

**Provisions on Issues Concerning the Implementation of the *Measures*
for the Administration of Domestic Securities and Futures Investment
by Qualified Foreign Institutional Investors and RMB Qualified
*Foreign Institutional Investors (Consultation Paper)***

For the implementation of the *Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors* (CSRC Order No. XX), relevant issues are provided for as follows:

1. An applicant applying for the qualification as a Qualified Foreign Institutional Investor and an RMB Qualified Foreign Institutional Investor (hereinafter collectively referred to as a qualified investor) shall submit the following application documents to the China Securities Regulatory Commission (CSRC) through a domestic custodian (the custodian):

(1) Application report, containing the applicant's basic information, governance and organizational structure, internal control and compliance management system, as well as reasons for the application, with a statement pledging the truthfulness, accuracy, completeness, and compliance of the application documents;

(2) Investment plan, including the investment quota intended to apply for, information on the domestic investment funds or products intended to invest in, funding sources, asset allocation, profile of investment and research team, a statement explaining the qualifications of the applicant's managerial personnel in charge of domestic investments meet relevant professional requirements of the applicant's domicile country or region (if applicable), arrangements for compliance surveillance and back-office operation, information on domestic and overseas custodians, as well as the securities companies and futures companies entrusted by the applicant to conduct domestic trading;

(3) Photocopy of the business license issued by the applicant's domicile country or region;

(4) Photocopy of financial business licenses issued by regulatory authorities of the applicant's domicile country or region;

(5) A statement whether or not the applicant has subject to major regulatory penalties in the latest 3 years or since its establishment;

(6) A power of attorney to the custodian;

(7) Other documents as required by the CSRC in accordance with the principle of prudential regulation.

Where any of the documents stipulated in the preceding paragraph is signed by an authorized agent of the applicant's legal representative, a power of attorney issued by the legal representative to the authorized agent shall be provided. The applicant's legal representative refers to a natural person, such as the chairman of the board of directors or the chief executive officer, who is empowered by the board of directors, or by the articles of association, or by relevant legal provisions of the applicant's domicile country or region to represent the applicant in managing matters related to domestic securities investment by qualified investors.

The aforementioned power of attorney and the documents prescribed in Paragraph (3) and (4) of Article 1 shall be notarized by a notary institution or a lawyer legally recognized by the applicant's domicile country or region, or be authenticated by the embassy or consulate of the People's Republic of China in the applicant's domicile country or region. If the application documents are written in a foreign language, a Chinese translation shall be provided. For financial statements, Chinese translation is required for the auditor's opinion and the principal statements.

International organizations, sovereign funds, and pension funds applying for the qualification as a qualified investor may, upon the approval of the CSRC, be exempt from providing the documents stipulated in Paragraph (3), (4), and (5) of Article 1.

In the event of any situations prescribed in Article 28 of the *Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors*, the applicant shall make a digital filing via the CSRC website in a timely manner.

2. The securities and futures investment license issued to a qualified investor shall remain valid unless otherwise stipulated by applicable laws and regulations or by the CSRC, or be canceled by the CSRC according to law.

3. The custodian, in its first undertaking of asset custodian services for qualified investors, shall file the following documents to the CSRC within 5 business days after signing the custodian agreement:

(1) Registration report, containing the custodian's basic information, registered domestic address, duration of continuous domestic operation, and compliance records in foreign exchange management business for the latest 3 years, with a statement pledging the truthfulness, accuracy, completeness, and compliance of the application documents;

(2) Information of its domestic custodian business, including business operations, IT system, and full-time personnel for custodian business;

(3) Photocopies of financial business licenses and business license;

(4) A capital verification report;

(5) Management system for custodian business, including management measures, compliance and risk management rules, post responsibilities and operating procedures, code of conduct for employees, accounting methodology, and information system management rules etc.;

(6) Proof of the efficiency, speediness, security, and reliability of technical systems;

(7) A photocopy of the first custodian agreement undertaken by the custodian for a qualified investor;

(8) Other documents as required by the CSRC in accordance with the principle of prudential regulation.

If the custodian has met relevant conditions and has submitted all required documents, the CSRC shall conclude the registration procedure for the custodian by updating the list of custodians for qualified investors on its website.

4. A qualified investor shall entrust its custodian to apply for securities and futures accounts. A qualified investor may open multiple securities and futures accounts, which shall correspond to its special RMB deposit account.

Qualified investors shall open, use, and manage securities and futures accounts in accordance with the business rules issued by the securities depository and clearing institutions, futures trading venues, and futures market monitoring institutions.

5. A qualified investor shall invest in domestic securities and futures markets with proprietary funds or client funds under management, and apply for separate securities and futures accounts for proprietary and client funds respectively.

For qualified investor's accounts named in the format of "Qualified Investor + Client Name" or "Qualified Investor + Client Fund", ownership of the assets in the accounts belongs to the client and shall be kept independent of the assets of the qualified investor and the custodian.

A qualified investor shall, in accordance with the rules of securities depository

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and clearing institutions and the futures market monitoring institutions, set up subsidiary accounts for relevant funds and products under its “Qualified Investor + Client Fund” account, verify the identities of the investors of the aforementioned funds and products, and report relevant investors information via the custodian within 10 business days following the end of each quarter.

6. A qualified investor may invest in the following RMB financial instruments:

(1) Stocks, depository receipts, bonds, bond repurchases, and asset-backed securities traded or transferred on stock exchanges;

(2) Shares transferred on the National Equities Exchange and Quotations (NEEQ);

(3) Eligible products traded on the domestic interbank bond market for qualified investors according to regulations of the People's Bank of China (PBC);

(4) Publicly offered securities investment funds;

(5) Financial futures contracts listed and traded on the China Financial Futures Exchange (CFFEX);

(6) Commodity futures contracts listed and traded on futures exchanges approved by the CSRC;

(7) Options listed and traded on futures exchanges approved by the State Council or the CSRC;

(8) Eligible foreign exchange derivatives for qualified investors according to regulations of the State Administration of Foreign Exchange (SAFE);

(9) Other financial instruments as approved by the CSRC.

A qualified investor can participate in the subscription for new share issuance, bond issuance, secondary share offerings, and share allocations on stock exchanges and the NEEQ, and can engage in margin trading and securities lending in stock exchanges.

A qualified investor can invest in a private investment fund whose investment scope conforms to Paragraphs (1) and (2) of Article 6.

Relevant securities and futures trading venues will propose specific types of bond repurchases, financial futures contracts, commodity futures contracts, and options contracts eligible for qualified investors and report to the CSRC for approval.

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Particularly, the CSRC will consult with the PBC on the specific types of eligible bond repurchases and financial futures contracts.

A qualified investor can appoint its associated domestic private securities investment fund manager as its investment adviser.

7. Foreign investors shall comply with the following ownership requirements in domestic securities investments:

(1) A single foreign investor shall hold no more than 10% of the total shares of an exchange-listed or a NEEQ-admitted company;

(2) Aggregate foreign shareholding shall be no more than 30% of the total shares of an exchange-listed or a NEEQ-admitted company.

Strategic investment in listed companies by foreign investors in accordance with law is not subject to the aforementioned percentage restrictions.

Stricter limits on foreign shareholding imposed by other relevant laws and regulations in PRC shall prevail.

8. Qualified investors shall only trade financial futures contracts for hedging purpose and shall comply with relevant rules of the CFFEX.

The CFFEX shall supervise the hedging positions and trading activities of qualified investors in financial futures trading, and periodically report the hedging positions of qualified investors in financial futures trading to the CSRC and the SAFE.

The CFFEX shall periodically report the hedging positions of qualified investors in treasury bond futures trading to the PBC, and relevant information on the treasury bond futures trading by qualified investors as required by the CSRC and the PBC in accordance with the principle of prudential supervision.

9. A qualified Investor and its custodian(s) shall, in accordance with the rules of securities and futures trading venues, securities depository and clearing institutions, and futures market monitoring institutions, determine the trading and settlement model for the qualified investor to trade securities and futures, specify the rights and obligations of each party in trade execution, fund transfer, clearing and settlement, accounting, and margin deposit etc., and establish safekeeping mechanism for assets and funds.

10. Custodians, securities companies, and futures companies shall continuously monitor the trading activities and fund flows of qualified investors, and make timely

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reports on abnormal events and violations of laws and regulations to the CSRC, PBC, and SAFE.

Custodians shall report the investment operations of qualified investors to the CSRC within the 10 business days following the end of each month and within 3 months following the end of each year.

A qualified investor shall, in accordance with the requirements of the CSRC, report its overseas hedging positions related to its domestic securities and futures investment through its custodian within 10 business days following the end of each quarter.

11. If a foreign investor's domestic securities investment triggers a disclosure obligation, the foreign investor shall, as the obligor of information disclosure, submit the disclosure document to the trading venues through a qualified investor. The qualified investor is obliged to ensure that the foreign investors under its name strictly comply with relevant information disclosure rules.

12. A qualified investor may exercise shareholder's rights by itself or through its custodian, a domestic securities company, an independent director or the secretary of the board of directors of an exchange-listed or a NEEQ-admitted company, or a foreign investor under its name.

13. When exercising shareholder's rights, the qualified investor shall provide the following certification documents to the exchange-listed company or the NEEQ-admitted company:

(1) Photocopy of the securities and futures investment license for qualified investor;

(2) Photocopy of the securities account card;

(3) Proof of identification of the person exercising the right; and

(4) If the qualified investor delegates other person to exercise shareholder's rights, in addition to the aforementioned documents, it shall provide a power of attorney signed by the authorized representative of the qualified investor. (If the qualified investor delegates a foreign investor under its name to exercise shareholder's rights, it shall provide a shareholding statement signed by the authorized representative of the qualified investor shall be provided.)

14. Each qualified investor may entrust no more than 3 domestic securities companies on each of Shanghai Stock Exchange, Shenzhen Stock Exchange, and NEEQ to trade securities; and may entrust no more than 3 domestic futures companies

and securities companies in total to trade futures and options.

15. A qualified investor shall designate a person who is proficient in applicable laws and regulations of the domestic securities and futures markets and has high professional integrity as the supervisor to oversee the legality and compliance of the operations of the qualified investor.

16. The supervisor's responsibilities include:

(1) Reviewing the application documents and operation reports to be submitted to the CSRC;

(2) Reviewing client and product compliance;

(3) Supervising the investment activities and information disclosure of the qualified investor;

(4) Conducting periodic or random inspections on the investment activities of the qualified investor;

(5) Organizing trainings on relevant laws and regulations; and

(6) Promptly forestalling any violations of domestic laws and regulations by the qualified investor and report to the CSRC within 10 business days.

17. Securities and futures trading venues, securities depository and clearing institutions, and securities and futures market surveillance and monitoring institutions shall carry out surveillance, analysis, and self-regulation of the domestic securities and futures investment and trading by qualified investors, establish information sharing and coordination mechanisms, and detect and address abnormal cross-market trading activities in a timely manner.

Securities and futures trading venues, securities depository and clearing institutions, and securities and futures market surveillance and monitoring institutions shall make periodic reports to the CSRC on the domestic investment by qualified investors.

18. The *Provisions* shall come into force on the date of (DD/MM/YYYY). The *Guiding Opinions on the Appointment of Supervisor for Qualified Foreign Institutional Investor* (CSRC Announcement [2008] No. 40) issued on 17 October 2008, the *Guidelines for Qualified Foreign Institutional Investors to Participate in Stock Index Futures Trading* (CSRC Announcement [2011] No. 12) issued on 4 May 2011, the *Provisions on Issues concerning the Implementation of the Measures for the Administration of Domestic Securities Investment by Qualified Foreign Institutional*

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Investors (CSRC Announcement [2012] No. 17) issued on 27 July 2012, and the *Provisions on the Implementation of the Measures for the Pilot Program of Domestic Securities Investment by RMB Qualified Foreign Institutional Investors* (CSRC Announcement [2013] No. 14) issued on 1 March 2013 shall be simultaneously invalidated.

Measures for the Administration of Domestic Securities and Futures

Investment by Qualified Foreign Institutional Investors and RMB

Qualified Foreign Institutional Investors

(Consultation Paper)

Article 1 For the purpose of supervising the investment activities of qualified foreign institutional investors in China's securities and futures markets and promoting the steady and sound development of the securities and futures markets, the *Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors*, hereinafter referred to as the *Measures*, is formulated in accordance with relevant laws and administrative regulations.

Article 2 The term of qualified foreign institutional investors (hereinafter referred to as “qualified investors”) as mentioned in the *Measures* refers to foreign institutional investors who have been approved by the China Securities Regulatory Commission (the CSRC) to invest in China’s securities and futures markets, and have obtained investment quota registered with or approved by the State Administration of Foreign Exchange (the SAFE), to invest in China's securities and futures markets with funds raised overseas.

Upon registration with or approval by the SAFE, qualified foreign institutional investors allowed to use offshore RMB funds to invest in China's securities and futures markets are referred to as RMB qualified foreign institutional investors (RQFII).

To facilitate RMB internationalization, qualified investors are encouraged to invest with offshore RMB funds.

Foreign institutional investors referred to in Paragraph 1 of this Article include foreign fund management institutions, commercial banks, insurance companies, securities companies, futures companies, trust companies, government investment management companies and other assets management institutions, as well as other types of institutional investors recognized by the CSRC such as pension funds, charity funds and endowment funds.

Article 3 A qualified investor shall designate an eligible domestic commercial bank as the custodian for its assets, and designate a domestic securities or futures company, in accordance with law, to carry out its investments in China’s securities and futures markets.

Article 4 A qualified investor shall establish and implement an effective internal control system and compliance management regime to ensure its investment activities and funds management conform to laws and regulations in China.

Article 5 The CSRC shall, in accordance with law, oversee and regulate domestic securities and futures investment by qualified investors. The People's Bank of China (PBC) and the SAFE shall, in accordance with law, monitor and regulate the opening of bank accounts in China, securities and futures investment quotas, and cross-border funds transfer by qualified investors.

Article 6 An applicant for the qualification as a qualified investor shall meet the following requirements:

(1) the applicant shall be in sound financial conditions and good credit standing with proven experiences in securities and futures investment;

(2) the applicant's managerial personnel in charge of domestic investments shall meet relevant professional requirements of the applicant's domicile country or region (if such requirements exist);

(3) the applicant shall have sound and effective governance structure, internal control system, and compliance management regime, and, in accordance with relevant regulations, appoint a supervisor to oversee the legality and compliance of the applicant's domestic investment;

(4) the applicant's operation is well-managed and has not been subject to any major punishment by regulatory authorities in the latest 3 years or since its establishment; and

(5) other requirements set by the CSRC in accordance with the principle of prudential regulation.

Article 7 An applicant shall submit the application to the CSRC through its custodian.

The CSRC shall, within 20 business days of accepting the application, examine the documents and deliver a decision. A successful application will receive an approval letter and be granted with securities and futures investment license (the license). A rejected application will be notified in writing.

Article 8 An applicant shall register with or apply for approval on investment quota to the SAFE through its custodian.

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The SAFE shall, within 20 business days of receiving a complete application, examine the documents and deliver a decision. A successful registration or application will receive an approval letter. A rejected registration or application will be notified in writing.

Article 9 A custodian shall meet the following requirements:

- (1) having a dedicated department for asset custodian business;
- (2) paid-in capital of no less than RMB 8 billion;
- (3) adequately staffed with full-time employees who are proficient in asset custodian business;
- (4) having the capability and capacity to safekeep the assets of qualified investors;
- (5) having the capability and capacity to provide clearing and settlement services in a safe and efficient manner;
- (6) having the qualification as a designated foreign exchange bank and the qualification of engagement in the RMB business; and
- (7) no major violation of laws and regulations on foreign exchange management in the latest 3 years.

Article 10 A custodian shall, within 5 business days of first signing a custodian agreement, file the agreement to the CSRC for record.

Article 11 A custodian shall perform the following duties:

- (1) to safekeep the assets of qualified investors;
- (2) to provide foreign exchange services for qualified investors, including sale and purchase of foreign exchange, receipt and payment of foreign exchange, and RMB settlement;
- (3) to monitor the investment activities of qualified investors, and to report to the CSRC, PBC, and SAFE in a timely manner if their investment orders violate any laws and regulations;
- (4) to submit relevant business reports and statements periodically in accordance with requirements by the CSRC, PBC, and SAFE;
- (5) to document the records of remittance of funds, conversion of currencies, receipt

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and payment of foreign exchange, and fund flows and other information of the qualified investor for no less than 20 years;

(6) to report the statistics on balance of international payments in accordance with relevant national provisions on foreign exchange administration; and

(7) other duties as prescribed by the CSRC, PBC, and SAFE in accordance with the principle of prudential regulation.

Article 12 A custodian shall strictly segregate its proprietary assets from those under its custody, and set up individual accounts for the assets under its custody for separate management.

Article 13 If a qualified investor has more than 2 custodians, it shall designate one as the principal custodian, who is responsible for qualification application, investment quota application, reporting on material matters, and information registration on behalf of the qualified investor. The principal custodian shall submit the information of all custodians to the CSRC and the SAFE for record within 5 business days after the designation.

A qualified investor may change its custodian. The CSRC and the SAFE may require a qualified investor to change its custodian under the principle of prudential regulation. The new custodian shall submit relevant information to the CSRC and the SAFE for record within 3 business days after the former custodianship has been terminated.

Article 14 A qualified investor shall apply for opening a securities and futures account according to law.

Article 15 To trade securities, a qualified investor shall entrust an institution with clearing and settlement qualification for fund settlement. To trade futures, a qualified investor shall entrust an institution with qualification as a settling member of a futures exchange for fund settlement.

Article 16 A qualified investor may invest within the quota registered with or approved by the SAFE. Its principal and return on investments gained in the domestic markets can be invested in eligible RMB financial instruments.

A qualified investor's investment in the domestic interbank bond market and participation in the domestic foreign exchange market conform to applicable rules of the PBC and the SAFE.

Article 17 A qualified investor may, in accordance with law, entrust its assets to asset management schemes set up by asset management institutions including securities companies and fund management companies to invest in China. The

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investment scope of such asset management schemes shall comply with relevant rules on investment scope for qualified investors.

Article 18 Stock investment by foreign investors in China shall observe the foreign ownership requirements as stipulated by the CSRC and other relevant rules in China.

Article 19 With regards to information disclosure, a foreign investor is obliged to aggregate its equity holdings in a company, including the same company's shares listed in domestic stock exchanges, admitted on the National Equities Exchange and Quotations (NEEQ), and foreign shares listed overseas, and comply with relevant information disclosure rules.

A foreign investor shall disclose relevant securities investments of persons acting in concert according to information disclosure rules of listed companies.

Article 20 Securities companies and futures companies shall document foreign investors' order records and trading records for no less than 20 years.

Article 21 A qualified investor's investment activities in the domestic securities and futures market shall comply with relevant rules of the securities and futures trading venues, securities depository and clearing institutions, and futures market monitoring institutions.

Article 22 A qualified investor shall set up a foreign exchange account and a special RMB deposit account with the custodian after the investment quota has been registered with or approved by the SAFE.

Article 23 Deposits into and withdrawals from the foreign exchange account and the special RMB deposit account held by a qualified investor shall comply with the scope of fund use set in relevant rules of the PBC and the SAFE.

Article 24 A qualified investor shall remit its investment principal into China according to the rules of the SAFE. The investment principal remitted into China shall be made in convertible currencies approved by the SAFE and within the quota as registered with and approved by the SAFE.

Upon registration with or approval from the SAFE, a qualified investor may remit its investment principal in RMB.

Article 25 A qualified investor may repatriate its funds according to the rules of the PBC and the SAFE.

Article 26 The PBC and SAFE will exercise macro prudential management on remittance and repatriation of funds by qualified investors according to China's

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economic and financial conditions, supply and demand on the foreign exchange market, and balance of international payments.

Article 27 The CSRC, PBC, and SAFE may, in accordance with law, require qualified investors, custodians, securities companies, futures companies and other institutions to provide relevant information on the qualified investors and may carry out necessary inquiries and inspections.

Article 28 A qualified investor shall report to the CSRC, PBC, and SAFE within 5 business days in the event of any of the following situations:

- (1) change of custodians;
- (2) change of controlling shareholders or actual controllers;
- (3) involvement in major litigation or other major events;
- (4) being subject to major punishments overseas;
- (5) other situations stipulated by the CSRC, PBC, and SAFE.

Article 29 A qualified investor shall apply to change its license in the event of any of the following situations:

- (1) change of institutional information in the license;
- (2) merger and acquisition by another institution;
- (3) other situations stipulated by the CSRC, PBC, and SAFE.

During the application for a change of license, the qualified investor may continue to trade securities and futures, unless the CSRC regards suspension of operation as necessary according to the principle of prudential regulation.

Article 30 A qualified investor shall surrender its license to the CSRC for cancellation in the event of any of the following situations:

- (1) the qualified investor is dissolved, going into the bankruptcy proceedings or is taken over by a receiver;
- (2) the qualified investor applies for cancellation of its license; or
- (3) other circumstances stipulated by the CSRC, PBC, and SAFE.

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Article 31 In the event of any of the following situations, the CSRC, PBC, and SAFE can take regulatory measures on a qualified investor, including ordering for corrections, supervisory talks and issuing warning letters; and can take regulatory measures on managers and personnel with direct responsibilities or involvement, such as supervisory talks, issuing warning letters, ordering for participation in training, ordering for periodic reporting, or disqualification of the individual:

- (1) failing to comply with relevant rules in opening an account in accordance with relevant rules;
- (2) failing to comply with relevant rules in carrying out securities and futures investment activities in China;
- (3) failing to comply with relevant rules in performing information disclosure obligations;
- (4) failing to comply with relevant rules in effectively and efficiently implementing a compliance management regime;
- (5) failing to comply with relevant rules in the change or surrender of the license;
- (6) failing to comply with relevant rules in remittance of funds, foreign exchange settlement, purchases or sales of foreign exchange;
- (7) failing to comply with relevant rules in the submission of relevant reports and materials; or, the submission contains misrepresentation, misleading statements, or major omissions;
- (8) failing to cooperate with inspections, refusing to provide or stalling the provision of relevant materials; or
- (9) violating other provisions of the *Measures*.

In the event of overdue rectifications or severe violations, the qualified investor may be subject to warning and/or a fine of no more than RMB 30,000, individually or collectively; managers and personnel with direct responsibilities or involvement may be subject to warning and/or a fine of no more than RMB 30,000 each, individually or collectively. Any violation of the *Securities Law, Regulation on the Administration of Futures Trading, Regulations on Foreign Exchange Administration*, and other laws and administrative regulations will receive administrative penalties accordingly. Where a violation constitutes a suspected criminal offense, the case will be transferred to judicial authorities for prosecution of criminal liability in accordance with law.

Article 32 If a qualified investor violates laws and regulations in the process of

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conducting securities and futures investment in China, the CSRC may take measures according to law, such as imposing restrictions on the trading of relevant securities and futures accounts, and the PBC and the SAFE may take measures according to law, such as imposing restrictions on remittance of funds.

Article 33 In the event of any of the following situations, the CSRC, PBC, and SAFE can take regulatory measures on the custodians, such as ordering for correction, supervisory talks and issuing warning letters; and can take regulatory measures on managers and personnel with direct responsibilities or involvement, such as supervisory talks, issuing warning letters, ordering for participation in training, ordering for periodic reporting, suspension from duties, or disqualification of the individual:

- (1) failing to comply with relevant rules in custodian registration;
- (2) failing to comply with relevant rules in keeping custody of the qualified investor's assets;
- (3) failing to comply with relevant rules in fulfilling its duty to supervise the domestic securities and futures investment by a qualified investor;
- (4) failing to comply with relevant rules in conducting exchange and remittance of funds, and other relevant business for a qualified investor;
- (5) failing to comply with relevant rules in reporting balance of international payments;
- (6) failing to comply with relevant rules in the submission of relevant application materials, business reports, or statements;
- (7) failing to comply with relevant rules in record-keeping of remittances of funds and other related information of a qualified investor; or
- (8) violating other provisions of the *Measures*.

In the event of overdue rectifications or severe violations, the custodian may be subject to warning and/or a fine of no more than RMB 30,000, individually or collectively; managers and personnel with direct responsibilities or involvement may subject to warning and/or a fine of no more than RMB 30,000 each, individually or collectively. Any violation of the *Securities Law*, *Regulation on the Administration of Futures Trading*, *Regulations on Foreign Exchange Administration*, and other laws and administrative regulations will receive administrative penalties accordingly. Where a violation constitutes a suspected criminal offense, the case will be transferred to judicial authorities for prosecution of criminal liability in accordance with law.

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Article 34 The *Measures* is applicable to institutional investors incorporated in the Hong Kong Special Administrative Region, the Macao Special Administrative Region and the Taiwan Region who conduct securities and futures investment in the mainland market.

Article 35 The *Measures* shall take effect on (DD/MM/YYYY). In the meantime, the *Measures for the Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors* (CSRC Order No. 36) issued on 1 September 2006 and the *Measures for the Pilot Program of Domestic Securities Investment by RMB Qualified Foreign Institutional Investors* (CSRC Order No. 90) issued on 1 March 2013 shall be simultaneously invalidated.

Explanation to the Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (Consultation Paper) and the Supporting Rules

In order to improve the schemes of Qualified Foreign Institutional Investors (QFII) and RMB Qualified Foreign Institutional Investors (RQFII), advance the opening-up of the capital markets to a higher level, and to channel in more long-term foreign capital, the CSRC drafted the *Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (Consultation Paper)* (the *Measures*) and the *Provisions on Issues Concerning the Implementation of the Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (Consultation Paper)* (the *Provisions*) by revising and consolidating the current *Measures for the Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors* and the *Measures for the Pilot Program of Domestic Securities Investment by RMB Qualified Foreign Institutional Investors* and their supporting rules. The explanation of the revisions is as follows:

I. Background of the Revisions

1. Progress of the QFII and RQFII Schemes

The QFII scheme and the RQFII scheme were respectively launched in 2002 and 2011. As of the year end of 2018, total QFII quota has reached USD 150 billion (currently USD 300 billion), and the aggregated quota of USD 101.1 billion has been granted to 309 QFIIs. The RQFII scheme has expanded from Hong Kong to 19 countries and regions. Total RQFII quota has reached RMB 1.94 trillion, and the aggregated quota of RMB 646.7 billion has been granted to 233 RQFIIs. The two schemes have been operating in a steady manner, playing a positive role in channeling long-term foreign capital into China, optimizing investors' structure of capital market, carrying out value investing, enhancing corporate governance of listed companies, and promoting the sound and steady development of China's capital market.

Firstly, investment volume grows steadily. Qualified investors mainly include asset management companies, commercial banks, securities companies, insurance companies, central banks, sovereign funds, endowment funds, pension funds, etc. These institutions focus on long-term funding and together have become the third largest group of professional institutional investors in the A-share market with a

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growing investment share.

Second, upholding value investing. Qualified investors focus on fundamental analysis, and have relatively mature investment philosophy and sound investment style. They have strict internal compliance risk control, hold high ratios of blue chips, and keep low turnover ratio. Their investment is rational, long-term, and value-based, setting a good example to guide more funds to invest in high-quality listed companies.

Third, active participation in corporate governance. Qualified investors favor listed companies with sound governance structure and standard information disclosure practice, and actively participate in corporate governance of the target companies. They play an active role in promoting sound operation of the listed companies, strengthening investor relation management, and improving information disclosure mechanisms.

Fourth, facilitating RMB internationalization. The RQFII scheme has expanded investment channels for offshore RMB, and has become an important vehicle for domestic securities, fund management, and futures companies to expand international business and provide cross-border investment services, which has facilitated the repatriation of offshore RMB, increased RMB demand of foreign financial institutions, and helped to bring closer the domestic and foreign financial markets.

Fifth, orderly promoting cross-border securities investment. The People's Bank of China (PBC), the State Administration of Foreign Exchange (SAFE), and the China Securities Regulatory Commission (CSRC) have established an effective coordination mechanism, with the exchanges placed on the frontline self-regulation. Regulation on procedures such as market entry, investment quota, investment activity, cross-border fund transfer, and information reporting has ensured that cross-border securities investment is in an orderly and stable manner, and accumulated valuable regulatory experiences in further opening up the capital markets.

2. Issues relating to Qualified Investor Schemes

As China's economy has entered a stage of high-quality growth in the recent years, two-way opening-up of the capital markets gradual expands. Existing qualified investor schemes are no longer adapted to the new market environment in terms of market entry requirements, investment operation, and continuous supervision. Therefore, revision and improvement to the existing rules are necessary.

First, entry requirements are not unified. QFII and RQFII schemes are the same in nature, but have different entry requirements due to different currencies of foreign funds. As a result, foreign institutions apply for both licenses separately. The QFII scheme has higher requirements in terms of operation and assets under management, whereas the RQFII scheme is much relaxed with only compliance requirements. In

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recent years, the stock connect mechanisms between the mainland and Hong Kong have been established. Domestic interbank bond market has been further opened up to foreign institutional investors. RMB internationalization is on steady progresses. In the context of the new market conditions, entry requirements for foreign institutional investors shall be harmonized so as to attract more long-term foreign funds and prevent regulatory arbitrage.

Second, scope of investment is limited. At present, qualified investors can invest in stocks and bonds traded on stock exchanges, fixed-income products traded in the domestic interbank bond market, and stock index futures. Creating standardized, transparent, open, dynamic, and resilient capital markets requires a higher level of opening up and expansion of the scope of investment accessible to qualified investors.

Third, continuous supervision requires enhancements. New situations and issues have emerged in the operation of the qualified investor schemes, reflecting some imperfection in the continuous monitoring and supervision mechanism. In particular, it is imperative to strengthen the regulation of cross-market transactions and trading behavior, and specify regulatory requirements, disciplinary measures, and administrative penalties applicable to qualified investors, custodians, and brokers.

II. Major Revisions

There are 35 articles in the *Measures* and 18 articles in the *Provisions*. The main revisions are as follows:

1. Consolidating Two Schemes into One

QFII and RQFII schemes are consolidated into one, with the QFII rules as the basis while incorporating the RQFII rules¹ and integrating the two special provisions² of the QFII scheme³, forming the unified *Measures* and *Provisions*. Foreign institutional

¹ The *Measures for the Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors* (CSRC Order No. 36) and *Provisions on Issues Concerning the Implementation of the Measures for the Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors* (CSRC Announcement [2012] No. 17).

² The *Measures for the Pilot Program of Domestic Securities Investment by RMB Qualified Foreign Institutional Investors* (CSRC Order No. 90) and the *Provisions on the Implementation of the Measures for the Pilot Program of Domestic Securities Investment by RMB Qualified Foreign Institutional Investors* (CSRC Announcement [2013] No. 14)

³ The *Guiding Opinions on the Appointment of Supervisor for Qualified Foreign Institutional Investor* (CSRC Announcement [2008] No. 40) and the *Guidelines for Qualified Foreign Institutional Investors to Participate in Stock Index Futures Trading*

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investors will only need to make a one-time license application. For the institutions from countries and regions that have not yet obtained the RQFII quota, funds for investment can be raised in foreign currencies.

2. Relaxing Entry Requirements

On the one hand, entry requirements of QFII and RQFII are unified and quantitative criteria canceled. On the other hand, compliance requirements are maintained, such as requirements on financial soundness, good credit standing, experiences in securities and futures investment, sound and effective governance structure, internal control system, and compliance management regime, and no record of major regulatory punishment in the latest three years or since the institution's establishment. Meanwhile, application materials are simplified and processing time is shortened (Article 1 and 7 of the *Measures*).

3. Expanding Scope of Investment

In addition to the existing products, qualified investors can invest in: (1) stocks admitted on the National Equities Exchange and Quotations (NEEQ, or the New Third Board) market; (2) bond repurchases; (3) private investment funds; (4) financial futures; (5) commodity futures; (6) options, etc.. Qualified investors are also allowed to participate in margin trading and securities lending in stock exchanges. Relevant trading venues will propose specific types of bond repurchases, financial futures, commodity futures, and options and report to the regulatory authority for approval (Article 6 of the *Provisions*).

4. Optimizing the Management of Custodians

First, according to the *Decision of the State Council on the Cancellation and Adjustment of a Batch of Administrative Examination and Approval Items* (State Council Office [2014] No. 50), the management of QFII custodian qualification has been changed from an approval-based item to a registration-based item. The revision has specified the registration requirements (Article 10 of the *Measures* and Article 3 of the *Provisions*).

Second, restriction on the number of custodians engaged by a qualified investors is removed. If there are more than two custodians, the qualified investor shall appoint a principal custodian (Article 13 of the *Measures*).

5. Strengthening Continuous Supervision

First, improving account management. Ownership of the asset held under the

(CSRC Announcement [2011] No. 12).

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securities and futures accounts opened by qualified investors for their clients is further clarified, in order to strengthen see-through supervision on qualified investors' accounts (Article 5 of the *Provisions*).

Second, enhancing monitoring and analysis mechanism. The requirements on custodians' periodic reporting are clearly set out, i.e. the custodians, securities companies, and futures companies shall continuously monitor the trading activities of qualified investors and the movements of their funds, and timely report any irregularities or violations to the CSRC, PBC, and SAFE (Article 10 of the *Provisions*). Meanwhile, the securities and futures trading venues, securities depository and clearing institutions, and securities and futures market monitoring and surveillance institutions shall carry out surveillance, analysis, and self-regulation of the domestic securities and futures investment and trading by qualified investors, establish information sharing and coordination mechanisms, and detect and address abnormal cross-market trading activities in a timely manner. (Article 17 of the *Provisions*).

Third, additional requirements on reporting cross-border transactions. To prevent cross-border market manipulation and other abnormal trading activities, qualified investors are required to make periodic reports through custodians on their overseas hedging positions related to their domestic securities and futures investment (Article 10 of the *Provisions*).

Fourth, reinforcing requirements on see-through supervision. Foreign investors investing in domestic capital markets through the qualified investor schemes shall comply with the CSRC rules related to foreign ownership requirements and information disclosure (Articles 18 and 19 of the *Measures*).

Fifth, intensifying punishments against violations. Description of violations of qualified investors and custodians are more granular, with specified corresponding supervisory measures and administrative penalties (Articles 31 and 33 of the *Measures*).