DILLON EUSTACE

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China Abolishes Restrictions on the Investment Quota of Qualified Foreign Investors (QFII/ RQFII)

As widely anticipated on 10 September 2019, mainland China's foreign exchange regulator, the State Administration of Foreign Exchange ("SAFE"), confirmed that existing restrictions on both the Qualified Foreign Institutional Investor (“QFII”) and RMB Qualified Foreign Institutional Investor (“RQFII”) schemes have been abolished. The SAFE announcement may be accessed here.

Background

Regular readers will be aware that in 2002 and 2011, China launched the QFII and RQFII schemes respectively in a bid to encourage foreign participation in its financial markets. Since the launch of QFII and RQFII, SAFE reports that “*more than 400 institutional investors from 31 countries and regions around the world have invested in China's financial markets through these channels, sharing the achievements of China's reform, opening up and economic growth, and also actively promoting the healthy development of China's financial markets*”.[1]

Relevance and benefits of the reform to Irish Funds

On 21 December 2016, it was announced by the People's Bank of China that Ireland had been granted a quota worth RMB 50 billion

[1] State Administration of Foreign Exchange. (2019). *Abolish Restrictions on the Investment Quota of Qualified Foreign Investors (QFII/ RQFII) and Further Expand the Opening up of Financial Markets*. [News release]. 10 September. Available at: https://www.safe.gov.cn/en/2019/0910/1552.html (Accessed: 17.09.19).

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RQFII, accessible through applications made by Irish fund management companies. The quota restrictions on QFII and RQFII and its limitations will be redundant as a result of this reform.[2]

It is expected that the abolition of the quota limit will result in a more convenient mechanism for foreign investors, including Irish funds, to access China's bond and stock market which in turn should help to make these Chinese markets more accepted and attractive to the international market.

SAFE intend to immediately revise the Regulations on Foreign Exchange Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors (SAFE Announcement No.1 of 2018) and other relevant regulations, to remove any requirement on foreign institutional investors to apply for QFII and RQFII quotas and to clarify that those foreign institutional investors who have previously had quota approved, will no longer be limited to that quota.

After the quota restrictions are lifted, the procedure for qualified foreign investors to invest in the Chinese securities market, will involve the foreign institutional investors obtaining relevant qualifications approved by the securities regulatory authorities and entrusting *"a domestic custodian bank to go through relevant registration procedures, and open a special fund account in the custodian bank and handle the follow-up remittance of funds and exchange business, with the registration certificate issued by SAFE".*[3]

Expectations

It is expected that this reform, combined with continuing inclusion of China equity and fixed income securities in leading worldwide indices, will strengthen China's capital markets presence in the global investment mainstream. SAFE has reiterated its commitment "*to continue to deepen the reform of foreign exchange administration, take effective measures to expand opening up, support foreign investors to invest in domestic financial markets, and enhance the facilitation of cross-border investment and financing*."[4]

We believe that the reform, together with SAFE's commitment to further develop the QFII and RQFII schemes, is a welcome development for the Irish funds industry. It is expected that Irish domiciled funds will become increasingly interested in the greater allocations to the Chinese bond and stock market though these channels, in conjunction with other existing channels such as Shenzhen-Hong Kong Stock Connect and the China Bond Connect schemes, which haven proven popular with Irish funds since their approval by the Central Bank of Ireland on 15 July, 2015 and 21 March, 2019 respectively.

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[2] State Administration of Foreign Exchange. (2019). *Press Conference on Abolishing Restrictions on the Investment Quota of Qualified Foreign Investors (QFII/ RQFII) Wang Chunying Spokeswoman and Chief Economist State Administration of Foreign Exchange*. [Press release]. 10 September.
Available at: https://www.safe.gov.cn/en/2019/0910/1552.html (Accessed: 17.09.19).

[3] Ibid.

[4] Ibid.

If you have any questions in relation to the above, please contact your usual contact in the Dillon Eustace Asset Management and Investment Funds Team.

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