures Market



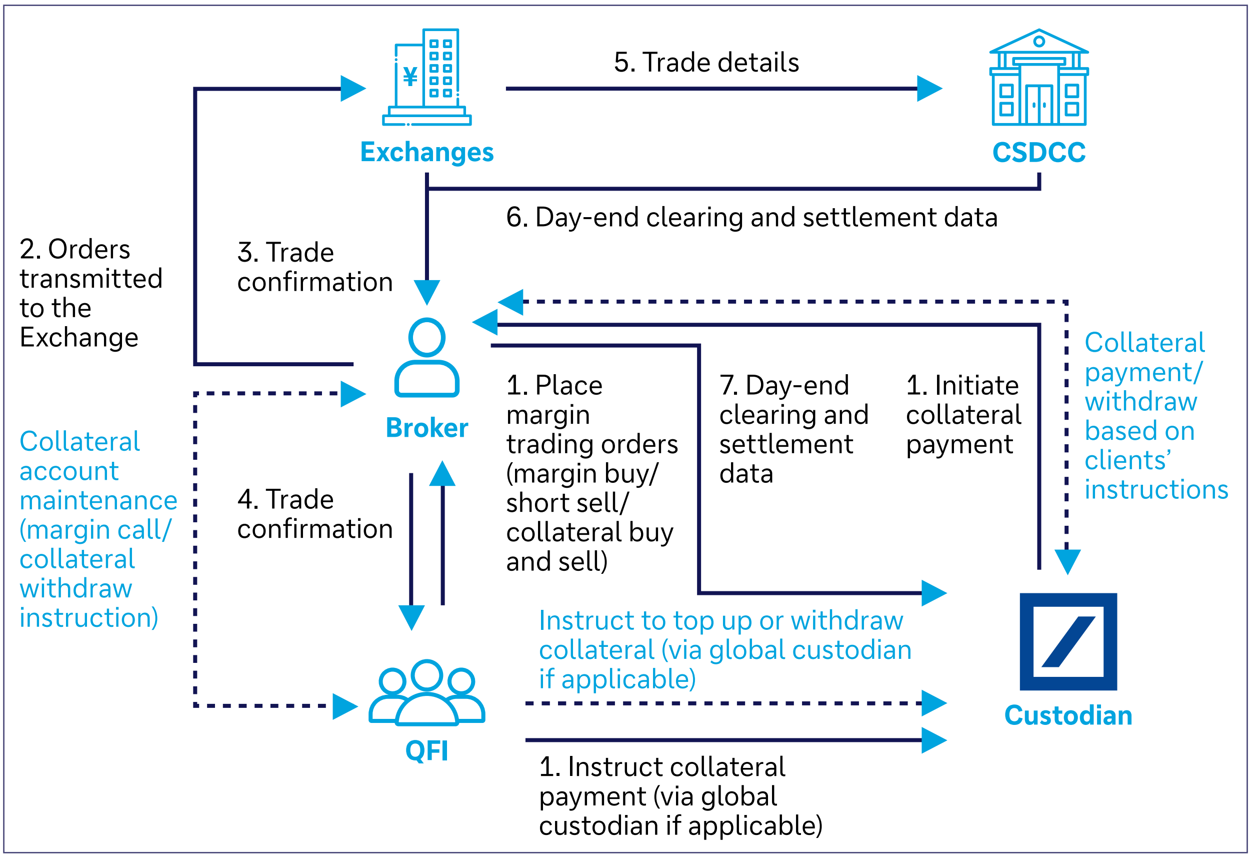
Note:

1. *QFIs should apply for separate trading codes from futures exchanges and hedging quota from CFFEX via appointed futures brokers*
2. *No limit on the number of PRC Futures Brokers that QFIs can appoint*

Securities Lending Flow



Margin Trading and Securities Borrowing Flow



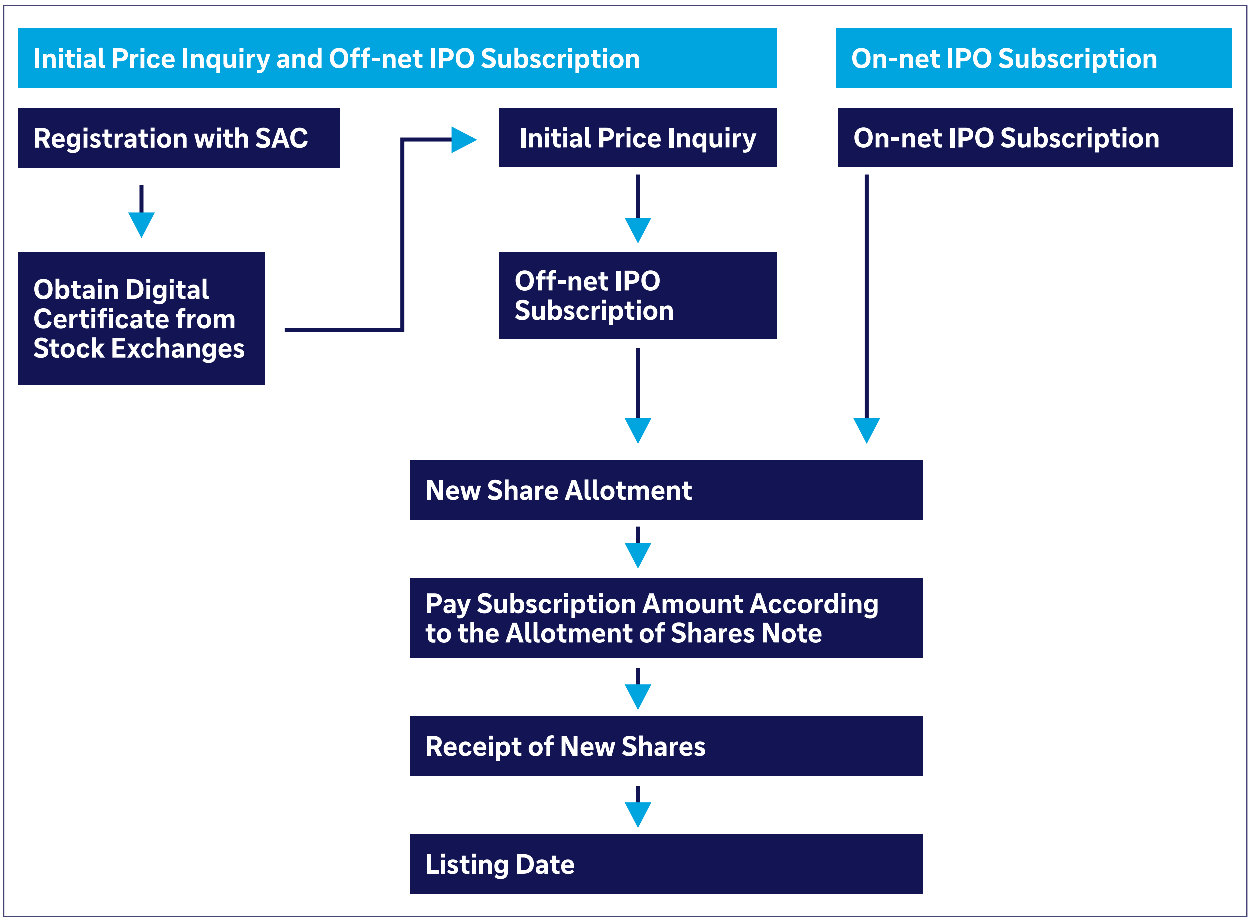
Note: Margin maintenance flow is highlighted in Blue

In the Chinese capital market, China Securities Finance Co., Ltd. (CSFC) serves as an important market infrastructure in margin trading and securities borrowing and lending (SBL). Under the current rules and regulations, CSFC serves as the central counterparty for lenders to lend their stocks. It also provides margin financing loan services to qualified securities companies, including both funds and securities. This will further enable brokers in the market to provide margin trading and securities borrowing services to end investors.

Currently, broker settlement mode is applied to margin trading and stock borrowing in China.

3.1.4 Initial Public Offering (IPO)

Overview



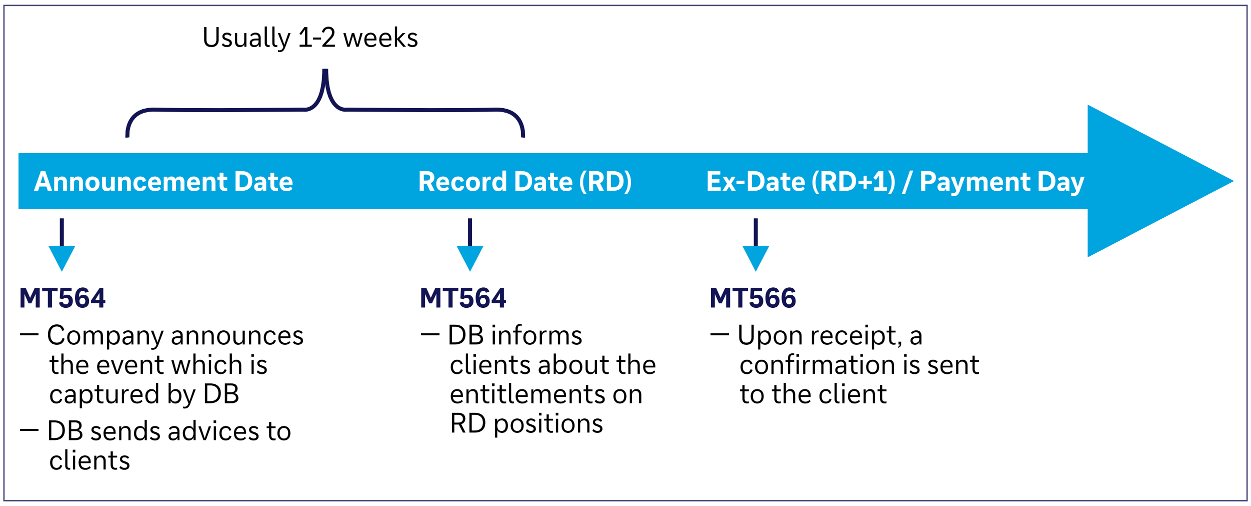
Note: Applicable to IPO in SSE and SZSE

- IPO in China A-share market can involve the following steps:
  i. Initial price inquiry process to determine the price range or issuance price (as applicable)
  ii. Off-net and on-net IPO subscription process
- Each QFI fund/ product can choose to participate in either off-net IPO or on-net IPO subscription

3.1.5 Corporate Actions

Corporate Action Highlights	
Peak season	April – October
Key events	Dividend, coupon interest, rights issue, bonus issue, mergers and acquisitions, tender offers
Entitlement date	Record date
Entitlement computation	Based on settled position as of record date
Corporate action claims	No standard procedure for market claims. Given A-share trades must be settled based on CSDCC records, market claim can arise in an event of error trade. In such cases, QFI Custodian would arrange to claim non-received corporate action benefits from the PRC broker(s) based on client's instructions

Life Cycle – Mandatory Corporate Action



Voluntary Corporate Events

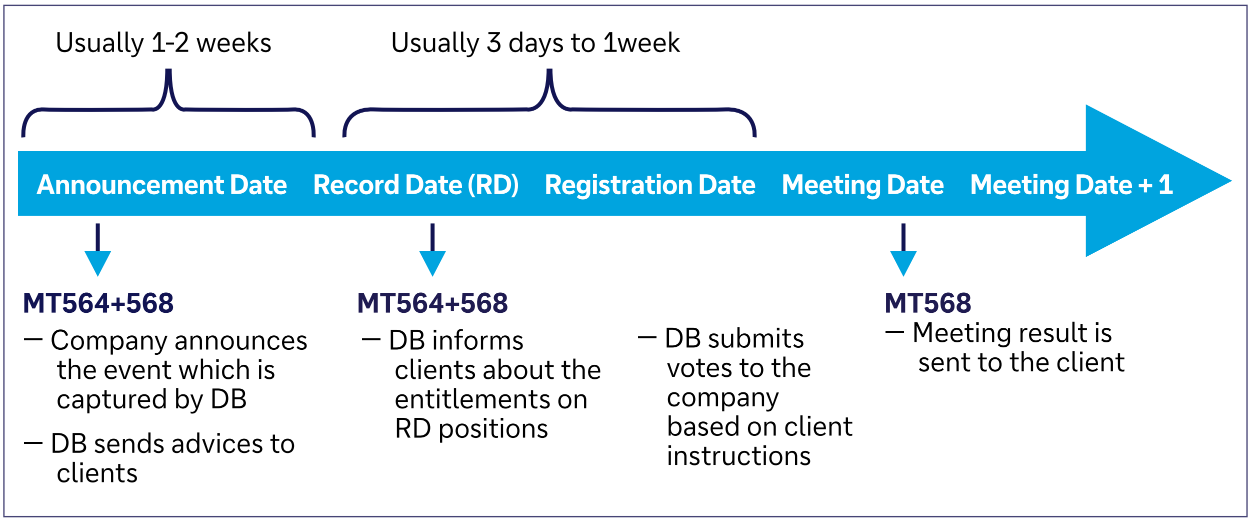
For voluntary corporate events, clients should place orders directly to their appointed PRC broker(s) and send the payment instructions to QFI Custodian. QFI Custodian sends a daily reminder to client starting from three days before deadline.

3.1.6 Proxy Voting

Proxy Voting Highlights	
Peak season - AGM	April and October
Notice period	No standard deadline, usually one month
Eligibility date	Record date
Eligibility computation	Based on settled position as of record date
Blocking of shares	Not required

Re-registration	Re-registration is not required. Registration occurs automatically upon settlement at CSDCC. However, listed companies need to announce a registration date that is between the record date and meeting date. Only those shareholders who have made the registration on or before the registration date are eligible to vote.
Voting method	Fax, in-person, online voting
Split voting	Split voting is subject to acceptance of the listed company
Partial voting	Partial voting is allowed

Life Cycle – Proxy Voting



Voting Channels

— Email/ Fax/ Mail voting via QFI custodian
— Online voting

i. Voting orders can be placed with PRC brokers to execute via stock exchange trading systems
ii. Online voting can also be conducted through the official designated websites:

Shanghai: http://vote.sseinfo.com

Shenzhen: http://wltp.cninfo.com.cn

Beijing: http://vote.chinaclear.cn/index.html#/list

3.1.7 Investor Protection

Guarantee Fund

Each clearing participant must contribute RMB 200,000 each to Shanghai, Shenzhen and Beijing, while the QFI's custodian bank has to contribute RMB 1.2 million in each market. As CSDCC acts as the central counterparty guaranteeing the settlement of market trades, these funds are used as a means of financial resources to enable CSDCC to discharge their obligations and liabilities on defaulting market participants.

Settlement Risk Fund

This fund is set-up for the purpose of covering or compensating CSDCC's loss as a result of settlement default, technical failure, operational errors, and force majeure events. Sources of funds are as follows:

— 20% of CSDCC's operating revenue and income

- Contribution from clearing participants based on daily transaction value (e.g. 0.003% for A-shares and funds)

On January 1, 2008, CSDCC announced that they had temporarily suspended collection of the settlement risk fund incurred (except for new clearing participants). The decision was made by CSDCC in accordance with the 'Administrative Measure of Securities Settlement Risk Fund' (the Measure), which specified that the collection of the settlement risk fund would be temporarily suspended if the size of risk fund has reached RMB 3 billion, or above, at the end of the financial year.

According to the Measure, the minimum pay-out is RMB 20 million. In order to use the fund, approval from CSRC and Ministry of Finance is required. Upon the fund's usage, CSDCC shall recover the fund from the defaulting party.

Clearing Reserve Fund

CSDCC requires each clearing participant to maintain a Minimum Reserve Fund (MRF) which will be used for daily settlement purposes in case of overdrafts. QFIs need to contribute a certain percentage of their net remit-in amount, which is currently set at 0.06% of the average accumulative net remit-in amount of previous month. If the accumulative net remit-in amount of a QFI is negative, the MRF shall not apply. The MRF in Shanghai, Shenzhen and Beijing market is calculated separately.

3.2 China Interbank Bond Market (CIBM Direct Scheme)

Key Developments of CIBM Direct Scheme

2010
PBOC rolled out Pilot Scheme to allow foreign CBs/ monetary authorities, RMB clearing banks, and RMB trade settlement banks to invest in CIBM (limited to cash bonds only)

2011
Debut of RQFII scheme and RQFII allowed to access CIBM (limited to cash bond only)

2012
CIBM opened to foreign insurance companies in HK/SG/TW

2013
QFIIs allowed to access CIBM (limited to cash bonds only)
Change of settlement mechanism to DvP in CIBM
All CIBM trades must be down via CFETS

2014
- Foreign investors allowed to do primary market subscription

2015
- Investors can trade with its parent company or other subsidiaries/ branches under the same parent company
- RMB clearing banks and trade settlement banks allowed to do (reverse) repo
- Market entry for foreign reserve managers changed to pre-filling approach, investment scope expanded

2016
- CIBM opened up to more types of foreign institutions
- PBOC rolled out 'Registration' approach to all types of foreign investors and removed quota limitation
- Foreign investors are allowed to remit in/ out RMB or foreign currency for CIBM investment
- Bond settlement agent may also provide custodian services in CIBM

2017
- SAFE allowed FX derivatives trading for CIBM Direct Scheme participants in Feb 2017
- Bond Connect debuted on July 3, 2017
- Publish bilingual version of operational procedures for foreign investors

2018
- PBOC simplified registration process for CIBM Direct applicants
- Rolled out tax exemption on coupon interest income for foreign investors investing in China Onshore Bond Market

2019
- Investors are able to trade CIBM bonds through a collaboration between Bloomberg and CFETS
- Investors can transfer funds and bond holdings between R/QFII and CIBM via non-trade transfer
- Allow third party FX hedging for CIBM investors
- Foreign investors can conduct rolling settlement within three working days if cash bond trade fails due to insufficient fund/ bond. Flexible settlement cycle cash bond is available
- Further expansion of investment scope for QFI/ CIBM/ Bond Connect participants

2020
- Qualified investors in CIBM and Exchange Bond Market will be able to access each other's market via the infrastructure connect program

2022
- PBOC, SAFE and CSRC jointly issued announcement to further expand investment scope, simplified investment procedures, set up settlement agency model and custodian bank model and clarify fund management requirement
- PBOC and SAFE Jointly released provisions on Capital Administration to relax capital management requirements on repatriation, remove the limit of number of FX counterparties of foreign investors, etc.

2023
- SCH launched relevant account services such as custodians and settlement agencies to benefit CIBM investors
- CCDC issued detailed rules on online non-trade transfer application services for CIBM investors
- CFETS optimise trading service such as direct trading services

2024
- **Upcoming (2024 and onwards)**
- PBOC and SAFE jointly released the consultation paper of *Announcement on Further Supporting Foreign Institutional Investors Engaging in Bond Repurchase Business on the Interbank Bond Market* to further facilitate the liquidity management of foreign institutional investors in China's interbank bond market. Official rules will be released soon.

3.2.1 Market Features and Entry Requirements

China Inter Bank Bond Market (CIBM Direct Scheme)	
Eligible investors	— Foreign central banks/ monetary authorities/ sovereign funds/ supranational FIs (Foreign Reserve Managers, or FRMs) — Offshore FIs (including commercial banks, insurance companies, securities firms, fund management companies, other asset management companies) and products issued by those FIs — Other medium-long term investors recognised by PBOC (including pension fund, charity fund, and endowment fund)
Investment scope	— All CIBM cash bonds — Primary market subscription — Bond borrowing and lending, bond forwards, IRS, FRA, etc. — Bond Repo[3] — Onshore RMB hedging: FX forwards, FX swaps, cross-currency swaps and FX options
Central depository	CCDC, SCH
Legal entitlement	— Segregated account structure — Beneficial ownership is recognised as belonging to the bond account holder — Multi-layered custodian relationship is established, with details to be confirmed
Trading arrangement	— Investors can select trading counterparties (around 20,000) at their own discretion — Trades can be input in CFETS through the bond settlement agent (BSA) — RFQ is supported by eligible offshore trading platform (Bloomberg, Tradeweb, MarketAxess) with 107 onshore market makers (as of August 2024)
Repatriation	— No lock-up requirements and quota restrictions — Daily repatriation
Market Status	88 FRMs and 493 commercial institutions have gained access to CIBM (as of August 2024[4])

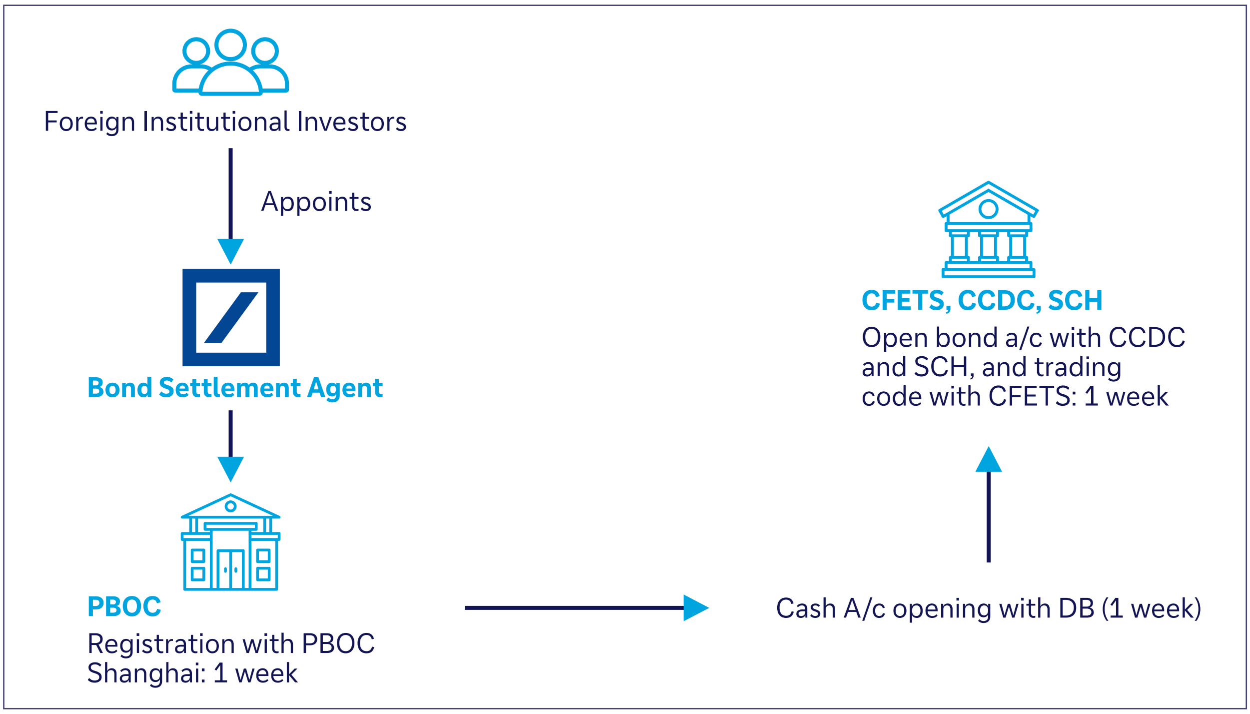
3 These are currently available to offshore RMB clearing/ trade settlement banks and will be open to all CIBM investors according to PBOC consultation (http://www.pbc.gov.cn/tiaofasi/144941/144979/3941920/5217355/index.html)

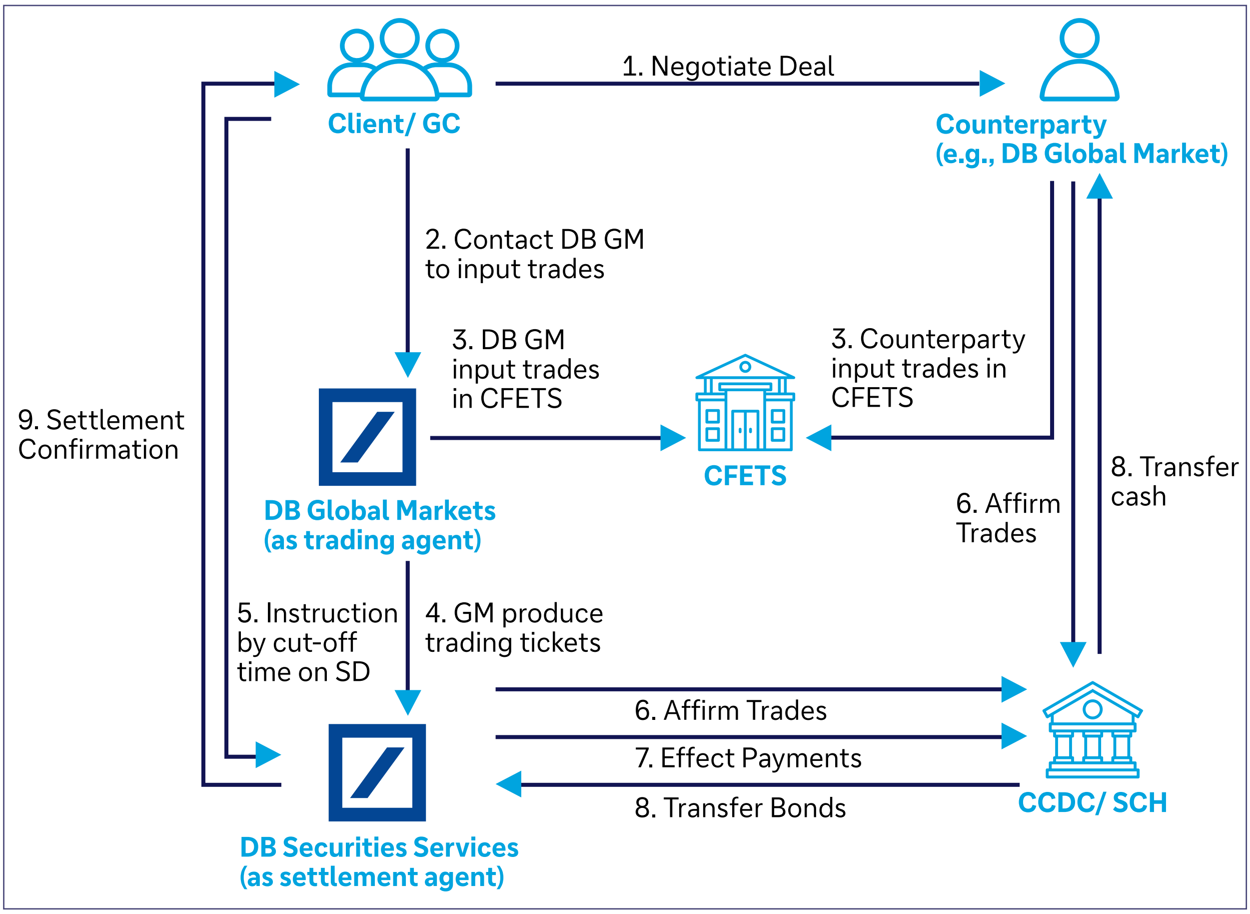
4 PBC.gov: (http: //shanghai.pbc.gov.cn/fzhshanghai/113595/index.html)

3.2.2 Application Process

CIBM Direct Scheme

CIBM investor needs to register with PBOC, at entity level, through BSA. Upon PBOC's approval, the BSA assists the CIBM investor with segregated account opening.





3.2.3 Trading and Settlement Flow

Trade Date: Steps 1 - 4
Settlement Date[5]: Steps 5 - 9

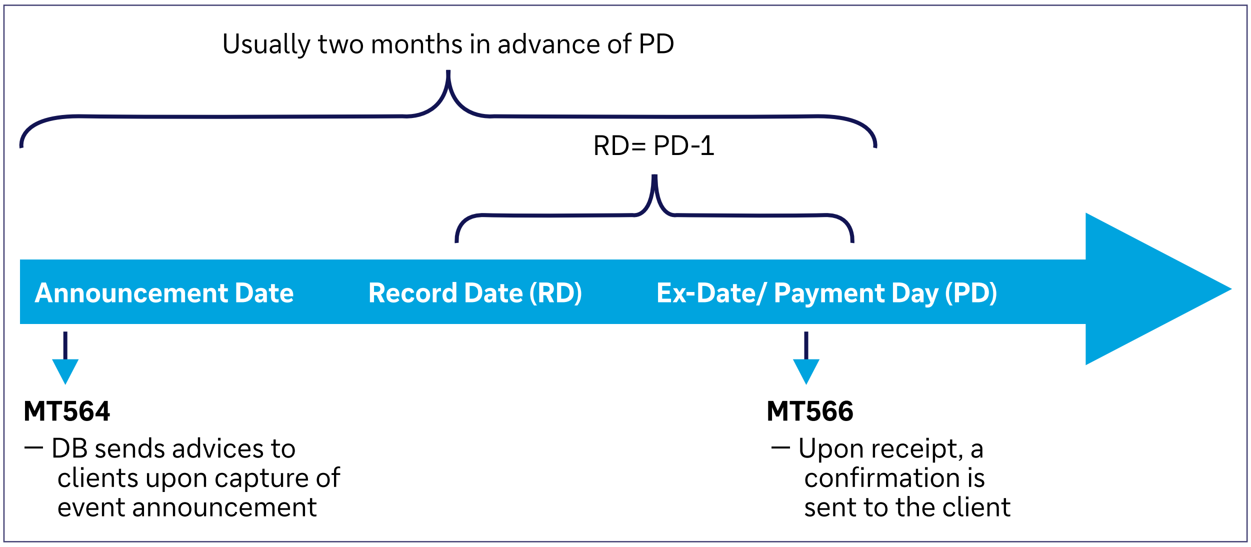
3.2.4 Corporate Actions

Types of Key Corporate Actions

Below are the key corporate events in China inter-bank bond market:

Type of Event	Coupon Interest Payment	Principal Redemption
Frequency	Coupon interest is paid on an annual or semi-annual basis	
Entitlement	Entitlement is calculated based on settled position as of record date	
Record date	Back-traced as Payment Date -1	

Life Cycle – Coupon Interest Payment/ Principal Redemption



3.2.5 Proxy Voting

Proxy voting occurs rarely in CIBM and currently there are no standard processes for the same.

Voting entitlement is calculated based on the settled position as of the RD. Upon receipt of client's instruction, BSA will prepare and submit the voting request on behalf of the client. Should the client wish to attend the meeting in person, DB will contact the issuer for detailed requirements.

DB will notify client of the meeting announcement via MT564/ MT568 and meeting results via MT568 within 24 hours of issuer's public announcement.

3.2.6 Investor Protection

There is no particular mechanism/ guarantee fund in place for the CIBM's investor protection.

According to the *"Administration Measures on the Registration, Custody and Settlement of Bonds in the Interbank Bond Market"*[6];

— In case of bankruptcy of the depository, bonds and other assets of bondholders under the custody of depository are protected against depository liquidation

5 Settlement is on a trade-by-trade basis – DvP (on T+0, T+1, T+2, T+3 or T+N). We pay purchase amount to CCDC/ SCH at client level by batch.
6 Gov.cn (http://www.gohttps/www.gov.cn/flfg/2009-03/30/content_1271956.htmv.cn)

— In event of negligence of duty by the depository, which causes data errors and incur loss for the bondholders, the depository shall be held liable for relevant legal responsibility

3.3 Northbound Stock Connect

Since the launch of China-Hong Kong Stock Connect, the initiative has provided Hong Kong SAR and foreign investors the ability to trade shares listed on the Shanghai Stock Exchange and Shenzhen Stock Exchanges (Northbound flows) and Mainland Chinese investors to trade shares listed on the Stock Exchange of Hong Kong SAR (Southbound flows).

Key Developments of Stock Connect

2014

April
SFC and CSRC announce SH-HK Stock Connect Scheme

November
- MOF, CSRC and SAT announced CGT exemption for A-shares
- SH-HK Stock Connect launch

December
Luxembourg UCITS permit trade in China A-Shares via Stock Connect

2015

March
Enhanced SPSA Model launch

May
CSRC release beneficial ownership FAQ

July
Irish UCITS permit China Stock Connect Investments

2016

April
T+0 Settlement launch

August
SFC and CSRC announce SZ-HK Stock Connect Scheme

December
SZ-HK Stock Connect launch

2017

Optional Real-time Delivery versus Payment (RDP) launch

2018

- Daily Quotation Expansion
- MSCI Inclusion of A shares

2019

Inclusion of Weighted Voting Rights (WVR) companies in Southbound Stock Connect

2020

June
FTSE Inclusion of A shares

July
Launch of Master Special Segregated Account

2021

Inclusion of SSE's STAR market stocks into Northbound Stock Connect

2022

Inclusion of ETFs in Stock Connect

2023

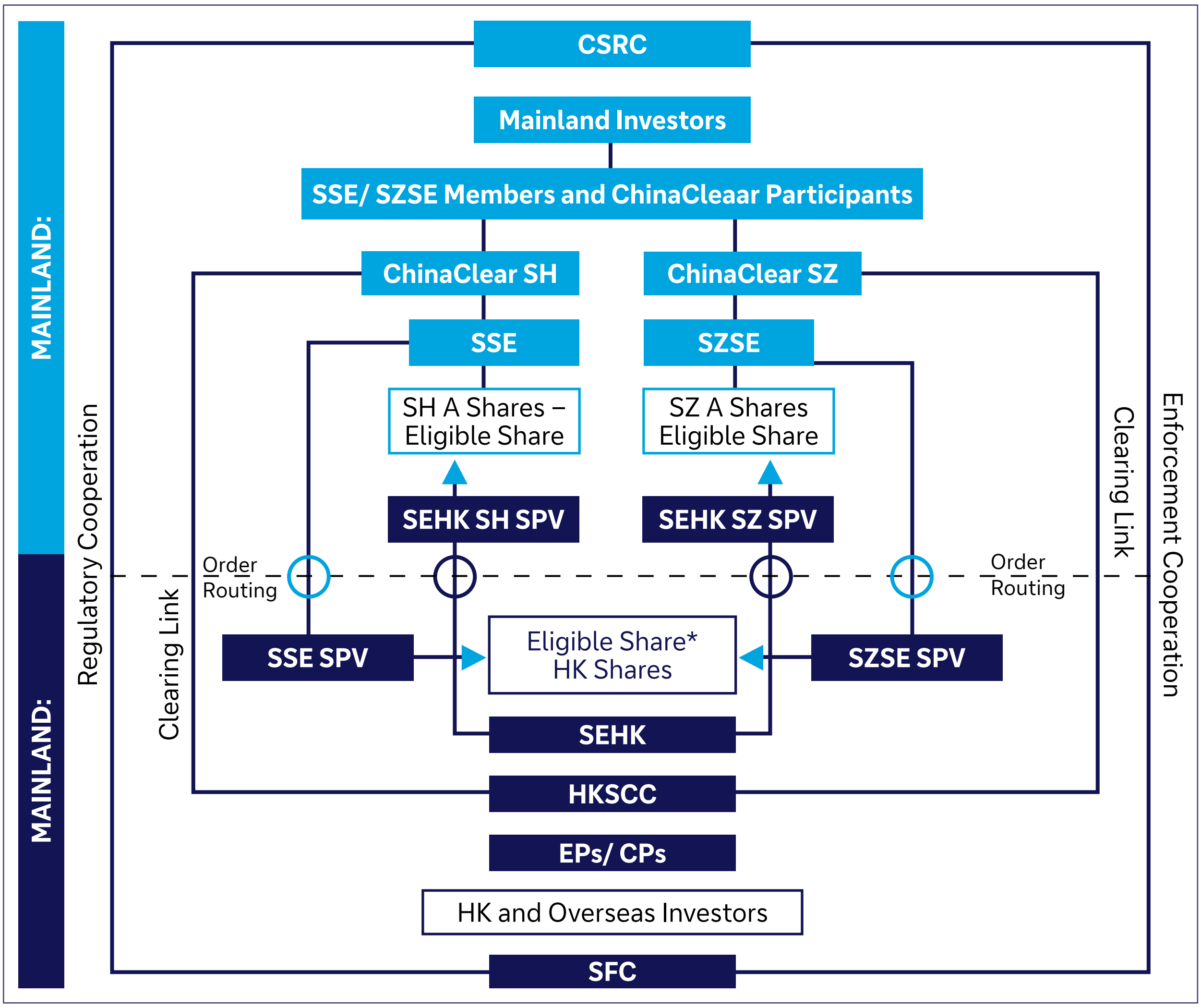
March
Expansion of Stock Connect eligible stocks

April
Enhancements to trading calendars with increased trading days

October
Launch of HKEx Synapse

2024

Upcoming (2024 and onwards)
Block Trading
RMB counters available via Southbound Stock Connect



Source: HKEX

3.3.1 Market Features and Entry Requirements

	Shanghai–Hong Kong Stock Connect	Shenzhen-Hong Kong Stock Connect
Eligible investors	Open to all Hong Kong SAR and foreign investors except for securities listed on the STAR Market, which may only be traded by institutional professional investors.	Open to all Hong Kong SAR and foreign investors except for securities listed on the ChiNext Board, which may only be traded by institutional professional investors.
Eligible securities	— Constituent stocks of the SSE A-share Index — All dual listed shares with A-share and H-share listed **Exceptions:** — Shares not traded in RMB — Shares under 'Risk Alert' — IPOs — STAR Market securities (limited to Institutional Professional Investors) — Eligible SSE-listed ETFs	— Constituent stocks of the SZSE Composite Index (with market capitalisation of RMB 5 billion or more) — All dual listed shares with A-share and H-share listed **Exceptions:** — Shares not traded in RMB — Shares under 'Risk Alert' — IPOs — ChiNext Board securities (limited to institutional professional investors) — Eligible SZSE-listed ETFs

	Shanghai–Hong Kong Stock Connect	Shenzhen-Hong Kong Stock Connect
Trading hours (GMT+8)	Follows SSE's and SZSE's trading hours. However, the Stock Exchange of Hong Kong (SEHK) accepts Northbound orders five minutes before the Mainland market sessions open in the morning and in the afternoon. Opening call auction: 09:15 – 09:25 hours Continuous auction: 09:30 – 11:30 hours; 13:00 – 14:57 hours Closing call auction: 14:57– 15:00 hours	
Trading quota	Aggregate quota: None Daily net buy quota: RMB 52 billion First-come, first-served basis	
Trading restrictions	Same day trading is not allowed Sell trade is subject to pre-trade checking	
Trade order type	Limit order only	
Order cancellation	Orders cancellation can be accepted by SEHK when SSE and SZSE market open, except 09:20 – 09:25 hours: SSE/ SZSE will not accept order cancellation (for A-shares and ETFs) 02:57 – 03:00 hours: SSE/ SZSE will not accept order cancellation (for A-shares)	
Trading currency	Trade is quoted in CNY (onshore RMB)	
Settlement cycle	Stock: T+0 Cash: T+1	
Settlement currency	Settlement in CNH (offshore RMB) or HKD, USD against broker	
Taxes	Capital gains tax and Business tax are temporarily waived Seller stamp duty of 0.1% (stamp duty for trading of SSE/ SZSE listed ETFs is waived) Dividend withholding tax of 10% withheld at source	
Holiday arrangement	China Connect is available on trading days when both the Hong Kong SAR and Mainland China markets are open	

3.4 Northbound Bond Connect

Bond Connect is a mutual market access scheme that allows Mainland China and overseas investors to trade in each other's bond markets through a linkage between the Mainland China and Hong Kong SAR market infrastructures. Northbound trading (that is, foreign investors accessing the CIBM) began first on July 3, 2017. Bond Connect was established further to a joint announcement by the People's Bank of China (PBOC) and the Hong Kong Monetary Authority (HKMA) on May 16, 2017.

Key Developments of Bond Connect

2017
Launch of Northbound Bond Connect

2018
August
Implement real-time DVP Launch block trade allocations

November
Bloomberg joins Bond Connect as a second approved trading platform, in addition to TradeWeb

2019
August
— Extension of Bond Settlement Cycle
— Roll out Chinese negotiable certificate of deposits (NCD) in the primary market

September
Launch e-filing portal

December
Introduce RFQ mode in Tradeweb and Bloomberg

2020
February
JPMorgan EMBI inclusion of Chinese government debts

March
Offer special settlement cycles and recycling settlement

April
Bloomberg Barclays Global Aggregate Index starts phase in CGMB and Policy Bank securities over 20 months

July
BCCL lowers its service fees

September
—Extend cash bond trading hours (for T+1 and above) to 20:00 hours China local time
—Allowed currency conversion and FX hedging with up to three FX settlement banks

October
Launch of e-Prime, an international electronic bond issuance system for book building, pricing and allocation of offshore securities

2021
March
PBOC registration can be done at entity level instead of fund/ product level

September
—MarketAxess joins Bond Connect as the latest access platform
—Launch of Southbound Trading

October
CGM will be included in FTSE WGBI, over a period of 36 months

November
—Exemption of corporate tax and VAT to China bond coupon payment extended until December 31, 2025
—New settlement features including matching tolerance of RMB 10.00, linked transaction and hold indicator

2022
May
PBOC, CSRC and SAFE joint announcement to further facilitate overseas institutional investors investing in China's bond market

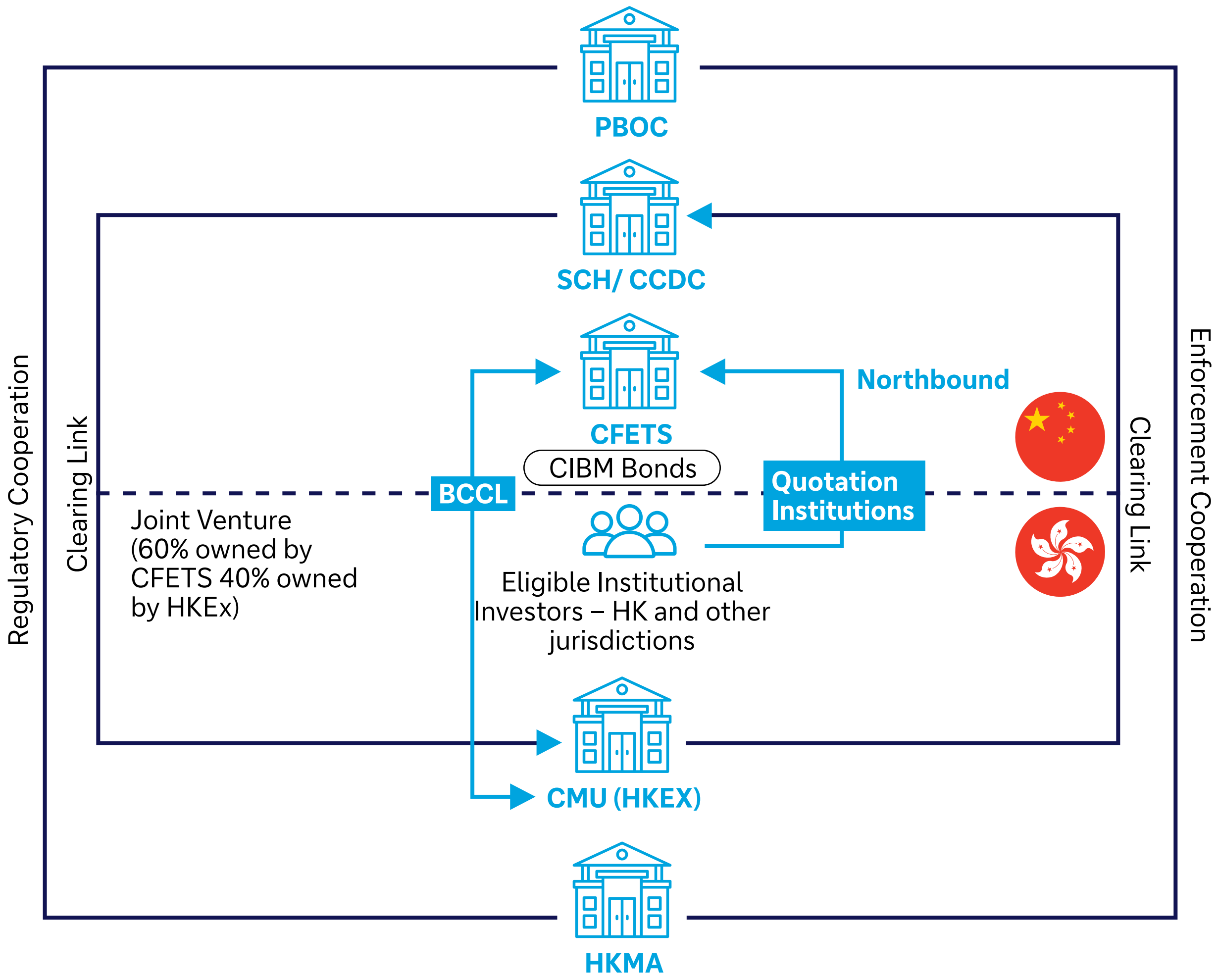
July
— HK and China regulators announced the introduction of Swap Connect
— Launch of Northbound primary services, allowing offshore investors to participate in Northbound subscription of CIBM new issuances with onshore underwriters

2023
May
Launch of Northbound Swap Connect

June
Launch of online settlement failure reporting service

2024
Upcoming (2024 and onwards)
HKMA and PBOC jointly announced to further opening-up the onshore repo market to all FII who already have access to CIBM

Southbound trading under Bond Connect scheme was officially launched on September 24, 2022. Similar to Southbound Stock Connect, it provides a convenient channel for Mainland institutional investors to invest in Hong Kong SAR and the global bond via the connection between financial infrastructure institutions in the Hong Kong SAR and Mainland China markets. Currently, there are more than 40 Mainland institutional investors and 13 financial institutions in Hong Kong SAR designated as market makers.



3.4.1 Market Features and Entry Requirements

Bond Connect	
Eligible investors	— QFIs — Central banks, international financial organisations and sovereign wealth funds — Foreign institutional investors (FIIs) (i.e., banks, securities companies, insurance companies, and medium- to long-term institutional investors) and products issued by FIIs Despite earlier speculation that 'parallel trading' may not be permitted under Bond Connect, meaning that foreign investors that are already accessing the onshore bond market through the QFI and/ or FII routes may not be able to trade under Bond Connect, it is now clear that this is not the case. The PBOC Interim Measures and CFETS Rules do not impose any prohibition against such investors accessing the onshore market through Bond Connect. However, such investors need to undergo separate registration with the PBOC Shanghai Head Office to use Bond Connect.
Investment scope[7]	— All CIBM cash bonds — Can participate in primary market subscription — Bond derivatives such as bond borrowing and lending, bond forward, IRS, FRA, etc. — Bond fund (including ETF) — Offshore FX derivatives for hedging purpose
Investment quota	Nil. No investment quotas are imposed under Bond Connect
Central depository	CDC, SCH, CMU
Trading hours (GMT+8)	09:00 – 12:00 hours 13:30 – 20:00 hours (16:30 – 20:00 hours is not applicable for T+0 settlement cycle)
Trading arrangement	Investors need to send Request for Quotation (RFQ) to one or more of the Quotation Institutions (QI) (There are 60 QIs as of January 2024)
Settlement cycle	Standard settlement cycle: T+0, T+1 or T+2 Special settlement cycle: T+N ($N \leq 10$)
Trading link	It is a cooperation between HKEX, CFETS and a bond trading platform (also known as Access Platform) enabling direct trading between overseas investors to engage onshore dealers directly. — No investment quota — No restriction on fund/ capital repatriation — Bond price transparency through approved QIs in China — Trade funding currency for settlement – can be either CNY or CNH (Chinese Yuan Renminbi Offshore) — Block trade allocations enhance trading workflows and operational efficiencies

7 *At the initial stage, foreign investors can conduct cash trading across the whole range of instruments traded on the CIBM under the Northbound leg of Bond Connect. According to the PBOC, bond repurchases, bond lending, bond forwards, interest rate swaps and interest rate forwards will be included in the future. Significantly, in additional to secondary market trading, foreign investors can subscribe for eligible products in the primary market under Bond Connect.*

Settlement link	It is a CSD-CSD links between CMU, CCDC and SCH. — No onshore PRC investment account is required — CMU acts as offshore depositary, handling custody and settlement for investors — Assets are distinctly segregated through nominee holding arrangement with CCDC/ SCH, CMU and CMU participant — Delivery versus Payment (DvP) settlement fully implemented which helps to mitigate the foreign investors risk requirement
Settlement currency	CNH (offshore RMB) or CNY (onshore RMB)
Fails	All unmatched trade and failed trades on the settlement day will be cancelled in the CMU system and the PRC depositaries' system.
FX arrangement	Northbound Bond Connect investors may choose to engage up to three designated FX settlement banks (one Primary FX settlement bank and two General FX settlement banks) for CNY (onshore-RMB) conversion and hedging for their RMB exposure in respect of their Bond Connect investment (Enhanced CNY Conversion Service).

3.4.2 Bond Connect Admission Flow

Appoint Local Custodian	
Safe-keeping client securities at CMU segregated sub-account	Settlement and clearing service for bond trading in primary and secondary market

Open CMU sub-account
Upon completion of custodial account opening process and custodial account setup, custodian will assign a CMU sub-account number (CMU ID) for the client to apply for the CFETS ID. The CMU sub-account will only be activated by CMU after CFETS ID is obtained by client

Obtain Access Platform Terminal ID
Client needs to have direct contact with recognised access platform (i.e., Bloomberg, MarketAxess, Tradeweb)

Apply for CFETS ID
Client needs to complete application forms and submit them to BCCL

Ready for Bond Connect	
CMU to activate CMU sub-account to make it available for Bond Connect trade settlement	When the CMU sub-account is activated, client can start Bond Connect trading with the QIs

4 Foreign Owned Investment Management Entities in China

With decades of development and recent regulatory relaxations in China, there are several options for foreign investment managers to operate by setting up foreign-owned investment management entities in China, subject to their business strategy, namely, QDLP, WFOE PFM, WFOE FMC, JV WMC, and others. In this section, we delve deeper into the threshold requirements for establishing various entities and the business capacities of these different entities.

4.1 Threshold Requirements on Setting up Different Entities

4.1.1 QDLP Manager

Since the QDLP schemes are established by local governments rather than the central government regulator, they are subject to local QDLP rules. The QDLP manager must register with AMAC as a private fund manager in order to launch QDLP funds. The QDLP manager has to adhere to the applicable rules of AMAC and the local QDLP rules. Given the fact that most of the local QDLP rules were issued a few years ago while the AMAC rules have continued to evolve in recent years, the applicable AMAC rules which have set additional or higher threshold requirements (on staffing and capital, among others) are generally prevalent.

Currently, there are a few pilot regions that have launched a QDLP scheme, including, Shanghai, Tianjin, Shenzhen, Qingdao, Beijing, Hainan, Guangdong, Jiangsu, Chongqing and Ningbo.

4.1.2 WFOE PFM

There are four types of private fund managers classified by AMAC:
(i) Private equity and venture capital fund managers
(ii) Private securities investment fund managers, i.e., PFMs
(iii) Other private investment managers (e.g., QDLP managers)
(iv) Private asset allocation managers

Since 2014, PFMs have been mandated to be registered with AMAC and comply with AMAC requirements. Since that time, PFMs can conduct asset management business only after registering with AMAC. However, since June 30, 2016, WFOE PFMs have been allowed to register with AMAC. A PFM must launch its first private fund within 12 months of its registration. Private funds can only be offered to a limited number (i.e., no more than 200) of qualified investors under PRC laws, including high net worth individuals, corporates, filed financial products and others as permitted by the regulators.

To register as a WFOE PFM, the applicant, its shareholder(s) and actual controller must meet certain eligibility requirements set out in the AMAC rules. Other than the general requirements on the shareholder(s) or actual controller of a private fund manager, the foreign shareholder(s) and actual controller of a WFOE PFM must meet additional requirements, such as:

(i) They must be financial institutions licensed by a financial regulatory authority in their home jurisdiction
(ii) The securities regulatory authority in their home jurisdiction must have entered into a memorandum of understanding on securities regulatory cooperation with CSRC or other institutions recognised by CSRC
(iii) They must not have been subject to any material penalty by a regulatory or judicial authority in the past three years

4.1.3 WFOE FMC

Since 2002, foreign investment managers have been able to own a minority stake in a JV FMC that engages in the mutual fund management business. Since 2019, foreign investors can apply to CSRC to establish a WFOE FMC, after the foreign shareholding limit for FMC was officially lifted. As of August 2024, there are nine foreign asset managers which have been approved by CSRC to set up WFOE FMCs, namely, BlackRock, Fidelity, Schroders, JP Morgan, Morgan Stanley, Allianz, Alliance Bernstein, Neuberger Berman, and Manulife.

Compared to a WFOE PFM, foreign investors who contemplate setting up a WFOE FMC are subjected to higher minimum paid-in capital threshold and stricter requirements on personnel, infrastructure, corporate governance and other aspects.

4.1.4 JV WMC

Since July 2019, foreign asset managers have been permitted to establish JV WMC controlled by the foreign shareholders with subsidiaries of wholly Chinese-owned banks or insurance companies. JV WMCs can be viewed as an expansion of traditional wealth management subsidiaries of commercial banks, with the foreign shareholders having majority ownership. This arrangement allows for a symbiotic relationship between the JV partners, with the foreign institution contributing expertise in areas such as investment strategies, while the Chinese party provides access to local resources and channels.

To set up a JV WMC, RMB 1 billion or the equivalent (approx. USD 140.8 million) as the minimum registered capital is required to be paid-up in a lump sum and the foreign shareholder must meet the following requirements[1]:

— Needs to be a regulated financial institution
— Needs to have a sound corporate governance structure
— Needs to have sound social reputation, credit records and tax payment records
— Needs to have a good operation and management situation, with no record of major regulatory violation in the recent two years
— Needs to have a sound financial status and being profitable in the most recent two fiscal years
— Needs to contribute the capital with its proprietary funds
— Needs to adhere to a five-year lock-in period, and not create pledge or establishing any trust over its stakes in the JV WMC
— Needs to comply with the relevant laws and regulations as well as regulatory requirements of the country/ region where it is located, and the financial regulator in its home country/ region having established a sound cooperative mechanism for supervision and administration with the Chinese counterpart financial regulator

1 Article 8 of the Measures for Administration of the Wealth Management Subsidiaries of Commercial Banks (商业银行理财子公司管理办法).

4.2 Business Scopes of Different Entities

QDLP manager can invest in various types of overseas underlying asset classes including publicly traded stocks, bonds, private equities and others, through a typical master-feeder structure where onshore QDLP funds will feed into the offshore master funds.

WFOE PFM can issue and manage private funds investing in onshore securities markets only, while WFOE FMC can launch both mutual funds and private products. Mutual funds are aimed toward the public and launched through public channels, which allow advertisement and promotion through various channels to reach a mass audience. Private products are only accessible to selected qualified investors, limited to a maximum of 200 investors, and can only be sold through private placements and may not be advertised through public channels.

JV WMC enjoys a relatively broader business and investment scope compared to QDLP manager and WFOE PFM. Both JV WMC and WFOE FMC can offer public and private products, but with a distinction in terms of the investment scope of the products. It is noteworthy that both JV WMC and WFOE FMC can apply for QDII qualification and quota, through which investments can be made in overseas secondary markets.

Comparison of Establishment Thresholds and Business Scope of Different Entities

	QDLP Manager[2]	WFOE PFM	WFOE FMC	JV WMC
Establishment Thresholds				
Minimum paid-in capital	RMB 10 million (~USD 1.4 million)[3]	RMB 10 million (~USD 1.4 million)	RMB 100 million (~USD 14.1 million)	RMB 1 billion (~USD 140.8 million)
Key eligibility requirements for foreign shareholders	— The eligibility requirements for offshore shareholders of a WFOE PFM generally apply to the foreign shareholders of a QDLP manager — QDLP manager's actual controlling investor (or an affiliate of such investor) shall satisfy certain requirements in Shanghai QDLP rules, such as operating fund management business in overseas markets with a good track record, having no substantial penalty from the local regulatory authorities in the past three years, etc.	The foreign shareholder(s) and actual controller should be: — Financial institutions licensed in a jurisdiction that has a MOU in place with CSRC — Not being subject to any material penalty by a regulatory or judicial department in the past three years	— Being an existing financial institution experienced in managing financial assets or an institution that manages the financial institution, with a good international reputation and business performance, world-leading AUM, revenue, profit, market share in the past three years and other indicators — With no penalty imposed by a regulatory or judicial authority in the past three years — The regulatory authorities in such jurisdiction having a MOU in place with CSRC — Having net assets of no less than RMB 200 million or the equivalent (~USD 28.1 million) during the last recent year and being profitable during the last three consecutive years	— Being a financial institution with good operation and management conditions, with no record of major regulatory violations in the past two years — Having a sound financial condition and being profitable in the most recent two fiscal years — Contributing the capital by self-owned funds (borrowed funds and entrusted funds are prohibited) — Adhering to a 5-year lock-in period, and not creating pledges or establishing any trust over its stakes in the JV WMC — Its local governing financial regulatory authorities having established a sound cooperative mechanism for supervision and administration with NFRA (or former CBIRC/ CBRC)

2 Given that the QDLP requirements vary in different cities, we suggest that asset managers should seek specific legal and tax advice before deciding which QDLP scheme to participate in. We elaborate on requirements under the Shanghai local QDLP rules for reference.

3 The current AMAC rules set out additional and higher threshold requirements (on staffing and capital) and supersede some local QDLP rules in practice. In particular, the Measures for the Registration and Filing of Private Investment Funds (私募投资基金登记备案办法) providing rules on private fund managers registration and private funds filing require a minimum paid-in capital of RMB 10 million for the QDLP manager and a minimum 5-year track record of asset management business for the QDLP manager's controlling shareholder or actual controller, etc.

	QDLP Manager[2]	WFOE PFM	WFOE FMC	JV WMC
Key regulator(s)	Local financial authorities AMAC	AMAC CSRC	CSRC	NFRA
Business Capacities				
Objective	Enable foreign fund managers to raise funds from mainland Chinese investors and invest into overseas market	Allow WFOEs to provide private fund management service, advisory services in mainland China	Allow WFOEs to provide public and private fund management service, advisory service, etc. in mainland China	Allow foreign fund managers partnered with China managers to provide broad asset management services in mainland China
Business scope	— Set up and manage funds for overseas investments — Provide investment advisory services — Other business permitted by competent authorities	— Issue and manage private securities investment funds — Provide investment advisory services	— Issue and manage mutual funds and private products — Provide investment advisory services — Apply for QDII qualification and quota, through which primarily invest in overseas secondary markets	— Issue and manage public products and private products — Provide wealth management advisory and consulting services — Apply for QDII qualification and quota, through which primarily invest in overseas secondary markets — Other business permitted by NFRA

	QDLP Manager[2]	WFOE PFM	WFOE FMC	JV WMC
Eligible investments	The market practice is to adopt a 'master-feeder' structure where the QDLP fund feeds into an offshore master fund (managed by the QDLP manager's offshore affiliate); in practice, generally there are no specific limitations on the investment scope of the offshore master funds	— Stocks and bonds listed and traded on stock exchanges — Bonds traded on CIBM — Depository receipts (DRs) — Asset-backed securities — Futures, options, swaps and forwards — Mutual funds — Other types of investment products allowed by CSRC	— Stocks and bonds listed and traded on PRC stock exchanges — Bonds traded on CIBM — Financial derivatives prescribed by CSRC (e.g., stock index futures, treasury bond futures; stock options; Credit Risk Mitigation (CRM); Credit Default Swap (CDS) — DRs listed and traded on PRC stock exchanges — Stocks listed and traded on Hong Kong Stock Exchange via Southbound Stock Connect scheme — ABS — Securities margin trading, securities borrowing and lending — Mutual funds — Other securities and their derivatives allowed by CSRC	— Stocks and bonds listed and traded on PRC securities exchanges — Bonds traded on CIBM — ABS — Financial derivatives — Non-standard debt investment — Interbank placement or interbank lending, and other fixed income securities — Mutual funds — Other assets approved by NFRA

5 Tax Aspects

Over the past few years, with an aim to create a more attractive business environment, China has introduced/ extended preferential tax policy for overseas investors investing in the mainland securities market. With expansion of investment scope for foreign investors, there are still certain areas pending clarification on the tax liability of foreign investors. While the summary below provides a broad reference[1], it would be ideal to consult a local tax advisor and follow local tax bureau's requirements in practice.

	Corporate Income Tax (CIT)	Value Added Tax (VAT)
Capital gains – equity and fixed income	Temporarily exempted Effective November 17, 2014, Income Tax on QFI's capital gains derived from equity investments is temporarily waived. Income Tax on capital gains derived from fixed-income products is also temporarily exempted	Temporarily exempted
Coupon interest income	10% income tax and 6% VAT temporarily exempted till December 31, 2025 (Government bonds and local government bonds are tax exempted for both income tax and VAT)	
Cash and stock dividend income	CSDCC withholds 10% tax at source to be paid to tax bureau	Not subject to VAT
Bonus shares	Not subject to CIT	Not subject to VAT
Deposit interest income	Deposit interest on balance maintained with QFI custodian/ CIBM BSA is subject to 10% withholding tax	VAT is exempted

Double Taxation Treaties (DTT)

For details of the DTT of each country, please consult your local tax advisor and refer to the following website: http://www.chinatax.gov.cn/eng/c101276/c101732/index.html

QFIs eligible for a lower tax rate under DTT can apply for tax relief at source or tax reclaim from the paying agent's domiciled tax bureau. The tax bureau shall then apply the provisions in the relevant treaty subject to validity of the application. In event where tax refund is applicable, it must be dealt with in a timely manner. In terms of dividends distributed by listed companies, eligible QFIs may apply to the State Taxation Administration (STA) directly for tax relief at source. Upon validation, the STA will

1 Chinatax.gov.cn
(https://fgk.chinatax.gov.cn/zcfgk/c102416/c5202072/content.html
https://fgk.chinatax.gov.cn/zcfgk/c102416/c5211074/content.html
https://fgk.chinatax.gov.cn/zcfgk/c102416/c5204008/content.html
https://fgk.chinatax.gov.cn/zcfgk/c100012/c5194016/content.html)

provide relevant information to CSDCC, which in turn will inform relevant listed companies to apply preferential tax rate for the eligible QFIs during tax withholding of dividends. Eligible QFIs should seek professional advice from their local tax advisor on how to file the application based on relevant rules[2].

2 Chinatax.gov.cn (https://fgk.chinatax.gov.cn/zcfgk/c100012/c5194891/content.html); mofcom.gov.cn (http://ca.mofcom.gov.cn/article/xwfb/202404/20240403505566.shtml)

6 Ongoing Compliance Focus

6.1 Regulated Status of Each Option

For the foreign investment channels mentioned in Chapter 2, a presence in mainland China generally allows for greater participation in China's securities market compared to the special investment channels. However, the greater participation yields higher establishment thresholds and ongoing compliance requirements. Specific investment channels are governed by regulatory rules issued by one or several financial regulators, while the PRC onshore presence of foreign investors must abide by the requirements regarding the enterprise establishment, personnel, operation and internal governance equally with other PRC local enterprises. For example, being subjected to the recently amended *PRC Company Law*. Regulated entities are also subject to the industry-specific regulatory rules and need to comply with ongoing and ad-hoc information disclosure with the financial regulators or self-regulatory organisations. The description of the regulated status of main investment options is summarised below:

- QFI: The regulators for the QFIs are mainly CSRC, SAFE and PBOC. CSRC grants approval for QFI licenses and supervise QFIs' investments in onshore securities markets; SAFE regulates foreign exchange related matters and funds repatriation; PBOC oversees QFIs' onshore capital management jointly with SAFE. For specific investments, QFIs also need to comply with the investment rules of the trading venues
- Stock Connect: Foreign investors have to comply with the specific requirements of Hong Kong SFC, CSRC and PRC stock exchanges while making the investments
- CIBM Direct, Bond Connect and Swap Connect: PBOC is the primary regulator for these schemes. Foreign investors need to register with PBOC to participate and make transactions through the CFETS platform. Foreign investors are also required to comply with specific regulations/rules issued by PBOC and CEFTS while making the investments
- WFOE PFM and QDLP Managers: These fund managers need to register with AMAC and must comply with all applicable AMAC rules, while QDLP managers are also subject to supervision by local authorities including local financial bureau and local SAFE
- Regulated financial institutions: These institutions face stricter regulatory and compliance requirements from CSRC or NFRA. For example, shareholders of a newly established WFOE FMCs are required to meet the general requirements for major shareholders of an FMC and to meet certain additional requirements for foreign shareholders. Upon establishing the WFOE FMC, if there are any material changes such as a change to the actual controller or major shareholder, the changes must be approved by CSRC in advance and publicly announced in accordance with law. Non-material changes also need to be filed/ reported in a timebound manner to CSRC

6.2 Other Legal/ Regulatory Trends to Note

There have been some recent legal and regulatory developments which include new rules to be introduced regarding cross-border data transfer, program trading, derivatives transactions, etc., as summarised below:

i. Program trading provisions

On May 15, 2024, the CSRC issued the *Provisions on Program Trading Management in Securities Markets (for Trial Implementation*, the "Program Trading Provisions"), which are slated to take effect on October 8, 2024. The Program Trading Provisions are the first set of comprehensive rules on program trading issued at the central financial regulator level, which intend to address a series of critical issues, including the definition of 'program trading', regulatory jurisdiction and delegation of authority, reporting system, trade monitoring and risk management by exchanges, requirements for technical systems, and special requirements for high-frequency trading

The Program Trading Provisions are intended to be relatively high-level and have delegated authority for the relevant PRC exchanges to apply and implement the rules. The exchanges have also echoed about emphasising their commitment to actively implement the new regulations, and the relevant implementing rules are expected from the exchanges soon, based on the finalised Program Trading Provisions

ii. CSRC's consultation draft on derivatives trading measures

With an aim to strengthen the supervision of the OTC derivatives market and curtail financial risks, on November 17, 2023, CSRC released its second consultation draft on the *Measures for the Supervision and Administration of Derivative Trading*, the "Consultation Measures"). These Consultation Measures were formulated to implement the *PRC Futures and Derivatives Law* and to establish a unified regulatory framework for the OTC derivatives market. The Consultation Measures are formulated based on the principles of 'regulation by function' (same rules for similar activities) and 'integrated regulation' (coordinated oversight of physical and derivative markets to prevent regulatory arbitrage)

Additionally, the Consultation Measures apply to derivatives trading under CSRC's jurisdiction, excluding interbank derivatives markets and OTC markets managed by banking and insurance institutions. Special provisions for exchange-traded credit derivatives are expected to be formulated in the future

iii. CSRC consultation draft on SSPR

On July 21, 2023, CSRC issued a consultation paper of the *Several Provisions on Improving the Regulation of Covered Short-Swing Transactions*, the "SSPR Provisions"). According to CSRC's explanatory note, the SSPR Provisions are formulated to clarify regulatory positions, provide reasonable exemptions, respond to updated market practices, and facilitate trading by domestic and foreign investors. Specifically, the SSPR Provisions define 'covered investors', 'covered securities', and activities subject to SSPR, which generally follows the current rules and regulatory practice. The SSPR Provisions further clarify the method for calculating shareholdings for domestic and foreign investors. The foreign mutual fund managers can apply to CSRC to calculate shareholdings for each product for SSPR purposes, provided that they meet certain requirements as specified under the SSPR Provisions

From a general regulatory perspective, the noteworthy points are the newly amended *PRC Company Law* and the relaxed regulations on cross-border data transfers

iv. Data law implications

In recent times, China has adopted a series of data security and data protection laws which pose certain challenges for foreign asset managers because they place certain restrictions on cross-border data flows between their mainland and offshore operations. These laws principally include the *PRC Data Security Law, the PRC Cybersecurity Law* and the *PRC Personal Information Protection Law*, which serve as the pillars for China's data security, protection and governance. The Cyberspace Administration of China (CAC) and other bodies have subsequently issued various detailed regulations or guidelines to define this regulatory framework, focusing on security assessments, filing of standard contracts, and personal information protection certification

Based on the latest trends of social development and practical demands of domestic enterprises, on March 22, 2024, the CAC officially issued the *Provisions on Promoting and Regulating Cross-Border Data Flows*, which introduce substantial changes to the current rules over filings and security assessments of cross-border data transfers. These provisions are expected to ease the burden of compliance requirements for cross-border data transfers and are considered as part of China's efforts to stimulate economic growth and attract foreign investments.

7 China Market Outlook

Post pandemic, the Chinese government has gradually re-shifted its focus from public health concerns to economic development. During 2023, the Chinese economy expanded by 5.2%, successfully achieving the annual growth target, and the size of the economy has reached a new record of an annual GDP reaching RMB 126 trillion (~USD 17.7 trillion). However, geopolitical challenges and economic cycles pose uncertainties on the growth of economy.

Against this backdrop, in March 2024, the Chinese government convened the annual sessions of the National People's Congress during which the direction of China's financial markets was deliberated. These conferences and a series of adjustments to the relevant policies and regulations demonstrate China's ongoing efforts to enhance financial regulation and deepen the opening-up of its financial markets.

7.1 Commitment to Open Markets

Since 2018, PBOC and the People's Congress have announced more than 50 measures for the opening-up of China's financial markets, and important progress has been made in the opening-up of its financial sector. Restrictions and qualification requirements for foreign investors have been continuously relaxed; national treatment has been given to foreign investors in the fields of corporate credit reporting, rating, and payment; the interconnection of capital markets has been deeply executed, and the supporting accounting, taxation, and trading systems have been continuously improved.

Along with the strategy of high-quality development of its financial sector, in recent years, the Chinese government has been working on a series of new laws and regulations with a strong intent to create a more efficient and expanded financial market which endorse the government's commitment to open-up. The series of efforts include, but are not limited to:

7.1.1 Narrowed Restrictions on Foreign Investments

Foreign investments in China remain subject to restrictions in certain industries pursuant to a negative list, the *Special Administrative Measures for Access of Foreign Investments (Negative List)*. These restrictions include threshold limit requirements on the shareholding proportion of foreign investment and senior management. The negative list restrictions in the financial sector have been removed, and foreign investors can now wholly-own Chinese banking and insurance institutions. There are anticipations around the Chinese government further narrowing the negative list to support major foreign-funded projects, expand foreign access for digital and other products, and vigorously promote the development, openness, circulation, and use of data.

In the past, there were asset scale and operating years' related requirement fulfilment for external investors in foreign-owned banking and insurance institutions. However, such requirements have been removed and this has led to an increased interest in the establishment of foreign-owned financial institutions, banks, insurance companies, brokerage companies, wealth management subsidiaries, and asset management companies. By the end of 2023, across China, there were 5 foreign-controlled JV WMCs, 41 foreign corporate banks, 116 branches of foreign banks as well as banks in Hong Kong SAR, Macao SAR and Taiwan region, and 132 foreign bank representative offices. Additionally, overseas insurance institutions have set up 67 operating institutions and 70 representative offices in China, and their market share in the Chinese insurance industry has reached 10%[1].

7.1.2 Liberalised Cross-border Data Transfers

Since the adoption of the *PRC Cybersecurity Law* in 2017, the Chinese government has introduced a set of regulations for outbound transfer of data.

As highlighted in Chapter 6.2, during March 2024, the CAC issued the *Provisions on Promoting and Regulating Cross-Border Data Flows,* which have eased the trigger conditions around compliance obligations by proposing a series of exemptions for scenarios that would be subject to data transfer restrictions. Cross-border data transfers, under certain circumstances, are exempted from the outbound data transfer security assessment process, including the provision of data collected and generated in international trade, cross-border transportation, academic cooperation, transnational manufacturing, and marketing activities overseas which do not involve personal information or important data. It is widely considered as the Chinese government's positive attitude towards relaxing the control over cross-border data transfer and simplifying the data exchange restrictions between China and the world.

In addition, the PBOC, along with several other financial administration authorities, is striving to form an arrangement for the cross-border flows of financial data, formulating a catalogue of important data in the financial field, and unifying the regulatory compliance standards. The goal is to help foreign-owned financial institutions reduce the cross-border data compliance costs and improve the efficiency of data transfer to the greatest extent possible on the premises of financial security and data security, which would facilitate their business operations in China, and help the Chinese government attract more foreign investors to set-up businesses in China.

7.2 Commitment to Development

As highlighted in Chapter 1.2.3, during the Central Financial Work Conference in October 2023, the Chinese government has laid strong emphasis on the fact that the financial sector is a crucial component of the country's core competitiveness. In its pursuit of high-quality development of the financial sector, the Chinese government has also called for more focused work for developing science and technology finance, green finance, inclusive finance, old-age finance, and digital finance along with efforts to create a sound monetary and financial environment.

During the conference, the Chinese government also underscored efforts to further modernise the financial institutions as well as the financial markets. The government is dedicated to making stronger efforts to better facilitate cross-border investments and financing in order to attract more foreign-owned institutions and long-term capital to China.

1 *CBIRC (https://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1149455&itemId=919)*

7.3 Commitment to Collaboration

7.3.1 The Next Era of Mainland China–Hong Kong SAR Capital Markets Cooperation

In April 2024, CSRC announced measures to boost cooperation between the capital markets of mainland China and Hong Kong SAR. The new measures have five major focus areas:

i Expand the scope of eligible products of stock ETFs under the Stock Connect. Under the guidance of the securities market regulators of both mainland China and Hong Kong SAR, the SSE and SZSE aim to support the development of Hong Kong SAR as an international asset management centre by appropriately relaxing the average assets under management requirements for eligible stock ETFs, reducing the weightage requirements of Hong Kong SAR stocks and Hong Kong Stock Connect stocks for Southbound Stock Connect ETF products, and to make reciprocal adjustments to Northbound Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect ETF products

ii Include REITs in the Stock Connect. It is proposed to overhaul the Stock Connect framework, and to include eligible REITs traded in mainland China and Hong Kong SAR markets into the Stock Connect, with an aim to further enrich the product offerings of the Stock Connect

iii Support the inclusion of RMB stock trading counters in the Hong Kong Stock Connect. There has been a preliminary consensus reached on the relevant business plans, and both mainland China and Hong Kong SAR are striving to facilitate the internationalisation of the RMB

iv Promote the MRF scheme. It is proposed to allow the investment management functions of Hong Kong SAR recognised funds to be delegated to overseas asset managers within the same group, which would further optimise the MRF scheme and better meet the diversified investment needs of investors on both sides

v Support leading mainland enterprises to be listed in Hong Kong SAR. Since the implementation of the *Interim Measures for the Administration of Overseas Securities Offering and Listing by Domestic Enterprises*, 72 enterprises have completed their initial public offerings (IPOs) in the Hong Kong SAR, and the financing channels for listing in the Hong Kong SAR have been unimpeded, which strongly supports the development of mainland enterprises by making use of the two capital markets. CSRC remains committed to further support eligible leading enterprises in mainland China to list in the Hong Kong SAR

7.3.2 The Next Generation of Wealth Management Connect

The Cross-border Wealth Management Connect Scheme, in the Greater Bay Area (GBA), is one of the key initiatives under the mutual market access schemes between the capital markets of Hong Kong SAR, Macao SAR and mainland China. Launched in September 2021, the scheme allows eligible mainland China, Hong Kong SAR and Macao SAR residents in the GBA to invest in wealth management products distributed by banks in each other's markets through a closed-loop funds flow channel established between their respective banking systems. The key breakthrough of this scheme is to allow individual retail investors to open and operate cross-border investment accounts directly, through a legitimate channel, and to subscribe for their preferred products.

In addition, on January 24, 2024, the Guangdong and Shenzhen Branches/ Offices of PBOC, NFRA, and CSRC jointly issued the revised *Implementation Arrangements for the Cross-border Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA)* (implementation rules), which became effective on February 26, 2024. The revised implementation rules intend to appropriately increase the quota of individual investors, broaden the scope of business pilot projects, and facilitate the promotion and sales arrangements.

As the world's second-largest economy, China has provided impetus to global economic growth for many years and has also contributed to the global and regional financial sector. With the large scale, full potential, and rapid development of China's financial markets, it has become a key force in maintaining the global financial stability. The Chinese government will remain committed to promoting collaboration with financial markets and regulators in other jurisdictions.

Glossary

ABS	Asset-Backed Securities
AMAC	Asset Management Association of China
BBGA	Bloomberg Barclays Global Aggregate Index
BCCL	Bond Connect Company Limited
BEPS	Bulk-Entry Payment System
BSA	Bond Settlement Agent
BSE	Beijing Stock Exchange
CAC	Cyberspace Administration of China
CBIRC	China Banking and Insurance Regulatory Commission
CBRC	China Banking Regulatory Commission
CCDC	China Central Depository & Clearing Co.
CDS	Credit Default Swap
CFETS	China Foreign Exchange Trade System
CFFEX	China Financial Futures Exchange
CFMMC	China Futures Market Monitoring Center
CIPS	Cross-Border Interbank Payment System
CIRC	China Insurance Regulatory Commission
CIT	Corporate Income Tax
CP	Custodian Participant
CRM	Credit Risk Mitigation
CSD	Central Securities Depository

CSDCC	China Securities Depositary & Clearing Corp.
CSFC	China Securities Financing Corp.
CSRC	China Securities Regulatory Commission
DCE	Dalian Commodity Exchange
DR	Depository Receipt
DTT	Double Taxation Treaties
DvP	Delivery versus Payment
ETF	Exchange-Traded funds
FDI	Foreign Direct Investment
FI	Financial Institution
FII	Foreign Institutional Investor
FMC	Fund management company
FRM	Foreign Reserve Manager
FX	Foreign Exchange
GBA	Greater Bay Area
GBI-EM	JPMorgan Government Bond Index-Emerging Markets
GC	Global Custodian
GDP	Gross Domestic Product
HKEX	Hong Kong Exchanges and Clearing
HKICL	Hong Kong Interbank Clearing
HKMA	Hong Kong Monetary Authority
HKSCC	Hong Kong Securities Clearing Co.
HVPS	High-Value Payment System
INE	Shanghai International Energy Exchange

IPO	Initial Public Offering
IRS	Interest Rate Swap
JV WMC	Joint Venture Wealth Management Company
LLDPE	Linear Low-Density Polyethylene
LOF	Listed Open-ended Fund
MOF	Ministry of Finance, the People’s Republic of China
MRF	Hong Kong Mutual Recognition of Funds
MSCI	Morgan Stanley Capital International
NAFMII	National Association of Financial Market Institutional Investors
NEEQ	National Equities Exchange and Quotations
NFRA	National Financial Regulatory Administration
NPC	National People's Congress
PBOC	The People’s Bank of China
PFTZ	Pilot Free Trade Zone
PRC	People’s Republic of China
PTA	Purified Terephthalic Acid
QDIE	Qualified Domestic Investment Enterprise
QDLP	Qualified Domestic Limited Partner
QFI	Qualified Foreign Investor
QFII	Qualified Foreign Institutional Investor
QI	Quotation Institution

RDP	Real-Time Delivery versus Payment
RFQ	Request for Quotation
RMB	Renminbi Yuan
RQFII	Renminbi Qualified Foreign Institutional Investor
SAC	Securities Association of China
SAFE	State Administration of Foreign Exchange
SAPS	Settlement Account Processing System
SAR	Special Administrative Region
SCH	Shanghai Clearing House
SEHK	Stock Exchange of Hong Kong
SFC	Hong Kong Securities and Futures Commission
SHFE	Shanghai Futures Exchange
SME	Small and Medium Enterprises Board
SPSA	Special Segregated Account
SSE	Shanghai Stock Exchange
SSPR	Short Swing Profit Rule
STA	State Taxation Administration
STAR	Sci-Tech Innovation Board
SZSE	Shenzhen Stock Exchange
VAT	Value Added Tax
WFOE	Wholly-Foreign Owned Enterprise
WGBI	World Government Bond Index
ZCE	Zhengzhou Commodity Exchange

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