

# ALL YOU NEED TO KNOW: MARKET ENTRY FOR Qualified Foreign Investors (QFI)

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Hi, my name is Shirley Chieu. I am a Global Network Consultant at BNY Mellon who is responsible for providing clients with market intelligence and support.

China's rapid market reforms have made it easier for global investors to access its equity and bond markets, but there is still an extensive web of applications, documentation and approvals that requires a significant amount of your time and dedication.

As your dedicated service provider, BNY Mellon is here to help you expedite your account opening process.

In this session, we will focus on the Qualified Foreign Investors scheme (also known as QFI), which is the new name given to QFII and RQFII schemes after the merger in November 2020.

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We will zoom in into its market entry and onboarding process. In addition, we will look at the account framework in supporting QFI scheme and address some of the frequently asked questions that you may come across.

First, what is QFI scheme? It is a direct market entry allowing global investors to invest in the domestic securities market subject to regulatory approval.

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Now, let's take a closer look at the market entry process.

To become a qualified foreign investor (QFI), licensing and registration are required. Per the regulatory requirement, you also need to enter into a custody agreement with the local custodian. Once the regulatory approvals, registration and sub-custodian agreement are completed, you can then select the foreign exchange and funding model, and initiate the account opening before the commencement of trading. The entire market entry process will take about two to three months if all documents submitted are in good order.

When you apply for the investment license, you need to submit the online QFI application to the China Securities Regulatory Commission (CSRC) through the local custodian. All documents are required to be translated into Chinese. The CSRC approval will take about ten business days.

After the investment license is granted, the local custodian will register the QFI with the State Administration of Foreign Exchange (SAFE). This process will take about one week.

The overall application and registration processes will take about a month if all the documents submitted are in good order.

In addition, the QFI will need to enter into a sub-custodian agreement with the local custodian.

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Once your QFI application approval and registration processes are completed, the next stage is to select your FX and funding model. You can execute the FX in the onshore or the offshore market to support your domestic securities investment. It is important to choose the FX method for funding and repatriation of the securities investment prior to account opening. As per SWIFT standards, CNY is the only official China currency code. BNY Mellon distinguishes between CNY and CNH by the last four digits of the client's cash accounts opened at BNY Mellon.

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Once the FX and funding methods are identified, the next stage is to appoint the local brokers and initiate the account opening process. After the brokerage arrangement has been finalized, you will instruct BNY Mellon to open accounts with BNY Mellon, the local custodian and the central depository.

Accounts must be opened in the name of the QFI as approved by the CSRC. The account opening process will take about four weeks from the day when the brokerage arrangement is established.

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The account framework will differ depending on your chosen FX and funding method. For onshore FX and funding, you are required to open the following accounts:

- a new custody account and CNY account at BNY Mellon;
- a corresponding custody account(s) and CNY account at the local Custodian; and
- a foreign currency account (usually USD) at BNY Mellon and the local Custodian.

In addition, an Investor ID needs to be set up and linked to the appointed broker at the central depository in the Shanghai and Shenzhen markets.

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If you choose to execute FX in the offshore market, this means that you will have to effect a cross-border transfer to the onshore market to support your domestic securities investment.

In this case, you are required to open the following accounts:

- a new custody account and CNY account at BNY Mellon;
  - a corresponding custody and CNY account at the local custodian level; and
  - the Investor ID which is linked to the appointed broker at the central depository in the Shanghai and Shenzhen markets.
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In cases where the existing QFII registered prior to the merger of the QFII and the RQFII schemes, and would like to switch the FX execution and funding from the onshore to the offshore market, you must open additional accounts at BNY Mellon, as well as the local market.

The purpose of these additional accounts is to segregate the onshore and the offshore FX to avoid commingling.

Cash transfers between the existing and the new offshore CNY accounts are not allowed. Likewise, securities transfers between the existing and new segregated custody accounts are prohibited.

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Similarly, in cases where existing RQFII registered prior to the merger of the QFII and RQFII schemes, and would like to switch the FX execution from offshore to onshore market, additional accounts must be opened at BNY Mellon, as well as the local market. This is necessary to segregate the onshore and offshore FX. Cash and securities transfers between the existing and these new accounts are not allowed.

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You can commence trading via QFI scheme when all the above steps are completed including putting in place the standing instructions with the local custodian through BNY Mellon. These standing instructions include

- settlement tolerance amount,
  - dispatch of daily stock and cash reports to the local brokers; and
  - auto debit of the minimum reserve fund and broker commission payment.
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In the next section, we have laid out some frequently asked questions that you may come across.

Scenario one is a comparison table to compare the previous and new rules effective November 2020.

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Scenarios two, three and four will outline some prerequisites you may need with BNY Mellon, brokers and trading on exchanges.

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Scenarios five and six will take you through the minimum reserve calculation as well as advise on what type of FX options are available.

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Should you have any questions, feel free to contact your local BNY Mellon representatives. You can also visit our website for further market information about China inbound schemes.

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