

QDII Investment Supervision and Regulations

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Qualified Domestic Institutional Investors (QDIIs) include securities companies, fund management companies (FMCs), commercial banks, trust companies and insurance companies.

PRC regulation of the financial industry is divided, with different competent authorities and regulations governing different QDIIs investments. Both QDII collective schemes of securities companies and QDII funds of FMCs are regulated by the CSRC. QDII products of commercial banks or trust companies are regulated by the CBRC. QDII investments by insurance companies are regulated by the CIRC.

Investment Comparison of Different QDII Products

➤ Investment territories

According to the relevant regulations issued by the CSRC, the QDII funds issued by FMCs and QDII collective schemes issued by securities companies must predominantly invest in securities markets of countries or regions where the securities regulatory authority has executed a bilateral regulatory cooperation memorandum of understanding with the CSRC (CSRC's MOU Markets). As of February 2010, the CSRC has executed 46 MOUs with 42 countries and regions. It is worth noting that QDII funds and QDII collective schemes may invest outside CSRC's MOU Markets, provided that the ratio of such investment does not exceed 10% of the net asset value of the portfolio.

Investment limitation on the QDII products issued by commercial banks or trust companies is stricter. Those investments are limited to *only* the securities markets regulated by a foreign regulatory authority that has signed with the CBRC a MOU on cooperation in the regulation

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of overseas wealth management services on behalf of its customers (CBRC's MOU Markets). As of April 2009, only the relevant financial regulatory authorities of nine countries and regions had signed such MOUs.

The investment territory of overseas investment of insurance companies, however, has not been specifically classified by the CIRC. Currently the CIRC adopts the general policy that overseas investments of insurance capital must be within mature, global capital markets.

➤ Investment scope

Among the various QDII products, QDII funds of FMCs and QDII collective schemes of securities companies have a comparatively broad investment scope. Pursuant to CSRC regulations, the two aforesaid QDII products can invest in: stocks; GDRs; ADRs; REITs listed in the CSRC's MOU Markets; mutual funds registered in the CSRC's MOU Markets; various debt securities; money market instruments; structured investment products; and warrants; options; futures and other financial derivatives traded on exchanges and recognised by the CSRC.

The investment scope of the QDII products of trust companies is similar with that of QDII funds and QDII collective schemes, which includes: stocks; GDRs; ADRs; REITs listed in the CBRC's MOU Markets; mutual funds approved or registered by the regulatory authorities of CBRC's MOU Markets; various debt securities; money market instruments; structured products; and financial derivatives approved or registered by the regulatory authorities of CBRC's MOU Markets.

In comparison of the two above, the investment scope of QDII products of commercial banks is relatively narrow, and is limited to: stocks listed in CBRC's MOU Markets; mutual funds approved or registered by the regulatory authorities of CBRC's MOU Markets; bills and bonds with a fixed return; structured products meeting certain rating requirements; and swaps, forwards and other such financial derivatives.

In comparison, the provisions made by the CIRC regarding the scope of overseas investment by insurance companies are more general. The specific scope includes: stocks; funds of various types; various debt securities; repurchase agreements and reverse repurchase agreements; commercial notes; large negotiable certificates of deposit; monetary market funds and other such monetary market instruments; securitised products; trust products and products with a fixed rate of return; equity interests; equity-type products and interest-type products; and forwards, swaps, futures and other such derivative products.

➤ Investment restrictions

Some investment restrictions of various QDII products overlap while others are distinct.

As to the similarities, both the CSRC and the CBRC have provided an upper threshold against equity-type assets held by the portfolio of QDII products subject to their respective regulations. In addition, the

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CSRC, CBRC and CIRC have each provided that QDII products with partial investment in financial derivatives may invest in such derivative solely for the purpose of hedging risk or increasing management effectiveness. Investing in such products for speculation or to expand trading, and investment in physical commodities are strictly forbidden.

At the same time, there are also obvious differences in investment restrictions of different QDII products. Take stock investments for example, the market value of the investment in a single stock by any QDII fund of an FMC or any QDII collective scheme of a securities company may not exceed 10% of the net value of the total assets of that fund or scheme. In contrast, such threshold for any wealth management product of commercial banks or trust companies is 5%.

It is clear that the laws and regulations, and even the regulatory notices, concerning the investment of different QDII products are becoming more and more meticulous and complex. Thus, a key issue for QDII asset management businesses will be correctly interpreting and conforming to compliance requirements in the process of product design and investment operations.

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This article was first published in *China Law & Practice*, May 2010, Volume 24, Number 4.