

Luxembourg, 30 September 2015

**Application for an RQFII Licence and Quota  
For Luxembourg Investment Funds  
Frequently Asked Questions**

**Preliminary Remark**

On 29 April 2015, the People's Bank of China ("PBOC") announced the granting of a RMB 50 billion Renminbi Qualified Foreign Institutional Investor ("RQFII") quota to Luxembourg.

The RQFII scheme was launched in Hong Kong in 2011 and has been expanded to other jurisdictions since 2013, allowing an increased volume of offshore RMB to be reinvested into the Mainland securities markets.

These Frequently Asked Questions ("FAQs") aim to provide general guidance to Luxembourg investment funds and their management companies wishing to apply for an RQFII Licence and an RQFII Quota, as further described below.

These FAQs have been prepared by a joint LfF/ ALFI RQFII Implementation Working Group. These FAQs do not aim to address all questions in relation thereto and do not target other eligible participants such as banks and credit institutions, investment firms, insurance companies and pension funds etc.

The working group comprises representatives of asset managers, management companies, securities service providers, audit firms and law firms. LfF and ALFI hope that this document will serve their members as a reference document when applying for an RQFII Licence and an RQFII Quota. It represents the view of a group of market participants and is not binding for the Mainland Supervisory Authorities or the national regulator, the Commission de Surveillance du Secteur Financier, or any other regulator or supervisory authority. This document does not diminish the responsibility of management companies or investment funds to comply with Chinese and national laws and regulations. It must not be relied upon as advice and is provided without any warranty of any kind and neither LfF/ ALFI nor their members who contributed to this document accept any liability whatsoever for any action taken in reliance upon it. The answers are not necessarily definitive and may not be suitable in every circumstance. This document may be amended without prior notice to incorporate new material and to amend previously published material where the working group considers it appropriate. LfF/ ALFI will publish amended copies of this document to their members, showing marked-up changes from the immediately preceding copy. LfF/ ALFI's members are welcome to submit a question to the working group, who will review it and consider whether to respond to it in a future copy of this document. Please send your questions to [info@alfi.lu](mailto:info@alfi.lu).

## Definitions

2010 Law	Luxembourg Law of 17 December 2010 on undertakings for collective investment, as amended, implementing Directive 2009/65/EC into Luxembourg law.
2013 Law	Luxembourg law of 12 July 2013 on alternative investment fund managers, as amended, implementing Directive 2011/61/EU into Luxembourg law.
AIF	An alternative investment fund as defined in the 2013 Law.
AIFM	An alternative investment fund manager.
Authorised AIFM	(i) AIFM that manages portfolios of AIFs whose assets under management in total exceed the thresholds under article 3(2) of the 2013 Law or (ii) AIFM that manages portfolios of AIFs whose assets under management in total do not exceed the thresholds under article 3(2) of the 2013 Law, but has chosen to opt in under the 2013 Law on the basis of article 3(4) of that law, and that are in both cases authorised under the 2013 Law.
CAA	The Commissariat aux Assurances (Insurance Supervisory Authority) which is responsible for the supervision of the insurance sector in Luxembourg.
CSRC	China Securities Regulatory Commission.
CSSF	Commission de Surveillance du Secteur Financier (Commission for the Supervision of the Financial Sector) which is responsible for the supervision of the financial sector, with the exception of the insurance sector.
Mainland China or Mainland	The mainland China (excluding the Hong Kong and Macau Special Administrative Regions).
PBOC	The People's Bank of China.
PRC	The People's Republic of China (including the Hong Kong Special Administrative Region and the Macau Special Administrative Region) and the term "Chinese" shall be construed accordingly.
RQFII	Renminbi Qualified Foreign Institutional Investors.
RMB	Renminbi, the official currency of the People's Republic of China. The yuan is the basis unit of the Renminbi and is also used to refer to the Chinese currency.
SAFE	State Administration of Foreign Exchange.
UCITS	Undertaking for Collective Investment in Transferable Securities subject to part 1 of the 2010 Law.
UCITS Management Company	A management company authorised under Chapter 15 of the 2010 Law.

## Questions and answers

### **1. Which Mainland Authorities are competent to process applications for an RQFII Licence and an RQFII Quota?**

Financial institutions (as defined below) may apply to CSRC for a Securities Investment Business Licence and to SAFE for an investment quota.

In addition, financial institutions that wish to invest in certain types of RMB fixed-income securities must apply to PBOC for a licence to deal on the Chinese interbank bond market.

### **2. Which categories of financial institutions are eligible to participate in the RQFII scheme?**

Any Luxembourg incorporated financial institution listed below, which is registered with, and regulated by, the CSSF or the Insurance Supervisory Authority to conduct asset management activities is eligible to apply for an RQFII Licence and RQFII Quota.

This includes the main following categories of financial institutions (collectively the “financial institutions”):

- Banks and credit institutions (Law of 5 April 1993 on the Financial Sector, as amended);
- Insurance companies (Law of 6 December 1991 on the Insurance Sector, as amended);
- Fund management companies (Chapter 15 and 16 of the 2010 Law);
- Investment funds (Part 1 of the 2010 Law) which do not appoint a fund management company;
- Alternative investment fund managers (Article 2 (1) of the 2013 Law);
- Investment firms which are allowed to manage portfolios on a discretionary basis or which invest for their own account (articles 24-3 and 24-4 of the Law of 5 April 1993 on the Financial Sector, as amended);
- Pension funds subject to the supervision of the CSSF within the meaning of the Law of 13 July 2005 on institutions for occupational retirement provision, as amended as well as pension funds subject to the supervision of the Insurance Supervisory Authority within the meaning of the Law of 6 December 1991 on the insurance sector, as amended.

Foreign financial institutions which are not primarily regulated by the CSSF or the Insurance Supervisory Commission and which operate in Luxembourg through a local branch are not eligible to apply from Luxembourg for an RQFII Licence or RQFII Quota (although they may apply from their home country to the extent possible).

### **3. Are management companies and AIFMs eligible to participate in the RQFII scheme?**

Luxembourg UCITS Management Companies established pursuant to Chapter 15 of 2010 Law of and Luxembourg AIFMs which are authorised pursuant to article 2 (1) of the 2013 Law (an authorised AIFM) are as a principle eligible to apply for an RQFII Licence and an RQFII Quota with the Mainland Authorities referred to above.

**4. Can a UCITS Management Company or an authorised AIFM which is granted an RQFII Licence and RQFII Quota delegate the investment management function to another investment manager?**

A UCITS Management Company or an authorised AIFM may under Luxembourg law delegate the investment management function to an external investment manager, provided the investment manager is a regulated entity in its home jurisdiction, subject to prudential rules and supervision considered as equivalent to those of Luxembourg and subject to all the conditions of article 110 of the 2010 Law for UCITS Management Company and article 20 1 (c) of the 2013 Law (and relevant implementing legislation) for AIFMs.

Such an investment manager will have to be approved by the CSSF as part of the standard application process for any Luxembourg UCITS management company or AIFM delegating the investment management function to a third party investment manager under the relevant Luxembourg laws and regulations referred to above.

As a principle, a Luxembourg UCITS Management Company or an authorised AIFM which has obtained an RQFII Licence and an RQFII Quota from the relevant authorities may, under its responsibility and subject to the above conditions being fulfilled, delegate the portfolio management function to another investment manager.

When such a delegation is put in place, the Luxembourg UCITS Management Company or the AIFM retains full responsibility to comply with Mainland laws and regulations as the holder of the RQFII Licence. There are no particular restrictions on the jurisdiction in which the delegated investment manager is established.

**5. What is the role of the PRC custodian?**

- a) Any applicant for an RQFII Licence and an RQFII Quota will have to prepare (with the assistance, as the case may be, of its Luxembourg service providers and/ or legal counsel) an application file in close cooperation with the PRC custodian, which in practice takes a leading role in filing the application and interacting with CSRC, SAFE and PBOC.
- b) Furthermore, the opening of accounts for safekeeping of assets in the PRC is handled by the PRC custodian which as a principle is appointed by the RQFII Licence Holder. The PRC custodian is acting as a sub-custodian of the Luxembourg depositary bank. The PRC custodian has a key role in the entire process.

**6. Can the RQFII Quota be split between different products of the same UCITS Management Company or AIFM?**

SAFE will grant RQFII Quotas to the UCITS Management Company or AIFM on a first-come first-served basis.

A Luxembourg UCITS Management Company or Luxembourg AIFM may allocate its RQFII Quota in relation to Luxembourg domiciled funds as well as for other discretionary portfolio management accounts that it manages. It can allocate and split its quota between different investment funds, sub-funds and discretionary portfolio management accounts as it deems appropriate. However, open-ended funds on the one hand, and other products and closed-ended funds on the other hand, are subject to distinct rules. Accordingly, there is no possible transfer of quota between these two categories of accounts.

The splitting of quotas is however subject to prior notification to, and approval by, SAFE. Any change in the allocation of quotas over time must be notified to SAFE.

**7. What is the interaction between the RQFII Licence Holder, an external investment manager (if any) and the PRC custodian?**

As part of the RQFII application process, the RQFII Licence Holder will have provided details of the PRC broker(s) with which trades will be placed.

Trade confirmations will be sent to the PRC custodian to settle with the counterparty. In the situation where the RQFII Licence Holder has appointed an external investment manager, it will need to provide the PRC custodian with a power of attorney authorising the investment manager to interact with the Luxembourg depositary bank and the PRC custodian.

**8. Are there any links or interactions between the RQFII scheme and Stock Connect?**

No, the RQFII scheme and the Hong Kong Shanghai Stock Connect Program are two separate channels to access the Mainland securities markets. They do not operate under the same principles nor do they give access to the same kind of securities markets and asset classes. An investment fund may however combine both.

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