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China announced timetable on more open financial sectors for foreign investment

On 11 April 2018, Yi Gang, the new Governor of People's Bank of China (**PBOC**) announced a clearer timetable on the further opening-up of China's financial sectors, at the Boao Forum for Asia (**BFA**). According to Yi's speech, China pledges to implement most of these opening-up measures by the end of 2018, and some as early as 30 June 2018.

We summarize the opening-up measures mentioned in Yi's speech as well as our per-sector commentary in the table below.

#	Sectors	Opening-Up Measures	Our Comments	Timeline
Banking				
1	**Commercial bank**	(a) To remove the limit on foreign ownership in (Chinese domestic) banks, and to offer equal treatment for Chinese and non-Chinese investments.	Currently, the limit on equity ratio in a Chinese bank by a single non-Chinese shareholder is 20%, and the limit on aggregate equity ratio by all non-Chinese shareholders is 25%. Please note Foreign banks have long been permitted to set up wholly foreign-owned banks in China. This new opening-up measure aims to remove the foreign ownership restriction on <u>Chinese domestic banks</u>.	30 June 2018
		(b) To allow foreign-invested banks to open branches and simultaneously set up banking subsidiary in China	Under the current rules, a wholly foreign-owned bank established by way of conversion of foreign bank branch(es) in China ("**WFOE bank**") is allowed to keep one branch in China to carry out whole sale foreign exchange business. Given the very general wording of Yi's speech, it is hard to surmise at this stage the exact meaning of this opening-up policy. If the intention of this opening up is to allow WFOE banks to open additional branches to carry out RMB business in China in parallel with the existing WFOE banks, this opening-up measure would be very attractive to WFOE banks. WFOE banks are less competitive than Chinese banks in terms of certain	30 June 2018

#	Sectors	Opening-Up Measures	Our Comments	Timeline
			business in China due to their relatively small capitalization. A banking branch with RMB business license can benefit from its headquarters' capital strength, and also be better positioned to serve MNC clients who have pre-existing facility arrangement with its headquarters. Otherwise, the benefits of this opening-up measure would be limited.	
		(c) To substantially expand the business scope of foreign-invested banks	In March 2017, China Banking Regulatory Commission (**CBRC**) has substantially removed the business scope restrictions on foreign-invested banks, including T-bond underwriting, custody, financial advisory service, etc. Restrictions were further lifted by CBRC in February 2018. Currently, the discrepancy between Chinese and foreign-invested banks in terms of business scope is not significant.	31 December 2018
2	**Asset management company (AMC)**	To remove the limit on foreign ownership in AMC, and to offer equal treatment for Chinese and non-Chinese investors.	AMCs herein refers to are non-banking financial institutions whose main business scope is purchasing and disposing of the non-performing assets of Chinese banks. Currently, the limit on equity ratio in an AMC by a single non-Chinese shareholder is 20%, and the limit on aggregate equity ratio by all non-Chinese shareholders is 25%. As of now, the "big four" AMCs have all introduced non-Chinese strategic investors. The opening-up measure would benefit those non-Chinese investors who seek to increase their equity holding in the AMCs or those who are interested in investing in other local AMC.	30 June 2018

#	Sectors	Opening-Up Measures	Our Comments	Timeline
3	**Bank's subsidiary asset investment company ("bank AMC")**	Not to limit foreign ownership in such entity.	A bank AMC is established by a commercial bank to implement its "debt to equity" project through converting loans owed to such bank into equity it owns in the borrower. The "big five" Chinese banks have already set up their respective wholly-owned bank AMCs. As the business scope of bank AMC is very specific, this opening-up measure would only benefit the non-Chinese investors who are interested in this particular business.	31 December 2018
4	**Bank's subsidiary asset management company**	Not to limit foreign ownership in such entity.	The new cross-regulator asset management rules, which were approved by the Central Leading Group for Overall Reform on 28 March 2018, require a commercial bank to set up a subsidiary with independent legal status to operate its asset management business. This opening-up measure would be attractive to non-Chinese asset managers who intend to invest in Chinese bank's asset management subsidiary. That said, we expect that a Chinese bank is unlikely to give up control of its subsidiary to non-Chinese investor. The new measure would also benefit the WFOE banks who want to expand their asset management business in China by establishing asset management subsidiaries.	31 December 2018
5	**Non-banking financial institutions**	To encourage foreign investments in trust company, financial leasing company, auto finance company, money broker, consumer finance company, etc.	The restriction on foreign ownership in <u>trust company</u> has been removed since 2015. There were no express restrictions on foreign investment in <u>financial leasing company</u>, <u>auto finance company</u>, <u>money broker</u> and <u>consumer finance company</u>. However, as a matter of fact, except for auto finance companies, non-Chinese investors have normally been minority shareholders of these financial institutions. To what extent the opening-up may benefit non-Chinese investors will largely depend on the implementing rules to	31 December 2018

#	Sectors	Opening-Up Measures	Our Comments	Timeline
			be formulated by the People's Bank of China and/or the newly-merged China Banking and Insurance Regulatory Commission (**CBIRC**).	
Securities and Funds				
6	**Securities company**	(a) To raise the limit on foreign ownership to 51%, and to entirely remove the limit after 3 years.	China Securities Regulatory Commission (**CSRC**) has already issued the relevant implementing rules that incorporate these proposed measures for public consultation on 9 March 2018.	30 June 2018
		(b) To remove the requirement that non-Chinese investor shall partner with a Chinese securities company when set up the joint venture securities company.	Currently, the limit on foreign ownership in securities companies is 49%, except the limit is 51% under Closer Economic Partnership Arrangement (**CEPA**) between mainland China and Hong Kong/ Macau. The liberalization of foreign-invested securities firms in terms of both shareholding and business scope is significant. Not only will non-Chinese investors be permitted to hold majority equity stake in a joint venture securities company, but such joint venture is allowed to hold up to 4 licenses upon its incorporation, including brokerage, securities underwriting, prop-trading, asset management and financial advisory. We have prepared a client alert analyzing the implementing rules in detail, which is available upon request.	30 June 2018
		(c) To expand the business scope of foreign invested securities company to the same footing with Chinese securities company.		31 December 2018
7	**Fund management company (i.e. securities investment management company) and futures company**	To raise the limit on foreign ownership to 51%, and to entirely remove the limit after 3 years.	Currently, the limit on foreign ownership in fund management companies and futures companies is 49%. An exception to the foregoing is, under Closer Economic Partnership Arrangement (**CEPA**) between mainland China and Hong Kong/ Macau, a Hong Kong or Macau investor can hold more than 50% equity in a joint venture fund management company. In the case of futures companies, CSRC has not approved joint venture futures firms for many years after it initially approved 3 joint ventures.	30 June 2018

#	Sectors	Opening-Up Measures	Our Comments	Timeline
			CSRC is in the process of drafting the relevant implementing rules, which are expected to be released soon for public consultation.	
Insurance				
8	**Life insurance company**	To raise the limit on foreign ownership to 51%	The limit on foreign ownership in life insurance company is currently 50%. In theory, this opening-up measure would allow non-Chinese investor to become controlling shareholder of life insurance company. However, how this increased foreign shareholding in life insurance companies would reconcile with the shareholding cap of one third as set out in the Measures for the Administration of Equity Stake of Insurance Companies that just came into effect in April 2018.	30 June 2018
9	**Insurance broker**	To remove the restriction on the business scope of foreign-invested insurance brokerage companies, and to offer equal treatment for Chinese and non-Chinese investments	The restriction on foreign ownership in insurance brokerage companies has been removed since 2006. Restriction still exists in terms of a foreign-invested insurance broker's business scope, currently limited to the brokerage of large amount commercial policies, reinsurance policies, international freight, aviation and transportation policies, and so on. The opening-up measure would bring the business scope of foreign-owned insurance brokers to the same footing with Chinese brokers.	30 June 2018
10	**Insurance agent and insurance assessment company**	To allow eligible non-Chinese investors to conduct insurance agency business and insurance assessment business in China	Currently only qualified investors based in Hong Kong and Macau are permitted to set up wholly owned insurance agency company in China. Few foreign investors that are not qualified investors based in Hong Kong and Macau have been approved to set up insurance agency companies in China. This opening-up measure may enable these non-Chinese investors to seek approval from CBIRC for their intended investment in insurance agents and insurance assessment companies in China.	30 June 2018

#	Sectors	Opening-Up Measures	Our Comments	Timeline
11	**Representative office of non-Chinese Insurance company**	To remove the requirement of a foreign insurer having a representative office in China for at least 2 years before it may invest in an insurance company in China.	This requirement could significantly reduce the waiting period to be entailed for foreign insurers intending to invest in insurance companies in China.	31 December 2018
Stock Connect and QDII				
12	**Stock-connect between mainland China and Hong Kong**	To quadruple the daily quota of stock-connect between mainland China and Hong Kong (both northbound and southbound)	The current daily southbound quota is CNY 10.5 billion, and northbound quota is CNY 13 billion for each of Shanghai and Shenzhen. Such quotas are barely used up ever since the launch of stock-connect program in 2014. It is expected the demand for northbound quota will soon increase after the inclusion of A-share into MSCI index.	30 June 2018
13	**Stock-connect between Shanghai and London**	To launch the stock-connect program between Shanghai and London		31 December 2018
14	**Qualified domestic institutional investor (QDII)**	To increase the QDII quota	In response to President Xi's speech at BFA regarding further opening-up, SAFE also announced its intention to increase the current QDII quota and further reform the QDII regime. The last time SAFE approved additional QDII quota was three years ago, and QDII quota has been effectively frozen since then.	To be announced.

Non-Chinese investors who already had local subsidiaries in China should note that, CBIRC and CSRC have effectively applied the so-called "one minority shareholder and one controlling shareholder (一参一控)" principle in equity investment in all main types financial institutions, including banks, insurance companies, securities companies, fund management companies, etc., which means that an investor, whether Chinese or non-Chinese, may invest in no more than two financial institutions of the same type and can only hold controlling stake in one of them. We expect that CBIRC and CSRC would further strengthen the implementation of this principle in reviewing future equity investment in these types of financial institutions. Hence, notwithstanding these relaxation on foreign investment in financial sectors, foreign investors already having set up or invested in financial institutions in China are advised to take into account of the above principle and choose its tactic carefully when they intend to make further equity investment in the same types of financial institutions in China.

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