MUFG Bank (China) Regulation Newsletter **August 20, 2019, Issue 26**

The Financial Stability and Development Committee of the State Council Announces 11 Measures to Further Open Up the Financial Sector

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On July 20, the Financial Stability and Development Committee of the State Council announced the Measures Related to Further Opening Up the Financial Sector (a total of 11 measures, hereinafter, "the Measures").

1. Background on Policy

Chinese President Xi Jinping announced the establishment of the **Financial Stability and Development Committee (FSDC) of the State Council** at the National Financial Work Conference held in Beijing from July 14 to July 15, 2017, and gave it the responsibility of cooperating with the One Bank, Two Commissions (referring to the People's Bank of China, the China Banking and Insurance Regulatory Commission (CBIRC), and the China Securities Regulatory Commission (CSRC)) to further reform the financial sector. The person in charge of the Financial Stability and Development Committee of the State Council is Liu He, the Vice Premier of the People's Republic of China.

In light of the trade friction between the U.S. and China, the Financial Stability and Development Committee announced the Measures, which define in writing and flesh out the "further opening up of modern service industries such as finance" and the "complete removal of restrictive regulations other than the foreign investment negative lists by the end of the current fiscal year" mentioned by Premier Li Keqiang during the speech he delivered at the 13th Summer Davos Forum that was held in July.

The opening up of the financial sector in China has already reached its climax. The Measures show that China is exercising good faith in opening up the financial sector to foreign capital, and that the authorities have the fundamental power in the opening up of the sector.

2. Primary Contents of the Regulations

The Measures include fields such as **bond ratings, asset management, currency brokerage, insurance, securities, funds, futures, and interbank bonds**.

[Fig. 1] Contents of the Measures

No.	Bank/Commission in Charge	Field	Primary Content
1	People's Bank of China	Bond ratings	**Foreign-invested rating agencies** can give **ratings to all kinds of bonds** that are traded on China's **interbank market** and **exchange-traded market**.
2	CBIRC	Asset management	Foreign financial institutions are encouraged to participate in the establishment of or investment in the **asset management subsidiaries of commercial banks**.
3			**Foreign asset managers** are allowed to partner with the subsidiaries of Chinese banks or insurers to set up **asset management companies**

			that are **controlled by the foreign party**.
4			Foreign financial institutions are allowed to set up or invest in **pension fund management companies**.
5		Currency brokerage	Foreign investors will be given support to establish or invest in **currency brokers**.
6			The transition period for raising the **foreign ownership cap on life insurance companies** from 51% to **100%** will end in **2020**, instead of 2021 as previously stated.
7		Insurance	The requirement that domestic insurers must hold in total at least a 75% equity interest in an **insurance asset management company** will be removed, and the ratio of **foreign ownership** in insurance asset management companies may **exceed 25%**.
8			The qualifications for a foreign insurer that is eligible to invest in China will be further relaxed by abolishing the **requirement** that the foreign insurer should have been **in business for no less than 30 years**.
9	CSRC	Securities Funds Futures	Foreign ownership restrictions in **securities companies**, **fund management companies**, **and futures companies** will end in **2020**, one year earlier than originally planned.
10	People's Bank of China	Interbank bonds	**Foreign-invested financial institutions** are allowed to obtain **Type-A underwriting licenses in the interbank bond market**.
11			Additional measures will be implemented to further facilitate **foreign institutional investors' investment in the interbank bond market**.

The 11 fields above are described in detail below.

1. Foreign-invested rating agencies can give ratings to all kinds of bonds that are traded on China's interbank market and exchange-traded market.

The bond market in China is divided into the interbank bond market (overseen by the People's Bank of China) and the exchange-traded bond market (overseen by CSRC). There has been an increased number of international investors in the Chinese bond market in recent years, so allowing foreign-invested entities to expand the credit rating business they conduct in China will make it easier for foreign investors to make investment decisions.

<u>Recent developments related to credit ratings are as follows:</u>

On July 1, 2017, the People's Bank of China released "Circular [2017] No.7," which **opened up the interbank bond market to foreign credit rating agencies** and made explicit the **conditions for permitting foreign credit rating agencies to conduct credit rating in the interbank bond market**.

On March 27, 2018, the Interbank Market Broker Association announced the Interbank Bond Market Credit Rating Agency Registration Rules (Circular [2018] No.6) that made clear the **specific processes and requirements for credit rating agencies when registering ratings**.

On September 4, 2018, the People's Bank of China and the CSRC issued Circular [2018] No.14 that made clear green channel will be established for the credit rating agencies that have already conducted credit rating in **interbank bond market** or **exchange-traded bond market** to achieve **qualification mutual recognition of rating business**.

On January 28, 2019, **S&P Global (China) Ratings** (Standard & Poor's Chinese subsidiary) was permitted to participate in giving ratings to all kinds of bonds on the **China interbank bond market**, including financial institution bonds, debt financing instruments for non-financial enterprises, structured products, and foreign bonds.

On July 11, 2019, **S&P Global (China) Ratings** released the first rating report by an international credit rating agency for a domestic issuer in China, rating ICBC Financial Leasing Co., Ltd. "AAA" with a "stable" outlook.

2. Foreign financial institutions are encouraged to participate in the establishment of or investment in the asset management subsidiaries of commercial banks.

According to relevant regulations,[1] **bank asset management subsidiaries** refers to **non-banking financial institutions primarily engaged in asset management** that are established in China by a commercial bank upon approval of CBIRC. **Asset management** refers to financial services involving **investment and management of assets entrusted by the investor** to the subsidiary, in which the funds are **invested and managed using the investment strategy, risk allocation, and profit distribution agreed upon beforehand**. Domestic commercial banks can establish an asset management subsidiary using their own capital. They can also establish an asset management subsidiary as a joint venture with a **domestic or international financial institution** or a **domestic non-financial company**.

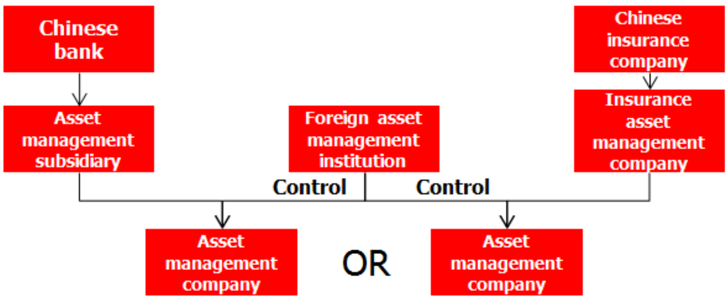
Encouraging foreign financial institutions to participate in the establishment of and make investments in the asset management subsidiaries of commercial banks will allow the domestic asset management industry to reference overseas asset management organizations' management experience, investment philosophies, management strategies, incentive policies, and compliance and risk control frameworks, and will further diversify the financial products offered, and is therefore thought to be beneficial for the orderly and healthy development of the asset management business of Chinese banks.

[1] Relevant regulations refers to:

The Measures for the Administration of Wealth Management Subsidiaries of Commercial Banks (Order [2018] No. 7) Articles 2 and 7-9, issued by CBIRC on December 2, 2018.

3. Foreign asset managers are allowed to partner with the subsidiaries of Chinese banks or insurers to set up asset management companies that are controlled by the foreign party.

According to relevant regulations,[2] asset management subsidiaries of Chinese banks and insurance companies refers to **bank asset management subsidiaries** and **insurance asset management companies**, respectively. If an asset management subsidiary is established through a **joint venture** between a **foreign asset management agency** and a Chinese bank or insurance company and **controlled by the foreign party**, the subsidiary will be placed in a new category of financial institutions.



At a press conference, a spokesperson for CBIRC said that joint ventures between foreign asset management agencies and Chinese banks or insurance companies to establish an asset management company controlled by the foreign party would be **permitted on a trial basis initially**, and that **mature and stable asset management agencies recognized by foreign markets** would be given priority. The asset management company will be able to **raise the capital wholly in RMB or partly in long-term foreign currencies**.

[2] Relevant regulations refers to:

1. The Measures for the Administration of Wealth Management Subsidiaries of Commercial Banks (Order [2018] No. 7) issued by

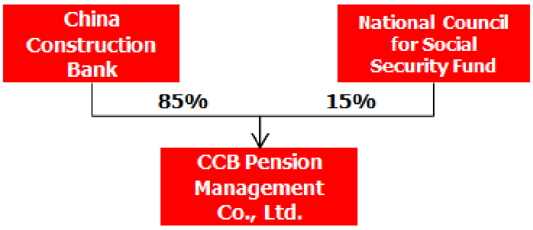
CBIRC on December 2, 2018.

2. The Provisional Regulations on the Administration of Insurance Asset Management Companies (Order of the President [2004] No. 2) issued by CBIRC on April 21, 2004.

4. Foreign financial institutions are allowed to set up or invest in pension fund management companies.

China's current multi-layered pension system is comprised of the following: (1) basic pension, (2) occupational pension/corporate pension, (3) individual pension insurance, (4) commercial insurance, etc. The Chinese pension management market is primarily concerned with the second pillar, corporate pension. Pension management is still in the trial phase, and the sole domestic pension management company is **CCB Pension Management Co., Ltd**.

CCB Pension Management Co., Ltd. **officially began business on November 4, 2015** after it was screened by the China Banking Regulatory Commission and given approval by the State Council. The company is initiated by the China Construction Bank and jointly established by the National Council for Social Security Fund as a strategic investor. It is registered in Beijing and has RMB 2.3 billion registered as capital. **China Construction Bank** and the **National Council for Social Security Fund** have an 85% and 15% stake, respectively.



It is believed that permitting foreign financial institutions to establish and invest in pension management companies will allow the introduction of advanced management experience and raise pension management standards.

5. Foreign investors will be given support to establish or invest in currency brokers.

According to relevant regulations,[3] **currency brokers** refers to domestic non-bank financial institutions that are established in China and specialize in brokerage services that facilitate financing of funds, foreign exchange transactions, etc. between financial institutions using digital technology or other means, and receive commissions.

There are currently five currency brokerage firms in China, all of which are joint ventures between Chinese and foreign companies. The equity shares are as follows.

No.	Currency Broker	Domestic Shareholder	Share	Foreign Shareholder	Share
1	Shanghai CFETS-NEX International Money Broking	China Foreign Exchange Trade System (CFETS)	67%	ICAP Limited	33%
2	Tullett Prebon SITICO (China) Limited	Shanghai International Trust Company	67%	Tullett Prebon (Europe) Limited	33%
3	Ping An Tradition International Money Broking Company Limited	Ping An Trust & Investment Company	67%	Compagnie Financière Tradition	33%
4	China Credit BGC Money Broking Company Limited	China Credit Trust Co., Ltd.	67%	BGC Partners, Inc.	33%
5	CITIC Central Tanshi Money Brokering Company Limited	CITIC Trust Co., Ltd.	48%	Central Tanshi Co., Ltd.	33%
		Tianjin Trust Co., Ltd.	19%		

Providing support for foreign investors to establish currency brokerage firms using their own capital or to take an equity stake in a broker also supports the voluntary adjustment of the proportion of foreign ownership through equal negotiation between the domestic and foreign shareholders of existing currency brokerage firms, while at the same time promoting the establishment of new foreign currency brokers.

[3] Relevant regulations refers to:

The Measures for the Administration of Pilot Currency Brokerage Companies (Order [2005] No. 1) issued by the China Banking Regulatory Commission on August 8, 2005.

6. The transition period for raising the foreign ownership cap on life insurance companies from 51% to 100% will end in 2020, instead of 2021 as previously stated.

According to the relevant regulations,[4] life insurance is insurance that covers human life and the body, and includes life insurance, health insurance, accident insurance, etc.

Until now, when foreign insurance companies established an **insurance company conducting life insurance business** in China **as a joint venture** with a Chinese company, **the foreign company's stake was required to not exceed 50%**. On June 28, 2018, the Ministry of Commerce and the National Development and Reform Commission announced the Special Administrative Measures on Access to Foreign Investment (Negative List) (2018 version), which announced that the **foreign ownership cap on life insurance companies would be raised to 51%** and that **all restrictions on foreign ownership in the financial field would be eliminated by 2021**.

During his opening remarks at the 13th Summer Davos Forum on July 2, 2019, Premier Le Keqiang of the State Council announced that in order to further open the financial industry, the **foreign ownership restrictions in** the securities, futures, and **life insurance** industries as defined in the negative lists **will be eliminated one year earlier, in 2020 instead of in 2021**.

At a press conference, a spokesperson for CBIRC announced that the promulgation of the Regulation of the People's Republic of China on the Administration of Foreign–Funded Insurance Companies would be implemented.

[4] Relevant regulations refers to:

1. Article 95 of the Insurance Law of the People's Republic of China (Order No. 26 of the President of the PRC) amended by the Standing Committee of the National People's Congress on April 24, 2015.

2. Article 3 of the Detailed Rules for the Implementation of the Regulation of the People's Republic of China on the Administration of Foreign-Funded Insurance Companies (Order [2004] No. 4) amended by the China Insurance Regulatory Commission on February 13, 2018.

7. The requirement that domestic insurers must hold in total at least a 75% equity interest in an insurance asset management company will be removed, and the ratio of foreign ownership in insurance asset management companies may exceed 25%.

As of July 20, 2019, there are 24 insurance asset management companies in China.

Previously, according to relevant regulations,[5] domestic insurers were required to hold in total **at least 75%** equity in an insurance asset management company. The removal of this requirement **allows foreign investors to hold over 25% in equity** interest.

[5] Relevant regulations refers to:

1. Article 9 of The Provisional Regulations on the Administration of Insurance Asset Management Companies (Order No. 2 of the President) issued by the China Insurance Regulatory Commission on April 21, 2004.

8. The qualifications for a foreign insurer that is eligible to invest in China will be further relaxed by abolishing the requirement that the foreign insurer should have been in business for no less than 30 years.

Previously, according to relevant regulations,[6] foreign insurers looking to establish a foreign-funded insurance company in China were **required to have been in business for a minimum of 30 years**. Since the restrictions were removed, **foreign insurers with operation characteristics and special sessions are able to invest** in China, **even if there is a lack of a certain number of years in the insurance business**.

[6] Relevant regulations refers to:

Article 8 of the Detailed Rules for the Implementation of the Regulation of the People's Republic of China on the Administration of Foreign-Funded Insurance Companies (State Council Order No. 336) amended by the State Council of the People's Republic of China on February 6, 2016.

9. Foreign ownership restrictions in securities companies, fund management companies, and futures companies will end in 2020, one year earlier than originally planned.

Relevant regulations[7] stipulate a limit to the total amount of foreign ownership (including both direct and indirect ownership) of foreign-invested securities companies, fund management companies, and futures companies.

On June 28, 2018, the Ministry of Commerce and the National Development and Reform Commission announced the Special Administrative Measures on Access to Foreign Investment (Negative List) (2018 version), which **eased foreign ownership restrictions on securities, fund management, and futures companies to allow investment up to a maximum stake of 51%**, and approved the **lifting of all restrictions in 2021**.

During his opening remarks at the 13th Summer Davos Forum on July 2, 2019, State Council Premier Le Keqiang announced that in order to further open up the financial industry, the **foreign ownership restrictions in** the **securities**, **futures**, and life insurance industries as defined in the negative lists would be **eliminated one year earlier, in 2020 instead of in 2021**.

[7] Relevant regulations refers to:

1. Article 7 of the Administrative Measures for Foreign-Invested Securities Companies (Order No. 140) issued by the CSRC on April 28, 2018.
2. Article 10 of the Measures for the Administration of Securities Investment Fund Management Companies (Order No. 84) issued by the CSRC on September 20, 2012.
3. Article 10 of the Administrative Measures for Foreign-Invested Futures Companies (Order No. 149) issued by the CSRC on August 24, 2018.

10. Foreign-invested financial institutions are allowed to obtain Type-A underwriting licenses in the interbank bond market.

Type-A underwriting licenses refers to a **license to conduct Type-A lead underwriting for debt financing instruments issued by non-financial companies**, and covers **all types of non-financial company debt financing instruments**.

According to relevant regulations,[8] non-financial company debt financing instruments are marketable securities that promise the return of principal and interest within a defined period of time and that are issued by a non-financial company in the interbank bond market.

As of July 20, 2019, there are 132 underwriting companies (67 lead underwriters and 65 underwriters) for non-financial company debt financing instruments, of which 41 are type-A lead underwriters (none foreign-owned), 26 are type-B lead underwriters (3 foreign-owned), and 65 are underwriters (3 foreign-owned).

Please refer to the chart below for a breakdown of the foreign underwriters.

No.	Underwriting qualification	Foreign-owned institution
1	Type-B lead underwriter	HSBC Bank (China)
2		Standard Chartered (China)
3		BNP Paribas (China)
4	Underwriter	JPMorgan Chase (China)
5		Citibank (China)
6		Deutsche Bank (China)

A person in charge at the People's Bank of China said in a press conference that permitting foreign-invested institutions to obtain Type-A lead underwriting licenses will expand the scope of foreign institutions' underwriting business from underwriting the debt financing instruments of offshore non-financial companies to all types of debt financing instruments, and **stimulate more foreign investment demand for domestic companies' bond financing.**

[8] Related regulations refers to:

1. Article 2 of the Administrative Measures for Debt Financing Instruments of Non-Financial Enterprises in the Interbank Bond Market (Order [2008] No.1) issued on April 9, 2008 by the People's Bank of China.

11. Additional measures will be implemented to further facilitate foreign institutional investors' investment in the interbank bond market.

Currently, foreign institutional investors can invest in the interbank bond market through several channels including the Qualified Foreign Institutional Investor/RMB Qualified Foreign Institutional Investor (QFII/RQFII) programs, CIBM Direct Access, and Bond Connect. However, if the same foreign investor uses multiple channels to invest in the interbank bond market, a lot of labor is required during market entry, bond delivery, capital transfer, etc. because each channel is independent.

Therefore, on May 10, 2019, the People's Bank of China and the State Administration of Foreign Exchange issued the Notice on Issues Related to Further Facilitating Investment in the Interbank Bond Market by Institutional Investors (a draft to solicit opinions) in an effort to solve the problems regarding bond delivery, capital transfer, and duplicate notifications that result from foreign institutional investors using multiple channels.

A person in charge at the People's Bank of China said at a press conference that the notice above would be made public soon.

3. Effects on companies

The opening up of China's financial sector that results from the Measures covers a wide span of business areas. The contents of the Measures are also prescribed in detail, creating a market environment that is more open to foreign institutions looking to invest in the Chinese financial sector. We will continue to follow up on relevant information and release further updates as they come.

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