

Document of People's Bank of China and State Administration of Foreign Exchange

Yinfa No. 157 [2018]

Circular of the People's Bank of China and the State Administration of Foreign Exchange on the Management of Domestic Securities Investment by RMB Qualified Foreign Institutional Investors

In order to regulate the management of domestic securities investment by RMB qualified foreign institutional investors (RMB qualified investors), relevant issues are notified as follows, in accordance with the *Measures for the Pilot Program on Domestic Securities Investment by RMB Qualified Foreign Institutional Investors* (Decree No. 90 of the China Securities Regulatory Commission, the People's Bank of China, and the State Administration of Foreign Exchange), and relevant provisions:

I. The People's Bank of China (PBOC), State Administration of Foreign Exchange (SAFE) and their branches and sub-branches shall supervise, manage and inspect RMB qualified investors' investment quota (investment quota), capital account, capital receipts and payments in accordance with the law.

II. An RMB qualified investor approved by the China Securities Regulatory Commission (CSRC) to invest in domestic securities markets shall entrust its domestic custodian (custodian) with handling the procedures set forth in the Circular.

An RMB qualified investor can mandate no more than three custodians. In the event of many custodians, the RMB qualified investor shall designate one custodian as the main custodian (Only one custodian, if available, is the main custodian by default) to be responsible for going through investment quota record filing, approval application

and main information registration on behalf of the RMB qualified investor.

III. The SAFE shall organize record filing or approval management with regard to the investment quota of a single RMB qualified investor.

The RMB qualified investor, after obtaining the qualification from the CSRC, may obtain an investment quota (basic quota) no higher than a certain proportion of its assets or the securities assets under management ("asset size") through filing; application of an investment quota higher than the basic quota is subject to approval by the SAFE.

The investment quotas to institutions such as overseas sovereign wealth funds, central banks and monetary authorities are not required to be within a certain proportion of assets. They may obtain an investment quota based on their needs to invest in domestic securities markets, and will be subject to record filing management.

IV. Criteria of basic quotas for RMB qualified investors:

1. Where the assets or AUM of an RMB qualified investor or the group it is subordinated to are located overseas, the formula is: equivalent of USD 100 million + average asset size over the past three years * 0.2% - quota for the QFII already obtained (in RMB terms, "QFII quota").

2. Where the assets or AUM of an RMB qualified investor or the group it is subordinated to are located in China, the formula is: RMB 5 billion + asset size of the previous year * 80% - QFII quota already obtained (in RMB terms).

The foreign exchange rate involved above shall be calculated based on the conversion rates of various currencies against the USD published by the SAFE on the day of application for the previous month.

The PBOC and SAFE may adjust these criteria in consideration of balance of payments, and development and liberalization of capital markets.

V. For record filing of an investment quota within the basic quota for an RMB qualified investor, the following submissions shall be provided to the main custodian:

1. Description of the record filing of an investment quota, and the attached

Registration Form for RMB Qualified Foreign Institutional Investors (see Appendix 1).

2. Balance sheets of the RMB qualified investor for the past three years or the previous year (or the audit reports or evidencing materials on securities assets under management), which have been audited or filed by the local regulator.

3. Photocopies of the qualification certificates issued by the CSRC.

The main custodian shall earnestly perform his/her responsibilities, carefully reviewing the materials evidencing the RMB qualified investor's assets size and QFII quota already obtained, and verifying the basic quota and the investment quota intended for record filing by relevant standards and based on the distribution of assets of its own or the group it is subordinated to, and collectively submit the record filing materials for the RMB qualified investor quota to the SAFE prior to the 10th day of every month (see Appendix 2 for format). The SAFE shall confirm the record filing materials and give feedback to the main custodian.

VI. For application for an investment quota beyond the basic quota for an RMB qualified investor, the following submissions shall be provided to the SAFE through the main custodian:

1. Written applications of the main custodian and the RMB qualified investor, detailing the reasons for the investment quota application and the use of existing quota. In applying for an investment quota for the first time, an RMB qualified investor shall present the *Registration Form for RMB Qualified Foreign Institutional Investors* and the photocopies of the qualification certificates issued by the CSRC.

2. Filing Information of RMB Qualified Investor's Custodian (see Appendix 3 for format).

3. Balance sheets of the RMB qualified investor for the past three years or the previous year (or the audit reports or evidencing materials on securities assets under management), which have been audited or filed by the local regulator.

4. Other materials required by the SAFE.

An RMB qualified investor shall properly distribute the quotas between the main

custodian and other custodians, and effectively implement the requirements on quota management.

The SAFE will regularly publish the information on the RMB qualified investors' investment quotas at its website, www.safe.gov.cn.

VII. The investment quota for RMB qualified investors is subject to balance management. This means that the RMB qualified investor's accumulated net inward remittances shall not surpass the already filed and approved investment quota.

VIII. No RMB qualified investor shall sell or transfer the investment quota in any form to any other institution or individual without approval.

In case that an RMB qualified investor fails to effectively use the investment quota within one year following the day the quota is filed or approved, the SAFE shall have the right to recover the investment quota not yet used, in all or in part.

IX. RMB qualified investors shall open a basic RMB deposit account for foreign institutions, in accordance with the *Management Measures for RMB Bank Settlement Account for Foreign Institutions* (Yinfa No. 249 [2010]), and the *Circular of the People's Bank of China on Opening and Using RMB Bank Settlement Account for Foreign Institutions* (Yinfa No. 183 [2012]). The funds related to its domestic securities investment must not be deposited in basic deposit account.

An RMB qualified investor who has opened a basic deposit account shall open an RMB special deposit account (special deposit account). Any RMB qualified investor may open corresponding special deposit accounts for their own funds, client funds, and open-end funds where necessary.

Special deposit accounts are divided into special deposit accounts for RMB qualified investors to invest in domestic securities markets (special deposit accounts for securities transactions), and special deposit accounts for domestic derivatives transactions (special deposit accounts for derivatives transactions).

The special deposit account for securities transactions shall be opened with the custodian. The incomes of the account include: investment principal remitted from overseas by the RMB qualified investor, proceeds from sales of securities, cash dividends, interest income, funds transferred from special deposit accounts for

derivatives transactions, and other receipts prescribed by the PBOC and SAFE. The expenditures include: The prices paid for the purchases of specified securities and other products (including stamp duty, handling fee), funds transferred into the special deposit account for derivatives transactions, principal and investment income remitted outward, payment of investment-related taxes and fees, and other expenditures prescribed by the PBOC and SAFE.

An RMB qualified investor may transfer funds between special deposit accounts for securities transactions opened under the same product or type of fund (own funds; client funds; open-end funds).

The special deposit account for derivatives transactions shall be opened with the futures margin depository bank, custodians or domestic financial institutions (foreign exchange derivatives business agencies) who are qualified for handling derivatives business of RMB against foreign exchange for customers (foreign exchange derivatives business) or other relevant institutions based on the investment type and relevant settlement rules. The incomes of the account include: Funds transferred from the special deposit account for securities transactions, interest income, funds transferred for domestic derivatives transactions, and other incomes approved by the PBOC or the SAFE. The expenditures include: Funds repatriated to the special deposit account for securities transaction, funds transferred out for domestic derivatives transactions, related taxes and fees, and other expenses approved by the PBOC or the SAFE.

X. No transfer shall be allowed between an RMB qualified investor's special deposit accounts and other accounts it opened in China without approval;

Without approval, the funds in the RMB qualified investor's special deposit account shall not be used for purposes other than domestic securities investment and foreign exchange risk management. No cash shall be drawn from the RMB qualified investor's special deposit account.

The custodian shall handle fund transfers for the RMB qualified investors within the receipt and payment scope of the account as stipulated by regulations.

XI. An RMB qualified investor shall submit the following materials for opening a special deposit account:

1. Photocopy of the CSRC's qualification certificate for RMB qualified investors.
2. Filing information or reply from the SAFE on quota.
3. Written custody qualification documents from its custodian.
4. Custody agreement between the RMB qualified investor and custodian.
5. Other documents required by the PBOC.

RMB qualified investors shall refer to the provisions in the Announcement No. 3 [2016] of the People's Bank of China in investing in the interbank bonds markets. To open a special deposit account for investment in the interbank bonds markets, an RMB qualified investor shall also present the filing notice for entry into the interbank bonds markets, and the written document on the custodian's qualification for commissioned settlement in the interbank bonds markets.

XII. An RMB qualified investor shall handle foreign exchange derivatives business through a foreign exchange derivatives business agency. Any foreign exchange derivatives business agency shall handle foreign exchange derivatives business for RMB qualified investors in compliance with the principle of real demand transactions.

XIII. RMB qualified investors shall comply with the principle of real demand transactions in foreign exchange derivatives business.

The foreign exchange derivatives business conducted by an RMB qualified investor is designed only to hedge against the foreign exchange risk exposure arising from domestic securities investments. The foreign exchange derivative exposure shall be properly relevant to the foreign exchange risk exposure that serves as the transaction basis under domestic securities investment. The foreign exchange derivatives position held by an RMB qualified investor shall be no more than the RMB asset size corresponding to the domestic securities investment under the custody of the custodian at the end of the previous month (excluding RMB deposit assets in special deposit accounts, the same below). The size of the RMB assets of the RMB qualified investor shall be verified and monitored by the custodian to ensure the authentication and accuracy.

The foreign exchange derivatives positions held by the RMB qualified investor may

be adjusted on a monthly basis. The RMB qualified investor shall adjust the positions of foreign exchange derivatives it holds within five working days after the end of each month based on the size of the RMB assets for the domestic securities investment verified by the custodian to ensure compliance with the principle of real demand transactions.

XIV. The type and settlement of foreign exchange derivatives handled by a foreign exchange derivatives business agency for a RMB qualified investor shall be implemented in accordance with the existing management regulations on foreign exchange derivatives.

XV. The foreign exchange derivatives business agency shall comply with the provisions on the management of synthetic positions in foreign exchange settlement and sales, and perform the relevant statistical reporting obligations of foreign exchange settlement and sales in accordance with the relevant regulations on foreign exchange administration.

XVI. The deposit rate of the funds in the bank settlement account an RMB qualified investor opens under this Circular is subject to the provisions developed by the PBOC.

XVII. In case of the following cases, an RMB qualified investor shall realize its assets and close its accounts within one month, with the corresponding investment quota nullified:

1. Its qualification has been revoked by the CSRC.
2. The SAFE cancels the investment quota of the RMB qualified investor in accordance with the law.
3. Other circumstances prescribed by the PBOC and SAFE.

XVIII. For the open-end funds initiated by an RMB qualified investor, its custodian may handle the inward and outward remittances in RMB for it every day, based on the netting subscribed or redeemed. For other products or funds, the investor may entrust its custodian with handling the inward and outward remittances of funds in RMB.

The custodian may handle the outward remittance of the realized accumulated income

for the RMB qualified investor, based on the RMB qualified investor's written application or instruction, special audit report on returns on investment issued by Chinese certified accountants, and tax clearance or tax record filing certificates, if any.

In the case of liquidation (including product liquidation), the custodian may handle the outward remittance of relevant funds and close the account for the RMB qualified investor, in accordance with the investor's written application or instruction, the special audit report on returns on investment issued by a Chinese certified public accountant, and tax clearance or tax filing certificates.

XIX. A custodian, when handling inward and outward remittances for an RMB qualified investor, shall conduct the authenticity and compliance review of related receipts and payments, and perform its obligations of anti-money laundering and anti-terrorism.

XX. An RMB qualified investor shall go through information registration for market participants in the capital account information system via its main custodian within 10 working days since it obtains the investment quota for the first time. The main custodian shall apply to the local foreign exchange authority for a special institution code and register the information of the market participant on behalf of the RMB qualified investor. Those that have obtained the special institution code in going through other cross-border or foreign exchange receipts and payments need not apply again.

Any custodian shall report the regulation and statistical data of the RMB qualified investor in accordance with the *Circular of the State Administration of Foreign Exchange on Adjusting the Ways of Data Reporting for QFIIs* (Huifa No. 45 [2015]).

XXI. Where one of the following circumstances occurs to an RMB qualified investor, the main custodian shall apply to the SAFE for alteration registration within 5 working days:

1. Major information of the RMB qualified investor such as its name and custodian changes.
2. Other circumstances prescribed by the PBOC and SAFE.

In case of the change of the main custodian, the new main custodian shall go through

alteration registration for the RMB qualified investor.

Where the RMB qualified investor or its major shareholders or actual controller face significant penalties by other regulatory authorities (including foreign authorities), and the penalties have a strong impact on the RMB qualified investor's investment operations, or lead to suspension or cancellation of its business qualifications, the main custodian shall immediately report to the PBOC and the SAFE.

XXII. In accordance with the *Measures for Managing Cross-border RMB Receipts and Payments Information Management System* (Yinfa No. 126 [2017]) and *Circular of the General Office of the People's Bank of China on Improving the Process of Reporting the Inter-bank Business Data of the Cross-border RMB Receipts and Payments Information Management System* (Yinbanfa No. 118 [2017]), the custodian shall report an RMB qualified investor's account opening and cancellation, investment quota, cross-border capital receipts and payments, and asset allocation for domestic securities investment to the Cross-border RMB Receipts and Payments Information Management System.

XXIII. The materials submitted as requested by this Circular shall be in Chinese. Should there be counterparts in both Chinese and a foreign languages, the Chinese version shall prevail.

XXIV. This Circular will come into force as of the date of issuance. The *Circular of the People's Bank of China and the State Administration of Foreign Exchange on the Management of Domestic Securities Investment by RMB Qualified Foreign Institutional Investors* (Yinfa No. 227 [2016]) will be abolished. This Circular shall prevail in case of inconsistencies between other relevant regulations and this Circular.

Appendices: 1. Registration Form for RMB Qualified Foreign Institutional Investors

2. Investment Quota Form

3. Information Record Filing Form for RMB qualified investor's Custodian

Appendix 1

REGISTRATION FORM FOR RMB QUALIFIED FOREIGN INSTITUTIONAL INVESTORS

Name of applicant	Chinese:		
	English:		
Custodian	Main Custodian ¹	Custodian 1	Custodian 2
No. of securities investment license		Licensing date	
Date of application		Intended investment quota (Million RMB)	
Institution category	<input type="checkbox"/> Fund management institution <input type="checkbox"/> Insurance company <input type="checkbox"/> Securities company/Investment bank <input type="checkbox"/> Commercial bank <input type="checkbox"/> Other institution		
Time of establishment		Domicile of incorporation	Chinese:
			English:
Paid-up capital for the latest fiscal year (Million USD/RMB)		Assets for the latest fiscal year (Million USD/RMB)	
Any penalty from the home regulator in recent 3 years. If any, please specify.			
Brief description of the professionals			
Statement on sources of the funds			
Initial investment plan			
Names, domiciles and share percentages of major shareholders (In English if necessary)			
Names and domiciles of major affiliates (In English if necessary)			

¹ If with only one custodian, the RQFII shall regard it as the main custodian by default and fill out here.

RQFII's contact person		Custodian agent's contact person	
Telephone:		Telephone:	
Fax:		Fax:	

Signature of the authorizee of RQFII's board:

Appendix 2

Investment Quota Filing Form

No.:

Filing date:

Name of Institution	Chinese:		
	English:		
Custodian	Main Custodian	Custodian 1	Custodian 2
Total RQFII quota approved (100 million RMB)	Total QFII quota approved	100 million USD	
		or 100 million RMB	
Average assets (or securities assets under management) over the past (three) years (or 100 million RMB)		Base quota (100 million RMB)	
Investment quota for this filing (100 million RMB)			
<p>We promise that the contents of this form (including the attached materials) are true and accurate, with no false information. We also promise to handle the quota filing procedures in strict accordance with relevant regulations of foreign exchange administration and accept the supervision, administration and inspection of the SAFE.</p> <p style="text-align: center;">Institution (seal):</p> <p style="text-align: right;">Month/Day/Year</p>			
<p>We have duly reviewed the approved QFII and RQFII quotas and assets of the institution and figured up the basic quotas for this institution. We also have explained relevant regulations and requirements of the SAFE to the institution, and recommended that it apply for the quota on demand. We hereby present the investment quota filing form (in 100 million RMB) of the institution for filing.</p> <p>We promise to handle the investment quota filing procedures in strict accordance with relevant regulations of foreign exchange administration, and accept the supervision, administration and inspection of the SAFE.</p> <p style="text-align: center;">Main Custodian (seal):</p> <p style="text-align: right;">Month/Day/Year</p>			
Opinion of SAFE	The investment quota of RMB_____ (in 100 million) of _____ (RQFII institution) is permitted to be filed.		
	Signed and issued by SAFE leader:	Reviewed and signed by Department leader:	
		Reviewed by:	
		Prepared by:	

First sheet to be retained by the SAFE

Investment Quota Filing Form

No.:

Name of Institution	Chinese:		
	English:		
Custodian	Main Custodian	Custodian 1	Custodian 2
Total RQFII quota approved (100 million RMB)		Total QFII quota approved	100 million USD
			or 100 million RMB
Average assets (or securities assets under management) over the past (three) years (or 100 million RMB)			Base quota (100 million RMB)
Investment quota for this filing (100 million RMB)			
Opinion of SAFE	The investment quota of RMB _____ (in 100 million) of _____ (RQFII institution) is permitted to be filed. <div style="text-align: center;"> State Administration of Foreign Exchange (official seal) Month/Day/Year </div>		

Second sheet returned to RQFII institution

Appendix 3

Information Filing Form for RQFII's Custodian

Main Custodian (seal):

Filing date:

Name of Institution	Chinese:				
	English:				
Custodian	Code of financial institution	Contact person	Telephone	Fax	Email
◆ Main Custodian					
Custodian 1					
Custodian 2					
<p>We hereby promise that the contents of this filing form are true and accurate without any false information, and that we will strictly implement the relevant regulations on foreign exchange administration to handle custodian issues and accept the supervision, management and inspection of foreign exchange authorities in China.</p> <p style="text-align: center;">Institution (seal):</p> <p style="text-align: right;">Month/Day/Year</p>					