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## Asset Management Law

### RQFII Pilot Program: Looking Backward and Forward

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The promulgation and implementation of the *Pilot Measures on Domestic Securities Investment by RMB Qualified Foreign Institutional Investors for Fund Management Companies and Securities Companies* and its supporting regulations in December 2011 have provided detailed guidelines for carrying out the RQFII Pilot Program<sup>1</sup>. The RQFII Pilot Program has been in effect for over one year. Throughout the past year, the RQFII Pilot Program greatly improved the liquidity of offshore RMB products in Hong Kong. At the same time, some adjustments were made to the scale and investment scope of the program based on the current market's reaction as well as the investors' requirements in order to further RMB internationalization.

#### Looking Backward

The RQFII Pilot Program's initial investment quota was RMB 20 billion, which was equal to approximately 3.2% of the RMB deposits in Hong Kong totaling in RMB 627.3 billion, according to the Hong Kong Monetary Authority in November 2011. In addition, within the investment quota, no more than 20% of the RMB funds raised can be invested in equities, such as A shares and equity mutual funds, thus the fixed income securities are the main investment products for RQFII Pilot Program, which have limited attraction to foreign investors.

To further satisfy foreign investors' needs for investing in domestic securities markets, as approved by the State Council, the China Securities Regulatory Commission ("**CSRC**"), the People's Bank of China, and the State Administration of Foreign Exchange ("**SAFE**") raised the quota by RMB 50 billion in April 2012. The entire amount of the raised quota was to be invested in the stock market through exchange-traded funds, which has drawn much more attention from foreign investors, and large amounts of RMB funds were injected into the A share market.

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<sup>1</sup> For more details please refer to "Introduction of Newly-Issued RQFII Rules".  
(<http://www.hankunlaw.com/backuser/picinfo/20122317218.pdf>)

In November 2012, the quota was further raised by another RMB 200 billion and reached RMB 270 billion in total. As of December 31, 2012, 24 RQFII institutions shared RMB 67 billion according to SAFE. The funds invested through QFII and RQFII currently equal 1.5%-6% of the total market value of A share market.

## Looking Forward

According to a statement made by CSRC head Guo Shuqing in January 2013, QFII and RQFII quotas may increase tenfold in the future, and restrictions on the proportion of investments in equities and fixed income securities will be released. Following Mr. Guo's statement, CSRC finished revising the *Pilot Measures on Domestic Securities Investment by RMB Qualified Foreign Institutional Investors for Fund Management Companies and Securities Companies* (the "**Revised Pilot Program**"), and the Revised Pilot Program will be implemented in the near future. It has also been reported that the Revised Pilot Program will allow for more types of institutional investors to join the program, which is currently limited to investment funds and securities brokerages, and restrictions on the proportion of investments in equities and fixed income securities will be cancelled. In addition, CSRC is conducting research in order to expand the RQFII Pilot Program into Taiwan with a separate quota of RMB 100 billion as well as the RQFII2 (the RMB Qualified Foreign Individual Investors) program. It can be assumed that if the aforementioned measures are carried out, the total QFII and RQFII quota will reach RMB 2-3 trillion. It can also be ascertained that together with the cancellation of restrictions on the proportion of investments in equities, a large amount of funds will flood into the A share market, thus boosting confidence into a currently unfavorable A share market.

The positive reaction and enthusiasm towards the markets illustrates the RQFII Pilot Program's continuing expansion and development. This growth of the RQFII Pilot Program will allow domestic asset management institutions to have more opportunities to interact with prominent foreign institutional investors and manage their funds. These opportunities are significant in creating a more internationally focused management model and concept of domestic asset management institutions, as well as facilitating the further domestic asset management development. In addition, the cooperation between domestic and Hong Kong regulators has reached a higher level. On the one hand, Hong Kong regulators need to have a thorough understanding of the complex domestic policies and be able to solve any technical issues that may arise. On the other hand, domestic regulators may launch more active programs to open up the domestic securities market.

Recently, domestic regulators have given signs to open up the financial markets, which would not only include the above-mentioned RQFII Pilot Program, but also include the RQFII2 for Taiwan and the QDII2 (the Qualified Domestic Individual Investors). The implementation of such measures will serve to further the RMB internationalization and to create a closer relationship between the Chinese and global financial markets. We will continue to observe the latest developments regarding such measures and keep you updated.

## **Important Announcement**

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