

The RMB Qualified Domestic Institutional Investor program suspended

The People's Bank of China (PBOC) has reportedly suspended the RMB Qualified Domestic Institutional Investor (RQDII) program through "window guidance". The RQDII program was first introduced by PBOC pursuant to the *Circular on Issues Concerning Overseas Investment by RMB Qualified Domestic Institutional Investors*, promulgated on 5 November 2014 (RQDII Circular).

Background to the RQDII Circular

- An institution with a Qualified Domestic Institutional Investor (QDII) license may invest in overseas financial products denominated in RMB so long as such products are within the permissible investment scope under the QDII scheme.
- The RQDII investment is not subject to any quota restrictions.

The RQDII program in practice

- At first the RQDII program did not attract much market attention or interest because traditional RMB-denominated products were relatively limited in scope and size in the international market.

- Recently however, as new QDII quota has become less readily available, certain QDIIs which have already used up their QDII quota have taken advantage of the RQDII program to effectively invest in offshore foreign currency financial products. This is achieved by adding a layer of RMB-denominated structured notes linked to the underlying foreign currency assets.
- However, these structures are not the typical RMB-denominated products contemplated by the PBOC when it first introduced the RQDII program. As such distorted RQDII products become more popular on the market, it has attracted more attention from

the regulators. We believe the suspension of the RQDII program is a consequence of the PBOC's desire to manage the risk of potential RMB outflow.

The suspension

- As a result of the reported suspension, it has become unclear how existing RQDII products should be treated. The situation becomes more complex if the RQDII has already subscribed for offshore structured products but the funds are yet to be remitted outside China.
- We are following this development closely and we will update you further as the situation develops.

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