

# China Releases New QFII/RQFII Rules

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On September 25, 2020, the China Securities Regulatory Commission (“**CSRC**”), the People’s Bank of China (“**PBOC**”) and the State Administration of Foreign Exchange (“**SAFE**”) jointly issued the *Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors* (the “**Measures**”), and the CSRC issued the *Provisions on Issues Concerning the Implementation of the Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors* (the “**Provisions**”; together with the “Measures,” the “**New Regulations**”). These documents proposed significant amendments to the current Qualified Foreign Institutional Investors (“**QFII**”) / RMB QFII (“**RQFII**”) regime, including unifying QFII/RQFII rules, expanding permissible investment scope, and streamlining the application and review procedures for QFII/RQFII ventures. Overall, they offer a more convenient process for QFII/RQFIIs’ investments in China’s capital markets. The New Regulations shall take effect on November 1, 2020.

China’s QFII and RQFII schemes were introduced back in 2006 (the Administrative Measures on Investment in Domestic Securities by Qualified Foreign Institutional Investors) and in 2013 (the Pilot Program on Securities Investments in China by Renminbi-denominated Qualified Foreign Institutional Investors) respectively. QFII and RQFII were historically governed under separate rules and regulations. The important changes to QFII/RQFII regulations under the New Regulations include:

## 1. Consolidation of QFII/RQFII Schemes

The New Regulations consolidate the QFII/RQFII schemes into one. Foreign institutional investors who want to invest in the PRC securities and futures market in both RMB and a tradable foreign currency can now make a one-time application for the new QFII/ RQFII status.

The New Regulations also address the concerns of some financial groups that already have both QFII and RQFII licenses. If they wish to consolidate their licenses and restructure their license holding entities after the promulgation of the New Regulations, they are allowed to do so through non-trade transfers.

## 2. Further Streamlined Application Procedures

The New Regulations also amend the eligibility requirements by removing certain quantitative criteria (such as the assets under management requirements) and further streamlines the application process by (i) shortening the approval time from 20 business days to 10 business days and (ii) removing some of the complex documentation requests (such as replacing the comprehensive application report and the investment plan with an online application form).

## 3. Expansion of Eligible Applicants and Investment Scope

The New Regulations expand the investment scopes for QFII/RQFII. Previously, QFII/RQFII were allowed to invest in A-shares, bonds, public securities investment funds and stock index futures. For the purpose of foreign exchange hedging, they were also allowed to invest in certain foreign exchange derivatives. Under the New Regulations, the list of permissible investment classes is expanded to include the following:

- (1) shares traded on the National Equities Exchange and Quotations (“**NEEQ**”, i.e. China’s OTC board);
- (2) bond, currency and interest rate derivatives traded in the interbank market that are approved by the PBOC;
- (3) depository receipts;
- (4) bond repurchase agreements (“bond repos”);
- (5) asset-backed securities (“ABS”);
- (6) financial futures listed and traded on the China Financial Futures Exchange (exact categories of which are subject to further rule-making by the relevant exchange);
- (7) commodity futures traded on futures exchanges (exact categories of which are subject to further rule-making by the relevant exchange); and
- (8) options traded on futures exchanges approved by the State Council or the CSRC.

This is the first time that QFII/RQFII ventures are allowed to invest in private securities investment funds where the investment scope conforms to the one listed above, and the first time they are being launched by securities and futures companies or their affiliates or private fund managers that are duly registered with the Asset Management Association of China.

Finally, in the past, QFII/RQFII schemes were also not open to hedge fund managers, but now the New Regulations have expanded the scope of eligible applicants to include all types of asset managers, including hedge fund managers and other financial institutions.

## Conclusions

Under the New Regulations, foreign investors will enjoy easier market access and a broader investment scope when investing via the QFII/RQFII schemes. We expect that the New Regulations will encourage more medium- and long-term funds to enter the Chinese market directly, and that they will broaden the investor base for financial and hedging instruments in China, which will increase the sophistication of China’s markets.

*For more information, please see the following resources:*

- China Updates page
- [China Releases Provisions on Strengthening the Supervision of Private Equity Investment Funds \(Draft\)](#), October 15, 2020
- [China Releases Provisions on the Unreliable Entity List](#), October 5, 2020
- [China Releases Revised Measures on Handling Complaints of Foreign-Invested Enterprises](#), September 23, 2020

- [China Releases Administrative Measures for Strategic Investment by Foreign Investors in Listed Companies](#), September 10, 2020
- [China Releases Draft Data Security Law](#), September 8, 2020
- [China Releases Circular on Further Stabilizing Foreign Trade and Foreign Investment](#), August 24, 2020
- [China Releases Draft Measures for the Administration of Imported and Exported Food Safety](#), August 18, 2020
- [U.S. Listed Chinese Companies: Regulatory Scrutiny and Strategic Options](#), July 30, 2020
- [China Passes Controversial Hong Kong National Security Law](#), July 9, 2020
- [China's Relaxed Financial Sector May Aid Foreign Investors](#), June 18, 2020
- [Is There a Law in China Similar to the US Defense Production Act?](#), May 9, 2020
- [Coronavirus Brings Force Majeure Claims to LNG Contracts](#), March 4, 2020
- [The Rise of China](#), March 4, 2020
- [Coronavirus Fears Cast Cloud Over Dealmaking](#), February 27, 2020
- [Is Your China Chemical Plant in Danger of Being Shut Down](#), December 2019