China further opens up financial sector

A compilation of EY POVs (I)
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Since China’s accession to the World Trade Organization (WTO) in 2001, the country has gradually relaxed restrictions on foreign financial institutions (FIs), including in relation to their structure, as well as business location and scope. The new initiatives recently launched are proof of China’s policy commitment to further opening up, relaxing its restrictions and creating a fair and transparent environment that will help streamline the administration of foreign FIs and encourage their participation in China’s financial sector. This shows China’s readiness and confidence to embrace a more open financial market in the period ahead. According to the data released by the China Banking and Insurance Regulatory Commission (CBIRC) and the China Securities Regulatory Commission (CSRC), as of the end of 2017, China had seen banks from 14 countries and regions set up 38 wholly foreign-owned subsidiaries and one joint-venture bank, 73 foreign banks from 30 countries and regions set up 122 branches, and another 143 banks from 46 countries and regions establish 163 representative offices. The data also show that about 10% of the total securities firms in China were joint ventures, and nearly one-third of property insurance companies and life insurance companies were foreign-owned or joint ventures. As foreign financial institutions have stepped up efforts to expand their presence in China, the Chinese financial institutions have also actively expedited their globalization strategies by bringing in foreign strategic investors and implemented their “going global” initiatives through mergers and acquisitions, equity participation, and the establishment of new outlets. Leveraging networks spread all over the world, they have established connections with more banks globally via a variety of business approaches. The CBIRC data indicates that, as of the end of 2017, 23 Chinese banks had established 238 tier-1 entities in 65 countries and regions, and 10 of these banks had established 68 tier-1 entities in 26 countries along the “Belt and Road”.

The opening up of China’s financial sector has been evidenced in many ways, in particular the relaxation of restrictions on the structure, location and scope of business for foreign financial institutions. Since the second half of 2017, the Chinese government has ramped up efforts to open this important sector. The relevant domestic financial regulators have followed this move by issuing new policies, creating greater opportunities for the development of foreign financial institutions.

This EY POV compilation consists of all the previously issued POV reports and is designed to help foreign financial institutions to understand the big picture of the new opening-up policies issued recently by the regulators, and what EY can do to assist foreign financial institutions. EY teams continue to follow the development of new opening-up policies targeting the financial sector and provide timely, detailed and thorough policy interpretations for overseas investors.
Summary

At a press briefing on 10 November 2017, China’s Vice Finance Minister Zhu Guangyao announced plans to remove caps on foreign ownership in Chinese financial institutions. Foreign investors now have indicative timelines showing when they will be allowed to take controlling stakes in the Chinese financial institutions. We believe it is a major step forward by the Chinese government showing its determination and confidence in further opening up of China’s financial services sector. There are challenges along with the opportunities for the foreign players. Changes may not be happening overnight but they are affecting all financial sectors and they will be seen to be significant over time. We expect the detailed rules to come out shortly.

Greater foreign ownership could bring in greater competition as well as the potential to build a more robust, transparent financial services sector. It would also lay out a solid foundation for the globalization of Renminbi, the development of the bond and capital markets, and relaxation of capital inflows and outflows in the future.

We expect that many foreign players will be considering expanding their investment in China’s financial sector in the near future. However, given the huge investment cost that may incur in obtaining control over a large bank, we expect that more acquisitions in the banking sector will be targeted at the small-sized city commercial banks and rural commercial banks. On top of the normal financial and legal due diligence, we believe that proper commercial diligence on the business model of these banks will be critical. We also expect to see some of the foreign partners of securities joint-ventures seek to increase their stake soon. Fund management companies and distressed asset management companies could also attract foreign investment due to their favorable growth prospects.
Our point of view

On 10 November 2017, the State Council Information Office of the People’s Republic of China held a briefing to discuss the economic outcome resulting from the Beijing meeting between the Chinese and US presidents. Zhu Guangyao, China’s Vice Minister of Finance, explained the specific points of the agreement in the economic field which had emerged from the consensus reached by the two government leaders.

In order to implement the opening-up initiatives put forth at the 19th CPC National Congress, China will liberalize the foreign ownership limits for institutions in the financial services sector.

► Foreign investors will be allowed to own as much as 51% of shares in a joint venture in securities, fund management and futures brokers. The cap will eventually be phased out in three years.

► Current foreign ownership restrictions in Chinese banks and financial asset management companies will also be removed.

► After three years, foreign investors will be allowed to own up to 51% of shares in joint ventures in life insurance, with phase-out of the cap in five years.

We see this move as the most significant breakthrough in recent years, showing that the Chinese government has decided to massively open up its financial sector to foreign investors by allowing the latter to take controlling stakes in Chinese financial institutions with indicative timelines.

Since China’s accession to the WTO in 2001, China has gradually relaxed restrictions on foreign financial institutions relating to establishment type, geographical location and business scope. According to the data published by CBRC, CSRC and CIRC, by the end of 2016, foreign-funded banks had established 1,031 outlets in 70 cities across 27 provinces in China and held 1.3% of the total assets in the domestic banking system. Among securities companies in China, Sino-foreign joint ventures accounted for 10% by number. Foreign-capital and Sino-foreign joint ventures together accounted for nearly one third of total insurers. Meanwhile, Chinese-capital financial institutions have also actively deployed international strategies, both domestically to attract foreign strategic investors, while in other countries pursuing a "go global" strategy through mergers and acquisitions, equity holdings and establishment of a new operating presence. With antennae stretching across the globe, they are engaged in diverse operations bringing them together with more and more financial institutions worldwide. As of 2016 year-end, a total of 22 Chinese-funded banks commanded 1,353 branches in 63 overseas countries and regions.

As foreign investors take larger stakes and gain more decision-making power, they will have larger influence over the big decisions of product innovation, market building, business models and management expertise. With China’s growing middle-class and aging population, the greater market access will offer foreign institutions a great opportunity in wealth management, private banking, and retirement business. Further liberalization of the financial sector also can drive the creation of a stronger and more competitive financial industry in China.

The increased competition will push Chinese financial institutions to become more efficient in how and where they lend and invest money. They will have a chance to replicate the technology, legal frameworks and expertise concentration from their foreign investors. Competitive strengths and market opportunities will continue to guide foreign banks to evolve and choose different paths of expansion. While some are building a retail presence and expanding their networks, others focus on narrow market niches.

Although relaxed foreign-ownership limits for financial institutions represent an important step forward in opening up the financial services sector. Foreign investors are able to obtain controlling stakes in these financial institutions through acquisition or increasing their existing equity holding, the changes won’t come easy. Some of observations and initial thoughts below might be worth considering:

1. The announcement leaves some questions unanswered, such as the explicit date when the liberalization would become effective and how it would be implemented. But it is foreseeable that this will be announced in the near future.

2. The timelines for liberalization vary by sector:

I. Banks and asset management companies

The current foreign ownership caps in these companies (individual foreign shareholder: 20%, all foreign shareholders: 25%) will be removed. Foreign shareholders will be subject to the same restrictions as the local shareholders. It is expected that foreign investors will be able to take a controlling stake through new acquisition or increasing an existing equity holdings from the effective date for this group of financial institutions. Factors to be considered:

► The big-5 state-owned commercial banks (tier 1 banks) and some of the joint-stock national banks (tier 2 banks) as well as some of the city commercial banks and rural commercial banks (tier 3 and tier 4 banks) are listed in Hong Kong, which requires that any acquisition / increase in existing equity holdings in these banks to 30% or more must include a mandatory general offer to all incumbent shareholders, which would imply huge investment cost. But, more importantly, this would facilitate foreign investors’ strategic move to gain entry or increased footprint in mainland China.

► Most of the tier 3 and tier 4 banks tailor their operations to the local conditions of the host city or region. In view of the differences in market maturity, culture, risk characteristics and potential between cities/ regions, on top of the normal financial and legal due diligence, we believe that commercial diligence on the business models of these banks will be critical.

► Commercial banks in mainland China have been facing severe competition and disruption from the Fintech giants such as Alibaba, Tencent and the non-bank financial institutions that employ advanced technology in providing banking services. As a result, there is urgency for traditional commercial banks to drive in-depth transformation to keep pace with the competition and disrupt the disruption, this may mean continuous heavy investment in technology over the next couple of years.

► We don’t anticipate immediate acquisitions by foreign financial institutions in the near term, but that banks with existing presence in mainland China will refine their strategies and may make future investments to grow their footprint in strategic regions.

Foreign investors are expected to gain greater access to the distressed assets market and participate in the competition as the foreign ownership in asset management companies are relaxed, thus increasing the market efficiency.
II. Securities firms, future traders and fund/ asset managers

Foreign investors will be able to increase their equity holdings in financial institutions under this category to 51% on the effective day (the current cap is 49% and might be raised to 51% under CEPA arrangement); three years after the effective day foreign investors will be allowed to increase their investment to 100% - in other words, these financial institutions would be completely liberalized to foreign investors after three years.

Financial institutions in the mainland in this category are facing similar challenges as the commercial banks. We believe that some foreign financial institutions with existing stakes in mainland securities firms will look to increase them in the near term upon liberalization.

We believe the opening up of the securities industry will be beneficial to the growth in China’s capital market. It will not only improve brokerage, investment banking and other securities services by introducing foreign competition, but also facilitate the attraction of global capital investments into A-Share markets. We foresee a new era of growth for China’s capital market and the securities industry in the medium term.

III. Insurers

Foreign investor will be able to increase their equity holdings in life insurers to 51% three years after the effective day. These would be completely liberalized to foreign investors after five years. As the life insurance business is the last business which has not been liberalized, the insurance sector will be fully opened to foreign investors after five years.

This may not have immediate impact on the insurance landscape as most large insurance players already have presence in China. In the longer term as far as 3 or 5 years of time, certain foreign players may be interested to increase their stakes in their insurance JVs or acquire those stakes from their current JV partners. Some large foreign insurance players might also consider to invest in leading asset management companies to elevate their investment capabilities and increase investment returns.

We may also see large reinsurers companies expand their presence in China through investment, partnerships, alliances or even acquisitions in the long term.

Conclusion

China’s move to further open up the financial sector presents both opportunities and challenges for foreign investors. Getting the selection, timing and approach all in alignment for an investment into a financial institution involves in-depth consideration of due diligence results, investment strategy, licensing/ incorporation and special audit, etc., each of which can influence the transaction in a different way. Therefore, the most successful foreign investors will be those that get well-prepared in all the related aspects along this journey.
Summary

A month after we released EY’s Point of View “China Further Opens Up Financial Sector (I)” to share our interpretation of China’s Vice Finance Minister Zhu Guangyao November 2017 announcement of nationwide plans to remove caps on foreign ownership in Chinese financial institutions, the China Banking Regulatory Commission (CBRC; currently called “CBIRC”) issued the Decision of the CBRC on Revising the “Implementation Measures of the CBRC for Administrative Licensing Matters Relating to Foreign-funded Banks” (“Implementation Measures”) on 24 February 2018 to flesh out implementation policies reflecting the broad initiative of “promoting the formation of a new landscape for all-round opening-up” set forth in the 19th National Congress of the Communist Party of China.

We view CBRC’s release of the Implementation Measures in quick response to the Ministry of Finance (MOF) announcement as a clear signal of the government’s commitment to further opening up and streamlining of administration, and demonstrates the determination of the CBRC to continuously support foreign banks to participate in the Chinese market and to build a fair and transparent policy environment for both Chinese and foreign players.

Our expectation is that foreign banks can look forward to a smoother road to investing into China’s financial sector following the promulgation of this round of Implementation Measures and further implementation rules.

Comparative analysis

The CBRC has signaled its intentions to provide foreign banks with improved operational accessibility to the Chinese market through amendments to the Implementation Rules of the CBRC for Administrative Licensing for Foreign Banks (Order of CBRC [2015] No.4) (“Former Rules”) which further open up the banking sector and streamline administration.

The Exposure Draft introduced four new rules, revised five original rules and removed 14 old rules. CBRC summarized the amendments along the following three aspects:

► Provide an explicit legal basis for inbound investment by adding rules applicable to foreign banks in China either investing in newly-established domestic corporate entities or taking equity holdings in existing banks operating domestically.

► Apply a reporting mechanism to replace the previous approval system on foreign banks’ overseas wealth management business, custody services for overseas wealth management, custody services for securities investment funds, and the repatriation of interest-earning assets by foreign financial institutions in the liquidation process.

► Further standardize the market entry rules for Chinese and foreign banks, integrate the approval procedures for establishment and opening of sub-branches, optimize the conditions for foreign banks to issue debt and capital replenishment instruments, and simplify the qualification review procedures for senior executives.
### Comparative analysis of policy changes

In this section, we analyze and present our point of view on the three aspects with comparative analysis of specific rules in the Exposure Draft and the Former Rules.

<table>
<thead>
<tr>
<th>No.</th>
<th>Amendment</th>
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<th>Exposure draft</th>
<th>Changes</th>
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<tbody>
<tr>
<td>1</td>
<td>Add a new chapter comprising rules on the establishment of domestic corporate entities by foreign banks as investors and on their equity holding in domestic banking financial institutions</td>
<td>Previously unspecified</td>
<td>Article 59: A wholly foreign-funded bank or a Sino-foreign joint-equity bank shall satisfy the following requirements when applying to establish or invest in a banking financial institution in China: (1) It has a sound and effective corporate governance structure. (2) It has effective risk management and internal control. (3) It has good consolidation capability. (4) Its main prudential regulatory indicators meet the regulatory requirements. (5) In principle, its equity investment balance does not exceed 50% of its net assets (under consolidated financial statements). (6) It has a robust and compliant information technology system, information security system, and standardized data management system, and possesses technologies and has implemented measures to ensure business continuity, effectiveness and safety. (7) It has no record of serious violation of laws and regulations or of serious cases due to internal management issues within the most recent two years (except for circumstances arising from establishment of, or equity investment in, banking financial institutions in China when implementing inclusive finance policies). (8) It has booked profits for three consecutive accounting years. (9) It has a good regulatory rating; (10) It satisfies other CBRC prudential regulations.</td>
<td>Adds rules on the application conditions, procedures and documents for foreign banks that seek to establish and invest in the banking financial institutions in China.</td>
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### Our view:

We believe the most notable of these nine amendments is the addition of a new chapter that includes rules on licensing requirements, procedures, and documents for the establishment of, and investment in, banking financial institutions in China. As effective supplements to the Notice of the General Office of the CBRC on Matters related to the Business Development of Foreign Banks (Yin Jian Ban Fa [2017], No. 12) issued by the CBRC in March 2017 and the Implementation Rules for Administrative Licensing for Chinese Banks revised in July 2017, these new rules are designed to remove the blind spots in policies governing the foreign banking entities’ equity investments in banking financial institutions operating in China, promote further integration of market entry standards for both Chinese and foreign banks and provide a legal basis for foreign banks making equity investments into the domestic market.

The application procedures and documents and licensing requirements specified in Implementation Measures highlight the CBRC’s regulatory focus on corporate governance and risk control to ensure that markets remain stable and risks remain under control as foreign banks expand their presence in China’s financial markets.

Notable by its absence is that the Implementation Measures has not introduced explicit amendments to echo MOF’s decision to remove the foreign ownership caps in Chinese banks (individual foreign shareholder: 20%; foreign shareholders collectively: 25%). Nonetheless, we believe that the CBRC will make revisions to the Implementation Rules for Administrative Licensing for Chinese Banks, among other applicable rules and regulations, with an aim to further open up China’s banking sector.
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<tr>
<td>2.</td>
<td>Abolish rules on approval and licensing for four types of businesses</td>
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<tr>
<td>2</td>
<td>Remove Article 126 - Article 134 of Former Rules</td>
<td>Article 126-134 are included in three sections in Chapter V: Business Scope Section 5 (Article 126-128): Development of Custody Services for Securities Investment Funds Section 6 (Article 129-131): Development of Overseas Wealth Management Services for Clients Section 7 (Article 132-134): Development of Overseas Wealth Management Custody Services for Clients</td>
<td>Article 126 to Article 134 are deleted in their entirety. Apply a reporting mechanism to replace previous approval system.</td>
<td>Abolishes rules on application requirements, procedures, and documents for three types of businesses.</td>
</tr>
<tr>
<td>3</td>
<td>Remove Article 95 &amp; Article 96 of Former Rules</td>
<td>Article 95: Application procedures for the branch of a foreign bank that repatriates interest-earning assets after paying off all liabilities upon approval of shutdown. Article 96: Application documents required of the branch of a foreign bank to submit to the CBRC or its local office for repatriation of interest-earning assets upon approval of liquidation.</td>
<td>Article 95 &amp; Article 96 are deleted in their entirety. Apply a reporting mechanism to replace previous approval system.</td>
<td>Abolishes rules on the application procedures and documents for the branch of a foreign bank to repatriate interest-earning assets upon liquidation.</td>
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</table>

**Our view:**

The Implementation Measures not only introduces a legal basis for foreign banks to newly enter the domestic market, but also provides existing foreign banks operating in China with greater flexibility to expand into new business lines or exit from old ones. Implementation Measures on approval and licensing procedures are replaced with a reporting mechanism for four types of businesses (overseas wealth management services for clients, overseas wealth management custody services for clients, custody services for securities investment funds and repatriation of interest-earning assets by liquidated foreign financial institutions), a clear signal of CBRC’s intentions to minimize administrative licensing and simplify relevant procedures for foreign financial institutions. As expressed in a CBRC media briefing, this is concurrent with in-process and on-going prudential and dynamic regulation to ensure risk control and avoid a gap in regulatory coverage.

We believe the relaxation of market entry rules on developing the overseas wealth management services and overseas wealth management custody services for clients will encourage foreign financial institutions to leverage their global networks to better satisfy the growing demands of domestic investors seeking to shift their portfolios towards overseas assets and differentiate themselves in providing services for overseas wealth management.

The removal of the approval procedures on custody services for securities investment funds in the Implementation Measures is clearly a concrete step towards reducing the administrative burden on foreign banks arising from this new business. However, as these business areas are governed by comprehensive regulatory cooperation with the China Securities Regulatory Commission (CSRC) and the Asset Management Association of China (AMAC), the full picture may not emerge until forthcoming policy changes by these two bodies are announced.

The nullification of approval procedures on the repatriation of interest-earning assets by liquidated foreign financial institutions and abolishment of rules on the other three types of businesses are also a symbolic indication that CBRC is not merely extending a one-way invitation for inbound investment, but also taking substantive measures to provide foreign players with efficient market exit options going forward.
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<tr>
<td>3.</td>
<td>Standardize rules on market entry for Chinese and foreign banks</td>
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<td>4</td>
<td>Remove Article 50 – Article 52 of Former Rules</td>
<td>Article 50: The establishment of a sub-branch is subject to two phases - application for establishment and application for operation. Article 51: Application and approval procedures for the establishment of a sub-branch. Article 52: Documents required to be submitted to the CBRC or CRBC local office when applying for the sub-branch establishment.</td>
<td>Article 50 to Article 52 are deleted completely.</td>
<td>Abolishes rules on application requirements and procedures, as well as documents needed prior to the establishment of a sub-branch.</td>
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<td>5</td>
<td>Remove Article 53 of Former Rules</td>
<td>Article 53: Specific requirements on preparations for the establishment of a sub-branch.</td>
<td>Article 51: An applicant shall submit the preparation report on sub-branch establishment to the CBRC local office or an authorized office and ask for the application form for operation three days prior to start of the preparatory work.</td>
<td>Replaces the previous approval system with a reporting mechanism, which only requires foreign banks to submit the preparation report and collect the application form for operation.</td>
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<td>6</td>
<td>Add provisions to Article 54 of Former Rules</td>
<td>Article 54: A proposed sub-branch shall apply for regulatory acceptance by the CBRC local office or an authorized office upon completion of the preparatory work.</td>
<td>Article 51: An applicant shall complete the preparatory work within nine months from the submission of the preparation report for sub-branch establishment and apply for regulatory acceptance by the CBRC local office or an authorized office.</td>
<td>Abolishes rules on the application for a prolonged period of preparation for establishment, and extends the preparation period from six months to nine months.</td>
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<td>7</td>
<td>Revise Article 112 of Former Rules</td>
<td>Article 112: A wholly foreign-funded bank or Sino-foreign joint-equity bank shall satisfy the following requirements on issuing debt and capital replenishment instruments within the territory of China as approved by the CBRC:</td>
<td></td>
<td>Abolishes penalty rules against failure to submit an application for operation that results in invalidation of preparation approval documents; in case of missed deadlines, the applicant shall report to the CBRC local office or an authorized office.</td>
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**Note:** The changes are based on the exposure draft of the regulations, which aim to standardize and simplify the process for both Chinese and foreign banks entering the market. The regulations focus on aligning with international best practices and streamlining the administrative procedures.
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<tbody>
<tr>
<td>3. Standardize rules on market entry for Chinese and foreign banks (continued)</td>
<td></td>
<td>Article 114: Where a wholly foreign-funded bank or Sino-foreign joint-equity bank applies for issuing debt and capital replenishment instruments, the following documents shall be submitted to the CBRC or its local office: ..... (10) Report on credit ratings on financial bonds and statement on ongoing rating arrangements issued by a credit rating agency; (11) The letter of legal opinion issued by a law firm duly established within the territory of China; (12) Other documents as required by the CBRC.</td>
<td>Article 113: Where a wholly foreign-funded bank or Sino-foreign joint-equity bank applies for issuing debt and capital replenishment instruments, the following documents shall be submitted to the CBRC or its local office: ..... (10) Report on credit ratings on financial bonds and statement on ongoing rating arrangements issued by a credit rating agency; (11) Other documents as required by the CBRC.</td>
<td>Abolishes requirements on the letter of legal opinion included in the application documents.</td>
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<td>8</td>
<td>Remove part of provisions of Article 114 of Former Rules</td>
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<td>Article 143: A person does not need to re-apply for qualification review if he/she is to be moved to a post at the same level, or at a lower level, at the same legal entity, provided that he/she is qualified for acting as a senior executive and his/her period for continual interruptions of office is not more than one year. The proposed person shall, within five days from his/her appointment, report to the CBRC or its local office.</td>
<td>Article 133: A person does not need to re-apply for qualification review if he/she is to be moved to a post at the same level or at a lower level (or concurrently), at a foreign bank of the same type and same nature, provided that he/she is qualified for acting as a senior executive and his/her period for continual interruptions of office is not more than one year. The proposed person shall, within five days from his/her appointment, file with the CBRC or its local offices.</td>
<td>Relaxes the requirements on qualification review of senior executives of foreign banks.</td>
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<td>9</td>
<td>Revise Article 143 of Former Rules</td>
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**Our view:**

The Implementation Measures also introduced related reforms towards integrating the market entry standards for both Chinese and foreign banks. The changes can be summarized as follows: (1) the approval procedures for the two phases of establishing a sub-branch (application for establishment preparation and application for operation) were combined into one, with operation approvals remaining effective and the period of preparation extended by three months; (2) the requirements for foreign banks to issue debt and capital replenishment instruments were optimized, and the requirements on application documents were simplified, with a focus on regulatory compliance; and (3) the qualification review procedures for senior executives of foreign banks were simplified, and filing, rather than pre-approval, is sufficient in cases of transferring an executive to a post at the same or a lower level at a foreign bank of the same type or same equity-holding nature.

The above amendments highlight the CBRC’s efforts to provide more equal national treatment and facilitate more efficient business development of foreign banks through greater standardization of the requirements for Chinese and foreign banks in market entry, business access and senior executive qualification review. Foreign banks will also see an ease in their administrative burden for establishing a sub-branch following the consolidation of approval procedures for the preparation and operation phases. As compared with the *Implementation Rules for Administrative Licensing for Chinese Banks* (revised in July 2017), the Implementation Measures takes another step towards greater consistency in regulatory standard setting of both Chinese and foreign banks and enhances the alignment between requirements and related procedures.
EY insights and perspectives

We believe that the Chinese government will further accelerate financial reform and market opening concurrent with the steady development of national strategies such as RMB internationalization, the launch of pilot free-trade zones and the Belt and Road initiative, and in line with the key messages of the 19th CPC National Congress. The CBRC’s Exposure Draft presents substantial proposed changes to clarify the requirements for equity investment by foreign financial institutions, simplify the entry rules on new business for existing foreign banks operating in China and standardize the Chinese market entry requirements for foreign banks. These policy changes reflect the Chinese government’s determination to open up its financial markets and boost the confidence and sentiment among foreign financial institutions that seek to invest in China.

The Chinese government’s financial regulatory reforms to open up the market and streamline administration will undoubtedly bring business opportunities to foreign investors. However, foreign institutions will face challenges in responding to the ongoing and forthcoming financial reforms, such as reviewing their strategic plans for the Chinese market, selecting investment targets, and reallocating resources to new businesses. They will need to have a holistic view of investment in order to seize the emerging opportunities and minimize the exposure to risks from the transformation. Foreign investors should maintain a cautiously optimistic attitude in embracing China's progressive opening up of its financial markets.

The finalized version and forthcoming detailed implementation rules issued by other financial regulators need to be watched to determine the ultimate effects of the Exposure Draft. Still, baseline predictions of CBRC’s forthcoming detailed rules suggest that we can also expect other financial regulators to follow suit with related policies to open up the financial sector, so as to form a regulatory synergy that substantially benefits the foreign financial institutions as part of China’s financial reforms.

We will continue to stay apprised on the regulatory developments and market responses to present analysis of the impact of new regulations on foreign financial institutions.
Summary

The China Securities Regulatory Commission (CSRC) published the Measures for the Administration of Foreign-funded Securities Companies (“Measures”) on 28 April 2018 as a step towards implementing the central government’s call for “substantially liberalizing market access and further opening up the financial services sector.”

It follows the announcement by China’s Vice Finance Minister Zhu Guangyao of nationwide plans to remove caps on foreign ownership in Chinese financial institutions at a press briefing immediately after the November 2017 Sino-US summit.

The Measures mark the second announcement by a domestic regulator towards further financial market liberalization, following the 24 February 2018 issuance of the Decision on Amending the Implementation Rules of the China Banking Regulatory Commission on Administrative Licensing for Foreign Banks. It is a clear welcome sign from the CSRC to foreign financial institutions seeking to actively participate in China’s financial market. Once in effect, foreign investors are allowed, singly or in concert, to hold up to 51% of shareholding in securities companies directly or indirectly, and subsequently the cap would be removed completely within three years.

Throughout the 19th National Party Congress, the National People's Congress and the People’s Political Consultative Conference, national leaders emphasized that China would accelerate the pace of opening up to the outside world, heightening expectations for further opening-up of policies in China’s financial sector.

Comparative analysis

The Measures serve as a revision to the existing Rules for the Establishment of Foreign-invested Securities Companies (the “Former Rules”), reflecting the policy-making principles of continuity, gradualism and forward-looking perspective, moving towards the objective of opening up China’s securities industry by streamlining requirements for establishing joint ventures and expanding their business scope.

The Measures are comprised of 26 articles which altogether introduce one new rule and remove four old ones, while introducing substantive changes to seven original rules and text-level revisions to another 17. The revisions can be summarized into the following five areas, echoing the written descriptions provided by the CSRC:

► Allow foreign investors to gain control of joint venture securities companies; provide a legal basis for foreign investors to increase their proportionate holdings to take a controlling stake
► Phase out business scope restrictions for joint venture securities companies
► Improve the rules for foreign shareholding in listed securities companies
► Clarify the policies over the legal status of a domestic securities company following change in the actual controller of a domestic shareholder
► Improve the eligibility criteria applicable to foreign shareholders.
Comparative analysis of policy changes

1. Allow foreign investors to gain control of joint venture securities companies; provide a legal basis for foreign investors to increase their proportionate holdings to take a controlling stake

The main amendments in this part are as follows.

Firstly, the requirement for foreign investors to seek a domestic securities firm counterpart to establish a joint venture securities firm was removed. Secondly, the foreign shareholding proportional restriction clause in the Former Rules was removed, which marks the most fundamental change introduced in the Measures and also serves as the regulatory basis for allowing foreign-controlled joint venture securities companies.

Together with lifting caps on the shareholding proportion, the CSRC has also made certain restrictions on the currency denomination of capital contributions as well as the lower limit of the shareholding proportion by foreign shareholders. Article 7 requires that foreign shareholders invest with freely exchangeable currency. The proportion of foreign-invested securities companies held by overseas shareholders (including direct and indirect control) should be in line with the overall arrangements for opening up China’s securities industry.

2. Phase out business scope restrictions for joint venture securities companies

The Measures allows newly-established joint venture securities companies to initially apply for four types of businesses (as defined by Article 125 of the Securities Law and the Provisional Regulations on the Approval of the Business Scope of Securities Companies) in line with their own circumstances. Further expansion into up to two additional business types per application will be considered from the second year. The business types and associated minimum registered capital mandated by the Securities Law are as follows:

<table>
<thead>
<tr>
<th>Business type</th>
<th>Registered capital requirement (CNY)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Securities broking</td>
<td>Minimum 50 million</td>
</tr>
<tr>
<td>(2) Securities investment consulting</td>
<td>Minimum 50 million</td>
</tr>
<tr>
<td>(3) Financial advisory related to securities trading and investment activities</td>
<td>Minimum 50 million</td>
</tr>
<tr>
<td>(4) Securities underwriting and sponsoring</td>
<td>Minimum 100 million</td>
</tr>
<tr>
<td>(5) Securities proprietary business</td>
<td>Minimum 100 million</td>
</tr>
<tr>
<td>(6) Securities asset management</td>
<td>Minimum 100 million</td>
</tr>
<tr>
<td>(7) Other securities-related business</td>
<td>Minimum 100 million</td>
</tr>
</tbody>
</table>

* For a company with more than two businesses from items four to seven, the minimum amount of registered capital is CNY 500 million. The registered capital of a securities company should be contributed paid-in capital.

This phase out of business scope restrictions for joint venture securities companies stands alongside the relaxation of shareholding caps as the two key changes introduced by the Measures. The Measures remove the various business scope restrictions applicable to joint venture securities companies. However, the Measures still lack explicit provisions regarding the specific business areas open to foreign-funded securities companies by application.

To prevent a haphazard rush to grab up securities business licenses, the CSRC has included a provision in the Measures (new rule (2) to Article 5) that keeps the initial business scope for a foreign-funded securities company within the bounds established by the industry experience of the controlling shareholder and the largest shareholder.

3. Improve the rules of foreign shareholding in listed securities companies

The Measures removes the 25% shareholding cap for collective foreign investors. Article 22 specifies that collective foreign shareholdings (including direct and indirect ownership) in listed domestic securities companies shall be raised to a ratio “not exceeding commitments made towards opening up China’s securities industry”, which is aligned with the upper limit of foreign shareholding applied to unlisted firms.

The changes in foreign shareholding percentages which will be introduced upon the effectiveness of the Measures are summarized in the following table.

<table>
<thead>
<tr>
<th>Requirements on foreign shareholding proportion</th>
<th>Former Rules</th>
<th>The Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unlisted firms</td>
<td>No more than 49%</td>
<td>Not exceeding commitments made towards opening up China’s securities industry (no less than 25% in principle*)</td>
</tr>
<tr>
<td>Listed firms</td>
<td>Single foreign investor</td>
<td>No more than 20%</td>
</tr>
<tr>
<td></td>
<td>All foreign investors</td>
<td>No more than 25%</td>
</tr>
</tbody>
</table>

*The 25% foreign shareholding floor is waived for domestic securities companies acquiring foreign-funded status by force of law.
4. Clarify the policies over the legal status of a domestic securities company following change in the actual controller of a domestic shareholder

This requirement addresses the emergence of “the indirect holding of shares by foreign investors in certain domestic securities companies due to the change in the national status of the actual controlling (from Chinese to foreign ownership)” brought forth by the new regulations. The Exposure Draft has included the above case within the scope of foreign-invested securities companies and clarified the requirements. Such overseas investors are given a time limit to meet the requirements applied to foreign shareholders.

Article 14 of the Measures specifies the requirements applicable to domestic securities companies applying for conversion to foreign-invested status. It denotes that when foreign investors step into the roles of controlling shareholder or ultimate controller of a domestic securities company, those overseas investors must meet the conditions stipulated in Article 6. The shareholding proportion in their indirectly-controlled securities company must also conform to the provisions in Article 7. If the requirements are not met at inception, a time limit will be set for required remediation. Article 6 and Article 7 are set to address the qualification requirements and investment requirements on foreign investors, respectively. The application documents for domestic securities companies to apply for changes to foreign-invested securities companies are clearly defined in Article 15 of the Measures.

5. Improve the eligibility criteria applicable to foreign shareholders

The amendments to eligibility criteria for foreign shareholders aim to bring high-quality foreign shareholders and advanced overseas management experience into China. The Exposure Draft requires all foreign shareholders to be “financial institutions”, a change from the more limited previous requirement to include “at least one financial institution”. It also adds the following specific qualification requirements to the former rules demand for “good reputation and business performance”:

- Good international reputation
- Good business performance
- High global ranking in business scale, revenues and profits for the preceding 3 years
- Maintenance of high long-term credit ratings for the preceding 3 years
- Not subject to official investigation for serious violation of laws or regulations

Documents to support these requirements must be submitted to the CSRC when a joint venture securities firm shifts to shareholding by overseas investors.

These amendments aim to ensure that foreign shareholders comprise high-quality companies with extensive experience in financial activities. More explicit rules are likely to be introduced in the final version to replace the broad and non-quantified criteria - such as “good” and “high global ranking” - found in the current version.

---

List of Joint Venture Securities Companies (as of February 2018)

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Register time</th>
<th>Foreign shareholder(s)</th>
<th>Shareholding ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China International Capital Corporation¹</td>
<td>31 July 1995</td>
<td>GIC Private Limited and others</td>
<td>16.80%</td>
</tr>
<tr>
<td>2</td>
<td>BOC International</td>
<td>28 February 2002</td>
<td>BOC International Holdings Limited</td>
<td>37.14%</td>
</tr>
<tr>
<td>3</td>
<td>Goldman Sachs Gaohua</td>
<td>13 December 2004</td>
<td>Goldman Sachs Asia Limited</td>
<td>33%</td>
</tr>
<tr>
<td>4</td>
<td>UBS</td>
<td>11 December 2006</td>
<td>UBS Limited</td>
<td>24.99%</td>
</tr>
<tr>
<td>5</td>
<td>Credit Suisse Founder Securities</td>
<td>24 October 2008</td>
<td>CREDIT SUISSE AG</td>
<td>33.3%</td>
</tr>
<tr>
<td>6</td>
<td>Zhong De Securities</td>
<td>10 April 2009</td>
<td>Deutsche Bank</td>
<td>33.3%</td>
</tr>
<tr>
<td>7</td>
<td>Morgan Stanley Huaxin²</td>
<td>4 May 2011</td>
<td>Morgan Stanley Asia Limited</td>
<td>49%</td>
</tr>
<tr>
<td>8</td>
<td>Citi Orient Securities</td>
<td>4 June 2012</td>
<td>Citigroup Global Markets Asia Limited</td>
<td>33.33%</td>
</tr>
<tr>
<td>9</td>
<td>Shengang Securities³</td>
<td>8 April 2016</td>
<td>Willie International Holding Limited /Freeman Securities Limited</td>
<td>30%</td>
</tr>
<tr>
<td>10</td>
<td>Huajing Securities</td>
<td>19 August 2016</td>
<td>Maxson Securities Limited</td>
<td>49%</td>
</tr>
<tr>
<td>11</td>
<td>BEA Qianhai</td>
<td>9 August 2017</td>
<td>The Bank of East Asia, Limited</td>
<td>49%</td>
</tr>
<tr>
<td>12</td>
<td>HSBC Qianhai</td>
<td>28 August 2017</td>
<td>The Hongkong and Shanghai Banking Corporation Limited</td>
<td>51%</td>
</tr>
</tbody>
</table>

¹Source: CSRC website, the National Enterprise Credit Information Publicity System and annual reports
²Foreign shareholders of CICC include GIC(5.478%); TPG(4.31%); Mingly Corporation(3.075%); Oppenheimer Fund(2.017%); KKR Institutions(1.916%), according to its 2017 annual report
³Morgan Stanley Asia Limited has increased its shareholding to 49% according to an announcement from Huaxin Holding in 2017 and Morgan Stanley Huaxin’s website

3. Willie International Holding Limited and Freeman Securities Limited each holds 15%
EY insights and perspectives

The unveiling of the Measures marks a historical new stage in the opening up of China’s securities industry and represents a positive contribution to the global financial industry. It presents an excellent scaling-up opportunity for existing joint venture securities companies in China, which were previously hobbled by lack of scale, profitability and market influence, to narrow any gap in reputation or capabilities with respect to their own overseas shareholders. New entrants will also benefit from the more lucrative market environment.

We see the Measures as offering the following opportunities for the future development of foreign-funded securities firms in the Chinese market:

- **Full liberalization of the shareholding ratio**: Prior to the publication of the Measures, taking a full 51% position in the shares of the joint venture securities companies was only specially permitted to Hong Kong- and Macau-funded securities firms under the Supplementary Agreement 10 to the Mainland and Hong Kong on the Establishment of Closer Economic Partnership Arrangements. The Measures remove this territorial restriction and also lift the 51% foreign ownership cap, clearing the path for more proactive strategic approaches by foreign-funded securities companies to their development in the Chinese market.

  Recognition of the steady opening up of China’s capital markets can be seen in Morgan Stanley Capital International’s (MSCI) decision to add mainland China-listed A shares to its MSCI Emerging Market Index. Feedback from foreign-funded securities companies also indicates their growing interest in the Chinese market. Such companies are expected to enjoy a qualitative improvement in their influence and embrace new development opportunities following the loosening of the foreign ownership cap.

- **Full opening-up in permitted business activities**: The Measures also loosen restrictions on the business scope of foreign-funded securities companies. Full national treatment on par with other Chinese securities companies will follow from the removal of the original restrictions. In principle, foreign-funded securities companies will be able to progressively apply for business licenses in all areas stipulated in Article 125 of the Securities Law.

  Newly-established joint venture securities companies will immediately be able to move beyond the core activities of underwriting and sponsorship of stocks and bonds to pursue licenses for non-investment banking businesses, such as securities brokerage, investment consulting and proprietary trading, as long as they can demonstrate a relevant track record for their controlling shareholders.

  Moreover, large foreign financial institutions will enjoy the opportunity to take a group-wide perspective and fulfill their ambitions for development in the Chinese market by putting in place collaborative mechanisms to develop their securities business in concert with other business pursuits in China.

- **Full relaxation of eligibility requirements for joint venture shareholders**: The domestic shareholders of foreign-funded securities companies will no longer be limited by business type to securities firms or by territory to free trade zones. This will provide foreign-funded securities companies with an expanded pool of eligible domestic business partners and easier avoidance of direct business competition with their joint venture counterparts.

- **Challenges of operating in varied legal environments and meeting compliance requirements**: Foreign-funded securities firms expanding their domestic business will encounter fresh challenges in compliance and risk management, as the applicability of overseas experience is not guaranteed in dealing with the varied legal environments and compliance requirements of China.

  The Measures also fine-tune the eligibility criteria for foreign shareholders, who will now need to show a 5-year track record in the securities business and a home country regulatory record free of major blemishes for the preceding three years. The Measures also raise the bar on business scale, revenues and profits for the foreign investors in order to extend a welcome to high-quality companies with extensive experience in finance. We foresee greater convergence in the treatment of domestic and foreign capital under the future regulatory regime, following increased entry by foreign investors.

- **IT system upgrades and facility transfers**: Domestic compliance requirements on data security and confidentiality may require foreign-funded securities companies to transfer and host some of their IT systems within China’s borders. In addition, legacy systems may face capacity challenges in keeping pace with the transaction volumes and processing speeds demanded by their China-based business.

- **Hiring and training employees to serve business development needs and fit corporate culture**: As foreign securities firms take controlling stakes and expand their business scope, they will need to consider how to use appropriate channels within China to attract personnel comfortable operating in the home country language and culture and who are also proficient in China’s securities business. A further medium- to long-term challenge is presented by the rolling out of talent training processes in line with both business development needs and the firm’s corporate culture.

Release of the Measures is a catalyst for opening up the Chinese securities industry to foreign capital, bringing in additional international development experience and increasing competition within the industry. Although the Measures already provide relatively clear operational guidance for foreign investors wanting to enter the Chinese securities markets, as stated above, some details remain to be fleshed out. We will continue to closely follow any interim updates leading up to the final version of the Measures to further analyze the impact of the new regulations on foreign financial institutions.
Interpreting the CBIRC’s Initiative to Expedite the Market Opening-up for the Banking and Insurance Industries

Summary

The day following President Xi Jinping’s speech at the opening ceremony of the Boao Forum for Asia on 10 April 2018 announcing China would substantially relax restrictions on access to its financial markets, Yi Gang, the Governor of the People’s Bank of China (PBOC), laid out 12 liberalization measures for the financial sector tied to a clear timetable at the Monetary Policy Normalization Sub-forum on 11 April (Please refer to the previous POV: China Further Opens Up Financial Sector (III) and Appendix for details). On 27 April, the Chinese Banking and Insurance Regulatory Commission (the “CBIRC”) published on its official website the “Initiative of CBIRC to Expedite the Market Opening-up for the Banking and Insurance Industries” (the “Opening-up Initiative”) together with two related documents, the “Notice of the CBIRC on Expanding the Business Scope of Foreign-funded Insurance Brokerage Companies” and the “Notice of the Office of the CBIRC on Further Relaxing Market Access for Foreign-funded Banks”.

Release of the Opening-up Initiative marks an efficient and active response to the new propositions set forth at the Boao Forum for Asia as well as President Xi’s appeal to ensure quicker implementation of the previously announced major opening-up measures and endeavor to bring the benefits of China’s opening-up to global enterprises and people as early as practicable. The Opening-up Initiative aims to drive forward the implementation of those announced financial opening-up measures from the perspective of the CBIRC. We believe that by facilitating the foreign investment and expanding the scope of business of foreign financial institutions, the Opening-up Initiative can be expected to further improve the national treatment and business environment for them.

In the following sections, we will refer to and summarize specific contents from the Opening-up Initiative and Notices of the CBIRC, and put forward our point of view.
Policy interpretation

Key notes of the Policy

According to the announcement of the CBIRC, the key aspects of the Opening-up Initiative are as below:

► Facilitating foreign investment, including removing caps on the foreign shareholding ratios in domestic banks and financial asset management companies, treating domestic and overseas investors with identical equity investment rules; lifting restrictions on the foreign shareholding proportion in financial asset investment companies and wealth management companies newly established by commercial banks; encouraging the influx of foreign capital into banking industry areas such as trust business, financial leasing, auto finance, currency brokerage and consumer finance; and relaxation of shareholding ratio cap for life insurance companies initially to 51%, followed by complete phase-out within 3 years;

► Relaxing the requirements on establishing an entity with foreign capital, including policies to allow foreign-funded banks to establish both branches and subsidiaries in China, and to abolish the requirement of a 2-year representative office presence prior to the establishment of a foreign insurance company;

► Expanding permitted business scope of foreign-funded institutions, including abolishing the requirement for foreign banks to be subject to a 1-year waiting period before applying to engage in RMB business; allowing the branches of foreign-funded banks to distribute and redeem (in an agent capacity) or underwrite government bonds; lowering the single-unit minimum threshold to RMB 500,000 for the branches of foreign banks to accept retail time deposits, and allowing eligible foreign investors to operate insurance agency business and insurance assessment business;

► Optimizing supervision over foreign-funded institutions, apply a consolidated assessment mechanism to the domestic branches of foreign banks, and adjust the requirements over the operating capital management of the branches of foreign banks.

Concrete actions

To ensure early implementation of these measures, the CBIRC is accelerating the development of the applicable laws and regulations and supporting policies. In the immediate future, a series of substantive measures are to be rolled out as follows:

► Issuance of the “Notice on Further Relaxing Market Access for Foreign-funded Banks” (refer to Appendix II for details).

► Issuance of the “Notice on Expanding the Business Scope of Foreign-funded Insurance Brokerage Companies” (refer to Appendix III for details).

► Opening the “Decision of CBIRC to Abolish and Amend Certain Rules and Regulations (Exposure Draft)” to public comment.

Our view

The Opening-up Initiative further consolidated the below measures proposed by Yi Gang at the Boao Forum for Asia to facilitate the promulgation of the forthcoming implementation rules:

► Removes caps on the foreign shareholding ratios in domestic banks and financial asset management companies to provide equal treatment for domestic and overseas investors; allows foreign-funded banks to establish both branches and subsidiaries.

► Allows qualified foreign investors to operate insurance agency business and insurance assessment business in China.

► Expands the business scope of foreign-funded banks substantially.

► Abolishes the requirement of a 2-year representative office presence prior to the establishment of a foreign insurance company.

In addition to the greater specificity of these measures, the CBIRC has optimized the regulatory rules on foreign-funded banks in its supervisory capacity. More regulatory changes are expected after the expansion of business scope of foreign-funded insurance companies.

Meanwhile, as part of the concrete actions described in the Opening-up Initiative, the “Notice on Further Relaxing Market Access for Foreign-funded Banks” and the “Notice on Expanding the Business Scope of Foreign-funded Insurance Brokerage Companies” have been issued on 27 April 2018. The “Decision of CBIRC to Abolish and Amend Certain Rules and Regulations (Exposure Draft)” is still not officially released yet. We will follow up on the regulatory updates.
China further opens up financial sector

Following the announcement by China’s Vice Finance Minister Zhu Guangyao of plans to remove caps on foreign ownership in Chinese financial institutions at a press briefing immediately following the November 2017 Sino-US summit, the China Banking and Insurance Regulatory Commission (CBIRC), China Securities Regulatory Commission (CSRC) and other major regulatory institutions have introduced new policies to further open up China’s financial sector. On 10 April 2018, President Xi Jinping made a speech at the opening ceremony of the Boao Forum for Asia announcing China would substantially relax restrictions on access to its financial markets. Yi Gang, the Governor of the People’s Bank of China (PBOC), laid out 12 liberalization measures for the financial sector at the Monetary Policy Normalization Sub-forum the following day. (For details, please refer to preceding issues I to IV of this “China further opens up financial sector” series.)

These events show that China’s financial industry opening-up has entered a new stage and will impact all sectors (including banking, securities, insurance and asset management) to varying degrees. As an example, for the asset management sector, foreign asset management companies have achieved sound development through their presence in China. We believe that the new tide of opening-up will bring new opportunities to both incumbent foreign asset management companies and those that have not yet entered China’s market.

Opportunities and challenges for overseas companies navigating China's asset management industry

In this issue, we will first provide an overview of the four main approaches that overseas financial institutions currently use to enter China’s asset management market, then proceed with a comparative analysis of policy changes.

► Cross-border investment business
► Interconnection of mainland China and Hong Kong stock/bond markets and mutual recognition of funds
► Public fund business
► Private securities investment fund business

Further, we will explore the opportunities and challenges for foreign financial institutions to enter China’s asset management market under the current arrangements.
Main approaches to enter China's asset management market

Background

The official statistics of the Asset Management Association of China (AMAC) show that domestic securities and futures firms held US$8.2 trillion in assets under management (AUM) in their asset management business divisions at 2017 year-end. This sector boasts an AUM compound annual growth rate (CAGR) of 38% in the past three years, making it one of the fastest growing markets in the world.

This rapid growth not only lays the necessary foundation for business expansion by domestic players, but also attracts more overseas financial institutions to enter the China market. Overseas investors currently enjoy the following options to access China's domestic market.

1. Cross-border investment business

At present, QFII, RQFII, QFLP and other schemes allow overseas financial institutions to invest in China; likewise, QDII, QDLP, QDIE and others allow for outbound investment by their domestic counterparts. Table 1 - Breakdown of cross-border investment mechanisms by applicable area summarizes key aspects of these schemes.

QFII and QDII fund development traces back to 2002 and 2006, respectively, when they were introduced as transitional arrangements to bring in foreign capital and open capital markets in a limited way as China's capital accounts were not yet fully open. Since 2010, regulatory authorities in Shanghai, Shenzhen and other cities have rolled out QFLP, RQFII, QDLP, QDIE and other schemes, differing from QFII and QDII primarily with respect to entry requirements and investment scope.

The gradual opening-up of China's capital market traces a path of increased relaxation of investor eligibility requirements and investment scope from the early stages of QFII and QDII to QFLP, RQFII, QDLP and QDIE and progressive liberalization of the capital account, of which all are promising for further development of cross-border investment.

As of August 2018, the approved quotas for QFII, RQFII and QDII stood at USD100.46 billion, RMB627.47 billion (approximately USD91.80 billion) and USD103.23 billion, respectively.

2. Connecting stock/bond markets and realizing mutual recognition of funds between mainland China and Hong Kong

Efforts to connect the financial markets of mainland China and Hong Kong have been fast-tracked following Premier Li Keqiang’s speech at the Boao Forum for Asia on 10 April 2014, promoting a new round of high-level opening-up.

On 22 May 2015, the CSRC and the Hong Kong Securities and Futures Commission (HKSFC) signed a memorandum of regulatory cooperation on the Mainland-Hong Kong Mutual Recognition of Funds (MRF) initiative, and issued the Provisional Rules for Recognized Hong Kong Funds, effective from 1 July 2015. According to the Operating Guidance for Fund Management related to Cross-border Fund Issuance and Sales by Mainland and Hong Kong Securities Investment Funds, the initial investment quota for the MRF is set at RMB300 billion (USD 43.90 billion) for fund flows between Hong Kong and the mainland each way.

On 5 December 2016, the Shenzhen-Hong Kong Stock Connect was officially launched by the CSRC and HKSFC.

On 2 July 2017, the People's Bank of China (PBOC) and the Hong Kong Monetary Authority (HKMA) issued an announcement to approve the launch of the Bond Connect scheme between Hong Kong and Mainland China, starting with trial operation of “Northbound Trading” the following day.

Among the twelve liberalization measures for the financial sector announced by PBOC Governor Yi Gang, one of which addresses the further improvement of the interconnection mechanism between the mainland China and Hong Kong stock markets by quadrupling the daily transaction quota starting 1 May 2018. As a result, the daily quota of Shanghai Stock Connect and Shenzhen Stock Connect was raised from RMB13 billion to RMB52 billion (approximately USD7.55 billion), while that of Hong Kong Stock Connect was raised from RMB10.5 billion to RMB42 billion (approximately USD6.10 billion).

PBOC Governor Yi Gang further proposed to connect the Shanghai and London stock markets. Preparatory work for the Shanghai-London Stock Connect Scheme is on track for launch before 2018 year-end.

Realization of these stock/bond interconnection schemes and the mechanism of mutual recognition of funds between the mainland and Hong Kong are milestones in the further integration of the two capital markets. Future plans to launch the Shanghai-London Stock Connect Scheme are a further step towards the interconnection of the mainland markets beyond China’s borders.
Abbr. | Summary | Applicable cities
--- | --- | ---
QFII | Qualified Foreign Institutional Investor refers to overseas fund management institutions, insurance companies, securities firms and other asset management institutions that are approved by CSRC and obtain a quota approved by the State Administration of Foreign Exchange (SAFE) to invest in the domestic securities market. | Nationwide
RQFII | RMB Qualified Foreign Institutional Investor refers to overseas legal persons that are approved by CSRC and obtain a quota approved by SAFE to use RMB from overseas to invest in the domestic securities market. | Nationwide
QFLP | Qualified Foreign Limited Partner, also known as a Foreign-invested Equity Investment Enterprise, refers to enterprises established by foreign companies or individuals to raise funds from domestic and foreign investors in a non-public manner for investment in private equity businesses. | Beijing, Shanghai, Shenzhen, Tianjin, Chongqing, Qingdao, etc.
QDII | Qualified Domestic Institutional Investor refers to domestic fund management companies, securities firm and other entities transacting in securities that have been approved by CSRC to raise funds within China and use part or all of the funds to invest in overseas securities markets. | Nationwide
QDLP | Qualified Domestic Limited Partner refers to domestic individuals or institutional investors who meet legal requirements to participate in the investment and establishment of overseas investment fund enterprises and invest in overseas secondary markets. | Shanghai, Qingdao, etc.
QDIE | Qualified Domestic Investment Enterprise refers to domestic individuals or institutional investors who both meet the criteria set by Provisional Rules on Pilot Programs for Qualified Domestic Investment Enterprise and also are authenticated by foreign investment fund management companies approved by the Joint Conference of Shenzhen QDIE Pilot Program. | Shenzhen

* Data sources: China Securities Regulatory Commission website, the State Administration of Foreign Exchange website, the respective provincial and municipal people's government office websites, summary by EY

3. Public fund business

Establishment of joint-venture fund companies received official blessing in late 2001 with the promulgation of the *Interim Provisions on Equity Participation and Establishment Initiation of Fund Management Companies by Offshore Institutions (Exposure Draft)*. The following year, *Rules for the Establishment of Foreign-funded Fund Management Companies* were issued, thus, marking the beginning of the opening-up of the fund industry. From these early beginnings, joint-venture fund management companies have grown vigorously.

The timetable for opening-up of China's financial sector announced during the Boao Forum for Asia signaled a new stage in the liberalization of China's public fund industry. At present, among 118 fund management companies, 43 are foreign-funded (refer to Appendix V: List of Joint-Venture Public Fund Companies for details). Recent changes to the foreign shareholding caps of fund management companies are as below:

Table 2 - Change in foreign shareholding ratio of fund management companies

<table>
<thead>
<tr>
<th>Fund management company</th>
<th>Prior to 30 June 2018</th>
<th>Subsequent to 30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not exceeding 49%</td>
<td>First relaxing caps on the foreign shareholding proportion to 51% and ultimately removing such restrictions after 3 years</td>
<td></td>
</tr>
</tbody>
</table>
4. Private securities investment fund business

With the consent of the CSRC, the AMAC issued its Q&A on Registration and Filing of Private Funds (10) (hereinafter referred to as “Q&A 10”) on 30 June 2016.

The Q&A 10 clarifies that foreign financial institutions can set up wholly foreign-owned entities (WFOE) in China to engage in private fund management (PFM) business, signaling a move towards opening up China’s private securities investment fund market. After the issuance of the Q&A 10, eligible WFOE are approved to conduct PFM business in China.

Similar to domestic private securities investment fund managers, WFOEs registered with the AMAC can conduct PFM business in China. According to applicable laws and regulations and the self-discipline rules of the AMAC, the core regulations on fund-raising and management eligibilities are as below:

<table>
<thead>
<tr>
<th>Table 3 - Summary of core regulations in developing the PFM business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
</tr>
<tr>
<td><strong>2</strong></td>
</tr>
<tr>
<td><strong>3</strong></td>
</tr>
<tr>
<td><strong>4</strong></td>
</tr>
<tr>
<td><strong>5</strong></td>
</tr>
<tr>
<td><strong>6</strong></td>
</tr>
</tbody>
</table>

As of 2017 year-end, 10 WFOEs had attained approval to operate PFM business in China and the number is expected to further increase in 2018. The launch of foreign-funded PFM business means advanced investment methodologies, approaches and technologies from foreign financial institutions will gradually be introduced to the domestic market, which will surely inject new players and synergy into China’s capital markets.
EY insights and perspectives

China's asset management industry has undergone the development by leaps and bounds since its gradual opening-up to foreign investment in the early 2000s. The timetable for further liberalizing China's financial markets announced during the Boao Forum for Asia signifies that China's asset management industry is entering into a new historic stage; a significant and positive development even for the global financial industry.

We believe that the major development opportunities for foreign financial institutions in the China market include:

- **A rapidly growing market:** China's asset management industry is developing rapidly. For instance, the public funds sector, an early mover in the asset management industry, has grown at a compound annual growth rate of 33% over the past 5 years. Likewise, other sectors in the asset management industry are also expected to achieve rapid growth amid China's on-going efforts to develop the financial markets and promote independent innovation; signaling that foreign-funded financial institutions will have more opportunities to grow and position themselves in the China market.

- **Full liberalization of controlling shareholding ratio:** Previously restricted by the Rules for the Establishment of Foreign-funded Fund Management Companies, foreign-funded financial institutions were not allowed to hold a controlling stake in public funds. Some of which were unable to gain a controlling stake and with minimal impact on some of the decision-making process in their joint ventures; consequently, opted to withdraw from China's market due to strategic considerations.

Since 30 June 2018, such restrictions on foreign ownership have been withdrawn. Fully liberalizing the shareholding ratio means that the China market will successively reveal its full potential value to global players; the foreign investors will have a stronger voice while the asset management joint ventures are expected to embrace new development opportunities.

- **More diversified channels for investment:** In the early years, the foreign financial institutions participated in China's market mainly through limited transitional arrangements such as QFII and QDII, as well as the non-controlling shareholders’ rights in public funds companies. China's capital markets have continuously opened up in recent years, highlighted by the inclusion of China A-shares in the MSCI Emerging Market Index in 2017. In addition, with the introduction of QFII, RQFII, QDLP, QDIE and related schemes, as well as the liberalization of the private securities funds sector since 2016, the overseas financial institutions are allowed access to a full spectrum of investment businesses in China's financial markets, where they have been provided with more diversified options in developing their local presence.

- **Trends in favor of rational investment philosophies and growing demand for overseas assets:** Development of the asset management market in China has been accompanied by growing per-capita disposable income and increasing diversification of investment portfolios, along with increased demand on allocation of overseas assets. The Chinese market has also witnessed a shift in investors' behavior towards a more mature and rational focus on risk/return tradeoffs and mid- and long-term returns. This is definitely positive news for foreign-funded financial institutions.

Foreign investors also face the following challenges while seeking to take advantage of the opportunities:

- **Competition from Chinese enterprises:** For foreign-funded financial institutions expecting to enter China's market, one of the major challenges is the competition from local asset management players that have advantages in fund-raising, localized operation and industry influence; all attributable to their local market experience of more than 20 years. As new entrants to the China market, foreign-funded financial institutions need to address the very primary task of how to best leverage their own strengths and areas of specialization.

- **China's legal environment and local requirements on compliance and risk control:** Given the significant difference in legal rules and requirements on compliance and risk control between the China market and foreign markets, foreign financial institutions will face a challenge on this front as they try to expand their business in China. For example, PBOC, CBIRC, CSRC and the State Administration of Foreign Exchange (SAFE) jointly issued the Guiding Opinions on Standardizing the Asset Management Business of Financial Institutions on 27 April 2018. The new regulation sets out specific requirements on the recognition of qualified investors, the nesting and investment outsourcing of capital management products, the classification of asset management products, net asset value (NAV) management, and investment advisory services, which are all applied to the businesses already conducted in China by overseas financial institutions. We expect that the regulatory authorities will continuously improve the regulatory system and implement strict supervision under the principle of applying consistent regulations to both domestic and foreign players.

- **Localization of IT systems:** At present, China's asset management industry has established a set of system infrastructure with consistent configuration and inter-connectivity, which are often incompatible with the systems used overseas. Accordingly, foreign investors face a challenge in localizing and configuring their existing overseas system infrastructure to handle the volume and speed of transactions in line with China-specific conditions and requirements. In addition, the Chinese government’s heightened attention to cyber security presents higher hurdles for improving system infrastructure to comply with China's cyber security law and regulations going forward.

- **Recruiting and developing employees to address local business and cultural needs:** With the increase of the controlling proportion and the expansion of business scope, overseas financial institutions also need to consider how to secure talents not only familiar with the culture and proficient in the language of the home country, but also holding expertise in China's asset management business. In the medium and long term, another challenge is to establish a system for cultivating talents aligned with the requirements of business and corporate culture within China.

With the acceleration of the opening-up of the asset management industry to foreign capital, more and more overseas investors are expected to enter the China market; bringing in diversified international development experience and intensifying the competition within the industry to a certain level. We believe that the China market will be a broad stage for overseas financial institutions going forward. We will also monitor the regulatory developments and market response, and analyze the implications of the new policies for overseas financial institutions.
China further opens up financial sector

What EY can do for you

EY suggests that foreign financial groups should take the initiative to look into the new regulations and new policies to understand and analyze the market response and relevant challenges and opportunities so as to benefit as early movers. If you are interested in the following services or plan to develop related business activities in China’s financial market, EY can provide you with targeted one-stop services:

Financial Services—Assurance

The financial and regulatory environment is evolving as new products and businesses continue to emerge in the global financial environment that is constantly changing with the development and events in the industry.

As a leading provider of audit services in the global financial industry, EY adopts effective global audit methods, leverages the most advanced analytical tools and insights in our audit services, and mobilizes highly qualified local and global teams to address all the complexities in your business.

EY is open to any changes and innovations, and is proactive to integrate the latest technologies into audits, meeting the increasing requirements of companies, regulators and investors. EY is committed to continuous innovation in financial audit technologies, including:

► Integrated management Coordinate resources and make optimal arrangements.
► Multidimensional consideration Consider region- and area-specific regulatory requirements.
► More focus on risks Adopt risk-based audit method to improve audit efficiency and effectiveness.
► New audit platform Identify and respond to risks more effectively and perform real-time monitoring on audit engagements.
► New analysis platform Uncover frauds and exceptions and forecast high-risk areas based on big data.
► Big data application Provide visual overview based on high-level indicators of parameters.

Financial Services—Advisory

Economic integration has exposed financial institutions to more internal and external risks. The future winners in the increasingly competitive market environment will be those financial institutions with higher comprehensive competitiveness, who have sound internal control and management systems in place to address such risks.

Committed to deliver comprehensive, professional and leading services, the Advisory team of EY Financial Services provides all-round high-quality risk advisory and management advisory services for financial institutions.

► The Risk Advisory team focuses on financial advisory solutions for financial institutions addressing specific areas such as internal control compliance, quantitative analysis of financial risks, capital and asset liability management, actuarial, risk assurance and network security, helping clients control risks comprehensively and effectively.
► The Management Advisory team is devoted to assisting financial institutions to initiate changes and improvement based on their own conditions for better performance, providing strategic planning, client management, channel management, operation optimization, data governance, financial management and IT advisory services, and ensuring the effective implementation of design solutions in actual business environment.
Financial Services—Transactions

The Financial Transaction team of EY Financial Services is a professional team established specially for financial institutions including banking, insurance, securities, asset management, payment institutions and other FinTech companies. We believe a professional and dedicated team can provide the continuous and powerful driving force needed by financial institutions navigating the financial world.

Our services include:

► Pre-transaction—strategic investment advisory
► Mid-transaction—finance, tax, IT and operation and management transaction support
► Post-transaction—Operation transaction advisory

We provide services covering all aspects of financial transactions in the financial industry, and offer financial institutions forward-looking global insights and in-depth services customized to local conditions.

We keep abreast of FinTech developments and engage specialists with experience in FinTech regulation, design and operations worldwide to provide cutting-edge FinTech advisory services to our financial institution clients.

Financial Services—Tax

With an in-depth understanding of the background and rules of tax regulations, the Tax team of EY Financial Services assists financial institutions to build a virtuous cycle of “business-finance-tax” based on years of experience in tax practices. Our quality financial tax services include:

Corporate tax service

► Efficient and accurate tax declaration services
► Tax planning services for compliant tax burden reduction
► Tax health check services for examining tax health and improving tax management efficiency and compliance
► Special tax advisory services for tax policy changes, specific financial transaction structures, investment and financing structures or transaction issues
► Tax dispute resolution services benefit both tax authorities and corporates
► Tax advisory services in the normal course of business

Transfer pricing service

► Assist in reviewing, documenting, managing and maintaining transfer pricing policies and processes, developing appropriate solutions to address transfer pricing issues arising from financial businesses and cross-border operations of financial institutions
► Provide services ranging from comprehensive supply chain restructuring to transfer pricing planning, and services from solving disputes to assisting companies to meet transfer pricing documentation requirements
► Assist financial institutions in addressing transfer pricing tax risks and becoming fully functional

International tax service

► Provide analysis of and comments on the latest development of financial tax policies, investment and financing regulations and tax authorities
► Assist clients with tax arrangement, planning, reporting and risk management related to cross-border investment and financing, financial transaction structuring and transaction rules optimization.
► Assist senior management of financial institutions to make global tax arrangement based on overall business strategies, and identify planning opportunities to improve financial business and financial results
Appendix I: Measures to further open up the financial sector announced at the Boao Forum for Asia (BFA) 2018

Outline

Yi Gang, Governor of the People’s Bank of China (PBOC), followed upon Xi Jinping’s speech at the opening ceremony of the Boao Forum for Asia on 10 April 2018 announcing China would substantially relax restrictions on market access by announcing a set of liberalization measures for the financial sector tied to a clear timetable at the Monetary Policy Normalization Sub-forum on 11 April. The move is a further indication of the determination and confidence of the Chinese government in further opening up China’s financial sector.

The breadth and depth of the measures exceeded public expectations, illustrating China’s strong will to embrace free trade and to open up to the outside world. Since the initiatives have not yet been developed into implementation rules, we simply summarize them in the Supplement to this POV for the reference of foreign financial institutions.

Three principles for opening-up China’s financial sector

Yi said in his speech that China’s further opening-up of the financial sector would adhere to three underlying principles as follows:

► Adopting the management model of pre-establishment national treatment (PENT) subject to a negative list;
► Promoting the opening-up of the financial sector in step and in coordination with reforms of the exchange rate formation mechanism and capital account convertibility;
► Guarding against financial risks at all times so that financial supervision capabilities will keep up with the development of the opening-up.

12 liberalization measures

Yi announced twelve measures that would be implemented in two separate phases in 2018.

The first phase, corresponding to the first half of 2018, includes expected implementation of the following 6 measures:

1. Removing caps on the foreign shareholding ratio in banks and financial asset management companies, treating domestic and overseas investments equally; and allowing foreign-funded banks to simultaneously establish both branches and subsidiaries;
2. Initially relaxing caps on the foreign shareholding proportion in securities companies, fund management companies, futures companies and life insurance companies to 51%, then subsequently completely phasing out within three years;
3. Abolishing the requirement for at least one securities company to be included among the domestic shareholders of a joint venture securities company;
4. Fourfold expansion starting 1 May of the daily line of interoperability to further improve the interconnection and interoperability mechanism between the mainland and Hong Kong stock markets. (Specifically, the daily line of Shanghai Stock Exchange and Shenzhen Stock Exchange will be adjusted from RMB 13 billion to RMB 52 billion, and from RMB 10.5 billion to RMB 42 billion for Hong Kong Stock Exchange);
5. Allowing qualified foreign investors to operate insurance agency business and insurance assessment business in China;
6. Expanding the business scope of foreign-funded insurance brokerage companies to keep it consistent with that of Chinese-funded institutions.

The second phase spans to year-end and includes 6 more measures for implementation:

1. Encouraging the inbound flow of foreign capital into the banking industry including trust business, financial leasing, auto finance, currency brokerage and consumer finance;
2. Removing caps on the foreign shareholding proportion in the financial asset investment companies and wealth management companies which are newly established by commercial banks;
3. Expanding the business scope of foreign-funded banks substantially;
4. Removing restrictions on the business scope of joint venture securities companies to keep them in line with those applicable to domestic institutions;
5. Abolishing the requirement for a 2-year track record as representative office as a prerequisite for establishing a foreign insurance company;

Yi also stated that preparations for the Shanghai-London Stock Connection are progressing smoothly, and the launch is expected within the year 2018 thanks to joint efforts of the Chinese and British sides. Furthermore, Yi expressed that orderly execution has been achieved for certain previously announced opening measures in the financial and service industries, such as the relaxation of market access requirements for bank card settlement agencies and non-banking payment institutions, the liberalization of credit rating services for foreign financial service companies, and the implementation of national treatments for foreign-funded credit investigation companies.

Non-discriminatory prudential supervision over domestic and foreign investments

Yi noted that, at present, the PBOC and other related government authorities are sparing no time or effort to revise relevant laws and regulations to ensure timely implementation of the above-mentioned measures. In addition, in order to promote a smooth execution of relevant work, supporting measures will be provided to strengthen financial supervision when enlarging the opening-up measures. Chinese regulators will conduct prudential supervision in a non-discriminatory and legally-bound manner over all companies irrespective of their ownership, while liberalizing both the market access and business scope permitted to foreign capital, with an aim to effectively manage and address financial risks, maintain financial stability, enhance the competitiveness of China’s financial sector, pursue financial globalization, and promote the opening-up of China’s broad financial market.

Outlook

These financial liberalization measures will substantially lower the threshold of market access and send a clear signal to the international community that China has not only the determination but also concrete measures to fulfil its commitment to opening up to the outside world. Moreover, these measures will undoubtedly facilitate more diversified exchanges of ideas and communication between the domestic and international financial markets and promote an environment of learning from each other’s strengths and removing weaknesses, so as to achieve mutual benefits by further enhancing the global competitiveness of China’s financial sector while providing overseas investors with more channels and opportunities to access the Chinese market.

We will continue to pay attention to the implementation rules of these opening-up measures that are expected to be announced subsequently this year, and share our insights on their impacts on foreign financial institutions.
Appendix II: Notice on Further Relaxing Market Access for Foreign-Funded Banks

The “Notice on Further Relaxing Market Access for Foreign-funded Banks” (CBIRC Office [2018] No. 16), which is addressed to foreign banks operating in China, explicitly permits them to distribute and redeem (in agent capacity), as well as underwrite government bonds, allows the managing branch of a qualified foreign-funded bank to authorize other branches in China to engage in RMB business and transact in financial derivatives, and applies a bank-wide consolidated approach to the calculation of operating capital for all domestic branches of a foreign bank.

Outlined measures are as follows:

1. Branches of foreign-funded banks, wholly foreign-owned banks and Sino-foreign joint-stock banks are permitted to distribute and redeem (in agent capacity), as well as underwrite government bonds without first obtaining an administrative license from the banking regulatory authorities under the State Council, provided that they report to the regulatory authorities within 5 working days after such businesses are conducted.

2. Provided that the managing branch of a foreign-funded bank with multiple branches operating in China has been allowed to conduct RMB business, it may extend its management responsibility to authorize its branches to engage in RMB business.

A branch contemplating RMB business shall complete the preparatory work associated with the RMB business operation in accordance with the rules and regulations and report to its local banking regulator before starting the business.

3. Provided that the managing branch of a foreign-funded bank with multiple branches operating in China has been allowed to transact in financial derivatives, it may extend its management responsibility to authorize its branches to trade in derivatives.

A branch contemplating financial derivative transactions shall satisfy the regulatory requirements on such business, report to the local banking regulator, and submit relevant materials beforehand.

4. Operating capital allocated by a foreign bank to its branches operating in China is calculated on a consolidated basis. When establishing an additional branch, the foreign bank may authorize its branches in China to allocate the operating capital to this new branch in accordance with regulations, provided that the aggregate operating capital exceeds the regulatory minimum.

5. Wholly foreign-owned banks, Sino-foreign joint-stock banks and branches of foreign-funded banks shall strengthen their business policy improvement, system development, compliance management and risk control to enhance their overall financial service capacity to conduct the above-mentioned businesses. The managing branch of a foreign bank shall enhance its administration over other branches operating in China and report significant matters to the regulatory authorities.

Our view

The major changes in the Notice can be summarized into two aspects:

Permission for the branches of foreign-funded banks, wholly foreign-owned banks and Sino-foreign joint-stock banks to engage in distribution and redemption (as agent) and underwriting of government bonds in accordance with rules and regulations;

▸ Permission for the managing branch of an eligible foreign-funded bank to authorize its branches operating in China to engage in RMB business and transact in financial derivatives; regulatory measurement of operating capital on a consolidated basis across all branches in China of a foreign bank, and permission for foreign banks to authorize the reallocation of their operating capital held in branches in China to a newly-established branch in accordance with rules and regulations.

The above-mentioned changes reflect CBIRC’s two key objectives of expanding the business scope of foreign-funded institutions and improving regulation over them. These policy updates have not only broadened the scope of bond-related business permitted to foreign banks in China, but also enhanced the decision-making power of their China-based managing branches to a large extent. For foreign banks with multiple domestic branches planning to engage in RMB business or transact in financial derivatives, the administrative licensing procedures will be simplified significantly, thus providing new opportunities for branches of foreign banks to engage in these businesses.
Appendix III: Notice on Expanding the Business Scope of Foreign-funded Insurance Brokerage Companies

The “Notice on Expanding the Business Scope of Foreign-funded Insurance Brokerage Companies” (CBIRC [2018] No. 19) is addressed to foreign insurance brokers and aims to further open up China’s insurance industry to the outside world and promote development of the industry.

Specific measures are as follows:

1. Foreign-funded insurance brokers holding an insurance brokerage license approved by the insurance regulatory authority under the State Council may conduct the following businesses in China:
   (i) developing insurance schemes for policyholders, selecting insurers and processing insurance coverage
   (ii) assisting the insured or the beneficiary to process claims;
   (iii) conducting reinsurance brokerage
   (iv) providing clients with advisory services such as disaster prevention, loss prevention or risk assessment, and risk management
   (v) conducting other businesses approved by the CBIRC

2. The Notice is implemented from the date of promulgation. In case of any discrepancy between the relevant contents of the “Notice on Issuing the Rules for the Insurance Business Prescribed in China’s Accession to WTO Legal Documents” (CIRC Office [2002] No. 14) limits the scope of business of foreign-funded ones, which are permitted by the insurance regulatory authority to engage in large cross-border commercial insurance brokerage, international shipping, aviation and transportation insurance brokerage, and reinsurance brokerage business. Therefore, foreign insurance brokerage companies were not allowed to engage in small and medium commercial insurance brokerage business or personal insurance brokerage business until the issuance of this CBIRC [2018] No. 19 Notice.

3. Eligible foreign-funded insurance brokerage companies may complete application procedures for changing the insurance brokerage business license at their local insurance regulator offices.

Our view:

Although the “Rules and Regulations for Insurance Brokerage Institutions” stipulates that insurance brokerage companies can engage in the above-mentioned businesses, the “Notice on Issuing the Rules for the Insurance Business Prescribed in China’s Accession to WTO Legal Documents” (CIRC Office [2002] No. 14) limits the scope of business of foreign-funded ones, which are permitted by the insurance regulatory authority to engage in large cross-border commercial insurance brokerage, international shipping, aviation and transportation insurance brokerage, and reinsurance brokerage business. Therefore, foreign insurance brokerage companies were not allowed to engage in small and medium commercial insurance brokerage business or personal insurance brokerage business until the issuance of this CBIRC [2018] No. 19 Notice.

The expansion of the business scope will help foreign-funded insurance brokerage companies apply their extensive brokerage and risk management experiences gained from previously permitted businesses into the services for personal and small enterprise clients. With these new policies in place, foreign-funded insurance brokerage companies are expected to identify new opportunities for business growth and expansion. Moreover, it will help China’s small and medium-sized enterprises and personal clients gain better insurance service and experience and improve the service capacity and efficiency of the Chinese insurance brokerage industry.
# Appendix IV: Summary of the Financial Opening-up timetable

In accordance with the financial liberalization measures announced by Yi Gang at the Boao Forum for Asia and the subsequent implementation measures in specific industries published by the CBIRC and the Chinese Securities Regulatory Commission (CSRC), the timetable for China’s financial opening-up is summarized as below:

<table>
<thead>
<tr>
<th></th>
<th>By 30 April 2018</th>
<th>By 30 June 2018</th>
<th>By 31 December 2018</th>
<th>By 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foreign-funded banks</strong></td>
<td>Branches and subsidiaries cannot exist simultaneously</td>
<td>Removing restrictions on the establishment of branches and subsidiaries</td>
<td>Encouraging the influx of foreign capital into banking industry areas including trust business, financial leasing and consumer finance etc.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Allowed to operate partial foreign exchange &amp; RMB business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Securities companies, fund management companies, futures companies &amp; life insurance companies</strong></td>
<td>For domestic banks and financial asset management companies, the proportion of shares held by a single offshore investor and its affiliates controlled or jointly controlled shall not exceed 20%; The proportion of shares held by all foreign investors and their affiliates controlled or jointly controlled shall not exceed 25%</td>
<td>Relaxing caps on the foreign shareholding proportion to 51%</td>
<td>Phasing out restrictions completely</td>
<td></td>
</tr>
<tr>
<td><strong>Banks &amp; financial asset management companies</strong></td>
<td></td>
<td>Removing caps on the foreign shareholding proportion</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial asset investment companies &amp; wealth management companies newly established by commercial banks</strong></td>
<td>The foreign shareholding proportion in life insurance companies shall not exceed 50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Securities companies, fund management companies and futures companies shall be controlled by domestic capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Insurance brokerage companies</strong></td>
<td>The foreign shareholding proportion is limited to 51%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The minimum requirement on the year-end total assets is USD 200 million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The business scope is restricted</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Insurance companies</strong></td>
<td>The establishment requirements include:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1) The company has operated insurance business for over 30 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2) The company has established a representative office in China for 2 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(3) The year-end total assets of 1 year prior to the application for establishment shall exceed USD 5 billion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Securities companies</strong></td>
<td>Foreign-controlled joint venture securities companies are not allowed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The shareholding of domestic securities companies must be involved in a joint venture securities company</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The scope of business is limited</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Allowing foreign investors to gain control of joint venture securities companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Removing the requirement for foreign investors to seek a domestic securities firm counterpart to establish a joint venture securities company</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lifting restrictions on business scope</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Appendix IV: Summary of the Financial Opening-up timetable
## Appendix V: List of joint-venture fund management companies

List of joint-venture fund management companies (as of July 2018)

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Date of Establishment</th>
<th>Foreign Shareholder</th>
<th>Foreign Shareholding Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hang Seng Qianhai Fund</td>
<td>1 July 2016</td>
<td>Hang Seng Bank Limited</td>
<td>70%</td>
</tr>
<tr>
<td>2</td>
<td>CR Yuanta Fund</td>
<td>17 Jan 2017</td>
<td>Yuanta Securities Investment Trust Co., Ltd.</td>
<td>49%</td>
</tr>
<tr>
<td>3</td>
<td>Golden Trust Sinopac Fund</td>
<td>2 Jan 2014</td>
<td>Sinopac Securities Investment Trust Co., Ltd.</td>
<td>49%</td>
</tr>
<tr>
<td>4</td>
<td>CITIC Prudential Fund</td>
<td>30 Sep 2005</td>
<td>Prudential Group</td>
<td>49%</td>
</tr>
<tr>
<td>5</td>
<td>Penghua Fund</td>
<td>22 Dec 1998</td>
<td>Eurizon Capital SGR S.p.A</td>
<td>49%</td>
</tr>
<tr>
<td>6</td>
<td>UBS SDIC Fund</td>
<td>13 Jun 2002</td>
<td>UBS AG</td>
<td>49%</td>
</tr>
<tr>
<td>7</td>
<td>China International Fund</td>
<td>12 May 2004</td>
<td>J.P. Morgan Asset Management (UK) Limited</td>
<td>49%</td>
</tr>
<tr>
<td>8</td>
<td>Invesco Great Wall Fund</td>
<td>12 Jun 2003</td>
<td>Invesco Ltd.</td>
<td>49%</td>
</tr>
<tr>
<td>9</td>
<td>Hwabao WP Fund</td>
<td>7 Mar 2003</td>
<td>Warburg Pincus Asset Management, L.P.</td>
<td>49%</td>
</tr>
<tr>
<td>10</td>
<td>Franklin Templeton Sealand Fund</td>
<td>15 Nov 2004</td>
<td>Franklin Templeton Investments</td>
<td>49%</td>
</tr>
<tr>
<td>11</td>
<td>HSBC Jintrust Fund</td>
<td>16 Nov 2005</td>
<td>HSBC Global Asset Management (UK) Limited</td>
<td>49%</td>
</tr>
<tr>
<td>12</td>
<td>Manulife Teda Fund</td>
<td>6 Jun 2002</td>
<td>Manulife Asset Management (Hong Kong) Limited</td>
<td>49%</td>
</tr>
<tr>
<td>13</td>
<td>Aegon-Industrial Fund</td>
<td>30 Sep 2003</td>
<td>AEGON International B.V.</td>
<td>49%</td>
</tr>
<tr>
<td>14</td>
<td>HFT Fund</td>
<td>18 Apr 2003</td>
<td>BNPP IP BE Holding</td>
<td>49%</td>
</tr>
<tr>
<td>15</td>
<td>CPIC Fund</td>
<td>3 Apr 2003</td>
<td>Allianz Group</td>
<td>49%</td>
</tr>
<tr>
<td>16</td>
<td>Huatai-PineBridge Fund</td>
<td>18 Nov 2004</td>
<td>PineBridge Investment LLC</td>
<td>49%</td>
</tr>
<tr>
<td>17</td>
<td>First State Cinda Fund</td>
<td>5 Jun 2006</td>
<td>Colonial First State Group Ltd.</td>
<td>46%</td>
</tr>
<tr>
<td>18</td>
<td>Everbright Pramerica Fund</td>
<td>22 Apr 2004</td>
<td>Pramerica Investment Management</td>
<td>45%</td>
</tr>
<tr>
<td>19</td>
<td>ICBC Credit Suisse Fund</td>
<td>21 Jun 2005</td>
<td>Credit Suisse AG</td>
<td>45%</td>
</tr>
<tr>
<td>20</td>
<td>Ronzong Fund</td>
<td>22 May 2001</td>
<td>Nikko Asset Management Co., Ltd.</td>
<td>40%</td>
</tr>
<tr>
<td>21</td>
<td>AXA SPDB Asset Management</td>
<td>5 Aug 2007</td>
<td>AXA Investment Managers</td>
<td>39%</td>
</tr>
<tr>
<td>22</td>
<td>Morgan Stanley Huaxin Fund</td>
<td>14 Mar 2003</td>
<td>Morgan Stanley International Holdings Inc.</td>
<td>37.36%</td>
</tr>
<tr>
<td>23</td>
<td>ABC-CA Fund</td>
<td>18 Mar 2008</td>
<td>Crédit Agricole Asset Management Limited</td>
<td>33.33%</td>
</tr>
<tr>
<td>24</td>
<td>CDBS Cathy Fund</td>
<td>16 Jul 2013</td>
<td>Cathay Securities Investment Trust Co., Ltd.</td>
<td>33.3%</td>
</tr>
<tr>
<td>25</td>
<td>Founder Fubon Asset Management</td>
<td>8 Jul 2011</td>
<td>Fubon Asset Management Co., Ltd.</td>
<td>33.3%</td>
</tr>
<tr>
<td>26</td>
<td>Changsheng Fund</td>
<td>26 Mar 1999</td>
<td>DBS Bank Ltd.</td>
<td>33%</td>
</tr>
<tr>
<td>27</td>
<td>SWS MU Fund</td>
<td>15 Jan 2004</td>
<td>SWS MU Fund Management Co., Ltd.</td>
<td>33%</td>
</tr>
<tr>
<td>28</td>
<td>Guotai Asset Management</td>
<td>27 Mar 2013</td>
<td>Bank of Nova Scotia</td>
<td>33%</td>
</tr>
<tr>
<td>29</td>
<td>Guotai Asset Management</td>
<td>5 Mar 1998</td>
<td>Assicurazioni Generali S.P.A</td>
<td>30%</td>
</tr>
<tr>
<td>30</td>
<td>BOCOM Schroders Fund</td>
<td>4 Aug 2005</td>
<td>Schroder Investment Management Limited</td>
<td>30%</td>
</tr>
</tbody>
</table>

*Sources: Website of Asset Management Association of China/National Enterprise Credit Information Publicity System/Annual reports*
<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Date of Establishment</th>
<th>Foreign Shareholder</th>
<th>Foreign Shareholding Ratio</th>
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</thead>
<tbody>
<tr>
<td>31</td>
<td>Minsheng Royal Fund</td>
<td>3 Nov 2008</td>
<td>Royal Bank of Canada</td>
<td>30%</td>
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<tr>
<td>32</td>
<td>Harvest Fund</td>
<td>25 Mar 1999</td>
<td>Deutsche Asset Management (Asia) Co., Ltd.</td>
<td>30%</td>
</tr>
<tr>
<td>33</td>
<td>Maxwealth Fund</td>
<td>7 Nov 2013</td>
<td>AMP Capital Investors Limited</td>
<td>28.51%</td>
</tr>
<tr>
<td>34</td>
<td>Fullgoal Fund</td>
<td>13 Apr 1999</td>
<td>BMO</td>
<td>27.78%</td>
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<tr>
<td>35</td>
<td>Lombarda China Fund</td>
<td>19 Jul 2006</td>
<td>Unione di Banche Italiane S.p.A</td>
<td>25%</td>
</tr>
<tr>
<td>36</td>
<td>Mirae Asset Management</td>
<td>20 Jun 2012</td>
<td>Mirae Asset Global Investments Co., Ltd.</td>
<td>25%</td>
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<tr>
<td>37</td>
<td>CCB Principal Asset Management</td>
<td>19 Sep 2005</td>
<td>Principal Financial Services, Inc.</td>
<td>25%</td>
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<tr>
<td>38</td>
<td>Zhonghai Fund</td>
<td>18 Mar 2004</td>
<td>La Compagnie Financière Edmond de Rothschild Banque</td>
<td>25%</td>
</tr>
<tr>
<td>39</td>
<td>Pingan-UOB Fund</td>
<td>7 Jan 2011</td>
<td>UOB Asset Management Ltd.</td>
<td>25%</td>
</tr>
<tr>
<td>40</td>
<td>China Post &amp; Capital Fund</td>
<td>8 May 2006</td>
<td>Sumitomo Mitsui Banking Corporation</td>
<td>24%</td>
</tr>
<tr>
<td>41</td>
<td>Bank of China Investment Management</td>
<td>12 Aug 2004</td>
<td>BlackRock Investment Management (UK) Ltd.</td>
<td>16.5%</td>
</tr>
<tr>
<td>42</td>
<td>China Life AMP Asset Management</td>
<td>29 Oct 2013</td>
<td>AMP Capital Investors Limited</td>
<td>14.97%</td>
</tr>
<tr>
<td>43</td>
<td>China Asset Management</td>
<td>9 Apr 1998</td>
<td>Power Corporation of Canada Mackenzie Investments Limited</td>
<td>13.9% 13.9%</td>
</tr>
</tbody>
</table>

*Source: Asset Management Association of China website, National Enterprise Credit Information Publicity System, Annual reports*
Contact us

For more information, please reach out to your EY contact person or one of the following EY professionals:

Financial Services

Jack Chan
Managing Partner
Financial Services, Greater China, EY
+852 2629 3508 / +86 10 5815 4057
jack.chan@hk.ey.com

AJ Lim
Wealth and Asset Management Leader
Financial Services, Greater China, EY
+86 21 2228 2929
aj.lim@cn.ey.com

Kelvin Leung
Banking and Capital Markets Leader
Financial Services, Greater China, EY
+86 10 5815 3305
kelvin.leung@cn.ey.com

Andy Ng
Insurance Industry Leader
Financial Services, Greater China, EY
+86 10 5815 2870
andy.ng@cn.ey.com

Effie Xin
Fintech and Innovation Managing Partner
Advisory Services Leader
Financial Services, Greater China, EY
+86 21 2228 3286
effie.xin@cn.ey.com

Catherine Li
Business Tax Advisory Services Leader
Financial Services, Greater China, EY
+86 10 5815 3890
catherine.li@cn.ey.com

Dennis Leung
Transaction Advisory Services Leader
Financial Services, Greater China, EY
+852 2846 9060
dennis.leung@hk.ey.com

Alex Jiang
EY Japan Business Services Leader
Financial Services, Greater China, EY
+86 21 2228 2963
alex.jiang@cn.ey.com

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