



Highlights of 2024 Provisions on Funds of QFI

By Sandra Lu | Lily Luo | Anita Hu | Cora Li

On 26 July 2024, eight months following the release of the *Consultation Paper of Provisions on the Administration of Funds of Foreign Institutional Investors for Domestic Securities and Futures Investment* (“**Consultation Paper**”) and after fully considering the public comments, the People’s Bank of China (“**PBOC**”) and the State Administration of Foreign Exchange (“**SAFE**”) jointly promulgated the conclusion paper of the revised *Provisions on the Administration of Funds of Foreign Institutional Investors for Domestic Securities and Futures Investment* (Announcement of PBOC and SAFE [2024] No. 7) (the “**2024 Provisions on Funds of QFI**”) to further improve the administration of the cross-border funds of Qualified Foreign Investors (the “**QFI**”). The 2024 Provisions on Funds of QFI will come into effect from 26 August, 2024. The original *Provisions on the Administration of Funds of Foreign Institutional Investors for Domestic Securities and Futures Investment* (the “**2020 Provisions on Funds of QFI**”), which have been implemented from 6 June, 2020, will be simultaneously repealed. Below, we introduce the highlights of the amendments and improvements made to the 2020 Provisions on Funds of QFI by the 2024 Provisions on Funds of QFI.

I. Streamline the Registration with SAFE

	2020 Provisions on Funds of QFI	2024 Provisions on Funds of QFI	Notes
Initial Registration	QFI shall appoint the main custodian to submit the following materials to SAFE for registration: (1) the Registration Form for Foreign Institutional Investor (2) a photocopy of the Securities and Futures Business License granted by China Securities Regulatory Commission (“ CSRC ”)	QFI shall provide the main custodian with the following materials, and register via the main custodian on the SAFE’s digital platform under the relevant section of the capital project item: (1) a photocopy of the Securities and Futures Business License; (2) <u>An undertaking letter on complying with PRC tax administration rules on QFI.</u>	1. The Registration Form for Foreign Institutional Investor is cancelled. 2. An undertaking letter on complying with the PRC tax administration rules on QFI is newly required. According to the 2020 Provisions on Funds of QFI, QFI shall choose either provide the QFI custodian with the undertaking letter on full tax payment every time prior to each outbound remittance of profits, or the undertaking letter covering a period of time on full tax payment for outbound remittances. Under the 2024 Provisions on Funds of QFI, only a one-time undertaking letter needs to be submitted in the initial registration. For the avoidance of doubt, QFI still needs to submit the tax filing form for overall outbound remittance due to liquidation (including liquidation of products).

Registration of Change	In the case of the change of QFI's name, QFI shall submit the registration of change within ten working days after obtaining the new Securities and Futures Business License from CSRC. In the case of other material changes, QFI shall submit the registration of change within ten working days from the change.	The time limit of ten working days has been extended to <u>thirty working days</u> .	QFI will be given more time to prepare for the registration of change. No matter in either rule, the registration of change shall be handled by the main custodian. In the case of the change of the main custodian, the registration of change shall be handled by the new main custodian.
Deregistration	If the QFI license is cancelled by CSRC because the QFI is dissolved, goes bankrupt, is taken over by a receiver, etc., the QFI shall report to PBOC and SAFE through the main custodian on time. Thereafter, the QFI shall realize its overall assets and close the QFI special accounts within thirty working days.	If the QFI license is cancelled by CSRC because the QFI is dissolved, goes bankrupt, is taken over by a receiver, etc., the QFI shall conduct the deregistration through the main custodian within thirty working days <u>after realizing its overall assets and closing the QFI special accounts</u> .	Currently, the QFI shall report to PBOC and SAFE first, and then realize the assets and close the QFI special accounts within thirty working days. The 2024 Provisions on Funds of QFI allow the QFI to realize the assets and close the accounts at first, and then conduct deregistration accordingly. In practice, thirty working days might be too tight for the QFI to realize the assets and close the accounts. The regulators may note the situation and revise this to better adapt to the practices.

II. Expand Routes to Manage the Foreign Exchange Risks

Respecting the 2020 Provisions on Funds of QFI, the QFI conducting foreign exchange derivatives transactions shall still satisfy the “real demand” principle and for hedge purpose only, and foreign exchange derivative exposure shall have reasonable correlation with foreign exchange risk exposure. In the

background that the regimes of investing in the China Interbank Bond Market (“CIBM”) has undergone a series of simplification of rules and infrastructure improvements to facilitate foreign investors to make investments, the 2024 Provisions on Funds of QFI aim to synchronize the QFI regime with the routes to foreign exchange risks management which have been enjoyed by the foreign investors in the CIBM.

1. Under the 2020 Provisions on Funds of QFI, the QFI is only able to conduct spot purchase and sale of foreign exchange through the QFI custodian. The 2024 Provisions on Funds of QFI allow the QFI to conduct spot foreign exchange settlement and sale transactions with other PRC domestic financial institutions with this business qualification as their clients. It is worth noting that, the QFI has already been able to conduct foreign exchange derivatives business with the QFI custodian and other financial institutions which are qualified to conduct such business for clients. (Hereinafter collectively referred to as the “**Client Model**”).
2. The 2024 Provisions on Funds of QFI give the QFI more routes to enter into China interbank foreign exchange market. If the QFI is a banking institution, it may conduct the spot foreign exchange settlement and sale and foreign exchange derivatives business via (i) the Client Model; (ii) becoming a member of the China Foreign Exchange Trade System & National Interbank Funding Center (“**CFETS**”) to under prime brokerage to trade in the interbank foreign exchange market; (iii) becoming the CFETS member to directly trade in the interbank foreign exchange market. If the QFI is not a banking institution, the QFI may choose either of the aforesaid Item (i) or (ii) to conduct the spot foreign exchange settlement and sale and foreign exchange derivatives business.
3. If the QFI chooses the Client Model and conducts the spot foreign exchange settlement and sale and the foreign exchange derivatives transactions through other financial institutions other than the QFI custodian, the QFI shall file the list of such financial institutions with CFETS on its own or through the QFI custodian.
4. If the QFI chooses the Client Model to conduct the spot foreign exchange settlement and sale and the foreign exchange derivatives transactions, the domestic financial institutions (as QFI’s transaction counterparties) are obligated to daily report the transaction information to CFETS, and submit statistics and report to SAFE. If the QFI chooses either of the above 2(ii) and 2(iii) to conduct the spot transactions and the foreign exchange derivatives transactions, its corresponding statistics shall be counted into the interbank foreign exchange market statistics, the reporting of the relevant transaction information shall comply with the requirements of CFETS and there is no need to report the statistics of the bank of foreign exchange settlement and sale to SAFE.

In addition, the Consultation Paper defines foreign exchange risk exposure as “the size of RMB assets corresponding to PRC domestic securities and futures investments (excluding RMB deposit assets in RMB special deposit accounts)”, while the wording of “excluding RMB deposit assets in RMB special deposit accounts” has been deleted in the conclusion paper of the 2024 Provisions on Funds of QFI. This change is for the consideration by the regulatory authorities that for the QFI, all RMB assets have exchange rate risks, thus RMB deposits are included in the scope of foreign exchange risk exposure.

III. Improve the Account Management

The 2024 Provisions on Funds of QFI also improve account management, improving the management of fund flow, facilitating the diversification of QFI investments and implementing the two-way non-trading transfer with CIBM.

1. No longer require separation of RMB special deposit accounts for securities transactions and futures transactions

Under the current rules, if the QFI conducts investments in both securities and futures and derivatives, the QFI shall open the RMB special deposit accounts for securities transactions and for futures and derivatives transactions separately. The 2024 Provisions on Funds of QFI no longer require such separation, which will reduce the costs of the QFI.

2. Allow the QFI to open special cash accounts with other financial institutions as needed

For example, QFI can open RMB accounts at futures margin depository banks. Where the QFI chooses the Client Model and conducts the spot foreign exchange settlement and sale or foreign derivatives transactions through financial institutions other than the QFI custodian, the QFI may open special foreign exchange accounts with such financial institutions.

3. Validate the domestic two-way non-trading transfers between the QFI and CIBM

From the perspective of QFI rules, the 2024 Provisions on Funds of QFI validate the two-way transfer of funds in the QFI special accounts and the CIBM investment special accounts under the same name of the same foreign institutional investor, according to its investment needs. After the transfer, the transactions, the use of funds, the foreign exchange shall comply with the regulatory requirements of the later regime.

4. Allow the funds to be transferred between the QFI special accounts under the same name

For example, funds can be transferred between the RMB account opened with the depository bank for futures margin and the RMB special deposit account opened with the QFI custodian under the same name.

For the avoidance of doubt, in order to prevent cross-currencies arbitrage, where the QFI remits in both RMB and foreign currencies, the names of the two types of RMB special accounts (i.e. the RMB special deposit account corresponding to the relevant foreign exchange account and the RMB special deposit account for the remitted funds directly in RMB) shall be effectively distinguished and funds are not allowed transferred between the two types of RMB special accounts.

IV. Optimize the Foreign Exchange Remittance and Repatriation

1. Streamline materials for outbound remittance

The 2024 Provisions on Funds of QFI require the QFI to submit an undertaking letter on complying with PRC tax administration rules on QFI during the initial registration. Accordingly, when handling outbound remittance (except for liquidation) for the QFI, the QFI custodian will directly proceed with the procedure based on the QFI's written orders, while the separate undertaking letter on tax payment in accordance with laws is no longer required.

2. Allow the inbound remittance in foreign currency and the outbound remittance in RMB

For the first time in the QFI regime, the 2024 Provisions on Funds of QFI allow that the QFI remitting funds in foreign currencies can directly repatriate the RMB funds (investment principal and income) deposited in the corresponding RMB special deposit accounts, no longer mandatorily requiring to convert to foreign currencies for repatriation. But, as for investments conducted by remitting RMB funds, the investment principal and income shall still be repatriated in RMB.

In addition to the above amendments, with regard to the relevant suggestions from the business operation perspective, such as allowing existing QFIs to supplement the submission of undertaking letters related to compliance with tax regulations, effectively distinguishing the names of different types of RMB special deposit accounts, allowing QFIs to conduct "closed-loop transfer of funds" for PRC domestic RMB to foreign exchange transactions with non-custodian entities, and clarifying the time limit for QFI's adjustment of foreign exchange derivative exposure, etc., the PBOC and the SAFE plan to clarify them in the follow-up Q&A of supporting policies. It is advised to keep a close eye on the issuance of subsequent Q&A of policies.

The 2024 Provisions on Funds of QFI have further improved the administration of cross-border funds of the QFI. These changes will significantly improve the efficiency of funds utilization by QFI and boost foreign investors to invest in China's capital market in a more convenient way.

If you would like to know more information about the subjects covered in this publication, please contact:



Sandra Lu
+86 21 3135 8776
Sandra.lu@llinkslaw.com



Lily Luo
+86 21 3135 8732
lily.luo@llinkslaw.com

SHANGHAI

19F, ONE LUJIAZUI
68 Yin Cheng Road Middle
Shanghai 200120 P.R.China
T: +86 21 3135 8666
F: +86 21 3135 8600

BEIJING

30F, Central Tower, China Overseas
Plaza, 8 Guanghuadongli,
Chaoyang District
Beijing 100020 P.R.China
T: +86 10 5081 3888
F: +86 10 5081 3866

SHENZHEN

18F, China Resources Tower
2666 Keyuan South Road,
Nanshan District
Shenzhen 518063 P.R.China
T: +86 755 3391 7666
F: +86 755 3391 7668

HONG KONG

Room 3201, 32/F, Alexandra House
18 Chater Road
Central, Hong Kong
T: +852 2592 1978
F: +852 2868 0883

LONDON

1/F, 3 More London Riverside
London SE1 2RE
United Kingdom
T: +44 (0)20 3283 4337
D: +44 (0)20 3283 4323



www.llinkslaw.com



Wechat: Llinkslaw

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