

A vibrant nighttime cityscape featuring several tall skyscrapers illuminated with blue and white lights. The sky is a deep blue, and the foreground shows a wet street reflecting the city lights. The overall atmosphere is modern and dynamic.

RQFII Program – from Hong Kong to Singapore

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October 2013

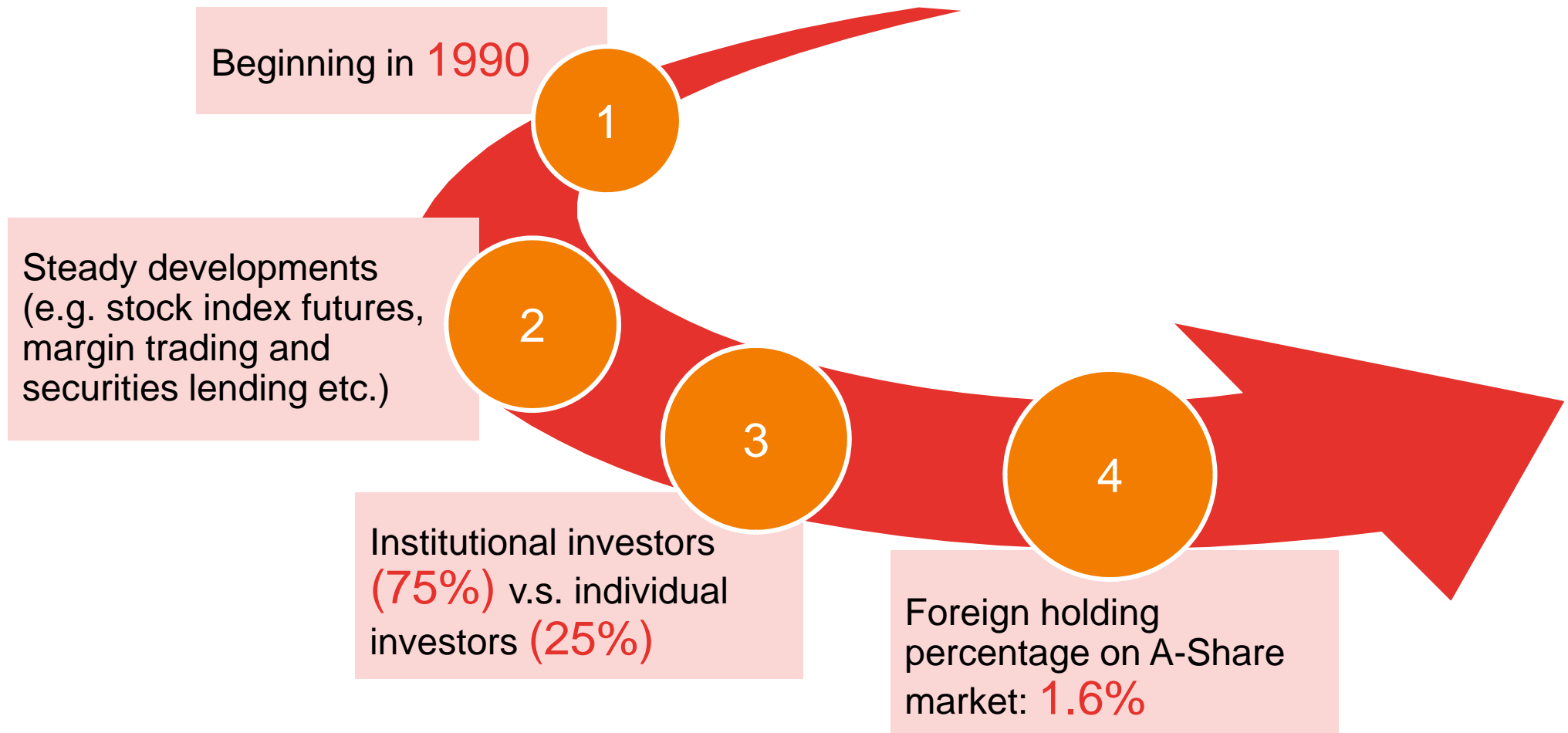
C L I F F O R D
C H A N C E



Part I The Chinese Securities Market and Introduction to QFII & RQFII Programs



Overview on the PRC Securities Market



Programs to Open up the PRC Securities Market

QFII Program

- Introduced in 2002 to allow qualified foreign institutions to invest in Chinese market
- Regulated by CSRC, SAFE and PBOC
- Total quota amount: USD 150 billion
- Top 5 origin jurisdictions – Hong Kong, US, UK, Japan, Korea
- Operational limitations and ongoing compliance requirements

RQFII Program

- Introduced in December 2011 to channel offshore RMB back to Chinese securities market
- Regulated by CSRC, SAFE and PBOC
- Rules revised in March and May 2013
- Total quota: RMB 270 billion
- To be expanded to Taiwan, Singapore and London

High-Level Comparison between QFII and RQFII Programs

Similarities

Regulatory regime and approval process

Permissible investments and investment restrictions

Quota administration

Account structures

Currency

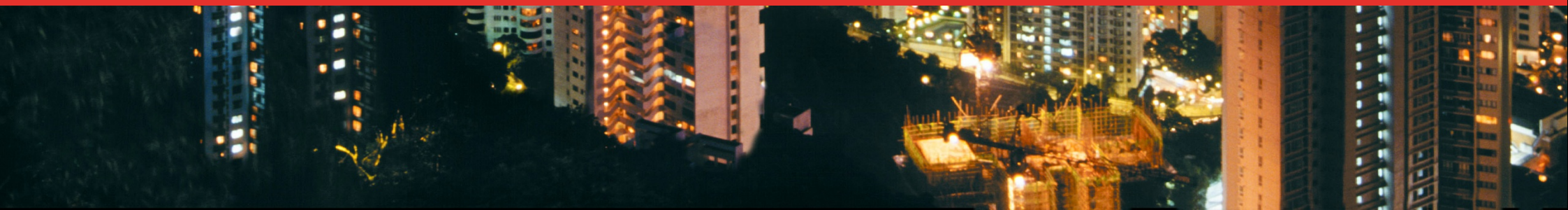
Qualified institutions

Source of funds

Key Differences



Part II Overview of Hong Kong RQFII Program



Regulatory Regime – Regulators and Regulations

Basic rules:

Measures for the Pilot Program of Domestic Securities Investment by RQFIIs (CSRC Order No. 90) (Measures)

CSRC, PBOC and SAFE jointly regulate the RQFII scheme from different angles:

Regulator	Functions	Rules
CSRC	regulates onshore securities investment by RQFIIs	Provisions on Implementing the Measures (1 Mar 2013)
	reviews and verifies applicants' eligibility and issues RQFII licences	
SAFE	allocates and regulates the use of investment quota under the RQFII	SAFE Circular on the Pilot Program of Domestic Securities Investment by RQFIIs (11 Mar 2013)
	monitors and regulates the remittance and repatriation of RMB funds jointly with PBOC	
PBOC	regulates onshore RMB accounts opened by RQFIIs	PBOC Circular on Implementing the Measures (2 May 2013)
	regulates investment by RQFIIs in the money markets	
	monitors and regulates the remittance and repatriation of RMB funds jointly with SAFE	

Regulatory Regime – Approval Process

Application to CSRC for RQFII Licence

→ Approval timeline: 60 days to approve the licence or reject

Application to SAFE for RQFII Quota

→ Application timeline: within 1 year after obtaining the licence

→ Approval timeline: 60 days to grant quota

Qualified Participants

At the beginning:

- HK subsidiaries of Chinese fund management companies and securities companies

Eligible applicants

Since 1 March 2013 – expanded to:

- HK subsidiaries of Chinese banks and insurance companies
- Financial institutions with the place of incorporation and major place of business in HK

Qualification Requirements

- Having a Type 9 (asset management) Licence from SFC and having conducted asset management business
- Having a stable financial condition and a good credit standing
- Having an effective corporate governance and internal control system, with professionals satisfying local qualification requirements
- Having no material penalty by the local regulator since its establishment (if its track record is less than 3 years) or in the last 3 years
- Other requirements of CSRC



Permissible Investments

Permissible Investment Scope

Shares, bonds and warrants listed or transferred on the PRC exchanges

PRC securities investment funds

Fixed income products traded on the inter-bank bond market

PRC stock index futures

Other financial instruments approved by CSRC

Investment Restrictions

Foreign holding limit:

- up to 10% by one RQFII in a listed company
- up to 30% by all foreign investors in a listed company

Previous asset allocation requirement (80/20) removed

Key Features of the SFC Authorised RQFII Funds

Structure

Experience requirement of the managers

Custody structure

Description of the bond market in the offering documents

Risk disclosure

Tax disclosure



Other Key Regulatory Aspects

Quota Administration

- No quota sale/transfer
- Quota utilization timeline – 1 year after the quota grant
- “Open-ended Fund” v.s. “Non-Open-ended Fund”
 - Lock-up
 - Liquidity
 - Funds injection timeline

Account Structure

Custody Requirements

- Multiple custodians allowed

On-going Compliance Requirements

- Periodical reporting and *ad hoc* reporting
- Compliance with regulatory restrictions (investment, quota utilization, etc)



Current Status

42 RQFII License Holders as of September 2013

- 16 HK subs of PRC FMCs
- 13 HK subs of PRC securities companies
- 4 HK subs of PRC banks
- 3 HK subs of PRC insurance companies
- 5 HK local asset managers

RMB134.3 Billion
Quota Approved as of
September 2013
Highest quota per RQFII –
RMB 22.6 billion

SFC-licensed unit trusts

Private funds (domiciled in
Cayman Islands, etc)

RQFII
Products:

A-share ETFs

RQFII managed account products



Part III Expansion of RQFII Program

Regulatory Trend

Encouraging more institutions to participate

Lifting Investment Restrictions

Diversifying the RQFII products

Synchronizing with QFII

- Investment scope
- Quota administration
- “open-ended fund” v.s. “open-ended China fund”
- Attitudes towards hedge fund applicants
- Outstanding issues (e.g., capital gain tax)

Market Trends

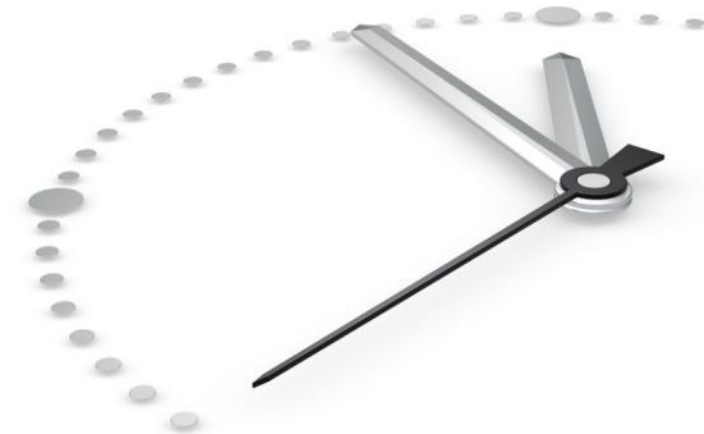
More HK Local
Managers
Participating

Diversified RQFII
Products

- Private funds
- RQFII managed accounts

Dual QFII-RQFII
License Holders

- 10 RQFII-QFII licensor holders
- Utilization of combined QFII and RQFII quotas



Expansion of RQFII Program

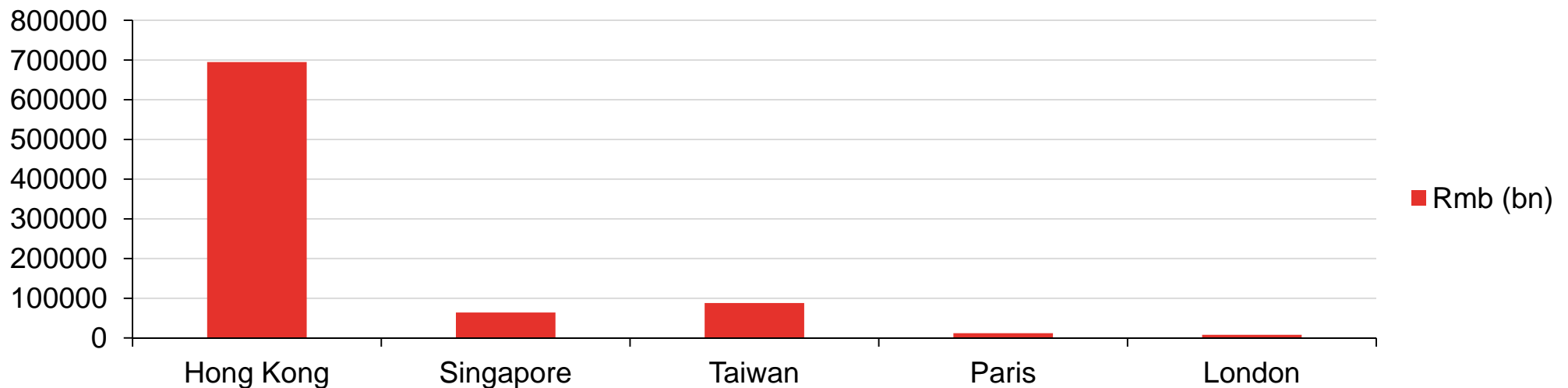
June 2013

According to an agreement signed between Taiwan and the Mainland on June 21, Taiwanese institutional investors are now allowed to invest in the Mainland stock market via the RQFII program.

July 2013

CSRC, SAFE and PBOC announced joint plans to expand RQFII program to Singapore and London.

Offshore Renminbi Deposits by Country



Singapore Market v.s. Hong Kong Market

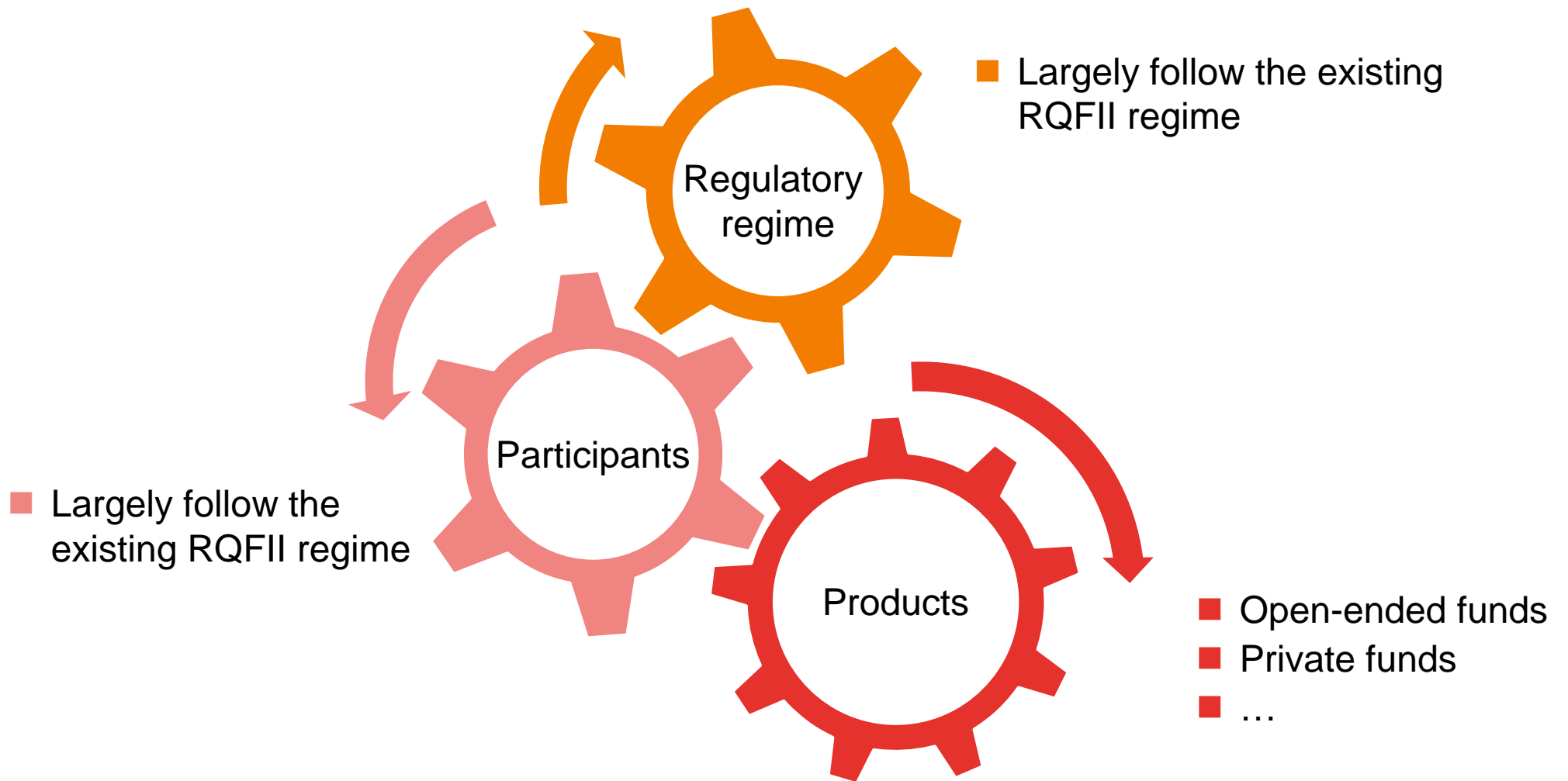
Similarities

- More Asia-focused fund managers
- Top wealth management centre
- Existing strong demand for RMB products
- Large volumes of HNWs and many Chinese holding wealth in Singapore
- Some of first RMB bond funds launched in Singapore (by Barclays and UOB Asset Management in early 2011)

Differences

- Less PRC subsidiaries

Anticipated Singapore RQFII Program



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Questions



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