Limits up for QFII investors

China plans to raise the limits on inbound portfolio investments to bolster market sentiment and the renminbi's internationalization.

The upward limit for individual institutions' quotas under the qualified foreign institutional investor (QFII) program will be raised to $1 billion from $800 million under the draft rules and the lockup period for some investors will be cut to three months from one year, the State Administration of Foreign Exchange (SAFE) said on Friday.

Hong Kong's Hang Seng Index soared 3 percent higher at close on Friday. The Shanghai stock exchange also closed higher by 0.6 percent.

"Although the total holdings of QFII investors amount to only a small fraction of the A-share market, these liberalizations (and potentially an accelerated pace of approvals) may signal official efforts to stabilize the domestic equity market," said Jing Ulrich, chairwoman of China Equities and Commodity at JP Morgan.

The Shanghai Composite has dropped 18 percent from its peak on Aug 8 following concerns that tighter capital requirements would curtail lending and derail a recovery.

"The draft rules are very encouraging for QFII. It is extremely good news for the QFIIs to invest in Chinese A shares market, which has undergone around 20 percent correction/fall in the last few weeks," Hubert Tse, managing director with International Business Group Yuan Tai PRC Attorneys.

"The changes will make it possible for large investors to channel more portfolio investments into China's capital markets," Tse said.

As of August, 87 qualified foreign institutional investors were permitted to invest a combined $15 billion in local-currency stocks and bonds.

However, the overall investment quota of $30 billion will remain intact, as less than $15 billion of that amount has been used so far, Chu Yumei, an official with SAFE, said.

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SAFE also said it will shorten the lockup period for some medium- and long-term QFII funds such as pension funds and insurance funds to three months. Other QFII investors will still be subject to a one-year lockup.

The draft rules aim to encourage "medium- and long-term investment" and to make investment operation and risk control more "convenient", the currency regulator said.

"The new move is part of renminbi's internationalization," said Ha Jiming, chief economist, China International Capital Corp.

"The relaxed limitation on inbound portfolio investments could enhance cross-border circulation and raise efficiency. Looking ahead, the government might adopt measures to smooth the outflow of renminbi, to speed up its internationalization."

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