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China regulators relax foreign exchange restrictions on RQFIIs

On 5 September 2016, PBoC and SAFE jointly published the *Circular on Matters related to Domestic Securities Investment by RMB Qualified Foreign Institutional Investors* **(Circular),** effective from the issuance date. The Circular further relaxes quota administration and foreign exchange control for RQFIIs and is expected to promote an increasing inflow of funds into China.

The Circular primarily aims to reconcile the RQFII rules with the current QFII rules with respect to matters on foreign exchange administration following the issuance of the *Foreign Exchange Administration Rules on Securities Investments in the PRC by QFIIs* (**New QFII rules**) by SAFE in February 2016.

Relaxed quota control

The Circular introduces a major change to RQFII investment quota administration. Under the previous regulatory regime, an RQFII must obtain prior approval from SAFE for the relevant quota before making any investments in China. Under the Circular, such prior approval will no longer be required if the quota being applied for is within a certain percentage of the asset value or AUM (**Basic Quota**) of the RQFII. In such a case, the RQFII would only have to attend to a routine filing process with SAFE. Hence SAFE's prior approval will now only be required when the quota being applied for exceeds the Basic Quota.

The new Basic Quota based filing system is expected to expedite the obtaining of investment quota by RQFIIs through a more transparent and streamlined process. The RQFII will also have greater flexibility in allocating its investment quota for different products. This procedure will also apply to existing RQFIIs seeking to increase their quota.

It is worth noting that for certain types of RQFIIs such as sovereign wealth funds, central banks and monetary authorities, the Basic Quota will not apply. Instead, they may apply for quota based on their needs through a filing process irrespective of the quota amount.

The Circular further states that an RQFII's quota (whether for open-ended funds or other types of investment products) will be monitored based on net capital inflows. This means that repatriation of investment principal will no longer lead to a reduction in the quota of an RQFII.

Other key developments

In line with the New QFII rules, the Circular has removed some of the barriers to remittance and repatriation of funds in the following manner, hence providing for better liquidity:

- the previous mandatory six-month fund injection timeline for non-open-ended funds no longer applies, but an RQFII must still use up its quota within one year of its filing or approval, as applicable;
- there is no longer any restriction on repatriation frequency for non-open-ended funds; and
- the applicable lock-up period for principal repatriation has been shortened from one year to three months for non-open-ended funds, starting from the date on which an aggregate amount of no less than RMB 100 million has been remitted into China within the RQFII's quota.

Unchanged restrictions

Certain key restrictions remain unchanged. For example, RQFIIs are still strictly prohibited from transferring or selling any quota to other institutions or individuals.

Conclusion

The Circular further synchronizes the foreign-exchange policies for QFIIs and RQFIIs and also brings more alignment between RQFII open-ended funds and other types of investment products. It also gives a positive signal that China is continually taking effort in attracting more foreign investment into the Chinese securities market.

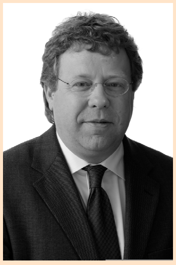
We have prepared an English translation of the Circular. Please let us know should you wish to receive a copy.

Authors

Yang Tiecheng
Partner
T:86 10 65352265
Email: tiecheng.yang@cliffordchance.com

Ge Yin
Counsel
T: 86 21 23207202
Email: yin.ge@cliffordchance.com

Hong Kong Contacts



Mark Shipman
Partner
T: 852 2825 8992
Email:
mark.shipman@cliffordchance.com

Francis Edwards
Partner
T: 852 2826 3453
Email:
francis.edwards@cliffordchance.com