Summary

- RQFII Introduction
- RQFII Application
- ICBC – The Industry Leader
Summary

RQFII Introduction

- Internationalization of the RMB
- What is RQFII?
- RQFII Market Development
- RQFII Regulation & Rules
Internationalization of the RMB

- **RMB will be the third largest global trade currency by 2015**
  - Emergence of alternative RMB offshore centers: Hong Kong, London, Paris, Singapore, Taipei
  - Critical and mass and the established infrastructure
  - Deposit base established around RMB 550 Bn
  - In 2015, 20% of trade with China will be settled in RMB

- **ICBC’s competitive advantages in the RMB offshore market**
  - Stable funding: one of top five banks attracting RMB deposits in HK
  - Simple conversion onshore/offshore
  - One of the main RMB market markers
  - Experience of financing transactions since the beginning of the market
Internationalization of the RMB

How to deal with Cross-Border RMB Business?

- **Channel of Overseas RMB Funding**
  - Export to Mainland China or a third country
  - RMB financing from local market or Mainland China
  - RODI from Mainland China
  - RMB bond issuance in Mainland China and HK
  - RMB purchase
  - Currency Swap

- **Channel of Overseas RMB Using**
  - Import from Mainland China or a third country
  - RFDI
  - Investment in China inter-bank RMB bond market
  - Investment in China stock and bond market via RQFII
  - Deposits
  - Exchange to other currency
Which RMB business and services can ICBC provide in France?

**Cross-border settlement**
RMB fund settlement for trade and non-trade purposes, RMB transfer services to/from China

**Trade Finance**
RMB L/C Financing
RMB Refinancing

**Derivatives Trading**
FX Forwards, Non-Deliverable Forwards, Currency Swaps, Options

**Capital Market**
RQFII application and custody service, bond issuance, underwriting or investment, RMB IPO, fund in Trust (in cooperation with ICBC institutions in HK)

**FX/RMB Exchange**
Exchange services for both trade and non-trade, on-shore and off-shore FX/RMB conversion

**Deposit & Loan**
RMB demand deposits, term deposits from 1 month to 24 months, RMB bilateral loans and syndicated loans
Internationalization of the RMB

OFFSHORE

1. Access to onshore interbank bond market

2. RMB Foreign Direct Investment

3. RQFII
   - MOFCOM and PBoC formalised the procedure on the transfer of RMB to China under FDI (Foreign direct investment) and shareholder loans in Oct. 11
   - RMB 580 bn in March 2014 (PBoC)

4. Pilot programs on direct lending to enterprises in Guangdong province and Qianhai zone in Shenzhen

5. RMB Qualified Foreign Limited Partner (RQFLP)

ONSHORE

1. RMB Overseas Direct Investment

2. Mainland corporate to issue Dim Sum bond
   - In May 12, NDRC formalised the rules for Mainland non-financial firms to issue RMB bonds in Hong Kong

3. Exchange-traded Funds (ETFs)
   - In June 12, CSRC approved two Hong Kong stock ETFs to be listed on the Shanghai and Shenzhen Stock Exchange

4. Pilot program on intra-group lending in Shanghai
   - Outbound transaction in which Shanghai incorporated enterprises (subsidiary) remit RMB funds offshore as an inter-company loan to their entities overseas (parent company)
What is RQFII?

- **RQFII** is **RMB QUALIFIED FOREIGN INSTITUTIONAL INVESTOR**

- RQFII is allowed foreign institutional investors to use offshore RMB funds investing in China Capital Market and inter-bank bond market within approved quota.

- Before investing, a RQFII applicant is required to apply for **QUALIFICATION & QUOTA**

RQFII is a channel for foreign financial institutional investors to directly invest in Chinese Capital Market with RMB at the Pilot Stage.
**What is RQFII?**

**RQFII vs. QFII structure**

<table>
<thead>
<tr>
<th>Item</th>
<th>RQFII</th>
<th>QFII</th>
</tr>
</thead>
<tbody>
<tr>
<td>Injection</td>
<td>• Open ended fund RQFIIs: no specific requirement</td>
<td>• Fully inject the approved quota within 6 months upon quota approval.</td>
</tr>
<tr>
<td></td>
<td>• Other RQFIIs: fully inject the approved quota within 6 months upon quota approval.</td>
<td></td>
</tr>
<tr>
<td>Repatriation:</td>
<td>• Open ended fun RQFIIs can do fund injection/repatriation on a daily basis.</td>
<td>• For open ended China fund, a QFII is allowed to repatriate principal or profit in the net amount of its subscription and redemption funds in the preceding week on a weekly basis, after lock-up period.</td>
</tr>
<tr>
<td></td>
<td>• Other RQFIIs can do fund injection/repatriation on a monthly basis.</td>
<td>• For non open ended China funds, principal and profit repatriation can be made after the lock-up period. Pre-approval by the SAFE is required for each repatriation.</td>
</tr>
<tr>
<td>Dominated Currency</td>
<td>RMB (No onshore FX conversion required)</td>
<td>USD (Onshore FX conversion required)</td>
</tr>
</tbody>
</table>
Expanding RQFII applicant type to various institution types:
Fund Co. & Security Co. in HK → commercial bank and assurance Co. in HK → All RMB-holding Financial institutions → RMB-holding Overseas Companies (non-financial institutions);

Expanding RQFII applicant to various countries
HK → Singapore, London → China Taiwan → France, EU → globally.

More beneficial policies to attract RQFII applicants: larger scope of Investment vehicles, more flexible of ratio of asset allocation, more free liquidity of RMB cross-border etc.
Market Development

- Mar. 2014, CSRC announced to expand the RQFII scheme and allocated RMB quota 80 Bn to France.

RQFII's quick expansion

- Oct 2013, Singapore and London are allocated RQFII quota RMB 50 Bn and RMB 80 Bn respectively.

- July 2013, CSRC announced to expand the RQFII scheme to Singapore and London.

- Jan 2013, CSRC announced to expand the RQFII scheme to Taiwan and total quota is RMB 100 Bn. June 2013, RQFII scheme was expanded to all financial institutions registered and operating in HK.

- May 2012, CSRC increased additional RMB quota 50 Bn for the launch of RMB A share ETFs which are traded in HK Exchange.

- As the end of 2011, RQFII pilot scheme was launched in HK Market. Only the subsidiary of China-based institution could apply RQFII.
Number of RQFIIs License Holder: 60
RQFII Quota approved: RMB 200.5 Billion

Note: (1) As the end of March 2014. Figure comes from CSRC and SAFE website.
Main Regulation & Rules on RQFII

Main Regulation list:

- Provisional Measures on Domestic Securities Investments of RQFII Pilot
  -- Issued by CSRC, PBOC and SAFE in Mar. 2013

- Provisions on the implementation of “Provisional Measures on Domestic Securities Investments of RQFII”
  -- Issued by CSRC in Mar. 2013

- The Implementation of “the Measure for the RQFII Pilot Practice”
  -- Issued by PBOC in Apr. 2013

- The Notification for the Issues of the RQFII Pilot Practice
  -- Issued by SAFE in Mar. 2013

All Singapore and London/Europe RQFIIs's application, investment operation needed to conduct according to the relative provisions in the Pilot Measures and the Implemented Provisions.
Main Regulation & Rules on RQFII

RQFII Asset Allocation:

First Batch of RQFII
- 80% investing on bonds and 20% on equities; allowing to invest into Inter-bank bond market.
- 19 Fixed income funds
  - RMB 20 Bn quota

Second Batch of RQFII
- RQFII-ETF Products on China A share, mainly tracking Shanghai and Shenzhen 300/CSI 100/FTSE 50/MSCI China A Index
- 4 ETF funds
  - RMB 50 Bn quota

Third Batch of RQFII
- Cancellation of investment limitation, allows more flexibility on product type.
- Public Unit Trust (HK), Private Fund, Managed Accounts and Proprietary Fund
  - RMB 200 Bn quota
RQFII Application

- Application Procedure
- RQFII regulatory structure
- Keypoints of RQFII Operation
- Custodian Arrangement
Start Here!

1. Custodian Bank Selection - 1 Week
3. Application for RQFII Qualification
4. RQFII license approved - 2 Months
5. Principal Remittance and begin to invest
6. RMB Cash Account and Security Account Opening - 2-3 Weeks
7. Sign the custody agreement and Tri-parties Error-trade handling agreement - 1 Month
8. RQFII Quota approved - 2 Months
9. Application for RQFII Quota

In general, we need about 6 months to finish all the procedures.
All the application shall be done through the Custodians. **RQFIIs need to appoint a custodian who is qualified Inter-Bank Bond Market settlement agent in order to participate Inter-Bank Bond Market Trade.**

SAFE encourages **long-term** security investment and will manage the speed of granting in the consideration of the Marco-economy and Security Market condition and the RMB reserve located offshore. Participants’s AUM, Investment management capability, past investment performance, asset category and operation feature are also the important terms which be valued accordingly.

Transferring or sell RQFII Investment Quota to other Institution or Individual is prohibitive.

SAFE will readjust or cancel the RQFII’s quota for any institutions who did not effectively utilize their RQFII quota.

At this moment, only the RQFII which issue the Open-ended mutual fund or proprietary fund can apply to the PBOC for entering inter-bank bond market.
China Securities Regulatory Commission (CSRC)
- Approval of RQFII License
- Supervision and Governing RQFII Investment

People’s Bank of China (PBoC)
- Approval of RQFIIenter into inter-bank Bond Market
- Supervision on RQFII Cash Account Open, fund remittance and repatriation

State Administration of Foreign Exchange (SAFE)
- Granting RMB Investment Quota
- Governing RQFII quota usage, FX
- Supervision on fund remittance and repatriation with PBoC

RQFIIs

Trade and Settlement Institutions
CSDCC (1) /SHSE/SZSE/CDCC (2)

Note: (1) CSDCC: China Securities Depository Clearing Corporation
(2) CDCC: China Central Depository and Clearing Co Ltd
Keypoints of RQFII Operation

Basic Requirements of RQFII Applicants

- It has a **sound financial status and good credit standing**, and its registration place, business qualification and so on comply with the provisions of the CSRC;

- It has **sound corporate governance and effective internal control**, and its employees meet the relevant requirements for the qualification of practice in the country or region where it is located;

- It has **sound business operations**, and has not been imposed upon a heavy punishment by the local regulatory authority in the previous **three years** or since the date when it is formed;

- Other conditions as prescribed by the CSRC under the principle of prudent supervision.
Keypoints of RQFII Operation

RQFII Investment Scope

- Equities, bonds and warrants traded in stock exchange;
- Fixed Income product traded in Inter-Bank Bond Market;
- Mutual Funds;
- Index Futures;
- Subscription of Second Issue, Right Issue, IPO and Convertible Bonds Offering;
- Other Financial Instruments approved by CSRC.
Keypoints of RQFII Operation

1. Shares of a listed company held by a single foreign investor through a RQFII shall not exceed 10% of the total number of shares issued by the listed company; and

2. The combined number of A-shares of a single listed company held by all foreign investors shall not exceed 30% of the total number of A-shares issued by the listed company.

In the connection with any strategic investment made by a foreign investor in a listed company in accordance with the “Administrative Measures on Strategic Investments in Listed Companies by Foreign Investors”, such foreign investor is not subject to the aforesaid percentage with respect to shares held by it as a result of the strategic investment.
RQFIIs need to open the above sets of accounts for proprietary fund and client money separately. And each individual Open-end Fund will need to have one set of accounts.

- Fund in the special saving account, proprietary fund account, client money account, open-ended Fund or any other accounts are not transferable to each other. Fund in different open-ended fund are not transferable to each other. RMB Special account is not allowed to withdraw money.
Keypoints of RQFII Operation

RQFII fund remittance in

- open-ended funds:
  - no fund remittance in deadline
  - RQFII Open-end Funds adopt remaining balance management, which means the cumulative net remittance-in can not exceed the limit of the investment quota. As long as the net amount of investment capital remitted into China is within the investment quota, the quota could be recycling used.

- other RQFIIs other than open-ended funds:
  - within 6 months after the date of investment quota is approved
  - Products other than Open-end Funds adopt actual quota usage management, which means all the cumulative remittance-in can not exceed the limit of the investment quota, any repatriation will cause the readjustment of the RQFII Quota.
RQFII open-ended funds:

repatriation could be made on a daily basis and none of the lock-up period.

Other RQFIIs other than open-ended funds:

- repatriation cannot be made before the expiry of the 12 months lock-up period.
- on a monthly basis.
- no SAFE approval required but capital which has been remitted out cannot be re-invested and the investment quota will be reduced accordingly.
Keypoints of RQFII Operation

**RQFII Tax Policy**

- **Stamp Duty**
  
  0.1% charged on Transaction Value (Sell side only)

- **Withholding Tax**
  
  10% withholding tax on the cash dividend and deposit interests

- **Other Taxes**
  
  Other tax policies are being discussed by Chinese Regulators
Entrusting a custodian bank is the first step when you are ready to enter into the RQFII business.

Global custodian is not necessary.
ICBC --- Your Partner for RQFII

- Why select ICBC?

- What can ICBC offer?
Why Select ICBC?

- Extensive Branch network

- 383 overseas institutions in 40 countries and regions
- Built correspondent banking relationship with 1,630 overseas banking institutions in 138 countries and regions
- 4.38 million corporate customers and approximately 393 million personal customers across the world
- Actively participate in international expansion to enhance its own banking capabilities worldwide
- 17,125 domestic institutions
Why Select ICBC?

**Professional Custody Services**

- Having all custodian licenses for investment funds, insurance assets, pension assets, QDII, QFII/RQFII etc.

- Having the **biggest** market share for the last 16 successive years.

  -- Assets under custody: > RMB 4.6 trillion, USD 750 billion (as the end of 2013)

  -- The Largest Custodian Bank for 358 local mutual Funds (excluding QDII), our market share is nearly 30%. For QDII mutual Funds, our market share is over 33%.

  -- 42 QFII clients under custody, 39 of them have obtained the investment quota, ranked the first in domestic custodian bank.

  -- 26 RQFII clients appointing ICBC as RQFII custodian as well as several potential clients.

- Having the most professional team and the most efficiency custodian system.
Why Select ICBC?

- **Service Solution:** Proven Off-shore RMB Services

**Many 1st in CNH Business**

1st bank conducted USD/CNH swap deal
1st bank invested in the Chinese mainland inter-bank bond market
One of the 1st banks for CNH HIBOR benchmark offering
One of the 1st banks for CNH SPOT benchmark offering
1st bank conducted red-chip Dim Sum Bond underwriting
1st bank issuing 10-Y CNH subordinated bond
ICBC professional team can offer you full-scale services regarding RQFII program:

**Basic services**
- Agent Service
  - RQFII Qualification and Quota Application
  - RQFII Account Opening
  - Security Account Opening and Registration
  - Fund Inward Remittance and Repatriation
- Safekeeping
- Settlement Services
- Accounting & Evaluation
- Operation Monitoring
- Corporate Action
- Booking

**Value-added services**
- Cash Management
- Asset Evaluation
- Performance Evaluation
- Accounting
- Internet Banking
- Agency Voting
- Tax Agency
- Corporate Action
Why Select ICBC?

Core Advantage: Inter-bank Bonds Trading

- Complete business license and qualifications
- The Largest RMB Bonds investor in terms of assets under custody, taking 15% to 20% of the market share
- Professional team, rich experience and great achievement in bond settlement agent business
- Rich experience in servicing the foreign financial institutions to participate in the inter-bank bond market
- Strong market influence and awarded as the “The most influential Bank”, “The best settlement provider of proprietary trading bank”, “The best bond settlement agent”, “The best market maker in inter-bank bond market” for many years
Why Select ICBC?

- **Local Expertise**
  - Maintaining good relationship with domestic policy maker
  - Better understanding about the future direction of domestic economic and financial policies and more capable of offering valuable information to RQFII
  - Abundant capital market experiences

- **Efficient securities funds settlement**
  - Membership of CSDCC
  - Connection of ICBC’s clearing system with CSDCC’s settlement system
  - Familiar with rules and practices of A-share trade settlement

- **Strong RMB Funding Capability**
  - Lower cost/Competitive pricing
  - Efficient allocation of RMB fund
Why Select ICBC?

- Solid strength as whole
- Abundant Custody Service Experience
- Efficient RMB funds settlement
- Advanced Asset Custody Service System
- Automatically SWIFT STP
- Reliable Data & Information Resource
- Comprehensive internal & external control
- Extremely abundant of client base

ICBC is the first domestic custody bank which can provide SAS 70/ISAE3402 report.
Why Select ICBC?

Awards & Recognition

- “Domestic Top Rated Provider (China)”, awarded by Global Custodian, 2003-2012
- “Best Domestic Custodian (China)” awarded by The Asset, 2005-2011
- “Custodian Banker of the Year (China)” awarded by The Asset, 2009
- “Best Custodian bank of China” awarded by Global Finance, 2006-2011
- “Best Sub-Custodian Bank in China” awarded by Global Finance, 2006-2010
- “Best Custodian Bank in China” awarded by Digitimes, 2007
- “Gold Fund: Ten Years of Excellent Contribution Award” awarded by Shanghai Securities News
- “Best Assets Custodian Bank” awarded by Almanac of China’s Securities Investment Funds, 2008
- “Top China’s Finance and Economics Award –Best Custodian Bank” awarded by Hexun, 2011-2012
- “Gold Hikyuu Award-Outstanding Achievement Award on Asset Custody” awarded by Financial Money, 2011-2012
Contact Information

You are welcomed to contact us at any moment:

Mr. Qide YU, Deputy manager of ICBC Paris Branch
Tel: 33-0140065866
E-mail: qide.yu@fr.icbi.com.cn

Ms. Bowen DU, Manager of Asset Management & Custody Service
Tel: 33-0140062521
E-mail: Bowen.du@fr.icbi.com.cn

Mr. Rudy BENAYOUN, Manager of Treasury Desk
Tel: 33-0140065865
E-mail: rudy.benayoun@fr.icbc.com.cn
As the largest commercial bank in the world and the largest local custodian bank in China, ICBC is always ready and willing to be helpful as per your needs in participation in RQFII and any other RMB investment programs!
Information contained in this presentation is provided by ICBC Paris Branch. This material is for informational purposes only and does not constitute an offer or solicitation of any transaction in any securities, nor does it constitute any investment advice. The company is not acting as your advisor or in a fiduciary capacity in respect of any transaction unless otherwise agreed. If necessary, you should seek independent professional advice. Investment involves risks. Private investment funds are not authorized by ICBC Paris Branch.