
# China to ease access to capital markets for foreign investors

## Following changes signalled last year, China's financial regulators recently announced new measures that will further open up capital markets to foreign investors.

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### Investor doors opening

The Qualified Foreign Institutional Investor program (QFII) and the Chinese yuan-denominated Renminbi Qualified Foreign Institutional Investor program (RQFII), implemented in 2002 and 2011 respectively, allow foreign institutional investors to trade in China's stock and bond markets.

In a policy document jointly released by China's national securities regulator (CSRC), central bank (PBoC) and state foreign exchange administrator (SAFE), authorities announced plans to overhaul the QFII and RQFII programs and simplify access for foreign investors.

The QFII platform allows foreign funds to invest onshore in China's yuan-denominated A-shares market, while the RQFII program provides foreign investors access to offshore yuan with which to invest in mainland bond and equity markets.

Quotas limiting investment through both platforms were eliminated in May earlier this year, likely due to diminishing advantages in the face of stock and bond connect programs between Hong Kong and mainland boards in Shanghai and Shenzhen.

### Existing programs for foreign investors

The Shanghai-Hong Kong Stock Connect system, and the Shenzhen-Hong Kong Stock Connect and Bond Connect programs, all provide foreign investors access to the mainland's financial markets without the difficulty of qualifying and setting up as an institutional investor through the QFII and RQFII programs.

### New framework and new investment opportunities

The new framework will combine both the QFII and RQFII platforms into one program, as well as simplifying the vetting and approval process for foreign investors to qualify.

Perhaps most importantly, it will further open the scope of investment opportunities.

Authorities said the new framework will encompass areas of investment previously unavailable to foreign investors, including private investment funds, bond repurchase agreements, margin trading, and access to derivatives, financial futures, commodity futures and options.

Investors will also be able to trade securities on China's National Equities Exchange and Quotations board (colloquially referred to as the "New Third Board"), which has raised over 500 billion yuan since founding in 2013.

### Benefits for early investors

China is well on the way to reviving capital markets and its economy, with both the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) pointing to China as the only major economy to see growth in 2020 and 2021.

China is already the world's second largest economy, but it also has the second largest equity market and third largest bond market.

By easing these restrictions, the Chinese economy presents opportunities for investors looking to balance their risk profiles and invest in growing financial markets.

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## First movers taking advantage

Earlier this year a number of prominent US financial institutions took advantage of new measures around China's financial markets:

- Citi was the first American bank to be granted a domestic fund custody licence from the China Securities Regulatory Commission (CSRC)
- Blackrock received approval from the CSRC to set up a wholly-owned mutual fund management company
- American Express received approval from the PBoC to start bank card clearing services
- Goldman Sachs is preparing to buy out its securities joint venture partner and could become the first foreign-owned investment bank in China.
- Vanguard Group announced it will exit Hong Kong and Japan and move its Asian headquarters to Shanghai
- JP Morgan bought out its joint venture partner Shanghai International Trust to acquire 100 per cent ownership of their mainland venture. It has also moved to take control of its Chinese securities and futures joint ventures
- Morgan Stanley has taken majority control of its securities joint venture and intends to move to 100 per cent ownership.

## How can ShineWing Australia assist?

New measures in China often provide unique opportunities for overseas institutional investors. However, investing in the mainland's financial markets involves access to local networks and an experienced team to assist with multiple approvals required by government agencies.

ShineWing China is the largest indigenous and integrated accounting firm in mainland China, and we work closely with local partners to assist our Australian clients by leveraging this network and expertise.

Our team of advisors is well placed to assist investors identify opportunities and navigate the application and setup process, contact us to find out more.

## Get in touch

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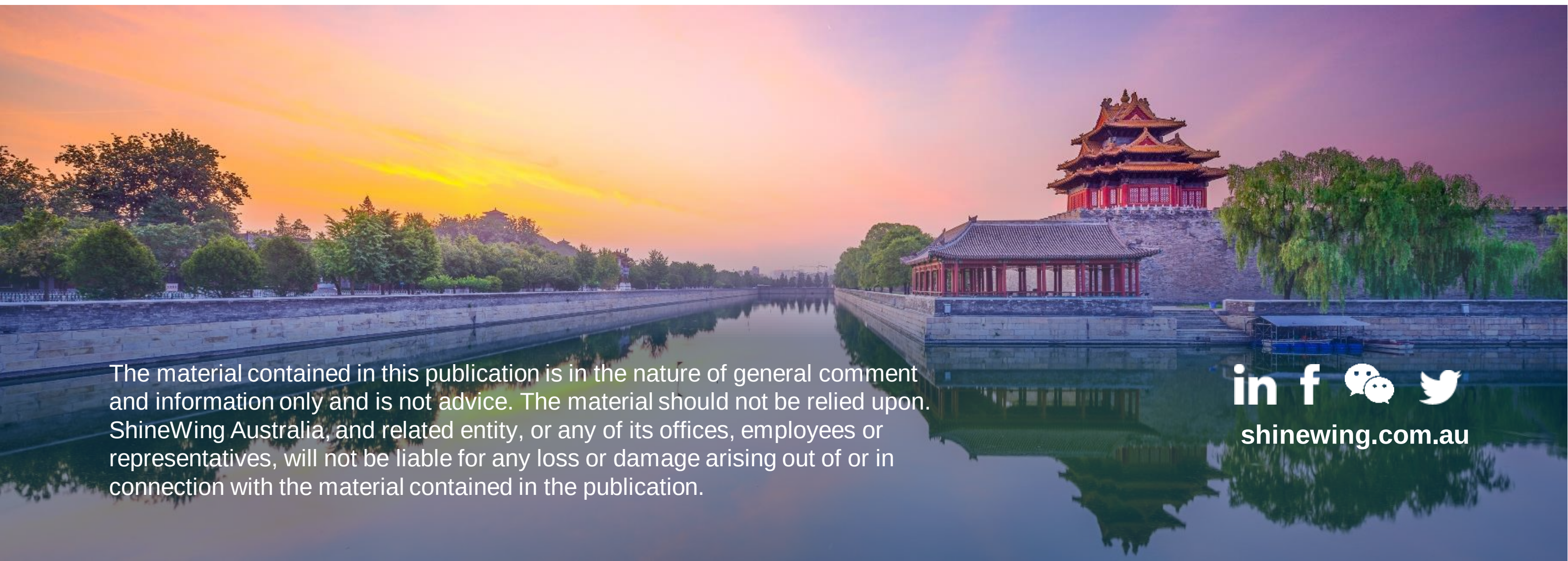



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