

# Investing in Chinese Capital Markets

## What Members Are Asking

*During our January 10, 2018 webinar, **Investing in Chinese Capital Markets**, a panel of seasoned experts sat down to discuss trends in foreign investment in China's capital markets. Below is a sampling of the questions asked by NICSA members during the live program.*

### **What is the status for inclusion of the China equity market in the major indices?**

**Florence:** At this moment, neither the China A-share market nor the China bond market, is included in the major indices. The MSCI has made a decision on the equity side and those changes are expected to be seen in May of this year. Although not a major weighting, this inclusion will be a good start and we expect to see an increase in foreign participation in this market as a result.

**Stéphane:** We've been expecting MSCI inclusion for a number of years. Clearly, some of the constraints were related to QFII and RQFII and we really had to wait until Stock Connect was fully operational including the Shenzhen Stock Exchange. Even given the small weighting for the MSCI index, inclusion is very important because increasing the weight thereafter will be easier than authorizing the inclusion.

### **What about index inclusion of the China bond market?**

**Florence:** The China bond market is not represented by any weighting at



## The Experts

Stéphane Karolczuk  
Partner  
Arendt & Medernach

Florence Lee  
Head of China Sales & Business  
Development – EMEA  
HSBC Securities Services

any of the major bond indices. Our hope is that the opening of Bond Connect is acting as an accelerator to help these bond index providers. You have to make sure that the market is liquid enough, and that counterparty risk will be addressed. This is very important for bond index providers. If China can quicken the clarification of major issues, such as the DVP settlement and taxation, this may aid in billions of dollars going into China.

**Stéphane:** We see that Stock Connect is a key driver for MSCI inclusion, and many expect that Bond Connect may have the same impact on bond inclusion in the major bond indices. I share the view that having Bond Connect clarified and made available to the wider range of stake holders – fund managers in particular – will help to accelerate the process of having China fixed income securities finding their way into the major fixed income indices.

#### **How can foreign investors gain access to the convertible bond market in China?**

**Florence:** Investment in the local Chinese convertible bond market can only be done only via the QFII / RQFII schemes. The CIBM Direct and Bond Connect schemes, however, can provide access to cash bonds and primary issuances.

#### **What are the investment implications and differences between onshore yuan CNY/ and offshore CNH? Which currency do Stock Connect trades settle in?**

**Florence:** The basis differential between the CNY and CNH is due primarily to CNH liquidity fluctuation. Stock Connect trades settle in CNH because accounts are opened in HK (offshore).

Source: Transcript excerpts from NICSA webinar, January 10, 2018.

Note: Although the observations contained in this work represent the best thoughts of the individuals comprising the NICSA webinar panel, they do not necessarily reflect the views of NICSA or any of its member organizations.

## Want More Information?

[NICSA blog](#) (webinar recap)

[Webinar replay](#) (members only)

[Knowledge Center](#) (members only)

Available at [nicsa.org](http://nicsa.org)

### **NICSA:**

Connecting global asset management industry participants in order to develop, share and advance leading practices for over fifty years.

Live programming and CPE credits are available to all employees of NICSA member firm. To become a member, contact Anne De May at [ademay@nicsa.org](mailto:ademay@nicsa.org).

*This transcript comprises excerpts from a live NISCA webinar and should not be reproduced or disseminated without NISCA's prior consent. Not intended as a recommendation of best practices for implementation. Market participants should make their own independent evaluations and decisions about such matters. NISCA members can access the full webinar program **here**.*