

Cross Border Investment in Greater China Market

– A Case of A Share ETF

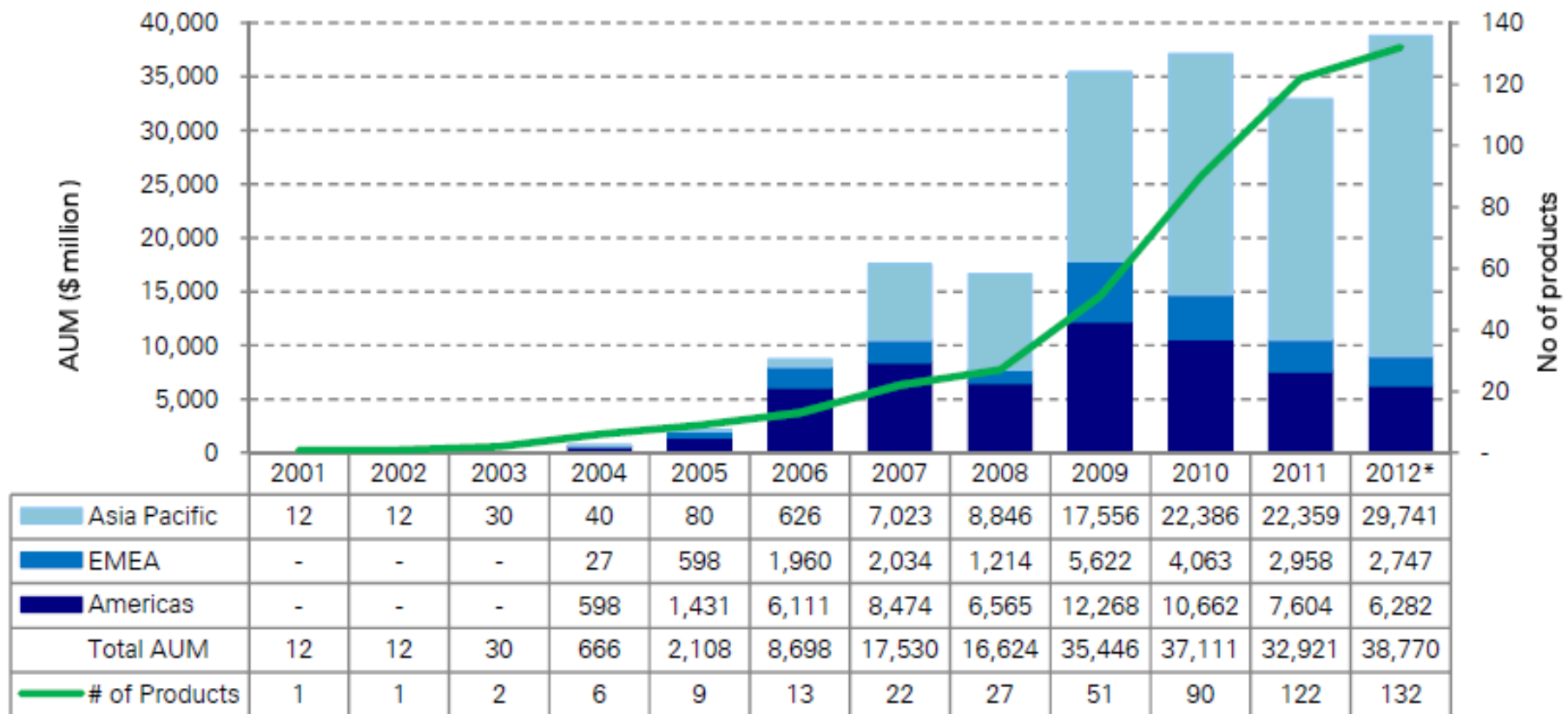
Gang Shyy
Chairman, R&D Committee, TSA
November 24, 2012



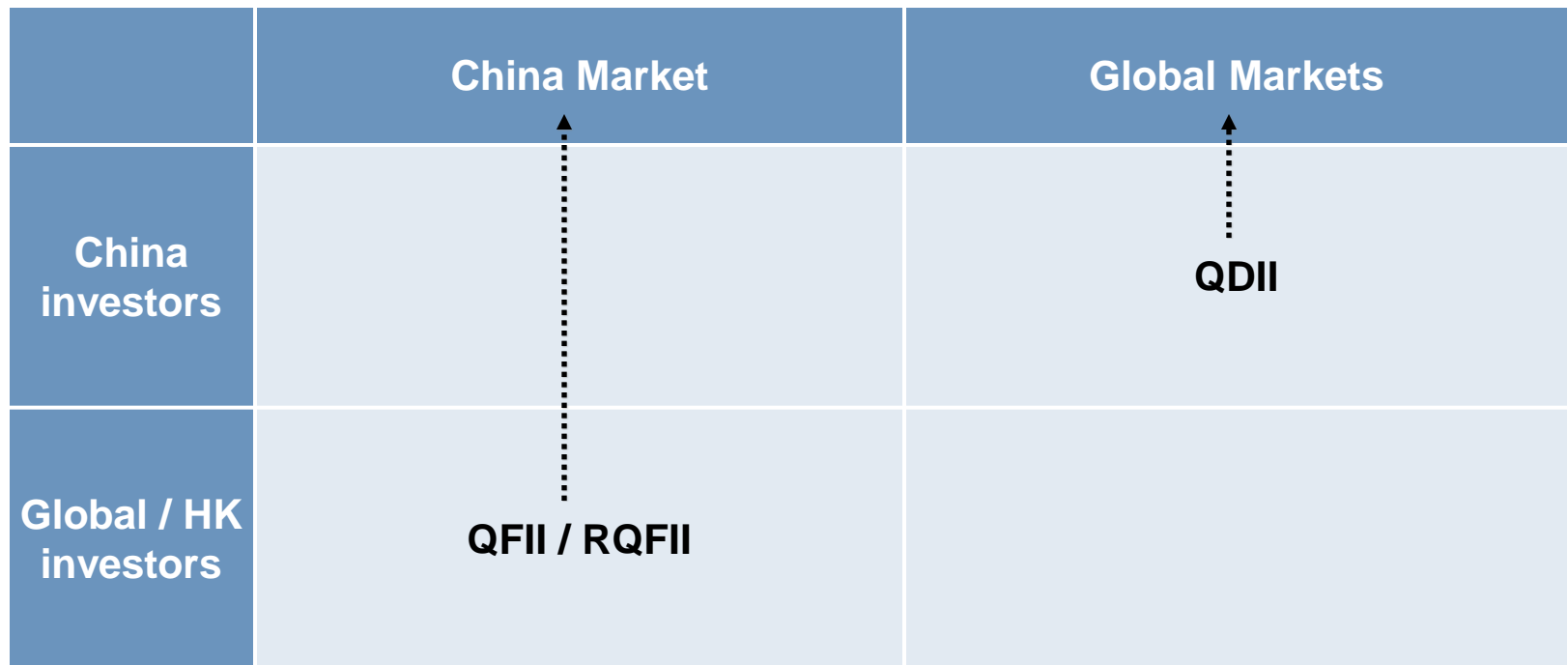
Taiwan Securities Association

Historical Evolution of China-focused ETFs listed globally

- China ETF asset growth in the Asia Pacific region has more than offset the contraction of assets in the other regions



Chinese wall on A share / international market



QFII

Lower the barrier level

	Asset management, insurance and institutional investors	Securities companies	Banks
Track record period	lowered from 5 to 2 years	lowered from 30 to 5 years	more than 10 years' of being in banking business
AUM	reduced from USD 5 billion to 500 million	lowered from USD10 billion to 5 billion (Net assets > USD 500 million)	lowered from USD10 billion to 5 billion

Channeling offshore RMB into Mainland

- Another program that has helped overseas investors to access the China A-share market has been the RMB Qualified Foreign Institutional Investor (RQFII) pilot project which was launched by Chinese authorities on December 2011. The RQFII pilot allows eligible HK subsidiaries of fund management firms and securities firms to channel RMB funds raised in HK into domestic securities. Initially the investment quota was RMB 20bn, but the RQFII quota will be raised by 200 billion yuan soon.

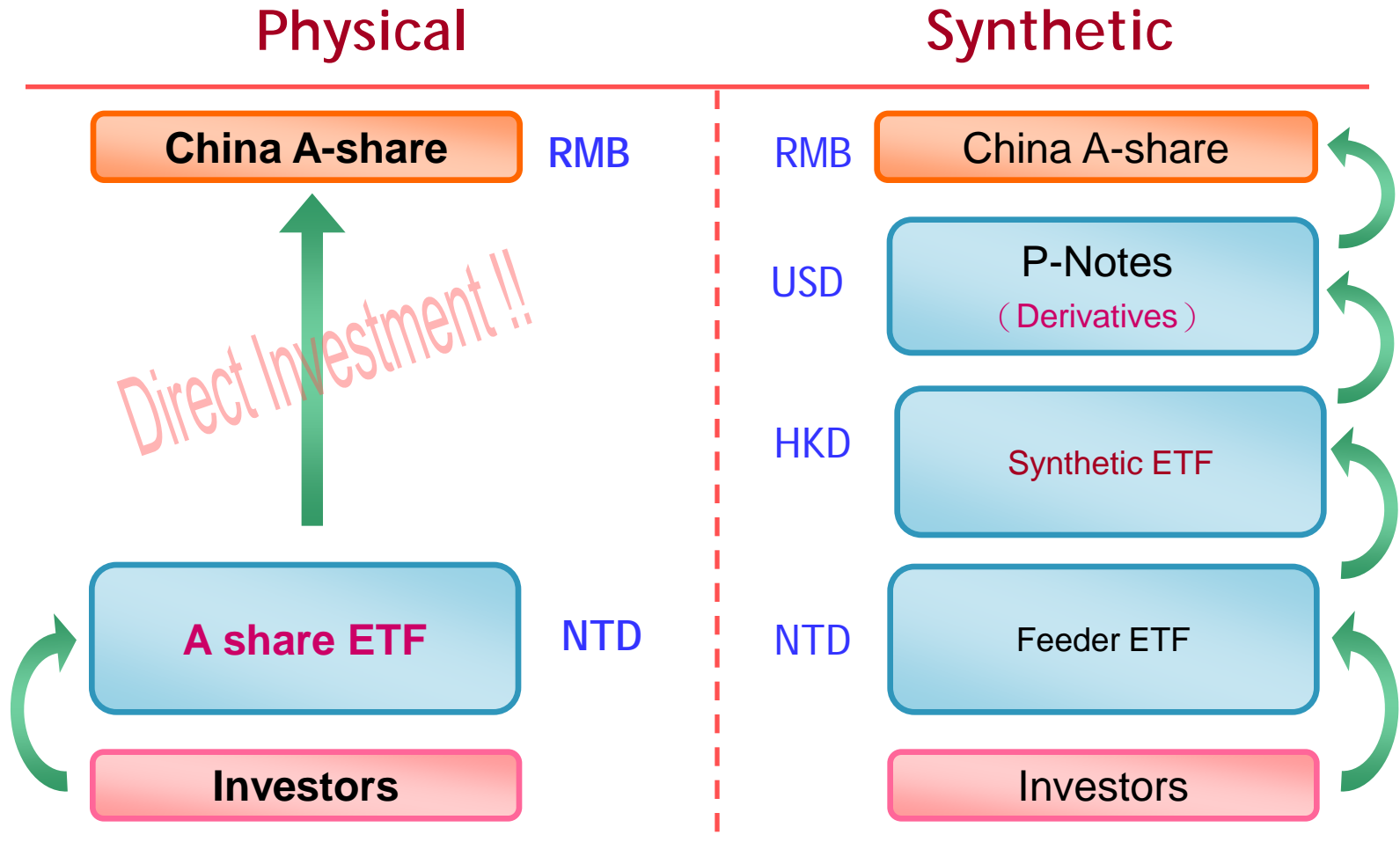
RQFII scheme qualification

1. Parent company and its HK Subsidiary must be licensed to undertake asset management business (i.e. the HK Subsidiary must have a Type 9 licence from the Hong Kong securities regulatory authority, the Securities and Futures Commission)
2. HK Subsidiary must be financially stable with a satisfactory credit standing
3. HK Subsidiary must have effective corporate governance and internal control procedures and its employees must have the necessary professional qualifications as required in Hong Kong
4. Parent company and its HK Subsidiary must be in compliance with all relevant regulations in relation to their businesses and have not been subject to any material punishment by local regulatory agencies during the three years prior to the application
5. Other conditions as CSRC may stipulate

Widening the outflow channel

Managers	Assets under management	Legal entity
> five years of fund management experience	> US\$10 billion	Organized and regulated in a jurisdiction that has entered into a memorandum of understanding with the CSRC

100% Directly invest in China A-shares



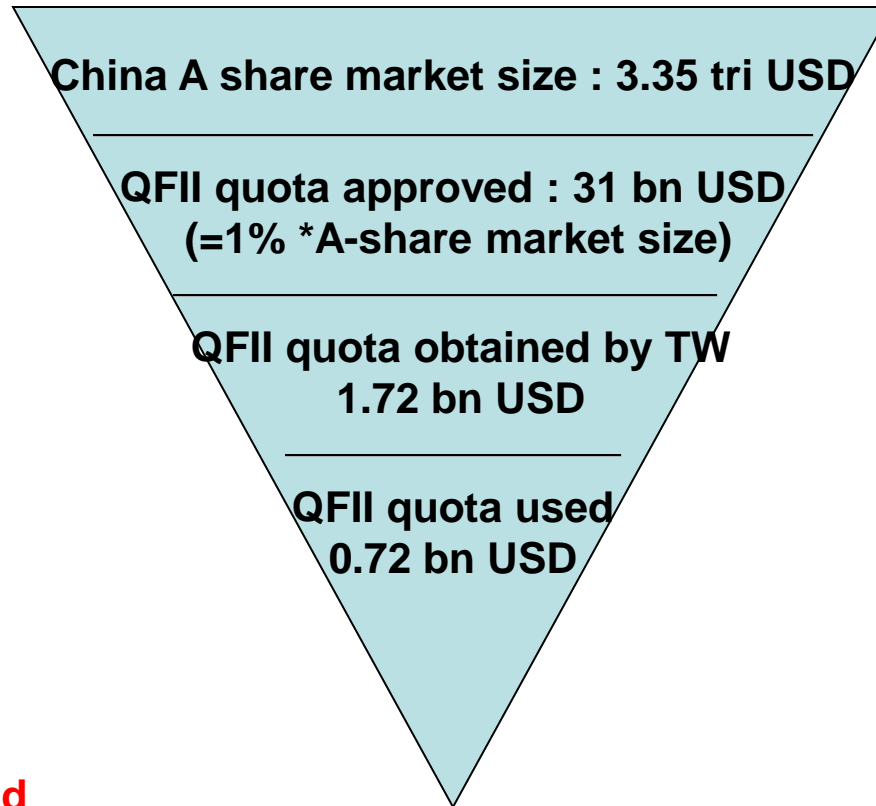
- 1、Management cost、Trading cost
- 2、Tracking error (FX factor included)
- 3、Counter party risk

【P-note】：Participatory Notes，issued by registered foreign iBank (QFII) to overseas investors

P-note / RQFII / QFII / QDII

	HK ETFs on China A shares	HK ETFs on China A shares	Taiwan ETFs on China A shares	China ETFs on HK shares
Scheme	P-note	RQFII	QFII	QDII
Bloomberg ticker	2827 HK	83100 HK	006205 TT	159920 CH
Name	WISE-CSI300 China Tracker	E FUND CSI 100 A-share ETF	Fubon SSE 180 ETF	China AMC Hang Seng Index ETF
Underlying index	CSI 300	CSI 100 A-share	SSE 180	Hang Seng Index
Issuer	BOCI-Prudential AM	E Fund	Fubon SITE	China AMC
Replication	Synthetic	Physical	Synthetic	Synthetic
Domicile	HKG	HKG	TWN	China
Total expense ratio (TER)	1.39%	0.99%	1.09%	0.75%
AUM	\$892.5 MN	\$ 300.6 MN	\$ 68.3 MN	\$ 779 MN

Scarcity of pure A-share product



Pure A share fund
→ \$0.45 BN USD

Inception date
2011/9/26

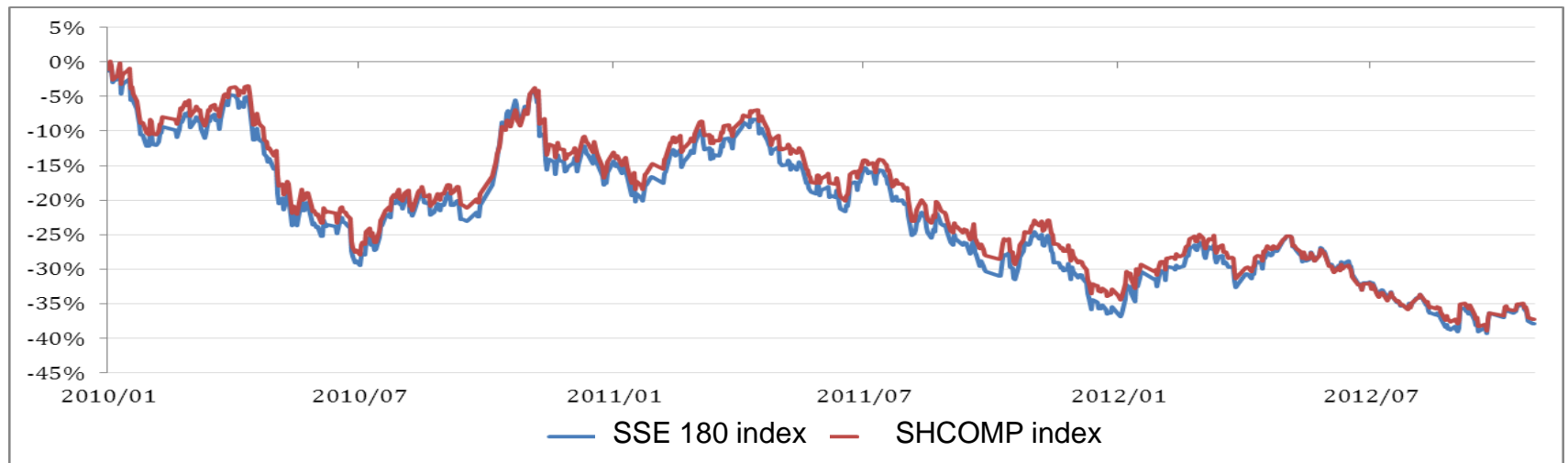
China focused ETFs listed in Taiwan

	Fubon SSE180 ETF	Polaris SSE 50 ETF	Fuh-Hwa CSI 300 ETF	Polaris WISE CSI 300 ETF
Tracking index	SSE 180 index	SSE 50 index	CSI 300 index	CSI 300 index
Ticker	006205	006206	006207	0061
Duplication	90% A-share +10% Futures	70% A-share +30% Futures	80% A-share +20% Futures	Feeder ETF : 90% ETF +10% Futures
Tracking error	Low	High	High	Highest
Management Fee	0.99%	1.20%	0.75%	0.3%+ TER 1.39%
Custodian Fee	0.10%	0.10%	0.10%	0.10%
Creation units / Redemption Unit	500,000 units	500,000 units	1,000,000 units	500,000 units
Primary market Subscription fee	transaction fee 0.1% +creation fee	transaction fee 0.4% +creation fee	transaction fee 0.75% +creation fee	transaction fee 0.2% +creation fee
A-share direct investment	y	y	y	n
P-note issuer risk	n	n	n	y

SSE 180 index

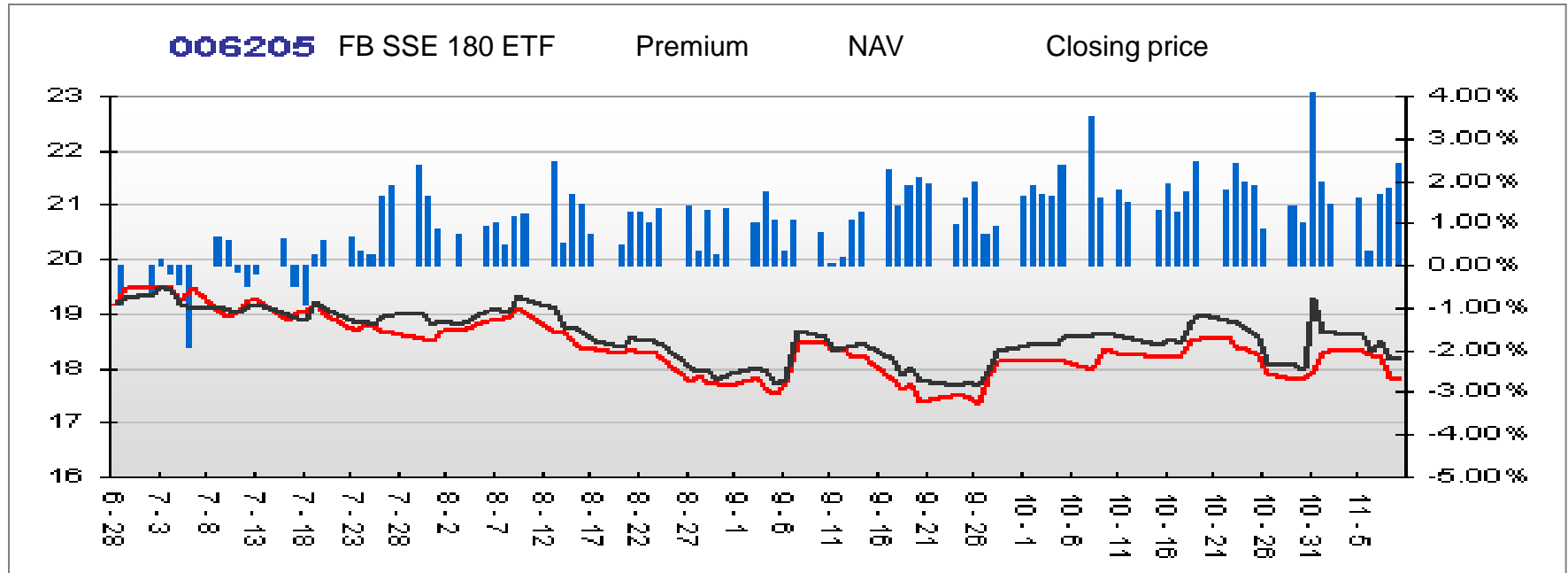
Highly correlated with SHA index

	SSE 180 index	SHCOMP index	SSE 50 index	CSI 300 index
SSE 180 index	1	0.990	0.984	0.995
SHCOMP index	-	1	0.961	0.989
SSE 50 index			1	0.966
CSI 300 index	-	-	-	1



SSE 180 ETF

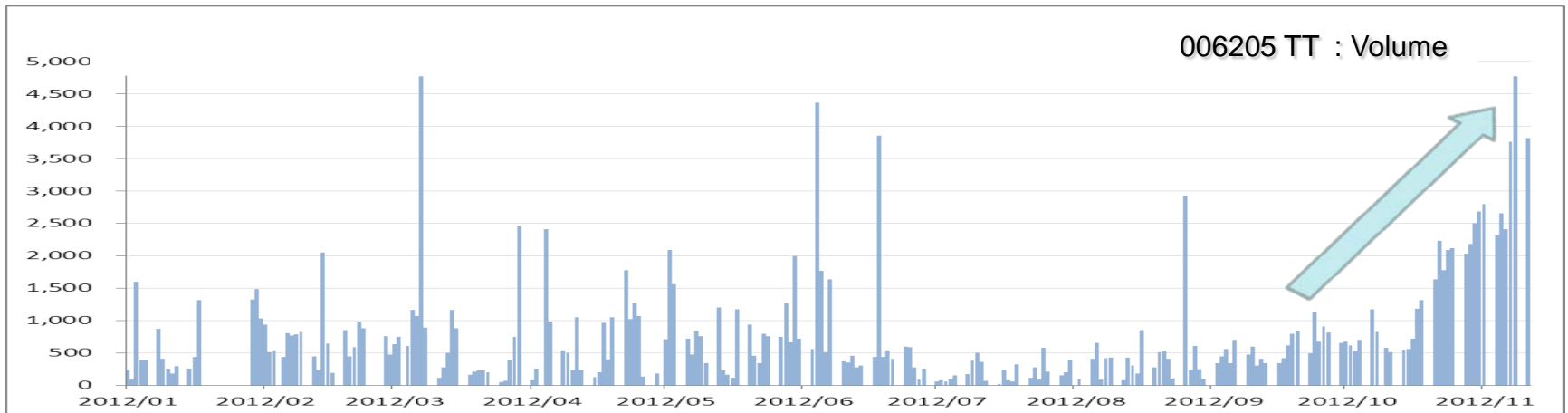
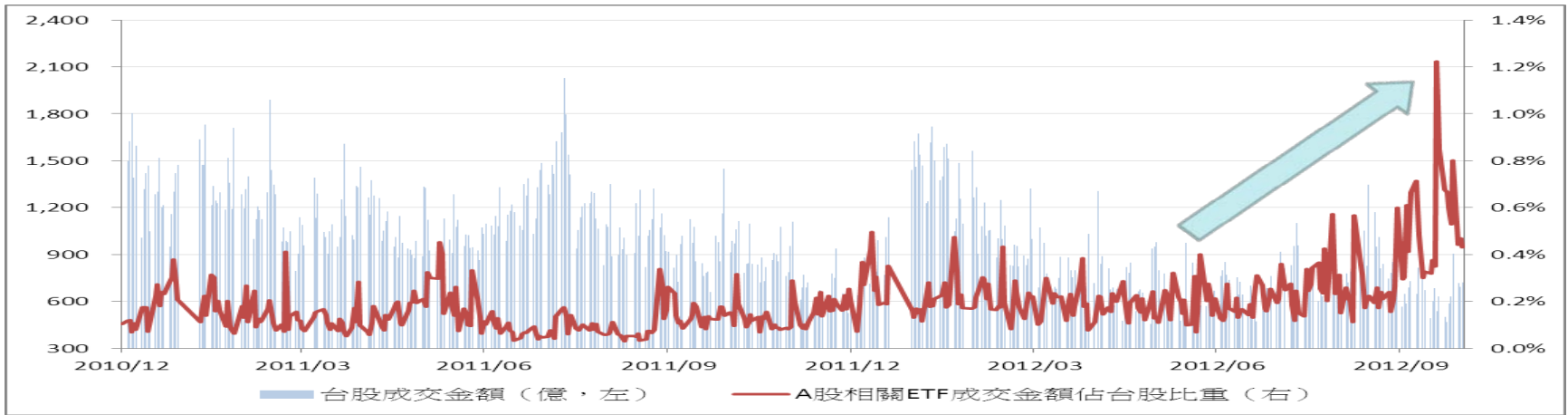
Constantly trading at premium



Fubon SSE 180 ETF : Increasing Trading Volume

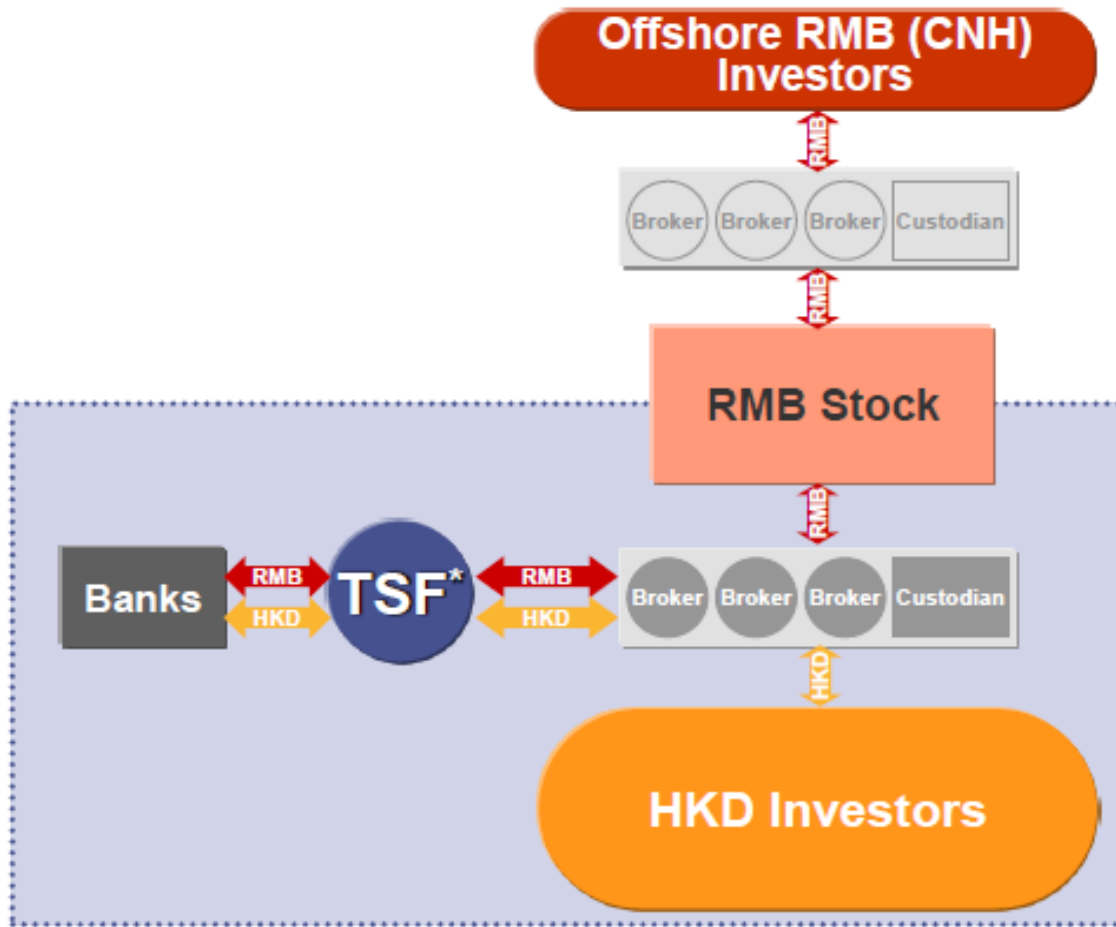
TWSE Volume (LHS)

A-share ETFs Volume / TWSE Volume (RHS)



Liquidity provider :
Polaris 、 IBTS 、 Masterlink 、 HuaNan securities 、 SinoPac

RMB Equity Trading Support Facility in HK



Key Features

Back-up

Re-cycle

Open (but optional) to all brokers / custodians

Committed in size, but commercially-priced

Looking forward

Regulation

- Regulations governing CNH fund repatriation to China have been relaxed but are still restrictive
- Regulatory framework, infrastructure development, education and wider acceptance by customers are needed before RMB is fully internationalized
- Further deregulation over the flow of CNH to and from China, e.g. easier repatriation processes
- Further deregulation and greater use of CNH in substantive economic activity outside of China, e.g. in retail transactions and investments in Hong Kong

Product

- Great potential in CNH wealth management and tapping growth in HK as China's offshore private banking centre
- If asset yields in HK are more attractive in HK than in China (e.g. CNH interest rates exceeding CNY), more funds may flow into HK

Offshore RMB center

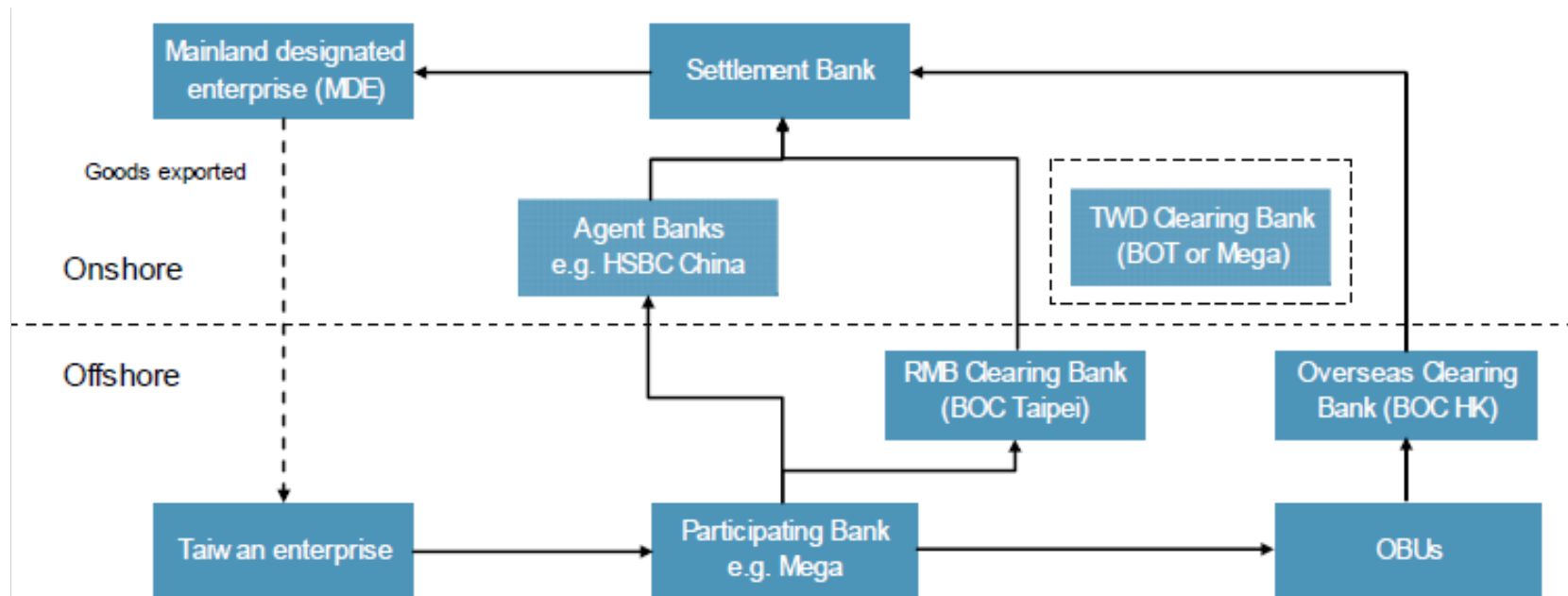
- CNH pie is growing and can benefit all emerging offshore RMB centers
- HK has first movers' advantage while Taiwan is in a good position to develop a RMB off-shore market, given that it has huge trade surplus with China and is also large FDI in China

Appendix 1

CNT's future path

- In Taiwan's case, the development of CNT will kick off purely from the trade settlement perspective first, before allowing Yuan deposits
- Cross-straits trade of goods totaled US\$120bn in the last 12 months
- Conservatively but realistically speaking, 10-20% of these being settled in RMB will amount to US\$12-24bn worth of CNT/TWD changing hands per year

Potential RMB trade settlement mechanism in TW



Appendix 2

New QFII rules open up onshore market

- Lower entry requirements
- Simplify application procedure
- Allow accessing interbank bond market

QFII quota to approve	Offshore bond market Size	Onshore bond market
US\$80bn (*)	US\$230bn	US\$3.4trn
If quota used by bond investors	Significant amount	Very small portion

(*) : approved \$35 bn as of Oct. 2012

Data : CSRC, CEIC, BofA Merrill Lynch Global Research, 2012.8

One currency ; Two investment channels

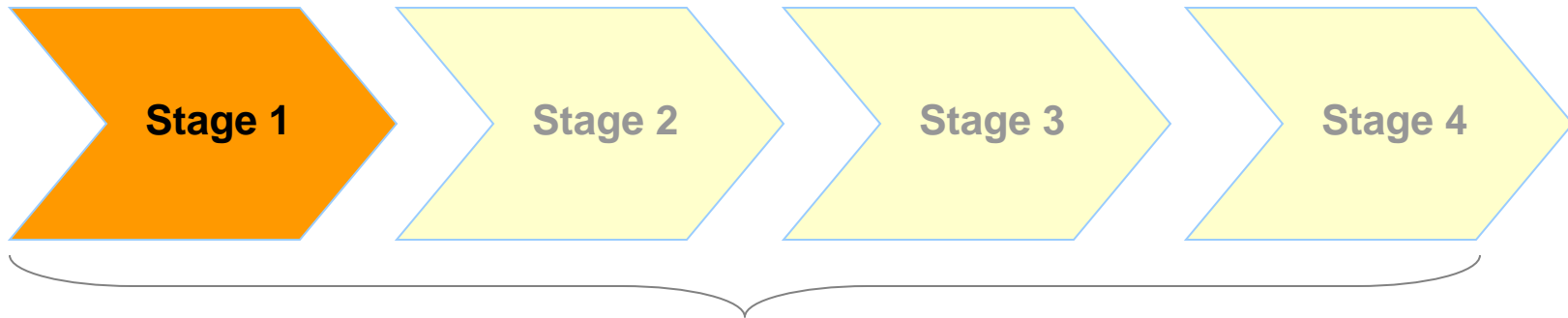
	Dim Sum Bond Market	Onshore Bond Market via RQFII
Currency	CNH (offshore RMB)	CNY (onshore RMB)
Market size	CNH 224bn (USD\$36bn)	Onshore bond market size : CNY21.4trn (US 3.36trn) RQFII initial quota : CNY20bn (US\$3.2bn)
Market access	Easily accessible by any investor without any special license or quota	Only accessible via license and quota holders
Issuer composition	China 68% HK 19% Europe 4%	100% China
Governing Law	HK Law US Law British Law European Law	PRC Law

Roadmap of offshore RMB business in HK



- 1. Establishment of a currency clearing system**
- 2. Widening RMB business scope**
- 3. Development of a direct finance system for bond markets**
- 4. Development of a complete risk management system for derivative products**

Taiwan regulators are supportive But is still at the first stage



According to Hong Kong's experience, it took 9 years, starting from 2004, for HK to go through all stages to build a sound offshore RMB market. Currently, TW is still at the first stage.

2012.8

RMB/NTD clearing MOU signed

2012.9

FSC allow RMB interbank between OBU bank

2012.10

Assign NTD and RMB clearing banks

FSC will open RMB products at Taiwan domestic market asap

Discuss currency swap agreement

Going forward

Developing RMB-denominated products

Including RMB as one of CBC's foreign reserve currencies

Developing Taiwan as RMB offshore center

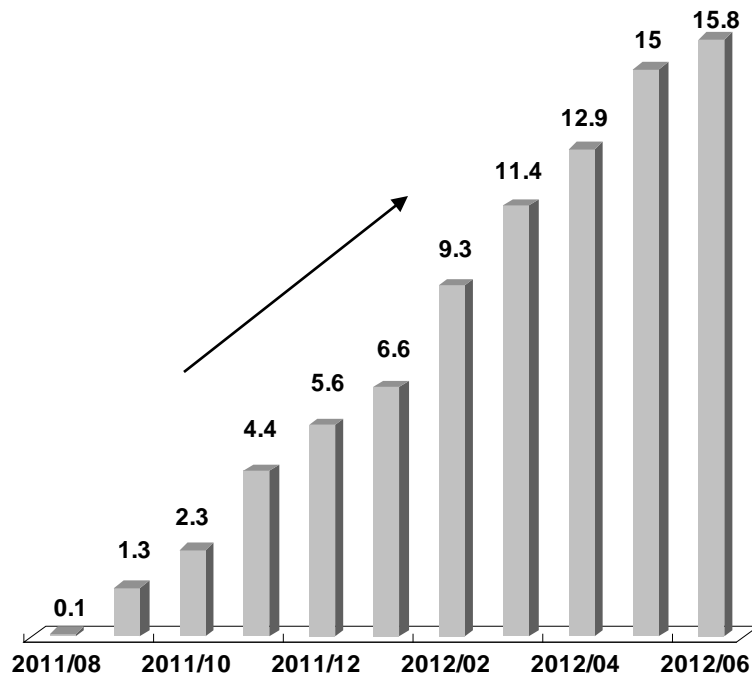
Taiwan's opportunities

Increasing fee income from RMB development

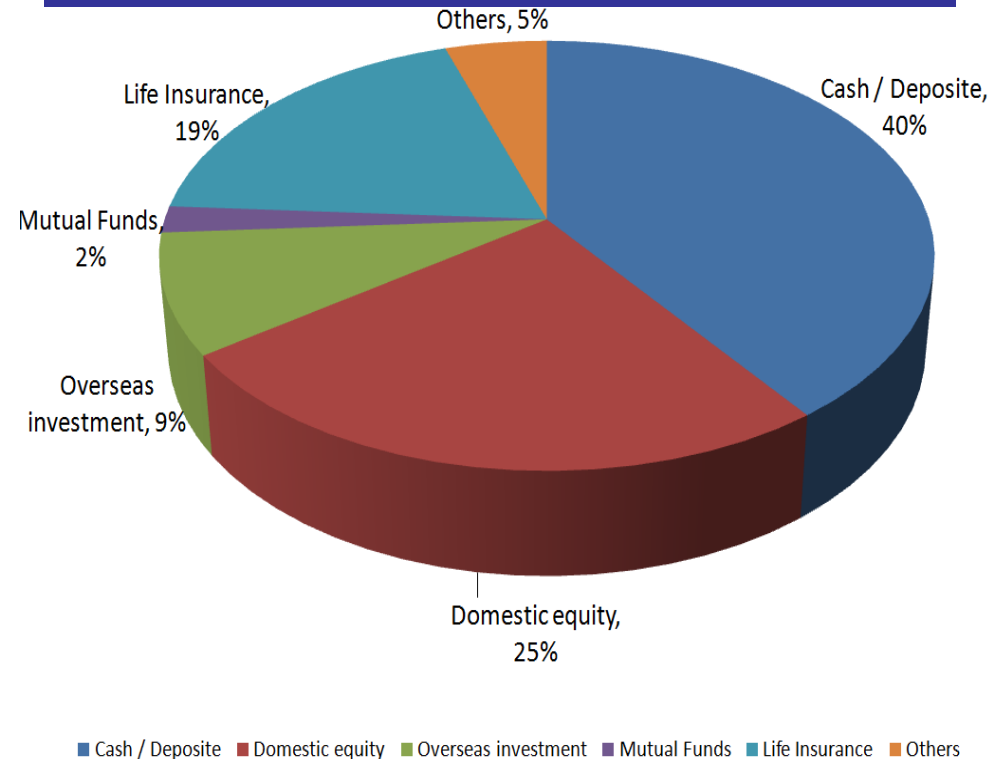
- Diversification from TWD assets into RMB assets will be the key driving force
- After MoU for the clearing system signed, banks will be able to expand their RMB business scope to RMB deposits/loans, off-shore RMB-priced securities (bonds, ETF), structured and derivative products
- Mutual funds and insurance products would be allowed after a further loosening up in regulations

RMB Deposits grows fast in TW

RMB bn



Profit contribution from wealth management business



- Thank you -



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