



RQF II Scheme & Practice

April, 2014

Agenda

 RQFII Scheme

 RQFII Practice

 ICBC Custody Service

Agenda

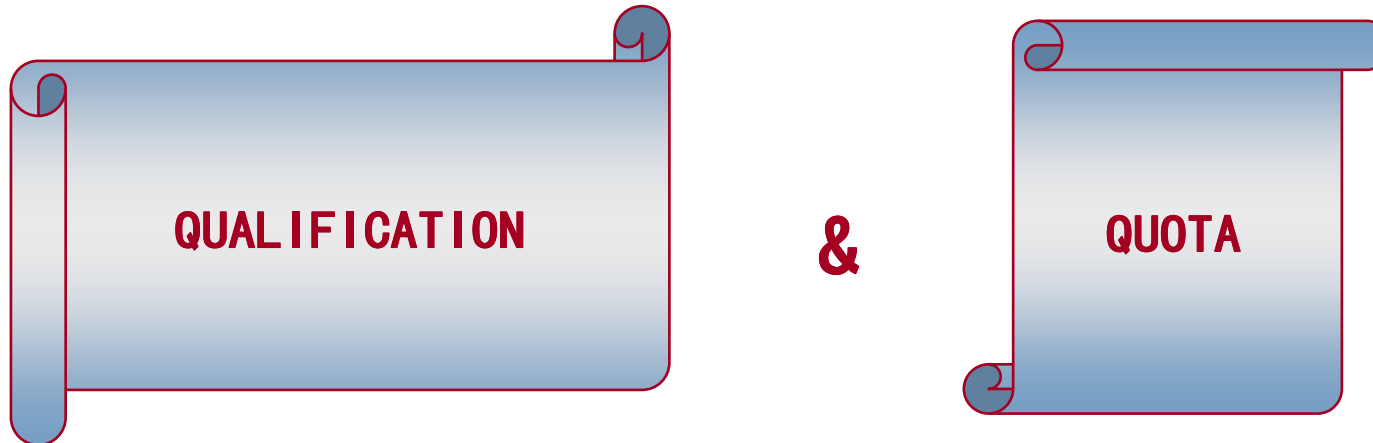


RQFII Scheme

- ❖ **What is RQFII?**
- ❖ **Market Development**
- ❖ **Main Regulation & Rules on RQFII**
- ❖ **RQFII Asset Allocation and product type**
- ❖ **Development of RQFII in future**

What is RQFII?

- **RMB QUALIFIED FOREIGN INSTITUTIONAL INVESTOR (RQFII)**
- RQFII is allowed to use RMB held overseas to invest in China Capital Market and inter-bank bond market within approved investment quota.
- Before making investment, a RQFII applicant is required to apply for



RQFII is a channel for foreign financial institutional investors to directly invest in Chinese Capital Market with RMB at the Pilot Stage.

Market Development

■ MAR 2014, CSRC announced to expand the RQFII scheme to **Paris and** allocated RQFII quota **RMB 80 Bn** .



RQFII's quick expansion

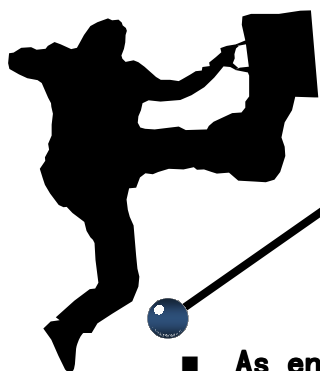
■ July 2013, CSRC announced to expand the RQFII scheme to **Singapore and London,** which are allocated RQFII quota **RMB 50 Bn** and **RMB 80 Bn** respectively.

■ June 2013, The RQFII program is expanded to **all financial institutions registered and operating in HK.**

■ Jan 2013, CSRC announced to expand the RQFII scheme to **Taiwan** and total quota is RMB 100 Bn.

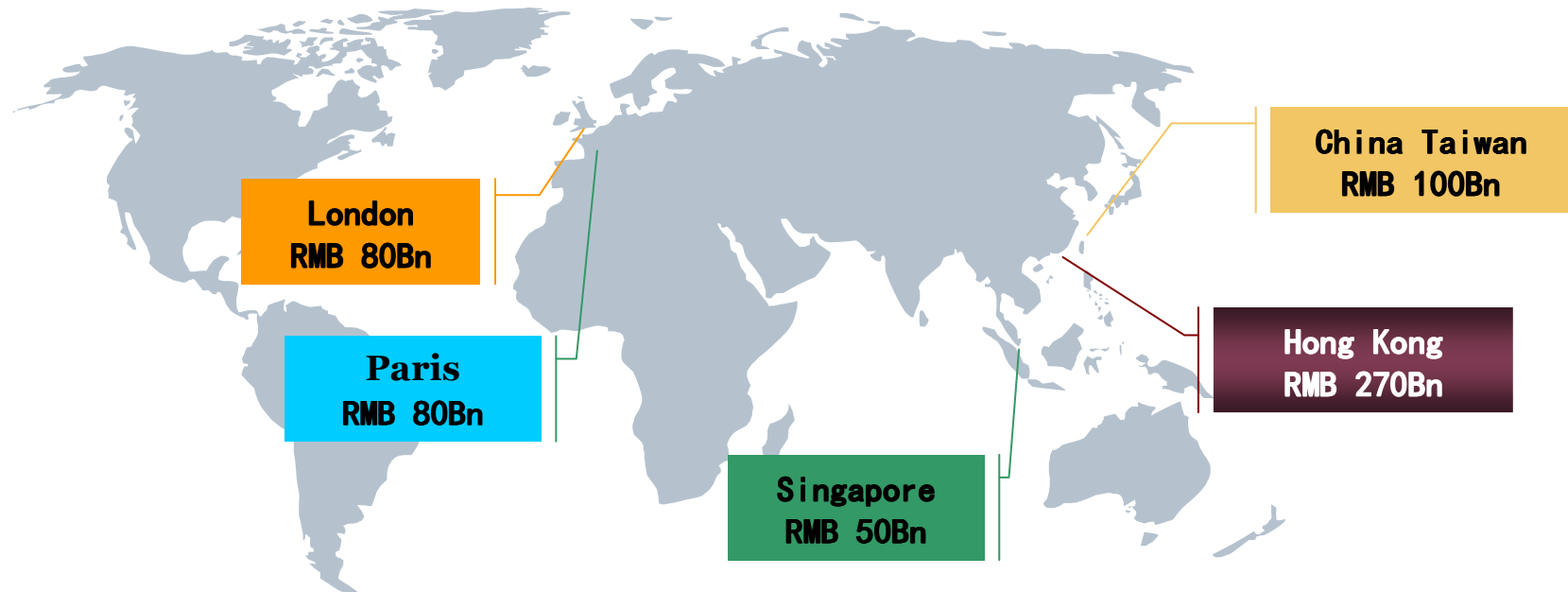
■ May 2012, CSRC increased additional RMB quota 50 Bn and RQFII program is expanded with the launch of **RMB A share ETFs** which are traded in HK Exchange.

■ As end of 2011, RQFII pilot scheme was launched in Hongkong Market. Only the subsidiary of Chinese based institution could apply RQFII.



Market Development

Total RQFII Quota RMB 580 Bn



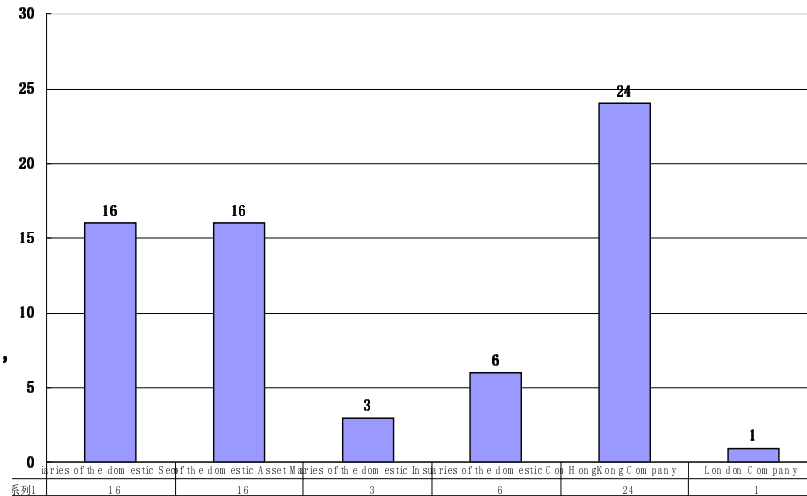
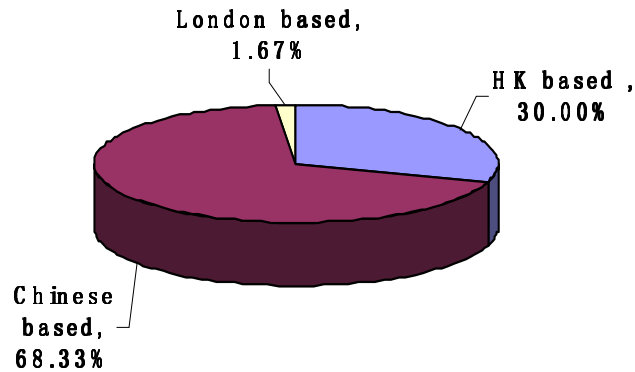
Number of RQFIIs License Holder: **66** (65 from HK, 1 from London)
RQFII Quota approved: RMB **200.5**Billion⁽¹⁾

Note: (1) As end of Mar 2014. Figure comes from CSRC and SAFE website.

Market Development

- As the end of Mar, 2014, There were 66 institutions had successfully obtained their RQFII qualifications from CSRC.
- SAFE has been granting 200.5 billion RMB RQFII investment Quota in total.

Domicile of RQFII license holders



Main Regulation & Rules on RQFII

- ***Provisional Measures on Domestic Securities Investments of RQFII Pilot***
 - Issued by CSRC, PBOC and SAFE in Mar. 2013
- ***Provisions on the implementation of “Provisional Measures on Domestic Securities Investments of RQFII”***
 - Issued by CSRC in Mar. 2013
- ***The Implementation of “the Measure for the RQFII Pilot Practice”***
 - Issued by PBOC in Apr. 2013
- ***The Notification for the Issues of the RQFII Pilot Practice***
 - Issued by SAFE in Mar. 2013



RQFII

All Singapore and London RQFIIs's application, investment operation needed to conduct according to the relative provisions in the Pilot Measures and the Implemented Provisions.

RQFII Asset Allocation

**First Batch
of RQFII quota**

**Products investing 80% on bonds
and 20% on equities;
Allowing to invest into Inter-bank bond market**

**Second Batch
of RQFII quota**

**RQFII-ETF Products on China A share, mainly tracking Shanghai
and Shenzhen 300/CSI 100/FTSE 50/MSCI China A Index**

**Mar 2013, cancellation of investment limitation,
allows more flexibility on product type, including
Public Unit Trust (HK), Private Fund, Managed
Accounts and proprietary Fund.**

Development of RQFII in future

Geographically

Expanding RQFII applicant to various countries
Country: From HK → Singapore, London, China Taiwan, Paris → globally.

Applicant Type

Expanding RQFII applicant type to various institution types:
1. From Fund Co. & Security Co. → Financial institutions → RMB-holding Overseas Companies (non-financial institutions);
2. From Chinese-background → Foreign-background.

More

More beneficial policies to attract RQFII applicants: larger scope of investment vehicles, more flexible of ratio of asset allocation, more free liquidity of RMB cross-border etc.

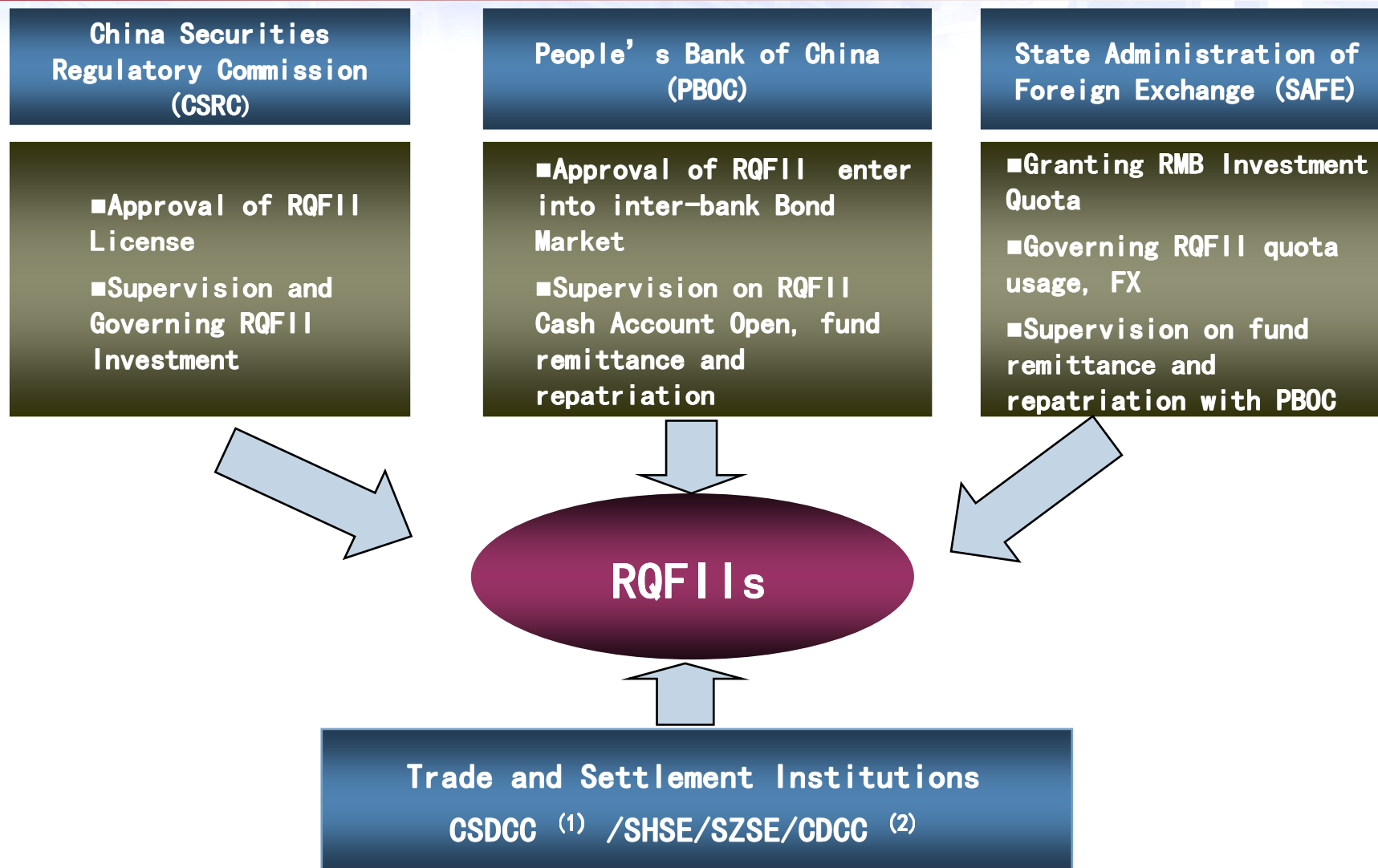
Agenda



RQFII Operating Practice

- RQFII regulatory structure
- Keypoints of RQFII rules
- Application Steps
- Custodian Arrangement

RQFII Regulatory Structure



■Note: (1) CSDCC: China Securities Depository Clearing Corporation

(2) CDCC: China Central Depository and Clearing Co Ltd

Keypoints of RQFII Rules

Basic Requirements of RQFII Applicants

1. It has a **sound financial status** and **good credit standing**, and its registration place, business qualification and so on comply with the provisions of the CSRC;
2. It has **sound corporate governance** and **effective internal control**, and its employees meet the relevant requirements for the qualification of practice in the country or region where it is located;
3. It has **sound business operations**, and has not been imposed upon a heavy punishment by the local regulatory authority in the previous three years or since the date when it is formed; and
4. Other conditions as prescribed by the CSRC under the principle of prudent supervision.

Keypoints of RQFII Rules

Requirements of Singapore & London Applicants

- ▶ All domestic Fund Companies, Security Companies, Commercial Banks, and Insurance Companies' overseas subsidiary based in London and Singapore;
- ▶ All financial institutions registered and mainly operated in London and Singapore
- ▶ Having received approved asset management business licenses from related local regulator and have been carrying out asset management business.
- ▶ Have Strong willing to invest in China Capital Market and should be a long-term investor.

Keypoints of RQFII Rules

RQFII Investment Scope

- **Equities, bonds and warrants traded in stock exchange;**
- **Fixed Income product traded in Inter-Bank Bond Market;**
- **Mutual Funds;**
- **Index Futures;**
- **Subscription of Second Issue, Right Issue, IPO and Convertible Bonds Offering.**
- **Other Financial Instruments approved by CSRC.**

Keypoints of RQFII Rules

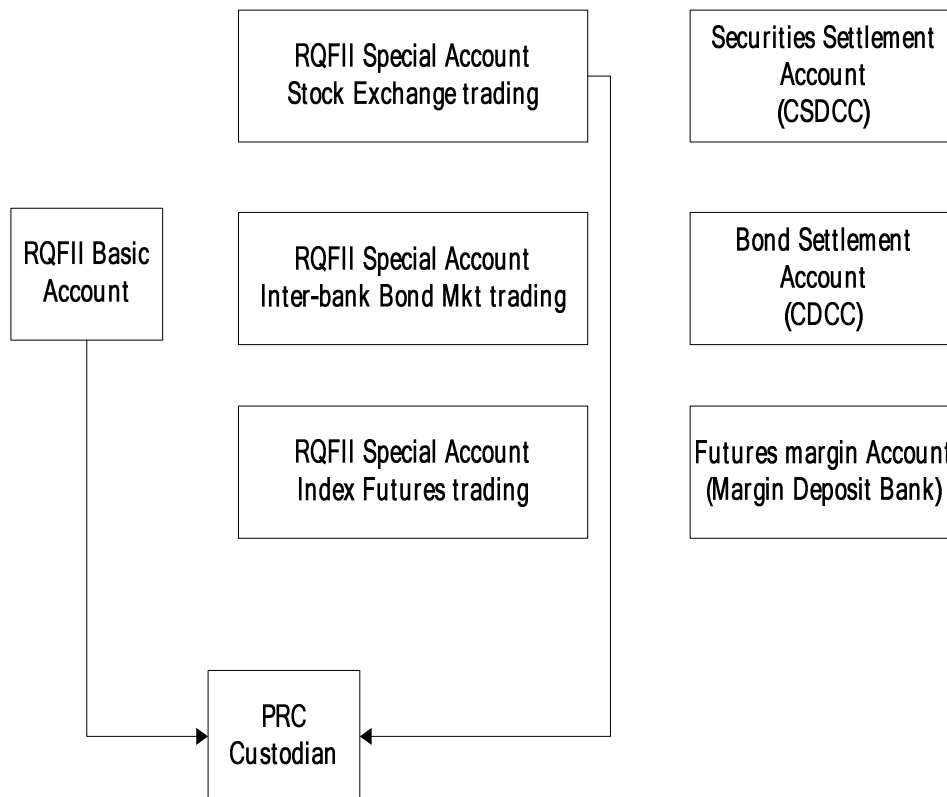
RQFII Investment Holding Limitation

1. Shares of a listed company held by a single foreign investor through a RQFII shall not exceed **10%** of the total number of shares issued by the listed company; and
2. The combined number of A-shares of a single listed company held by all foreign investors shall not exceed **30%** of the total number of A-shares issued by the listed company.

In the connection with any strategic investment made by a foreign investor in a listed company in accordance with the “Administrative Measures on Strategic Investments in Listed Companies by Foreign Investors”, such foreign investor is not subject to the aforesaid percentage with respect to shares held by it as a result of the strategic investment.

Keypoints of RQFII Rules

RQFII Accounts Structure



- **RQFIIs need to open the above sets of accounts for proprietary fund and client money separately. And each individual Open-end Fund will need to have one set of accounts.**
- **Fund in the special saving account, proprietary fund account, client money account, open-ended Fund or any other accounts are not transferable to each other. Fund in different open-ended fund are not transferable to each other. RMB Special account is not allowed to withdraw money.**

Keypoints of RQFII Rules

RQFII fund remittance in

- open-ended funds :
 - no fund remittance in deadline
 - RQFII Open-end Funds adopt **remaining balance management**, which means the cumulative **net** remittance-in can not exceed the limit of the investment quota. As long as the net amount of investment capital remitted into China is within the investment quota, the quota could be recycling used.

- other RQFIIs other than open-ended funds:
 - within 6 months after the date of investment quota is approved
 - Products other than Open-end Funds adopt **actual quota usage management**, which means **all** the cumulative remittance-in can not exceed the limit of the investment quota, any repatriation will cause the readjustment of the RQFII Quota

Keypoints of RQFII Rules

RQFII fund Lock-up period

- RQFII open-ended funds:

None for open-ended RQFII funds

- other RQFIIs other than open-ended funds:

12 month for RQFIIs other than open-ended funds

Keypoints of RQFII Rules

Repatriation/remittance Restrictions

- **RQFII open-ended funds:**
 - ▶ repatriation could be made on a **daily** basis

- **other RQFIIs other than open-ended funds:**
 - ▶ repatriation cannot be made before the expiry of the lock-up period
 - ▶ on a **monthly** basis
 - ▶ no SAFE approval required but capital which has been remitted out cannot be re-invested and the investment quota will be reduced accordingly

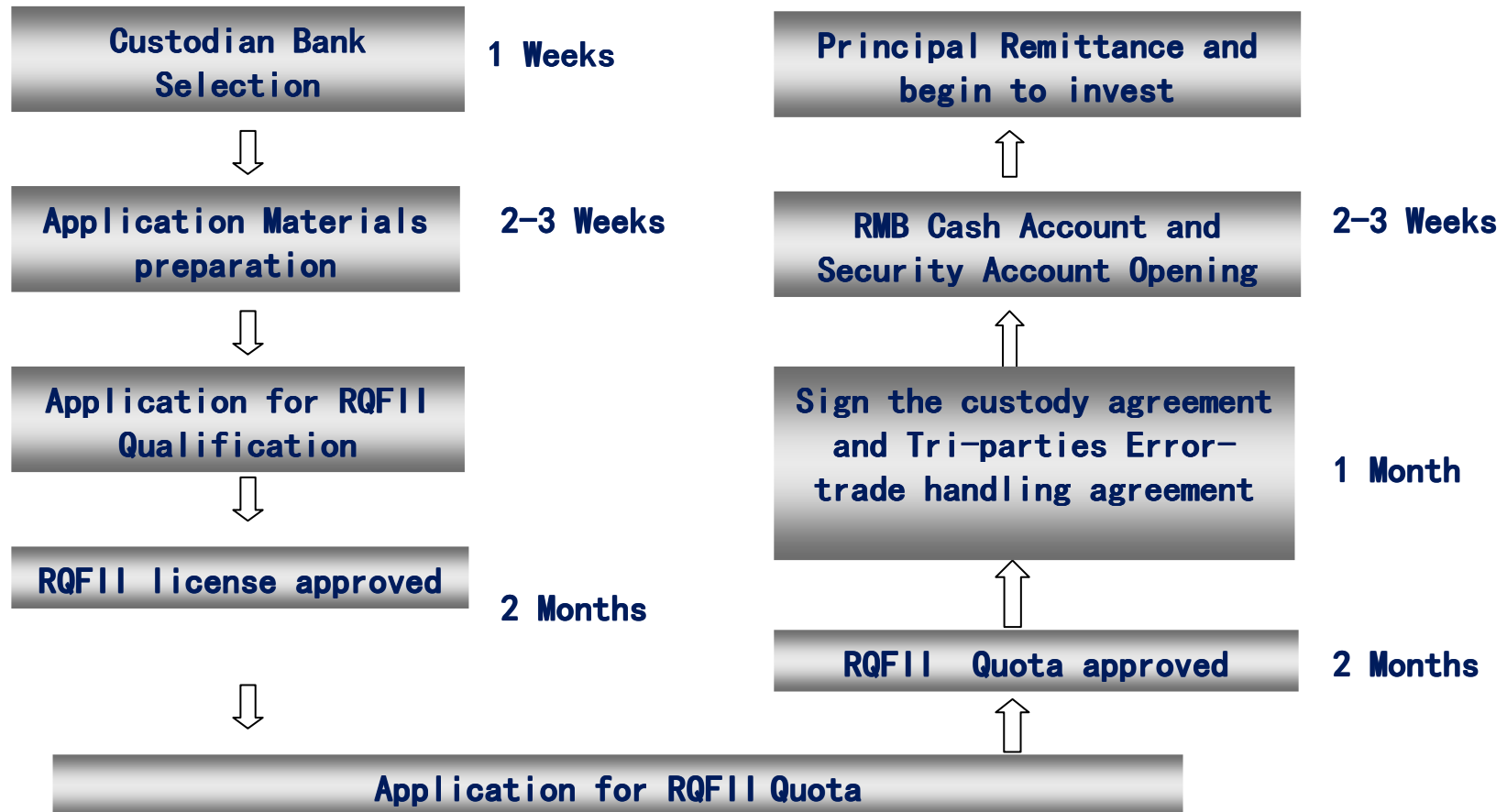
Keypoints of RQFII Rules

RQFII Tax Policy

- Stamp Duty
 - 0.1% charged on Transaction Value (Sell side only)
- Withholding Tax
 - 10% withholding tax on the cash dividend and deposit interests
- Other Taxes
 - Other Tax Policies are not clear now

RQFII Application Steps–Time schedule

Start Here!



RQFII Application Steps–Basic guide

- All the application shall be done through the Custodians. RQFIIs need to appoint a custodian who is qualified Inter-Bank Bond Market settlement agent in order to participate Inter-Bank Bond Market Trade.
- SAFE encourages long-term security investment and will manage the speed of granting in the consideration of the Marco-economy and Security Market condition and the RMB reserve located offshore. Participants' s AUM, Investment management capability, past investment performance, asset category and operation feature are also the important terms which be valued accordingly.
- Transferring or sell RQFII Investment Quota to other Institution or Individual is prohibitive.
- SAFE will readjust or cancel the RQFII' s quota for any institutions who did not effectively utilize their RQFII quota.
- At this moment, only the RQFII which issue the Open-ended mutual fund or proprietary fund can apply to the PBOC for entering inter-bank bond market.

RQFII Application Steps

Step 1: RQFII license Application

The application materials should be delivered to CSRC through PRC Custodian Bank.

Documentation List:

- 1. Application report, including application reason, the basic information of applicant, investment plan in China, and so on;**
- 2. Photocopy of the registration document or the establishment certificate;**
- 3. Photocopy of financial Business Permit approved by the regulatory body ;**
- 4. Major employees meet the relevant requirements for the qualification of practice in the country or region where it is located ;**
- 5. Explanation letter which has not been imposed upon a heavy punishment by the local regulatory authority in the previous three years ;**
- 6. Statement on fund sources, a plan on securities investment in China;**
- 7. Audited financial statements in the last one year;**
- 8. A notarized power of attorney to the domestic custodian;**
- 9. Other materials as required by the CSRC.**

RQFII Application Steps

Step 2: RQFII Quota Application

The application materials should be delivered to SAFE through PRC Custodian Bank.

Documentation List for first application:

- 1. An application report, including the basic information of the applicant, a statement on fund sources, a plan on securities investment in China, and so on;**
- 2. A photocopy of the securities investment business license issued by the CSRC;**
- 3. A notarized power of attorney to the domestic custodian;**
- 4. Other materials as required by the SAFE.**

Documentation List for additional quota application:

Documents #1, the FX Register Certificate, and the Explanation for the current RQFII Investment (including the utilization of RQFII quota, gain or loss, compliance and average trading frequency) are needed for the additional RQFII Quota application.

RQFII Application Steps

Step 3: RQFII inter-bank bond Quota Application

The application materials should be delivered to PBOC through Bond Clearing Agent Bank.

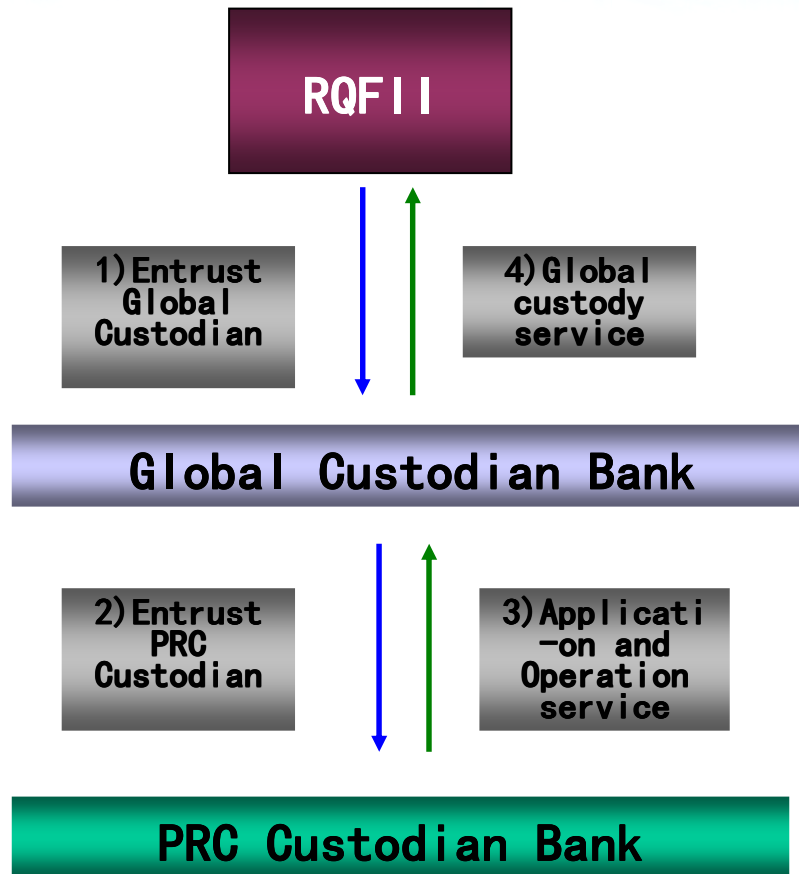
Documentation List:

1. Basic introduction of the applicant;
2. Explanation of the source and scale of RMB;
3. Investment plan in China market;
4. Basic information of relevant persons in charge for Fixed-income investment;
5. Registration document or the establishment certificate from the regulatory body;
6. Effective ID card of legal representative or assigned signatory (copy version);
7. Financial Business Permit approved by the local regulatory body;
8. Written approval from CSRC and securities investment business license issued by CSRC;
9. Written approval from SAFE with regard to the investment quota;
10. Explanation letter which has not been imposed upon a heavy punishment by the local regulatory authority in the previous three years ;
11. Audited financial statements in the last three years;
12. Other materials as required by the People' s Bank of China.



At this moment, RQFII which issue the Open-ended mutual fund or proprietary fund can apply to the PBOC for entering inter-bank bond market.

RQFII Custodian Arrangement



- Entrusting a custodian bank is the first step when you are ready to enter into the RQFII business.
- Global custodian is not necessary.

Agenda



ICBC Custody Service

- ❖ Why ICBC is Best?
- ❖ What can ICBC offer?
- ❖ What have ICBC Achieve?
- ❖ Why selects ICBC?

Why ICBC Is the Best



中国工商银行

INDUSTRIAL AND COMMERCIAL BANK OF CHINA

VS

Foreign Custodians



■ Local Expertise

- Maintaining good relationship with domestic policy maker
- Better understanding about the future direction of domestic economic and financial policies and more capable of offering valuable information to RQFII
- Familiar with Chinese capital market operations and having abundant capital market experiences



■ Efficient securities funds settlement

- Membership of CSDCC
- Connection of ICBC' s clearing system with CSDCC' s settlement system
- Familiar with rules and practices of A-share trade settlement



■ Strong RMB Funding Capability

- Low cost
- Competitive pricing
- Efficient allocation of RMB fund

Why ICBC Is the Best



VS

Foreign Custodians

Inter-bank Bonds Trading

- Complete business license and qualifications
- The Largest RMB Bonds investor in terms of assets under custody, taking 15% to 20% of the market share
- Professional team, rich experience and great achievement in bond settlement agent business
- Rich experience in servicing the foreign financial institutions to participate in the inter-bank bond market
- Strong market influence and awarded as the “The most influential Bank”, “The best settlement provider of proprietary trading bank”, “The best bond settlement agent”, “The best market maker in inter-bank bond market” for many years

Why ICBC Is the Best



VS

Domestic Custodians

- Solid strength as whole
- Abundant Custody Service Experience
- Efficient RMB funds settlement
- Advanced Asset Custody Service System
- Automatically SWIFT STP
- Reliable Data & Information Resource
- Comprehensive internal & external control
- Extremely abundant of client base

ICBC is the first domestic custody bank which can provide SAS 70/ISAE3402 report.

What ICBC Can Offer

- **Agent Service**
 - RQFII Qualification Application
 - RQFII Quota Application
 - RQFII Account Opening Application
 - Security Account Opening and Registration
 - Fund Inward Remittance and Repatriation Application and Registration
- **Safekeeping**
- **Settlement Services**
- **Accounting & Evaluation**
- **Operation Monitoring**
- **Corporate Action**
- **Booking**
- **Other Responsibilities**

What ICBC Can Offer

- **Cash Management**
- **Asset Evaluation**
- **Performance Evaluation & Risk Management**
- **Accounting**
- **Internet Banking services**
- **Agency Voting**
- **Tax Agency**
- **Corporate Action**
- **Customized Reports**

Value-added

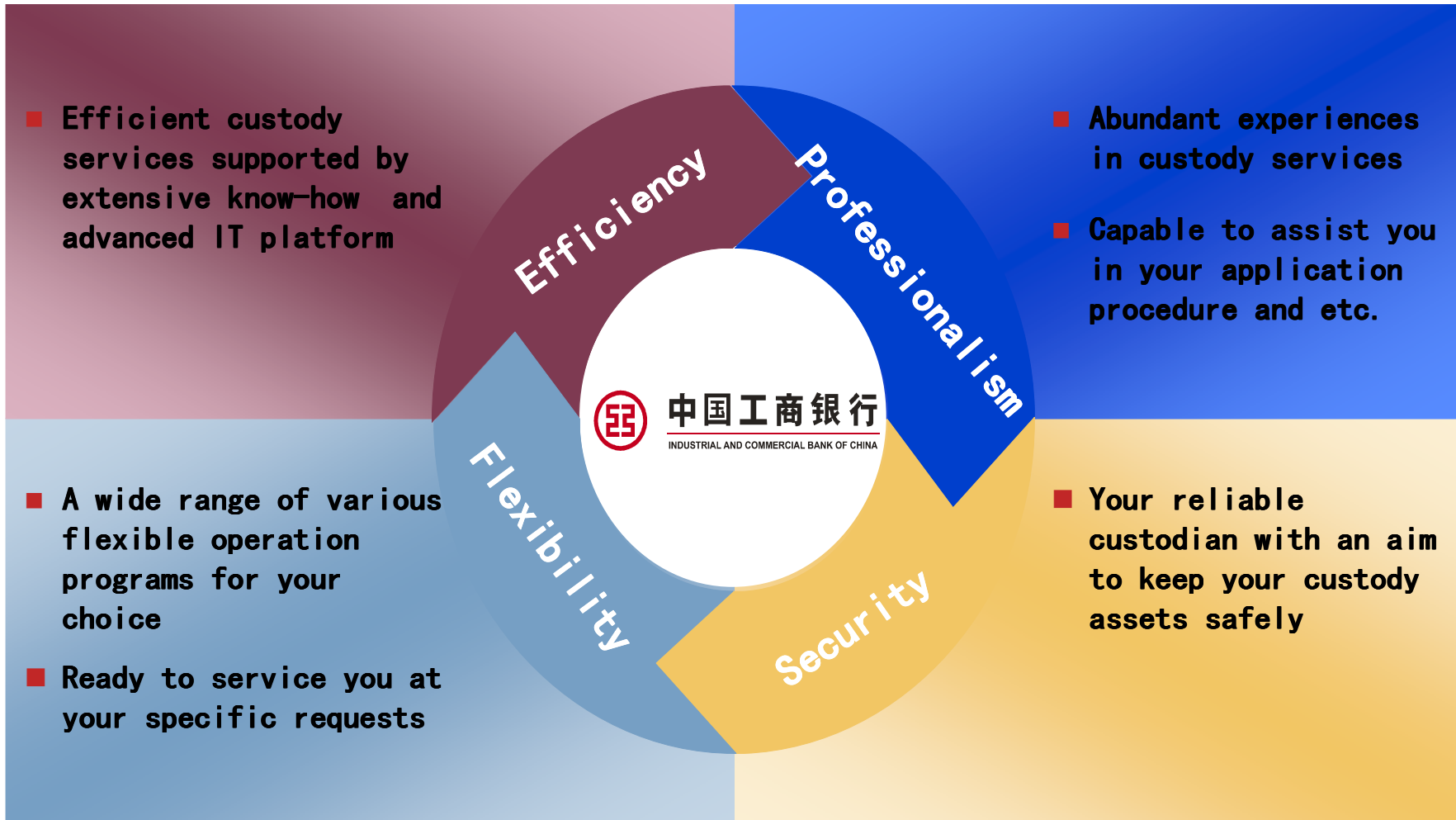
What ICBC Has Achieved

- **The first bank having the custodian license for QFII, securities investment funds and insurance assets etc.**
- **Having the biggest market share for the last 14 successive years**
 - **Assets under custody: >RMB 4.62 trillion, USD 771 billion
(as end of Mar, 2014)**
 - **The Largest Custodian Bank for 358 local mutual Funds (excluding QDII), our market share is nearly 30%. For QDII mutual Funds, our market share is over 33%.**
 - **42 QFII clients under custody, 39 of them have obtained the investment quota, ranked the first in domestic custodian bank.**
 - **26 RQFII clients appointing ICBC as RQFII custodian as well as several potential clients.**

What ICBC Has Achieved

- “Domestic Top Rated Provider (China)” , awarded by Global Custodian, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012
- “Best Domestic Custodian (China)” awarded by The Asset , 2005, 2006, 2007, 2008, 2009, 2010, 2011
- “Custodian Banker of the Year (China)” awarded by The Asset, 2009
- “Best Custodian bank of China” awarded by Global Finance, 2006, 2007, 2008, 2009, 2010, 2011
- “Best Sub-Custodian Bank in China” awarded by Global Finance , 2006, 2007, 2008, 2009, 2010
- “Best Custodian Bank in China” awarded by Digitimes, 2007
- “Best Fund Custodian Bank of China” awarded by Securities Times, 2007, 2008
- “Gold Fund: Ten Years of Excellent Contribution Award” awarded by Shanghai Securities News
- “Centralized custody of securities investment fund accounts” of Industrial and Commercial Bank of China won the “Best Securities & Futures and Science & Technology Innovation Award” granted by Securities Association of China, 2007
- “Best Assets Custodian Bank” awarded by Almanac of China’ s Securities Investment Funds, 2008
- “Top China’ s Finance and Economics Award - Best Custodian Bank” awarded by Hexun , 2011, 2012
- “Gold Hikyuu Award - Outstanding Achievement Award on Asset Custody” awarded by Financial Money, 2011, 2012
- “Best Asset Custodian bank of China” awarded by Almanac of China’ s Securities Investment Funds, 2009
- “China Venture Capital & Private Equity Annual Awards-VC/PE Fund Custodian Bank of the Year 2011” awarded by Zero21PO Group
- ...

Why Selects ICBC



Contact Information

ICBC Custody Service Department, Global Service Division

Ms. Cui Yan, Head of Division

Tel: 86-10-66105759

E-mail: cuiyan@icbc.com.cn

Mr. Jiang Ke, Deputy Head of Division

Tel: 86-10-66105676

E-mail: jiangke@icbc.com.cn

Ms. Chang Yue, Senior Manager

Tel: 86-10-66105756

E-mail: yue.chang@icbc.com.cn

Ms. Fan Mei, Client Manager

Tel: 86-10-66105700

E-mail: mei.fan@icbc.com.cn

Mr. Hao Gang, Client Manager

Tel: 86-10-66105754

E-mail: haogang@icbc.com.cn

Mr. Zhang Xiaolu, Client Manager

Tel: 86-10-66105780

E-mail: xiaolu.zhang@icbc.com.cn

Mr. Chen Mingpu, Client Manager

Tel: 86-10-66105755

E-mail: chenmingpu@icbc.com.cn

Mr. Yunfei Chen, Client Manager

Tel: 86-10-81013658

E-mail: yunfei.chen@icbc.com.cn

ICBC Singapore Branch, RMB Business R&D Department

Mr. Chen Lei, Head of Department

Tel: 65-6439 1408

E-mail: chenlei@sg.icbc.com.cn

Mr. Lee Yang Wei

Tel: 65-6436 6581

E-mail: yangwei.lee@sg.icbc.com.cn





Thank You!