

## **New RQFII Rules Direct Offshore RMB Back to China**

On 6 March 2013, the China Securities Regulatory Commission (“CSRC”) announced the newly amended *Measures for the Pilot Program of Securities Investment in China by RMB Qualified Foreign Institutional Investors* (hereinafter referred to as “the Measures”) as well as the *Provisions on the Implementation of the Measures for the Pilot Program of Securities Investment in China by RMB Qualified Foreign Institutional Investors*. The amendments allow more institutional investors to be RQFII and more products to invest in.

“RQFII” stands for RMB Qualified Foreign Institutional Investors; they can use offshore RMB currency to buy onshore assets in the P.R.C.

RQFII pilot program was firstly introduced on 16 December 2013, when the CSRC, the People’s Bank of China, and the State Administration of Foreign Exchange jointly promulgated the *Measures for Pilot Domestic Securities Investment Made by RMB Qualified Foreign Institutional Investors of Fund Management Companies and Securities Companies*.

Previously, only the Hong Kong subsidiaries of Chinese domestic fund management companies and securities companies, as the approved RQFII, could use the RMB raised in Hong Kong to make investment in the domestic securities market. At the same time, no more than 20% of the RMB raised could be invested in equity or equity funds.

Now, according to the Measures, the Hong Kong subsidiaries of Chinese domestic fund management companies, securities companies, commercial banks, or insurance companies, or financial institutions with registration place or major business place in Hong Kong, all may have chances to become RQFII.

Furthermore, those approved RQFII will be allowed to have discretion on the type of the products they would like to invest in. Such products may range from (1) stocks, bonds and warrants traded or transferred on stock exchanges (2) fixed-income products traded in the inter-bank bond market (3) securities investment funds to (4) stock index futures.

RQFII can also be a party in the issuance of new shares, the issuance of convertible bonds, the additional issuance of shares and the purchase of allotted shares.

By loosening the restrictions on the RQFII investors and products, China intends to show an open attitude as to its supervision system and the market system of capital investment. Possibly more competitive though, the domestic capital market can also grow more mature, exactly because the “invasion” by

the foreign institutional investors makes the market a real jungle.

As provided in the website of the CSRC, the granted quota of total investment amount for RQFII has already reached 270 billion RMB by now. Currently there are 27 Hong Kong subsidiaries of fund management companies and securities companies qualified as RQFII. 70 billion of the granted quota was allocated to those 27 RQFII during the past one year. However, the foreign institutional investors “still had great demand in the investment” in the domestic securities market.

However, the investments made by RQFII in the past year are either “20% stocks plus 80% bonds” type or ETF (Exchange Traded Fund) type. Therefore, it is believed that more RQFII investment will be made in the domestic A stock market in the future, because the Measures has just abolished the 20% restriction. In that way, more money will flow in the A stock market, which, of course, is good news for the A stock market. Yet from the short term, it may be a too long time for the A stock market, now in the hasty demand of money, to wait for the money brought by the RQFII. All of the remaining 200 billion of the granted quota may not be put into the A stock market. What’s more, the formalities for approval take time.

Different from QFII (Qualified Foreign Institutional Investors), which aims to internationalize (partially, if not fully) the Chinese capital market by opening a small door to the foreign institutional investors, RQFII program has been designed to promote the internationalization of RMB, though it also enables foreign investors to invest in A stock market.

Hong Kong is known as the largest market of offshore RMB and the RQFII program was firstly made available in Hong Kong. The reason is that China intends to direct the offshore RMB currency back to the country and thus to facilitate the internationalization process of RMB.