ComplianceAsia Shanghai
沪玥商务咨询

Regulatory Update – Relaxation of Restrictions for QFII / RQFII (October 2020)

On 25 September 2020, the People's Bank of China (PBOC), the China Securities Regulatory Commission (CSRC) and State Administration of Foreign Exchange (SAFE) issued a statement, announcing the relaxing of various measures related to Domestic Securities and Futures Investment by Foreign Institutional Investors (境外机构投资者境内证券期货投资资金管理规定).

General Provisions

The measures announced bring a series of changes that come into effect on the 1st of November 2020. These changes include:

- simplifying the eligibility requirements for Qualified Foreign Institutional Investors (QFIIs)/Renminbi Qualified Foreign Institutional Investors (RQFIIs) as well as bringing them under one banner as Qualified Foreign Investors (QFIs);
- expanding the investment scope available to QFIs;
- making securities lending and margin trading facilities available to QFIs;
- the provision of greater access to fixed income and commodity products domestically;
- opening up access to private funds QFIs;
- making available non-trade transfer mechanisms for QFIs; and
- introducing various compliance requirements.

Simplified Requirements

In an effort to simplify the process, the PBOC, SAFE, and CSRC have combined QFIIs and RQFIIs into one category of QFIs. It is expected that current QFIIs and RQFIIs will be automatically converted to QFIs.

The previous criteria required to access the scheme will be removed to increase the scope of firms with market access. Applicants will not be required to demonstrate their investment performance track record, paid-up share capital or the scale of their assets under management (AUM). Additionally, the formal submission of an investment plan is no longer required.

The registration process for the scheme will be streamlined and include an electronic channel for the submission and tracking of applications. Application processing time will be reduced from 20 to 10 working days.

Increased Access to Products

The scope of investment products available to participants in the scheme has been widened. Regulators of the products will apply a consistent set of rules across asset classes to simplify reporting obligations. The newly available products on the scheme include:

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Stock Exchange Market

- Depositary receipts and asset-back securitisation products
- Securities borrowing and margin trading
- Securities lending
- Bond repo transactions
- Stocks and other securities available on the National Equities Exchange

China Inter-bank Bond Market

- Bond derivatives
- FX derivatives
- Interest rate derivatives

Exchange Traded Derivatives Market

- A greater variety of futures and listed options.

Licensed QFIs will also have access to private investment funds.

Access to Securities Borrowing/Lending and Margin Trading

QFIs will be able to conduct securities borrowing and margin trading activities onshore through PRC based brokers. This channel is different to international markets as in the PRC, lending of securities between end-to-end investors is a restricted practice and therefore all borrowing or lending must be conducted through the China Securities Finance Corporation Limited (CSFCL).

The CFSCL serves as a central counter-party through which all securities lending must be conducted. At this point in time, naked short selling remains illegal in the PRC. It is likely that the reporting requirements will be much the same as those applied to PRC based firms.

Access to Private Funds

QFIs will be able to invest in private investment funds whose investment activities do not extend outside of the permitted investment scope of QFIs. The criteria for investment into a private fund requires the fund to be operated by a PRC based securities, futures, or asset management companies or their respective subsidiaries, or by Asset Management Association of China (AMAC) regulated private fund managers.

Simplification of Intra-Group Cooperation

The CSRC has stated that it will soon be possible for QFIs to conduct non-trade transfers for the purpose of “investment operational efficiency and to simplify account structures”. The specifics of this are yet to be finalised, however, an announcement is expected from the onshore stock exchanges and ChinaClear (the Chinese central securities depositary).

QFIs are to be allowed to enter agreements with private fund managers within their group company that have been incorporated in the PRC.. This will allow firms which have both a QFI licensed entity and a wholly owned foreign entity (WFOE) operating in the PRC to better utilise the other’s internal

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resources such as research, investment management and risk management. Furthermore, the onshore asset management capability can be expanded through the distribution of AUM.

Ongoing Obligations and Reporting

Omnibus Accounts

The CSRC has taken active measures to discourage the use of omnibus accounts for clients. Instead, QFIs are encouraged to make use of "QFI-Fund" accounts and "QFI-Client Name" accounts. Omnibus accounts will be required to make significant disclosures on the principal investor.

Hedge Position Reporting

The CSRC will have the right to require QFIs to report on their offshore hedging activities alongside other information on any securities and futures investments in the PRC. It is expected that it will be acceptable for firms to engage in the purchase of offshore derivatives where the underlying asset is a Chinese security so long as the CSRC can maintain sufficient oversight of the market to the point where it can enact punishment upon those deemed to have abuse the market.

Disclosure of Interest Obligations

Foreign investors placing trades through a QFI will be required to adhere to the disclosure of interest (DOI) obligations under the PRC DOI rules.. The responsibility rests with the QFI to ensure that all obligations are met by those over the thresholds.

How we can help

To ensure continued compliance with the professional investor rules and regulations, ComplianceAsia's dedicated PRC team, based in Shanghai, can assist you with the following services:

- monitoring of trades to ensure compliance with the requirements on DOI and hedging;
- assistance with the increased reporting requirements, including the new requirements resulting from access to securities borrowing, lending, and margin trading, DOI rules, and omnibus accounts; and
- advisory services on investment restrictions in relation to the QFI license.

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About ComplianceAsia

ComplianceAsia is the longest established compliance consulting firm in Asia Pacific established in 2003 with key offices in Hong Kong, Shanghai and Singapore. We have an unmatched track record of completing complex compliance consulting projects for financial firms in the APAC region.

With over 70 staff, including compliance experts with experience in dealing with the SFC, HKMA, MAS, CSRC, AMAC, JFSA and Asian exchanges, we provide independent, unbiased advice on Asian financial industry legislation and regulations. Our international client base consists of asset managers, hedge funds, private equity funds, family offices, broker-dealers, insurers, wealth managers and investment banks.

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