China capital markets
Be prepared to seize the investment opportunities
China is opening up new doors to investment

China is widely regarded as one of the most attractive markets globally for investors. Yet, many corporate and institutional businesses may be unsure of where the opportunities lie or how to take advantage of them.

The good news is that in recent years, China has been reforming its capital markets, liberalising its financial system and internationalising its currency to encourage more foreign corporates and institutional investors to participate in its economy.

We are the perfect partner to help you take advantage of the opportunities in China’s capital markets. Recognised for our strength, experience and unrivalled network, we are here to support you.
Seizing China’s rising potential

China’s economy is more open and globally connected than ever before, with strong emphasis on trade and investment openness, and emerging new channels to help investors access its domestic capital markets.

**Did you know?**

**China’s capital markets**
- are among the biggest globally
- yet it is largely funded by domestic investors

China’s equity market: *world’s 2nd largest* (by total market cap)

China’s bond market: *world’s 3rd largest*

**China’s equity market**
- 1,355 listed companies on the Shanghai Stock Exchange (as of Sep 2017)
- 2,054 listed companies on the Shenzhen Stock Exchange (as of Oct 2017)

**China’s bond market**
- RMB 36trn bond issuance in 2016, up 56% from 2015

Almost half of global fixed income investors plan to increase exposures to China in the next 12 months

49%

**Equity access quota**
- USD 94.5bn QFII (Qualified Foreign Institutional Investor) quota issued
- RMB 589bn RQFII (RMB Qualified Foreign Institutional Investor) quotas issued

**RMB 26bn daily northbound quota**

**RMB 21bn daily southbound quota**

for Shanghai and Shenzhen – Hong Kong Stock Connect Programmes (as of Sep 2017)

**Internationalisation of RMB**
- RMB is the 3rd most actively used currency in trade finance (as of Oct 2016)
- RMB is the 6th most used global payment currency (as of Oct 2017)

**HSBC Qianhai**
- is the 1st majority foreign owned securities company in China (with a 51% stake)

**Notes:**
1. World Federation of Exchange, Dec 2016; Bank of International Settlements, Mar 2017
2. Shanghai Stock Exchange, Sep 2017; Shenzhen Stock Exchange, Oct 2017
4. China Securities Regulatory Commission, Sep 2017; Hong Kong Stock Exchange, Sep 2017; State Administration of Foreign Exchange, Sep 2017
5. Swift 2017
Increasing connectivity over time

China is gradually opening up its capital markets, with simplified channels, enlarged quotas and easier access for foreign financial institutions and investors.

What you need to know

- China has introduced simplified channels to enter the CIBM
- China has enlarged QFII and RQFII quotas to meet increasing demand and has improved the repatriation processes
- Easier cross-border trading between Hong Kong, Shanghai and Shenzhen stock markets
- Easier access to interbank foreign exchange market to hedge RMB foreign exchange exposure with onshore counterparties

2002
- Qualified Foreign Institutional Investor Scheme (QFII) launched
  - Opening up China’s A-share market to foreign investors for the first time

2003
- Opening up China’s B-share market to foreign investors

2004
- Opening up China’s H-share market to foreign investors

2005
- Qualified Foreign Institutional Investor Scheme (QFII) expanded

2006
- RMB Qualified Foreign Institutional Investor Scheme (RQFII) launched
  - RMB version of QFII officially launched, allowing onshore securities to be traded

2007
- China introduces simplified channels to enter the CIBM

2008
- China enlarges QFII and RQFII quotas

2009
- China improves the repatriation processes

2010
- Mutual Recognition of Funds (MRF) launched
  - Providing mainland China and Hong Kong products with new cross-border mobility

2011
- Inclusion of A-shares into MSCI’s Emerging Markets Index is announced
  - To be implemented in 2018, driving greater demand by foreign investors for onshore exposure

2012
- Shanghai-Hong Kong Stock Connect launched
  - Providing a new route into China’s largest stock exchange

2013
- China Interbank Bond Market (CIBM) Direct launched
  - Giving foreign financial institutions access to a wide range of fixed income instruments in China’s bond market

2014
- October 2014
  - Inclusion of RMB into the International Monetary Fund’s Special Drawing Right currency basket
  - RMB now makes up 10.92% of the basket

2015
- December 2015
  - Inclusion of A-shares into MSCI’s Emerging Markets Index

2016
- June 2016
  - Bond Connect launched
  - Allowing overseas investors to trade on the CIBM with their usual international methods via the Connect platform and settle bonds more simply via Hong Kong

2017
- December 2017
  - Inclusion of A-shares into MSCI’s Emerging Markets Index is announced
  - To be implemented in 2018, driving greater demand by foreign investors for onshore exposure

2018
- Inclusion of A-shares into MSCI’s Emerging Markets Index
  - To be implemented in 2018, driving greater demand by foreign investors for onshore exposure

2019
- Shenzhen-Hong Kong Stock Connect launched
  - Providing access to a market that is home to many “new economy stocks” in sectors like technology, media and healthcare

2020
- Inclusion of A-shares into MSCI’s Emerging Markets Index
  - To be implemented in 2021, driving greater demand by foreign investors for onshore exposure

2021
- Inclusion of A-shares into MSCI’s Emerging Markets Index
  - To be implemented in 2021, driving greater demand by foreign investors for onshore exposure

2022
- Inclusion of A-shares into MSCI’s Emerging Markets Index
  - To be implemented in 2022, driving greater demand by foreign investors for onshore exposure

2023
- Inclusion of A-shares into MSCI’s Emerging Markets Index
  - To be implemented in 2023, driving greater demand by foreign investors for onshore exposure

2024
- Inclusion of A-shares into MSCI’s Emerging Markets Index
  - To be implemented in 2024, driving greater demand by foreign investors for onshore exposure

2025
- Inclusion of A-shares into MSCI’s Emerging Markets Index
  - To be implemented in 2025, driving greater demand by foreign investors for onshore exposure

2026
- Inclusion of A-shares into MSCI’s Emerging Markets Index
  - To be implemented in 2026, driving greater demand by foreign investors for onshore exposure

2027
- Inclusion of A-shares into MSCI’s Emerging Markets Index
  - To be implemented in 2027, driving greater demand by foreign investors for onshore exposure

2028
- Inclusion of A-shares into MSCI’s Emerging Markets Index
  - To be implemented in 2028, driving greater demand by foreign investors for onshore exposure

2029
- Inclusion of A-shares into MSCI’s Emerging Markets Index
  - To be implemented in 2029, driving greater demand by foreign investors for onshore exposure

2030
- Inclusion of A-shares into MSCI’s Emerging Markets Index
  - To be implemented in 2030, driving greater demand by foreign investors for onshore exposure
## Investing in China’s capital markets

With the further opening up of the onshore capital market, offshore investors can now access China’s equity and bond markets via a variety of schemes. The schemes are designed for different types of investors and products.

<table>
<thead>
<tr>
<th>Applicable products</th>
<th>Eligible investors</th>
<th>Dealt currency*</th>
<th>Asset allocation</th>
</tr>
</thead>
</table>
| **QFII Scheme**     | • Exchange-listed A-shares, bonds and warrants  
                      • Fixed income products traded in interbank bond market  
                      • Securities investment funds  
                      • Index futures (for hedging only)  
                      • Subscription to initial public offerings, additional issuance, rights issues and convertible bond issuance | • Overseas asset management companies, insurance companies, securities firms, banks, funds, government agencies | Onshore CNY | No restriction on asset allocation |
| **RQFII Scheme**    | • Exchange-listed A-shares, bonds and warrants  
                      • Fixed income products traded in interbank bond market  
                      • Securities investment funds  
                      • Index futures (for hedging only)  
                      • Subscription to initial public offerings, additional issuance, rights issues and convertible bond issuance | • Qualified financial institutions in designated offshore RMB markets | Onshore CNY | No restriction on asset allocation |
| **CIBM Scheme**     | • Cash bonds in interbank market, including government bonds, People’s Bank of China (PBoC) bills, financial bonds, commercial paper, medium-term notes, bond forwards, bond lending and other instruments  
                      • Derivatives such as bond forwards, bond lending, interest rate swaps and forward rate agreements  
                      • Type 2 and 4 investors are only allowed to invest in derivatives for hedging purposes; type 3 investors are only allowed to invest in cash bond and certificates of deposit; no restriction for type 1 investors | • Type 1: Central banks, monetary authorities, international financial organizations, sovereign wealth funds  
                      • Type 2: RMB clearing banks, overseas RMB participating banks  
                      • Type 3: QFIIs and RQFIIs  
                      • Type 4: Other foreign institutions | Onshore CNY and foreign currency | No restriction on asset allocation |

*CNY refers to onshore RMB and CNH refers to offshore RMB.
# Investing in China’s capital markets

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<th>Eligible investors</th>
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<tbody>
<tr>
<td><strong>Inbound Investment</strong></td>
<td></td>
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<tr>
<td>Bond Connect</td>
<td>• Fixed Income instruments in interbank market, including government bonds, PBoC bills, financial bonds, commercial paper, medium-term notes and other instruments (The initial phase of Bond Connect only supports Northbound Trading by institutional professional investors)</td>
<td>• Central banks, monetary authorities, international financial organizations, sovereign wealth funds</td>
<td>CNH or CNY (dealt offshore)</td>
</tr>
<tr>
<td><strong>Two-way Investment</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>China Stock Connect</td>
<td>Northbound • Constituent stocks of SSE180 index and SSE 380 index • Constituent stocks of SZSE Component Index and SZSE Small/Mid Cap Innovation Index with market capitalisation not less than RMB 6 billion</td>
<td>Northbound • All Hong Kong and overseas institutional and individual investors</td>
<td>CNH</td>
</tr>
<tr>
<td></td>
<td>Southbound • H-shares in LargeCap index and Mid-Cap index • H-shares in SmallCap index with market capitalisation not less than HKD 5 billion • Dual-listed A and H shares on SSE or SZSE and SEHK</td>
<td>Southbound • Qualified mainland investors (Remarks: ChiNext participation is limited to institutional professional investors)</td>
<td></td>
</tr>
<tr>
<td>Mutual Fund Recognition (MRF)</td>
<td>Northbound</td>
<td>General investors for publicly offered funds in mainland China and offshore markets</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>• General equity funds • Bond funds • Mixed funds • Unlisted index funds • Physical index-tracking exchange traded funds</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
We know the way

With our unrivalled heritage in China together with our global presence, leading service and financial expertise, we can show you and your business the way.

Global network

with over

3,900 offices
across 67 countries and territories.

Leading international bank in China

We are the leading international bank with the largest onshore network in China and 24 China desks around the world.

Leading international bank for RMB

We have established RMB trade settlement capabilities across more than 50 markets globally and dedicated RMB experts in key offshore centres.
HSBC Qianhai: Your competitive advantage

We have partnered with Qianhai Financial Holdings to offer HSBC Qianhai. HSBC Qianhai is your simple, convenient doorway into China’s capital markets. HSBC is the first foreign bank to have a majority-owned securities joint venture in China.

1. Sharing your strategic vision

We start by understanding your business

We recognise that the world’s capital markets are complex and highly interconnected, and that clients with strategic China interests look to us for advice and well-established execution services. Only by investing the time to understand your business’s background, strategy, people, infrastructure, policies and procedures we can provide you with the bespoke services you need to achieve your goals.

Phase 1 – we have obtained the following licenses in November 2017 to offer:

- Underwriting and sponsoring
- Brokerage
- A-share research

Phase 2 – by the end of 2018 we are applying for licence to offer:

- Mergers and acquisitions advisory
- Trading
- Asset management

2. Extensive capabilities in underwriting and sponsoring

Need securities underwriting and sponsoring advice?

HSBC Qianhai offers a wide range of securities underwriting and sponsoring expertise:

- Primary equity and debt capital markets
- Secondary equity offerings
- Bespoke structured financing
- Corporate advisory services:
  » Business valuation
  » Negotiation
  » Pricing and structuring of transactions

Looking to access China’s debt capital markets?

If you’re looking to raise funds from fixed income instruments, we can help you access China’s huge onshore debt capital markets, one of the largest bond markets in the world. We offer:

- Well-established international bank with on-the-ground debt capital markets teams
- Holistic financing solutions encompassing both the exchange and interbank markets jointly with other HSBC entities
- Facilitation of two-way cross-border financing
- Support for domestic issuers to access the international debt markets
- Competitive debt financing solutions including:
  » Enterprise bonds, corporate bonds, medium-term notes and commercial paper
  » Financial bonds
  » Asset backed securities
  » Panda bonds
  » Hybrid and sustainable bonds

Require equity capital markets expertise?

Our capabilities in onshore equity issuance complement HSBC’s leading international banking platform. This vital piece of our capital financing services covers a broad range of products including:

- Initial public offerings
- Follow-on offerings
- Rights, convertible bonds, exchangeable bonds, and preferred shares issues
HSBC Qianhai: Your competitive advantage

3. Experience and advice in Mergers and Acquisitions (M&A)

A full range of M&A advisory services (upon obtaining license)*
We aim to offer M&A advisory services to state-owned and privately owned Chinese corporates, multinationals, financial sponsors and sovereign wealth funds.
Our experienced teams will be able to help you achieve further growth and expansion through both domestic, outbound and inbound activities including:
- Overseas investments
- M&A transactions
We will also work closely with HSBC’s global M&A bankers, sector specialists and financing solutions teams to execute complex cross-border transactions.

Experienced M&A teams with a breadth of knowledge
- Our global M&A business is handled by specialist M&A bankers in nearly 30 countries around the world, including some of today’s fastest growing emerging markets
- Product specialists delivering on-the-ground, in-depth insights
- Bankers based in the relevant country or region
- Specialists with relevant industry expertise

4. Keeping you informed with Global Research

High quality, award-winning research and analysis
Our analysts are ready to equip you with topical, relevant and actionable ideas and commentary. We aim to cover over 400 pure A-share companies by the end of 2020, with a focus on the higher growth new economy sectors. The research reports will be published in English and Chinese simultaneously and distributed globally, as the first of their kind. Insights include:
- Major investment themes
- Breaking news
- Global views and local ideas
- Insight on specific opportunities
- Global research on the macro-economy, foreign exchange, stocks and fixed income in existing and emerging markets

5. Helping you access China’s markets

Providing a range of China securities brokerage services
By leveraging HSBC’s long-established connectivity to issuers, markets and investors, HSBC Qianhai gives you world-class brokerage services, and access to China’s exchange traded equity and fixed income markets.
Our broad execution capabilities and strong network can help you enhance your market liquidity and efficiency.
Our range of services includes:
- Connection to HSBC teams around the world in 80 countries and cash bonds across 50 countries
- Sales coverage on cash equities and bonds
- Real-time connectivity to the Shanghai and Shenzhen Stock Exchanges
- Trade reporting
- Research publication
- Corporate access services

*We are applying for a license to offer M&A advisory and other services by the end of 2018.
A strong partner in China

With our global network and in-depth local knowledge, we are uniquely qualified to fulfil the needs of corporate and institutional businesses looking to seize the huge opportunities within China’s capital markets.

Leading foreign bank in providing China connectivity

HSBC China has the most banking and investment related licenses among foreign banks.

Best offshore RMB services provider across Asia Pacific

HSBC has been the winner of “Best Overall Provider of Offshore RMB Products and Services” in the Asiamoney Offshore RMB Poll for six consecutive years, and voted as the best in the following categories in 2017:

- Liquidity management
- Clearance, transaction banking and settlement
- Bond origination
- Research
- Foreign exchange
- Advice/information on offshore RMB regulations
- Fund services
- Derivatives
- Fund investment
- Wealth management

Strong presence in the Pearl River Delta

Our market leadership in Hong Kong has provided a strong basis on which to build a sizeable presence in the Pearl River Delta area, particularly in the growth areas of:

- Foreign exchange
- Derivatives
- Metals
- Cross-border businesses

Highly active in corporate access

- Over 120 group and bespoke investor trips to China in 2017
- Flagship annual China conference in Shenzhen with 150 corporates
- China Discovery Forum with 20 corporates
- Dedicated corporate access team in Shenzhen

Leading bank in Bond Connect

HSBC China is one of the Bond Connect onshore dealers appointed by the PBoC to provide quotes and trade directly with foreign investors.

HSBC Hong Kong is one of the settlement banks in Hong Kong permitted to provide foreign exchange conversion from foreign currencies to RMB at onshore CNY rates and related hedging services, and also offers custodian services.

Leading bank in QFII and RQFII custody

HSBC is the leading onshore custodian bank in the QFII and RQFII schemes, with 33% and 54% of market share in terms of quota under custody respectively (as of Sep 2017).

Extensive China research capabilities

We have comprehensive research coverage of the China market across all asset classes on topics including:

- Economics
- Credit
- Currencies
- Equities
- Fixed Income
- Rates
- Climate change

Significant market share in Stock Connect

Our combined trading and custody strategy has seen us capture significant Stock Connect market share where we hold between 40-45% of the Shanghai Connect shares.

Strong in China Interbank Bond Market (CIBM)

- First foreign bank approved as joint lead underwriter for Panda bond issuances by offshore non-financial corporates in CIBM. This is on top of the current capabilities to act as joint lead underwriter for Panda bond issuance by foreign financial institutions and sovereigns.
- Bond settlement agents to assist foreign investors to access the onshore interbank bond market.
- Leading wallet share in offshore central banks trading among foreign banks.

Multi-award winning in Asia

- Asiamoney Country Awards 2017 – Best International Bank in China
- Euromoney Awards for Excellence 2017 – Asia’s Best Bank
- FinanceAsia Country Awards 2017 – Best Foreign Bank in China

1 Internal HSBC analysis based on information from the State Administration of Foreign Exchange
2 Internal HSBC analysis based on information from the Hong Kong Stock Exchange
3 www.gbm.hsbc.com/about-us/awards/2017
Seize the investment opportunities in China’s capital markets.

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