From our Hong Kong Office

August 2022

QDII, R-QDII, QDIE, QDLP, Wealth Connect and Luxembourg vehicles

Executive Summary

This note is intended to provide the reader with an overview of various channels available to raise capital in the PRC and structure traditional or alternative investments abroad using Luxembourg investment vehicles.

QDII and R-QDII can be used with Luxembourg regulated 'public funds' which include UCITS funds as well as Luxembourg domestic retail funds (UCIs). While UCITS can only invest in liquid securities typically dealt on stock exchanges or other regulated markets, UCIs can invest in other assets including private equity and real estate. SIFs, RAIFs and other types of funds intended for well-informed investors might not be eligible for QDII or R-QDII investments but these structures as well as SOPARFIs can issue structured products which are eligible, under certain conditions.

QDIE and QDLP are specifically designed for offshore alternative investment strategies, which, depending on the scheme selected, include investments in offshore securities, hedge funds, private equity funds, real estate funds and other types of investments. Funds into which QDIE and QDLP are feeding can be structured using Luxembourg investments and/or holding structures designed for private equity and real estate investments, such as the SIF or the SICAR on the regulated side, or the SLP structure and the RAIF, on the non-regulated side, possibly using a SOPARFI.

Finally, on the Private Wealth side, wealth connect under the Greater Bay Area framework may in the furture allow investments by PRC HNWIs in a variety of PWM products such as funds domiciled in Luxembourg and authorized in Hong Kong or Macau.

Over the last decade, the international financial community has been able to participate in the opening and the growth of the capital markets in the People's Republic of China (the "**PRC**") by investing in *onshore* PRC securities, in particular, China A-Shares and RMB fixed income securities dealt on the PRC official stock exchanges and the China interbank bond market ("**CIBM**").

This was made possible using various channels put in place by PRC authorities, namely the Qualified Foreign Institutional ("**QFI**") scheme, covering both the Qualified Foreign Institutional Investor ("**QFII**") scheme and the Renminbi Qualified Foreign Institutional Investor ("**R-QFII**") scheme, the Shanghai - Hong Kong and Shenzhen - Hong Kong stock connect programs (the "**Stock Connect**"), the CIBM Direct Access scheme and the **Bond Connect**[1].

Outbound investments from the PRC to the EU, or other parts of the world, had used their own channels and had primarily targeted strategic acquisitions in a wider variety of industry sectors, infrastructure, real estate, intellectual property[2] rather than *offshore* financial instruments or foreign funds.

Although one cannot ignore, the administrative restrictions imposed on PRC *offshore* investment programs from 2017, covered in this note, those limitations will not be permanent and PRC foreign direct investments ("**FDIs**") in particular from PRC privately held companies will continue to grow in

[1] For an updated version of our note on this particular topic, please follow this link: https://www.arendt.com/jcms/p_15970/en/2017-04-arendt-hong-kong-qfii-r-qfii-stock-connect-the-cibm-direct-and-luxembourg-funds-ok

[2] See the Financial Times online, June 25, 2015, "China to become one of world's biggest overseas investors by 2020" by Jamil Anderlini, available here : https://www.ft.com/content/5136953a-1b3d-11e5-8201-cbdb03d71480

the coming years, hence the need for proper structuring[3].

Simultaneously, an increased exposure to foreign financial products, a greater sophistication of investors and a search for diversification were prompting PRC investors to broaden their horizons. Investors may also be willing to invest abroad as a result of lower yields available in the PRC from time to time or simply to achieve more diversification in their portfolio.

The volatility of the PRC capital market has led PRC investors to consider increasing their exposure to *offshore* investments and financial products, and therefore exploring the possibilities offered by channels developed to facilitate outbound investments from the PRC to the rest of the world.

How these PRC outbound investment channels can be connected to foreign investments products and vehicles in order to structure these investments abroad is therefore a central question for PRC institutional investors.

This note aims at explaining the basic features of the various channels used by PRC investors and institutions to invest outside the PRC from a layman's point of view and how these channels are used in combination with Luxembourg investment structures and vehicles, with a particular focus on which Luxembourg investment vehicles are the most suitable for each particular channel.

The Qualified Domestic Institutional Investors Scheme

A note on this topic should start with a discussion of one of the oldest PRC outbound investment schemes, which is also the counterpart of the QFII scheme, *i.e.* the Qualified Domestic Institutional Investors (the "**QDII**") scheme[4].

Launched back in 2007 for securities firms and fund management companies after similar initiatives were launched for commercial banks, trust companies, insurance companies, the QDII was not immediately a success.

The main reasons for this difficult start were in particular the high yields available *onshore*, confidence in an ever appreciating RMB, a lack of exposure to and familiarity with foreign financial products and, most importantly, the 2008 global financial crisis which had an extremely adverse impact on the results of a number of products and initiatives based on QDII[5] which were launched in the early days of the program.

As of July 2022, a total of USD 159.729 billion has nevertheless been granted under the QDII scheme to QDII licensed entities over the years from the launch of the scheme[6]. QDII institutions are keeping their quota available for market opportunities and a number of fund managers targeting overseas investments are pending and QDII licence and quota approvals[7].

Since 2013, however, market conditions have changed and for the reasons indicated above there is renewed interest in QDII-based products, which has increased since 2015. As of June 2022, there were 202 QDII funds in total with Net Asset Value ("**NAV**") CNY301.244 billion (USD45.71 billion), 24 more funds comparing with June 2021 with CNY122.686 billion (USD18.61 billion) NAV increased[8].

In practical terms, the QDII scheme allows duly licensed PRC institutional investors such as banks, trust companies, insurance companies, securities firms and fund management companies ("**FMCs**") to invest in financial products *offshore* (i.e. outside the PRC). FMCs would typically set up fund products sold to retail investors, whereas insurance companies would use insurance funds consisting of the insurance company's capital base, capital reserve, undistributed dividends, reserve fund, etc.

These products may include listed securities, public investment funds and structured notes, to name a few QDII eligible investments (in this case QDIIs regulated by the CSRC)[9].

[3] See the joint report by the economic research firm Rhodium Group and Mercator Institute for China Studies: https://www.merics.org/sites/default/files/2020-04/MERICS-Rhodium%20Group_COFDI-Update-2020%20%282%29.pdf

[4] See in particular the "*Tentative Measures for the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors*" dated July 2008 and the *Circular on Issues concerning the Implementation of the Pilot Rules on the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors* dated June 2007 issued by the China Securities Regulatory Commission ("**CSRC**")

[5] For an article on this subject see the Financial Times Online, September 29, 2013 "Demand for Chinese QDII funds 'feeble'" by Ellen Kelleher, available here https://www.ft.com/content/b8d73e6e-2644-11e3-aee8-00144feab7de

[6] Refer to https://www.ceicdata.com/en/china/state-administration-of-foreign-exchange-safe-qdii

[7] Refer to CSRC publication on QDII application approval stauts of fund management companies: http://www.csrc.gov.cn/pub/zjhpublic/G00306205/201711/t20171110_326835.htm

[8] Refer to Asset Management Associated of China https://www.amac.org.cn/researchstatistics/datastatistics/mutualfundindustrydata/

[9] According to items V. 1. and 2. of the Circular *on Issues concerning the Implementation of the Pilot Rules on the Administration of Overseas Securities Investment by Qualified*

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Please note that, depending on the type of QDII license applied for, the list of eligible assets may vary, as the rules in relation thereto may be issued by a regulator other than the CSRC[10].

In June 2021, the PRC's foreign exchange regulator increased quotas under the QDII scheme to meet the growing demand of domestic investors. USD10.3 billion in total in quotas was granted to 17 institutions. Quotas approved in June 2021 were the largest since the PRC implemented the QDII scheme in 2006. Over the years, China has gradually normalized and accelerated the issuance of QDII quotas. Since September 2020, the SAFE has granted 7 rounds of quotas to 173 institutions through the QDII scheme.[11]

Since 2008 and subsequent to the entering into a memorandum of understanding between the Luxembourg financial regulator, the *Commission de Surveillance du Secteur Financier* (the "**CSSF**")[12], Luxembourg based public funds have been eligible, under certain conditions, for QDII investments.

Domestic Institutional Investors dated June 18, 2007 (www.csrc.gov.cn/pub/csrc_en/OpeningUp/RelatedPolices/QDII/201211/t20121109_216706.html) "[…] a fund or pool fund may make investments in the following financial products or instruments: (a) bank deposits, negotiable certificates of deposit, bank acceptance, bank paper, commercial paper, repurchase agreements, short-term government bonds, and other instruments on the currency market; (b) government, corporate and convertible bonds, mortgage-backed securities (MBS), asset-backed securities (ABS) and securities issued by an international financial organization that has been accredited by the CSRC […]; (c) common stocks, preference stocks, global depository receipts (GDR), American depository receipts (ADR), and real estate investment trust receipts listed and traded on the securities market of a country or region that has signed a memorandum of understanding on the bilateral regulatory cooperation with the CSRC […]; (d) funds raised by public offerings that have been registered with the securities regulatory authorities of a country or region that has signed a memorandum of understanding on the bilateral regulatory cooperation with the CSRC ; (e) structured products linked to such subject matters as fixed income, equity, credit, commodity index and fund; and (f) such financial derivatives as forwards, swaps, and warrants, options and futures listed and traded on an overseas stock exchange that is accredited by the CSRC […]"

[10] Based on Article 3 of the *Interim Administrative Measures for Overseas Wealth Management of Commercial Banks on Behalf of Clients*, the China Banking and Insurance Regulatory Commission ("**CBIRC**") shall be responsible for licensing and regulating the operation of the overseas wealth management business of commercial banks, and the same applies to QDII licensed insurance and trust companies after the CBRC and CIRC merged in March 2018A review of QDII eligibility of specified assets may require taking into account the regulations promulgated by the CBIRC as well.

[11] http://www.china.org.cn/business/2021-06/03/content_77546014.htm

[12] For a list of all memoranda of understanding entered into between the Luxembourg financial regulator and EU as well as non-EU entities please refer to www.cssf.lu/en/eu-international/memoranda-of-understanding/

Global managers with Luxembourg-based UCITS funds as part of their funds offering have for quite a long time used QDII quotas in order to structure financial products and make available such products to PRC customers within the limits set forth under the QDII rules.

They have specifically used this possibility to create fund of funds structures in the PRC investing in their Luxembourg-based UCITS funds and therefore indirectly made available these UCITS funds to PRC investors.

Managers of Luxembourg funds governed by the provisions of part II of the law dated December 17, 2010 on undertakings for collective investment, as amended (the "**2010 Law**"), hereinafter **Part II Funds**, also simply referred to as **UCIs**, may also consider seizing the opportunity to make funds implementing alternative strategies[13] indirectly available to PRC investors.

UCIs can be particularly interesting for QDII sponsors. UCIs are domestic Luxembourg retail funds, similar to UCITS funds from a structuring standpoint, which can invest in a variety of asset classes ranging from listed or unlisted securities to real estate, as well as private equity projects.

UCIs can benefit from the Alternative Investment Fund Managers Directive ("**AIFMD**")[14] passport if they appoint a duly licensed EU alternative investment fund manager ("**AIFM**") and submit themselves to this regime.

It is worthwhile also mentioning that the QDII rules also make it possible for QDII products to invest in structured products such as **structured notes** (in this case for QDIIs regulated by the CSRC)[15].

[13] Each fund's investment strategy would have to be reviewed on a case-by-case basis in order to assess its compatibility with QDII requirements.

[14] Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010

[15] See the list of eligible investments in note 8 above. Please further note that for the purpose of overseas investment, banks, insurance companies, trust companies, securities companies and FMCs do not share the same regime. As mentioned above, these institutional investors are regulated by the CSRC and CBIRC respectively. Therefore, whether a QDII product can invest in structured notes should be reviewed under their own regime. As provided in the *Circular on Issues concerning the Implementation of the Pilot Rules on the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors* promulgated by the CSRC, QDII funds and QDII segregated account management schemes launched by FMCs, and QDII targeted asset management product and collective asset management schemes launched by securities companies are entitled to invest in structured products. For a single trust product or collect trust plan launched by a QDII-licensed trust company, and a product launched by a QDII-licensed bank, the CBIRC

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This allows managers to structure investments made by QDII in non-retail or non-regulated vehicles such as a holding company *(société de participations financières* or "**SOPARFI**"), a specialized investment fund ("**SIF**"), a securitization vehicle ("**SecVeh**") or an investment company in risk capital *(société d'investissement en capital a risque*, or "**SICAR**") to name the most popular vehicles[16]. It is noteworthy that QDII retail funds are subject to investment restrictions specifying among other things that the market value of illiquid assets held by a single retail fund or pool fund shall not exceed 10% of the net value of the retail fund or pool fund, while such limitation is not applicable to QDII segregated account schemes launched by FMCs.

Interestingly, QDII funds are required to follow investment restrictions and diversification requirements which are reminiscent of those imposed on an EU undertaking for collective investments in transferable securities (hereinafter "**UCITS**")[17].

permits it to invest in certain structured products subject to additional conditions, including credit-rating requirements. As for insurance funds used for overseas investment, structured products are simply not included in the investment scope provided by the Article 11 of the *Rules for Implementing the Interim Measures for the Administration of Overseas Investment with Insurance Funds* promulgated by the CBIRC.

[16] SIFs are governed by the law dated February 17, 2007 on specialized investment funds, as amended; SecVeh are governed by the law dated March 22, 2004 on securitization, as amended ; SICAR are governed by the law dated June 15, 2004 on investment companies in risk capital, as amended

[17] According to item V. 4. of the *Circular on Issues concerning the Implementation of the Pilot Rules on the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors* dated June 18, 2007 (www.csrc.gov.cn/pub/csrc_en/OpeningUp/RelatedPolices/QDII/201211/t20121109_216706.html) "[...] Limitations on investment proportions: (a) the deposits in a same bank held by a single fund or pool fund shall not exceed 20% of the net value of the fund or pool fund […] ; (b) the market value of the securities issued by a same institution (other than a government or international financial organization) and held by a single fund or pool fund shall not exceed 10% of the net value of the fund or pool fund. An index fund may be exempted from the above limitation ; (c) the securities assets listed and traded on the securities exchanges of a country or region other than the one that has signed a memorandum of understanding on the bilateral regulatory cooperation with the CSRC and held by a single fund or pool fund shall not exceed 10% of the net asset value of the fund or pool fund, and such securities assets held in any country or region above shall not exceed 3% of the net asset value of the fund or pool fund; (d) a fund or pool fund shall not purchase securities for controlling or influencing the institution issuing the securities or its management. All fund and pool funds managed by a same domestic institutional investor shall not hold more than 10% of the total outstanding securities with voting right in a same institution. An index fund may be exempted from the above limitation […] ; (e) the market value of illiquid assets held by a single fund or pool fund shall not exceed 10% of the net value of the fund or pool fund […] ; (f) the total market value of overseas funds held by a single fund or pool fund shall not exceed 10% of the net value of the fund or pool fund. Holdings in money market funds (MMF) may be exempted from the above limitation […] ; (g) all funds and pool funds managed by a same domestic institutional investor shall not hold more than 20% of the total shares of any single overseas fund […]". Please be reminded that all QDII products have to follow the investment restrictions and diversifications requirements formulated by their own regulatory regime and authorities, i.e. the CBRC, CIRC, and CSRC. In addition, for QDII segregated account management schemes launched by FMCs, and QDII targeted asset management products launched by securities companies, the investment ratio restrictions and diversification requirements could be exempted.

The above consideration may help to put into perspective the Hong Kong-PRC mutual fund recognition ("**MRF**") since it is already possible to structure QDII products investing in Luxembourg fund products as shown above and hence achieve a similar economic result, without having to set up a separate fund structure in Hong Kong, although, the question of quota availablility under the QDII regime should be taken into account.

The RMB Qualified Domestic Institutional Investor Scheme

This program also known as the R-QDII scheme did not receive much media attention upon its launch back in November 2014[18], as all eyes were then turned to the launch of another successful scheme, *i.e.* Stock Connect.

The R-QDII is the counterpart of the R-QFII scheme and as such is an instrument aiming at further internationalizing the RMB, to a greater extent than any other outbound foreign direct investment scheme.

As such, the aim of the R-QDII is to facilitate investments in *offshore* RMB, not by foreign investors but by PRC investors, in order to increase the pool of *offshore* RMB in circulation globally and therefore the liquidity of the Chinese currency.

The R-QDII scheme therefore allows R-QDIIs to make overseas investments, however, for the reasons mentioned above exclusively, these investments shall consist in *offshore* RMB-denominated products[19], using RMB raised in the PRC from Chinese institutional or individual investors.

The scheme is slightly different from the QDII or its inbound investments counterpart, i.e. the R-QDII, insofar as it is not designed as a quota-based scheme, by which prior approval and a quota would have to be granted by the PRC State Administration of Foreign Exchange (the "**SAFE**"),

[18] See more details from Reuters online article dated November 18, 2014 on this topic, www.reuters.com/article/china-yuan-offshore-investment-idUSL3N0T81I920141118

[19] According to items I of the *Notice of the People's Bank of China on Matters concerning the Overseas Securities Investment by RMB Qualified Domestic Institutional Investors* dated November 5, 2014 available here: www.pbc.gov.cn/chubanwu/114566/114579/2164312/2812973/index.html

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which would then have control over the amount exchanged. The R-QDII scheme is based on the reporting to PRC authorities of the total amounts raised in the PRC and then invested abroad.

As reported[20], the People's Bank of China (the "**PBoC**") suspended the R-QDII scheme in December 2015. This suspension was apparently motivated by the finding that certain investment structures based on R-QDII were aimed at investing in RMB-denominated financial instruments embedding financial derivatives instruments or involved in derivative transactions in other currencies, which were not in line with the intended purpose of the R-QDII scheme, as indicated above.

It is worthwhile noting that the PBoC released a notice in May 2018 to further specifiy the condition in which R-QDIII can be used, leaving open the possibility to relaunch the scheme in the future[21].

In this respect, managers may consider in the future designing Luxembourg-based investment products for R-QDII investments such as *offshore* RMB-denominated funds, sub-funds or simply share classes in UCITS funds or other types of funds, investing in *offshore* RMB-denominated assets such as *dim sum* or *Schengen* bonds or other types of securities denominated in this currency.

Qualified Domestic Limited Partnership and Qualified Domestic Investment Enterprise Schemes

The Qualified Domestic Limited Partnership ("**QDLP**") scheme was launched in April 2012 in Shanghai and thereafter in other major cities of the PRC [22] while the Qualified Domestic Investment Enterprise (the "**QDIE**") scheme has been developed in December 2014 in Shenzhen (in the *Qianhai* pilot zone).

These initiatives are intended to provide new opportunities to foreign managers for accessing the PRC market and for creating their structures on the ground in the PRC, as well as providing a framework to allow for *offshore* alternative investments, in particular, in *offshore* securities, private funds, hedge funds, real estate, depending on the scheme, by qualified PRC-based institutional and High Net Worth Individual ("**HNWIs**") investors.

These schemes, depending on the area or city where they have been initiated, vary substantially.

Without entering into the details of each particular scheme, it should be indicated that the aspects which may differ from one scheme to another are as follows: (i) the conditions to be met by managers for participation in the relevant scheme, (ii) the requirement for a local representative and structure (according to the QDLP rules a wholly foreign owned enterprise, hereinafter "**WFOE**", or a local JV is required, while under the QDIE scheme both eligible domestic enterprises and foreign-invested enterprises (i.e. WFOE or JV) are allowed. The requirement for a local representative applies only to QDLP), (iii) the requirement and type of local investment vehicle available to raise capital (a limited partnership structure or a fund/trust would be sufficient under the QDLP regime, whilst a local investment channel such as a segregated account could be adopted by a domestic FMC which obtains a QDIE license and quota), (iv) the scope of the eligible investments (*see below*), (v) the minimum investment of individual investors and their assessment to qualify to invest in the scheme, (vi) minimum intial assets under management, etc.

Since 2013, the Shanghai-based QDLP scheme has attracted a number of international fund managers willing to raise capital in the PRC to invest abroad. The scheme seemed more geared towards hedge funds at first although local QDLP structures can also invest in a variety of *offshore* markets.

During the launching phase thereof, the QDIE regime was considered slightly more flexible than QDLP for example in respect of its eligibility requirements. Any form of *offshore* investment is possible with the approval of the local authorities including securities, private equity, commodities and real estate. Rules applying to QDLP have however been reviewed during the course of 2017 to align them to those applicable to QDIE.

The investment structures of above schemes are similar to those generally set up for outward (or outbound) foreign direct investments ("**OFDIs**") traditionally used by larger PRC companies, financial institutions and state-owned enterprises ("**SOEs**"), when making strategic acquisitions abroad in industries or infrastructures. These schemes have for many years used Luxembourg as their gateway to Europe.

[20] See the report by Reuters dated December 9, 2015 www.reuters.com/article/china-investment-idUSL3N13Y2ZK20151209

[21] See the PBOC announcement http://www.pbc.gov.cn/zhengwugongkai/127924/128038/128109/3531980/index.html

[22] See the report by the South China Morning Post dated March 18, 2013 www.scmp.com/business/money/markets-investing/article/1193285/foreign-hedge-funds-set-get-yuan-fundraising

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Heading the list of vehicles which are used to structure investments in Europe, whether from QDLP, QDIE or more generally OFDIs, the Luxembourg holding company, also known as SOPARFI, has for a long time been used by the industry, in particular, the private equity and real estate sectors, to make acquisitions in Europe and abroad.

A properly capitalized SOPARFI with the necessary substance on the ground in Luxembourg will give a manager access to the Luxembourg domestic rules, the EU Parent-Subsidiary directive[23] and the broad network of treaties entered into between Luxembourg and most developed countries, including the PRC as well as Hong Kong, covering the prevention double taxation as well as investor protection[24].

In accordance with the territorial tax system of Hong Kong, foreign tax levied in Europe, e.g. withholding taxes on interest, dividends and royalties, are in general deemed to be a final tax cost for potential PRC investors. In order to mitigate such an irrecoverable withholding tax, it may be possible under certain conditions to structure investments in a manner allowing for an efficient repatriation of profits from the EU to the PRC via a SOPARFI and a Hong Kong limited company.

Distributions of dividends by a SOPARFI may, under certain conditions, be exempt from Luxembourg withholding tax and Luxembourg does not levy any withholding taxes on interests, royalties, capital gains or liquidation proceeds.

Another popular vehicle used in private equity and real estate investment is the Luxembourg limited partnership ("**LP**") [25] which is a more recent initiative intended to take advantage of the familiarity in the private equity and real estate industry with Anglo-Saxon LP vehicles, and which proposes an *onshore* alternative offering the same flexibility and features as its Anglo-Saxon counterpart.

SIF and SICAR structures are also widely used, often in conjunction with a SOPARFI, as top fund vehicles, given that it is possible to set them up as corporate or contractual entities with multiple ring-fenced sub-funds which can implement a variety of tailored investment strategies and their tax neutrality.

Regulated funds are popular among European institutional investors and in particular for larger private equity and real estate investments with European strategic partners.

It is also worthwhile mentioning the reserved alternative investment fund ("**RAIF**") regime which in essence allows fund sponsors to structure a fund vehicle with all the advantages of regulated funds referred to above (for example of a umbrella SIF set up as a corporate vehicle) without having to seek a regulatory approval of the fund vehicle itself.

RAIFs requires the appointment of a duly licensed AIFM, which must be based in Europe should the use of the AIFMD passport be contemplated.

The Cross-border Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area

An initiatve called the Cross-border Wealth Management Connect Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area ("**Cross-border WMC**") was launched in September 2021 and aims at facilitating HNWIs from that region to access wealth management products in manufactured in Hong Kong and Macao and the PRC.[26]

This scheme in particular enables eligible investors from the PRC, residents of 9 Guangdong cities (Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoxing) and meeting certain requirements to buy wealth management products sold by banks in Hong Kong and Macau.

For the time being, the net cash flows in either direction must not exceed CNY150 billion (USD22.76 billion) shared by Hong Kong and Macau. And the individual investment quota for PRC investors amounts to CNY1 million (USD0.15 million).

In October 2021, the Hong Kong Monetary Authority announced that 19 eligible banks in Hong Kong are now authorized to launch WMC services.[27] In additional batch of 5 more eligible banks were added on 27 January 2022, bringing

[23] Council Directive 2011/96/EU of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States (the "**Parent-Subsidiary Directive**")

[24] SOPARFIs are subject to the common tax system in Luxembourg. As a taxable entity, it is able to benefit from the Luxembourg double tar treaty network as well as European directives including the Parent-Subsidiary Directive.

[25] The *société en commandite spéciale* is governed by Article 22-1 to 22-9 of the law of 10 August 1915 on commercial companies, as amended

[26] Refer to https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/wealth-management-connect/

[27] Refer to https://www.hkma.gov.hk/eng/news-and-media/press-releases/2021/10/20211018-4/

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the total number of eligible banks in Hong Kong to 24.[28]

In terms of products which can be made available to PRC investors, these include investment products distributed by Hong Kong banks, including low- to medium-risk and non-complex products and deposits offered by Hong Kong banks. Similar requirements apply to eligible products in Macau.

Since 29 October 2021, and despite the difficulties to cross the border due to the pandemic, over 4,000 accounts were opened one may expect to have a clearer view on the potential of the scheme when the border reopens[29].

Considering the broad range of PWM products and structures available in Luxembourg which may possibility for offered by Hong Kong or Macau banks there is a possibility that the Cross-border WMC will at some point in the future give PRC investors access to these products.

Conclusion and perspectives

Luxembourg has made available to the global financial community the components of its toolbox which facilitate inbound investments in the PRC using QFI, CIBM Direct Access and Stock Connect. Along the way Luxembourg has made sure that these components remain fully compatible with the evolution of these schemes in the PRC and in Hong Kong.

Thanks to this proactive approach and the dynamism of the Chinese financial community on the ground and their service providers, Luxembourg has developed into a major European *offshore* RMB center.

Luxembourg is on a par with other *offshore* RMB-centres focusing on other products and services.

Situated at the crossroads of investments between Europe and the PRC, Luxembourg also has a lot to offer on the PRC outbound side in conjunction with QDII, R-QDII, QDIE, QDLP and Cross-border WMC.

Its investment vehicles and products have proven to be the most efficient structures for EU inbound investments for many years, in particular, for private equity and real estate investments and these vehicles are compatible with the requirements of the various schemes in the PRC for outbound direct investments.

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[28] Refer to https://www.hkma.gov.hk/eng/news-and-media/press-releases/2022/01/20220127-3/
[29] Refer to https://news.rthk.hk/rthk/ch/component/k2/1617487-20211029.htm?spTabChangeable=0

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