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Legal Commentary

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QFII Quota Doubled - Good but Not Enough

TieCheng YANG | Yin GE | Ting ZHENG

On 14 January 2019, China's foreign exchange regulator, the State Administration of Foreign Exchange ("**SAFE**"), announced that the total quota for the Qualified Foreign Institutional Investors ("**QFII**") scheme will be increased from USD 150 billion to USD 300 billion to meet investment demand from the overseas investor community. As of the end of 2018, a total amount of approximately USD 101 billion had been granted to 287 QFIIs.[1]

SAFE's announcement is one of many recent efforts to facilitate quota utilization by QFIIs. In June 2018, SAFE revised the foreign exchange administration rules for the QFII scheme, removing the lock-up period and monthly repatriation limit, among others. The quota application process has also been streamlined since 2016, and QFII license holders now only need to go through a filing process with SAFE if the quota being applied for is within the applicable basic quota amount.

Although all the above developments are encouraging for overseas investors, what matters more is how overseas investors can effectively utilize their QFII investment quotas. This naturally raises the question: what asset classes are eligible for investment under the QFII scheme? Currently, QFIIs' investment scope is generally limited to A-shares, bonds, public securities investment funds and stock index futures, which largely overlap with other available investment channels such as the Stock Connect and Bond Connect schemes. Given the relatively complicated QFII application process, on-going compliance requirements and limited investment scope, overseas institutional investors have increasingly chosen other investment channels over the QFII (or RQFII) scheme as a more cost-efficient approach.

The key to further enhancing the attractiveness of the QFII (or RQFII) scheme to overseas investors may be to expand the permissible investment scope. In December 2018, the Vice Chairman of the China Securities Regulatory Commission ("**CSRC**"), LI Chao, emphasized the

[1] http://www.safe.gov.cn/safe/2018/0425/8881.html

regulator's intention to improve the QFII and RQFII schemes to promote the opening-up of China's capital markets at a *Seminar* on *China Capital Markets and Global Asset Allocation*.[2] On 12 January 2019, at a public forum, the Vice Chairman of CSRC, FANG Xinghai, reiterated the regulators' determination to attract medium- and long-term overseas investors to the domestic securities markets and expected foreign investment in A-shares to increase to RMB 600 billion (roughly USD 89 billion) in 2019. We anticipate CSRC will revise the QFII/RQFII rules soon to implement the relevant measures. It is expected that the permissible investment scope for the QFII and RQFII schemes will be expanded to include asset classes such as private fund products, commodities futures and options.

[2] http://www.csrc.gov.cn/pub/csrc_en/newsfacts/release/201812/t20181213_348117.html

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If you have any questions regarding this publication, please contact **Mr. TieCheng YANG (8610-85164286; tiecheng.yang@hankunlaw.com)** or **Ms. Yin GE** (**8621-60800966; yin.ge@hankunlaw.com**).