

RQFII – General information document

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In June, 2015 the Peoples's Bank of China decided to extend the RMB Qualified Foreign Institutional Investors (RQFII) scheme to Hungary with a total investment quota of RMB 50 billion¹. This document provides general information about the RQFII scheme.

Please be aware of that rules and regulations governing the RQFII scheme may change. Participating in the RQFII scheme requires constant compliance with all rules and regulations.

What is RQFII?

RQFII stands for Renminbi Qualified Foreign Institutional Investors. By acquiring an RQFII licence, a foreign institutional investor is entitled to invest its offshore renminbi funds in the Chinese onshore securities markets.

What markets are accessible via the RQFII scheme?

Qualified foreign institutional investors can gain access to the onshore stock and bond markets via the RQFII scheme. (The eligible instruments include: A-shares, Exchange-traded Bonds, Cash Bonds in CIBM, Securities Investment Funds, Stock Index Futures, Subscription for A Share IPO)

What does entering into the RQFII scheme imply?

By entering into the RQFII scheme, qualified foreign institutional investors can apply for an RQFII licence and a quota from the relevant Chinese authorities. With an approved licence and a quota the qualified foreign institutional investor can gain access to Chinese onshore stock and/or bond markets.

What type of institutions are entitled to take part in the RQFII scheme?

Financial institutions incorporated in Hungary (excluding branches), which also fulfill other relevant requirements for the RQFII licence and quota:

- credit institutions
- insurance companies, reinsurance companies
- investment firms
- collective investment trusts, fund management institutions
- other asset management institutions

¹ <http://www.mnb.hu/en/pressroom/press-releases/press-releases-2015/mnb-signed-the-memorandum-of-understanding-on-rmb-clearing-arrangements-and-the-agency-agreement-with-people-s-bank-of-china-in-basel>

- other medium and long term institutional investors (e.g. voluntary mutual insurance funds, private pension funds, occupational retirement provision businesses, other funds)

What are the relevant Chinese authorities regarding the RQFII scheme?

Regarding the RQFII scheme the competent Chinese authorities are the following:

- China Securities and Regulatory Commission (CSRC) – decision on RQFII license
- State Administration of Foreign Exchange (SAFE) – decision on RQFII quota
- People’s Bank of China (PBOC)– in the case of investments in the Chinese interbank bond market registration at PBOC is required
- China Financial Futures Exchange(CFFEX)---for hedging quota via the futures company

Can a foreign institutional investor directly apply for an RQFII licence and an RQFII quota at the Chinese authorities?

The first step in the application for an RQFII licence and quota is to find the appropriate Chinese local custodian bank, who will manage the application for the RQFII licence and quota application or registration process. If a foreign institutional investor wants to enter into the Chinese interbank bond market, then it shall engage a domestic commercial bank with qualifications for custodian and clearing settlement services for qualified foreign institutional investors.

Are trades executed directly or indirectly in the stock market in the frame the RQFII scheme?

On behalf of an RMB qualified foreign institutional investor a domestic securities company, that is entitled to domestic securities trading, executes the trades in the onshore stock market.

The RQFIIs may engage a domestic asset management institution to manage their securities investments within China.

Trades are executed directly or indirectly in the interbank bond market in the frame of the RQFII scheme?

It is the settlement agent (that can be the custodian bank of the RQFII) which executes trades in the Chinese interbank bond market on behalf of the RMB qualified foreign institutional investor.

Which are the qualified custodian banks that can help the application for RQFII licence and quota?

List of qualified custodian banks:

http://www.csrc.gov.cn/pub/newsite/gjb/sczr/qfiitghylb/201508/t20150831_283420.html

What are the necessary accounts and how the trades are settled?

Regarding the rules and measures on necessary accounts and settlements of securities transactions it is suggested to inquire at a qualified custodian bank.

Where can be found further information on the RQFII scheme?

It is suggested to turn to a qualified custodian bank with further inquiries on current conditions of the RQFII scheme.

Useful links:

CSRC (China Securities Regulatory Commission): www.csrc.gov.cn

SAFE (State Administration of Foreign Exchange): www.safe.gov.cn

PBOC (People's Bank of China): www.pbc.gov.cn

CCDC (China Central Depository and Clearing Co.): www.chinabond.cn

SD&C (China Securities Depository and Clearing Corporation Limited):
http://www.chinaclear.cn/english/en_index.shtml

Some relevant rules and regulations:

PBOC Public Notice No. 3.[2016] (issued in March, 2016)

<http://www.pbc.gov.cn/english/130721/3037272/index.html>

The Measures for the Pilot Scheme of Securities Investments in China Made by the RMB Qualified Foreign Institutional Investors (issued in July, 2015)

www.chinabond.com.cn/Info/21301112

Notice of the People's Bank of China on the Implementation Measure for the Pilot Program of Securities Investment in China by RQFIIs (issued in July, 2015)

www.chinabond.com.cn/Info/21301997

Measures for the Pilot Program of Securities Investment in China by RMB Qualified Foreign Institutional Investors, CSRC Decree No. 90 (issued in March, 2013)

http://www.csrc.gov.cn/pub/csrc_en/laws/overrule/decrees/201303/t20130327_222793.html

Provisions on the Implementation of the Measures for the Pilot Program of Securities Investment in China by RMB Qualified Foreign Institutional Investor (issued in March, 2013)

[www.csrc.gov.cn>laws>Announcement](http://www.csrc.gov.cn/laws/Announcement)

Please note that the list of relevant documents is not a full and exhaustive list of all relevant documents governing the RQFII scheme. There are other rules and regulations pertaining to the RQFII scheme which one must comply with. Please note that RQFII relevant rules and regulations can change and it is the responsibility of the investor to be aware of those changes.

The aim of this document is to provide information to Hungarian investors based on currently available information about the basics of the opportunities regarding the useage of the RQFII scheme. Therefore this document does not affect the responsibility of the investors regarding the knowledge, assessment and follow-up of relevant Chinese laws, rules and regulations.