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Llinks Asset Management Bulletin
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Quota Increased to USD 5 Billion Each! Choose Shanghai QDLP or Shenzhen QDIE?

By Elva Yu and Zoe Zhang

As one of the measures to implement the further opening-up commitment raised at the 2018 annual meeting of the Boao Asia Forum, State Administration of Foreign Exchange ("SAFE") recently announced that the quotas of Shanghai QDLP (Qualified Domestic Limited Partner) scheme and Shenzhen QDIE (Qualified Domestic Investment Enterprise) scheme would be increased to USD 5 billion each. Before this announcement, both Shanghai and Shenzhen had already restarted the QDLP/QDIE qualification approval work from the end of year 2017, while such approval work was once temporarily paused. The restart of the qualification approval and the increase of the quota will surely further broaden the channels for domestic raised funds to invest in overseas markets, and have already caused widespread attention and discussion in the market. We hereby briefly analyze and compare the differences between the two schemes, i.e. Shanghai QDLP and Shenzhen QDIE, in qualification application and fund establishment, in a hope of benefiting domestic and overseas asset management institutions and investors in understanding and participating in the QDLP/QDIE schemes.

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1. The Concept of QDLP/QDIE

QDLP and QDIE schemes, similar to QDII scheme, all belong to "QD" regime. Under QD regime, qualified domestic institutions are allowed to raise domestic funds to invest into overseas markets. The opposed regime to "QD" is "QF". Under QF regime, qualified foreign institutions/individuals are allowed to raise overseas funds to invest in domestic markets. The QFLP (Qualified Foreign Limited Partners) scheme and QFII scheme both belong to QF regime. QDII scheme is regulated by the national level financial departments while QDLP/QDIE schemes are mainly regulated by the local financial office; but in terms of the foreign exchange quota, QDLP/QDIE schemes are in consistent with QDII scheme that the total quota shall be determined by SAFE.

Institutions intending to raise domestic funds to invest in overseas markets through QDLP/QDIE schemes need to apply to local financial office for the QDLP/QDIE manager qualification. During the deliberation of granting such qualification, the local financial office will lead a joint review conference with the attendance of local development and reform commission, local securities regulatory commission, local commerce authority, local foreign exchange administration department and local industrial and commercial administration department. The applicants who successfully obtain the QDLP/QDIE manager qualification will then be granted with foreign exchange quota, and within such quota, the QDLP/QDIE manager is allowed to raise domestic funds to invest into overseas markets (including but not limited to overseas securities markets and various overseas funds such as secondary market investment funds, PE funds, **Real Estate or infrastructure funds** and etc.).

For those overseas fund companies/asset management companies that cannot obtain the QDII qualification but still hope to sell overseas financial products to Chinese investors, QDLP/QDIE schemes are surely a new and more flexible way to go.

In the following, we will briefly analyze and compare those major differences in the QDLP/QDIE manager qualification obtaining and the establishment of QDLP/QDIE funds.

2. Comparison and Analysis of QDLP/QDIE

(1) QDLP/QDIE Manager

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	Shanghai QDLP Manager	Shenzhen QDIE Manager
Main Participators	Overseas institutions such as Overseas hedge fund, overseas asset management institutions, the QDLP qualification will mainly held by its WFOE PFM[1] or WFOE PFM's subsidiary	Both overseas institutions and domestic institutions may apply, in practice, the major applicants are domestic financial institutions, which includes mutual fund companies, theirs subsidiaries and trust companies.
Organization Form	Corporate Form/LLP Form	Corporate Form/LLP Form
Registration Place	Shanghai	Shenzhen
Requirements on Registered Capital/Subscription	No less than USD 2 million or equivalent[2], currency only	Foreign-funded manager: No less than USD 2 million or equivalent, currency only Domestic-funded manager: No less than RMB 10 million or equivalent, currency only
Requirements on Subscription time	/	Within 2 months from the date of business license issuance, 20% or more of the total amount shall be in place. The balance shall be fully paid-in within 2 years.
The requirements on the controlling shareholder or its affiliates (applicable to corporate form) or the GP or its affiliate (applicable to LLP form)	1. Operating overseas market investment fund management business with good investment performance; 2. The affiliate incorporated overseas shall be approved of engaging in the asset management businesses by the regulatory authority and has obtained the corresponding license (if applicable);	Foreign-funded manager: 1. Operating overseas market investment fund for 3 or more years and with good investment performance; has a proper governance structure and a complete internal control system with well-regulated business conduct, and no record of major punishment imposed by the regulatory authorities within the recent 2 years and with no major incident relating to the applicant being investigated as a separate case by the judicial department or regulatory authorities; 2. The affiliate incorporated overseas shall be licensed for engaging in the asset management businesses

	3. Has a proper governance structure and a complete internal control system with well-regulated business conduct, and no record of major punishment imposed by the regulatory authorities within the recent 3 years and with no major incident relating to the applicant being investigated as a separate case by the judicial department or regulatory authorities.	by the regulatory authority; 3. At least has 1 personnel with 5 or more years and 2 personnel with 3 or more years of relevant experience in foreign investment management and relevant qualifications; 4. Any other conditions based on the principle of prudent regulation. Domestic-funded manager: Domestic institutions applying for QDIE, except the foregoing 1, 2 and 4, shall be either: 1. Domestic financial institution (with the Finance Permit issued by PRC financial regulator); or 2. Equity investment fund management entity that has been in operation for 3 or more years with no less than RMB 1 billion managing funds.
Requirements on Management Personnel	1. The proposed legal representative or executive partner shall meet the following requirements[3]: 1) Having overseas market investment or related management working experience; 2) Having 2 or more years' experience in senior management position; 3) No major violation records in recent 5 years, no undergoing economic disputes or major bad credit	Shall comply with the relevant regulations stipulated by the relevant governmental regulators and self-regulatory organization.

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	records. 2. There must be at least one senior management personnel based in Shanghai; 3. Shall comply with the relevant regulations stipulated by the relevant governmental regulators and self-regulatory organization.	
Requirements of AMAC Registration	If the QDLP/QDIE holder is a private investment fund manager, it shall register with AMAC as the private investment fund manager. Most of Shanghai QDLP holders are registered with AMAC as "other private investment fund managers"; while Shenzhen QDIEs are normally registered as "PE/VC investment fund managers", for example: Shenzhen Qianhai CCT Asset Management Co., Ltd., CSOP Investment International Limited and E FUND OVERSEAS INVESTMENT (SHENZHEN) CO.,LTD. If the QDLP/QDIE holder is not a private investment fund manager, then it does not need to register with AMAC, for example, the QDLP holder China International Fund Management Co., Ltd. and the QDIE holder Penghua Asset Management Co., Ltd.	
Qualified Foreign Limited Partners (QFLP)	/	The QFLP holder may apply for QDIE concurrently upon satisfactory of below requirements: 1. The controlling shareholder shall have the license of "asset management" granted by Hong Kong SFC 2. Having successfully launched a fund and the fund is operating smoothly If the QDIE holder has the QFLP qualification at the same time, then it can not only raise domestic funds to invest in overseas market but also raise foreign funds to launch funds investing in domestic PE markets. In practice, there are several institutions holding both QDIE and QFLP qualifications.

(2) QDLP/QDIE Fund

	Shanghai QDLP Fund	Shenzhen QDIE Fund
Legal Form	May adopt the LLP Form, contractual Form or other forms	May adopt the corporate form, LLP form, contractual form, special account or other forms
Range of Overseas Investment	May invest into overseas markets or invest in overseas markets via overseas funds. At the initial stage of piloting QDLP scheme, Shanghai QDLP Regulation (Shanghai Financial Office [2012] NO.101) only allows QDLP funds to invest in overseas secondary market; however Shanghai Financial Office later removed such restriction from the new QDLP regulation.	No specific restrictions at the regulation level. In practice, the investment targets of the existed QDLP fund include but not limited to overseas securities and unlisted overseas equities.
Requirements on Fund Scale	The subscription of an LLP QDLP fund shall be no less than RMB 100 million. The scale of a contractual QDLP fund shall be no less than RMB 30 million.	The scale of a QDLP fund in whatever form shall be no less than RMB 30 million. **Subscription should be made in currency.**

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<table>
<tr><td>Requirements on Qualified Domestic Investors</td><td>LLP QDLP Fund: limited to raising domestic funds; the investors shall meet the relevant standards for qualified investors of domestic private funds; the subscription of a single qualified domestic limited partner shall be no less than RMB 5 million.

Contractual fund: limited to raising domestic funds; the investors shall meet the relevant standards for qualified investors of domestic private funds</td><td>Limited to raising domestic funds, and the investors shall meet the following standards:
1. Institution investor: net assets no less than RMB 10 million;
2. Domestic individual investors: financial assets no less than 3 million. The financial assets include bank deposits, stocks, bonds, fund shares, asset management products, bank wealth management products, trust products, insurance products, futures rights, etc.
3. The subscription of a single qualified domestic investor shall be no less than RMB 2 million.</td></tr>
<tr><td>Requirements on Timeframe</td><td>Completing the QDLP fund raising and remitting such fund abroad within 6 months after obtaining the formal QDLP qualification.</td><td>No specific requirement at the regulation level.
In regards of those QDIE holder with QFLP qualification, the QFLP entity should complete the AMAC registration within 12 months upon obtaining such QFLP qualification and all the QFLP funds launched thereafter shall complete the AMAC filing within 6 months upon their establishment.</td></tr>
<tr><td>Requirements on Fund Custodian and Administration</td><td colspan="2">QDLP/QDIE funds shall entrust qualified domestic commercial banks as fund custodians; and shall entrust qualified domestic fund administrators as for the back end administration.</td></tr>
<tr><td>Requirements on Filing with AMAC</td><td colspan="2">The QDLP/QDIE fund launched by private investment fund manager with QDLP/QDIE qualification shall be filed with AMAC.</td></tr>
</table>

3. Conclusion

To conclude from the above comparison: although QDLP and QDIE schemes both belong to "QD" regime, there are differences in the requirements on applicants and the set-up of the fund. Firstly, both QDLP/QDIE schemes require the QDLP/QDIE manager to be registered locally; secondly, in practice, the applicants of Shanghai QDLP are limited to overseas institutions, ranging from overseas hedge fund institution to internationally renowned asset management institutions; the applicant of Shenzhen QDIE, on the other hand, not only can be the foreign institutions but also can be domestic institutions. Furthermore Shenzhen allows the institutions to hold both QDIE and QFLP qualifications. In view of the above, in terms of the requirements on applicants, Shenzhen QDIE scheme seems to be more widely applicable and flexible than Shanghai QDLP scheme. In terms of the fund scale and investment threshold, the requirements on the LLP form Shanghai QDLP fund are slightly higher than Shenzhen QDIE fund, however because QDLP scheme does not regulate on single qualified domestic investor of a contractual QDLP fund, the minimum subscription is only required to meet the qualified investors of private funds (i.e., RMB 1 million), which is lower than QDIE scheme in this regard. Shanghai QDLP scheme requires the QDLP manager to complete the work of QDLP fund raising and remit such fund abroad within 6 months after obtaining the formal qualification, this requires the foreign-funded QDLP manager to complete the preparations works of fund product design and fund raising in a timely manner.

Regardless of the amount of the quota, QDLP and QDIE have broadened the channels for domestic investors to invest in overseas markets. Besides of Shanghai QDLP/Shenzhen QDIE, Tianjin and Qingdao also began to pilot QDLP scheme at 2014 and 2015 respectively. After this time's increasing of the quota by SAFE, will this scheme be further promoted and duplicated in other regions of PRC deserves further attention.

Note:

We have summarized the QDLP/QDIE Managers & Funds based on public available information and will update our summary from time to time. You may fetch it by keying in "Summary" in the Wechat dialogue box.

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[1] In practice, in the circumstance of subsidiary being the applicant, normally its parent company is a WFOE PFM.

[2] For a subsidiary applying for QDLP manager qualification, it does not need to follow the requirement on the registered capital provided that its parent company satisfies the relevant requirement stipulated in the Shanghai QDLP Regulation.

[3] For a subsidiary applying for QDLP manager qualification, it does not need to follow this requirement on the management personnel provided that its parent company satisfies the relevant requirement stipulated in the Shanghai QDLP Regulation.