

RQFII ETFs

Overview

The RMB Qualified Institutional Investor (RQFII) is an initiative intended to allow investors from outside of the People's Republic of China 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 November 2014 the total global allocation of Chinese listed equity assets under RQFII was RMB 770billion.

The Chinese economy GDP grew by an average of 8.6% annually between 2009–2014 (Source: World Bank) demonstrating a particularly strong resilience during the global crisis. This is particularly impressive when compared to the average annual growth of the UK (0.3%) and US (1.2%) for the same time period (Source: World Bank). China's growth is expected to continue, with a forecasted annual growth rate of 6.5% going in to 2020.

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 RMB770bn 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 4 Asian RQFII issuers and their ETFs to the market in 2014: Source and CSOP FTSE A-50 ETF, Deutsche Asset and Wealth Management and Harvest CSI300 ETF, ETF Securities and E FUND MSCI China A ETF and Lyxor Fortune SG MSCI China A ETF. CCBI and Commerzbank also joined our market in 2015, with the Commerzbank CCBI RQFII Money Market UCITS ETF. iShares also listed the iShares MSCI China A UCITS ETF.

In 2016, Fullgoal Asset Management became the first Chinese issuer to list independently, launching the Fullgoal FTSE China Onshore Sovereign and Policy Bank Bond 1-10 Year Index ETF. ICBC Credit Suisse Asset Management partnered with WisdomTree to launch ICBCCS WisdomTree S&P 500 UCITS ETF, the first Europe listed ETF with exposure to all China equity share classes. We have also seen the launch of the DBXT Harvest AH 50 DR ETF 1D, the first ETF to track both China A shares and Hong Kong H shares.

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 7 physical Chinese equity ETFs and 3 fixed income 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.

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 also supports trading and settlement of GBP, GBX, EUR, USD and CHF 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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