Factsheet

RQFII ETFs

Overview

The RMB Qualified Institutional Investor (RQFII) is an initiative intended to allow investors from outside of the China People's Republic to hold mainland, A shares equity securities. At the inception of RQFII (2011) all investments into the Chinese mainland from foreign investors had to be made through a Hong Kong based fund. The scope of this element of RQFII was increased to include international banks and asset managers with a presence in London, Singapore, and Taiwan to utilise RQFII. As of 1st March 2013 the total global allocation of Chinese listed equity assets under RQFII was RMB 270billion.

The Chinese economy GDP grew by an average of 7.8% annually between 2009–2013 (Source: World Bank) demonstrating a particularly strong resilience during the global crisis. This is particularly impressive when compared to the growth of the UK (0.3%) and US (2.3%) for the same time period (Source: World Bank).

In October 2013, George Osborne (UK Chancellor to the Exchequer) announced an agreement between China and the United Kingdom to licence RMB80billion ($13bn) of China's domestic equity market to be held by UK investors. This allocation is part of China's Renminbi Qualified Foreign Institutional Investors (RQFII) programme. The UK allocation represents RMB80bn of RMB270bn of the Global allocation under the RQFII scheme and is the first country outside of Asia to be given a license of this type. London Stock Exchange is supporting development of London's position as the western hub for Renminbi business and investment.

London Stock Exchange welcomed 3 Asian RQFII issuers and their ETFs to the market in 2014*: CSOP FTSE A-50 ETF, Harvest CSI300 ETF and ETFS-E FUND MSCI CHINA A.

Direct investment into Chinese domestic market via ETFs

Until the RQFII agreement, London based institutional investors were not able to directly access Chinese mainland domestic markets, such as 'A shares'. The A shares market is considered to best represent the Chinese economy and as an index is the benchmark for Chinese equities performance.

The ability to invest directly into Chinese equity has opened the door for both institutional and retail investors to gain exposure to these markets. The listing of three physical Chinese equity ETFs in London represents this step better than any other. In the past, exposure to these markets via ETFs was through synthetic, swap-based type ETFs.

*As of September 2014

RMB internationalization:

As liquidity on our market deepens and as the investor base expands, demand continues to grow for an even wider range of products. To serve this demand, London Stock Exchange established secondary market trading arrangements for trading and settling in Chinese Renminbi (CNY) and Hong Kong Dollar (HKD). London Stock Exchange previously supported trading and settlement of GBP and GBX, EUR and USD and believes launching new currencies will open up trading to an even wider range of market participants, deepen the investor base and provide greater trading opportunities for exchange members.

The introduction of CNY and HKD as trading and settlement currencies for ETFs utilises the Trading Service for ETFs - Euroclear Bank settlement which is a dedicated Millennium Exchange electronic order book provided by London Stock Exchange. ETFs traded in new currencies will trade during standard London trading hours, on the standard London trading calendar. Settlement will be through Euroclear Bank.
* The market will be cleared through LCH.Clearnet Ltd for on-book, electronic transactions, providing pre and post trade anonymity as well as counterparty risk protection. Settlement will be through Euroclear Bank.

If you have any further questions then please contact the ETF and ETP team:

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