

RMB INTERNATIONALISATION

Translating Policy into Practice

This report follows GreySpark's *RMB Internationalisation: Easing Foreign Investor Access to Mainland China*, presenting the current state of the RMB investment landscape. China has come a long way toward internationalising its currency. China's current account is open and serious progress is being made on opening the capital account as well. While fundamentals such as exchange rates are not yet market driven, investment opportunities in China and RMB-denominated securities are abundant and access to them is becoming easier.

Shanghai-Hong Kong Stock Connect

Foreign investors can trade a restricted set of equities listed on the **Shanghai Stock Exchange**, and Chinese investors can trade a restricted set of equities on the **Hong Kong Stock Exchange**

Access to onshore equities by foreign investors is easier than ever before. Foreign investors have access to **equities** listed on both the Shanghai (typically SOEs), and Shenzhen (typically non-SOEs) exchanges.

Bonds, equities and ETFs can be bought and sold on the Shanghai and Shenzhen stock exchanges using either the:

QFII scheme where foreign institutional investors can convert foreign currencies into RMB to invest in mainland China.

RQFII scheme where foreign institutional investors can channel RMB funds raised outside mainland China into investment in the mainland securities market.

QFII RQFII

While the trading of derivative instruments is not yet widespread on the mainland, as of Q1 2015, trading volumes of CSI300 **index futures** are growing and the field is widening with the introduction of **index options** on CSI300 in February 2015.

Buy-side Institutional Investors

Chinese Domestic Investors

RMB-denominated bonds are available in many international financial centres including Hong Kong, Singapore, London, Frankfurt and Paris, and a wide range of **RMB derivatives** are available.

RMB internationalisation

An offshore regulatory drive to build **RMB hubs** in global financial centres and an onshore focus on progressing reforms to open up China's capital account are helping to grow the global use of RMB.

Sell-side Financial Institutions

Onshore Derivatives

Equities

There are two categories of onshore bonds of which investors have access:

China Interbank Bond Market – corporates, institutional investors and other buy-side and sell-side firms can invest in this market.

Onshore Exchange-traded Bonds — issued by Chinese or foreign firms.

Offshore RMB Bonds & Derivatives

Bonds

Foreign investors have multiple options for investing in **funds** that include China-listed securities in their portfolios. There are active and passive funds available, funds that are index-linked, and funds that are based on fixed income, equities or balanced portfolios.

Funds

Retail Investors

Mutual Recognition of Funds Agreement

The **Mutual Recognition of Funds Agreement** between Hong Kong and China will allow fund managers in both jurisdictions to sell units to citizens across the border.

RMB

Key Facts

- There are increasing options for investors to gain exposure to China as the capital account is gradually opened
- Liquidity is still an issue and may hinder the development of secondary markets
- China's foreign investment law review may provide a step change that improves the investment environments for foreign investors in China
- The derivatives markets are still under-developed in mainland China but RMB derivatives markets are growing offshore
- Mutual recognition of funds between China and Hong Kong may provide a template for agreements with other nations to expand the accessibility of funds to citizens on both sides of the border

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