

CNH and China QFII market: Opportunities and Challenges – A Fund Custodian and Administrator's Perspective"

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Agenda

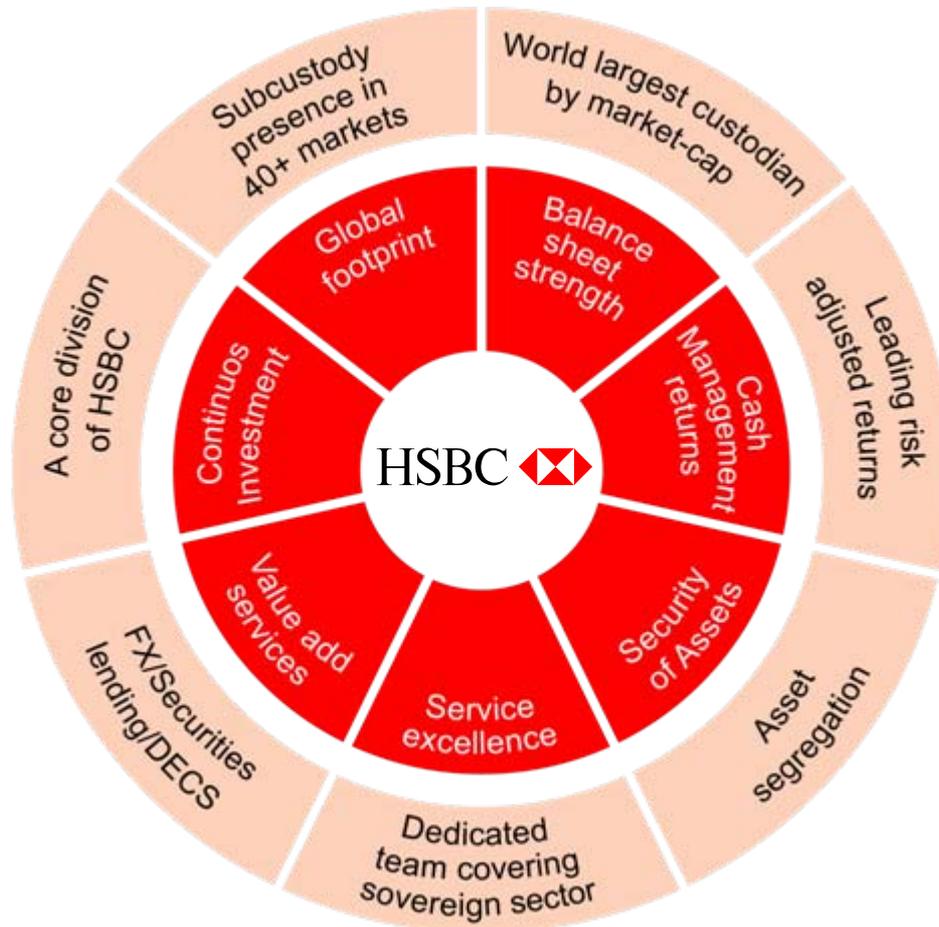
- **About HSBC Securities Services (HSS)**
- **Introducing CNH Market**
- **RMB Funds in Hong Kong**
- **Opportunities & Challenges**
- **China QFII Updates**

About HSS



HSS – A Strong and Dedicated Partner

- Contributes in excess of \$2bn revenue; represents 13% of Global Banking & Markets revenue
- Over 100 years of securities services experience
- US\$5.6 trillion assets under custody
- US\$2.5 trillion assets under administration
- Teams in 48 countries
- Custodian network of 95 markets, 42 of which are HSBC entities



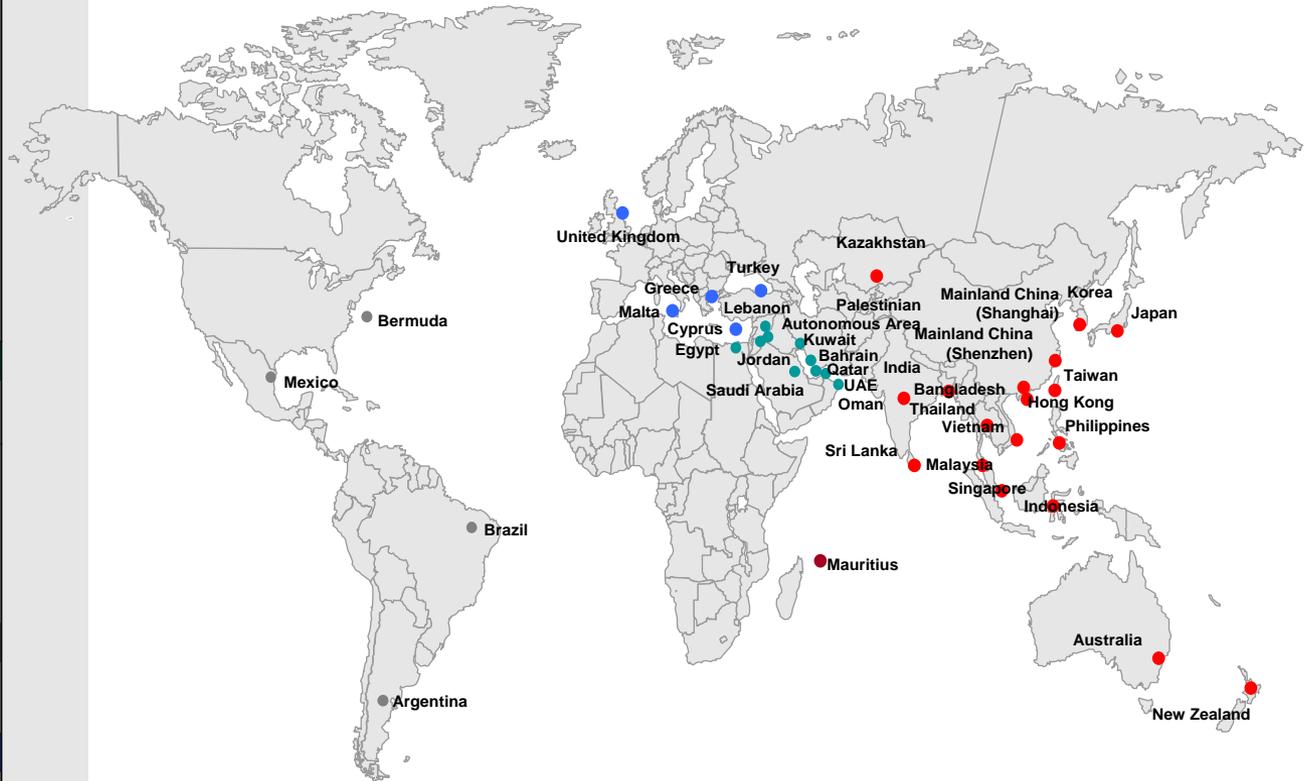
“Our securities services business represents an important activity for the Group“

*HSBC Group
Chairman*

HSBC 

HSBC's Unparalleled Sub-Custody and Clearing network

Asia-Pacific	
Australia	Malaysia
Bangladesh	New Zealand
Hong Kong	Philippines
India	Singapore
Indonesia	Sri Lanka
Japan	Taiwan
Kazakhstan	Thailand
Korea	Vietnam
Mainland China – Shenzhen	Mainland – Shanghai
Middle East and North Africa	
Bahrain	Palestinian Autonomous Area
Egypt	Qatar
Jordan	Saudi Arabia
Lebanon	UAE – ADX and DFM
Oman	UAE – DIFX
Kuwait	
Americas	
Argentina	Bermuda
Brazil	Mexico
Europe	
United Kingdom	Cyprus
Greece	Malta
Turkey	
Africa	
Mauritius	



- Asia-Pacific
- Middle East and North Africa
- Americas
- Europe
- Africa



Our Global Network of 95 markets

Asia-Pacific

Australia Bangladesh China Shanghai China Shenzhen Hong Kong India Indonesia Japan Malaysia New Zealand
 Pakistan Philippines Singapore South Korea Sri Lanka Taiwan Thailand Vietnam

Europe

Austria Belgium Bulgaria Clearstream Croatia Cyprus Czech Rep. Denmark Estonia Euroclear
 Finland France Germany Greece Hungary Ireland Italy Kazakhstan Latvia Lithuania
 Lux Malta Netherlands Norway Poland Portugal Romania Russia Slovakia Slovenia
 Spain Sweden Switzerland Turkey UK Ukraine

Middle-East and Africa

Bahrain Benin Botswana Burkina Faso Egypt Ghana Israel Ivory Coast Jordan Kenya
 Kuwait Lebanon Malawi Mali Mauritius Morocco Namibia Niger Nigeria Oman
 Palestine Qatar Saudi Arabia Senegal South Africa Swaziland Tanzania Togo Tunisia UAE
 Uganda Zambia Zimbabwe

Americas

Argentina Bermuda Brazil Canada Chile Colombia Mexico Panama Peru Trin.. & Tob.
 Uruguay USA Venezuela

HSBC has a proprietary network across 42 markets...

HSBC Securities Services

Global, regional, and domestic securities services

HSS provides full support in providing custodial and administration services to RMB/ CNH Funds/ custodian mandate globally and regionally

- **What we do:**
 - **Fund accounting and administration**
 - **Transfer agency services**
 - **Global custody**
 - **Sub-custody and clearing**
 - **Corporate trust and loan agency**

- **Why we're different:**
 - **Over 100 years of experience in securities services**
 - **Part of one of the most strongly capitalised and liquid banks in the world**
 - **World class services adapted to local market needs**
 - **Deep understanding of the industry and specialist knowledge of regulations**
 - **Superior global footprint with teams on the ground in 48 markets**
 - **Local time zone, currency and language support**
 - **Access to the entire range of HSBC products and services**

Introducing CNH Market



Background

2003

Settlement Agreement signed

2004

RMB Personal Business - RMB 20,000 per day

2005

Designated Business Customers

2009

Pilot Scheme for RMB Trade Settlement

2010

Hong Kong Monetary Authority's Supervisory Principles

2010

Supplementary Memorandum Between HKMA & PBOC

2010

Revised Settlement Agreement Between HKMA & PBOC

2020

Market expects: RMB fully convertible ?

Major Developments Since July 2010

Corporate RMB Account

3rd Party Transfer

No Restriction on RMB Products

Daily limit for Individual

No RMB Borrowing

➤ **RMB Funds**

➤ **CNH Subscription**

➤ **RMB Funds**

➤ **No Conversion Limits for Corporate**

RMB Funds in Hong Kong



Authorized Fund Market

- **Subscription and redemption in RMB only**
- **Investments in RMB only: RMB share class cannot invest in non-RMB assets**
- **HK\$ or US\$ Share Class not possible**
- **Investments in securities outside PRC only**
- **Value of the scheme's holding of securities issued by any single issuer may not exceed 10% of its total asset value**
- **Up to 30% of a scheme's total net asset value may be invested in Government and other public securities of the same issue**
- **Health warning – limited pool of investments, RMB currency risk, investment risk, liquidity risk, credit risk, 'Product Key Facts' statement**

Un-Authorized Fund Market

Un-authorized market is much larger than the authorized one for the time being

- Hong Kong versus Offshore Domicile
- Launched in Private Offering then Public
- Flexibility in having classes in different currencies
- Flexibility in underlying investments
- Recent launches evidenced investor's strong interest

Mini QFII Funds

- Background
- Hong Kong retail RMB funds investing RMB into China's domestic markets
- Over 20 asset managers have shown interest in launching
- Parties to support Mini-QFII
- Requirements in launching – CSRC, SAFE, HKSFCA

Opportunities & Challenges



Opportunities & Challenges

You need a strong partner who knows the dynamics of this new market

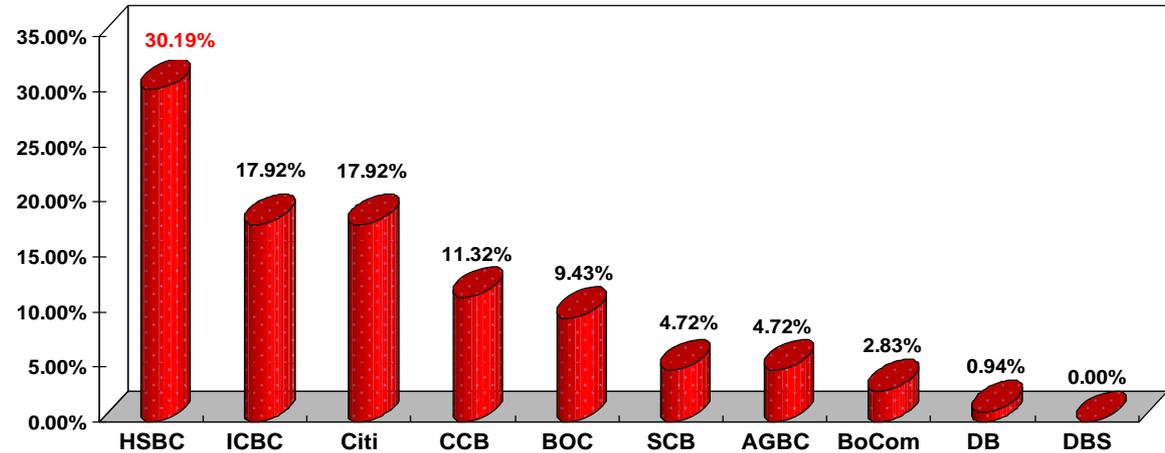
- CNY market – China A – still very popular
- CNH market - High growth and strong demand – Mega launches
- New product developments – IPO, REITs
- Limited investments
- Custodial capabilities
- Exchange rate – CNY versus CNH
- Third party account opening
- CNH redemption requires liquidity management

China QFII Updates

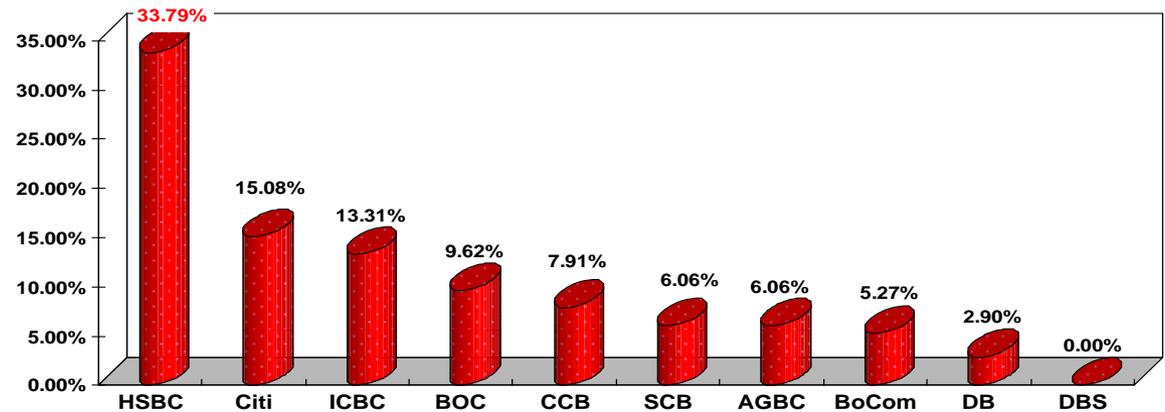


HSBC QFII Market Share

HSBC is well-positioned
in this space



■ % in terms of No. of QFII (as of December 2010)



■ % in terms of Quota under Custody (as of September 2010)

Latest Situation

- **Screen of the securities assets – only include listed and publicly traded securities**
- **Prefer long-term investor**
- **Moderate quota allocated to allow more participants into the market**
- **CSRC and SAFE jointly review the application and would come up with a list to be reviewed on quarterly basis**
- **SAFE internal committee reviews QFII/QDII quota applications on monthly basis**
- **Applicant must be the actual user of quota**
- **Sell / transfer quota is not allowed**
- **No long approve quota to new applicants for structured product issuing like p-notes (except ETF issuer)**

Recent Market Development

- **Index Futures**
 - **Revised trading rules in February 2010**
 - **CSI 300 Index Futures launched in April 2010**
 - **Participants include local individuals and institutions**

- **Margin Trading/ Short selling**
 - **Launched in March 2010**
 - **25 securities companies approved**
 - **Not ready for QFIIs as yet**

Future Market Development

Opportunities for Absolute Return managers and provides risk management tools to market participants

- **Index Futures**
 - **Market expects CSRC is finalizing Guideline for QFIIs in Index Futures Trading**
 - **QFIIs can only engage in index futures trading for 'hedging' purpose**
 - **QFII may apply for long and short position in the hedging quota application**
 - **QFIIs shall wait for CSRC's release of official Guideline in order to proceed with trading code and hedging quota applications**
 - **Each QFII can appoint up to 3 local futures brokers**
 - **QFII has to open a Futures Clearing Account (FCA) with one of the futures margin depository banks**

- **Multiple Broker**
 - **QFIIs may appoint 3 brokers in each exchange**
 - **Expected to stimulate brokers to provide better services**
 - **Stock Exchanges will release revised QFII trading rules and QFII will be able to appoint 3 brokers per market at QFII level after the promulgation**

Award Winning Services: 2010

Media group	Award
	Best Emerging Markets Bank
	Best Fund Administration for Alternative Asset Classes
	Best Fund Administrator for Traditional Products
	Islamic Custodian of the Year
	Best Custodian Germany
	Best Custodian UK & Ireland
	Best European Mutual Fund Administrator
	Best Fund Administrator Channel Islands
	First in Fund Accounting and Administration Survey
	Mutual Fund Administration Survey Top Rated: >\$5bn, Europe, <\$100m, Equity, Fixed Income, Other Funds, Global, Multi-Provider. Commended: \$100m-\$1bn, \$1bn-5bn, Asia-Pacific, Middle East, Fund of Funds, Single Provider
	Hedge Fund Administration Survey Top Rated: Asia-Pacific Commended: <\$100m, \$100m - \$1bn, \$1bn+, Single Strategy, Multi Strategy, Fund of Funds, North America, Europe, Leading Clients, Single Provider, Multi Provider, Global

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