CHINA ACCESS SCHEMES

Funding Services

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Hi, my name is Shirley Chieu. I am a Global Markets Consultant at BNY Mellon who is responsible to provide clients with market intelligence and support.

One of the key challenges in China is the multiple FX and funding models across the access schemes in the onshore and offshore markets. Additionally, there are exceptions for foreign central banks and sovereign entities in the FX and funding models in the onshore market. It is important that foreign investors choose the optimal FX and funding model to fit their business requirements and to ease their settlement process.

In this module, we will focus on the funding process for each access scheme to assist you to make the right choices for FX and funding model.

We will zoom in to the list of foreign currency endings that BNY Mellon uses to support the onshore and offshore markets, and the account framework and funding models for each access scheme.

In addition, we will highlight the FX conversion services and address some of the frequently asked questions you may come across. Let me first give you a little background on the difference between Renminbi (RMB) and Yuan. RMB is the official currency of China. Yuan is the basic unit of RMB, but it is also used to refer to the Chinese currency generally, especially in international contexts. This is similar to British Sterling and Pound. China is a unique market with one official CNY currency code but two dual currencies – CNH and CNY.

As the two currencies cannot be commingled, BNY Mellon adopts 4-digit cash account suffix to denote CNH and CNY held in the onshore and offshore markets. This slide illustrates the list of 4-digit cash account suffix to differentiate onshore and offshore RMB.

I will now walk you through the account framework to support these currencies in the onshore and offshore markets across the various access schemes.

Let’s first look at Bond Connect. For clients choosing CNH to fund their bond connect transactions, they may use the existing main custody account with BNY Mellon. This account is linked to the segregated Bond Connect account at the local custodian and the corresponding CMU ID at CMU.

The client cash account with BNY Mellon will be set up under the cash currency code 1568 for CNH. For receipt versus payment transactions, the local custodian must pay the cash proceeds to the CMU by 2pm local time. As such, clients are expected to ensure that their CNH account is funded before 2pm.

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For clients choosing CNY to fund their bond connect transactions, a new custody BNY Mellon account will be set up. This new BNY Mellon custody account will be linked to the segregated Bond Connect account at the local custodian and the corresponding CMU ID at CMU.

The client's cash account with BNY Mellon will be set up under cash currency code 1567 for CNY and exclusively for Bond Connect, with a corresponding new USD currency code 8400 or EUR 9780.

For receipt versus payment transactions, the local custodian must pay the cash proceeds to the CMU by 2pm local time. As such, clients are expected to ensure that their CNY account is funded before 2pm.

Clients enrolling for CNY FX service with BNY Mellon Markets, must first obtain prior approval from the BNY Mellon FX APAC team through their service director or relationship manager and is required to execute a FX representation letter with BNY Mellon.

This slide illustrates the account framework for Stock Connect at BNY Mellon and at the market level. As CNH is the only FX and funding currency, clients should use their existing main custody account, and link to the CNH account with the currency code 1568.

Next, lets' look at the QFI account framework with FX and funding methods in the onshore or offshore markets. For onshore FX and funding a.k.a. USD injection, each QFI is required to open the following accounts: a new custody account and CNY account with BNY Mellon, exclusively for QFI, a corresponding custody account and CNY account with the local custodian, a foreign currency account (usually USD) with BNY Mellon and the local custodian.

In addition, there is the Investor ID that needs to be set up and this is linked to the appointed broker at the central depository in the Shanghai and Shenzhen stock markets respectively.

If the QFI chooses to execute FX in the offshore market, this means that the client will have to effect a cross border transfer to the onshore market to support their domestic securities investment. It is referred to as RMB injection.

In this case, the client is required to open the following accounts: a new custody account and CNY account with BNY Mellon, a corresponding custody and CNY account with the local custodian, and the Investor ID which is linked to the appointed broker at the central depository in the Shanghai and Shenzhen markets.

Next, we shall discuss about CIBM via Direct or QFI channel. Clients are required to open the following accounts: a new custody account and CNY account with BNY Mellon, a corresponding custody and CNY account with the local custodian, and a foreign currency account (usually USD) with BNY Mellon and the local custodian, if the client is funding via USD injection.

Client must take note and use a single currency method for remittance and repatriation as there is a currency ratio control between inflow and outflow of currencies (CNY/FCY).

The ratio of RMB and foreign currency in the client's accumulated outward remittance shall be in-line with that of the accumulated inward remittance, and the fluctuation should be within plus or minus 10 percent.

In the next few slides, we will focus on the various funding models across the access schemes, particularly on the account structure, movement of funds and its associated SWIFT message types.

For QFI and CIBM access schemes, onshore FX conversion can be done via SWIFT instruction or negotiated basis.

Let me walk you through the FX execution via a SWIFT instruction and the funding process.
Clients must first remit foreign currency to their onshore foreign currency account with the local custodian. Clients should use SWIFT MT202, MT103 and MT210 payment instructions to instruct BNY Mellon to initiate the USD transfer.

The FX is booked with the local custodian via MT599 message. The client must provide BNY Mellon with the FX settlement instruction via MT202/MT210 in order to reflect the FX in their BNY Mellon cash account.

The onshore FX negotiated model can support both QFI and CIBM. The USD funding is instructed by MT202 and MT210. Clients must first remit foreign currency to their onshore foreign currency account with the subcustodian. Clients should use SWIFT MT202, MT103 and MT210 payment instructions to instruct BNY Mellon to initiate the USD transfer.

The FX is booked with the local custodian on a negotiated basis by the client, and as such client is not required to send any instruction to BNY Mellon for the FX. Clients must provide BNY Mellon with the FX settlement instructions via MT202/210 in order to reflect the FX in their BNY Mellon cash accounts.

Clients, as a member of CFETS, may participate in the China's Interbank Foreign Exchange Markets (CIFXM). Clients may place CNY FX order via CFETS with a third party bank in China, including BNY Mellon Shanghai.

For CNY FX executed with third party bank, including BNY Mellon Shanghai, the FX bank will transfer the CNY proceeds to the client's onshore account with the local custodian.

For purchase of CNY, clients must separately instruct MT210 to receive the CNY incoming funds.

For sale of CNY, clients must instruct MT202 to move CNY on settlement date.

Similarly, clients must instruct MT202 to pay USD to the third party FX bank and MT210 to receive USD from third party FX bank.

For repatriation, clients must request BNY Mellon to transfer CNY from their onshore CNY account at the local custodian. Transfers must be instructed via MT202 and MT103.

Clients must submit an one-off MT599 instruction with the account information of each appointed FX counterparty and the SWIFT format requirements for fund remittance from the third party's onshore cash account.

For the QFI and CIBM offshore FX cross border model, the FX takes place offshore. The CNH will be credited to the client's offshore CNH account.

The funds are then remitted to the client's onshore account at the local custodian via a cross border transfer using MT202 and MT210 payment instructions.

With the liberalization of CNY FX conversion for Bond Connect, investors are now allowed to appoint up to three FX settlement banks – one primary and two general FX settlement banks, instead of one FX settlement bank previously. Prior to that, client must registered for Bond Connect enhanced currency conversion service with the BCCL.

The table above summarizes the funding support model for clients who appoint a general FX settlement bank other than BNY Mellon to book the purchase and sale of CNY.

Next, we have listed out some of the frequently asked questions that clients may come across.

For example, you may want to know how third party FX is allowed for Bond Connect for CNY onshore currency, and the difference between primary and general FX settlement bank.

Scenario one and two answer these questions.

Scenario three, four and five provide more information about the Northbound Bond Connect CNY currency conversion services and the regular Bond Connect CNY currency conversion services offered by BNY Mellon.

Scenario six and seven explain how the minimum reserve fund amounts are reflected on the local CNY cash account, and how same day cash transfer between brokers are supported.

Should you have any questions, feel free to contact your local BNY Mellon representatives.

You can also visit our website for further market information about China inbound schemes.

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