

Legal Commentary

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Expansion Greenlighted for Certain R/QFII Investment Products

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Around one month ago, the China Securities Regulatory Commission (**CSRC**), the People's Bank of China (**PBoC**) and the State Administration of Foreign Exchange (**SAFE**) promulgated the combined R/QFII rules and expanded the investment scope of R/QFIIs to allow them to trade exchange-traded bond repos, depository receipts, NEEQ-listed securities, financial futures, commodity futures, options, etc., and to engage in margin trading and securities lending with China Securities Finance Corporation Limited (**CSF**). On 30 October 2020, mainland Chinese exchanges and other financial market infrastructures published relevant implementing rules two days in advance of the effectiveness of the combined R/QFII rules. These implementing rules detail some of the expanded investment products (i.e., depository receipts, NEEQ-listed securities, securities lending with CSF) and elaborate on relevant trading, settlement and monitoring arrangements. There is, however, no indication when other expanded investment products will become available.

Today is the first trading day after the new R/QFII rules came into effect, and foreign investors have already responded. China International Capital Corporation Limited (**CICC**) announced this morning that it had placed the first QFII market order for securities lending with CSF at 9:15 AM.¹

We set out below a matrix of the detailed implementing rules issued by the relevant financial market infrastructures.

Financial Market Infrastructure	Notice/Rules	Highlights
Shanghai Stock Exchange (SSE)	<ul style="list-style-type: none">■ <i>Guidelines No.1 on the Application of Securities Trading Rules of the SSE for Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors</i> (《上海证券交易所证券交易规则适用指引第 1 号——合格境外机构投资者和人民币合格境外机构投资者》)²	<ul style="list-style-type: none">■ Expands investment scope: R/QFIIs can invest in depository receipts, stock options, government-backed bonds, etc. and participate in margin trading, securities lending with CSF and bond repos■ Lowers from 26% to 24% the disclosure threshold for A-shares of a listed company collectively held by foreign investors

¹ Please see the CICC press release at <https://www.cicc.com/cmscontent/91150.html> (Chinese).

² The SSE rule application guidelines are available at http://www.sse.com.cn/lawandrules/sserules/main/trading/universal/c/c_20201030_5250860.shtml (Chinese).

Financial Market Infrastructure	Notice/Rules	Highlights
	<ul style="list-style-type: none"> ■ <i>Business Guidelines of the SSE No.1 on Filing of Qualified Foreign Institutional Investors</i> (《上海证券交易所证券交易业务指南第 1 号——合格境外投资者证券投资业务信息报送》)³ 	<ul style="list-style-type: none"> ■ Clarifies availability of negotiated transfers of listed shares and non-trade securities transfers⁴ ■ Launch of stock options and bond repos subject to CSRC's further approval
Shenzhen Stock Exchange (SZSE)	<p><i>SZSE Implementing Rules on Securities Trading of Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (2020 Version)</i> (《深圳证券交易所合格境外机构投资者和人民币合格境外机构投资者证券交易实施细则(2020年修订)》)⁵</p>	Similar to the SSE's revisions ⁶
China Financial Futures Exchange (CFFEX)	<p><i>Notice on Participation of Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors in Stock Index Futures Trading</i> (《关于合格境外机构投资者和人民币合格境外机构投资者参与股指期货交易有关事项的通知》)⁷</p>	Allows R/QFIIs to trade stock index futures for hedging purposes, the same as previous permissible product and trading patterns under the QFII stock index futures trading guidelines issued by CSRC in 2011 (invalidated on 1 November 2020) ⁸
National Equities Exchange and Quotations (NEEQ)	<ul style="list-style-type: none"> ■ <i>NEEQ Implementing Rules on Securities Trading of Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors</i> (《全国中小企业股份转让系统合格境外机构投资者和人民币合格境外机构投资者证券交易实施细则》)⁹ ■ <i>NEEQ Filing Guidelines for Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors</i> (《全国中小企业股份转让系统合格境外机构投资者和人民币合格境外机构投资者信息报备指南》)¹⁰ 	Allows R/QFIIs to trade stocks and bonds listed and traded on NEEQ and to participate in their initial offerings through securities brokers registered with NEEQ ¹¹
China Securities Depository and Clearing Corporation Limited (CSDCC)	<ul style="list-style-type: none"> ■ <i>Notice on Launch of the Relevant Services under the New R/QFII Registration and Settlement Regime</i> (《关于 QFII、RQFII 登记结算制度改革相关业务上线安排的通知》)¹² 	<ul style="list-style-type: none"> ■ NEEQ registration and settlement services launched from 1 November 2020, margin trading and stock options services to be launched upon completion of market development and testing ■ Clarifies specific circumstances and rules

³ The SSE filing guidelines are available at http://www.sse.com.cn/lawandrules/guide/jyznlc/jyzn/c/c_20201030_5250953.shtml (Chinese).

⁴ Please see the SSE press release at http://www.sse.com.cn/aboutus/mediacenter/hotandd/c/c_20201030_5250820.shtml (Chinese) and <http://english.sse.com.cn/news/newsrelease/c/5251119.shtml> (English).

⁵ The SZSE implementing rules are available at http://www.szse.cn/disclosure/notice/t20201030_582824.html (Chinese).

⁶ Please see the SZSE press release at http://www.szse.cn/aboutus/trends/news/t20201030_582827.html (Chinese).

⁷ The CFFEX notice is available at <http://www.cffex.com.cn/jystz/20201030/24790.html> (Chinese) and http://www.cffex.com.cn/en_new/ExchangeNews/20201030/24791.html (English).

⁸ Please see the CFFEX press release at <http://www.cffex.com.cn/jysdt/20201030/24792.html> (Chinese).

⁹ The NEEQ implementing rules are available at http://www.neeq.com.cn/important_news/200009280.html (Chinese).

¹⁰ The NEEQ filing guidelines are available at http://www.neeq.com.cn/important_news/200009278.html (Chinese).

¹¹ Please see the NEEQ press release at http://www.neeq.com.cn/important_news/200009282.html (Chinese).

¹² The CSDCC notice is available at <http://www.chinaclear.cn/zdjs/gszb/202010/59baa1c8eab0423891815cc34b153d00.shtml> (Chinese).

Financial Market Infrastructure	Notice/Rules	Highlights
	<ul style="list-style-type: none"> ■ <i>Implementing Rules on Registration and Settlement of Domestic Securities Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors</i> (《合格境外机构投资者和人民币合格境外机构投资者境内证券投资登记结算业务实施细则》)¹³ ■ <i>CSDCC Beijing Branch Guidelines on Registration and Settlement of Domestic Securities Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors</i> (《中国证券登记结算有限责任公司北京分公司合格境外机构投资者和人民币合格境外机构投资者境内证券投资登记结算业务指南》)¹⁴ 	<p>for non-trade transfer</p> <ul style="list-style-type: none"> ■ Expands scope of clearing participants to banks and securities companies¹⁵
China Securities Finance Corporation Limited (CSF)	<i>Notice on Application by Qualified Foreign Institutional Investors and RMB Foreign Institutional Investors for Securities Lending with CSF</i> (《关于合格境外机构投资者和人民币合格境外机构投资者申请参与转融通证券出借有关事项的通知》) ¹⁶	Allows R/QFIIs to engage in securities lending with CSF through custodian settlement arrangements or broker settlement arrangements in accordance with the notice

Based on the implementing details above, we set out below a checklist for the major types of newly opened investment products to show their availability status:

Investment Scope	Availability Status
Exchange-traded depository receipts	√
Exchange-traded bond repos	subject to CSRC's further approval
NEEQ-listed shares and other securities	√
CFFEX-listed financial futures	stock index futures for hedging purposes √ treasury bond futures – unknown
Exchange-traded commodity futures	subject to CSRC's further approval
Exchange-traded options	stock options are subject to CSRC's further approval
Margin trading	subject to market development and testing
Securities lending with CSF	√

As the checklist above illustrates, only some of the newly expanded investment products will be available upon the effectiveness of the new R/QFII rules. Bond repos, stock options and margin trading will become available at a later stage. There is still no clear sign as to the availability of products and trading of other financial futures (e.g., treasury bond futures), commodity futures and options.

¹³ The CSDCC implementing rules are available at http://www.chinaclear.cn/zdjs/editor_file/20201030183705568.pdf (Chinese).

¹⁴ The CSDCC Beijing branch guidelines are available at http://www.chinaclear.cn/zdjs/editor_file/20201030165607914.pdf (Chinese).

¹⁵ Please see the CSDCC press release at <http://www.chinaclear.cn/zdjs/xgsdt/202010/073c265cf8104c778667ef1a77b7ed0a.shtml> (Chinese).

¹⁶ The CSF notice is available at <http://www.csf.com.cn/publish/main/1009/1010/20201030175735698195162/index.html> (Chinese).

Apart from clarifying available investment products, the financial market infrastructures have also specified detailed trading and monitoring arrangements to further facilitate R/QFII investments, such as non-trade transfers, simplifying information reporting procedures, removing the limit on the number of securities brokers, etc. We believe the new R/QFII scheme shows encouraging beginnings and foreign investors should keep a close eye on further developments for those items that are still pending.

Important Announcement

This Legal Commentary has been prepared for clients and professional associates of Han Kun Law Offices. Whilst every effort has been made to ensure accuracy, no responsibility can be accepted for errors and omissions, however caused. The information contained in this publication should not be relied on as legal advice and should not be regarded as a substitute for detailed advice in individual cases.

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