

## Appendix

# **Regulations on Foreign Exchange Administration for Domestic Securities Investments by Qualified Foreign Institutional Investors**

## **Chapter I General Provisions**

**Article 1** For the purpose of standardizing foreign exchange administration for Qualified Foreign Institutional Investors (Qualified investors) in domestic securities investment, these Regulations are formulated based on the *Regulations of the People's Republic of China on Foreign Exchange Administration* (Decree No. 532 of the State Council) (Foreign Exchange Administration Regulations) and the *Measures for Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors* (Decree No. 36 of the CSRC, PBOC, and SAFE), and relevant provisions.

**Article 2** Qualified investors herein refer to foreign institutional investors who invest in the domestic securities market with approval from the China Securities Regulatory Commission (CSRC).

**Article 3** A qualified investor shall mandate its domestic custodian (hereinafter referred to as custodian) to go through all the relevant procedures as required by these Regulations.

**Article 4** The State Administration of Foreign Exchange (SAFE), its branches, and foreign exchange administration departments shall supervise, manage and inspect the investment quota (investment quota), foreign exchange account, capital receipt, payment and exchange for domestic securities investments by qualified investors in accordance with the law.

## **Chapter II Investment Quota Management**

**Article 5** Domestic securities investments by qualified investors are subject to quota management. The SAFE shall organize filing and approval management with regard

to the investment quota of a single qualified investor.

The 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 for an investment quota higher than the basic quota is subject to approval by the SAFE.

The investment quotas of institutions such as overseas sovereign wealth funds, central banks and monetary authorities are not subject to the asset proportion restrictions. They may obtain an investment quota based on their needs to invest in the domestic securities markets.

**Article 6** Criteria for basic quota for a qualified investor:

1. Where the assets or AUM of a qualified investor or the group it is subordinated to are located overseas, the formula is: USD 100 million + average asset size over the past three years \* 0.2% - quota obtained by the RQFII (in USD terms, "RQFII quota");
2. Where the assets or AUM of a qualified investor or the group it is subordinated to are located in China, the formula is: the equivalent of RMB 5 billion + asset size of the previous year \* 80% - RQFII quota already obtained (in USD terms);
3. No more than USD 5 billion (including overseas sovereign wealth funds, central bank and monetary authorities);
4. No less than USD 20 million.

The foreign exchange rates involved above shall be calculated based on the Conversion Rates of Currencies against the USD published by the SAFE on the day of application of the previous month.

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

**Article 7** For filing of an investment quota within the basic quota for a qualified investor, the following materials shall be submitted to the custodian:

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

*Registration Form for Qualified Foreign Institutional Investors* (see Appendix 1);

2. Balance sheets of the 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 custodian shall earnestly perform its responsibilities, carefully reviewing the materials evidencing the qualified investor's assets size and RQFII quota obtained, and verifying the basic quota and the investment quota intended for 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 filing applications for the investment quota of the qualified investor to the SAFE before the tenth day of each month (see Appendix 2 for Filing Form). The SAFE shall confirm the filing materials and get the feedback back to the custodian.

**Article 8** For the application for an investment quota beyond the basic quota of a qualified investor, the following materials shall be submitted to the SAFE through the custodian:

1. Written applications of the custodian and the qualified investor, detailing the reasons for applying for the quota and the use of existing quota. In applying for an investment quota for the first time, a qualified investor shall present the *Registration Form for Qualified Foreign Institutional Investors* and the photocopies of the qualification certificates issued by the CSRC;
2. Balance sheets of the 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. Other materials required by the SAFE.

The SAFE will regularly publish the information on the investment quotas for qualified investors at its official website [www.safe.gov.cn](http://www.safe.gov.cn).

**Article 9** The balance of the investment quota of a qualified investor is subject to management by the SAFE, to ensure that the accumulated net amount of inward

remittances by the investor does not exceed the quota filed with and approved by the SAFE.

In the event that the inward remittance of the qualified investor is not denominated in U.S. dollars, it is necessary to calculate the U.S. dollar equivalent of the investment quota for the investor's inward remittance, with reference to the Conversion Rates of Currencies against the USD issued by the SAFE in the month before the inward remittance takes place.

**Article 10** No qualified investor shall sell or transfer the investment quota in any form to any other institution or individual without approval.

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

### **Chapter III Account Management**

**Article 11** A qualified investor shall open foreign exchange account with its custodian for its own funds, clients' funds or open-end funds based on the information filed with or approved by the SAFE on the investment quota, and the contents of relevant control information form in the capital account information system the investor inquires about.

The qualified investor who has opened a foreign exchange account shall open a special RMB deposit account relevant to the foreign exchange account ("RMB account", see Appendix 3 *Operational Guidelines for the Management of Domestic Accounts of Qualified Foreign Institutional Investors* for details about the opening and using of the RMB account), in accordance with relevant regulations of the PBOC on management of the domestic RMB settlement accounts of foreign institutions.

**Article 12** The income of a qualified investor's foreign exchange account includes: the principal remitted inward by the qualified investor and the funds required in paying relevant taxes and fees (taxes, custodian fees, audit fees, management fees, etc.), interest income, the funds transferred from purchasing foreign exchange in the RMB account and other income verified by the SAFE. The expenditure includes: the funds that are settled into the RMB account of the qualified investor, the proceeds

from the sales of domestic securities, cash dividends, interest, and other expenses verified by the SAFE.

Without approval, the funds in the qualified investor's account must not be used for purposes other than domestic securities investment.

**Article 13** In case of one of the following, a qualified investor shall realize its assets and close its foreign exchange account 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 qualified investor in accordance with the law;
3. Other circumstances prescribed by the SAFE.

## **Chapter IV Remittance Management**

**Article 14** In accordance with the investment plan, a qualified investor can notify its custodian to settle the foreign exchange necessary for the investment and transfer the foreign exchange into its RMB account, within 30 working days prior to the actual investment.

**Article 15** A qualified investor may entrust a custodian with handling the outward remittance of relevant investment principal and proceeds. In particular, according to the net amount of subscription or redemption, the qualified investor may entrust its custodian with the inward or outward remittance of relevant funds on a daily basis for its open-end fund.

The custodian may handle the outward remittance of the accumulated income that has been realized for the 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, 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 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.

**Article 16** The SAFE may conduct macro-prudential management of the outward remittance of a qualified investor based on the domestic economic and financial conditions, the supply and demand in the foreign exchange market, and the balance of payments.

## **Chapter V Foreign Exchange Risk Management**

**Article 17** Qualified investors may engage in foreign exchange derivatives business through custodians or domestic financial institutions (foreign exchange derivatives business agencies) who have the qualifications for handling derivatives business of RMB against foreign exchange for customers (foreign exchange derivatives business). Any foreign exchange derivatives business agency shall handle foreign exchange derivatives business for qualified investors in compliance with the principle of real demand transactions.

**Article 18** Qualified investors shall comply with the principle of real demand transactions in foreign exchange derivatives business.

The foreign exchange derivatives business conducted by a 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 a qualified investor shall be controlled below the RMB assets for the domestic securities investment the investor makes 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 qualified investor shall be verified and monitored by the custodian to ensure the authentication and accuracy.

The foreign exchange derivatives positions held by the qualified investor may be adjusted on a monthly basis. The 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.

**Article 19** The type and settlement of foreign exchange derivatives handled by a foreign exchange derivatives business agency for a qualified investor shall be implemented in accordance with the existing management regulations on foreign exchange derivatives.

**Article 20** Any foreign exchange derivatives business agency shall comply with the provisions on the management of synthetic positions in the foreign exchange settlement and sales and is obligated to prepare the statistical reports on foreign exchange settlement and sales in accordance with the *Circular of the State Administration of Foreign Exchange on Issuing the Statistical System for the Bank's Foreign Exchange Settlement and Sales* (Huifa No. 42 [2006]), the *Circular of the General Affairs Department of the State Administration of Foreign Exchange on Adjusting the Statistical Statements for Synthetic Position of the Banks' Foreign Exchange Settlement and Sales and Submission Methods* (Huizongfa No. 129 [2012]), and the *Circular of the General Affairs Department of the State Administration of Foreign Exchange on Adjusting the Statistical Statements for the Banks' Foreign Exchange Settlements and Sales* (Huizongfa No. 4 [2017]).

## **Chapter VI Statistics, Supervision, and Management**

**Article 21** A qualified investor shall go through information registration for market participant in the capital account information system via its custodian within 10 working days since it obtains the investment quota for the first time. The custodian shall apply to the local foreign exchange authority for a special institution code and register the information of the market participant. The qualified investor that has obtained the special institution code in going through other cross-border or foreign exchange business need not apply again.

**Article 22** Where one of the following occurs to a qualified investor, the investor's custodian shall apply to the SAFE for alteration registration within 5 working days:

1. Major information of the qualified investor such as its name and custodian changes;
2. Product information changes;

3. Other circumstances prescribed by the SAFE.

Where a qualified investor changes its custodian, the new custodian shall handle alteration registration for the investor.

Where the qualified investor or its major shareholder or actual controller faces significant penalties by other regulatory authorities (including foreign authorities) that will seriously impact the investor's investment operations, or lead to suspension or cancellation of its business qualifications, the custodian shall immediately report it to the SAFE.

**Article 23** Any custodian shall report the regulation and statistical data of qualified investors in accordance with the *Circular of the State Administration of Foreign Exchange on Adjusting the Way of Data Reporting for QFIIs* (Huifa No. 45 [2015]).

**Article 24** A qualified investor that commits one of the following acts shall be subject to punishments by the SAFE in accordance with the *Foreign Exchange Administration Regulations*, and the investment quota may be reduced or revoked:

1. Transfer or sell the investment quota without permission;
2. Fail to provide required information and materials related to domestic securities investments to the SAFE or its custodian, or provide false information and materials;
3. Exceed the investment quota filed with or approved by the SAFE, or fail to go through inward and outward remittances, foreign exchange settlements, purchases or payments as required;
4. Fail to engage in foreign exchange derivatives business in accordance with regulations;
5. Other acts in breach of the Foreign Exchange Administration Regulations.

**Article 25** A custodian that commits the following acts shall be punished by the SAFE in accordance with the *Foreign Exchange Administration Regulations*; Where serious consequences could be caused, the custodian may be suspended from handling relevant business:

1. Fail to review the assets, their distribution and basic quota of a qualified investor as

- required, misstate the quota to be filed, or provide false application materials;
2. The inward remittance of the principal for the qualified investor exceeds the investment quota filed with and approved by the SAFE;
  3. Fail to handle the outward remittance of principal/proceeds for the qualified investor in accordance with relevant regulations;
  4. Fail to open or close relevant accounts for the qualified investor in accordance with regulations, or fail to handle fund transfers and remittances for the qualified investor within the receipt and payment scope of the account as stipulated by regulations;
  5. Fail to verify and monitor the domestic RMB assets of the qualified investor, or to handle the foreign exchange derivatives business for the qualified investor as required;
  6. Fail to present relevant information, materials and reports to the SAFE as required;
  7. Fail to declare the BOP statistics or report statistics on foreign exchange settlements and sales as required;
  8. Other acts in breach of the Foreign Exchange Administration Regulations.

## **Chapter VII Supplementary Provisions**

**Article 26** The materials submitted to the SAFE in accordance with these Regulations shall be in Chinese. Should there be counterparts in both Chinese and a foreign languages, the Chinese version shall prevail.

**Article 27** These Regulations shall be interpreted by the SAFE.

**Article 28** The Regulations shall come into force as of the date of their promulgation. The *Regulations on Foreign Exchange Administration for Domestic Securities Investments by Qualified Foreign Institutional Investors (QFII)* (Announcement No. 1 [2016] of the State Administration of Foreign Exchange) is to be abolished simultaneously. If other relevant regulations on foreign exchange administration are inconsistent with these Regulations, these Regulations herein shall prevail.

## Appendix 1

### REGISTRATION FORM FOR QUALIFIED FOREIGN INSTITUTIONAL INVESTORS

Name of applicant	Chinese:	Name of custodian	Chinese:
	English:		English:
No. of securities investment license		Licensing date	
Date of application		Intended investment quota (Million USD)	
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)		Total Assets of the latest fiscal year (Million USD)	
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)			
QFII's contact person:		Custodian's contact person:	
Telephone:		Telephone:	
Fax:		Fax:	

Signature of the authorizee of QFII's board:

## Appendix 2

### Investment Quota Filing Form for Qualified Foreign Institutional Investors

No.:

Filing date: Month/Day/Year

Name of QFII		Chinese:		
		English:		
Total QFII quota approved (100 million USD)		Total RQFII quota approved	100 million RMB	
			or 100 million USD	
Average assets (or AUM) over the past (three) year(s) (100 million USD)			Base quota (100 million USD)	
Investment quota for this filing (100 million USD)				
<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>QFII institution (seal):</p> <p style="text-align: right;">Month/Day/Year</p>				
<p>We have reviewed the assets of the institution, the QFII and RQFII quotas it has obtained, and calculated the base quota for it. We also have explained relevant regulations and requirements of the SAFE to the institution, and recommended that it apply for the quota on demand. The institution's investment quota filing form for \$ (in 100 million) is hereby submitted 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>Custodian (seal):</p> <p style="text-align: right;">Month/Day/Year</p>				
Opinion of SAFE	The investment quota of \$ (in 100 million) of (QFII institution) is permitted to be filed.			
	Signed and issued by SAFE leader:		Reviewed and signed by Director:	
			Reviewed by:	
			Prepared by:	

First sheet to be retained by the SAFE

## Investment Quota Filing Form for Qualified Foreign Institutional Investors

No.:

Name of QFII	Chinese:		
	English:		
Custodian			
Total QFII quota approved (100 million USD)		Total RQFII quota approved	100 million RMB or 100 million USD
Average assets (or AUM) over the past (three) year(s) (100 million USD)		Base quota (100 million USD)	
Investment quota for this filing (100 million USD)			
Opinion of SAFE	<p>The investment quota of \$ _____ (in 100 million) of _____ (QFII institution) is permitted to be filed.</p> <p style="text-align: center;">State Administration of Foreign Exchange (official seal)</p> <p style="text-align: right;">Month/Day/Year</p>		

Second sheet returned to QFII institution

## **Appendix 3**

### **Operational Guidelines for the Management of Domestic Accounts of Qualified Foreign Institutional Investors**

1. A qualified investor shall open a basic RMB deposit account (basic deposit account) in the name of the investor itself in accordance with relevant regulations of the PBOC on the management of RMB bank accounts for settlement of foreign institutions.

The funds related to its domestic securities investment must not be deposited in basic deposit account.

2. A qualified investor who has opened a basic deposit account shall open an RMB special deposit account (special deposit account) with the foreign exchange registration certificate. Any qualified investor may open corresponding special deposit accounts for their own funds, client funds, and open-end funds where necessary.

3. Special deposit accounts are divided into special deposit accounts for 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 domestic custodian of the qualified investor (custodian). The incomes of the account include: Funds transferred through foreign exchange settlement from the foreign exchange account of the qualified investor, funds repatriated from the special deposit account for derivatives transactions, the proceeds from the sales of securities, cash dividends, interest income and other incomes approved by the PBOC and the 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, payment of taxes, custodian fees, audit fees and management fees and other related taxes and fees, funds transferred into the foreign exchange account of the qualified investor after foreign exchange purchases and other expenses approved by the PBOC and the SAFE.

A 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 derivative transactions shall be opened with the futures margin depository bank, the foreign exchange derivatives business agency 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.

4. If a qualified investor opens a foreign exchange account due to the foreign exchange investment quota, the multiple special deposit accounts for securities transactions opened for the clients' funds shall correspond to the foreign exchange accounts of the clients' funds.
5. The custodian shall conscientiously handle the opening and renaming of the existing accounts of its qualified investors, and earnestly perform its duties such as quota monitoring and information reporting.