

China will fully open up its financial market

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On 10 November 2017, Vice Minister of Finance Zhu Guangyao announced at a press briefing that China will ease and remove the limits on foreign investments in the financial service sector including securities, banking and insurance. The announcement shows a high-level policy (the “**New Policy**”) and detailed rules may soon be promulgated, which will certainly bring more opportunities for foreign investors in Chinese financial market.

I. New Policy

Vice Finance Minister introduces that the New Policy includes the following measures:

1. The limit on the percentage of the shares held by a single foreign investor or jointly held by several foreign investors (directly or indirectly) in the securities, fund manage and futures companies will be increased to 51%. This up limit will be lifted three years after the New Policy take effect.
2. The limit on the shareholding percentage of a foreign investor in the Chinese-funded banks and financial asset management companies (which is 20% limit for a single foreign investor and 25% limit for all foreign shareholding) will be lifted. The foreign investors and domestic investors will be treated equally in respect of the shareholding percentage rules in the banking industry.
3. The limit on the shareholding percentage of a single foreign investor or several foreign investors in life insurance companies will be increased to 51% after three years and will be further removed after five years of the New Policy.

The announcement of the New Policy echoes the report of the 19th National Congress of the Communist Party of China, which calls for “promoting the formation of a new pattern of comprehensive opening up” and “significantly ease market access”.

The New Policy is also a result of the improvement of domestic financial environment. In recent years, financial regulatory authorities in China including PBOC, CSRC, CBRC and CIRC (the “**Regulatory Authorities**”) issued various rules respectively to strengthen the supervision of financial industry. In the early November this year, the Financial Stability and Development Committee of the State Council was duly established to strengthen the coordinating supervision in the financial industry. The Regulatory Authorities has made good preparation for further opening up the financial market.

II. Current Restrictions

The current limits on the shareholding percentage of foreign investors in the financial companies could be found in several legal rules. Set out below is a summary of the current restrictions.

Type of the companies	Name of current rules	Current restrictions	New Policy
Securities company	Rules on the Establishment of Securities Companies with Foreign Shareholders	In respect of public listed company, 20% for a single foreign investor and 25% for all foreign shareholding. 49% for other companies generally.	The shareholding percentage limit will be increased to 51%. This up limit will be lifted 3 years after the New Polity take effect.
	Catalogue of Industries for Guiding Foreign Investment (2017 Revision) (" Catalogue of Foreign Investment ")	Controlled by the Chinese parties (the aggregate shareholding percentage of the Chinese investors should be 51% or above)	
Futures company	Measures for the Supervision and Administration of Futures Companies	The shareholding percentage limit for foreign investors shall not exceed the commitments made on liberalizing the Mainland's futures industry to foreign parties, or to Hong Kong, Macao and Taiwan ¹ .	
	Catalogue of Foreign Investment	Controlled by the Chinese parties (the aggregate shareholding percentage of the Chinese investors should be 51% or above)	
Fund management company	Administrative Measures for Securities Investment Fund Management Companies	The shareholding percentage for foreign investors shall not exceed the percentages under China's commitments to open up its securities industry.	
	Catalogue of Foreign Investment	Controlled by the Chinese parties (the aggregate shareholding percentage of the Chinese investors should be 51% or above)	
Chinese-funded bank	Administrative Licensing Matters for Chinese-funded commercial bank	20% for a single foreign investor and 25% for all foreign shareholding.	
	Catalogue of Foreign Investment		

¹ According to the commitments made by the Mainland to the Hong Kong and Macau in respect of the financial service sector as provided in the "*Supplement X to the Mainland and Hong Kong Closer Economic Partnership Arrangement*" and the "*Supplement X to the Mainland and Macau Closer Economic Partnership Arrangement*", there are some exceptions to the current restrictions. For example: Eligible Hong Kong (Macau) – funded financial institutions are allowed to set up equity joint venture fund management companies in the Mainland, in which the shareholding percentage of the Hong Kong (Macau) – funded financial institutions could be more than 50%. Hong Kong (Macau) – funded financial institutions which are eligible to set up the securities companies are also allowed to set up one joint venture securities companies having all the licenses in Shanghai, Guangdong and Shenzhen respectively, in which the total shareholding percentage of the Hong Kong (Macau) – funded financial institutions could be 51% at most. Hong Kong (Macau) – funded securities companies are allowed to hold more than 50% shares in the joint venture securities investment consulting company in the pilot reform areas approved for "pioneering financial reforms" in the Mainland.

Financial asset management company	Special Management Measures for the Market Entry of Foreign Investment in Pilot Free Trade Zones (Negative List) (2017 Version)	20% for a single foreign investor and 25% for all foreign shareholding.	respect of the shareholding percentage rules in the banking industry.
Life insurance company	Rules for the Implementation of the Administrative Regulations of the People's Republic of China on Foreign-Invested Insurance Companies	The foreign shareholding percentage shall not exceed 50%.	The shareholding percentage limit will be increased to 51% 3 years later. The restrictions will be lifted 5 years later.
	Catalogue of Foreign Investment	In the case of life insurance companies, the proportion of foreign investment shall not exceed 50%.	

III. The impact of New Policy on financial market

In recent years, the financial industry in China is in a continuous liberalization process. Restrictions on securities, banking and insurance industries are gradually relaxed. The expansion of financial market entry measures is a big step towards liberation of financial industry.

At present, foreign-funded financial institutions accounts for a small percentage in China financial market. The liberalization of financial market will surely stimulate the foreign investment and attract foreign capital. In addition, as a medium-and long-term policy, it will promote competition among Chinese and foreign investors, and will optimize and prosper China's financial market.

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