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China NMPG: Securities Financing Market Practice and further developments

April, 2021

China NMPG: facilitating market practice alignment between China and the rest of the world

China NMPG was established in 2007. The China SMPG has developed into a well-functioning and effective platform. Through the platform, important Chinese securities participants have been working together to **address the industry requirements for higher STP benefits and to bridge the gap between local practice and global practice.**

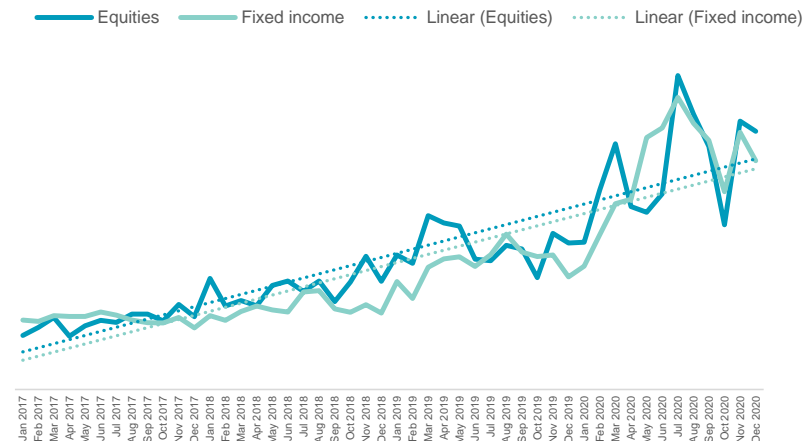
Members of CN NMPG

As of now, China NMPG group includes most of the leading cross-border securities players in China and now is co-chaired by HSBC, ICBC and ABC.

- Custodian banks: 12 local banks, 8 foreign banks
- SMIs: 8
- Broker/Dealer: 15
- Asset Manager: 10

SWIFT # of settlement instruction to settle Chinese Securities

(2017-2020) # of MT54x settlement instruction sent to settled securities which China as ISIN countries



Instruments	Traffic Ranking	2018	2019	2020
Equity	By # of settlement instructions sent	13	7	7
	By settlement value sent in instructions	16	15	2
Fixed Income	By # of settlement instructions sent	46	38	32
	By settlement value sent in instructions	39	33	32

Source: Watch4Staff



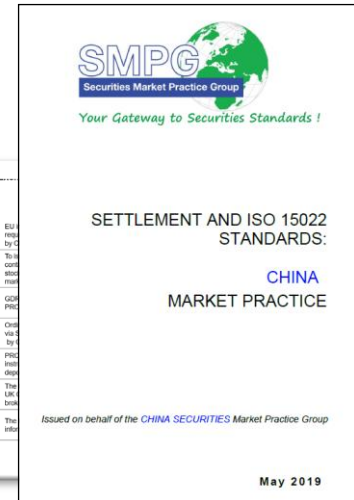
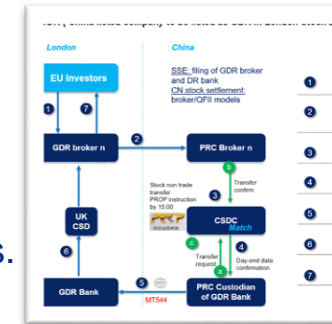
Recent achievements by China NMPG: supporting the China market open-up

2018- 2019

Established local working groups and published the China Template for settlement/reconciliation and corporate actions covering:

- QFII/RQFII
- CIBM Direct
- Shanghai- London Connect: DR business template

And, SMPG members increased from around 20 institutions to 45 institutions.



2020 - 2021

Established local working groups and published the China Template for securities lending & borrowing and refinancing, covering:

- Securities lending and borrowing for QFII business
- Refinancing business for QFII business



The Working Group for Securities Lending and Borrowing & Cross-border Refinancing

The working Group on Securities Lending and Borrowing & Cross-border Refinancing in China was established in November 2020. These deliverables were contributed and finalized based on the discussions of the working group. The market practice only cover the message flows between “QFII - Broker”, “QFII - Master Custodian” and “Broker - Master Custodian”. Any flows exchanged with China Securities Depository Co., Ltd (CSDC) or China Securities Finance Corporation (CSFC) lends are out of scope.

Members of the working group (12)

- SWIFT
- Agricultural Bank of China
- China Construction Bank
- CITIC Securities
- Citibank
- Deutsche Bank
- Guotai Junan Securities
- Guosen Securities
- HSBC
- Industrial and Commercial Bank of China
- Shenwan Hongyuan Securities
- UBS Securities

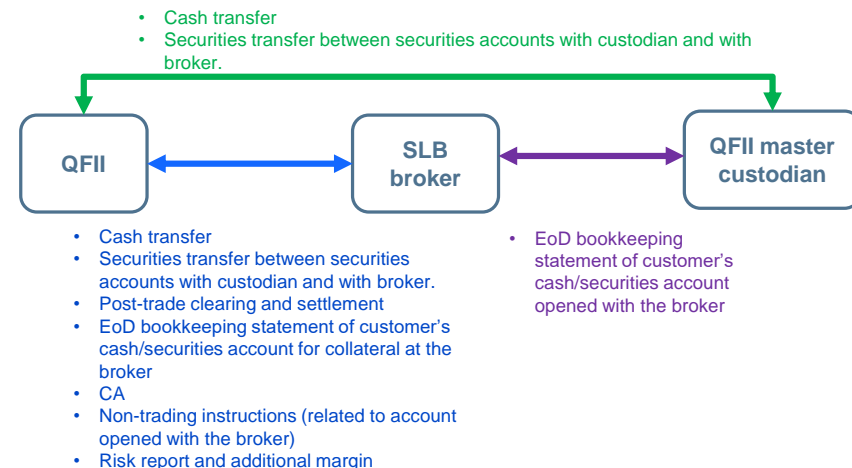
Business Scope

- **Securities Lending and Borrowing(SLB):** It refers to business activities of lending funds to customers for them to buy securities or lending securities to customers for them to sell the securities, and taking customers' collaterals as pledge. For the qualified institutional investor, i.e. QFII/RQFII, they can access to SLB after the broker conducts credit assessment on QFII, and then the customer's credit line will be issued after the customer transfers the collateral to broker. The business needs to be carried out under the “broker settlement model”.
- **Refinancing business:** It refers to business activities in which China Securities Finance Corporation (CSFC) lends its own funds and securities or those collected funds according to the law to brokers for them to engage in SLB business. For the qualified institutional investor, i.e. QFII/RQFII, is eligible for refinancing lending. The broker applies to CSFC and the Exchange for lending qualification and trading on behalf of QFII. This business is currently carried out under the QFII custodian mode.

Business process that may involve SWIFT message

Securities Lending and Borrowing

	QFII	Broker	Custodian	Messages that may be involved
Cash transfer in	Y	Y	Y	MT599, MT900, MT910 MT202, MT103, MT9xx
Collateral securities transfer between general account and account for collateral	Y	Y	Y	MT54x
Post-trade clearing and settlement	Y	Y	--	MT54x
End-of-day holding and cash statement of customer's cash and securities account at the broker	-	Y	Y	MT53x, MT940/950
Corporate Action (related to account opened with broker)	Y	Y	Maybe	MT564, MT565, MT566, MT567, MT568
Cash Repay	Y	Y	--	payment message (MT 103 / 202)
Securities Repay	Y	Y		use MT 542 Deliver Free
Credit Contract /Contract Extension	Y	Y		free format



Refinancing Business

	QFII	Custodian	Messages that may be involved
Non-trade securities transfer of general account (securities lending)	Y	Y	MT542
Non-trade securities transfer of general account (securities returning)	Y	Y	MT540
Notice of cash transfer-in	Y	Y	MT910