

# DECODING THE FULL POTENTIAL OF RQFII

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## How has RQFII evolved since launch?

Since the launch of RQFII, the scheme has evolved significantly from regulatory, capital mobility and entry perspectives. RQFII quota, for instance, has increased from RMB20 billion to RMB1,740 billion today. The number of eligible jurisdictions has expanded to 18 countries.

Hong Kong is the first to receive a RQFII quota and this quota was further boosted in 2017. Hong Kong continues to be the largest RQFII market in the world.

## What is the market appetite for RQFII?

There will always be a general demand for ways to invest into China directly. But what we are seeing a lot of interest in right now will be those who have been newly granted the RQFII status, so jurisdictions like Australia, like Malaysia - looking at ways to use it in addition to their existing Stock Connect systems.

What will also be interesting to see are ETFs, because ETFs are finding the RQFII a very useful tool with which they managed themselves individually as opposed to an overall quota limit that affects participants in the stock connect industry. In a sense, they, by any chance, ran out of quota on the Stock Connects for that particular day, for example, they have their own individual quota to fall back on and vice versa.

Despite that investors can now access China through Stock and Bond Connects, RQFII continues to be a meaningful way for accessing China. Firms holding RQFII quota can structure products to invest in securities that are not permitted in the Connect programs, and also to launch RMB-based products to capture the fast growing RMB pool held by investors. We continue to see a lot of interest from our clients looking to tap into the China markets.



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## Is RQFII a complement to other schemes?

RQFII offers more flexibility in comparison with the other schemes.

1. It has a wider investment scope compared to Stock Connects.
2. Investors are able to trade as long as it is a trading day in China. For Stock Connects, investors can only trade when it is a Hong Kong business day, and when both Hong Kong and China markets are open for trading.
3. RQFII is not subject to a daily trading limit which exists in the Stock Connect schemes.

It is common for global investors to use RQFII as a complementary scheme in conjunction with other access schemes such as Stock Connects, Bond Connect and China Interbank Bond Market (CIBM) direct route.

For example, investors can use a combination of these schemes to access listed securities not available via Stock Connects, and use Stock Connects/CIBM to access securities and bonds which are not bounded by the RQFII investment quota.

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