

# State Street Bond Connect FX Solutions

**Institutional investors seeking exposure to Chinese bonds can access the China Interbank Bond Market (CIBM) via a number of mechanisms. CIBM Direct, introduced in 2016, was the original way for foreign investors to gain access. More recently however the China-Hong Kong Bond Connect scheme has provided an additional channel, as well as allowing for the purchase of bonds using either onshore CNY or offshore CNH.**

Increasingly we have seen a shift among investors using the Bond Connect scheme, with investors who may have historically used CNH (offshore) now often using CNY (onshore) liquidity instead.

This flexibility creates specific needs when handling CNY and CNH renminbi liquidity for bond settlement and hedging purposes. From a regulatory perspective it is critical to be able to distinguish between both versions of renminbi to provide clarity across cash and position information.

State Street's Bond Connect CNY direct and custody FX (Indirect FX) services offer a solution to two key challenges:

## **CNY for bond settlement and hedging**

The inclusion of Chinese bonds in global market indices means institutional investors need solutions that allow them to follow benchmarks. By providing the ability to settle bonds and hedge with CNY, investment managers can strictly follow benchmarks and potentially achieve better economic value when compared with CNH.

Our solutions offer operational efficiencies and pricing transparency not seen in traditional approaches to CNY bond settlement and hedging.

## **Distinguishing between CNH and CNY**

Different FX spot rates for CNY and CNH, as well as unique operational flows and regulatory monitoring requirements, make it necessary to distinguish between the two renminbi currency codes. However, both CNY and CNH share the same ISO currency code, creating an administrative challenge for investors to distinguish between the two. Our automated solution solves this problem by leveraging a segregated securities account for each funding code and then using the securities account number as a unique identifier to track each currency. This allows clients to identify their securities and FX transactions as denominated in CNY or CNH in custody and accounting records.

## Product Overview

Our role as a global custodian bank and onshore CNY FX liquidity provider means that we can efficiently manage the entire securities settlement and hedging process from beginning to end. FX rates matter when trading in overseas securities and tracking indices, and having the capability to choose and distinguish between CNY and CNH allows our clients to select the most economical funding and/or hedging currency.

As a Bond Connect FX Settlement Bank, we offer clients onshore CNY and offshore CNH FX liquidity in spot, forward and swap markets through both our DirectFX and IndirectFX solutions.

## FX solutions for custody clients (for both CNH and CNY)

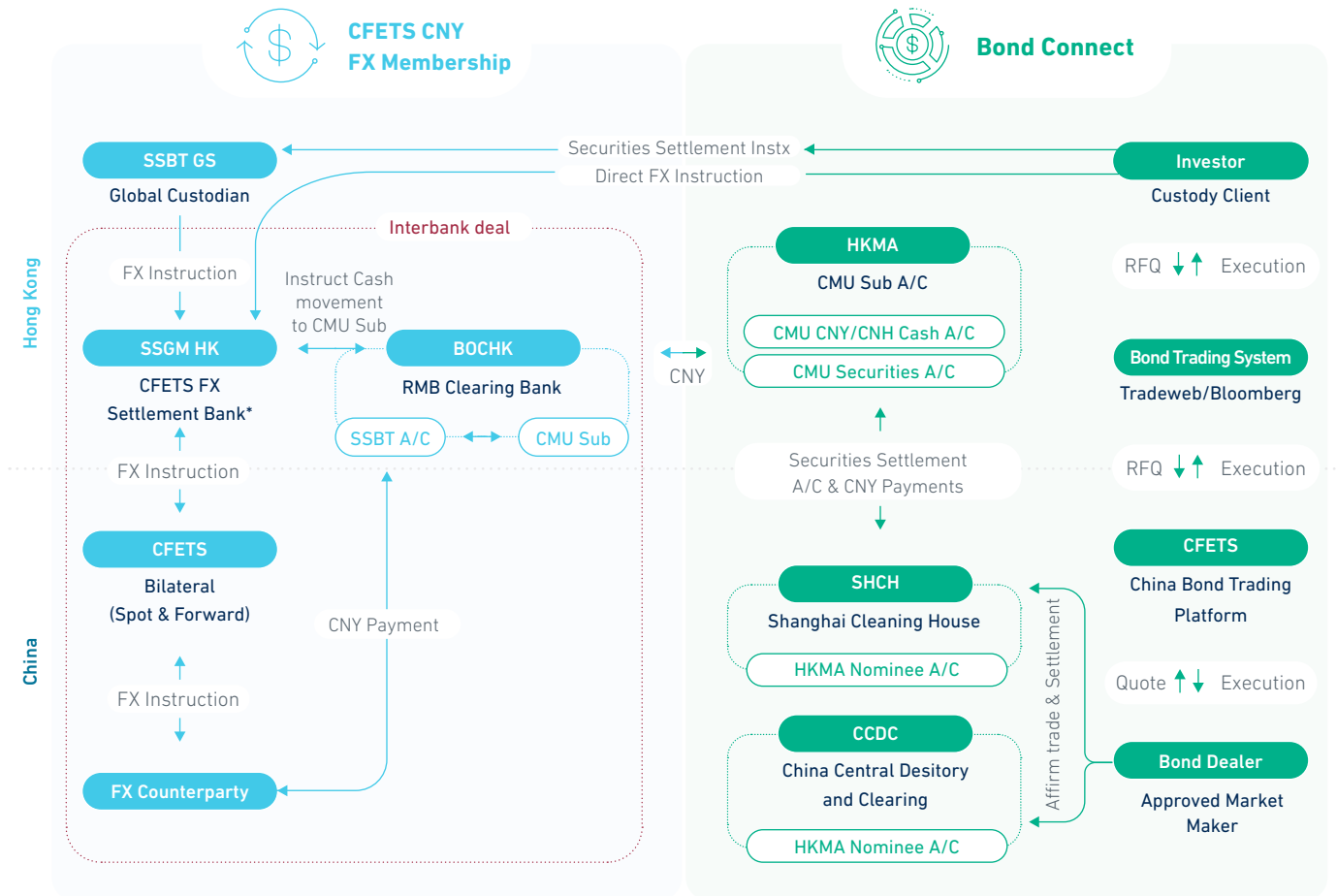
For clients with funds custodied with State Street we offer:

- FX liquidity in spot, forward and swap
- StreetFX for security settlement
- DirectFX for security settlement and hedging
- IndirectFX (Standing Instructions) for security settlement

## Third-party FX (for both CNH and CNY)

In addition to offering FX services as a primary FX settlement bank for funds under our custody, State Street offers general FX settlement bank for funds custodied elsewhere. This enables investors to achieve best execution.

## SSGM Hong Kong Branch CFETS FX Membership with Bond Connect Operating Model



SSBT Hong Kong as a CFETS settlement bank will ensure that the hedging arises from genuine and reasonable needs from Bond Connect investments

## Case Study

**A large institutional investor in Asia was facing a challenge with their securities settlement in Bond Connect. While they would often use CNH as the funding currency, the differing FX rates between the two renminbi codes combined with specific rules around hedging, meant they increasingly wanted to settle in CNY instead.**

### Challenge

This presented two challenges. First, the CNY FX market is restricted, making it difficult for the client to obtain the necessary CNY. Second, regulations require that bonds purchased with CNY must be sold for CNY, not CNH. To comply with the regulation the client needed to maintain accounting records of which bonds were purchased with which currency. But as the ISO currency codes are identical, they had no way to track this.

This was further complicated by the fact that bonds purchased using CNY can potentially be hedged with CNH, however recent price differentials between CNH and CNY indicate that CNH is more expensive, thus introducing potential tracking error. The client was therefore wanting to hedge in CNY. But this currency can only be used when the assets are purchased with CNY, hence their increased interest in CNY purchases.

### Solution

Through our membership in CFETS, State Street can participate in the onshore CNY FX interbank market allowing us to obtain the necessary CNY for the client. We then used our dual-currency accounts and securities account number identifier solution to separately track CNY and CNH through the lifecycle of the investments, enabling the client to maintain accurate accounting records of their CNY denominated purchases.

## Why State Street?

As well as offering direct liquidity in CNY for spot, forward and swaps, as a global custodian bank we have access to clients' underlying security holdings. This enables us to perform regulatory monitoring on CNY bond settlements and hedging.

We have expertise in this complex operating environment and have been awarded Best FX Settlement Bank in 2020 and 2021 by the Bond Connect Company.

### Optimal cost and flexibility

Our full-service solution provides flexibility between CNH and CNY funding and allows our clients to choose the more economical approach to settling bonds and hedging strategies.

Our solution has been designed to track both CNY and CNH FX from beginning-to-end, allowing investors to fund and hedge currency exposure in either currency.

**Strength and Stability — We are a Global Systematically Important Bank (G-SIB) with an AA- credit rating. We are not reliant on wholesale funding for our business activities, offering additional protection against major liquidity shocks.\***

\*S&P, December 2015

To learn more about Bond Connect

Please contact your Global Services client service representatives or Global Markets sales representatives

#### Disclaimers and Important Risk Information

State Street Global Markets® is the business name and a registered trademark of State Street Corporation® and is used for its financial markets business and that of its affiliates.

The products and services outlined herein are only offered to professional clients or eligible counterparties through State Street Bank and Trust Company, authorized and regulated by the Federal Reserve Board. State Street Bank and Trust Company is registered with the Commodity Futures Trading Commission as a Swap Dealer and is a member of the National Futures Association. Please note that certain foreign exchange business, including spot and certain forward transactions, are not regulated.

This document is a communication intended for general marketing purposes, and the information contained herein has not been prepared in accordance with legal requirements designed to promote the independence of investment research. It is for clients to determine whether they are permitted to receive research of any nature. It is not intended to suggest or recommend any transaction, investment, or investment strategy, does not constitute investment research, nor does it purport to be comprehensive or intended to replace the exercise of an investor's own careful independent review and judgment regarding any investment decision.

This communication is not intended for retail clients, nor for distribution to, and may not be relied upon by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to applicable law or regulation. This communication and the information herein does not constitute investment, legal, or tax advice and is not a solicitation to buy or sell securities or any financial instrument nor is it intended to constitute a binding contractual arrangement or commitment by State Street of any kind. The information provided does not take into account any particular investment objectives, strategies, investment horizon or tax status. This communication or any portion hereof may not be reprinted, sold or redistributed without the prior written consent of State Street Global Markets.

The views expressed herein are the views of State Street Global Markets as of the date specified and are subject to change, without notice, based on market and other conditions. The information provided herein has been obtained from sources believed to be reliable at the time of publication, nonetheless, we make no representations or assurances that the information is complete or accurate, and you should not place any reliance on said information. State Street Global Markets hereby disclaims any warranty and all liability, whether arising in contract, tort or otherwise, for any losses, liabilities, damages, expenses or costs, either direct, indirect, consequential, special, or punitive, arising from or in connection with any use of this document and/or the information herein.

State Street Global Markets may from time to time, as principal or agent, for its own account or for those of its clients, have positions in and/or actively trade in financial instruments or other products identical to or economically related to those discussed in this communication.

State Street Global Markets may have a commercial relationship with issuers of financial instruments or other products discussed in this communication.

This document may contain statements deemed to be forward-looking statements. These statements are based on assumptions, analyses and expectations of State Street Global Markets in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes appropriate under the circumstances. All information is subject to change without notice. Clients should be aware of the risks trading foreign exchange, equities, fixed income or derivative instruments or in investments in non-liquid or emerging markets. Derivatives generally involve leverage and are therefore more volatile than their underlying cash investments. Past performance is no guarantee of future results.

The products and services outlined in this document are generally offered in the **United States and Latin America** by State Street Bank and Trust Company. This communication is made available in **Japan** by State Street Bank and Trust Company, Tokyo Branch, which is regulated by the Financial Services Agency of Japan and is licensed under Article 47 of the Banking Act. **EMEA:** (i) State Street Bank and Trust Company, London Branch, authorised and regulated by Federal Reserve Board, authorised by the Prudential Regulation Authority, subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of regulation by the Prudential Regulation Authority are available upon request; and/or (ii) State Street Bank International GmbH, authorised by Deutsche Bundesbank and the German Federal Financial Supervisory Authority and, in respect of State Street Bank International GmbH, London Branch, subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of regulation by the Financial Conduct Authority and Prudential Regulation Authority are available upon request. **Brazil:** The products in this marketing material have not been and will not be registered with the Comissão de Valores Mobiliários - the Brazilian Securities and Exchange Commission ("CVM"), and any offer of such products is not directed to the general public within the Federative Republic of Brazil ("Brazil"). The information contained in this marketing material is not provided for the purpose of soliciting investments from investors residing in Brazil and no information in this marketing material should be construed as a public offering or unauthorized distribution of the products within Brazil, pursuant to applicable Brazilian law and regulations. The products and services outlined in this document are generally offered in **Canada** by State Street Bank and Trust Company. This communication is made available in **Hong Kong** by State Street Bank and Trust Company which accepts responsibility for its contents, and is intended for distribution to professional investors only (as defined in the Securities and Futures Ordinance). This communication is made available in **Australia** by State Street Bank and Trust Company ABN 70 062 819 630, AFSL 239679 and is intended only for wholesale clients, as defined in the Corporations Act 2001. This communication is made available in **Singapore** by State Street Bank and Trust Company, Singapore Branch ("SSBTS"), which holds a wholesale bank license by

the Monetary Authority of Singapore. In Singapore, this communication is only distributed to accredited, institutional investors as defined in the Singapore Financial Advisers Act ("FAA"). Note that SSBTS is exempt from Sections 27 and 36 of the FAA. When this communication is distributed to overseas investors as defined in the FAA, note that SSBTS is exempt from Sections 26, 27, 29 and 36 of the FAA. This advertisement has not been reviewed by the Monetary Authority of Singapore. The products and services outlined in this document are made available in **South Africa** through State Street Bank and Trust Company, which is authorized in South Africa under the Financial Advisory and Intermediary Services Act, 2002 as a Category I Financial Services Provider; FSP No. 42671. This communication is made available in **Israel** by State Street Bank and Trust Company, which is not licensed under Israel's Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995. This communication may only be distributed to or used by investors in Israel which are "eligible clients" as listed in the First Schedule to Israel's Regulation of Investment Advice, Investment Marketing and Portfolio Management Law 1995. This communication is made available in **Qatar** by State Street Bank and Trust Company and its affiliates. The information in this communication has not been reviewed or approved by the Qatar Central Bank, the Qatar Financial Markets Authority or the Qatar Financial Centre Regulatory Authority, or any other relevant Qatari regulatory body. This communication is made available in **Malaysia** by State Street Bank and Trust Company, which is authorized and regulated by the Federal Reserve Board. State Street Bank and Trust Company is not licensed within or doing business within Malaysia and the activities that are being discussed are carried out off-shore. The written materials do not constitute, and should not be construed as constituting: 1) an offer or invitation to subscribe for or purchase securities or futures in Malaysia or the making available of securities or futures for purchase or subscription in Malaysia; 2) the provision of investment advice concerning securities or futures; or 3) an undertaking by State Street Bank and Trust Company to manage the portfolio of securities or futures contracts on behalf of other persons. This communication is made available in **Turkey** by State Street Bank and Trust Company and its affiliates. The information included herein is not investment advice. Investment advisory services are provided by portfolio management companies, brokers and banks without deposit collection licenses within the scope of the investment advisory agreements to be executed with clients. Any opinions and statements included herein are based on the personal opinions of the commentators and authors. These opinions may not be suitable to your financial status and your risk and return preferences. Therefore, an investment decision based solely on the information herein may not be appropriate to your expectations. This communication is made available by **State Street Bank & Trust Company, ADGM Branch ("SSBT ADGM")** on behalf of State Street Bank and Trust Company or its affiliates. SSBT ADGM is regulated by the ADGM Financial Services Regulatory Authority (FSRA). This document is intended for Professional Clients or Market Counterparties only as defined by the FSRA and no other person should act upon it. This communication does not, and is not intended to, constitute an offer of securities and accordingly should not be construed as such. Nothing contained in this communication is intended to endorse or recommend a particular course of action or to constitute investment, legal, tax, accounting or other professional advice. Prospective investors should consult with an appropriate professional for specific advice rendered on the basis of their situation. Further, the information contained within this communication is not

intended to lead to the conclusion of any contract of whatsoever nature. This communication has been forwarded to you solely for your information, and may not be reproduced or passed on, directly or indirectly, to any other person or published, in whole or in part, for any purpose. This communication is made available in **South Korea** by State Street Bank and Trust Company and its affiliates, which accept responsibility for its contents, and is intended for distribution to professional investors only. State Street Bank and Trust Company is not licensed to undertake securities business within South Korea, and any activities related to the content hereof will be carried out off-shore and only in relation to off-shore non-South Korea securities. This communication is made available in **Indonesia** by State Street Bank and Trust Company and its affiliates. Neither this communication nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable Indonesian capital market laws and regulations. This communication is not an offer of securities in Indonesia. Any securities referred to in this communication have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market law and regulations. This communication is made available in **Oman** by State Street Bank and Trust Company and its affiliates. The information contained in this communication is for information purposes and does not constitute an offer for the sale of foreign securities in Oman or an invitation to an offer for the sale of foreign securities. State Street Bank and Trust Company is neither a bank nor financial services provider registered to undertake business in Oman and is neither regulated by the Central Bank of Oman nor the Capital Market Authority. Nothing contained in this communication report is intended to constitute Omani investment, legal, tax, accounting, investment or other professional advice. This communication is made available in **Taiwan** by State Street Bank and Trust Company and its affiliates, which accept responsibility for its contents, and is intended for distribution to professional investors only. State Street Bank and Trust Company is not licensed to undertake securities business within Taiwan, and any activities related to the content hereof will be carried out off-shore and only in relation to off-shore non-Taiwan securities. **Peoples Republic of China ("PRC")**. This communication is being distributed by State Street Bank and Trust Company. State Street Bank and Trust Company is not licensed or carrying on business in the PRC in respect of any activities described herein and any such activities it does carry out are conducted outside of the PRC. These written materials do not constitute, and should not be construed as constituting: 1) an offer or invitation to subscribe for or purchase securities or futures in PRC or the making available of securities or futures for purchase or subscription in PRC; 2) the provision of investment advice concerning securities or futures; or 3) an undertaking by State Street Bank and Trust Company to manage the portfolio of securities or futures contracts on behalf of other persons. Products and services may not be available in all jurisdictions. Please contact your State Street representative for further information.

FX Gen 2021-01.

To learn how State Street looks after your personal data, visit: <https://www.statestreet.com/utility/privacy-notice.html>

## STATE STREET

State Street Corporation  
One Lincoln Street, Boston, MA 02111

[www.statestreet.com](http://www.statestreet.com)

©2021 State Street Corporation and/or  
its applicable third party licensor - All rights reserved  
3754618.1.1.GBL. Expires 31/12/2021