

RMB Bulletin

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RMB Inclusion in the MSCI Index

MSCI announced on June 20th that China's domestic equities will be included in its Emerging Markets Index. In its last 3-year annual reviews, MSCI resisted including China A-shares due to market accessibility issues. The index provider listed three main obstacles in its 2016 consultation, two of which have been addressed:

Obstacle

Market participants are seeking the full removal of the 20% QFII monthly repatriation limit



Progress

- The RQFII scheme was changed in September 2016
- Shenzhen-Hong Kong Connect was launched in December 2016

Effective implementation of new trading suspension treatment



- Shanghai and Shenzhen stock exchange implemented new trading suspension rules

Resolution of pre-approval requirements by the local exchanges on launching financial products



- There have been some developments, but largely remains an issue

Prior to this announcement, MSCI relaxed its criteria for inclusion by cutting the number of proposed stocks that can be traded by foreigners through the Stock Connect Link from 448 to 169. MSCI then increased its selection by 53, for a total of 222 stocks and will include Hong Kong-listed stocks that are well-known by foreigners. The stocks will represent a weighting of 0.73% in the MSCI Emerging Market Index. Even though the initial market impact will be small, the inclusion has significant symbolic significance for China's capital market liberalization efforts, as it puts an international seal of approval on the country's onshore A-shares market.

Interbank Bond Market Developments

Following recent market structure developments in China's Interbank Bond Market (CIBM), the Chinese central government announced plans earlier this year to establish a bond-trading link between Hong Kong and mainland China (Hong Kong-China Bond Connect). The objective of this initiative is to provide international investors looking to purchase/trade mainland bonds access through Hong Kong.¹ Although there are other schemes such as CIBM Direct to access this market, Bond Connect will enable foreign investors who do not already have a presence in China to access China's bond market and avoid registration procedures for new entrants.²

The Shanghai Clearing House (SHCH) is also working collaboratively with the TMX Group to develop a bond market link, following similar initiatives with Euroclear and HKEx. The

objective of the linkage is to position Toronto as the North American hub for Chinese bond market access.³

Clearstream Banking S.A. announced in March that it had signed a partnership agreement with China Central Depository and Clearing (CCDC). The agreement will allow for direct connectivity between the CIBM and Clearstream's settlement system and will make it easier for foreign investors to hold domestic bonds, because they can avoid opening special accounts with onshore agents.⁴

As of December 2016, foreign investors held approximately 2% of Chinese government bonds, just RMB 852bn (\$123.4bn) in Chinese bonds, up by RMB 100bn compared with a year earlier.⁵

Access to FX hedging market in February 2017

On February 27, 2017 the State Administration of Foreign Exchange (SAFE) announced that foreign institutional investors are now allowed to participate in the onshore FX derivatives market and trade derivatives for hedging currency risk. According to the SAFE circular, foreign institutions have access to valuable risk management tools including forwards, swaps, cross-currency swaps, and options with domestic settlement agents, while access is limited to hedging needs of private-sector investors' onshore bond positions. This action will boost the liberalization of the interbank bond market, further attract capital inflows of foreign investors, and should help improve liquidity in the market.

¹Financial Times, China-Hong Kong Connect Link to open by year end, March 15, 2017

²CIBM Direct requires foreign investors to register with the PBOC to obtain quota-free access

³China clearing houses partners with Canada's TMX in bond market push, April 8, 2017

⁴Clearstream Aims for direct China bond Link, says Co-CEO, Global RMB - 2017

⁵Clearstream Aims for direct China bond Link, says Co-CEO, Global RMB - 2017

SAFE.gov.cn, Widening the opening-up of foreign exchange market and boosting the Liberalization of the Bond Market
 – Feb, 27, 2017

RQFII Quotas and Approved Allocations

Location	Quota (RMB bn)	Allocated (RMB bn)
Hong Kong	270	270
South Korea	120	73.7
Singapore	100	66.88
UK	80	30.794
Australia	50	30
France	80	24
Luxembourg	50	14.187
United States	250	11
Germany	80	10.543
Switzerland	50	7
Canada	50	1.925
Thailand	50	1.10
Chile	50	0
Hungary	50	0
Ireland	50	0
Malaysia	50	0
Qatar	30	0
United Arab Emirates	50	0
TOTAL	1,510	541.129

Canadian RQFII Holders	Date of Approval	Approval (RMB m)
CI Investment	29-Oct-15	225
Ontario Pension Board	23-Feb-16	1,600
CCPIB	28-Nov-16	100

Top Global RQFII Holders	Country	Total (RMB m)
CSOP Asset Management	Hong Kong	46,100
Vanguard	Australia	30,000
E Fund Management (UK)	Hong Kong	27,200
China Asset Management (HK) Limited	Hong Kong	21,800
Blackrock	Singapore	20,000
Harvest Global Investment	Hong Kong	14,740
Blackrock Fund Advisors	U.S.	11,000
Haitong International Holding Ltd	Hong Kong	10,700
Bosera Funds (International) Limited	Hong Kong	9,600
Shinhan BNP Paribas Asset Management	South Korea	8,000

Source: Global RMB. Data March 13. 2017



The Toronto Financial Services Alliance (TFSA) is a unique, public–private partnership dedicated to growing Toronto region’s financial services cluster and building it as a “top ten” global financial services centre. Established in 2001, TFSA is a collaboration involving three levels of government, the financial services industry and academia.

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