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Asset Management Law

Analysis of New RQFII Rules

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On March 6, 2013, the China Securities Regulatory Commission released the *Pilot Measures on Domestic Securities Investment by RMB Qualified Foreign Institutional Investors* and its implementation regulation (the “**New RQFII Rules**”), signifying that the RQFII Pilot Program has entered into a new phase of development. Compared with the *Pilot Measures on Domestic Securities Investment by RMB Qualified Foreign Institutional Investors for Fund Management Companies and Securities Companies* and its implementing regulation (the “**Original RQFII Rules**”), the New RQFII Rules have mainly expanded the scope of pilot institutions, relaxed restrictions on the scope of permissible investment products, and simplified application qualifications and documents.

Expand the Scope of Pilot Institutions

Pursuant to the New RQFII Rules, the pilot institutions have been currently extended to include Hong Kong subsidiaries of Mainland Chinese commercial banks and insurance companies, as well as financial institutions that are registered and have major operations in Hong Kong. Under the Original RQFII Rules, pilot institutions were limited to Hong Kong subsidiaries of Mainland Chinese investment funds and securities brokerages.

The involvement of more types of pilot institutions will help to promote positive competition as well as further development of the RQFII Pilot Program.

Relax Restrictions on the Scope of Permissible Investment Products

The New RQFII Rules have removed restrictions on the proportion of investments in equities and fixed income securities previously imposed by the Original RQFII Rules, allowing pilot institutions to allocate the investment quota at their own discretion. Furthermore, the New RQFII Rules have specified stock index futures as one of the permissible RMB investment products.

Following the implementation of the New RQFII Rules, pilot institutions will be allowed to invest 100% of their capital within approved investment quotas in the A share market. This relaxation of investment restrictions reflects the demands of the foreign investors and helps lift the A share market's performance. For the purpose of risk management and control, pilot institutions' shareholding of listed companies shall be subject to the following restrictions under the New RQFII Rules:

- 1) The shares of a single listed company held by a single pilot institution shall not exceed 10% of the total number of shares of such listed company.; and
- 2) The shares of any single listed company held by all the pilot institutions in total shall not exceed 30% of the total number of shares of such listed company.

However, the foreign investors who make strategic investments in listed companies under the *Administrative Measures on Strategic Investment in Listed Companies by Foreign Investors* shall not be subject to such restrictions on the shareholding of listed companies.

Simplify Application Qualifications and Required Documents

The New RQFII Rules have removed the requirements under the Original RQFII that an applicant's parent company in the PRC:

- 1) has the qualifications to engage in securities assets management; and
- 2) has not been subject to any serious punishments imposed by any regulatory authority at their respective jurisdictions during the past three-year period from the application qualifications for pilot institutions.

The required application documents are also simplified under the New RQFII Rules. The applicant no longer needs to provide:

- 1) a statement on whether the applicant's parent company in PRC has been subject to punishments by any regulatory authority at their respective jurisdiction during the past three-year period;
- 2) a statement on the internal control system of the applicant; and
- 3) a legal opinion.

Furthermore, the draft custodian agreement to be entered into with a custodian in the PRC as required by the Original RQFII Rules will be replaced by the power of attorney to the custodian, which is much simpler.

The New RQFII Rules reflect the demands of the market and foreign investors. Therefore, it can be ascertained that the implementation of the New RQFII Rules will further promote both the opening up of China's domestic capital market as well as RMB internationalization.

Important Announcement

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