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BANKING & FINANCE

Client Alert

January 2019

China's Opening-up of Financial Market

– A review of 2018 and forward looking for 2019

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In early December 2018, UBS AG increased its shareholding in its PRC subsidiary, UBS Security Co., Limited ("**UBS China**"), to 51%, making UBS China the first securities firm in China controlled by a foreign entity. This is an important event in the financial market and UBS AG certainly takes the advantage of China's new measures to open up its financial market.

Measures of financial opening-up were provided in the government work report of 2018 issued in March. This opening-up process speed up due to the trade war tensions with the United States. At the Boao Forum in April 2018, President Xi Jinping announced further open up of Chinese financial market. Immediately after the announcement, Mr. Yi Gang, the governor of the People's Bank of China ("**PBOC**"), disclosed details of the opening-up measures and a timetable. As responses to Mr. Yi's timetable, the past year 2018 witnessed several new rules issued and old rules amended.

BANKING SECTOR

Remove of the foreign shareholding limit in Chinese-funded banks and financial asset management companies

On 17 August 2018, China Banking and Insurance Regulatory Commission ("**CBRC**") issued a circular to repeal and amend restrictions on shareholders in banking institutions. As a result, foreign investors will not be subject to the shareholding limit of 20% in a Chinese-funded bank and a financial asset management company for a single foreign investor and 25% for all foreign shareholdings.

Expand the business scope of foreign-funded banks

On 27 April 2018, CBRC issued a notice on Further Relaxing Market Entry for Foreign-funded Banks. Foreign-funded banks may operate businesses acting as distribution agent, redemption agent or underwriter for government bonds without the need to obtain administrative licensing. Where a foreign bank has established several branches in China, if the management branch has been approved to operate Renminbi businesses or derivative business, it may authorise other branches to launch Renminbi businesses or derivative business.

CBRC will further reduce the threshold for branches of foreign banks take fixed-term deposit from Chinese domestic citizens to an amount of RMB500,000 (the current prescribed amount is RMB1,000,000) for each sum.

SECURITIES SECTOR

Increase the foreign shareholding limit in securities, fund management and futures companies to 51%

Pursuant to the 2018 version of the Negative List jointly issued by National Development and Reform Commission and Ministry of Commerce on 28 June 2018 and become effective on 28 July 2018, the foreign shareholding limit in the securities, futures and fund management companies has been increased to 51%, and such limit will be removed in 2021.

The 2017 version of the Negative List provides that the aggregate shareholding percentage of the Chinese investors in the securities, futures, and fund management companies should be 51% or above, therefore, foreign investors can hold up to 49% of its stake in such companies[1].

Foreign-funded securities companies will be treated equally with the domestic securities companies regarding the business scope

The business scope of foreign-funded securities companies was previously restricted by the

[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 restrictions.

rules issued by China Securities Regulatory Commission ("**CSRC**"). This was removed in the Administrative Measures for Foreign-invested Securities Companies issued by CSRC on 28 April 2018. Foreign-funded securities companies will be treated equally with the domestic securities companies regarding the business scope.

Stock connect schemes

On 11 April 2018, CSRC and the Securities and Futures Commission of Hong Kong jointly announced that the daily quotas under the Shanghai-Hong Kong Stock Connect Program[2] and the Shenzhen-Hong Kong Stock Connect Program[3] shall be adjusted to RMB 52 billion and RMB 42 billion respectively. The increase of the daily quotas of the stock connect schemes will facilitate the investors to enter into Hong Kong and mainland stock markets.

On 12 October 2018, CSRC issued a regulatory provisions to set up the Shanghai-London stock connect scheme. According to the scheme, qualified overseas underlying securities issuers listed on the London Stock Exchange could issue and list Chinese depositary receipts on the Shanghai Stock Exchange, and qualified Shanghai Stock Exchange listed companies could issue and list global depositary receipts on London Stock Exchange.

INSURANCE SECTOR

Increase the foreign shareholding limit in life insurance companies to 51%

The Negative List issued in 2018 also provides that the foreign shareholding limit in the life insurance companies is increased to 51%, and such limit will be removed in 2021.

Relax the requirements for foreign investors to operate insurance agent and assessment business

On 19 June 2018, CBRC issued two notices relating to foreign investors' operation of insurance agent business and insurance assessment business in China. In the past, foreign shareholding limit in the insurance agent and insurance adjuster is 25%[4].

Expand the business scope of foreign-funded insurance brokers

On 27 April 2018, CBRC issued a notice to enlarge the business scope of a foreign-funded insurance broker, according to which foreign-funded insurance brokers will be allowed to operate the following insurance brokerage businesses in China: (i) draft insurance plans, select insurer, and handle insurance application formalities for policyholders; (ii) assist in claims for insured parties or beneficiaries; (iii) reinsurance brokerage businesses; (iv) provide

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[2] Shanghai-Hong Kong Stock Connect Program (沪港通) means the arrangement allowing investors in mainland to, through local securities companies or brokers, trade shares listed on Stock Exchange of Hong Kong Limited which fall within the prescribed scope, and allowing investors in Hong Kong to, through local securities companies or brokers, trade shares listed on Shanghai Stock Exchange which fall within the prescribed scope.

[3] Shenzhen-Hong Kong Stock Connect Program (深港通) means the arrangement allowing investors in mainland to, through local securities companies or brokers, trade shares listed on Stock Exchange of Hong Kong Limited which fall within the prescribed scope, and allowing investors in Hong Kong to, through local securities companies or brokers, trade shares listed on Shenzhen Stock Exchange which fall within the prescribed scope.

[4] There are some exceptions for Hong Kong and Macao brokers according to the Mainland and Hong Kong Closer Economic Partnership Arrangement and the Mainland and Macau Closer Economic Partnership Arrangement.

disaster prevention or loss prevention, risk evaluation and risk management advisory services to entrusting parties; and (v) any other businesses approved by CBRC.

OUTLOOK FOR 2019

By the end of 2018, lots of the measures proposed by the Chinese government in recent years have been implemented. In the coming 2019, some more measures will come into force such as the Administrative Regulations on Foreign-invested Banks and the Rules for the Implementation of the Administrative Regulations on Foreign-invested Insurance Companies. It is also expected that opening up measures will issued in relation to trust, financial leasing, automobile finance, currency brokerage and consumer finance business.

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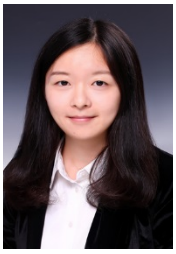

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