

**Measures for the Administration of Securities Investment within the Borders of China by  
Qualified Foreign Institutional Investors**

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The Measures for the Administration of Securities Investment within the Territory of China by Qualified Foreign Institutional Investors, which were deliberated and adopted at the 170th chairman's executive meeting of China Securities Regulatory Commission, the 4th governor's meeting of People's Bank of China and the 5th director general's executive meeting of State Administration of Foreign Exchange, are hereby promulgated, and shall come into force as of September 1st, 2006.

China Securities Regulatory Commission President: Shang Fulin

People's Bank of China Governor: Zhou Xiaochuan

State Administration of Foreign Exchange Director General: Hu Xiaolian

August 24th, 2006

**Measures for the Administration of Securities Investment within the Borders of China by  
Qualified Foreign Institutional Investors**

**Chapter I General Rules**

Article 1 For the purpose of regulating the investment behaviors of qualified foreign institutional investors in China's securities market and promoting the development of China's securities market, these Measures are formulated in accordance with relevant laws and administrative regulations.

Article 2 The term of qualified foreign institutional investors (hereinafter referred to as QFII) as mentioned in these Measures refers to the foreign fund management institutions, insurance companies, securities companies and other assets management institutions that invest in China's securities market in accordance with the provisions of these Measures after being approved by China Securities Regulatory Commission (hereinafter referred to as CSRC) and granted an investment quota by State Administration of Foreign Exchange (hereinafter referred to as SAFE).

Article 3 A QFII shall entrust an domestic commercial bank as its trustee to manage its assets, and entrust a domestic securities company to handle its domestic securities transaction activities.

Article 4 A QFII shall comply with the laws, regulations and other relevant provisions of China.

Article 5 The CSRC shall, according to law, regulate the domestic securities investment activities conducted by a QFII; and the SAFE shall, according to law, exercise foreign exchange administration over such issues as the investment quota and capital remitted inward and outward as involved in the domestic securities investment activities conducted by a QFII.

## **Chapter II Qualification Conditions and Procedure of Examination and Approval**

Article 6 A QFII applicant shall satisfy the following conditions:

(1) The applicant shall be in a sound financial and credit status, and shall meet the conditions set by the CSRC on assets scale and other factors;

(2) The employees of the applicant shall satisfy relevant professional requirements of the country or region where the applicant is located;

(3) The applicant shall be equipped with sound governance structure and perfect inner control system, conduct business in accordance with the relevant regulations, and have not been subject to any substantial penalties by the supervisory organ of the country or region where it is located;

(4) The country or region where the applicant is located should have a sound legal and regulatory system, and its securities supervisory organ has signed a memorandum of cooperation an understanding with the CSRC and has maintained an efficient regulatory and co-operative relationship;

(5) Other conditions set by the CSRC in accordance with the principle of prudent supervision.

Article 7 To apply for the QFII qualification and an investment quota, an applicant may file the required documents with the CSRC and the SAFE respectively through its trustee.

Article 8 The CSRC shall, within 20 workdays since the receipt of full set of application documents, examine and verify the application documents and decide whether to grant approval or not on the basis of the opinion of the SAFE. Where it is decided to approve the application, the CSRC shall issue a securities investment license; where it is decided to disapprove, the CSRC shall send a written notice to the applicant.

Article 9 An applicant shall, within 1 year since the obtain of a Securities Investment License, apply to the SAFE through the trustee for investment quota.

The SAFE shall, within 20 workdays since the receipt of a full set of application documents,

examine and verify the application documents and decide whether to grant approval or not on the basis of the opinion of the CSRC. Where it is decided to approve the application, the SAFE shall give a written reply and issue a foreign exchange certificate; where it is decided to disapprove, the SAFE shall send a written notice to the applicant.

Article 10 In order to encourage middle and long-term investments, preference shall be given to the pension funds, insurance funds, common funds, charity funds and other long-term capital management institutions.

### **Chapter III Custody, Registration and Settlement**

Article 11 A trustee shall satisfy the following conditions:

- (1) It shall establish a special assets custody department;
- (2) The paid-in capital shall not be less than RMB 8 billion;
- (3) There shall be adequate full-time staff that are familiar with the custody business;
- (4) It shall be able to manage the assets of the QFIIs in a safe way;
- (5) It shall be able to make settlement and delivery in a safe and highly efficient way;
- (6) It shall have obtained the qualification of a designated foreign exchange bank and the qualification of engaging in the RMB business;
- (7) There shall be no record of serious violation of regulations on foreign exchange management in the recent three years.

Domestic branches of the foreign-funded commercial banks that have conducted business for three consecutive years within China are eligible to apply for the trustee qualification, and the amount of their paid-in capital shall be calculated on the basis of that of the overseas headquarters.

Article 12 The qualification of trustee may be obtained upon the examination and approval of the CSRC and the SAFE. The CSRC shall, within 30 workdays since the receipt of a full set of application documents, deliberate with the SAFE and decide whether to grant permit or not.

Article 13 A trustee shall perform the following duties:

- (1) Safekeeping all the assets entrusted by the QFIIs;
- (2) Handling such businesses as the settlement, sales, receipt and payment of foreign exchange, and the settlement of RMB capital for the QFIIs;

(3) Supervising the investment activities conducted by the QFIIs, and reporting to the CSRC and the SAFE immediately after finding any investment instruction that violates any of the laws or regulations;

(4) Reporting to SAFE about the inward and outward remittance of capital and the settlement and sales of foreign exchange of QFII within two workdays after QFII remits inward/outward its principal or proceeds;

(5) Within 8 workdays after the end of each month, reporting the revenues and expenditures of both the foreign exchange account and special RMB account, together with the assets arrangement of the QFIIs to the SAFE; reporting the investments and trades conducted under securities account to the CSRC;

(6) Within 3 months upon the end of each accounting year, compiling an annual financial report on the domestic securities investment activities by the QFIIs in the previous year, and submit it to the CSRC and the SAFE;

(7) Keeping the records and other related materials on the QFIIs' inward and outward remittances, conversion, receipt, payment and capital flow for at least 20 years;

(8) Making international balance of payments statistics reports pursuant to the relevant provisions of the state on foreign exchange administration;

(9) Other duties prescribed by the CSRC and the SAFE in accordance with the principle of prudent supervision.

Article 14 A trustee shall strictly separate its own assets from those under its custody, and set up different accounts for the assets under its custody for separate management.

Article 15 Each QFII may only entrust one trustee and may change the trustee.

Article 16 A QFII may apply to a securities registration and settlement institution for opening a securities account, which may be a real name account or a nominal holder account.

The nominal holder shall, within 8 workdays upon the end of each season, report the name, registration place, assets arrangement and securities investment status of the actual investor or funds it represents to the CSRC and stock exchanges.

Article 17 A QFII shall entrust the securities depository and clearing institution that has obtained the qualification of a clearing participant to conduct capital settlement. This institution shall, within five workdays after opening a RMB settlement account, report the opening to the SAFE for record.

#### **Chapter IV Investment Operations**

Article 18 A QFII may, within the approved investment quota, invest in the financial instruments of RMB approved by the CSRC.

Article 19 A QFII may entrust securities companies and other investment management institutions established within China to manage its domestic securities investments.

Article 20 A QFII shall, in making any domestic stock investment, comply with the limits on proportion of shares stipulated by the CSRC and other relevant provisions of the state.

Article 21 A QFII shall, in performing its obligation of information disclosure, make the domestic and overseas listed stocks of the same listed company pooled together for calculation, and shall abide by the relevant laws and regulations on information disclosure.

Article 22 Securities companies and other relevant institutions shall keep the entrustment record, transaction record and other materials of QFII for at least 20 years.

Article 23 A QFII shall, in conducting domestic securities investment activities, abide by relevant provisions stipulated by the stock exchanges or securities depository and clearing institutions.

## **Chapter V Funds Management**

Article 24 A QFII shall, upon the approval of the SAFE, open a foreign exchange account and a special RMB account at the place of the trustee.

Article 25 The division of the revenue and expenditure boundaries of the foreign exchange account and the special RMB account of a QFII shall be in line with the relevant provisions as stipulated by the SAFE.

Article 26 A QFII shall remit the principal into China within the time limit set by the SAFE, the currency of the principal from the QFII shall be an exchangeable currency as approved by the SAFE and the amount of the principal shall not exceed the approved quota.

A QFII that fails to remit principal into China within the time limit set by the SAFE shall make a written explanation to the CSRC and the SAFE, and the actual amount remitted shall be deemed as the approved quota; and the difference between the approved quota and the actual amount shall not be remitted inward before being approved by the SAFE.

Article 27 A QFII may apply to the SAFE for remitting capital outward since the date of expiration of the time limit set by the SAFE, unless the SAFE has stipulated otherwise.

Article 28 The SAFE may, by considering the economic and financial situation of China, the supply demand situation of foreign exchange market and the international balance of payments, make adjustments on the time, amount and time limit of the remittance of principal by a QFII.

## **Chapter VI Supervision and Administration**

Article 29 The CSRC and the SAFE may, according to law, require the QFIIs, trustees, securities companies and other institutions to provide relevant information about the QFIIs, and may make necessary inquiries and examinations.

Article 30 Where, under any of the following circumstances, a QFII shall, within 5 workdays after the occurrence, report to the CSRC and the SAFE for record:

- (1) Change of trustees;
- (2) Change of legal representatives;
- (3) Change of the controlling shareholders;
- (4) Adjustment of the registered capital;
- (5) Being involved in any important litigations and other material events;
- (6) Being imposed a substantial penalty overseas;
- (7) Other circumstances specified by the CSRC and the SAFE.

Article 31 Where, under any of the following circumstances, a QFII shall re-apply for a Securities Investment License:

- (1) Change of business name;
- (2) Acquired by or merged with other institution(s);
- (3) Other circumstances specified by the CSRC and the SAFE.

During the period of re-applying for a Securities Investment License, a QFII may continue its securities transactions, with the exemption of those that shall be suspended by the CSRC in accordance with the principle of prudent supervision.

Article 32 Where, under any of the following circumstances, a QFII shall surrender its securities investment license and foreign exchange certificate to the CSRC and the SAFE respectively.

- (1) The applicant did not apply to the SAFE for an investment quota within 1 year after obtaining a securities investment license;
- (2) The institution is dismissed, has entered the bankruptcy procedure or has been taken over by

the administrator;

(3) QFII intends to re-apply for a license;

(4) QFII has committed any serious illegal act, and other circumstances determined by the CSRC and the SAFE.

Article 33 Where there exists any serious violation of any law or regulation with respect to the securities accounts managed by a QFII, the CSRC shall restrict its transactions under relevant securities accounts or adopt other measures according to law; the SAFE may restrict its remittance of capital or adopt other measures according to law.

Article 34 Where a trustee has seriously violated any law or regulation, the CSRC and the SAFE shall make a joint decision to cancel its qualification of trustee.

Article 35 Where a QFII, trustee, or securities company violates the present Measures, the CSRC and the SAFE shall impose corresponding administrative penalties according to law.

#### **Chapter VII Supplementary Rules**

Article 36 The present Measures are also applicable to the institutional investors from Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan Region, which conduct securities investment businesses in China's Mainland.

Article 37 The present Measures shall come into force as of September 1st, 2006, the Interim Measures for the Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors as jointly issued by the CSRC and People's Bank of China on November 5th, 2002, shall be simultaneously abolished.