IRISH FUNDS GRASP QFII AND RQFII OPPORTUNITIES

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INTRODUCTION

This note is an update to a note first published in July 2013. The pace of change in respect of particularly the RQFII scheme has continued unabated as the Chinese authorities continue to liberalise access to China A Shares for foreign investors.

The Qualified Foreign Institutional Investor ("**QFII**") scheme has since it was launched by the People's Bank of China ("**PBOC**"), the China Securities Regulatory Commission ("**CSRC**") and the State Administration of Foreign Exchange ("**SAFE**") in 2002[1] been the principal method for foreign investors to invest directly in the securities markets of China. It allows foreign institutional investors to invest in China's capital markets, subject to first obtaining a QFII license from the CSRC and then an investment quota allocated by the SAFE.

CSRC, PBOC and SAFE have taken a gradual approach to broadening the appeal of the QFII scheme to foreign investors by lowering the threshold requirements for applicants seeking QFII licences, expanding the universe of permissible investments available to QFIIs and increasing the total QFII quota in April 2012 by US $50 billion to US $80 billion and on 12 July 2013 from US $80 billion to US $150 billion.

The RQFII scheme which was originally introduced in December 2011 as a means of allowing the Hong Kong operations of mainland Chinese financial institutions to raise Renminbi ("**RMB**") in Hong Kong for investment in the Chinese capital markets has undergone rapid change from inception. Ultimately those changes gave rise to the possibility of UCITS funds being in a position to invest 100% of their assets into China A Shares, giving investors in such UCITS funds unparalleled access to the A share market.

This opportunity was quickly grasped and the first RQFII UCITS Fund was approved by the Irish Central Bank on the 16th of December 2013, showing the commitment of Ireland as a funds domicile to embrace these developments and to offering fund managers domiciled in Ireland the broadest range of possibilities for investing into the China A Share market as soon as regulatory developments permit. As the first mover in this area, Ireland is continuing its tradition of embracing regulatory developments and responding quickly to them.

[1] The Interim Administrative Measures for Securities Investments in China by Qualified Foreign Institutional Investors (1 December 2002).

Even with these refinements, current investments by QFIIs and by Renminbi Qualified Foreign Institutional Investors (“**RQFIIs**”) are generally estimated to account for less than 2% of the total investments in China’s A-share markets[2].

The changes continued apace in 2014 and included the announcement by the Shanghai stock exchange that the shareholding limit for both QFII and RQFII in any single company is to be raised to 30% from 20%. The Chinese authorities are also working towards clarifying the tax treatment of gains under the QFII scheme and recently announced an allocation of RQFII quota to France of RMB 80bn. The announcement of an allocation of RQFII quota to France follows announcements in 2013 of allocations of RMB 100bn of RQFII quota to Taiwan, RMB 80 bn of RQFII quota to London and RMB50bn of RQFII quota to Singapore.

As RQFII is extended to more markets around the world a key consideration for those managers is how they can utilize QFII and RQFII to offer their clients in the EU, Latin America, Middle East and Africa access to the Chinese capital markets. In this memorandum we will provide an overview of the QFII and RQFII schemes and how managers in any jurisdiction with RQFII quota can utilise such quota in Irish UCITS and AIFMD compliant funds.

We have set out in this memorandum our understanding of the QFII and RQFII schemes and the interpretation of the rules of those schemes by PBOC, SAFE and CSRC as at April 2014. However, readers should be aware that the rules of both schemes have undergone rapid change and both the rules and interpretation thereof by the relevant authorities are subject to change.

QFII OVERVIEW

QFIIs and QFII products are broadly classified into three types for both the purposes of the SAFE regulations[3] and for foreign exchange purposes:

i. Long term investors such as pension funds, insurance funds, charitable foundations, endowment funds, government and monetary authorities (**“Long-Term Funds”**);

ii. Open-end China funds (essentially a type of fund product managed by a QFII) which are defined as open-end securities investment funds set up offshore by QFIIs via

[2] A-shares are equity shares subscribed and traded in Renminbi. QFIIs have traditionally focused on A-shares traded on the Chinese stock exchanges located in Shanghai and Shenzhen.

[3] See footnote 4.

public placements, where at least 70% of their assets are invested in the securities market in China (**"Open-end China Funds"**); and

iii. Mandates managed by a QFII, QFIIs' proprietary money if the QFII does not qualify as Long-Term Fund, funds managed by a QFII that do not qualify as Open-end China Funds, etc. ("**Other Funds**").

Under the QFII regulations[4], QFIIs must generally within six months of having each investment quota approved[5], remit the investment principal into China, and may not commence investment operations until the remittance of US$20 million or more as investment principal has occurred.

Where a QFII does not remit the full amount of the investment quota within the above timeframe, this will result in the unremitted portion of the quota being forfeited unless an approval allowing an extended period for remittance has been granted.

The QFII regulatory regime also imposes significant restraints upon repatriation of assets from China with the nature of the restrictions on repatriation varying according to the type of QFII making the repatriation or the QFII product to which the repatriation relates (i.e. Long-Term Funds, Open-end China Funds and Other Funds).

All investment amounts invested through the QFII channel are subject to a lock-up period during which QFIIs are prohibited from remitting such funds out of China. The lock-up period is calculated from the date when the investment principal is remitted in full or when the six-month remittance period falls due, whichever is earlier.

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[4] The main regulations governing the QFII scheme are the revised "*Administrative Measures on Domestic Securities Investment by Qualified Foreign Institutional Investors"* issued by the CSRC, the PBOC and the SAFE in 2006 ("**2006 QFII Measures"**) and the *Provisions on the Foreign Exchange Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors* issued by the SAFE on 29 September 2009 **("2009 SAFE QFII Rules").** The 2009 SAFE QFII Rules set out detailed provisions on quota applications, remittance and repatriation of funds, QFII accounts, etc.

In 2012, the Chinese regulators sought to broaden the appeal of the QFII scheme to foreign investors. In July 2012, the CSRC issued the *"Provisions on Relevant Matters concerning the Implementation of Measures for the Administration of Securities Investment within the Borders of China by Qualified Foreign Institutional Investors"* ("**2012 QFII Measures"),** which revised the *"Provisions on Relevant Matters concerning the Implementation of Measures for the Administration of Securities Investment within the borders of China by Qualified Foreign Institutional Investors"* issued by CSRC in 2006, while in December, 2012, the SAFE revised its QFII rules by issuing the *" Provisions on Foreign-Exchange Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors*." **("2012 SAFE QFII Rules")**.

[5] We understand that QFII licences and quotas are specific to each QFII and not transferable between entities, even within a group, however a QFII may delegate the QFII investment management function to another group entity.

Under the 2009 SAFE QFII Rules, a three month lock-up period applied to Open-end China Funds and Long-Term Funds, while for Other Funds the lock-up period was one year.

Once the initial lock-up period was over, the 2009 SAFE QFII Rules provided that an Open-end China Fund may remit funds to or repatriate funds from China without SAFE's approval on a monthly basis depending on the net subscriptions or redemptions of the fund and provided that the net remittance to or repatriation from China did not exceed US$50 million per month.

For Long-Term Funds and Other Funds, which intended to repatriate either principal or profits following the applicable lock-up period, prior approval of SAFE was required on a case-by-case basis. Any repatriation of principal by funds other than Open-end China Funds results in the QFII quota being reduced by an amount equivalent to the repatriated principal amount.

The custody of assets held by all QFIIs has also given rise to concerns. Under the QFII regime prior to the introduction of the 2012 QFII Measures, QFIIs were required to hold client assets apart from the assets of Open-end China Funds in a single securities account, which gave rise to significant custody and asset segregation risks for QFII clients.

2012 CHANGES TO THE QFII SCHEME

A number of important changes to the QFII scheme were made during 2012 which were intended to continue the process of opening China's securities markets to foreign investors. We have set out the principal changes below:

Easing of Requirements for Applicants

The 2012 QFII Measures have substantially eased the requirements which applicants for a QFII quota have to meet. This has opened up the possibility of obtaining a QFII quota to a much broader pool of potential applicants. Appendix 1 sets out these reduced criteria.

Increase in QFII Investment Quota

Under the 2009 SAFE QFII Rules, all QFIIs were subject to a maximum investment quota per investor of US$1 billion. The 2012 SAFE QFII Rules remove the US$1 billion ceiling for three types of QFIIs, namely sovereign wealth funds, central banks and monetary authorities. The ceiling still applies to other QFIIs.

Expansion of the Scope of Investment

Previously, QFIIs could only invest in (i) stocks, bonds, warrants traded in or transferred in stock exchanges; (ii) securities investment funds; and (iii) other financial instruments permitted by the CSRC. The 2012 QFII Measures permit QFIIs to invest in stock-index futures and fixed-income products traded on the inter-bank bond market. While this expansion in the scope of investments is welcome, it should be noted that the requirement that at least 50% of a QFIIs assets be invested in listed equities remains.

The 2012 QFII Measures also loosened the restriction on the cap of the aggregated amount of China A shares that all foreign investors may hold in a listed company from not exceeding 20% to 30%. The cap of the amount of China A shares that a single investor may hold remains unchanged at 10%.

Relaxation of the limits on Repatriation/Remittance of Funds by QFIIs

The 2012 SAFE QFII Rules continue to distinguish between Long-Term Funds, Open-end China Funds and Other Funds in connection with foreign exchange controls while introducing a number of important changes to the QFII scheme.

Open-end China Funds

Open-end China Funds are now allowed to remit into or repatriate out of China the net difference between subscription and redemption amounts on a weekly basis, compared with a monthly basis under the 2009 SAFE QFII Rules.

In addition, fund remittances and repatriations by Open-end China Funds are no longer subject to SAFE’s prior approval, regardless of the amount involved, whereas, under the 2009 SAFE QFII Rules, SAFE’s prior approval was required where the net amount remitted or repatriated exceeded US $50 million. Fund repatriation by an Open-end China Fund under the 2012 SAFE QFII Rules remains however subject to a monthly cumulative limit of 20% of the total onshore assets of that fund as of the previous year. This limit is, we understand, calculated separately from other products managed by the same QFII.

Long-Term Funds and Other Funds

Previously, the repatriation of both investment principal and profits by Long-Term Funds and Other Funds required SAFE’s approval. The 2012 SAFE QFII Rules however, remove the approval requirement for profit repatriation by Long-Term Funds and Other Funds. As a result, profits may now be repatriated by Long-Term Funds and Other Funds without SAFE’s prior approval subject to all required documents being in place.

Under the 2012 SAFE QFII Rules a cap is imposed on total monthly repatriation (principal and profits) by Long-Term Funds and Other Funds, which is set at 20% of its total onshore assets as at the end of the previous year. As mentioned, any repatriation of principal by funds other than Open-end China Funds results in the QFII quota being reduced by an amount equivalent to the repatriated principal amount.

QFII Account Structure

The 2009 SAFE QFII Rules introduced a multiple bank account structure. A QFII was permitted to open a foreign exchange account and a corresponding RMB special account for proprietary funds and client funds respectively and was required to open a foreign exchange account and a corresponding RMB special account for each Open-end China Fund. While this provided for segregation of the QFII's assets from client assets, it meant that for QFII clients other than Open-end China Funds their assets were contained in one omnibus securities account, which invariably gave rise to serious custody and segregation concerns and risks.

Under the 2012 QFII Measures and the 2012 SAFE QFII Rules, the QFII account structure was amended in such a manner as to address some of these concerns regarding custody and asset segregation by permitting a QFII to open up to six "RMB special deposit accounts" for its clients. Further to the implementation of the 2012 QFII Measures and the 2012 SAFE QFII Rules, the rules regarding accounts which can be opened and operated are as follows:

(i) a QFII is required to open a separate segregated securities account for its own proprietary capital;

(ii) a QFII is required to open a separate segregated securities account for its clients' assets. Client assets (other than assets of Open-end China Funds and Long-Term Funds) are contained in this single omnibus client account. Such a securities account may be named as "QFII-Client Name";

(iii) when a QFII opens a securities account for a Long-Term Fund under its management, the account may be named as "QFII – Fund (or Insurance Fund, etc.) Name" and the assets in that account will belong to the Fund (or Insurance Fund, etc) and shall be independent from the QFII and the custodian.

(iv) when a QFII opens a foreign exchange account and a RMB dedicated deposit account for an Open-end China Fund, it shall open a separate account for each Open-end China Fund;

Accordingly where a QFII opens a separate segregated foreign exchange account in respect of an Open-end China Fund, a corresponding segregated RMB dedicated deposit account and securities account will also be required to be opened. While these separate segregated securities accounts may be opened in respect of individual funds, the accounts will be in the joint name of the QFII and the fund. However, pursuant to the 2012 QFII Measures, the Open-end China Fund will be the sole legal owner of the securities held in the account.

(v) QFIIs may open up to six "RMB special deposit accounts" which are permitted to be linked to a RMB securities account for its clients. Funds are not transferrable between these RMB special deposit accounts. This will allow QFIIs to segregate and distinguish some of its clients' assets from the assets of other clients and address the aforementioned custody and segregation issues for certain clients. This may provide QFIIs with the ability to meet the concerns of clients who are not Open-end China Funds or Long-Term Funds regarding the segregation of their assets from other clients' assets managed by the same QFII.

In summary, the implementation of the 2012 SAFE QFII Rules and the 2012 QFII Measures provide additional flexibility to QFIIs regarding account opening.

For QFII clients other than Open-end China Funds and Long Term Funds, the ability of QFIIs to now open up to six RMB special deposit accounts should assist in addressing the custody and segregation concerns which exist with regard to the assets of various clients of the same QFII being held in an omnibus client account.

RQFII SCHEME

Overview

The RQFII scheme was launched in China on 16 December 2011 pursuant to the promulgation of the *Pilot Measures for Onshore Securities Investment by Fund Management Companies and Securities Companies that Qualify as RMB Qualified Foreign Institutional Investors* by the CSRC, PBOC and SAFE and the issue of the corresponding implementing rules by the CSRC (the "**2011 Rules**"). The implementation of the RQFII scheme was supplemented by circulars issued by the SAFE and the PBOC on 23 December 2011 and 4 January 2012 respectively.

Initially, the RQFII scheme allowed the Hong Kong subsidiaries of Chinese fund management companies and securities companies to apply for RQFII licences and quotas to invest RMB funds raised in Hong Kong into the domestic Chinese securities market.

Currently, approximately twenty seven Hong Kong subsidiaries of Chinese fund management companies and securities companies have been granted RQFII licenses, with a total approved investment quota of approximately RMB 70 billon. In the past year, twenty four RQFIIs have established RQFII funds. These funds, with an aggregate investment quota of RMB 27 billon were, due to the requirements of the RQFII scheme, which restricted the investment portfolio of such funds, structured such so that no less than 80% of their assets were invested in fixed income securities with the balance of up to 20% of their assets in China A shares. The investment restrictions were relaxed in 2012 to permit RQFII Exchange Traded Funds ("**ETF's**"), which saw the launch of four RQFII ETFs with an accumulated investment quota of RMB 43 billon.

Each RQFII can remit RMB funds into mainland China within its investment quota[6] approved by the SAFE through its Chinese custodian who is responsible for supervising onshore investments made by the RQFII and for fulfilling the reporting requirements to the mainland Chinese authorities.

RQFIIs are permitted to repatriate the principal capital and investment proceeds denominated in RMB or in foreign currencies. For open-ended funds[7] launched by a RQFII, the RQFII can process the remittance into China and the repatriation back to Hong Kong based on the net subscription /redemption amount on a daily basis which makes the operation of ETFs possible. Funds other than open-ended funds enjoy monthly liquidity.

RQFIIs are obliged to engage a domestic Chinese commercial bank, which is qualified as a RQFII custodian, to act as its onshore Chinese custodian, and onshore securities companies to act as its brokers for securities trading. RQFIIs are permitted to open three types of special deposit accounts with their custodian banks for the purposes of (i) interbank bond market investment, (ii) on-exchange bond investment and listed shares investment and (iii) stock futures trading. A RQFII is obliged to open separate special accounts for open-ended funds it manages, each of which should correspond with a securities account.

Enhancements to the RQFII Scheme

With a view to further expanding the Chinese capital markets and enhancing RMB internationally, the CSRC, SAFE and PBOC promulgated the *Trial Measures for Domestic Securities Investment made by RMB Qualified Foreign Institutional Investors* on 1 March 2013 (the "**New RQFII Rules**") which replaced the 2011 Rules.

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[6] We understand that RQFII quotas are specific to each RQFII and not transferable between entities, even within a group.

[7] We understand that SAFE currently views open-ended funds under the new RQFII rules as open-ended authorised funds. There is under the RQFII scheme, unlike the requirement under the QFII scheme for Open-end China Funds, no requirement for open-ended funds to invest at least 70% of their assets into China.

The New RQFII Rules provide that a licensed RQFII may raise RMB funds offshore whereas the 2011 Rules required that RMB be raised in Hong Kong. Considering the development of the RMB market outside China and Hong Kong, this change was widely welcomed as it raises the possibility that non-Hong Kong based RMB investors will be in a position to invest in China's securities market through non-Hong Kong domiciled investment vehicles managed by RQFIIs.

The New RQFII Rules also extend the scope of qualifying RQFIIs from Hong Kong subsidiaries of Chinese fund management companies and securities companies only, to Hong Kong subsidiaries of Chinese commercial banks and insurance companies, or financial institutions which are domiciled in and have their principal places of business in Hong Kong. As a result of the new rules, other financial institutions which are registered and domiciled in Hong Kong (which are not Hong Kong subsidiaries of Chinese fund management companies and securities companies) can, if they hold a Type 9 licence issued by the Securities and Futures Commission in Hong Kong ("**SFC**"), also apply for a RQFII licence from the CSRC.

Under the New RQFII Rules, an applicant for a RQFII licence must fulfill the following conditions:

(i) have a Type 9 (asset management) licence issued by the SFC and conduct asset management business;

(ii) be in a stable financial condition and have a good credit standing;

(iii) have an effective corporate governance and internal control system. It's relevant professionals must satisfy the relevant eligibility requirements applicable under local law;

(iv) not have had any material penalty imposed by the relevant local regulator since its establishment (if it has a track record period of less than three years) or in the last three years; and

(v) satisfy such other requirements of the CSRC as it may stipulate in accordance with the principle of prudential regulation.

The CSRC has sixty days after receiving a complete application to determine whether the applicant satisfies the criteria for the award of a RQFII licence and to either approve or reject the application.

The New RQFII Rules' substantial broadening of the potential pool of RQFII applicants to include all financial institutions which are registered and domiciled in Hong Kong which hold a Type 9 license from the SFC and not just the Hong Kong subsidiaries of Chinese fund management companies and securities companies, opens up the opportunity for the nine hundred holders of Type 9 licences to obtain a RQFII quota. As such, this raises the possibility of international asset management groups who already have a Type 9 licence from the SFC, applying for a RQFII quota and allocating that quota to Irish regulated funds within its group as there are no restrictions (subject to the SAFE and the CSRC having approved the allocation plan contained in the business plan which is required to be submitted to them as part of the RQFII quota application process) on what type of products may utilise the RQFII quota.

The developments in the RQFII scheme in late 2013 and early 2014 with London, Singapore, Taiwan and Paris being awarded RQFII quota provide significant opportunities for managers based in those domiciles to utilize that quota through an Irish UCITS Fund. Such a structure provides them with passporting benefits in Europe and global distribution. Irish UCITS are distributed in over 70 countries including the key markets of the Middle East, Asia and South America. RQFII now provides managers in those countries who have been awarded quota with an opportunity to develop a product for their international clients who wish to gain exposure to the Chinese capital markets and obtain the benefits of a UCITS or AIFMD compliant vehicle.

The RQFII regime now also permits RQFII funds to adopt different investment strategies based on market conditions. RQFIIs may now invest in a broad range of RMB equity and debt instruments traded on a mainland China stock exchange, currently the Shanghai Stock Exchange and the Shenzhen Stock Exchange, or the Interbank Bond Market and can trade stock index futures to hedge its holding of China A shares. Certain investment restrictions do still apply however. These are:

(i) a single RQFII cannot hold more than 10% of any listed company's total share capital; and

(ii) offshore investors cannot, in aggregate, hold China A shares of any listed company which exceed 30% of the company's total share capital.

While the New RQFII Rules have in many respects relaxed the requirements of the RQFII scheme, on 11 March, 2013 the SAFE did issue a *"Circular on Issues Concerning the RQFII Pilot Program"* which clarified the lock-up periods which apply to a RQFII. For RQFII funds other than open-ended funds the lock-up period is one year, which is similar to the QFII scheme where the lock-up period for Other Funds is also one year.

Essentially, the CSRC's initiatives as enshrined under the New RQFII Rules broaden the investment channels available to offshore RMB funds and allow product differentiation in order to satisfy investors' demand.

ESTABLISHING AN IRISH REGULATED FUND TO INVEST INTO CHINA A SHARES

The Central Bank of Ireland has previously approved several CSRC regulated asset managers to promote Irish regulated funds. They will also approve CSRC regulated asset managers to manage Irish regulated funds once it has been established that the regulatory regimes of both regulators are equivalent. We understand that an exercise is currently underway to establish this. In the meantime several SFC regulated managers are managing both Irish UCITS and Qualified Investor Alternative Investment Funds ("QIAIF's") and as mentioned the Central Bank approved the first RQFII UCITS fund on the 16th December 2013.

Ireland offers a range of regulated fund structures that can accommodate a China A Shares investment strategy such as the QIAIF and the Retail Investor Alternative Investment Fund ("RIAIF"). The QIAIF provides the greatest flexibility for Irish authorised funds as the investment, borrowing and leverage restrictions which apply to Irish retail funds are dis-applied for a QIAIF[8].

The QIAIF has the further advantage of offering a solution for compliance with the requirements of AIFMD. The establishment of a QIAIF may therefore be attractive for Asian managers who are considering whether they wish to avail of the passporting benefits of AIFMD.

Ireland is also one of the leading domiciles for the establishment of UCITS funds. For Irish UCITS structured as Open-end China Funds, the initial lock-up period and the limits on repatriations of the QFII scheme will need to be considered on a case by case basis. However, the new QFII and RQFII rules do give rise to new opportunities for direct exposure to China A shares.

Opportunities for the Irish Regulated Funds to utilise the QFII Scheme

Under the QFII scheme, Open-end China Funds enjoy more flexibility than other QFII funds in relation to the length of the initial lock-up period and the limits on remittances into and repatriations from China. They also have more certainty as regards the custody and segregation of their assets from the assets of other clients of the same QFII.

Given that additional flexibility offered to Open-end China Funds, meeting the requirements of an Open-end China Fund will be important to any Irish regulated fund seeking to invest a substantial portion of their assets directly in China A shares through the QFII scheme.

[8] Appendix II sets out in more detail some of the key characteristics of the QIAIF

RIAIFs or QIAIFs should, with appropriate structuring of dealing days/redemption days and the use of redemption gates where required, be in a position to address the liquidity issues presented by the initial lock-up period of the QFII scheme.

For an Irish UCITS fund structured as an Open-end China Fund, the liquidity considerations mentioned above will need to be considered on a case by case basis. Consideration should be given by each UCITS fund to its investor profile and whether the directors and promoters of that UCITS fund can satisfy themselves, given the particular facts of their fund, that they can address the issues raised by the initial lock-up period and the limitation on repatriations.

The 2012 QFII Measures and the 2012 SAFE QFII Rules also go some way to addressing the custody and segregation issues which exist with the QFII scheme for QFII clients who are not Open-end China Funds by providing that a QFII may open separate segregated accounts for any fund considered by the CSRC and the SAFE to be Long-Term Funds and by permitting the opening of six “RMB special deposit accounts” and corresponding securities accounts by QFIIs (other than Open-end China Funds and Long-Term Funds).

In summary, while the rules of the QFII scheme have been substantially liberalized in the later part of 2012, the initial lock-up period and the limitation on monthly cumulative repatriations mean that there are liquidity issues that need to be considered by a UCITS fund on a case by case basis where it is looking to invest a substantial part of its assets in China A Shares.

For QIAIFs and RIAIFs that can meet the requirements necessary to be considered an Open-end China Fund, the QFII regime presents an opportunity to gain direct access to the China securities market provided that the liquidity issues and limits on repatriation are fully considered at the time the fund is being structured so as to ensure that the fund complies with both the requirements of the QFII scheme and the relevant Irish regulatory regime.

For UCITS funds, RIAIFs and QIAIFs which do not constitute either Open-end China Funds (by virtue of the fact that they will not be investing at least 70% of their assets in the securities markets in China) or Long-Term Funds and are thus subject to the one year lock-up, consideration could be given to those funds making a smaller allocation to China A shares which will provide the funds and their clients with exposure to this vitally important market and enable the funds to meet their liquidity obligations.

In those situations the funds can seek to manage liquidity in a number of ways. One option is the use of liquidity buffers. Another option, depending on the relevant fund documentation, is to defer redemptions, while the use of borrowing facilities (limited in the case of UCITS to

10% of the fund) to meet redemptions and the soft closing of funds to manage liquidity and redemption requests are other options.

Opportunities for Irish Regulated Funds within the RQFII Scheme

The ability of open-ended funds launched by a RQFII to process remittances into China and repatriations back to Hong Kong based on the net subscription/redemption amount on a daily basis means that the liquidity issues which exist with the QFII scheme do not arise with the RQFII scheme.

In an Irish regulated funds context, this means that the RQFII scheme could satisfy the liquidity requirements of RIAIFs, QIAIFs and UCITS.

Under the original RQFII scheme, only the Hong Kong-based subsidiaries of the mainland Chinese asset management and securities firms could apply for a RQFII quota in respect of offshore RMB which could only be raised in Hong Kong. The widening of the RQFII scheme to offshore RMB wherever raised, to applicants other then the Hong Kong based subsidiaries of the mainland Chinese asset management and securities firms and the granting of quota to London, Singapore and Paris provide substantial opportunities both for international asset management with operations in Hong Kong and to managers based in each of the countries with RQFII quota to apply for RQFII quota and to allocate that quota to either their existing Irish UCITS, QIAIF's and RIAIFs or to new such funds.

CONCLUSION

Irish regulated funds are ideally placed to benefit from the relaxation of the rules in respect of both the QFII and RQFII schemes. The announcement of the first RQFII UCITS fund domiciled in Ireland in December 2013 only a matter of months after it became possible to allocate RQFII to UCITS show the speed with which Ireland can move to accommodate its fund managers who wish to gain vital first mover advantage in offering products to clients based on the latest regulatory developments.

Irish QIAIFs and RIAIFs offer managers and investors the opportunity to utilize both the QFII and RQFII schemes to directly access one of the world's largest and most dynamic economies.

Irish UCITS funds which are distributed in over 70 countries can with appropriate structuring provide access the China A shares market through the QFII scheme. The developments in RQFII and the authorization of the first RQFII UCITS fund mean that Irish UCITS can now take 100% exposure to China A shares where they have RQFII quota.

The rapid expansion of the RQFII scheme underlines the wish of the Chinese authorities to attract foreign capital into the Chinese capital markets. Irish regulated funds provide the perfect vehicle for managers to take advantage of these opportunities.

APPENDIX 1 - REQUIREMENTS FOR QFII APPLICANTS

TYPE OF APPLICANT	OLD QFII CRITERIA	NEW QFII CRITERIA
Fund Management (including PE firms but excluding Hedge funds) and Insurance Companies	Require at least 5 years asset management experience and AuM of at least US$5 billion.	Require at least 2 years asset management experience and AuM of at least US$500 million.
Securities Companies	Require at least 30 years asset management experience, AuM of at least US$10bn and paid up share capital of at least US$1 billion.	Require at least 5 years asset management experience, AuM of at least US$5 billion and net capital of at least US$500 million.
Commercial Bank	Must be ranked by total assets within global top 100 with securities under management of at least US$10 billion.	Require Banking business experience of at least 10 years, Tier 1 capital of at least US$300 million and securities under management of at least US$5 billion.
Other institutional investors (such as pension funds, charitable foundations, endowments, trust companies, sovereign wealth funds, etc.)	Must be established for at least 5 years with securities held or under management of at least US$5 billion	Must be established for at least 2 years with securities held or under management of at least US$500 million

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APPENDIX II - KEY CHARACTERISTICS OF A QIAIF

QIAIF REQUIREMENTS	**CRITERIA**
Minimum Investment	QIAIFs are subject to a minimum subscription requirement of Euro 100,000 per investor.
Qualified Investors	An investor in a QIAIF must be either: (a) an investor who is a professional client within the meaning of Annex II of Directive 2004/39/EC (Markets in Financial Instruments Directive) (“**MiFID**”); or (b) an investor who receives an appraisal from an EU credit institution, a MiFID firm or a UCITS management company that the investor has the appropriate expertise, experience and knowledge to adequately understand the investment in the QIAIF; or (c) an investor who certifies that they are an informed investor by providing the following: • confirmation (in writing) that the investor has such knowledge of and experience in financial and business matters as would enable the investor to properly evaluate the merits and risks of the prospective investment; or • confirmation (in writing) that the investor’s business involves, whether for its own account or the account of others, the management, acquisition or disposal of property of the same

	kind as the property of the QIAIF.
Principal Legal Structures	Variable capital investment companies, unit trusts, investment limited partnerships and common contractual funds. Umbrella type investment companies can be established with statutory based segregated liability between sub-funds within the umbrella. Segregated liability between sub-funds within umbrella unit trusts is based on the concept of each fund being a separate trust.
Liquidity Options	QIAIF can be structured as open-ended, open-ended with limited liquidity, limited liquidity or closed-ended schemes. Gates, deferred redemptions, holdbacks, in-kind redemptions and side pockets can all be facilitated within these types of funds.
Investment Restrictions	QIAIFs structured as investment companies must comply with the principle of spreading investment risk. It is left to the discretion of the Board of Directors to determine actual diversification with reference to particular strategies. QIAIFs may invest up to 100% of assets in underlying regulated or unregulated funds but in general no more than 50% of net assets in a single underlying unregulated fund.
Leverage Restrictions	For QIAIFs, borrowing and leverage are not subject to regulatory limit. It is a matter of prospectus disclosure only.

APPENDIX III - COMPARISION BETWEEN QFII SCHEME AND RQFII SCHEME

Criteria	**QFII**	**RQFII**
Eligible institutions	See Appendix 1.	The below are the new requirements under the amended RQFII scheme. Hong Kong based subsidiaries of fund management companies and securities companies incorporated in Mainland China have been eligible to apply for RQFII quota since the scheme's inception in 2011. Applicants must: (i) have a Type 9 (asset management) licence from the SFC and conduct asset management business; (ii) be in a stable financial condition and have a good credit standing; (iii) have an effective corporate governance and internal control system, and its relevant professionals must satisfy the relevant eligibility requirements applicable under local law; (iv) not have had any material penalty imposed by the relevant local regulator since its establishment (if it has a track record period of less than three years) or in the last three years; and (v) satisfy such other requirements of CSRC as it may stipulate in accordance with the principle of prudential regulation.

Currency of funds to be remitted into and outside China	US dollar, UK pound, Japanese yen, HK dollar and Euro.	RMB (repatriation can be in a freely exchangeable foreign currency).
Maximum quota available to each applicant	US $1 billion save for sovereign funds, central banks and monetary authorities.	No maximum quota.
Permissible Investments	Scope of permissible investments: • Shares, bonds and warrants listed or transferred on stock exchange; • Fixed-income products traded in the inter-bank bond market; • Securities investment funds; • Stock index futures; and • Other financial instruments permitted by CSRC.	Same as QFII
Deadline for remittance of investment principal	The investment principal must be remitted within six months after the quota is obtained from SAFE. The minimum amount to be remitted is US $20 million.	Save for open-ended funds, the investment principal must be remitted within six months after obtaining the quota from SAFE. For open-ended funds, the quota must be "effectively utilised" within one year after being granted by SAFE. No minimum amount is specified.
Lock-up period	Three months for Long-Term Funds and Open-end China	None for open-ended funds.

	Funds. One year for Other Funds.	For all other funds one year following (i) the date on which the investment principal is fully remitted into Mainland China, or (ii) if the investment principal has not been fully remitted into Mainland China within one year following the date on which the RQFII quota is granted, the expiry date of such one year.
Repatriation of funds	Weekly liquidity for Open-end China Funds based on net subscription or redemption. Monthly liquidity for Long-Term Funds and Other Funds. There is a monthly net repatriation cap, being 20% of the total onshore assets of a QFII or fund (in case of Open-end China Funds) as of the end of the preceding year.	Daily liquidity for open-ended funds based on net subscription or redemption. Monthly liquidity for other funds.
Repatriating investment principal	SAFE approval is required (except for Open-end China Funds). Investment quota will be reduced accordingly except for Open-end China Funds.	No SAFE approval is required. Investment quota will be reduced accordingly except for open-ended funds.

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