

BNY Mellon Webcast (31 October 2017)

**IS THE RENMINBI QUALIFIED FOREIGN INSTITUTIONAL INVESTOR
("RQFII") PROGRAMME STILL A VITAL CONSIDERATION FOR
GLOBAL FUNDS?**

by Tan Choo Lye

The background of the slide features a blurred image of a computer monitor displaying financial data. The top portion shows a candlestick chart with green and red bars, while the bottom portion shows a line graph with a yellow line trending upwards. A solid purple horizontal band is overlaid across the middle of the image, containing the text.

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1. DIRECT PRC INVESTMENT PROGRAMMES

	QFII				RQFII	Stock Connect		Bond Connect	PBOC Scheme
						Shanghai Connect	Shenzhen Connect	(Northbound Bond Trading)	
Regulators	CSRC, SAFE				CSRC, SAFE, PBOC, regulators in relevant jurisdiction (e.g. SFC (Hong Kong), FSA (United Kingdom), MAS (Singapore), FSC (Taiwan))	SFC, CSRC		PBOC, HKMA	PBOC
Eligible applicants/ investors	Applicant	Operating History	Asset Held or Managed (during the preceding account year)	Other Info	<ul style="list-style-type: none"> Subsidiaries in relevant jurisdictions of: <ul style="list-style-type: none"> ➢ PRC fund management companies ➢ PRC securities companies ➢ PRC commercial banks ➢ PRC insurance companies Financial institutions with a principal place of business in that relevant jurisdiction that have: <ul style="list-style-type: none"> ➢ obtained an asset management licence issued by a regulator in the relevant jurisdiction; and ➢ already conducted relevant asset management business. 	Northbound Trading	Northbound Trading	<ul style="list-style-type: none"> QFIIs RQFIIs Central banks, international financial organisations and sovereign wealth funds Foreign institutional investors (“FIIs”) and products issued by FIIs. 	<ul style="list-style-type: none"> Central banks, international financial organisations and sovereign wealth funds FIIs and products issued by FIIs
	Asset management institution	≥2 years	≥US\$500 million	N/A					
	Insurance company	≥2 years	≥US\$500 million	N/A					
	Securities company	≥5 years	≥US\$5 billion	≥US\$500 million net assets					
	Commercial bank	≥10 years	≥US\$500 million	≥US\$300 million tier one capital					
	Other institutional investors	≥2 years	≥US\$500 million	N/A					
						Southbound Trading			
						<ul style="list-style-type: none"> Only Mainland institutional investors and those individual investors who hold an aggregate balance of not less than RMB 500,000 in their securities and cash accounts 			

1. DIRECT PRC INVESTMENT PROGRAMMES (Con't)

	QFII	RQFII	Stock Connect		Bond Connect	PBOC Scheme
			Shanghai Connect	Shenzhen Connect	(Northbound Bond Trading)	
Permitted investments	RMB-denominated: <ul style="list-style-type: none"> • stocks, bonds and warrants traded or transferred on stock exchanges; • fixed-income products traded on the interbank bond market; • securities investment funds; • stock-index futures; and • other financial instruments allowed by the CSRC. 		Northbound Trading	Northbound Trading	<ul style="list-style-type: none"> • Whole range of instruments traded on the CIBM 	<ul style="list-style-type: none"> • Investors which are central banks, international financial organisations, sovereign wealth funds and offshore RMB clearing / trade settlement banks may invest in: <ul style="list-style-type: none"> ➢ All cash bonds in the CIBM ➢ Repos, bond borrowing and lending, bond forwards, FRA, and IRS • Other investors may only invest in: <ul style="list-style-type: none"> ➢ All cash bonds in the CIBM ➢ Based on its hedging needs, investor may enter in transactions such as bond lending, bond forwards, FRA and IRS (but not Repos)
			Southbound Trading	Southbound Trading		

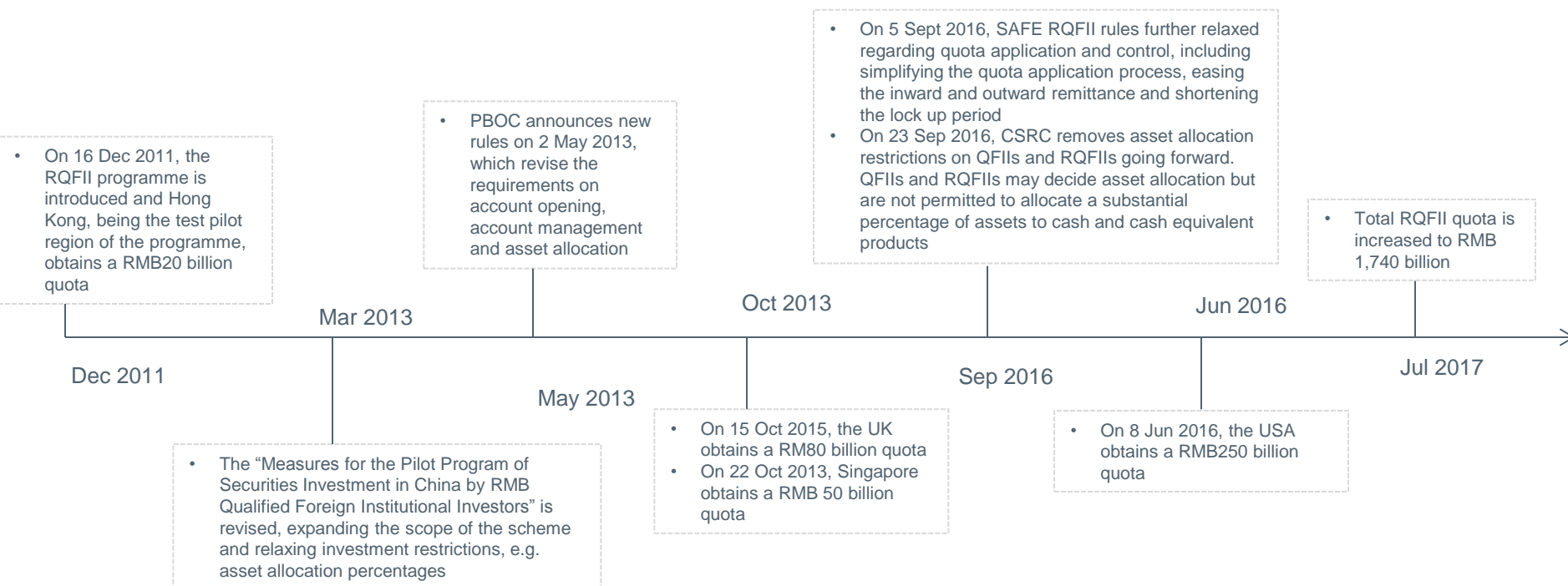
1. DIRECT PRC INVESTMENT PROGRAMMES (Con't)

	QFII	RQFII	Stock Connect		Bond Connect	PBOC Scheme
			Shanghai Connect	Shenzhen Connect	(Northbound Bond Trading)	
Shareholding restrictions	<ul style="list-style-type: none"> A single foreign investor shall not hold through a QFII/RQFII more than 10% of the total shares of an individual listed company. The total A shares of an individual listed company held by all foreign investors shall not exceed 30% of its total shares. 		Northbound Trading Similar to QFII/RQFII, i.e.: <ul style="list-style-type: none"> no single foreign shareholder may hold more than 10% of the shares of a PRC listco; and total foreign shareholding in a PRC listco may not exceed 30% Southbound Trading <ul style="list-style-type: none"> No restriction 		<ul style="list-style-type: none"> No restriction 	<ul style="list-style-type: none"> No restriction
Investment quota restrictions	<ul style="list-style-type: none"> "Base quota" concept applies to QFIIs/RQFIIs (except for foreign sovereign wealth funds, central banks and monetary authorities whose investment quota is unlimited based on their actual needs). 		Daily quotas for each of the Shanghai Connect and the Shenzhen Connect: <ul style="list-style-type: none"> Northbound Trading – RMB 13 billion Southbound Trading – RMB 10.5 billion 		N/A	<ul style="list-style-type: none"> N/A. However, an investor may specify the anticipated investment volume in the registration form based on its actual needs. The accumulative net remit-in capital cannot exceed the anticipated investment volume, and investor is required to update the registration if a higher investment volume is anticipated.
Investment deadline	<ul style="list-style-type: none"> N/A. However, a QFII/RQFII must still use up its quota within one year of its filing or approval, as applicable. Otherwise, SAFE may cancel all or part of the unutilised investment quota. 		N/A		N/A	N/A
Minimum investment requirement	<ul style="list-style-type: none"> US\$20 million 	N/A	Northbound Trading <ul style="list-style-type: none"> All eligible SSE and SZSE securities are subject to the same trading board lot size, which is 100 shares. Southbound Trading <ul style="list-style-type: none"> All orders are subject to the board lot and order size requirements of the SEHK. 		<ul style="list-style-type: none"> Minimum order size of RMB 1 million. 	<ul style="list-style-type: none"> Minimum order size of RMB 1 million
Lock-up period	<ul style="list-style-type: none"> Three months, starting from the date on which an aggregate amount of no less than US\$20 million has been remitted into PRC within the QFII's quota 	<ul style="list-style-type: none"> Open-ended funds: no lock-up period Other RQFIIs: Three months, starting from the date on which an aggregate amount of no less than RMB 100 million has been remitted into PRC within the RQFII's quota 	<ul style="list-style-type: none"> Generally no lock-up period. However, day (turnaround) trading is not allowed for Northbound Trading. 		N/A	N/A

1. DIRECT PRC INVESTMENT PROGRAMMES (Con't)

	QFII	RQFII	Stock Connect		Bond Connect	PBOC Scheme
			Shanghai Connect	Shenzhen Connect	(Northbound Bond Trading)	
Recycling of investment quotas	<ul style="list-style-type: none"> Not specifically permitted (open-ended China funds may be permitted to do so) 	<ul style="list-style-type: none"> Open-ended funds: Yes, as long as the net amount of investment capital remitted into China is within the investment quota Other RQFII: No 	N/A		N/A	N/A
Repatriation	<ul style="list-style-type: none"> Both open-ended funds and other QFIIs: <ul style="list-style-type: none"> may repatriate or remit in the net amount of its subscription or redemption proceeds on a daily basis however, the accumulated monthly net capital outflow remitted by a QFII (including capital and profit) shall not exceed 20% of its total PRC onshore investment at the end of the preceding year 	<ul style="list-style-type: none"> On a daily basis after the expiry of the lock-up period 	N/A		N/A	<ul style="list-style-type: none"> May repatriate or remit on a daily basis Investors who fail to remit in 50% of its registered investment volume within nine months are required to re-register the anticipated investment volume with PBOC.
Monthly repatriation restrictions	<ul style="list-style-type: none"> Monthly net capital outflow cannot exceed 20% of its total PRC onshore investment at the end of the preceding year. 	N/A	N/A		N/A	N/A
Tax policy	<ul style="list-style-type: none"> Capital gains: Capital gains generated on or after 17 November 2014 are temporarily exempted from Corporate Income Tax ("CIT") Dividend and interest income: 10% withholding tax (subject to DTA relief) PRC VAT: Temporarily exempted 		<p>Northbound Trading (for Hong Kong and non-PRC investors)</p> <ul style="list-style-type: none"> Capital gains: Temporarily exempted from Individual Income Tax ("IIT") and CIT Dividend income: 10% withholding tax (subject to DTAs relief) PRC VAT: Temporarily exempted <p>Southbound Trading (for Mainland investors)</p> <ul style="list-style-type: none"> Capital gains: <ul style="list-style-type: none"> Individual investors: Temporarily exempted from IIT Corporate investors: 25% CIT Dividend income: <ul style="list-style-type: none"> Individual investors: 20% IIT Corporate investors: 25% CIT except for dividend from H shares which the Mainland corporate investor holds for no less than 12 months PRC VAT: Temporarily exempted 	<ul style="list-style-type: none"> No specific taxation rules on Northbound Bond Trading, investors should make reference to the tax policy of PBOC Scheme. 	<ul style="list-style-type: none"> Capital gains: Not taxable Coupon interest: 10% withholding tax for non-government bonds (subject to DTAs relief); however, in practice, for bonds traded through the CIBM, both the bond issuers and the clearing centres have not withheld the coupon interest PRC VAT: Temporarily exempted 	
Investment ownership	<ul style="list-style-type: none"> Legal and beneficial owner : QFIIs/RQFIIs or, if so advised by them upfront, their nominees 		<p>Northbound Trading</p> <ul style="list-style-type: none"> Legal owner: Hong Kong Securities Clearing Company Limited Beneficial owner: Hong Kong and non-PRC investors <p>Southbound Trading</p> <ul style="list-style-type: none"> Legal owner: ChinaClear Beneficial owner: PRC investors 	<ul style="list-style-type: none"> Legal owner: HKMA Beneficial owner: Hong Kong and non-PRC investors 	<ul style="list-style-type: none"> Legal owner: PBOC Scheme investors 	

2. THE RQFII PROGRAMME – KEY MILESTONES (as of October 2017)



3. CURRENT STATUS – COUNTRIES WITH RQFII QUOTA

	Country / Region	Granted quota (in RMB billion)	Announcement date for the RQFII programme expansion	Remarks
1	Australia	50	17 November 2014	
2	Canada	50	8 November 2014	
3	Chile	50	25 May 2015	
4	France	80	28 March 2014	
5	Germany	80	7 July 2014	
6	Hong Kong	270	16 December 2011	Initial quota of RMB20 million in 2011 increased to RMB70 billion (2012), RMB 270 billion (2014) and RMB 500 billion (2017), respectively
7	Hungary	50	27 June 2015	
8	Ireland	50	21 December 2016	
9	Korea	120	3 July 2014	Initial quota increased from RMB80 billion to RMB120 billion in 2015
10	Luxembourg	50	29 April 2015	
11	Malaysia	50	23 November 2015	

3. CURRENT STATUS – COUNTRIES WITH RQFII QUOTA (Con't)

	Country / Region	Granted quota (in RMB billion)	Announcement date for the RQFII programme expansion	Remarks
12	Qatar	30	3 November 2014	
13	Singapore	100	22 October 2013	Initial quota increased from RMB50 billion to RMB100 billion in 2015
14	Switzerland	50	21 January 2015	
15	Thailand	50	17 December 2015	
16	UAE	50	14 December 2015	
17	UK	80	15 October 2013	
18	USA	250	8 June 2016	
	Total	1,740		

4. WHY RQFII?

- **More flexible than:-**
 - Stock/Bond Connect/CIBM
 - Quota restrictions
 - Wider investment scope
 - Ability to invest directly in PRC bonds, stocks & securities
 - QFII

- **Can be used together with other direct access channels**

4. WHY RQFII? RELEVANCE OF THE RQFII SCHEME AND FUTURE TRENDS (Cont')

- **Practicality**
 - Inability to transfer between schemes
 - Compliance
 - Time
 - Costs

- **Political**

- **Important to PRC regulators' overall plan to internationalize the RMB**

5. DEVELOPMENTS

- **Allocations continue to grow**
- **New investor markets**

6. THE FUTURE

- **What investors should do**
 - Review existing PRC portfolio and strategy
 - Determine appropriate level of exposure
 - Decide whether short or long-term
 - Consider current status and capacity
 - Invest in new and different structures
 - Dealing with PRC securities requires different systems to those for non-PRC securities
 - IT
 - Compliance
 - Human resources
 - Products
 - Legal
 - Diversification rather than consolidation



Tan Choo Lye
K&L Gates
(852) 2230 3528
choolye.tan@klgates.com



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