



Annual report on China's financial liberalization and opening-up 2024

Foreword



The year 2024 marked an extraordinary journey for China and the rest of the world.

Globally, the year saw a fast-changing global landscape with prolonged geopolitical conflicts and global supply chains restructured amid turbulence and transformation. Concurrently, the Global South experienced a swift ascent, with developing nations, exemplified by the expanded BRICS members, joining forces to address and navigate global challenges collaboratively.

In 2024, domestically, China commemorated the 75th anniversary of the founding of the People's Republic of China. We pooled strength from Chinese modernization, kept in mind both domestic and international imperatives, and made steady progress in achieving the goals of the 14th Five-Year Plan. In the financial sector, the Third Plenary Session of the 20th Central Committee held in July 2024 emphasized the critical role of finance in the overall modernization with Chinese characteristics, highlighting the development goals of deepening reform of the financial system and promoting high-standard financial opening-up.

In 2024, China persisted in its financial reform and opening-up, and made a series of remarkable achievements, injecting new vitality into global growth and financial market development.

In terms of market construction, capital market interconnection further accelerated. In 2024, the Shanghai-Shenzhen-Hong Kong Connect regime celebrated its 10th anniversary, with trading activity showing a steady increase over the years. The average daily northbound and southbound trading volume throughout the year reached RMB149.758 billion and HKD48.108 billion, respectively, representing 25-fold and 50-fold increases compared to when it was initiated in 2014. RMB internationalization showed a long-term upward trajectory, with its share in global SWIFT payments reaching 3.89% in November, making it the top four currency for global payment.

In the context of industry development, the banking, insurance, securities and asset management sectors all achieved higher levels of openness. The asset size and revenue of foreign-funded financial institutions in China saw continued growth, and the total assets of foreign-funded financial institutions in China registered a record high, pointing to a continued upward trend.

With regards to influx of foreign institutions, foreign-funded banks and insurance institutions further expanded their presence in China. Shareholders of several joint-venture banks and insurance companies continued to raise their shareholding percentage, while foreign-funded securities companies and asset management institutions actively invested in China. The number of foreign institutions in 2024 reached a new high.

Regarding business operation, our regimes demonstrated greater diversity and full vigor, including Qualified Foreign Institutional Investors (QFII), Qualified Foreign Limited Partners (QFLP), Qualified Domestic Institutional Investors (QDII), Qualified Domestic Limited Partners (QDLP), Cross-boundary Wealth Management Connect 2.0 and ETF Connect.

In terms of regulatory reform, the release of a series of policies, including *the Opinions of the State Council on Strengthening Regulation, Forestalling Risks and Promoting the High-Quality Development of the Capital Market* (the new Nine Articles), the *Regulations on Funds of Securities and Futures Investment by Foreign Institutional Investors* and the *Action Plan to Promote High-Level Opening-up, Attract and Utilize Foreign Investment* demonstrate the nation's intensified efforts on the high-quality development of the capital market and its commitment to deepening financial liberalization and opening-up.

With respect to regional opening-up, the central government, in collaboration with local governments, introduced multiple measures to deepen the alignment of economic and trade rules in Yangtze River Delta, the Greater Bay Area and various free trade zones with high-standard international caliber, steadily expanding institutional opening-up. Shanghai rolled out a series of policies to build an international financial center.

Finance is a top priority of the nation, the lifeblood of the national economy, and an integral part of the country's core competitiveness. It plays a pivotal role in implementing national strategies and serving the real economy. EY has long focused on the development of China's financial market, having released a series of reports such as the *White Paper on China's Further Opening-up Financial Markets - 5-Year Anniversary (2017-2022)* and the *Annual report on China's financial liberalization and opening-up 2023*. As we bid farewell to the old year and usher in the new, we are pleased to release the *Annual report on China's financial liberalization and opening-up 2024*, which summarizes the major policies, events and trends related to China's financial reform and opening-up initiatives in 2024, with a view to providing insights for readers interested in the development of China's financial market.

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Milestones of China's financial opening-up in 2024

In 2024, China made considerable progress in the opening-up of its financial sector. Significant policy adjustments were made, laying a solid foundation for building a more robust and efficient financial system aligned with international standards. As more foreign-funded financial institutions settled in China, local financial market saw new growth drivers in pursuing diversified development. Remarkable results were achieved in product and service innovation and cross-border cooperation, representing enhanced maturity, stability and innovation capabilities of China's financial market.

The report sets out some key events in the table below related to the reform and opening-up of the financial sector during the year, aiming to provide readers with comprehensive and visualized information of China's financial sector opening-up efforts in 2024.

January 2024

- The General Office of the CPC Central Committee and the General Office of the State Council issued the *Implementation Plan for Pudong New Area's Pilot Comprehensive Reform for 2023-2027*
- PBOC and the HKMA introduced six financial policy measures involving financial market connectivity, cross-border capital facilitation and deepening financial cooperation
- Corporate, enterprise bond market of Beijing Stock Exchange started trading, with the first batch of corporate and enterprise bonds issued

March 2024

- General Office of the State Council issued the *Action Plan to Promote High-Level Opening-up, Attract and Utilize Foreign Investment*
- China's first newly established wholly foreign-owned securities company officially opened

May 2024

- PBOC and other authorities optimized the Swap Connect scheme
- China's second joint-venture bank card clearing institution, Mastercard NetsUnion, officially opened
- *Foreign Exchange Management under the Capital Account (2024)*, revised and issued by the SAFE, officially came into effect

July 2024

- The Third Plenary Session of the 20th Central Committee of the Communist Party of China reviewed and approved the *Resolution of CPC Central Committee on further deepening reform comprehensively to advance Chinese modernization*
- PBOC, the NFRA, together with two other authorities issued the *Opinions on Strengthening Commercial and Financial Coordination and Supporting the High-Quality Development of Cross-Border Trade and Investment with Greater Efforts*

September 2024

- PBOC, the NFRA and the CSRC jointly introduced a package of financial policies to further support stable economic growth
- Office of the Central Commission for Finance and the CSRC jointly issued the *Guiding Opinions on Encouraging Medium and Long-Term Funds to Enter Capital Market*

November 2024

- The Ministry of Commerce and other five other ministries issued the *Measures for the Administration of Strategic Investment in Listed Companies by Foreign Investors*
- The Standing Committee of the 14th National People's Congress voted to pass the *State Council's Proposal to Raise the Local Government Debt Ceiling to Swap Accumulated "Hidden Debts"*

February 2024

- The PBOC announced continued strong support for building Shanghai as an international financial center and achieving higher-standard financial openness
- The newly revised *Implementation Details for Cross-boundary Wealth Management Connect Pilot in the Guangdong-Hong Kong-Macao Greater Bay Area* officially came into effect

April 2024

- The State Council issued the *Opinions on Strengthening Regulation, Forestalling Risks and Promoting the High-quality Development of the Capital Market* (the new National Nine Articles)
- The CSRC rolled out five measures to promote the coordinated development of the capital markets of both the mainland and the HKSAR
- The Ministry of Commerce and nine other departments jointly issued the *Policy Measures to Facilitate Investment by Overseas Institutions in Chinese Technology-oriented Enterprises*

June 2024

- CSRC revised the *Provisions on the Administration of Recognized Hong Kong Funds*
- Allianz Fund Management Co., Ltd. was officially established and inaugurated in Shanghai
- A total of 32 public fund companies were approved with QDII investment quotas of USD1.23 billion granted

August 2024

- PBOC and the SAFE jointly revised the *Regulations on Funds of Securities and Futures Investment by Foreign Institutional Investors*
- 15 years since the implementation, the newly revised *Regulations of Shanghai Municipality on Promoting the Building of Shanghai as an International Financial Center* were released

October 2024

- PBOC officially set up the Securities, Funds and Insurance companies Swap Facility (SFISF) to bring incremental funds to the stock market
- Two foreign financial giants, BNP Paribas Tianxing Property and Casualty Insurance and Prudential Global Investment Management (PGIM), were approved to invest in China
- Sibos kicked off in the Chinese mainland for the first time

December 2024

- The Central Economic Work Conference and the Central Financial Work Conference were held in Beijing
- SASAC of the State Council issued the *Several Opinions on Improving and Strengthening Market Value Management of Central SOEs' Listed Companies*
- PBOC and the SAFE optimized pilot policies for integrated RMB and foreign currency cash pooling for multinational corporations in 10 provinces and cities, including Shanghai and Beijing
- Allianz Global Investors bought approximately 228 million shares issued by Guomin Pension & Insurance Co., Ltd., becoming the first foreign-funded shareholder of the insurer

Market construction

Capital market moves to a stage of high-quality development

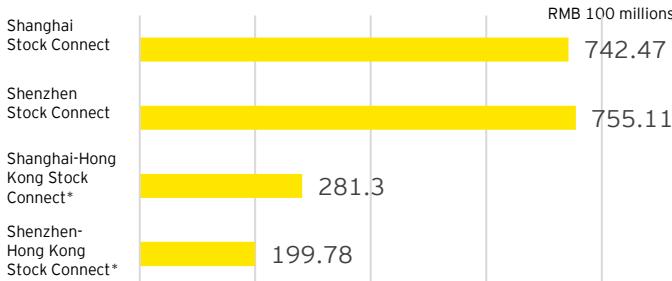
Since 2024, China has steadily expanded the two-way institutional opening-up of the capital market. Focusing on optimizing the interconnection mechanism of domestic and foreign capital markets, regulators have successively introduced actionable measures for further opening-up, such as broadening the scope of domestic and foreign market interconnection, deepening the cooperation between the capital markets of the Chinese mainland and Hong Kong, and facilitating foreign capital investment in the Chinese mainland.

Deepened interconnection of capital markets with Shanghai-Shenzhen-Hong Kong Connect in 2024, the 10th anniversary of commencement

The year 2024 marks the 10th anniversary of the establishment of interconnection between the Chinese mainland and Hong Kong financial market. A series of interconnection schemes, such as Shanghai-Shenzhen-Hong Kong Connect, were continuously updated and refined to drive the institutional opening-up of the capital market. According to *the Ten Years of Connect: Connecting China and the World* released by the Hong Kong Exchanges and Clearing Limited (HKEX), as of September 2024, the total shareholding of Chinese mainland investors in Hong Kong stocks through Hong Kong Stock Connect exceeded HKD3.3 trillion, more than 200 times the figure at the end of 2014.

According to the official websites of the Shanghai Stock Exchange (SSE), the Shenzhen Stock Exchange (SZSE) and the HKEX, in 2024, the average daily turnover of northbound and southbound trading reached RMB149.758 billion and HKD48.108 billion, respectively, increased by 25 times and 50 times compared with the first month since the program was launched in 2014, accounting for 6.7% and 16.9% of the total turnover in the mainland market and the Hong Kong market. As of November 2024, the average daily turnover of the Shanghai Stock Connect was RMB128.3 billion, that of the Shenzhen Stock Connect was RMB74.3 billion, that of the Shanghai-Hong Kong Stock Connect was HKD50.9 billion, and that of the Shenzhen-Hong Kong Stock Connect was HKD19.6 billion.

Average daily transaction amount of southbound and northbound trading in 2024



Source: SSE, SZSE and HKEX, summarized by EY
*The turnover of Hong Kong Stock Connect is in HKD millions

Since the launch of the Shanghai-Hong Kong Connect program, the total transaction amount of foreign capital through the Shanghai Stock Connect has reached RMB70 trillion, while the total transaction amount of mainland investors through the Shanghai-Hong Kong Stock Connect has reached RMB23.13 trillion. The total transaction amount of the Shenzhen Stock Connect has reached RMB75 trillion, and the total transaction amount of Shenzhen-Hong Kong Stock Connect has reached RMB18 trillion. The Shanghai-Hong Kong Connect and the Shenzhen-Hong Kong Connect, jointly established by the HKEX, the SSE and the SZSE respectively, have become major channels for international investors to access the stock market of the Chinese mainland.

Attracting medium and long-term capital investment to achieve high-quality development

Medium and long-term capital features higher levels of professionalism and greater stability. Promoting the entry of such capital into the market is conducive to optimizing the investor structure. In March 2024, FTSE Russell, a globally renowned index provider, added 76 A-shares to its indices and increased the inclusion factor of A-shares from 12.5% to 25%. Since MSCI, a leading international index company, entered the Chinese market in 2018, both FTSE Russell and S&P Dow Jones have successively announced the inclusion of A-shares in their indices. The inclusion of A-shares by these major global indices will attract long-term capital from home and abroad to buy A-share assets, thereby transforming the investment landscape of the A-share market.

Additionally, to further promote the entry of medium and long-term funds into the capital market, the Office of the Central Commission for Finance and the CSRC jointly issued the *Guiding Opinions on Encouraging Medium and Long-Term Funds to Enter Capital Market* in September 2024, aiming to increase the size and proportion of medium and long-term capital investments, optimize investor structure, stabilize long-term investment returns and enhance confidence in China's capital market.

Policy interpretation of the *Guiding Opinions on Encouraging Medium and Long-Term Funds to Enter Capital Market*

Vigorously develop equity public funds	<ul style="list-style-type: none">Focus on urging fund managers to further refine their business philosophies, adhere to an investor-return-oriented approachEnhance investment research and service capabilities, and create more products that meet the needs of the public, striving to generate long-term returns for investors
Improve policy and environment support for long-term investment	<ul style="list-style-type: none">Enhance regulatory inclusiveness for equity investments by medium and long-term capital, and introduce a long-term performance assessment cycle of at least three yearsRemove institutional barriers that hinder long-term investment by insurance funds, encourage insurance institutions to be steadfast value investors, and provide long-term investments to the capital marketImprove investment policies and systems for the national social security fund and basic pension funds, and encourage enterprise annuity funds to explore differentiated investment strategies based on the age and risk preferences of beneficiaries
Continuously improve the capital market ecosystem	<ul style="list-style-type: none">Adopt a mix of policies to enhance the quality and investment value of listed companies, and improve supporting policies for institutional investors to be involved in corporate governanceCrack down on all types of illegal and non-compliant activities, fostering an enabling market environment where medium and long-term capital is attracted to stay and thrive

Market construction

Significant progress of the two-way opening-up in China's bond market

In 2024, China's bond market witnessed remarkable achievements in the opening-up, featuring increasingly higher level of maturity and improvement of overall structure and policy system. It introduced multiple measures for optimizing the "Northbound Swap Connect" scheme, providing global investors with more efficient and convenient risk management tools. These measures not only increase the international attractiveness of China's bond market, but also further strengthen its position as a global platform for financial asset allocation.

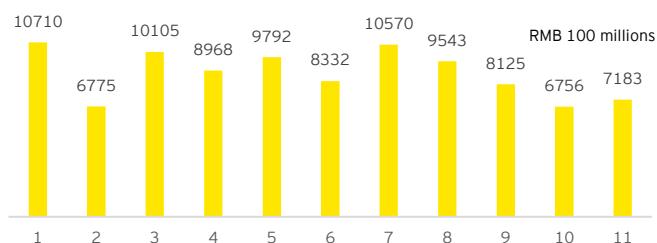
Specifically, RMB treasury bonds and policy bank bonds under the "Northbound Trading" in Bond Connect are included in the list of eligible collateral for the Renminbi (RMB) liquidity facility published by the HKMA. This initiative not only broadens the application scenarios of these bonds, but it also lays a solid foundation for them to become widely accepted on a global scale.

Constant efficiency improvement of the Bond Connect mechanism

As an important financial interconnection scheme, the Bond Connect aims to deepen cooperation and interconnection between the financial markets of the Chinese mainland and Hong Kong. Northbound and Southbound Connect, two integral parts of Bond Connect, was made official on 3 July 2017 and in September 2021, respectively.

According to the data from Bond Connect Company Limited (BCCL) in HKEX, in November 2024, the monthly turnover of the northbound route under Bond Connect amounted to RMB718,300 million, with an average daily trading volume of RMB34,200 million. Specifically, policy bank bonds and treasury bonds registered the largest trading volume, accounting for 46% and 36% of the total, respectively.

Monthly trading volume of northbound route under Bond Connect in 2024



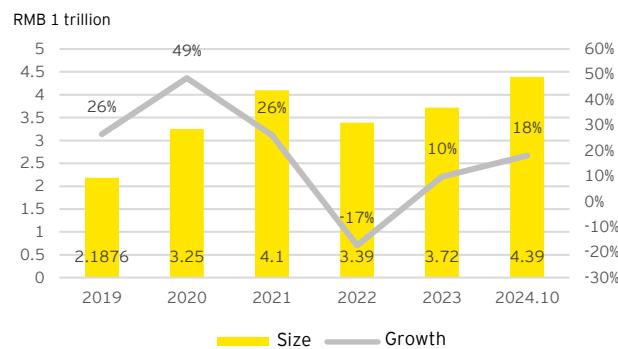
Source: HKEX, summarized by EY

As at the end of October 2024, more than 800 investors entered the Bond Connect market, reporting a total trading volume of RMB8,967,600 million from January to October 2024, which was 20 times as much as that in 2017 when it was initially launched, with an average annual growth of 62% over the past seven years. This scheme provides effective support for foreign investors' RMB asset allocation and trading. It also becomes an important pipeline for ongoing influx of foreign investment into China's financial market.

Addition of RMB bonds to positions by foreign-funded institutions

With accelerated high-level opening-up of China's financial market, RMB bonds have become an important choice for asset allocation of global investors. By the end of October 2024, over 1,100 institutions from more than 70 countries and regions entered China's interbank bond market. These foreign institutions hold a total of RMB4.39 trillion in bond assets in China's bond market, showing strong growth momentum with an average annual growth of nearly 20% in the past five years.

Size and growth of bonds owned by foreign institutions in China's market

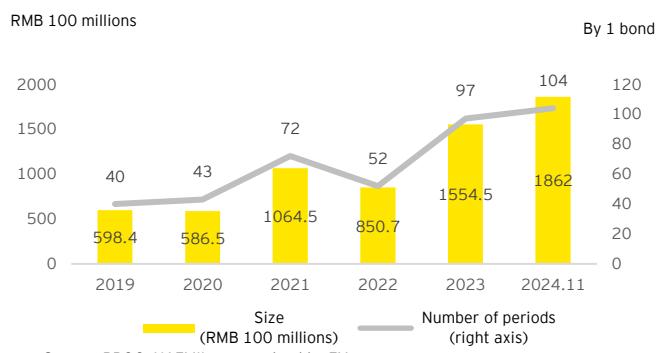


Source: CCDC website, SAFE, summarized by EY

Accelerated market expansion due to rising popularity of panda bond issuance

As the opening-up of China's bond market continues to accelerate, attracting participation of global issuers and investors, issuance of panda bonds gains sustainable momentum. Since 2023, the panda bond market has experienced rapid expansion. Such strong growth continued in 2024. In the first 11 months of 2024, 104 panda bonds were issued. The accumulative amount of issuance, RMB186,200 million, was far beyond that in 2023, representing a year-on-year increase of approximately 23.68%.

Number and size of panda bonds issued in the past five years



Source: PBOC, NAFMII, summarized by EY

Market construction

Steady advancement of RMB internationalization

In 2024, RMB internationalization was advanced steadily amid pressures from external environment and internal complex challenges. Focusing on trade and investment facilitation, the PBOC strengthened inter-departmental cooperation and introduced several cross-border RMB support policies, to provide effective policy support for improved costs and efficiency of operating entities. For example, in July 2024, the Ministry of Commerce, the PBOC, the NFRA and the SAFE issued the *Opinions on Strengthening Commercial and Financial Coordination and Supporting the High-Quality Development of Cross-Border Trade and Investment with Greater Efforts*, highlighting the facilitation of cross-border trade and investment and the optimization of cross-border RMB services.

At the same time, the PBOC, together with relevant departments, optimized the "Cross-boundary Wealth Management Connect" scheme in the Guangdong-Hong Kong-Macao Greater Bay Area, launched the Swap Connect between Hong Kong and the Chinese mainland and supported the issuance of "panda bonds", further deepening RMB investment and financing functions.

In addition, regional cooperation frameworks including the Belt and Road Initiative and the Regional Comprehensive Economic Partnership (RCEP) were steadily implemented, building increasingly closer economic ties between China and countries and regions along the routes. This process triggers the use of RMB in more international scenarios in sectors such as trade settlement, investment and financing, and contributes to significant acceptance and recognition of RMB in those regions. Overall, new vitality is injected into RMB internationalization.

Progress in RMB internationalization in 2024	
Breakdown	2024 (or latest available data)
RMB as currency for global payment	According to data from SWIFT, in November 2024, RMB became the fourth-most used currency by value in global payments, with a share of 3.89%
RMB as currency for foreign exchange transactions	RMB jumped from eighth to fifth, with its share of global payments increasing from 4.3% to 7%
RMB as currency for cross-border investment	From January to August 2024, RMB cross-border receipts and payments for securities investment totaled RMB24.2 trillion, up 25.9% year on year
RMB as currency for cross-border transaction settlement	In February 2024, RMB accounted for 50.2% of China's total receipts and payments for cross-border transactions
RMB in cross-border payment and clearing infrastructure	As of August 2024, PBOC authorized 33 overseas RMB clearing banks in 31 countries and regions
RMB as an international reserve currency	As of June 2024, RMB accounted for 2.14% of world currency composition of official foreign exchange reserves (COFER), ranking seventh in the world
Share of RMB in SDR basket	In May 2022, RMB's SDR weight was raised from 10.92% to 12.28%, ranking third in the world (the data are updated every five years)
Bilateral currency swaps	By the end of August 2024, PBOC signed bilateral currency swap agreements with 42 countries and regions, with a total value of more than RMB4.1 trillion

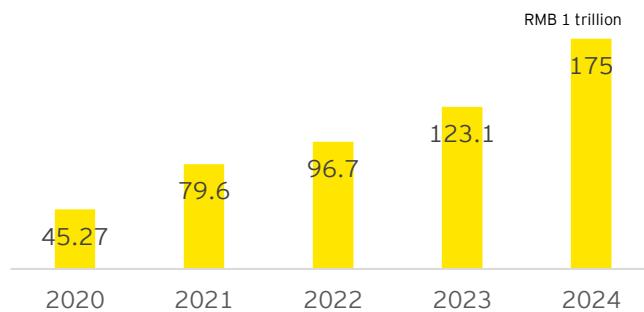
Source: SAFE, PBOC, 2024 Report on the Internationalization of RMB, summarized by EY

Expanding services of Cross-border Interbank Payment System

As an important financial market infrastructure exclusively serving RMB cross-border payment and clearing services, Cross-border Interbank Payment System (CIPS) pursues more convenient services on an ongoing basis.

In terms of trading volume, by the end of 2024, CIPS processed transactions amounting to RMB175 trillion, a year-on-year increase of 43%. The business volume has been increasing in recent years. For example, from 2022 to 2024, CIPS reported compound growth rates of 35% and 30% in transaction volume and amount, respectively.

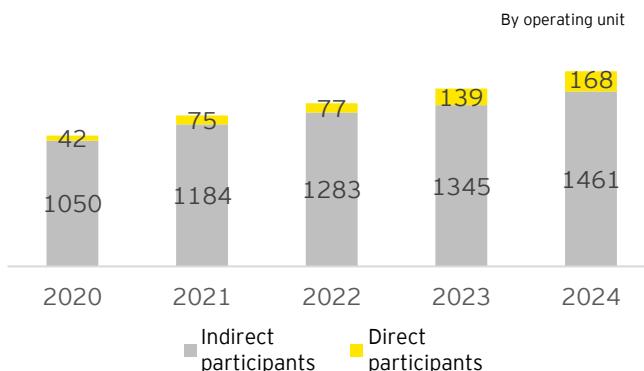
Amount processed by CIPS



Source: *Payment System Reports* of the PBOC for the years, statistics of related mainstream media, summarized by EY

In terms of participating institutions, as at the end of December 2024, CIPS participants are located in 119 countries and regions, with operations covering more than 4,800 banking institutions in 185 countries and regions. CIPS houses 168 direct participants and 1,461 indirect participants, increasing 29 and 116 respectively compared with 2023.

Number of participants in CIPS



Source: CIPS Co., Ltd.

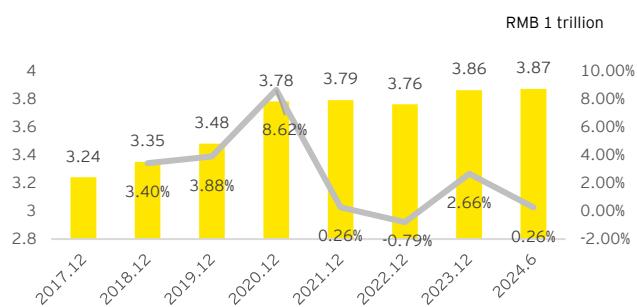
Market construction

Steady development of foreign-funded banks in China

In 2024, China's banking sector made remarkable achievements in the opening-up. Foreign-funded financial institutions continued to set up the potentials of China's market, and foreign-funded banks remain resilient amid the complex economic environment. According to the statistics, by the end of June 2024, China's market has housed 41 foreign-funded corporate banks, 116 branches of foreign banks and banks from Hong Kong, Macao or Taiwan and 127 representative offices. Foreign-funded banks have emerged as an important force in China's banking sector.

Based on the Q2 2024 data published by the NFRA, in the first half of 2024, the total assets of foreign-funded banks in China amounted to RMB3.87 trillion, increasing by RMB10 billion from the 2023 year-end, and the net profit amounted to USD14.9 billion, contributing to about 1.2% of the total of China's commercial banks.

Total assets of foreign-funded banks in China



Source: China Banking Association, summarized by EY

Foreign-funded banks show strong capability of risk management. In Q3 2024, foreign-funded banks registered lower nonperforming loans (NPL) ratio than the industry average (1.10%), and higher liquidity (80.47%) sufficient to address potential risks. Notably, these banks recorded a provision coverage ratio (PCR) of 230.70%, maintaining a high level in seven consecutive years from 2018 and demonstrating sufficiently the robust capacity of foreign-funded banks in risk reserve and resistance as well as sound operation strategy.

Apart from that, seven foreign-funded banks made it into the list of 2024 China Banking Sector Top 100 by China Banking Association. This further highlights the significant role of foreign-funded banks in China's banking landscape and their positive influence on the country's financial ecosystem.

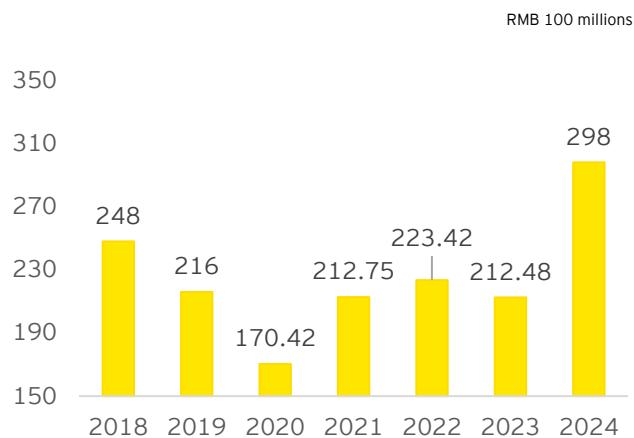
Foreign-funded banks in China Banking Sector Top 100 by asset size



Source: China Banking Association, summarized by EY

From the perspective of operational data, in the first half of 2024, foreign-funded banks achieved a consolidated net profit of RMB14.9 billion, making up approximately 1.2% of the total of China's banking sector, a significant increase compared to last year (RMB11.6 billion). Based on this trend, it is projected that the annual net profit of foreign-funded banks will reach RMB29.8 billion in 2024. This robust performance further underscores sustained business growth of foreign-funded banks in China and their significance in China's financial market.

Net profit of foreign-funded banks



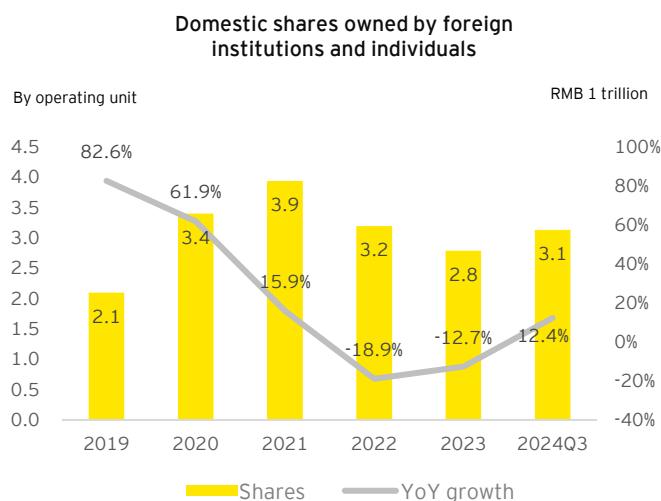
Source: NFRA, summarized by EY

The 2024 data are annualized based on the net profit of Q1 2024 and Q2 2024

Industry development

Securities sector - elevating high-level opening-up to new highs

In 2024, foreign investors' confidence and demands in RMB assets continued to rise, due to simplified process of entering and investing in China's market, increasing diversification of investable asset types and particularly the capital market incentives launched in September. Based on the data, by the end of September 2024, the market capitalization of domestic RMB shares owned by foreign institutions and individuals amounted to RMB3.1 trillion, marking a rebound from 2023 and a record high since the end of last September (RMB3.09 trillion).

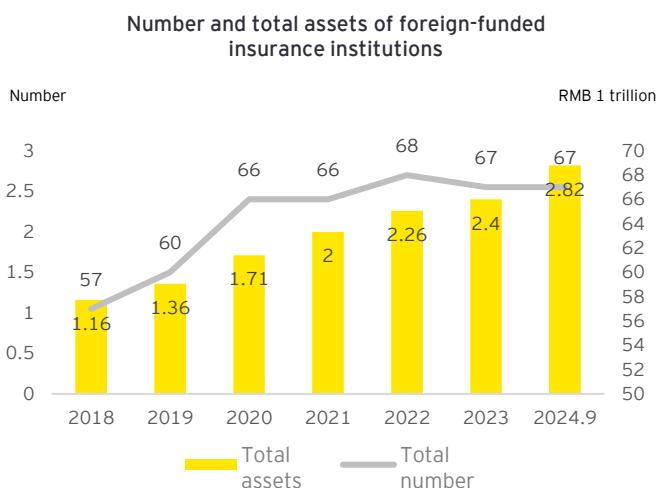


Source: NFRA, summarized by EY

Foreign-funded securities companies also accelerated their presence in China, expanded business scope and obtained additional qualifications. In March 2024, Morgan Stanley Securities changed two lines of business to add securities investment consulting services and change "proprietary trading of bonds (including government bonds and corporate bonds)" to "securities proprietary business". In June 2024, HSBC Qianhai Securities was approved to engage in securities margin. In December 2024, Goldman Sachs China obtained the qualification of public fund consignment and became the first foreign-funded securities company approved to engage in public fund consignment in 2024. In addition, foreign-funded securities institutions continued to enter China's market successively. In February and September 2024, the CSRC responded to the application of Citigroup Securities (China) and Mizuho Securities (China) for establishing presences in China, respectively. In December 2024, DBS Group completed the industrial and commercial registration for equity transfer and increasing its stakes in DBS Securities from 51% to 91%.

Ongoing development of foreign investment in China's insurance market

In 2024, foreign-funded insurance institutions accelerated their presence in China's insurance market. Up to now, nearly half of the 40 largest insurance companies in the world have entered the Chinese market. Foreign-funded institutions increase their investment through equity acquisition, strategic investment, among other things, to continuously gear up to double down on China's insurance market. By the end of September 2024, the total assets of foreign-funded insurance companies amounted to RMB2.82 trillion, up 17.5% from the end of 2023. The number of foreign-funded insurance institutions increased in recent years. This upward trend continues and the number is increasing at a steady speed. The high level of their consolidated assets demonstrates their stronger confidence in China's market and the vast potentials of China's insurance sector.



Source: NFRA, summarized by EY

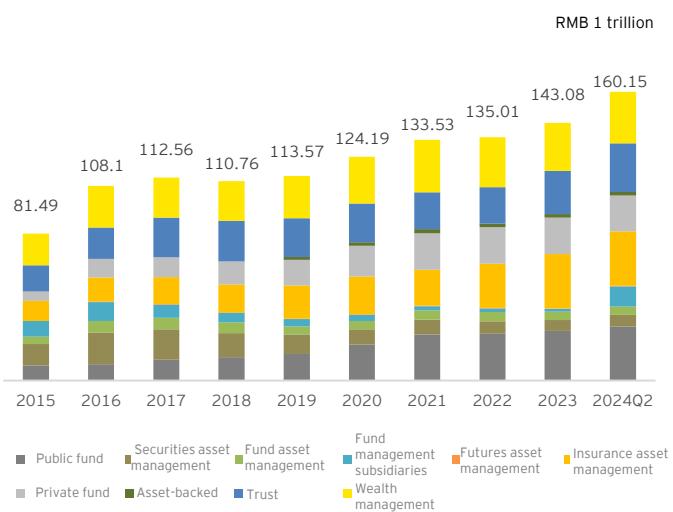
This trend is underpinned by continuously deepened opening-up policies in China's insurance sector. At present, China has scrapped ownership caps of foreign-funded insurance institutions in taking stakes, acquisition and additional capital contribution in financial institutions. Undoubtedly, this provides strong policy support for foreign-funded institutions to engage in China's insurance market more broadly.

In addition, the reinsurance segment in the insurance market is featured with high level of opening-up, due to its inherently international nature. Compared with the direct insurance segment, China's reinsurance segment captures more significant share of foreign investment, making it a preference of foreign-funded reinsurance companies to enter China's market. As of December 2024, nine out of the 15 reinsurance institutions in China are foreign-owned, representing up to 60%. According to the data from the Insurance Association of China, by the end of September 2024, the total assets of foreign-funded reinsurance institutions in China reached RMB226,036 million, an increase of 6.89% from the beginning of the year. In the first three quarters, these institutions achieved an insurance income of RMB48,312 million and a cumulative net profit of RMB1,176 million.

Industry development

China's asset management industry - moving ahead to high-quality development

AUM of China's asset management industry 2015-2024



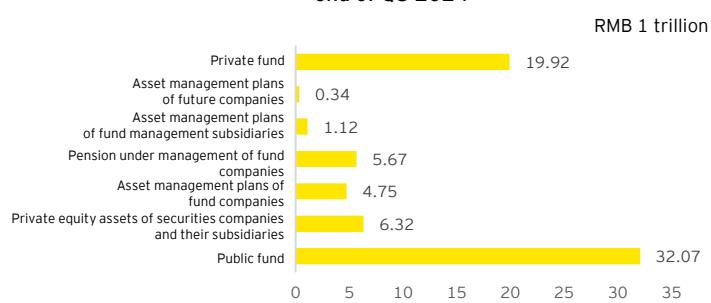
Source: AMAC, CSRC, CTA, IAC and Wind, summarized by EY

*Restricted by data disclosure rules, the latest data for insurance asset management is as of the end of 2023.

In 2024, various asset management institutions demonstrated their skills and complemented each other's strengths, with the overall scale of assets under management continuing to grow. Foreign public fund companies were actively seeking opportunities in China's wealth and asset management sectors. As of Q2 2024, the scale of assets under management in China's asset management industry amounted to approximately RMB160.15 trillion, an increase of 11.93% over 2023.

According to Asset Management Association of China (AMAC), as at the end of Q3 2024, the AUM of fund management companies and their subsidiaries, securities companies and their subsidiaries, futures companies and their asset management subsidiaries, as well as private equity fund management institutions in China amounted to RMB72.04 trillion, increasing by RMB70.65 trillion from the end of Q2. The AUM of public fund companies increased significantly, from RMB31.08 trillion at the end of Q2 to RMB32.07 trillion at the end of Q3.

Size of institutional asset management products as at the end of Q3 2024

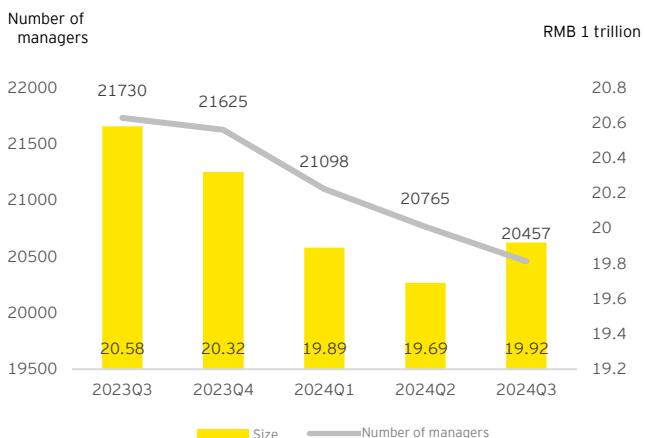


Source: NFRA, summarized by EY

In addition to the public fund market which showed a positive momentum, the private equity fund market also experienced a modest recovery in scale during Q3 2024. Specifically, the total scale of private equity funds slightly decreased from RMB20.58 trillion in Q3 2023 to RMB19.69 trillion in Q2 2024, but then rebounded in Q3, rising to RMB19.92 trillion.

In contrast to the slight rebound in the total scale of private equity funds, the number of private equity fund managers has shown a declining trend. According to the latest data from AMAC, as of Q3 2024, the number of private equity fund managers decreased from 21,730 a year ago to 20,457.

Scale of private equity funds and number of managers over the past five quarters



Source: AMAC, summarized by EY

The change not only reveals the profound integration and optimization that the private equity fund industry is undergoing, but also reflects the relentless efforts of regulators in promoting the industry's high-quality development. Guided by the policy environment, private equity management institutions with stronger professional strength and higher compliance standard stand out, while those with poor management and weak compliance face the risk of being phased out by the market. In the long term, this process will help improve the overall ecosystem of the private equity industry, laying a solid foundation for its stable and sustainable development.

Import of foreign institutions

In 2024, the global economy welcomed a recovery as the dark clouds of the pandemic gradually dissipated, and China's economy also entered a critical period of structural adjustment. Against this backdrop, the influx of foreign financial institutions became a significant force driving China's financial liberalization and opening-up. These institutions not only provided all-round financial services to domestic and foreign enterprises, but also infused new vitality into China's financial market with their advanced financial concepts and technologies, heralding a new chapter in China's financial opening-up.

Banking institutions maintaining overall stable and sound operations

As at the end of 2024, China's financial market had attracted 24 out of the 29 global systemically important banks to establish operations, marking the continued deepening of foreign-funded banks' presence in China. Through strategic investments in domestic banks, these foreign-funded banks have further integrated into the Chinese market while expanding their business footprint. Significant progress has been made in their business scope, including obtaining more RMB business qualifications and lead underwriter qualifications in the interbank bond market. This progress is closely related to the increasing opening-up of China's financial market.

41	116	127	860
foreign-funded corporate banks	branches of foreign banks and banks from Hong Kong, Macao or Taiwan	representative offices	business institutions

Data as of the end of June 2024
Source: NFRA, summarized by EY

Specifically speaking, several foreign-funded banks established new branches during the year. In April 2024, Standard Chartered Bank (China) Limited opened its Hefei branch, and in December 2024, Fubon Bank (China) Co., Ltd. was approved to establish its Hangzhou branch. In addition, cooperation between foreign-funded banks and local Chinese financial institutions has become increasingly close. Many foreign-funded banks have increased their stakes in city commercial banks and rural commercial banks in China. For example, DBS Bank became the largest shareholder of Shenzhen Rural Commercial Bank, and BNP Paribas increased its shareholding in Bank of Nanjing.

In 2024, the expansion of business qualifications became a key approach for foreign-funded banks to deeply integrate into China's financial system. Beyond traditional banking services, foreign-funded banks ventured into new frontiers such as cross-border RMB transactions and interbank bond underwriting. For instance, HSBC Hong Kong Branch joined the Cross-border Interbank Payment System (CIPS) as a direct participant on 24 October 2024, playing a key role as a foreign-funded bank in international trade settlements. Additionally, the CSRC approved banks such as BNP Paribas and HSBC to obtain securities investment fund custody qualifications during the year. By the end of October 2024, five subsidiaries of foreign-funded banks in China had obtained the qualification. Moreover, on 18 January 2024, 10 foreign-funded banks, including HSBC, Standard Chartered and Crédit Agricole, were approved by the National Association of Financial Market Institutional Investors (NAFMII) as lead underwriters or underwriters of debt financing instruments for non-financial enterprises, further expanding their business scope.

Bank card clearing market embarking on a new journey

China's payment and settlement system is undergoing unprecedented transformation and innovation against high-level financial opening-up. On 9 May 2024, Mastercard NetsUnion Information Technology (Beijing) Co., Ltd. formally opened. So far, China has approved two overseas bank card clearing agencies - American Express and MasterCard - to enter China's markets.

At the policy level, the People's Bank of China, in collaboration with the National Financial Regulatory Administration, revised the Administrative Measures for Bank Card Clearing Institutions and released a draft for public comment. The revisions, while continuing to uphold the fundamental framework for opening up the bank card settlement market, aligned with regulations such as the Foreign Investment Law after following equal standards and requirements for both domestic and foreign institutions. Requirements on market access and institutional supervision are enhanced to further strengthen the institutional guarantee for opening-up of market.

Import of foreign institutions

China's Capital Market Liberalization Continues: Foreign Brokers Accelerate Layout

In 2024, foreign-funded securities companies continuously geared up to double down on China's financial markets. Standard Chartered Securities, as the first new wholly foreign-owned securities firm in China, officially announced the commencement of its operations on 22 March 2024 after being approved for establishment on 19 January of the previous year. In addition, the approval obtained by BNP Paribas Securities for its establishment from the CSRC on 15 April marks the further expansion of foreign-funded securities companies in the Chinese market.

As at the end of October 2024, a total of 18 foreign-invested and foreign-owned securities firms have been set up in China, 11 of which were foreign-owned, including four wholly foreign-owned securities firms and seven Sino-foreign joint ventures.



In addition, wholly foreign-owned futures companies have also taken root in China. As of now, there are already two such companies: Morgan Stanley Futures and J.P. Morgan Futures. At present, three foreign-funded securities companies are waiting in line for approval of establishment, including Citigroup Securities, Qingdao Yi Tsai Securities and Mizuho Securities.

In terms of operational performance, foreign-funded securities firms have also shown impressive results in the Chinese market. According to data from the Securities Association of China, in the first half of 2024, the securities industry as a whole achieved operating income of RMB203.316 billion and a net profit of RMB79.99 billion. The total assets of foreign-funded securities firms amounted to RMB622 billion, accounting for approximately 5.30% of the industry's total. Their total operating income was RMB14 billion, representing about 6.89% of the industry's total.

Foreign-funded securities companies	1st half of 2024	As a percentage of the sector
Total assets	RMB622 billion	5.30%
Operating income	RMB14 billion	6.89%

Source: Wind

In addition, foreign-funded securities companies also made significant progress in expansion of business scope. Their approved business scope of foreign-funded securities companies is expanding, enabling full coverage of foreign investment in all types of securities businesses. For example, UBS Securities was approved to operate as a fully licensed foreign-funded securities company.

In 2024, foreign-funded securities firms such as Morgan Stanley Securities and HSBC Qianhai Securities also received approval for business changes, adding services such as securities investment consulting and securities margin trading. Goldman Sachs Securities successfully obtained approval for the qualification to sell publicly offered securities investment funds. These moves marked in-depth rooting and development of foreign-funded securities companies in China's markets, contributing to providing investors with more diversified and professional financial services.

Foreign insurance institutions rushing in to seize benefits of financial opening-up

Nearly half of the world's top 40 insurance companies have chosen to enter the Chinese market. By the end of September 2024, foreign insurance institutions had established 67 entities in China, with total assets of them reaching RMB2.82 trillion.

67

foreign-funded insurance institutions

2.82 trillion

total assets of foreign-funded insurance institutions

In 2024, foreign-funded insurance institutions significantly increased their investment in the Chinese market, entering through various means such as equity acquisitions and strategic investments.

January

Generali Group in Italy achieved full control of Generali China Insurance by acquiring equities from CNPC Capital;

May

Ageas Group in Belgium increased its capital by RMB1.075 billion to Taiping Pension Co., Ltd., becoming its second-largest shareholder;

June

Prudential Group received 10% of equity in Qianhai Reinsurance. In the same month, Guomin Pension engaged Allianz Global Investors as its strategic investor;

October

BNP Paribas Cardif, in collaboration with Volkswagen Financial Services AG, established a property insurance company in Beijing; Prudential Insurance Company of America set up an insurance asset management company in Beijing.

December

Allianz Global Investors, an asset management institution affiliated to the Allianz Group of German, subscribed approximately 228 million new shares issued by Guomin Pension & Insurance Company Limited at a consideration of RMB284 million, becoming the first foreign shareholder of Guomin Pension.

The investment activities of these foreign-funded insurance institutions not only reflect their confidence in the Chinese insurance market, but also drive the enhancement of market vitality and competitiveness.

Import of foreign institutions

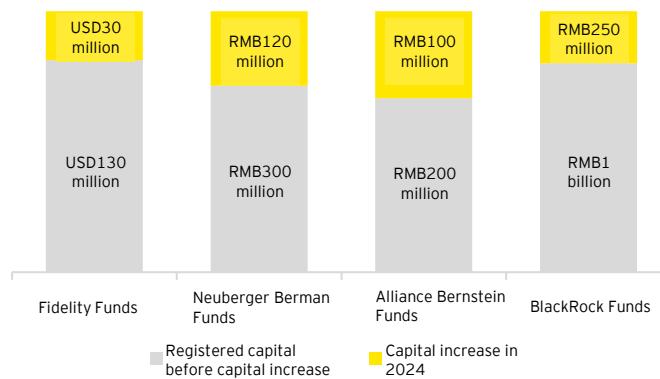
Global asset management institutions' active layout in the Chinese market

In 2024, foreign-funded asset management institutions showed great interest in investment opportunities in China. Foreign public funds have successively been approved and increased their capital investments in China, while foreign-funded private funds are also actively developing in the domestic market.

In the public fund sector, 2024 witnessed the birth of Allianz Fund, a new wholly foreign-owned public fund. In addition, three Sino-foreign joint venture public funds, including Manulife Fund, J.P. Morgan Asset Management and Morgan Stanley Funds, successfully transitioned to wholly foreign-owned public funds. According to data from the AMAC, by the end of December 2024, 51 foreign-invested fund management companies (including Sino-foreign joint ventures and wholly foreign-owned entities) were operating in China, of which, there are nine wholly foreign-owned public fund companies, including six new foreign-funded public funds and three wholly foreign-owned public fund companies transformed from Sino-foreign joint ventures.

During the year, the capital increase by foreign-funded public funds also epitomized their accelerated steps of establishing presence in the China market. Fidelity Funds, Neuberger Berman Funds and Alliance Bernstein Funds all significantly increased their capital, with the increase exceeding 20% for each.

Capital increase by foreign-funded public funds (selected)



Source: summarized by EY

In the private equity industry, as of December 2024, asset management institutions have established nine new foreign-invested private equity funds with assets under management ranging from RMB0 to RMB500 million. By the end of October 2024, 35 wholly foreign-owned or joint venture private securities investment fund managers, including Bridgewater, have registered with the AMAC. Most of existing foreign-funded private equity funds focus on investments in specific areas or strategies, such as quantitative investment and cross-border investment. For example, the private equity business of Kasikorn Vision newly established in July covers private equity investment funds and venture capital funds.

Approval time for establishment of foreign-owned private funds

9 newly established foreign-owned private funds	March	Brookfield Private Funds Management
	June	Disheng Private Fund
	July	Hamilton Lane Private Fund Management
	August	KKR Investment Management, Kasikorn Vision
	October	COFCO Private Fund
	November	Stonewood Key Management
	December	Aspect Capital, LongRiver Private Fund

Source: AMAC, summarized by EY

Foreign-funded public funds have also made significant progress in establishing presence of index products in China. With the continuous development of China's capital market and the acceleration of its internationalization, the domestic index products are increasing their attractiveness. In February 2024, the first batch of new broad-based indexes in China, the CSI A50 Index ETF, reported by 10 public funds, were all approved for establishment by the CSRC, with J.P. Morgan Asset Management being one of them as a foreign-invested fund company.

Foreign-funded asset management institutions are active in product innovation, such as all-weather strategy model launched by Bridgewater and the Robo-Advisor platform launched by foreign-funded asset managers like Fidelity Investments. With abundant global investment research resources and experience, foreign-invested fund companies can meet the diversified investment needs of investors in the Chinese market by introducing their mature risk management systems and data models, promoting the development and improvement of China's financial market.

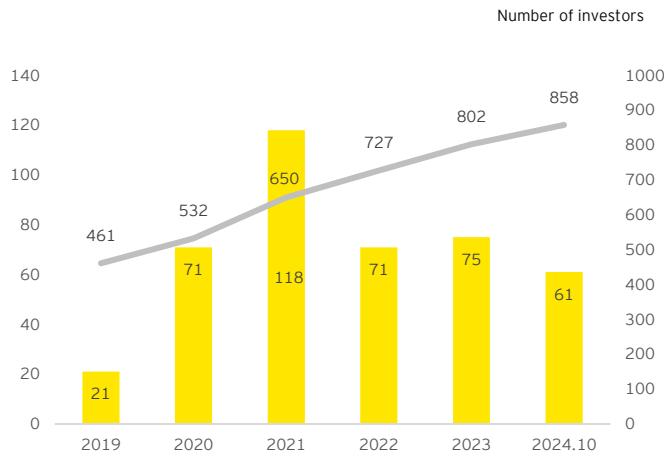
Business operation

Continuous optimization of cross-border fund management of Qualified Foreign Institutional Investors (QFII)

The Qualified Foreign Institutional Investors (QFII) regime is a significant initiative in the gradual opening-up of China's capital market, bringing more capital inflows, diversified investment perspectives, and enhanced the internationalization of China's capital market.

Since 2024, the number of QFIIs in China has continued to grow, with nearly 50 countries and regions represented. According to the latest data from the CSRC website, 57 institutions were approved as QFIIs in the first three quarters of this year. As at the end of October, the number of QFIIs reached 858, a 7.65% increase compared to 2023. In addition to traditional foreign investment institutions, some special foreign entities have also started to establish their presences in the Chinese market. For example, the Superannuation Arrangements of the University of London (SAUL) submitted an application for QFII qualification to the CSRC in March 2024, and the Board of the Pension Protection Fund in UK was approved at the end of February 2024. This is closely related to the continuous efforts of domestic regulators to optimize and improve the opening-up policy and enhance the convenience of foreign investment.

Total number and increase of qualified foreign institutional investors in China



Source: CSRC, summarized by EY

Qualified Foreign Limited Partner scheme was developed fully and deeply

At the beginning of 2024, the Qualified Foreign Limited Partner (QFLP), an important way for foreign entities to conduct equity investment in China, had been launched in nearly 100 pilot areas across the country since its first introduction in Shanghai in 2011.

The QFLP policies in various regions were constantly being optimized. For example, on 5 January 2024, the Financial Supervision and Administration Bureau of Shenzhen Municipality released the new Measures for the Pilot Program of Qualified Foreign Limited Partners (hereinafter referred to as the "Measures"). The Measures clarified specific measures in two major aspects, namely the operation and management of the pilot program.

Measures for the Pilot Program of Qualified Foreign Limited Partners Amendment details

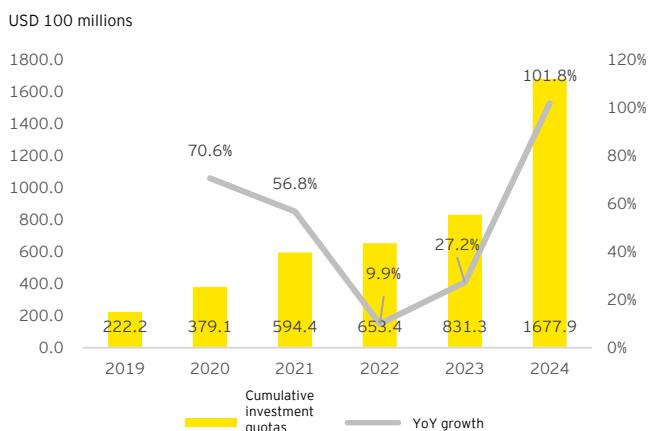
Optimize and adjust the pilot program name and registration and filing requirements	<ul style="list-style-type: none">The pilot program name is changed to "Qualified Foreign Limited Partner Pilot Program"Fundraising from domestic qualified investors in a non-public manner should comply with the relevant requirements of the CSRC and the AMAC
Clarify the support for the pilot work in the Qianhai and Futian areas	<ul style="list-style-type: none">Encourage Qianhai to explore the Shenzhen-Hong Kong Shenzhen-Hong Kong private trading mechanism and formulate supporting guidelinesBuild a Shenzhen-Hong Kong venture capital and investment cluster in QianhaiSupport private equity funds registered in Hong Kong to obtain QFLP qualificationsPromote the participation of the Futian Cooperation Zone in the QFLP pilot program
Conduct total volume management of the pilot funds	<ul style="list-style-type: none">Companies may initiate the establishment of one or more pilot funds within the total volume and flexibly adjust the scale of each pilot fund
Expand the investment scope of pilot funds	<ul style="list-style-type: none">The investment scope of pilot funds has been clarifiedPilot funds are permitted to operate in the form of a fund of funds (FOF)
Facilitate the application process	<ul style="list-style-type: none">Adhere to the principle of "application, acceptance and review upon receipt"Implement a joint consultation mechanism that combines "online + offline" approachesComplete the joint consultation within 10 working days from the time the enterprise submits application materials to the regulatory authority
Clarify the custody requirements for the pilot funds	<ul style="list-style-type: none">Pilot funds shall be entrusted to financial institutions with custody qualifications, and the financial situation shall be reported to the relevant departments on a quarterly basisFinancial institutions that do not meet the custody requirements will be publicly disclosed

Business operation

Qualified Domestic Institutional Investors (QDII) was further expanded

Since China launched the policy of Qualified Domestic Institutional Investors (QDII) in 2006, the policy had significantly promoted the globalization of China's financial market over the past two decades. Data from the SAFE showed that as of 31 December 2024, a total of 189 financial institutions in the market cumulatively obtained a QDII quota of USD167.79 billion, a substantial increase of 101.8% compared with the same period in 2023. Among them, the cumulative approved quota for securities institutions increased from USD90.55 billion at the end of April to USD92.17 billion, showing a strong growth momentum of securities institutions in QDII business. This data not only reflected the widespread recognition and acceptance of the QDII policy in the market, but also demonstrated the steady pace of China's financial market in the process of globalization.

Approval and growth of cumulative investment quotas for qualified domestic institutional investors



Source: CSRC, summarized by EY

The successful implementation of the QDII policy not only provided domestic investors with more diversified investment options, but also promoted the internationalization process of China's financial market. Through QDII, domestic investors could directly participate in the international market and share the dividends of global economic growth. At the same time, it also introduced more international elements and competitive mechanisms into China's financial market, promoting the reform and innovation of the financial market.

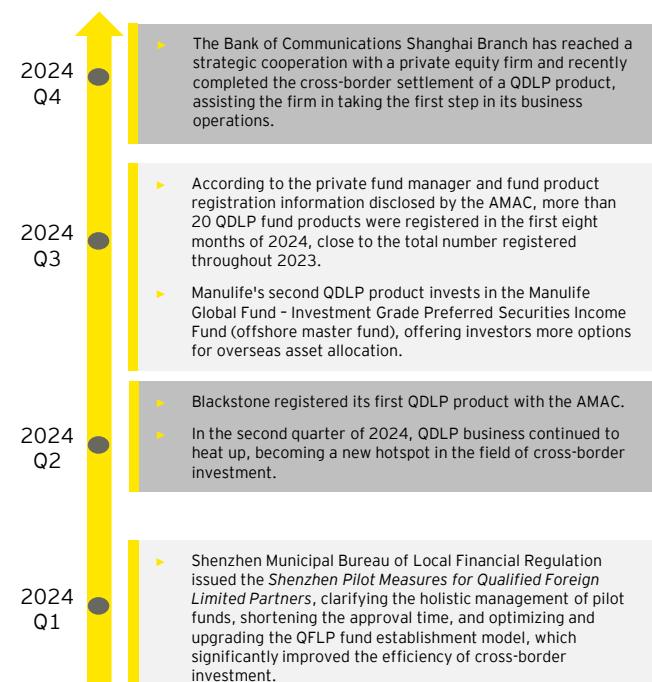
Qualified Domestic Limited Partners entered a period of accelerated development

Since the pilot program was launched in Shanghai in 2012, this innovative project had aimed to promote high-level opening-up of the country's finance and improve the ecosystem of domestic private equity funds. In 2020, the Beijing Municipal Bureau of Local Financial Regulation also launched the Qualified Domestic Limited Partners (QDLP) pilot, attracting several foreign-funded institutions such as Bridgewater Associates and Oaktree Capital. After 12 years of operation, the QDLP program had entered a period of rapid growth.

Since the beginning of 2024, foreign-funded institutions had accelerated the launch of QDLP products, including well-known institutions such as Baring, Morgan Stanley Asset Management, Wellington Management and BlackRock. According to the private fund product filing information disclosed by the AMAC, more than 20 QDLP fund products were filed in the first eight months of 2024, close to the total number filed in 2023.

The QDLP market in China showed a rapid growth trend in 2024. The driving forces behind this include, on the one hand, the significant increase in the willingness of domestic high-net-worth individuals to allocate assets globally, and on the other hand, the general optimism of foreign-funded institutions about the long-term development potential of the Chinese market. In addition, the entry of several leading global asset management giants into the QDLP market further promoted the expansion of the market size. At the same time, the diversification of QDLP product sales strategies made these products more easily accepted by a wide range of investors, which also became an important driving force for market growth.

2024 QDLP Milestones



Business operation

Connect schemes

The Cross-boundary Wealth Management Connect 2.0 accelerated the interconnection of financial markets in the Greater Bay Area

Since the pilot program of Cross-boundary Wealth Management Connect was launched on 10 September 2021, it had become an important channel for residents in the Guangdong-Hong Kong-Macao Greater Bay Area to conduct cross-boundary asset allocation. It had not only promoted the interconnection of financial markets, but also deepened the economic cooperation between the Chinese mainland and the Hong Kong and Macao regions. In 2024, with the release of the *Implementation Details for Cross-boundary Wealth Management Connect Pilot in the Guangdong-Hong Kong-Macao Greater Bay Area*, the Cross-boundary Wealth Management Connect officially entered the 2.0 phase and embarked on a new stage of development.

The Cross-boundary Wealth Management Connect 2.0 was comprehensively optimized and upgraded on the basis of the original version, mainly in four aspects: the scope of participating institutions, the access requirements for investors, the quota of individual investors, and the scope of qualified investment products. These series of optimization measures not only expanded the types and numbers of participating institutions, lowered the access requirements for investors, but also increased the upper limit of the investment quota of individual investors, and enriched the types of investable products, thereby further enhancing the market attractiveness and operational convenience of the Cross-boundary Wealth Management Connect.

On 4 December 2024, the pilot program of Cross-boundary Wealth Management Connect 2.0 was officially implemented. Residents in the Chinese mainland and Hong Kong and Macao regions within the Guangdong-Hong Kong-Macao Greater Bay Area now could more conveniently purchase each other's financial products through securities companies. This move not only broke geographical restrictions, but also promoted the optimal allocation of financial resources and provided residents with more diversified investment choices.

Interpretation of the optimization of Cross-boundary Wealth Management Connect 2.0 Pilot Program

Expansion of participating institutions	<ul style="list-style-type: none">Securities firms have been newly added to participate in the "northbound route" pilot program, with clear participation methods and business arrangements.
Reduction of investor access requirements	<ul style="list-style-type: none">The requirements for Chinese mainland investors participating in the southbound connect business has been lowered from "continuous payment of social security or individual income tax for five years" to "two years";The addition of "average annual income of RMB2.4 million over the past three years" as one of the alternative access requirement for household financial asset.
Increase in individual investor quotas	<ul style="list-style-type: none">The investment quota for each individual investor has been raised from RMB1 million to RMB3 million.
Expansion of eligible product range	<ul style="list-style-type: none">The risk level of investable products for the "northbound route" has been expanded from "R1" to "R3" to include "R4".

Since the launch of the Cross-boundary Wealth Management Connect pilot, it had achieved significant results. As of November 2024, the number of individual investors participating in Cross-boundary Wealth Management Connect had reached 126,300, including 52,500 investors from Hong Kong and Macao regions and 73,800 Chinese mainland investors, an increase of 72% from February. This indicated that Cross-boundary Wealth Management Connect had achieved remarkable success in attracting investors.

In terms of cross-boundary fund transfers, the amount of funds transferred cross-boundary through the closed-loop fund transfer channel by Chinese mainland banks reached RMB96.768 billion, more than five times the amount at the end of February. The cross-boundary transfer amount of Cross-boundary Wealth Management Connect between the Chinese mainland and Macao also reached RMB6.5 billion. These figures reflected the positive role of Cross-boundary Wealth Management Connect in promoting fund flows.

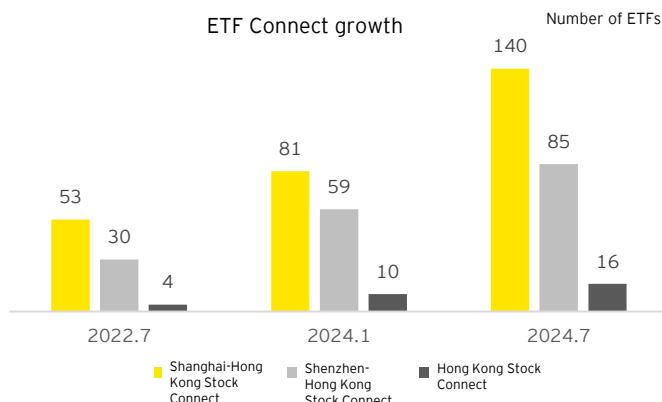
ETF Connect continued to grow

In 2024, the ETF Connect achieved significant progress, expanding the investment scope and deepening cooperation with international capital markets. This effectively promoted cross-border investment and the global allocation of resources, providing investors with more accessible and diversified global asset allocation tools.

The year 2024 marked the 20th anniversary of the establishment of the domestic ETF market. According to statistics, by the end of June, the total scale of ETFs listed on domestic exchanges had reached RMB2.48 trillion. Among them, equity-based ETFs stood out with a market value of RMB1.81 trillion, accounting for over 70% of the total and setting a new historical record, representing approximately 2.2% of the total market value of A-shares. In the global list of the top 20 ETFs in terms of net inflows, domestic CSI 300 ETFs performed notably, with four companies – E Fund, Huatai-PineBridge Investments, Harvest Fund and China Asset Management – ranking 6th, 7th, 13th and 14th, respectively.

In recent years, China's capital market were continuously deepening cooperation with multiple countries and regions through ETF Connect. In 2024, the investment scope of ETF Connect expanded to countries and regions such as Saudi Arabia, the United States, Germany, France, Japan, South Korea, Singapore and Hong Kong, China. At the same time, the investment targets of domestic ETF Connect became increasingly diversified, covering major asset classes such as stocks, bonds, currencies, commodities and overseas stocks, forming a more comprehensive product mix.

Driven by the continuous progress of the ETF Connect, the Shanghai, Shenzhen and Hong Kong Stock Exchanges released the latest adjusted list after the market close on 12 July. According to this list, following the expansion on 22 July, the Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Hong Kong Stock Connect would respectively add 59, 26 and 6 new ETF Connect products. This move further enriched the variety and quantity of cross-border ETF Connect, offering investors more choices.

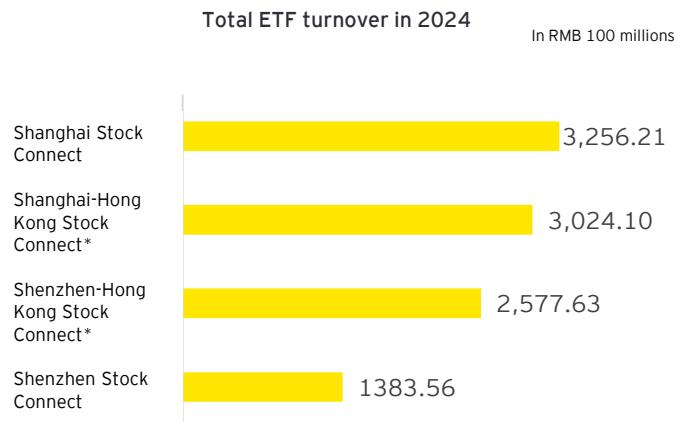


Source: SSE, SZSE and HKEX, summarized by EY

Business operation

In addition, the innovation of cross-border ETF products was also accelerating. Following the listing of the first Saudi Arabian ETF in the Asia-Pacific region in Hong Kong, the first batch of cross-border ETF products investing in the Saudi market was also approved in June 2024 and successfully listed on the Shanghai Stock Exchange on 16 July. At the same time, the Shenzhen Stock Exchange also cooperated with domestic financial institutions to sign a letter of intent in Ireland, promoting the ChiNext 50 ETF to the global market. The first ChiNext ETF was listed simultaneously on several European exchanges, marking that the index products of China's ChiNext market once again became the focus of foreign investment.

As of July 2024, a total of 12 offshore fund products tracking the Shenzhen Stock Exchange index had been listed, and the cross-border ETFs of the Shanghai Stock Exchange had basically achieved full coverage of the main market wide-based indexes in the world. These data fully demonstrated the achievements of China's capital market in ETF Connect cooperation. In terms of fund flow, the total turnover of ETFs traded by northbound funds (Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect) reached RMB463.977 billion, while the southbound funds were more active, with a total turnover of RMB560.173 billion in buying and selling ETFs. These figures not only reflected the activity of the cross-border ETF market but also highlighted the growing demand of investors for global asset allocation.



Source: SSE, SZSE and HKEX, summarized by EY

The turnover of the Hong Kong Stock Connect was in HKD 100 millions.

Continuous optimization of the Swap Connect mechanism

As the enthusiasm of foreign institutions for participating in China's bond market continued to rise, the demand for hedging interest rate risks through derivative products also increased. The launch of Swap Connect allowed domestic and foreign investors to engage in interest rate swap and other derivative transactions through the connection of infrastructure institutions in Hong Kong and Chinese mainland.

In May 2024, coinciding with the first anniversary of the launch of the Swap Connect, the PBOC, the Securities and Futures Commission of Hong Kong, and the Hong Kong Monetary Authority introduced a series of optimization measures for the Swap Connect. These measures included the introduction of standardized interest rate swap contracts with International Money Market (IMM) settlement dates and the extension of fee discount periods.

The core of this optimization of the Swap Connect lied in comprehensively enhancing its market attractiveness and operational efficiency. It not only enriched the types of products but also made "Swap Connect" more in line with the needs of international investors, thereby strengthening its market appeal. On the other hand, the implementation of contract compression services effectively improved market efficiency and reduced the risk management costs for participants. In terms of fees, not only the two regions extended the fee discount period for Swap Connect, but they also fully exempted the transaction settlement fees for domestic and foreign investors engaging in Swap Connect transactions. This measure significantly lowered the cost of participation in the business and further invigorated the market.

Furthermore, in December 2024, the HKSE announced that it would accept onshore government bonds and policy bank bonds under the Bond Connect as collateral for the northbound Swap Connect, thereby expanding the scope of collateral and assisting foreign investors in efficiently managing their margin requirements, enhancing market flexibility and attractiveness.

As these optimization measures gradually took effect, the market influence of the Swap Connect was increasingly growing. By the end of November 2024, the number of foreign institutions participating in the northbound Swap Connect had reached 71, demonstrating the market's positive response and high recognition of the Swap Connect. In terms of trading activity, the average daily turnover in November 2024 soared to RMB18.2 billion, a significant increase compared to the approximately RMB3 billion in May 2023, marking a substantial progress of Swap Connect in promoting the internationalization of the RMB interest rate derivatives market.

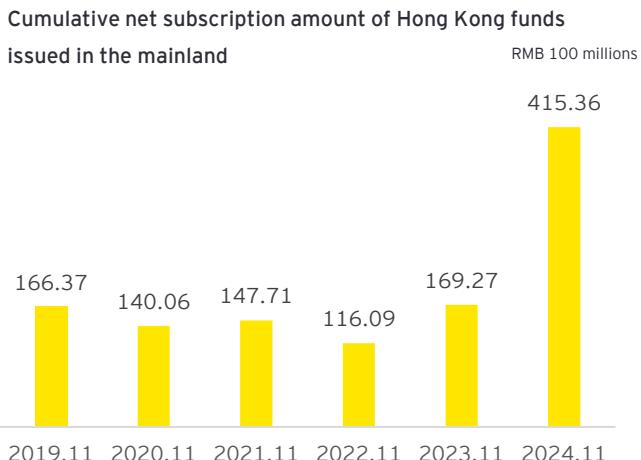
Business operation

Further optimization of mutual recognition of funds

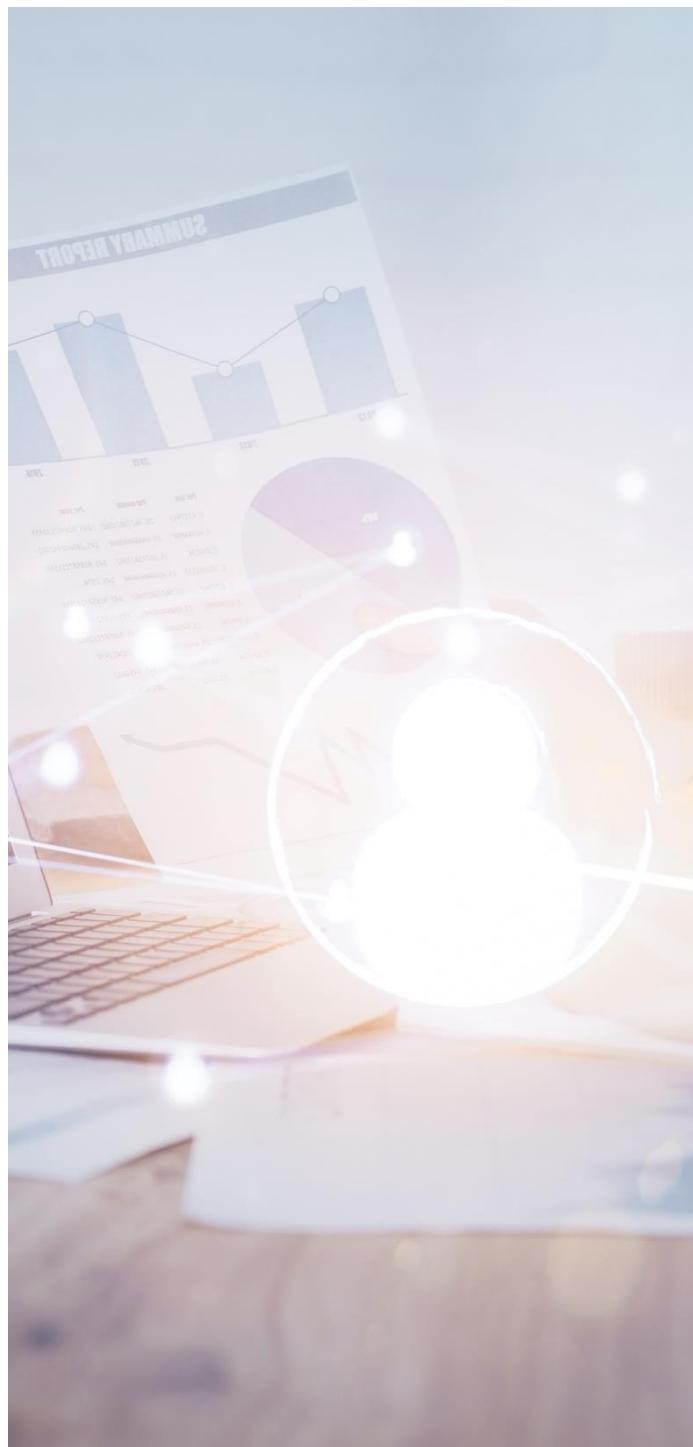
In 2024, with the deepening of financial cooperation between the mainland and Hong Kong, the two-way opening of the fund market has significantly accelerated. The demand for mutual recognition of funds (MRF) has shown strong growth, reflecting the deepening integration of the two financial markets and the increasing demand for diversified asset allocation among investors.

To further optimize the mechanism of MRF and leverage its positive role, the CSRC released the *Hong Kong Mutual Recognition Fund Management Regulations (Exposure Draft, Revised)* (the Regulations) in June 2024. The Regulations proposes to relax sales ratio restrictions and allow Hong Kong mutual recognition of funds to delegate management functions to overseas asset managers within the same group, aiming to enhance the effectiveness of the mechanism of MRF.

By September 2024, 39 Hong Kong funds have been registered by the CSRC for public sale in the mainland (different shares are considered as one), involving 21 asset managers, with the total scale of northbound funds reaching RMB1.3 trillion. According to data from the SAFE, by November 2024, the cumulative net subscription amount of Hong Kong funds issued and sold in the mainland has reached RMB41.536 billion, a significant increase of 145% compared to the same period in 2023. From a long-term trend, the annual compound growth rate of Hong Kong funds in the mainland market over the past five years has reached as high as 24.9%, further proving the recognition and trust of investors in the mechanism of MRF between the two regions.



Source: SAFE, summarized by EY



Regulatory reform

24 measures by the State Council to promote high-level opening-up and attract foreign investment

The General Office of the State Council issued the *Action Plan to Promote High-Level Opening-up, Attract and Utilize Foreign Investment* (the Plan) in February 2024. The Plan proposes 24 measures across five areas to promote high-level opening-up and attract foreign investment, including:

- ▶ Expanding market access and improving the liberalization level of foreign investment
- ▶ Increasing policy support to enhance the attractiveness to foreign investors
- ▶ Optimizing the fair competition environment and improving services for foreign-invested enterprises
- ▶ Facilitating the flow of innovation factors and promoting innovation cooperation between domestic and foreign enterprises
- ▶ Improving domestic regulations to better align with international high-standard economic and trade rules

The Plan emphasizes expanding open sectors and relaxing market access, particularly in financial services, providing broader development space for foreign enterprises. It also strengthens intellectual property protection, safeguards the legitimate rights and interests of foreign enterprises, and enhances their confidence in investing in China. Additionally, the Plan optimizes investment promotion and service mechanisms, improves administrative efficiency, reduces corporate operating costs and provides better services for foreign enterprises.

Capital market's new "Nine Articles" released

On 12 April 2024, the State Council issued the *Opinions on Strengthening Regulation, Forestalling Risks and Promoting the High-quality Development of the Capital Market* (the new Nine Articles). The new Nine Articles aims to improve and strengthen the quality requirements of the capital market, addressing deep-seated issues such as imbalances between investment and financing, primary and secondary markets, entry and exit of listed companies, and onshore and offshore market development.

The new Nine Articles emphasizes five "musts" and sets phased goals: within the next five years, a framework for high-quality development of the capital market will be established; by 2035, a highly adaptable, competitive and inclusive capital market will be built, with more effective protection of investors' rights and interests; by the middle of this century, the modernization level of the capital market's governance system and capabilities will be further enhanced, building a high-quality capital market that matches China's status as a nation with a strong financial sector.

Key Points of the new Nine Articles

Strictly control the access for issuance and listing	<ul style="list-style-type: none">▶ Further improve the issuance and listing system▶ Strengthen responsibility across the entire chain of issuance and listing▶ Enhance regulatory oversight of issuance and underwriting
Strictly enforce continuous supervision of listed companies	<ul style="list-style-type: none">▶ Strengthen supervision of information disclosure and corporate governance▶ Comprehensively improve the system of rules for share reduction▶ Enhance supervision of cash dividends from listed companies▶ Promote listed companies to enhance their investment value
Strengthen supervision of delisting	<ul style="list-style-type: none">▶ Deepen the reform of delisting system, and accelerate the formation of a normalized delisting pattern where companies that should be delisted are delisted in a timely manner.

Key Points of the new Nine Articles (continued)

Strengthen supervision of securities and fund institutions	<ul style="list-style-type: none">▶ Promote high-quality development of securities and fund institutions▶ Actively foster a positive industry culture and investment culture
Strengthen trading supervision	<ul style="list-style-type: none">▶ Promote stable market operations▶ Strengthen trading supervision▶ Improve the mechanism for expectation management
Vigorously promote the entry of medium and long-term funds into the market	<ul style="list-style-type: none">▶ Build a policy system that supports "long-term money for long-term investment"▶ Optimize the policy environment for equity investments by insurance funds
Further comprehensively deepen Reform and Opening-up	<ul style="list-style-type: none">▶ Excel in the five major areas of finance: technology finance, green finance, inclusive finance, pension finance and digital finance▶ Improve the multi-tiered capital market system▶ Adhere to coordinating high-level institutional opening-up and security in the capital market
Jointly promote high-quality development of the capital market	<ul style="list-style-type: none">▶ Promote the strengthening of the rule of law in the capital market and significantly increase the costs of violations and non-compliance▶ Intensify efforts to combat illegal and criminal activities in securities and futures markets

The new version of the *Guidelines on Foreign Exchange Management under the Capital Account* officially implemented, further enhancing the efficiency of cross-border capital flows

On 6 May 2024, the SAFE revised and implemented the *Guidelines on Foreign Exchange Management under the Capital Account (2024)* (the Guidelines). The revised Guidelines further clarify and refine the principles for handling certain businesses, such as the procedures for domestic institutions to convert overseas loans into equity and the participation of foreign shareholders in the subscription of convertible bonds issued by domestic companies in the A-share market.

The implementation of the Guidelines has a positive impact on the opening-up of China's financial market. On one hand, it enhances the efficiency and transparency of cross-border capital flows, attracting more foreign investment into the Chinese market while helping domestic institutions and enterprises "go global" and improving the internationalization level of China's financial market. On the other hand, with the increasing convertibility of the capital account, the internationalization of the RMB will be promoted, enhancing the RMB's role in international trade and financial activities and increasing the attractiveness of RMB assets to global investors.

In addition, after the *Administrative Measures for Developing Foreign Exchange Businesses by Banks (Trial)* was issued at the end of 2023, the SAFE issued three supporting regulatory documents on December 2024, including the *Guidelines on Customer Due Diligence in Bank Foreign Exchange Business*, *Guidelines on Customer Foreign Exchange Compliance Risk Classification*, and *Guidelines on Building Transaction Monitoring System for Bank Foreign Exchange Risks*, and guided the national foreign exchange market self-discipline mechanism to issue three industry guidelines. Up to now, a "1+6" bank foreign exchange business reform system has been formed. As of the end of November 2024, the number of banks participating in the business reform has increased from 4 to 10.

Regulatory reform

Enhance the facilitation for QFII/RQFII investments in China's capital market

Steadily expand institutional opening-up in the financial sector and optimize the qualified foreign investor policy. The PBOC and the SAFE jointly issued an announcement to revise the *Regulations on Funds of Securities and Futures Investment by Foreign Institutional Investors*, which will take effect on 26 August 2024. This further optimizes the cross-border fund management for Qualified Foreign Institutional Investors (QFII) and RMB Qualified Foreign Institutional Investors (RQFII).

1

Further simplify the business registration procedures, clarifying that QFII/RQFII business registration will be handled by the primary reporter through the SAFE's Digital Foreign Exchange Platform. At the same time, the procedures for change registration and cancellation registration are also clarified.

2

Further optimize account management. Merge the dedicated RMB deposit accounts used for securities trading or derivatives trading, reducing the number of accounts required for entities to conduct different types of investments and lowering their cost burden.

3

Further improve remittance management. Optimize the cross-border capital flow management for QFII/RQFII, refine the principles for management of outward and inward remittance of currency, and facilitate overseas institutional investors in allocating domestic securities assets.

4

Clarify that QFII/RQFII can conduct spot foreign exchange settlement and sale and foreign exchange derivatives trading through domestic financial institutions with foreign exchange settlement and sales qualifications other than custodians, as well as through the interbank foreign exchange market.

Optimize the foreign investment environment

On 1 November 2024, the Ministry of Commerce, the CSRC, the SASAC, the State Taxation Administration, the State Administration for Market Regulation and the SAFE jointly revised and released the *Measures for the Administration of Strategic Investment in Listed Companies by Foreign Investors* (the Measures). The revised measures will take effect on 2 December 2024.

The revision lowers investment thresholds in the following five areas, aiming to further broaden the channels for foreign capital to flow into the securities market, fully leverage the potential of strategic investment channels to attract investment, and encourage foreign investors to engage in long-term and value-based investments:

Changes in the revised Measures

Allow foreign individuals to conduct strategic investments

The original Administrative Measures only allowed foreign legal entities or other organizations to conduct strategic investments, while foreign individuals were not permitted to invest.

The revised Administrative Measures include foreign individuals within the scope of foreign investors, allowing them to conduct strategic investments in listed companies.

Relax asset requirements for foreign investors

The original Administrative Measures required that foreign investors have total overseas actual assets of no less than USD100 million, or manage total overseas actual assets of no less than USD500 million.

To facilitate and encourage listed companies to attract more long-term capital, the revised Administrative Measures appropriately lower the asset requirements for foreign investors who are not controlling shareholders.

Changes in the revised Administrative Measures (continued)

Add tender offers as a strategic investment method

The original Administrative Measures stipulated that strategic investment methods only included private placements and agreement-based transfers.

The revised Administrative Measures allow foreign investors to conduct strategic investments through tender offers.

For strategic investments conducted through private placements or tender offers, the use of shares from overseas non-listed companies as payment consideration is permitted

To attract foreign investors to strategically invest in listed companies through a combination of cash, equity and other methods, and to facilitate domestic listed companies in acquiring overseas assets through cross-border share exchanges, the new regulations permit the use of equity from unlisted overseas companies for cross-border share exchanges in strategic investments implemented through private placements or tender offers.

Moderately reduce the requirements for shareholding ratios and lock-up periods

The original Administrative Measures required a shareholding ratio of 10% for strategic investments implemented through agreement transfer or tender offer.

The revised Administrative Measures reduce this requirement to a shareholding ratio of 5% for strategic investments implemented through agreement transfer or tender offer.

The lock-up period for foreign investors' holdings was no less than three years.

The lock-up period for foreign investors' holdings is no less than 12 months.

Further optimize cross-border capital management for multinational companies

On 18 December 2024, the PBOC and the SAFE announced that they will further optimize the pilot policy for the integrated domestic and foreign currency capital pool business for multinational companies in 10 provinces and cities, including Shanghai, Beijing, Jiangsu, Zhejiang, Guangdong, Hainan, Shaanxi, Ningbo, Qingdao and Shenzhen. The aim is to enhance the efficiency of cross-border fund operations for multinational companies and strengthen support for facilitating cross-border investment and financing for these companies.

The main content of the pilot policy includes four aspects: First, allowing domestic member companies of multinational corporations to conduct cross-currency lending for cross-border payments under current account transactions, reducing corporate financing costs. Second, simplifying the filing process and the review of materials related to cross-border receipts and payments, improving the facilitation of cross-border receipts and payments for enterprises. Third, allowing multinational companies to independently determine the pooling ratio of foreign debt and overseas loans based on prudent macro principles, facilitating the management of cross-border funds. Fourth, supporting the parent company of multinational corporations to handle centralized receipts and payments between overseas member companies and domestic member companies or other overseas entities through the domestic master account, further improving the efficiency of fund utilization.

According to data from the SAFE, as of 18 December 2024, 54 multinational companies in the aforementioned 10 provinces and cities have completed cross-border fund transfers totaling USD466.941 billion under the pilot policy, benefiting 3,188 domestic and foreign member companies.

Regional opening-up

Yangtze River Delta region

In 2024, the economic performance in Yangtze River Delta region sustained a steady momentum, with its GDP growth rate ranking first in China. Throughout this year, the region continued to deepen its financial reform and opening-up. More high-quality developments were achieved by Shanghai International Financial Center, Pudong's pilot comprehensive reform, Lin-gang Special Area and other initiatives. Thanks to a series of institutional innovations and policies, the region's financial market has become more open, and its financial services have become more diversified. These advancements not only provided a more convenient investment environment for investors both domestic and overseas, but also offered forceful support for the region's stable economic growth and structural optimization.

Progress of Pudong's pilot comprehensive reforms on all fronts

On 22 January 2024, the General Office of the Communist Party of China Central Committee and the General Office of the State Council released the Implementation Plan for the Pudong New Area's Pilot Comprehensive Reform (2023-2027). The plan highlighted that Pudong New Area would be provided with greater autonomy in reforms in "key areas" and "key links" and further support to deepen its reforms and broaden its openness. It aimed to build the new area into a pioneer role in the nation's efforts in building a modern socialist country and enhance its position as a model in pursuing Chinese modernization. New elements were introduced in reforms of the financial sector compared to the previous Opinions of the CPC Central Committee and the State Council on Supporting the High-level Reform and Opening-up of Pudong New Area and Building Pudong into a Pioneer Area for Socialist Modernization. These included promoting two-way opening-up of the financial market, capital account convertibility, financial products innovation, improvement of the development of the asset management industry, refinement of financial regulatory mechanisms and other fields.

Expedition of high-quality development of Lin-gang special area

2024 marks the fifth anniversary of the establishment of the Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone (referred to as the "Lin-gang Special Area"). On 14 August, the Shanghai Municipal Party Committee's Financial Office, together with the Lin-gang Special Area Administrative Committee and other departments, jointly issued the Implementation Plan for Accelerating High-Level Opening-up and High-Quality Development in the Financial Sector of the Lin-gang New Special Area of the China (Shanghai) Pilot Free Trade Zone. It proposed 50 new measures focusing on five primary areas, including financial system innovation, two-way financial openness, real economy development, business environment promotion and supporting mechanisms improvement. The goal was to build the Lin-gang Special Area into an international innovation collaboration hub, an experimental pilot for global economic governance, and a new highland of high-level openness in China.

Asset Management Association of Shanghai (AMA Shanghai)'s efforts in building the global asset management center

In 2024, the AMA Shanghai hosted "Global Asset Management Center Shanghai International Week" - the third time in a row for it to host this event. It also released the Construction Report of Shanghai Global Asset Management Center for the second consecutive year. The AMA Shanghai actively expanded its membership, fostering a robust development ecosystem for the asset and wealth management. As of November 2024, 188 institutions had joined this network.

Efforts of building Shanghai into an international financial center

2024 marks the 15th anniversary of the implementation of the Measures on Promoting the Building of Shanghai as an International Financial Center. Over the past 15 years, Shanghai has made remarkable progress as a financial center, with its core functions continuously strengthening. Dozens of top global asset management institutions, including BlackRock, Neuberger Berman, Fidelity, Schroders and UBS, have established a presence in Shanghai.

Number of Financial Institutions in Shanghai (as of October 2024)



Source: Official website of Shanghai Municipal People's Government, summarized by EY

On 22 August 2024, the 16th Standing Committee of the Shanghai Municipal People's Congress further revised the Measures on Promoting the Building of Shanghai as an International Financial Center. The revisions focused on seven dimensions: financial system construction, financial reform and opening-up, serving the real economy, strengthening risk prevention, advancing financial technology, emphasizing talent development and optimizing the business environment. These measures were designed to promote high-quality financial development and boost China's construction of its financial strength.

Additionally, the International Monetary Fund (IMF) Shanghai Regional Center was officially launched on 19 June 2024. This move aimed to enhance exchanges and cooperation between the IMF and Asia-Pacific economies, conduct research on areas of concern for emerging markets and middle-income countries, provide targeted capacity-building support for regional economies and maintain global and regional financial stability.

Clusters of treasury centers in Shanghai

To attract multinational corporations to establish their global or regional treasury management centers and accelerate the clustering of treasury centers in Shanghai, and promote the construction of the Pudong's role as a pioneer area and the Shanghai's position as the international financial center, the Lujiazui Administration of the China (Shanghai) Pilot Free Trade Zone released the Several Opinions on Encouraging the Aggregation of Regional Headquarters and Treasury Centers of Multinational Corporations in Pudong New Area in April 2024. The document proposed a series of measures to expedite the development of treasury centers for multinational corporations in Shanghai, covering areas such as operational convenience for capital, innovation in financial science and technology, and policy and environmental improvements.

In June 2024, the Lujiazui Financial City welcomed its first batch of five treasury centers. In November of the same year, the Lujiazui Administration granted certification and licenses to the first six cooperative banks of these treasury centers. These signal that Shanghai has gained new strides in its exploration of a headquarters economy at a higher level.

Regional opening-up

Guangdong-Hong Kong-Macao GBA

Thanks to implementation of the Overall Development Plan for the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) secured great achievements in financial reforms and opening-up in 2024. Significant breakthroughs were made in the programs such as cross-border financial data connectivity, facilitation of cross-border financing, the Qualified Foreign Limited Partnership (QFLP) pilot program, financial innovation in the Guangdong-Macao In-depth Cooperation Zone in Hengqin, and the in-depth cooperation between the Shanghai, Shenzhen and Hong Kong capital markets.

In 2024, as for cross-border financial data connectivity, the Guangdong-Macao Cross-border Data Verification Platform and the Shenzhen-Hong Kong Cross-border Data Verification Platform were launched for trial operation, with successful cases implemented in both the Northbound Trading and Southbound Trading. In terms of cross-border financing facilitation, pilot programs, including the GBA "Wealth Management Connect," cross-border asset transfers, Free Trade (FT) accounts and the Hengqin Multi-functional Free Trade (EF) accounts, were gradually rolled out.

Regarding financial innovation in the Guangdong-Macao In-Depth Cooperation Zone in Hengqin, the mechanism of line-division management and independent customs operations was officially adopted. It was a key step forward in China's efforts to building a new system enabling a high level of integrated opening-up of Guangdong and Macao. Meanwhile, the interconnection of financial markets in the GBA has continued to deepen. Beyond the Stock Connect and Bond Connect, the interconnection also expanded to include initiatives such as the Wealth Management Connect and Private Equity Connect. These developments were of great significance over the cooperation among Guangdong, Hong Kong and Macao, enhanced the GBA's status as an international financial center and supporting the construction of a world-class city cluster and a top-tier international bay area.

First anniversary of Qianhai Plan

Since the official approval by State Council of the *Overall Development Plan for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone* (Qianhai Plan) on 10 December 2023, the Shenzhen Municipal Party Committee and Municipal Government have formulated robust plans to ensure the full implementation and the promotion of specialized programs. It accelerated the building of a pilot platform for comprehensively deepening reform and innovation, a gateway to high-level opening-up to the outside world, a leading area for deep integration between Shenzhen and Hong Kong, and hub for the high-quality development of modern service industries. Over the past year since the release of the Qianhai Plan, the financial sector performed remarkably.

November 2024	<ul style="list-style-type: none">The Shenzhen Municipal Government Services and Data Administration Bureau, together with the Shenzhen Qianhai Administration Bureau, jointly released the Implementation Plan for the Promotion of High-Quality Development of Data Element Aggregation and Development in Qianhai. They also inaugurated the Shenzhen (Qianhai) International Data Industrial Park, the Qianhai Launch Zone of the "Data Special Zone," the Shenzhen Data Security Industrial Park, the Shenzhen (Qianhai) Cross-border Data Flow Comprehensive Service Center, and the Guangdong Data Element Industry Association's Greater Bay Area Headquarters.
June 2024	<ul style="list-style-type: none">In Northbound Connect, commercial banks in Shenzhen, including Bank of Communications, Bank of China, Industrial and Commercial Bank of China, China Construction Bank and Nanyang Commercial Bank, effectively utilized Hong Kong's cross-border credit information to grant loans totaling RMB753 million to Hong Kong enterprises in Shenzhen. Among these, 78.7% were pure credit loans, and the first-time loan ratio reached 40.0%.In Southbound Connect, there were several pilot cases where credit information was successfully transmitted to parties in Hong Kong, with approximately HKD30 million involved.
May 2024	<ul style="list-style-type: none">A total of 118,100 investors in the GBA participated in the "Cross-border Wealth Management Connect" pilot program, and the fund transferred cross-border amounted to RMB68.542 billion.Shenzhen-Hong Kong Cross-border Data Validation Platform was launched for trial operation in Shenzhen and Hong Kong.

New and revised measures by Shenzhen to advance two-way financial opening-up

Over the past years, Shenzhen QFLP and QDIE initiatives have been steadily carried out in an order manner, propelling the establishment of a number of foreign-invested enterprises characterizing distinctive advantages and benchmark effects. As the Shenzhen Local Financial Regulatory Bureau sought to further optimize the foreign investment environment, intensify the attraction to foreign investment, and upgrade the level of two-way financial openness, it issued the revised Shenzhen Pilot Measures for Qualified Foreign Limited Partnerships on 5 January 2025. The revisions include six major updates, i.e., optimizing the pilot program's name and registration/filing requirements; supporting the pilot program in Qianhai and Hetao areas; implementing total amount management for pilot funds; expanding the investment scope of pilot funds; streamlining the application process; and clarifying custodian requirements for pilot funds.

As of November 2024, Shenzhen was home to over **200 enterprises** under QFLP pilot management and initiated **64 QFLP funds**. Additionally, there were **79 QDIE pilot management enterprises**, with approved outbound investment quotas totaling **USD2.085 billion**.

New breakthroughs in financial innovation and cross-border capital flows in the Guangdong-Macao In-depth Cooperation Zone in Hengqin

To implement the innovative cross-border financial management measures proposed in the Overall Plan for the Construction of the Guangdong-Macao In-depth Cooperation Zone in Hengqin and the Opinions on the Financial Support for the Construction of Guangdong-Macao In-Depth Cooperation Zone in Hengqin, and to explore pathways for the free flow of cross-border capital, the Guangdong Branch of the People's Bank of China released the Measures for the Management of Multifunctional Free Trade Accounts in Guangdong-Macao In-depth Cooperation Zone in Hengqin (hereinafter referred to as the Measures) on 3 April 2024. The Measures officially became effective on 6 May 2024.

With the adherence to the general principle of "free flow of funds across the 'first line', cross-border transaction management of fund transfers across the 'second line', and limited fund transfers across the 'second line' to accounts under the same name", the Measures specified detailed requirements for the eligibility of entities, business rules, and regulatory arrangements for multi-functional free trade accounts, marking the official implementation of these accounts. This provided an important platform for facilitating cross-border trade and investment financing. It is expected to effectively promote financial cooperation between Macao and Hengqin, as well as the interconnection of financial markets between the in-depth cooperation zone and Macao. The Measures is ensuring the convenient and efficient flow of various financial elements, supporting the moderate diversification of Macao's economy.

Regional opening-up

Hainan Free Trade Port

The Hainan Free Trade Port represents one of the important platforms established by the China's government as part of its new round of initiatives boosting high-level opening-up. It aims to become a significant gateway for opening-up to the Pacific and Indian Oceans through institutional innovation, preferential policies and the creation of an international business environment.

In 2024, the Hainan Free Trade Port made remarkable progress in financial reform and opening-up. It established a policy framework centered on "free and convenient trade, investment, cross-border capital flows, movement of people, transportation and secure and orderly data flows". Cross-border RMB receipts and payments increased by **57.5%** year-on-year, while direct investment under the capital account grew by a significant **37.8%**. As the construction of the Free Trade Port goes further, financial resources are rapidly converging. Hainan ranks among the top regions in China in terms of the number and scale of private equity fund management. By the end of April 2024, Hainan was home to two public fund management companies and three branches of public fund management companies. It had 625 registered private fund managers, ranking **8th** nationwide, managed 4,659 funds (also ranking **8th**), an increase of 108 since the beginning of the year. The total fund management scale reached RMB275.807 billion, ranking **12th** nationwide, with an increase of RMB4.325 billion year-on-year.

Launch of EF Accounts by Hainan Free Trade Port leading to more cross-border capital flows for enterprises

On 3 April 2024, the Hainan Branch of the People's Bank of China officially released the Measures for the Administration of the Multi-functional Free Trade Account in the Hainan Free Trade Port (hereinafter referred to as the Measures). The Measures clarified the business scope, rules for fund transfers and regulatory requirements for operations.

To further promote the freedom and convenience of cross-border capital flows and advance the liberalization and facilitation of trade and investment, the Multi-functional Free Trade Account (hereinafter referred to as the EF Account) was officially launched in the Hainan Free Trade Port on 6 May 2024. This launch was deemed as a critical step for Hainan Free Trade Port to realize the ambition of free and convenient cross-border capital flows. The most favorable advantage of this account is that funds can be freely transferred across the "first line" in accordance with the law, and fund transfers across the "second line" can be made between accounts with the same name within specified limits.

34 enterprises opened EF Accounts merely on the first day of the launch. As of 30 November, a total of over 120 main EF Accounts had been opened by 10 pilot banks in Hainan. Among these, 57 EF Enterprise (EFE) Accounts were opened by companies registered in the Hainan Free Trade Port, and 66 EF Non-resident (EFN) Accounts were opened by overseas institutions. Data shows that from 6 May to 30 November 2024, the receipts and payments of EF Accounts in Hainan totaled to approximately RMB52.9 billion, which consisted of RMB39.6 billion crossing first-line transactions and RMB13.3 billion crossing second-line transactions. The business activities covered various scenarios, including cross-border trade settlement, spot and forward foreign exchange purchase and sale transactions, foreign exchange trading, loans, trade financing, overseas lending, foreign debt and foreign investment.

Deepening financial opening-up to support the operation of the Free Trade Port

On 19 December 2024, the Hainan Regulatory Bureau of the NFRA released the Guiding Opinions on the Full Support of Hainan's Banking and Insurance Industries for the Operation of the Hainan Free Trade Port (hereinafter referred to as the "Guiding Opinions"). The Guiding Opinions proposed four main measures to fully support the operation of the Hainan Free Trade Port, aiming to ensure the smooth operation of the port by the end of 2025.

- ▶ Promote the free flow of cross-border funds and expand high-level financial opening-up
- ▶ Actively serve the real economy and enhance the resilience of the financial system
- ▶ Strengthen the construction of financial infrastructure and vigorously optimize the business environment
- ▶ Strengthen safeguard measures

The Guiding Opinions was an important document formulated to ensure the smooth operation of the Hainan Free Trade Port, aiming to optimize financial services, enhance the funding supply capacity of banking industry in Hainan, and provide sufficient financial support for the construction of the Free Trade Port.

According to the Guiding Opinions, Hainan would actively align with international high-standard economic and trade rules in the financial sector to promote financial opening-up and innovation. It supported domestic banks and insurance institutions in exploring new financial services while granting foreign institutions national treatment to conduct similar businesses, clarifying the types of institutions, nature, licensing requirements and procedures for new financial services. Financial facilitation services would be provided for foreigners to enhance their financial service experience in Hainan. Meanwhile, through multi-functional free trade accounts, the free flow of cross-border funds would be promoted, supporting banks in conducting cross-border financial innovation, developing financial products tailored to the needs of the Free Trade Port, enriching business scenarios, and providing high-quality cross-border financial services for domestic and foreign entities. The issuance of offshore government bonds in Hainan would also be facilitated. The Guiding Opinions also pointed out that cross-border asset management business pilots would be explored simultaneously, supporting qualified banks and insurance institutions in setting up asset management institutions, issuing wealth management products and insurance asset management products to overseas investors, providing services such as account onboarding, intermediary services and fund custody for financial institutions, and strengthening the protection of financial consumers' rights and interests to promote the diversified development of Hainan Free Trade Port's financial market.

In addition, the Guiding Opinions also emphasized strengthening financial regulation to ensure the stability and security of the financial market and creating a favorable financial environment for the long-term development of the Free Trade Port. Through these measures, Hainan's banking and insurance industries would better serve the economic development of the Free Trade Port and promote higher levels of opening-up and innovation in Hainan.

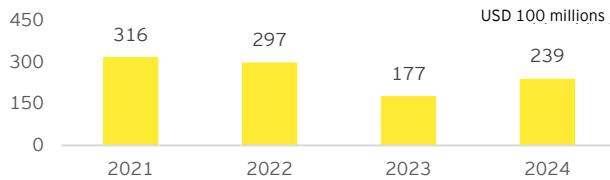
On 17 December 2024, during a work report from the Hainan provincial government, the President of China, Xi Jinping, also emphasized the importance of focusing on the free flow of cross-border funds, aligning with international high-standard economic and trade rules, and vigorously promoting institutional opening-up. He stressed the needs to create a first-class business environment that was market-oriented, rule-of-law-based, and internationalized, and to strengthen the construction of opening-up platforms for finance sector, to promote financial reforms and innovations in the Hainan Free Trade Port, and to strive to make the Hainan Free Trade Port a leading gateway for China's new era of opening-up to the outside world.

Feature: Enterprises going global with financial support

In 2024, outbound direct investment (ODI) continued to keep the fast growth momentum. According to public data from the Ministry of Commerce of China, the London Stock Exchange Group and other sources, China's total ODI across all sectors reached US\$124.4 billion in the first three quarters of 2024, with a year-on-year growth of 9%.

As Chinese enterprises actively explore overseas markets and embark on the journey of globalization, it is of paramount importance to acquire robust support from financial institutions. The financial sector's ODI in the first three quarters of 2024 has caught up with the total for the entire year of 2023, with an annualized growth of 35% compared to the previous year.

ODI value in China's financial industry



Source: Monthly brief statistics from the Ministry of Commerce of China, summarized by EY

Note: 2024 data is annualized based on the statistics for the first three quarters of 2024 disclosed by the Ministry of Commerce.

In terms of M&A transaction value, the financial service sector has seen a significant surge in overseas M&A business in the first three quarters of 2024, reaching USD2 billion. This represents a year-on-year increase of 320%, ranking first across all industries. Particularly in countries participating in the Belt and Road Initiative, the financial services sector ranks among the top three in terms of M&A transaction quantity.

The overseas M&A transaction value in the first three quarters of 2024

	Top five sectors	Amount	Y-O-Y growth
1	Advanced manufacturing and mobility	45.6	-32%
2	TMT	36.5	-54%
3	Real estate, hotels and constructions	32.1	-26%
4	Mining and metals	21.3	2%
5	Financial services	20.0	320%

Source: Monthly brief statistics from the Ministry of Commerce of China, summarized by EY

Financial sector going global with policy support

In order to deepen economic and trade cooperation under the Belt and Road Initiative and promote the integrated development of cross-border trade, investment and finance, the Ministry of Commerce, in conjunction with multiple regulatory authorities, implemented several guiding opinions in 2024. For example, the "Opinions on Strengthening the Coordination between Commerce and Finance to Provide Greater Support for the High-Quality Development of Cross-Border Trade and Investment" released on 7 July, emphasized that financial institutions should provide support to:

- ▶ Encourage banking institutions to enrich and improve credit product services.
- ▶ Support insurance institutions in optimizing underwriting and claims conditions and expanding insurance coverage.
- ▶ Facilitate efficient connection between banking and insurance institutions and enterprises within the platform.
- ▶ Encourage new forms of business such as joint financing, syndicated loans and risk sharing.
- ▶ Optimize cross-border RMB services to help enterprises cope with exchange rate risks.

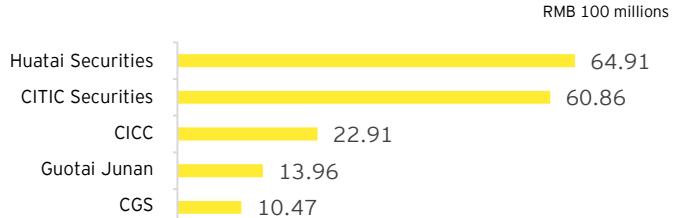
Banking and insurance industries

In 2024, China's banking and insurance industries have made positive progress on internationalization and achieved several "firsts". At the beginning of the year, China Construction Bank signed an agreement with Brazil Master Bank S.A. to become the first Chinese capital custody bank among the foreign-funded direct participants in the CIPS system. In June, China Taiping Insurance opened its branch in Luxembourg, becoming the first Chinese-funded insurance company in the EU. In August, the Public Investment Fund (PIF) of Saudi Arabia announced that it had signed a memorandum of understanding worth up to USD50 billion with six Chinese banking and insurance institutions for the first time. In November, Bank of Communications set up a presence in Dubai, realizing the first formal "assembly" of the five major banks in the UAE. Also in November, China Taiping Insurance Holdings Company Limited Dubai Office and China Taiping Insurance (HK) Company Limited Dubai Representative Office were officially inaugurated. The overseas expansion of banking and insurance institutions has provided high-quality financial services for Chinese companies "going global" and for the joint construction of the Belt and Road Initiative.

Securities industry

Chinese securities firms hit the milestone of RMB1 trillion on the cross-border business scale at the end of 2023, and continued to expand their overseas operations in 2024. Galaxy Securities achieved 100% ownership of its Southeast Asian subsidiary - CGS-CIMB, and renamed it "CGS International"; Industrial Securities injected an additional HKD1 billion into its wholly-owned overseas subsidiary, Industrial Securities (Hong Kong) Financial Holdings Limited; Guotai Junan Securities' subsidiary in Singapore executed its first cross-border over-the-counter (OTC) derivatives transaction; Huatai Securities' subsidiary, as a Chinese securities firm, was approved for a Vietnam securities trading code, enabling it to trade directly on Vietnam's two major stock exchanges as a qualified foreign investor. In terms of profitability, Huatai Securities gained an international business revenue of more than RMB6.4 billion in the first half of 2024, a year-on-year increase of 67.5%, leading the industry. CITIC Securities possessed overseas assets of RMB303.002 billion, accounting for 20.27% of the company's total assets.

Overseas business revenue of selected leading Chinese securities firms in the first half of 2024



Source: Securities Association of China, summarized by EY

Asset management industry

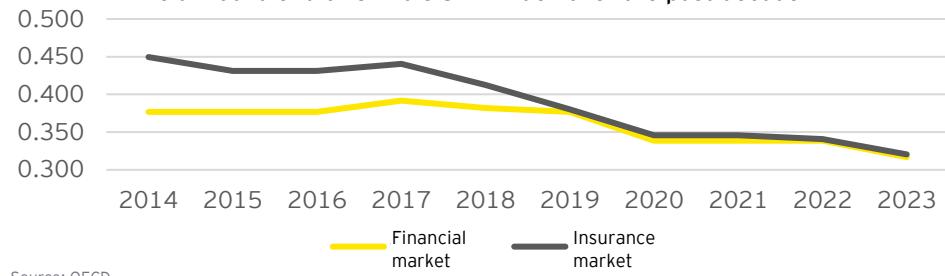
In 2024, against the backdrop of deepening capital market opening-up, we saw the internationalization of public offering of funds in an obviously faster pace. In March, the Phillip-China Universal MSCI China A50 Connect ETF, jointly launched by CUAM and Phillip Capital, was listed on the Singapore Exchange. In June, Invesco's index-based ETF in Ireland was listed on multiple European exchanges, including those in Ireland, the UK, Germany and Switzerland. In July, the first batch of Saudi Arabia ETFs officially began trading in the domestic market. In August, CUAM signed a strategic cooperation memorandum with Bradesco Asset Management in Brazil. In October, the Albilad CSOP MSCI Hong Kong China Equity ETF was listed on the Saudi Arabian Exchange.

Prospects

In 2024, facing challenges from domestic and international changes, China actively responded by introducing a series of policy measures to solidly promote high-quality development. In the financial sector, China continued to steadfastly advance financial industry reforms and accelerate the pace of opening-up, injecting new vitality into global economic growth and financial market prosperity. According to the released Global Financial Centres Index 36 (GFCI 36), China's performance in the financial services sector remains outstanding. Specifically, Hong Kong surpassed Singapore in this edition, reclaiming the third position, reflecting Hong Kong's strong competitiveness as a global financial center and its stable performance in financial markets. As one of the world's important financial centers, Shanghai ranked eighth, maintaining its significant influence in financial markets. Shenzhen rose two places to ninth, entering the top 10 global financial centers. Beijing ranked 18th among the top 20 global financial centers.

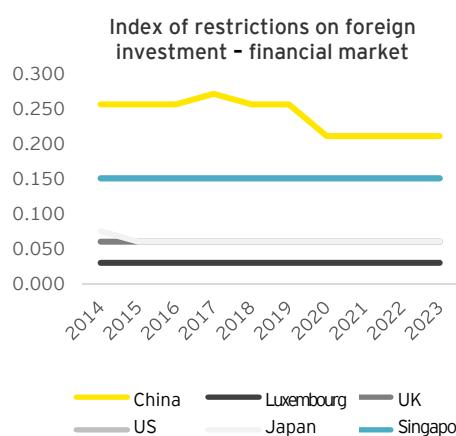
Meanwhile, with the Services Trade Restrictiveness Index (STRI)* prepared by the Organization for Economic Co-operation and Development (OECD), we can observe that China's financial services sector has seen significant improvement over the past decade. In 2023, China's STRI indices for the financial market and insurance market were 0.317 and 0.320, respectively, showing notable improvement compared to 2017, with decreases of 19.12% and 27.24%. However, there is still a gap in openness compared to financially developed countries, such as the UK (0.126/0.114) and Luxembourg (0.134/0.152).

The annual trend of China's STRI index over the past decade

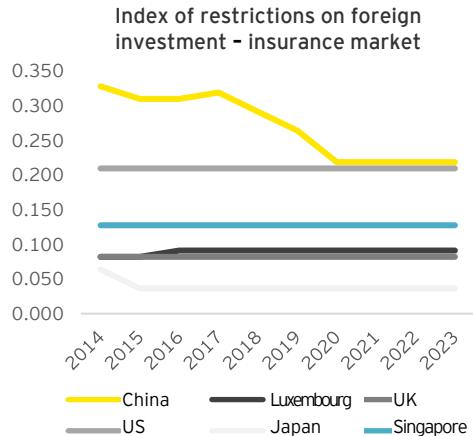


Source: OECD

The STRI index is divided into five subcategories: restrictions on foreign investment, restrictions on the mobility of natural persons, other discriminatory measures, barriers to competition and regulatory transparency. Further analysis reveals that the gap between China and other financially developed countries is mainly concentrated in restrictions on foreign investment. China's index for restrictions on foreign investment in the financial market remains at 0.212, while such index in the insurance market stays at 0.219. Although there has been significant overall improvement, compared with most financially developed countries such as the United States, the United Kingdom, Singapore, Luxembourg and Japan, China's index in this subcategory remains relatively high, indicating substantial room for further progress.



Source: OECD



Source: OECD

*STRI: Services Trade Restrictiveness Index is a measurement system for trade barriers, developed by the OECD to assess trade restriction policies in the global services sector. The index ranges from 0 to 1, where 0 indicates complete openness and 1 indicates complete closure. A higher score signifies greater restrictions and barriers in services trade.



Prospects

China has established itself as a major financial power, when measured by several core indicators such as the scale of banking assets, insurance premium income, stock market capitalization, bond market balance and the degree of currency internationalization. However, we must soberly recognize that our financial development still faces the reality of being "large but not strong". While leading in scale-related indicators, there remains significant room for improvement in key areas such as the quality of financial development, resource allocation efficiency, service effectiveness and risk resilience. Specifically, we can start from the following perspectives for improvement:

- ▶ Actively participate in global financial governance. Fully engage in the adjustment and formulation of international economic and financial rules and standards, and actively lead the global economic agenda, to enhance China's position and influence in the international financial system
- ▶ Prudently and steadily advance the internationalization of RMB. Further actively promote cooperation in areas such as international settlement in RMB, bilateral local currency swaps, offshore clearing, and multilateral central bank digital currency cross-border payments, and accelerate RMB internationalization through platforms such as the BRICS mechanism
- ▶ Continue to optimize the business environment for foreign investors, actively introduce foreign institutions with unique features and advantages, and further improve the domestic financial institution system. Provide a clear, stable and predictable market environment for foreign investors, enabling foreign capital to "enter and stay", and fully leverage the "catfish effect" of foreign investment
- ▶ Equally promote "bringing in" and "going global" initiatives, advance the construction of an international network of excellent financial institutions in China, and safeguard Chinese enterprises going global
- ▶ Facilitate cross-border trade and investment and financing. Continue to expand and improve the interconnection mechanism to enable highly smooth flow of capital, goods, personnel, services and data, while ensuring national economic and financial security

Guided by the PBOC's annual work conference, the two core strategies for China's financial reform and development in 2025 are to deepen financial reform and advance high-level opening-up, with a focus on enhancing the internationalization of RMB. In this crucial year for the comprehensive implementation of the 14th Five-Year Plan, the steady progress of the national economy is inseparable from the prosperity and stability of the financial market. Looking ahead to 2025, we believe that China will firmly maintain the pace of financial reform and opening-up, actively respond to internal and external challenges, and introduce proactive policies, making great strides on the journey to becoming a financial powerhouse.

Appendix

Series report on China's further opening-up of financial sector (XX)

EY in-depth interpretation on the *Implementation Plan for Pudong New Area's Pilot Comprehensive Reform for 2023-2027 – Financial reform*

Overview

On 22 January 2024, the General Office of the CPC Central Committee and the General Office of the State Council issued the *Implementation Plan for Pudong New Area's Pilot Comprehensive Reform for 2023-2027* (hereinafter referred to as the "Implementation Plan"). The Implementation Plan proposes granting Pudong New Area greater autonomy in reform of key areas, supporting the efforts in deepening reforms and higher-level opening-up, and providing a foundation for Pudong New Area to become a leading zone for socialist modernization and better play a demonstrative and leading role in the comprehensive construction of a modern socialist country and the advancement of modernization with Chinese characteristics.

As shown in the timeline on the right, the Implementation Plan is another significant measure by the central government to support Pudong New Area in exploring higher-level reform and opening-up, following the release of two major policies: the *Opinions of the CPC Central Committee and the State Council on Supporting the High-level Reform and Opening-up of Pudong New Area and Building Pudong into a Pioneer Area for Socialist Modernization* (hereinafter referred to as the "Pioneer Area Opinions") in 2021, and the *Overall Plan for Comprehensively Aligning with High-Standard International Economic and Trade Rules and Promoting High-level Institutional Opening-up of the China (Shanghai) Pilot Free Trade Zone* in 2023. This further provides clear direction for Pudong New Area to play a leading role in the construction of modernization with Chinese characteristics.

From the perspective of implementation timetable as shown below, the Implementation Plan continues with the guiding principles of the Pioneer Area Opinions and, in light of the latest domestic and international developments, formulates a clearer roadmap for Pudong New Area's development by 2027.

In this report, we provide an in-depth interpretation of the financial policies in the Implementation Plan, sharing our insights and outlining the prospects for the future.

Updates to the policies around reform and opening-up of Shanghai (Pudong)



Source: Public information, summarized by EY

Implementation Plan timetable

By 2025, make progress in system innovation, achieve breakthroughs in high-level system opening-up, enhance the competitiveness of the scientific and technological innovation system, strengthen global resource allocation capabilities, improve urban governance, and promote a number of landmark reform results

By 2027, basically complete the pilot tasks, made breakthrough progress in system innovation, see results in the construction of a high-standard market system and a high-level open economy, improve the urban governance system, demonstrate and lead the comprehensive construction of a modern socialist country

"Pilot comprehensive reform"

"Construction of pioneer area"

Source: Public information, summarized by EY

By 2035, establish the modern economic system of Pudong, complete the construction of a modern urban area, achieve comprehensive modernization in governance, and elevate urban development capacity and international competitiveness to the forefront of the world

By 2050, build Pudong into a globally significant hub with strong attractiveness, creativity, competitiveness and influence, serving as a global model for urban governance capabilities and effectiveness

Interpretation of financial reform policies in the *Implementation Plan for Pudong New Area's Pilot Comprehensive Reform for 2023-2027*

The Implementation Plan consists of seven chapters covering 23 specific measures, including increasing the openness in terms of rules and standards, improving the scientific and technological innovation system, deepening the reform of talent development system, and transforming government functions. Among the measures, those for the financial sector have introduced many new elements as compared with the Pioneer Area Opinions. A comparison and interpretation of the relevant policies are as follows:

Comparative analysis of key financial policies in the Implementation Plan and the Pioneer Area Opinions

Focus areas		Implementation Plan	Pioneer Area Opinions	EY analysis
1	Two-way financial opening-up and capital account convertibility	<ul style="list-style-type: none"> ▶ Implement pilot cash pooling program integrating domestic and foreign currency management ▶ Facilitate cross-border payments and receipts for multinational enterprise groups 	Support Pudong in taking the lead in exploring implementation approaches for capital account convertibility and facilitating cross-border fund transactions for enterprises with integrity and compliance.	The Implementation Plan introduces new specific measures, such as the pilot cash pooling program integrating domestic and foreign currency management, which were not included in the Pioneer Area Opinions. In July 2022, the pilot cash pooling program integrating domestic and foreign currency management was expanded to Shanghai, facilitating the capital management of multinational enterprises. By implementing the specific measures in the Implementation Plan, the goals set forth in the Pioneer Area Opinions can be advanced, supporting Pudong in building itself into an international financial and treasury center.
2	Financial product innovation	<ul style="list-style-type: none"> ▶ Develop the futures market and introduce futures products such as shipping index futures 	Launch a pilot program for RMB foreign exchange futures trading. Promote collaboration between the financial futures market and the stock, bond, foreign exchange and insurance markets	The Implementation Plan introduces new futures products such as shipping index futures, which were not included in the Pioneer Area Opinions. The proposal to introduce shipping index futures will, through its implementation, help shipping companies strengthen risk management and control.
		<ul style="list-style-type: none"> ▶ Pilot the use of digital RMB in areas such as trade settlement, e-commerce payments, carbon trading, and green power trading, and standardize and expand the application scenarios of digital RMB in the use of fiscal funds 	N/A	Digital RMB has always been a crucial part of China's financial reform. In the Implementation Plan, multiple application scenarios for digital RMB are specifically outlined, which will strongly promote Pudong's leading position in this field in the future. This is a significant highlight of the new policy.
		<ul style="list-style-type: none"> ▶ Support the exploration and development of diversified green financial products under the premise of compliance with laws and regulations and effective risk prevention and control 	N/A	Currently, green loans and bonds dominate China's green financial products. As the Implementation Plan encourages innovation, green financial products will be further diversified, solidifying Shanghai's position as an international green financial hub and thereby contributing to the achievement of the "dual-carbon" goals.
3	Improvement of the asset management industry development	<ul style="list-style-type: none"> ▶ Support the asset management industry in compliantly open investment channels for domestic and international funds, and optimize business models in terms of funding sources, investment methods and fund operations 	N/A	Building a global asset management center is a set goal proposed in Shanghai's 14th Five-Year Plan. The Implementation Plan specifies that the development of the asset management industry should focus on areas such as funding sources, investment methods and fund operations, clearly outlining the key directions for future efforts.
		<ul style="list-style-type: none"> ▶ Implement the global asset management partnership program 	N/A	Following the establishment of the Lujiazui Global Asset Management Partnership Program in 2021, significant achievements have already been made. The Implementation Plan once again highlights this program, demonstrating strong recognition of its success. This will further solidify Lujiazui Financial City's position as the core functional area of Shanghai's global asset management center.
4	Improvement of financial regulatory mechanisms	<ul style="list-style-type: none"> ▶ Enhance the financial regulatory coordination mechanism, strengthen information sharing and collaborative supervision between central and local authorities, and improve the capability of financial regulators in Shanghai to oversee international financial operations 	Refine the financial regulatory system, establish a robust risk monitoring and evaluation framework, and explore regulatory models compatible with the international financial system.	Building on the spirit of the Pioneer Area Opinions, the Implementation Plan emphasizes the importance of a coordination mechanism between central and local financial regulators. It proposes the need to enhance supervision of cross-border and offshore financial activities to meet the requirements of financial regulation under the new development paradigm.

Source: Public information, summarized by EY

EY insights and perspectives

Pudong New Area, as a crucial showcase of China's reform and opening-up and the core region for the construction of Shanghai into an international financial center, has garnered significant attention from all sectors. In 2023, Pudong New Area achieved a regional GDP of RMB1,671.515 billion, representing a year-on-year growth of 4.8% at constant prices, and accounting for **35%** of Shanghai's total GDP. As a key engine driving regional economic growth and enhancing international competitiveness, Pudong New Area places high importance on the development of the financial industry. Currently, the financial industry has become the largest industry in Pudong New Area, hosting the **most comprehensive** financial markets, the **densest concentration** of financial institutions, the **most dynamic** financial transactions, and the **largest pool** of financial talent resources in the country.

13

Number of financial markets and financial infrastructure

1,200+

Total number of licensed financial institutions in Pudong

31.3%

Added value of the financial industry as a percentage of the total regional GDP in 2022

RMB501.02 billion

Added value of the financial industry in 2022

350,000

Number of various financial professionals in Pudong

70%

Proportion in Shanghai's financial talent pool

41.5%

Proportion of foreign-funded corporate banks in Pudong New Area in the national total

1/3

Proportion of financing leasing assets in the national total as at June 2023

1,582

Number of private fund managers as at the end of 2022

After the National People's Congress specially granted legislative authority to Pudong New Area in 2021, Shanghai had enacted 18 regulations covering multiple fields by the end of July 2023, two of which were related to finance. The granting of legislative authority enables Pudong New Area to formulate more flexible and innovative regulations based on its development needs. The release of the Implementation Plan further clarifies the goals of Pudong New Area in various fields such as finance, technology and talent, opening up broader possibilities for the exercise of legislative power in the future.

Regulations related to finance in Pudong New Area

	Description
Provisions on the development of green finance	Define the responsibilities of relevant departments in promoting green finance development; establish a green project database; facilitate innovative regulatory interactions in areas such as green finance
Provisions on the Development of financing lease	Support capital markets at multiple levels in raising funds through diverse methods, support enterprises in developing offshore financing lease business, and encourage the prioritization of RMB settlement in foreign-related business activities

Through the comparative analysis above and an overview of Pudong New Area's financial strengths, we are pleased to see that the Implementation Plan proposes comprehensive measures, including investment in advanced digital infrastructure, optimization of talent introduction policies, promotion of financial technology innovation, and encouragement of participation and development of foreign financial institutions. These measures are both visionary and detail-oriented. They will further drive the open development of Pudong New Area and enhance Shanghai's position in both China's and the global financial markets. Looking ahead, with the release of the Implementation Plan, Pudong New Area will be further empowered to play a leading role in building a strong financial nation and advancing the development of a financial system with Chinese characteristics.



Series report on China's further opening-up of financial sector (XXI)

Interpretation on the Action Plan to Promote High-Level Opening-up, Attract and Utilize Foreign Investment

Background

Since the beginning of 2024, a series of financial opening-up policy measures at various levels have been introduced, demonstrating China's unwavering commitment to expanding high-level institutional opening-up in its financial market. The PBOC and the HKMA have launched six policies covering financial market connectivity, cross-border capital facilitation, and deepened financial cooperation. The *Administrative Measures for Developing Foreign Exchange Businesses by Banks (Trial)* has officially come into effect, promoting the restructuring of foreign exchange business processes in commercial banks. The Implementation Plan for Pudong New Area's Pilot Comprehensive Reform for 2023-2027 has been officially issued. The pace of China's financial reform and opening-up continues to accelerate.

According to EY's observations in the markets, in the first quarter of 2024, China has been systematically advancing various financial reform, opening-up and innovation measures, with high-level opening-up of the financial industry progressing steadily.

In January, following the Central Financial Work Conference, the General Secretary Xi Jinping once again provided profound insights and key directives on financial work, delivering an important speech emphasizing the unwavering commitment to following the path of financial development with Chinese characteristics and promoting high-quality development of China's financial sector. Vice Premier He Lifeng pointed out that China will continue to deepen capital market reform and the two-way opening-up, facilitate cross-border investment and financing, and attract more foreign financial institutions and long-term capital to operate and invest in China.

In the same month, the ETF Connect between the Chinese mainland and Hong Kong markets continued to expand, with 11 new stocks added to the Shanghai and Shenzhen Stock Connect. Since the official launch of the trading of ETFs in the Chinese Mainland-and-Hong Kong stock connect mechanism on 4 July 2022, ETF products have steadily expanded and business scale has continued to grow, further facilitating the trading for domestic and foreign investors.

In February, the newly revised *Implementation Rules for the Cross-Boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area* officially came into effect, marking the transition of the Cross-Boundary Wealth Management Connect to its next phase. The upgraded Cross-Boundary Wealth Management Connect further lowers the entry threshold for investors, increases individual investment quotas, and expands the range of eligible investment products, which will further promote the connectivity of financial markets among Guangdong, Hong Kong and Macao in the Greater Bay Area.

In March, the CSRC released four policy documents, clearly outlining measures to promote high-level opening-up. These documents emphasize balancing openness with security, equally promoting "bringing in" and "going global", steadily expanding institutional opening-up and supporting eligible foreign institutions in establishing operations in China. The CSRC will orderly advance pilot programs for cross-border connectivity initiatives such as "Mutual Recognition of Funds", "ETF Interconnection" and "Cross-Boundary Wealth Management Connect", while exploring and promoting pilot schemes for cross-border brokerage services. Additionally, the CSRC supports securities companies in assisting Chinese enterprises in "going global" by providing professional services on investment and financing, financial advisory and cross-border mergers and acquisitions, actively facilitating cross-border investment and financing for enterprises.

In the same month, the General Office of the State Council issued the *Action Plan to Promote High-Level Opening-up, Attract and Utilize Foreign Investment* (hereinafter referred to as the "Action Plan"), putting forward 24 measures across five aspects to advance high-level opening-up and attract and utilize foreign investment with solid efforts.

This report provides a review of the financial market reform and opening-up in the first quarter of 2024 and an interpretation on the financial policies in the Action Plan for your reference.

Review of China's financial liberalization and opening-up in Q1 2024

Deepening the financial reform policy and expanding the opening-up are important means to accelerate the high-quality development of China's financial industry. In the first quarter of 2024, China's efforts to promote financial reform didn't stop and there was remarkable progress in business expansion, bringing in institutions and regulatory models.

In terms of business expansion, since the launch of the Shanghai-Hong Kong Connect in 2014, the connectivity between financial markets in the Chinese mainland and Hong Kong has been strengthened and the cross-boundary connectivity has been further optimized, thus elevating the two-way opening-up of China's capital market to a higher level. This has led to the connectivity between financial markets in the Chinese mainland and Hong Kong to continue to expand. In recent years, Connect Schemes have been implemented, including Bond Connect, Cross-boundary Wealth Management Connect, ETF inclusion in the Stock Connect and Interest Rate Swap Connect. According to the data disclosed by the HKEX, as at 15 January 2024, 142 ETFs had been included in the Shanghai Stock Connect and Shenzhen Stock Connect schemes.

Besides, the high-level two-way opening-up of the bond market has been deepened. Chinese government bonds and policy financial bonds have been included in FTSE Russell, Bloomberg and other major global indices and their share has been increasing. Data from the PBOC showed that by the end of February 2024, bonds in China's interbank market held by overseas institutions reached RMB3.95 trillion, accounting for about 2.8% of the total.

In January 2024, the PBOC and the HKMA included bonds under the Bond Connect scheme in the list of eligible collateral for the HKMA's Renminbi Liquidity Arrangement and further opening-up allowed offshore investors to participate in onshore bond repurchase business. As such, all offshore institutions with access to China's interbank bond market can participate in bond repurchase transactions, thus attracting more foreign inflows into China's bond market.

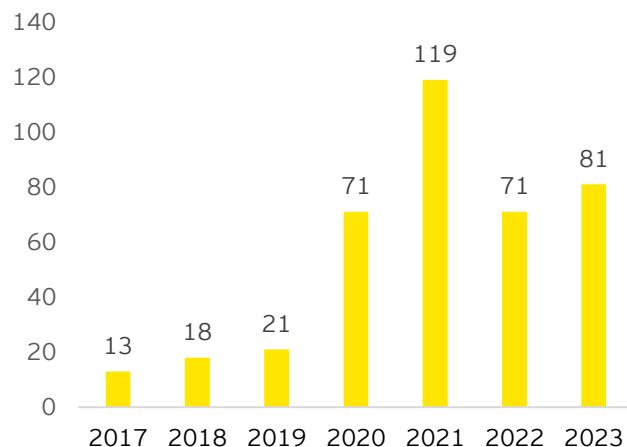
China continues to bring in eligible foreign-funded financial institutions to develop the underwriting business of non-financial enterprise debt financing instruments to support more foreign-funded institutions to participate in China's interbank bond market. Till now, a total of 13 foreign-funded financial institutions have been granted underwriting licenses for non-financial enterprise debt financing instruments, giving full play to their characteristics and advantages to build a market-oriented, rule of law-based and internationalized interbank market. These licensed institutions come from the United States, France, Germany, the United Kingdom, Japan, Singapore and other countries/regions, as well as Hong Kong and Taiwan.

On 22 January 2024, the General Office of the CPC Central Committee and the General Office of the State Council released the *Implementation Plan for Pudong New Area's Pilot Comprehensive Reform for 2023-2027*, highlighting the reform and opening-up of the financial sector with specific measures including two-way opening-up of financial market and capital account convertibility, financial product innovation and optimized development of the asset management industry. The EY team made an in-depth analysis of the pilot comprehensive reform in the report "China further opens up the financial sector (XX)".

Cross-boundary Wealth Management Connect scheme continues to be optimized. On 26 February 2024, Cross-boundary Wealth Management Connect Scheme 2.0 was officially launched. This initiative brings opportunities for the expansion of business under the scheme with an adjustment to investor eligibility, participating institutions, qualified investment products and the investment quota for individual investors. According to the latest data from the Guangdong Branch of the PBOC, by the end of 2023, 69,200 individual investors in the Guangdong-Hong Kong-Macao GBA joined the Cross-boundary Wealth Management Connect scheme, with 43,300 cross-boundary capital transfers totaling RMB12.81 billion.

Meanwhile, the influx of foreign-funded financial institutions continues. With investment quota restrictions lifted and investment scope expanded, there has been a significant increase in the number of qualified foreign institutional investors (QFII). According to the data from the CSRC, as at 27 March 2024, 810 institutions had been approved as QFIIs, including overseas pension funds, sovereign funds, commercial banks and asset managers. In 2023, 81 institutions were granted QFII license, hitting a record high since 2003, second only to 119 in 2021, thus reflecting the willingness of foreign-funded institutions to invest in China's capital market.

Increase of QFIIs in China



Source: CSRC, summarized by EY

Interpretation on the Action Plan to Promote High-level Opening-up, Attract and Utilize Foreign Investment

On 19 March 2024, the General Office of the State Council issued the *Action Plan to Promote High-level Opening-up, Attract Foreign Investment* (the *Action Plan*). The Action Plan proposes five aspects - expanding market access, strengthening policy support, optimizing the level playing field, smoothing the flow of innovative elements and improving domestic regulations, with the aim to further promote high-level opening-up, make greater efforts to attract and utilize foreign investment and promote high-quality economic development.

The financial sector is the highlight of the *Action Plan*, which proposes to continuously expand the business qualifications and business space of foreign institutions in many areas and emerging business areas, and give them more opportunities to participate. The *Action Plan* proposes to "expand the access of foreign financial institutions in banking and insurance", "expand the business scope of foreign financial institutions participating in the domestic bond market" and "thoroughly implement the pilot domestic investment by qualified foreign limited partners".

A summary of measures on expanding financial opening-up proposed in the *Action Plan*

1 Banking and insurance

- ▶ Expand the access of foreign financial institutions in banking and insurance
- ▶ Support qualified foreign institutions to carry out bank card clearing business in accordance with the law on the premise of ensuring security, efficiency and stability
- ▶ Deepen the opening-up of commercial endowment insurance, health insurance and other industries, and support qualified foreign specialized insurance institutions to invest in the establishment or shareholding of insurance institutions in China

2 Bond market

- ▶ Expand the business scope of foreign financial institutions participating in the domestic bond market
- ▶ Optimize procedures for foreign financial institutions to participate in the domestic capital market, and further facilitate foreign financial institutions participating in China's bond market
- ▶ Support qualified foreign financial institutions to participate in domestic bond underwriting in accordance with regulations
- ▶ Study and steadily promote more qualified foreign banks to participate in the pilot trading of treasury bond futures

3 Qualified Foreign Limited Partners

- ▶ Deeply implement the pilot domestic investment by qualified foreign limited partners
- ▶ Expand the pilot scope of qualified foreign limited partners, standardize the requirements for registered capital and shareholders of enterprises and funds managed by qualified foreign limited partners, and expand the scope of funds
- ▶ Improve the administrative measures for private equity fund services, encourage foreign investors to set up private equity funds and carry out investment activities in accordance with the law

EY insights:

We believe that the issuing of the Action Plan to Promote High-level Opening-up, Attract and Utilize Foreign Investment by the General Office of the State Council reflects the policy orientation of China's financial market opening-up.

According to the *Action Plan*, China will further promote the reform of the management system and mechanism for foreign investment access through liberalization in more fields, including fully opening up the manufacturing industry and expanding the opening-up of the service sector. Expanding the opening-up of the financial sector necessitates more than just institutional-level efforts. Specific policies at the market and business levels have been introduced to broaden the opportunities for foreign institutions to operate in China effectively and enhance their business activities. "Build nests to attract phoenixes" - China will take multiple measures to cultivate a favorable environment for foreign capital and boost the confidence of foreign financial institutions to enter and develop in China.

As stated in the *Action Plan*, China will further expand market access and continuously deepen high-level financial opening-up, which helps improve the efficiency of resource allocation and increase the diversification and diversity of financial products and services, so that the capacity of financial services to serve the real economy is enhanced. The system and mechanism will be better aligned with the international financial market and the international financial system, so as to build a nation with a strong financial sector.

Looking ahead, China still needs higher-level and deeper financial opening-up. The challenges faced by foreign financial institutions are mainly in policy implementation, regulatory rules and supporting infrastructure. "Support others when they need help" - relaxing control over foreign capital market access is only the beginning, and it is also necessary to deepen the supporting reform of the post-access component according to the negative list. With the implementation of a series of such high-level opening-up policies and measures, China will continue to deepen its opening-up of the financial sector, forming a new pattern of opening-up.

Interpretation of the *Several Opinions on Encouraging the Agglomeration of Treasury Centers of Regional Headquarters for Multinational Companies in Pudong New Area*

China further opens up the financial sector (XXII)

On 8 April 2024, the Pudong New Area Government issued the *Several Opinions on Encouraging the Agglomeration of Treasury Centers of Regional Headquarters for Multinational Companies in Pudong New Area* (the *Several Opinions*). The *Several Opinions* emphasizes that treasury centers are essential drivers and levers for headquarters economy construction, proposing targeted institutional arrangements for multinational companies to set up treasury centers in Shanghai, with the aim to attract the establishment of global or regional treasury centers in Pudong New Area. Below is a brief interpretation of the new policy of the treasury centers for the industry's reference and correction.

Background

Shanghai has always attached great importance to the construction of headquarters economy. As the core function and profit center of multinational corporations' headquarters, treasury center is an important part of headquarters economy. Over the past decades, Shanghai has taken various measures to encourage multinational corporations to set up regional headquarters in Shanghai and to attract the concentration of treasury centers.

In order to implement the *Guidelines on Supporting High-level Reform and Opening-up of Pudong New Area and Building Pudong into a Pioneer Area for Socialist Modernization*, according to the *Provisions of Shanghai Municipality on Encouraging Multinational Corporations to Establish Regional Headquarters* (SMPG D [2022] No. 17), the Pudong New Area Government issued the *Several Opinions on Encouraging the Agglomeration of Treasury Centers of Regional Headquarters for Multinational Companies in Pudong New Area* (PMPG D [2024] No. 1) on 8 April as "Document No. 1". This action marks that Pudong has become the first area in China to take up the duty of building treasury centers, which is of great pioneering and leading significance. Building treasury centers will not only further enhance the level of headquarters economy, but also promote the high-quality development of the area and enhance the competitiveness and influence of Shanghai as an international financial center.

The *Several Opinions* fills the gap of the relevant initiatives of Pudong New Area to support the treasury centers of regional headquarters of multinational corporations. This is carried out by utilizing the foundation of the financial market and the high concentration of financial institutions in Pudong New Area, starting from the needs of the development of Shanghai's headquarters economy, support on the functions of multinational corporate headquarters, facilitating the operation of treasury centers' funds, and supporting guarantees. These all play a significant part in attracting more multinational corporations to set up global or regional treasury management centers in Shanghai.

In this report, we have added a timeline for the highlights of the *Several Opinions* and provided insights from EY teams.



Highlights of the Several Opinions

The *Several Opinions* focuses on three aspects: first, encouraging multinational corporations to focus on the functions of headquarters to set up treasury centers; second, facilitating the funds operation of treasury centers; and third, strengthening the facilitation for treasury centers, which will be explained in detail in the following table.

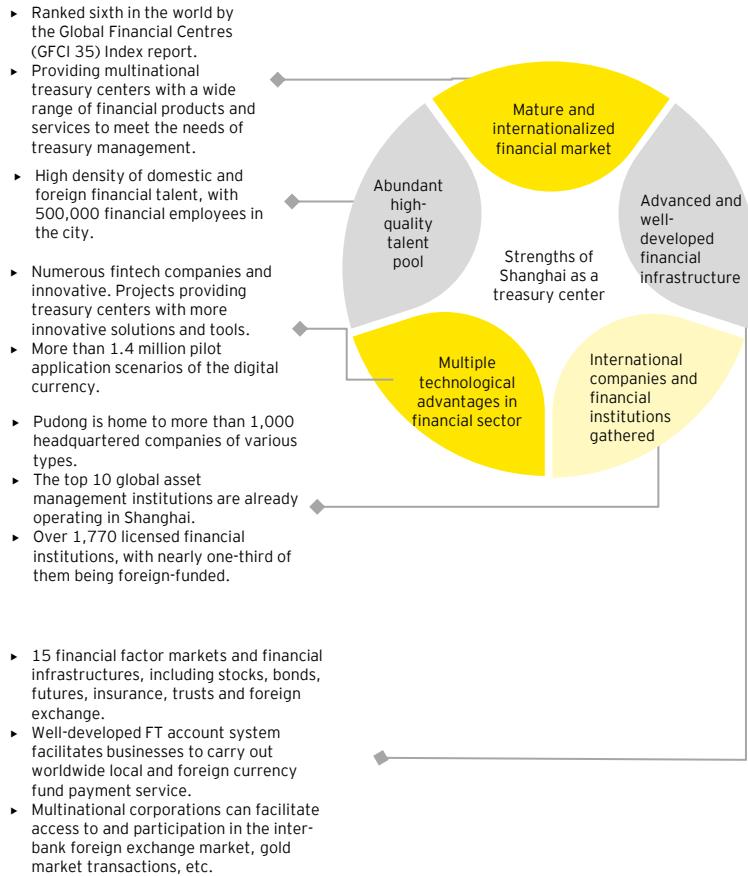
The analysis of <i>Several Opinions</i>		
Area of reform	Specific regulations	Our interpretation
Encouraging multinational corporations to focus on the functions of headquarters to set up treasury centers	<ul style="list-style-type: none"> ▶ Further clarifying the definition of treasury centers and emphasizing the significance of promoting Pudong's development when treasury centers are clustered. ▶ The People's Bank of China, State Administration of Foreign Exchange and other departments will provide more convenient services to promote the development of treasury centers. ▶ Encouraging commercial banks and other types of financial institutions to support the construction of treasury centers in various ways. ▶ Encouraging treasury centers to leverage big data, artificial intelligence, mobile network, cloud computing, blockchain and other new technologies, as well as advanced financial systems at home and abroad, to promote financial management towards intelligent transformation. 	<ul style="list-style-type: none"> ▶ When transferring funds between China and abroad, multinational corporations encounter complex structures and liquidity constraints, which increases their operating costs and risk management difficulties. Several Opinions are expected to make fund management less complex and fund flow for multinational corporations more efficient. ▶ The compact distribution of commercial banks and other financial institutions in Pudong can provide multinational corporations with various financial service options to enhance liquidity of funds and efficiency in the use of funds and promote the efficient management and application of capital. ▶ As a center of technological innovation, Pudong promotes intelligent transition of treasury management which is also a concrete manifestation of the strategic importance attached to Opinions on building a Leading Area. Pudong has a national data exchange and a large amount of high-quality industry data, which can also provide strong technical support and innovation power for the intelligent transformation of the treasury center.
Facilitating the funds operation of treasury centers	<ul style="list-style-type: none"> ▶ Supporting cross-border renminbi centralized payment and netting; exploring ways to enhance the facilitation of investment and financing in the domestic and foreign markets as well as payment of current accounts. ▶ Supporting the utilization of FT accounts to carry out worldwide local and foreign currency fund payment operations; supporting full-featured capital pools to enter relevant domestic markets for investment. ▶ Supporting the selection of suitable capital pools to carry out cross-border local and foreign currency capital centralized operation. ▶ Supporting finance companies to assume the functions of treasury centers to carry out intra-group fund transfers and dealing with exchange settlement and surrendering between members. ▶ Exploring and studying the tax policies for cross-border treasury business conducted by treasury centers. ▶ Comprehensively leveraging statistical monitoring and analysis to supervise and prevent the risks of cross-border capital flows. 	<ul style="list-style-type: none"> ▶ Facilitation of capital operation is a priority of multinational corporations' treasury centers. Several Opinions emphasizes that on the basis of centralized payment of funds under the current account and netting settlement, the facilitation of investment and financing under the capital account should be further explored. ▶ After 10 years of development, FT account has become the core infrastructure of financial system innovation in Shanghai FTZ (free trade zone). After several rounds of optimization and adjustment, the full-featured capital pool can basically realize the free and convenient flow of cross-border capital for companies. Instead of launching a new one, Several Opinions will fully utilize and improve the FT account and the full-function capital pool to provide companies with all-round and comprehensive cross-border financial services. ▶ To compete with the leading international treasury centers, there are certain preferential tax policies. For example, in Hong Kong and Singapore, the corporate income tax rates are only 8.25% and 8%, respectively. Taxation is related to fiscal revenue and requires coordination among multiple departments. In past reforms, this has been a deep-water area. Several Opinions pointed out exploring the cross-border treasury business tax policy reflects the determination of the reform. ▶ The bottom line for cross-border finance is to prevent cross-border fund flow risks. Several Opinions emphasizes the use of statistical monitoring and analysis, off-site and on-site inspections, and other new technological means to control risks brought by business innovation in an all-round and multiple-dimensional manner.
Strengthening the facilitation for treasury centers	<ul style="list-style-type: none"> ▶ Supporting the facilitation according to promoting the development of the headquarters economy and other relevant supporting measures of Pudong New Area ▶ Providing facilitation for talent 	<ul style="list-style-type: none"> ▶ Pudong New Area gives various incentives for companies and individuals related to the headquarters economy. Several Opinions specifies that recognized financial centers can enjoy preferential treatment in accordance with the relevant support measures. ▶ Several Opinions states that qualified talent can enjoy incentives for introduction and receive support in terms of personnel mobility, children's enrollment, medical care and talent apartments.

As a major international financial center, Shanghai has a number of key strengths that will enable the sound operation of a corporate treasury center. We have outlined the main advantages of Shanghai in building a corporate treasury center in the chart below.

However, we should also recognize that, although, attracted by Shanghai, multinational corporations have established their regional headquarters in Shanghai in recent years, they mostly build their treasury centers in Singapore or Hong Kong in the Asia-Pacific region.

Against the backdrop of China's financial market opening-up, we believe that the restructuring of the global value chain provides a unique opportunity for Shanghai to build a treasury center, but also puts forward urgent requirements. To build a treasury center in Shanghai, it is necessary to overcome the shortcomings in cross-border flow of funds, financial regulation, taxation and law, and to tackle the obstacles and challenges of "complex structure and inconvenient flow" that still exist in domestic and foreign fund transfer, flow and use by the headquarters of multinational corporations.

Looking more deeply, if Shanghai is to become a leading multinational corporation treasury center, it is still necessary to actively comply with international regulations and make targeted institutional arrangements, to effectively enhance multinational corporations' operation and capital efficiency.



High-quality development of Pudong's headquarters economy

Pudong New Area

459

multinational corporations' local headquarters

Lujiazui Financial City

146

multinational corporations' local headquarters

1000+

all kinds of headquarter companies

340+

Global Fortune 500 organizations

Source: Pudong New Area Commission of Commerce, Lujiazui

Administration Bureau

While building a global treasury center highland, Pudong New Area has already achieved certain results in building headquarters economy. As one of the regions with the highest density of regional headquarters of multinational corporations and the highest level of development, Pudong has gathered more than 13,000 large-scale business, marketing and sales centers of manufacturing enterprises. According to data, 163 multinational corporations have set up capital pools in Shanghai, with a centralized foreign debt line of more than US\$230 billion and an offshore lending line of more than US\$70 billion, resulting in the effectiveness of enterprises' global capital management to continuously improve. Pudong is turning into a major strategic node for multinational corporations to take root in China and map global schemes.

With the thriving of Pudong's headquarters economy and the forwarding of building the treasury center, we believe that Pudong will lead Shanghai and drive the construction of treasury centers and the development of headquarters economy in other regions of China with its innovative practices and mature experience, which will help promote China's position in the global financial system. In the future, EY teams will continue to track updates on policies related to Pudong's treasury center, link global resources and make every effort to support the development of Pudong's headquarters economy and treasury center construction.

China further opens up the financial sector (XXIII)

Financial reform and opening-up review 2Q24 Steady progress in high-level financial opening-up

Since the second quarter of 2024, China has moved to push forward its financial reform measures in an orderly manner. Specific initiatives involving different levels have been rolled out one after another, focusing on optimizing the connect schemes to promote the in-depth integration of the capital markets of the Chinese mainland and Hong Kong, upgrading the openness of capital accounts, and promoting the facilitation of cross-border investment and financing. The financial sector's high-level opening-up has been moving forward steadily.

Looking back at the second quarter, the State Administration of Foreign Exchange (SAFE) issued a new edition of the *Guidelines for Foreign Exchange Business under the Capital Account* (the "Guidelines") on 3 April to further strengthen the facilitation of cross-border investment and financing, which took effect in May. The Guidelines introduced streamlined processes of conducting foreign exchange businesses under capital account by both institutions and individuals.

On 12 April, the State Council issued *Several Opinions on Strengthening Regulation, Preventing Risks and Promoting High-quality Development of the Capital Market* (the new "National Nine Guidelines"). This represents another the State Council's directive aimed at guiding the capital market, following the two sets of guidelines separately issued in 2004 and 2014.

On 19 April, the China Securities Regulatory Commission (CSRC) issued five measures to promote the coordinated development of the capital markets of the Chinese mainland and Hong Kong, including expanding the scope of eligible ETFs under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect; including REITs in the Stock Connects; supporting the inclusion of RMB stock trading counters in Southbound Stock Connect; enhancing the mutual recognition of funds; and supporting mainland industry leaders to go public in Hong Kong.

On 20 April, the Ministry of Commerce and other nine authorities jointly issued *Several Policies and Measures for Further Supporting Overseas Institutions to Invest in Domestic Tech Enterprises*, to attract foreign institutional investors to invest in China, thereby supporting the financing and development of domestic tech enterprises.

Milestones of financial reform and opening-up in 2Q24

No.	Authorities	Policy Name/Adjustment	Document No.	Release date
1	SAFE	Guidelines for Foreign Exchange Business under the Capital Account (2024 Edition)	Hui Fa [2024] No.12	April 2024
2	State Council	Several Opinions on Strengthening Regulation, Preventing Risks and Promoting High-quality Development of the Capital Market	Guo Fa [2024] No.10	April 2024
3	CSRC	Five measures to promote the coordinated development of the capital markets of the Chinese mainland and Hong Kong	-	April 2024
4	Ministry of Commerce and other nine departments	Several Policies and Measures for Further Supporting Overseas Institutions to Invest in Domestic Tech Enterprises	Shang Cai Fa [2024] No.59	April 2024
5	People's Government of Shanghai Pudong New Area	Opinions on Encouraging Regional Headquarters of Multinational Companies to Establish Treasury Centers in Pudong New Area	Pu Fu Gui [2024] No.1	April 2024
6	Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE), Hong Kong Exchanges and Clearing Limited (HKEX)	Adjustments to information disclosure for transactions under the Stock Connects	-	April 2024
7	NFRA	Guiding Opinions on "Five Priorities" for Finance in Banking and Insurance Sectors	Jin Fa [2024] No.11	May 2024
8	People's Bank of China (PBOC), Hong Kong Securities and Futures Commission (SFC), Hong Kong Monetary Authority (HKMA)	Swap Connect enhancements	-	May 2024
9	CSRC	Administrative Provisions on Mutual Recognition Funds in Hong Kong (Exposure Draft)	-	June 2024

Regional policies are further aligned with national strategies under the top-level policy framework at the national level. On 10 April, the People's Government of Shanghai Pudong New Area issued the *Opinions on Encouraging Regional Headquarters of Multinational Companies to Establish Treasury Centers in Pudong New Area*, to attract multinational companies to set up global or regional treasury management centers in Shanghai to accelerate the development of Pudong as a leading area and Shanghai as an international financial center.

On 9 May, the National Financial Regulatory Administration (NFRA) issued the *Guiding Opinions on "Five Priorities" for Finance in Banking and Insurance Sectors*, to improve the quality and efficiency of financial services for the real economy in the five major areas of technology finance, green finance, inclusive finance, pension finance and digital finance.

On 14 June, the CSRC revised the *Provisional Rules for Recognized Hong Kong Funds* to optimize the arrangements for Mainland-Hong Kong mutual recognition of funds, in a bid to reinforce Hong Kong's position as an international financial center while promoting the synergistic development of the capital markets in the Chinese mainland and Hong Kong.

The table below lists the milestones in China's financial reform and opening-up in the second quarter of 2024. And in the following parts of this report, we provide an analytical review of the financial reform and opening-up in 2Q24, as well as our insights for your reference.

Advancing financial opening-up and reform is crucial to accelerating the high-quality development of China's financial sector. In the second quarter of 2024, China saw gratifying progress in business facilitation, influx of institutions and regional development, among other areas in financial reform.

Business facilitation

Since the second quarter, the interconnection between the Chinese mainland and Hong Kong capital markets has been improving.

1 Adjustments to information disclosure for trading under the Stock Connects

In April, SSE, SZSE and HKEX adjusted the information disclosure mechanisms for transactions under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, to optimize the Stock Connects with information disclosure aligned with other markets.

The transaction information disclosure mechanisms of the Stock Connects were initially designed to effectively track and remind investors of the use of trading quota, but the frequency and contents of disclosure were different from the common practices of A-share market or those of international mainstream markets. The main adjustments are as follows:

- ▶ For Northbound Stock Connects and Southbound Stock Connects, when the daily quota balance is greater than or equal to 30%, it will display "sufficient quota" instead of the quota balance.
- ▶ After the market close of each trading day, it will disclose the turnover and number of transactions, the total ETF turnover, the top 10 actively traded securities (including ETFs) of the day.

2 Five measures on capital market cooperation with Hong Kong

In April, the CSRC announced five measures on capital market cooperation with Hong Kong to support Hong Kong in consolidating and enhancing its status as an international financial center, and promote the synergistic development of the mainland and Hong Kong capital markets.

- ▶ Expanding the scope of eligible ETFs under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect
- ▶ Including REITs under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect
- ▶ Supporting the inclusion of RMB stock trading counter in Southbound Stock Connect
- ▶ Enhancing the arrangements for mutual recognition of funds
- ▶ Encouraging the listing of mainland industry leaders in Hong Kong

Following the measure of "expanding the scope of eligible ETFs under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect", the Southbound Stock Connect included the first two new ETFs in 2024. Another 91 ETFs were set to be included in the Connects in July 2024. After this expansion, the number of ETFs included in the Connects will reach 241, an increase of 60.67%, including 16 in Southbound Stock Connects and 225 in Northbound Stock Connects.

3 Optimization of mutual access between the mainland and Hong Kong interest rate swap markets

In May, the PBOC, SFC and HKMA announced a package of new measures to optimize the Swap Connect mechanism.

- ▶ Diversifying product types: introducing interest rate swap contracts setting payment cycles based on the International Monetary Market settlement dates to align with mainstream products traded globally and meet the diverse risk management needs of domestic and overseas investors.
- ▶ Improving the ancillary services: launching contract compression services and the clearing of backdated swap contracts as the associated supporting arrangement, to facilitate participating institutions to manage the notional amount outstanding, lower capital costs and foster active trading.

4 Granting of quotas under the QDII program

In May, the SAFE granted a new round of quotas under the qualified domestic institutional investor (QDII) program, to advance the construction of a new pattern of the two-way financial opening-up and to meet the reasonable demands of the mainland market for allocating overseas assets or outbound investment.

The new quotas were granted to banks, banks' wealth management subsidiaries, funds, insurers and other companies. A total of USD1.62 billion was granted to 32 funds and eight securities companies and their asset managers. As at the end of May 2024, the institutions saw an increase of QDII quotas by USD2.27 billion from the end of April. It is noteworthy that it had been 10 months since the last approval of QDII quotas. The new QDII quotas have broadened the investment pipelines of domestic funds, balanced the overall cross-border capital flows, and provided domestic financial institutions with more business opportunities to go global.

Institutions	Latest approval date	Approved quota in total (USD million)	Increase (USD million)
Banks	9 May 2024	27,580	550
Securities companies and funds	9 May 2024	92,170	1,620
Insurers	9 May 2024	39,023	100
Trust companies	30 November 2020	9,016	0
Total		167,790	2,270

Source: SAFE, summarized by EY

5 Arrangements for mutual recognition of funds between the Chinese mainland and Hong Kong

In June, following the measure of "enhancing the arrangements for mutual recognition of funds" among the five measures on capital market cooperation with Hong Kong, the CSRC amended the *Provisional Rules for Recognized Hong Kong Funds* to enhance the arrangements for mutual recognition of funds between the Chinese mainland and Hong Kong, and launched public consultation on the *Rules for Recognized Hong Kong Funds (Exposure Draft)* (hereinafter referred to as the "Rules").

Specifically, the following improvements were proposed for the Rules:

- ▶ Relaxing the 50% limit of recognized funds sold in the host market to 80%
- ▶ Allowing recognized Hong Kong funds to delegate investment management functions to an overseas asset management organization within the same group as the fund manager.

These measures will increase market liquidity and investment opportunities, thus supercharging the growth of fund market.

Influx of institutions

Foreign-funded financial institutions are accelerating their presence in China's capital market. In particular, securities companies are acting aggressively. In June, another wholly foreign-owned securities company was established, and in the same month, a foreign-owned securities company was approved to operate securities margin trading business - the first foreign-funded player that obtained this license in nearly two years and a half.

In public fund market, a wholly foreign-owned public fund established operations in China in the second quarter, while many of its peers announced their plan to increase registered capital or to establish new branches, suggesting that the foreign institutions are upbeat on long-term development of China's domestic market. To cater for the needs of foreign-funded financial institutions increasingly entering China's market, the QDII quota has been expanded, providing the entrants with more business opportunities and sources of funds.

In addition to traditional financial institutions such as public funds and securities companies, bank card settlement agencies are also entering China's market at a faster pace to compete fairly with local players, thanks to an earlier issued document - *Action Plan for Steady Promotion of High-level Opening-up to Attract and Utilize Foreign Investment*. In May, a Sino-foreign joint venture bank card settlement agency opened for business. It was the third bank card settlement agency and the second Sino-foreign joint venture bank card settlement agency in China. The participation of these agencies is conducive to strengthening the function of settlement as an integral part of financial infrastructures.

Number of financial institutions as at 30 June 2024



Source: Public data, summarized by EY

Regional development

Yangtze River Delta Region, Greater Bay Area and Hainan Free Trade Port have continuously increased efforts in deepening financial reforms and opening-up by improving financial infrastructure and services, expediting the construction of treasury centers of multinational enterprises, boosting financial cooperation between Shenzhen and Hong Kong, and facilitating cross-border capital flows.

In Yangtze River Delta Region, Lujiazui has been endeavoring to build itself into a host to treasury centers of multinational companies in recent years, supporting their ambitions as a financial hub. In April, Pudong New Area released the *Opinions on Encouraging Regional Headquarters of Multinational Companies to Establish Treasury Centers in Pudong New Area* (hereinafter referred to as the "Opinions"), putting forward a number of favorable policies to facilitate the establishment of treasury centers. A recent EY publication provides an in-depth interpretation on the Opinions and an outlook for the construction of treasury centers in Shanghai.

In June, Zhou Xiaoquan, executive deputy director of the Financial Commission Office of the CPC Shanghai Municipal Committee, stated that Shanghai was preparing to build an international financial asset trading platform, enhance its capacity as international reinsurance center, and design more types of RMB-denominated futures and options, brightening Shanghai's image as an international financial center.

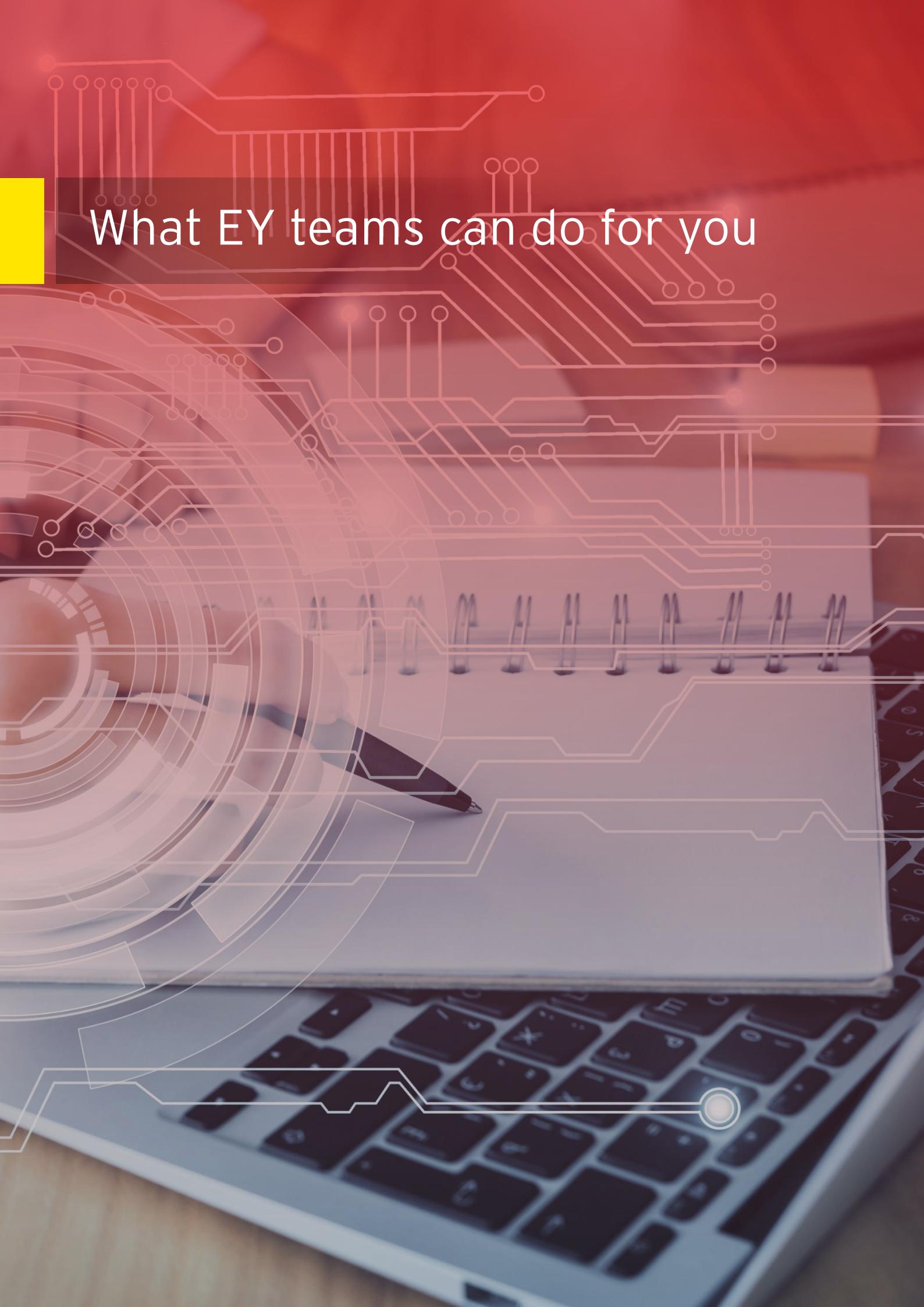
In Guangdong-Hong Kong-Macao Greater Bay Area, SZSE and HKEX announced the plan to build an integrated fund platform in June, expecting to provide financial institutions in Hong Kong with compliant, efficient, secure, reliable and standardized fund market infrastructures and services. This initiative will drive a sustainable development of fund ecosystem in Hong Kong and reinforce Hong Kong's role as a global wealth management center, laying the foundation for future interconnection between Hong Kong and the mainland.

In an effort to facilitate cross-border capital flows, the major regions engaging in the financial reform and opening-up have been developing multi-functional free trade account systems. In April, Xiao Jian, head of Lujiazui administration bureau under the China (Shanghai) Pilot Free Trade Zone, said that Shanghai was implementing a new series of innovative policies to expand the application scenarios of free trade accounts. In the same month, the *Measures for the Management of Multifunctional Free Trade Accounts in Guangdong-Macao In-depth Cooperation Zone in Hengqin* and the *Measures for the Management of Multifunctional Free Trade Accounts in Hainan Free Trade Port* were released successively.

EY insights and perspectives

2024 witnessed continuous improvement of the two-way opening-up of China's capital market in both depth and breadth. A stream of new policies on capital reform and interconnection between the Chinese mainland and Hong Kong financial markets injected vitality into China's capital market. Foreign-funded financial institutions have continuously invested in China by setting up branches, augmenting holdings, increasing registered capital and hastening the development and expansion of operations within the domestic market. In terms of regional development, Yangtze River Delta Region, Greater Bay Area and Hainan Free Trade Port pressed ahead with measures to advance reforms in treasury centers, international financial assets trading platforms, cooperation between Guangdong, Hong Kong and Macao, and improve the free trade account system.

On 18 July 2024, the *Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization* (hereinafter referred to as the "Resolution") adopted at the third plenary session of the 20th Central Committee of the Communist Party of China set forth specific plans for opening-up, covering expansion of opening-up with policy guarantees, management of inbound and outbound investments, optimization of regional opening-up plans, and in-depth cooperation between Guangdong, Hong Kong and Macao in the Greater Bay Area. In particular, the Resolution clearly states that opening-up is a defining feature of Chinese modernization, and the capacity for opening-up shall be enhanced while expanding international cooperation to develop new systems for a higher-standard open economy. In addition, the Resolution included "financial law-making" as an important legislation agenda, which will provide stronger support for deepening the reform and opening-up of China's financial sector. EY financial service teams will continue to track the milestones of China's financial opening-up and provide updated in-depth policy interpretations for investors at home and abroad.



What EY teams can do for you



What EY teams can do for you

EY teams suggest 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 teams 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, the EY organization 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.

The EY organization 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 teams are 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 improvements 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

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ED None.

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