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# China News Alert Issue 228

## Capital Markets

### Two stock funds approved to boost equity market

Two additional open-ended stock funds have won regulatory approval, the China Securities Regulatory Commission (CSRC) said on 15 February.

This follows an earlier approval of two open-ended stock funds, which ended a five-month freeze on new funds, in apparent efforts to boost the falling domestic equity market.

The Bank of China Investment Management Co., Ltd. and AXA SPDB Investment Managers will launch the funds, according to the CSRC. The two funds are expected to raise a total of 17 billion yuan.

The Bank of Communications Schroder Fund Management Co., Ltd. confirmed on the same day that a bond fund under its management had also obtained regulatory approval. This fund will be able to subscribe to new offerings, according to the company.

The two previously approved stock funds, run by CCB Principal Asset Management Co. and China Southern Fund Management Co., will together raise about 14 billion yuan.

The launch of these funds is expected to bring a new round of fresh capital into the sliding stock market.

Chinese shares fell 1.21 per cent on 15 February with the Shanghai Composite Benchmark Index falling 55.19 points to 4497.13 despite a small recovery registered a day earlier.

The domestic stock market has seen volatile trading in recent weeks caused by worldwide concern over a possible US recession as well as the country's exceptionally harsh winter weather, which has already caused huge losses of up to 111.1 billion yuan.

China's securities watchdog suspended the launch of new funds late last year in reaction to the surging domestic stock market. The Shanghai Composite Index nearly doubled last year.

[Source: China.org.cn](http://www.china.org.cn/english/business/242896.htm) ([see archive](2_stock_funds_approved_to_boost_equity_market.pdf))

### New measures for the stock issuance and listing recommendation system to be launched soon

Amendments to the Interim Measures for the Stock Issuance and Listing Recommendation system are almost complete and will be announced soon.

The new measures relax certain provisions and aim to promote the GEM board and the growth of direct investment by securities brokers.

The new measures will contribute to the growth of the GEM board through stipulations relating to the continuous direction and supervision of sponsors.

As previously stipulated, sponsors will be punished if the issuer incurs losses, or its profits from the principle business declines by 50%, during the year of issuance.

However, the new measures take into consideration the relative business instability of GEM enterprises compared with their main board counterparts and do not set the same requirements for GEM enterprises.

In addition, to increase the sponsors' role and meet the needs of GEM firms, the supervision period of GEM firms covers the year of issuance and three accounting years thereafter, whilst the supervision period for additional issuance and the issuance of convertible bonds and corporate bonds includes the year of issuance and two accounting years thereafter, both are one year longer than that for main board firms.

To promote the recommendation of GEM enterprises, the new measures propose a trail policy for the GEM board, which allows sponsors to accept several businesses at the same time as long as the quality is ensured.

If the new policy runs smoothly for the GEM board, it will then be accepted by the main board.

Meanwhile, to prevent careless recommendations by sponsors, the new measures have established a system of internal control and examination to ensure that sponsors undertake adequate due diligence.

The new measures also stipulate that in the future co-sponsors will not longer exist as issuance shall be undertaken exclusively by one broker. However, co-recommendation is still allowed for direct investment by brokers.

[Source: Sina](http://finance.sina.com.cn/stock/t/20080218/01202000162.shtml) ([see archive](New_measures_for_the_stock_issuance_and_listing_recommendation_system_to_be_launched_soon.pdf))

### Fund managers gain approval to offer wealth management services

The first batch of Chinese fund managers have been approved to offer a range of services previously limited to commercial banks.

The nine approved companies are: China Southern Fund Management Co Ltd; Harvest Fund Management Co Ltd; ICBC Credit Suisse Asset Management Co Ltd; E Fund Management Co Ltd; Zhonghai Fund Management Co Ltd; China Universal Asset Management Co Ltd; Penghua Fund Management Co Ltd; Guotai Asset Management Co Ltd; and Lion Fund Management Co Ltd.

Under a new China Securities Regulatory Commission rule, fund management companies can provide wealth management services for investors as from 1 January 2008.

A fund management company with no less than 200 million yuan in net assets and no less than 20 billion yuan in assets under management in the latest quarter can apply to provide wealth management services.

When approved, a fund management company can accept clients with no less than 50 million yuan for investment. Analysts expect that corporate investors will be the target clients for fund companies, while private banking services usually focus on individuals.

Fund management companies can invest in stocks, bonds, stock funds, bank bills, short-term debt, asset-backed securities, financial derivatives and other regulated products.

Under the new rule, fund management companies can charge a fee of no more than 20 per cent of the investment return in a certain period. "The high fee has raised the interest levels of fund managers in offering these services, which are similar to private funds," said Liao Bojun, an analyst at Changjiang Securities.

Previously, fund managers conducted investment consulting services for investors.

Guotai Fund said it began preparing wealth management services in 2003. "The services will help the diversified development of fund companies. Several clients have shown interest in our wealth management services," Guotai Fund said.

Penghua Fund said it had visited potential clients in recent months.

"Fund management companies' wealth management products are expected to mainly invest in stocks, while those of banks usually focus on low-risk investment tools, such as bonds and subscriptions for initial public offerings," Liao said.

"In order to protect the interests of mutual funds, there should be a firewall between the management teams of mutual funds and of wealth management services in each fund company―and both should have equal access to information," said Zhou Liang, head of Lipper China Research.

Zhou added that building a fair and efficient trading system is a major task to be addressed.

[Source: China.com](http://english.china.com/zh_cn/business/news/11021613/20080219/14679262.html) ([see archive](Fund_Managers_Get_Nod_for_New_Services.pdf))

### Public finance reform is the key to China's sustained progress

China requires reforms to government finance in order to meet its dynamic needs, says a book launched in Washington recently by the World Bank.

As the world's fourth-largest economy and third-largest exporter, China's growth rate of about 9 per cent a year over the past decade has helped reduce its poverty rate from 60 per cent of the population to less than 10 per cent today.

However, such rapid growth has increased inequalities in income and access to basic services, and has strained natural resources, notes the book -- Public Finance in China: Reform and Growth for a Harmonious Society.

In its 11th Five-Year Plan, the book says, the Chinese government seeks to resolve these issues by shifting priorities from the overriding pursuit of growth to a more balanced economic and social development; an undertaking that requires strengthened public finance.

In the book, policymakers and academics explore many dimensions of public finance, from fiscal reform and revenue assignments to fiscal transfers, delivering public services, maintaining growth and tackling inequality.

The editors of the book are Jiwei Lou, former executive vice minister of finance and currently the chairman of China Investment Corporation, and the World Bank Senior Economist Shuilin Wang.

"Contributors to this book include some of China's most important economic reformers; people who actually designed policy during the country's successful emergence," Jim Adams, the World Bank Regional Vice President for East Asia and the Pacific, said at a press briefing. The book represents an excellent example of how China takes active policy debate and follows it up with experiments on the ground, he said.

[Source: China Finance Net](http://eng.zgjrw.com/News/200823/ChinaFinaceNet/867698601200.html) (Link no longer active)

## Corporate & Commercial

### Calls for a national insurance fund

The national insurance regulator recently called for the establishment of a disaster insurance fund to help deal with disasters and improve the efficiency of relief work.

"It is imperative we set up such a fund, and we are quickening efforts in this respect," Wu Dingfu, chairman of the China Insurance Regulatory Commission (CIRC), said.

The move comes after severe ice and snowstorms hit southern and central regions in the past month, causing widespread devastation.

As of 12 February, insurers have paid out more than 1.04 billion yuan (US$145 million) on 851,000 cases of snow-related claims, the CIRC said. 900 million yuan has been paid on property claims and more than 57 million yuan on health and life insurance policies.

The industry as a whole is expected to pay out more than 8 billion yuan as a result of the country's worst snowfall for almost half a century.

Jiang Caishi, general manager of the business development department of the PICC (Group), the country's largest non-life insurer, said: "The government could be a supervisor of the fund, allowing insurance companies to manage risks."

Excluding the losses of industrial and mining firms, the direct economic loss from the heavy snow is estimated at 111 billion yuan, the CIRC said.

"Given the 1.04 billion yuan compensation paid out, insurance companies have covered just 1 per cent of the total direct economic loss," Wu said.

Insurers paid out more than 40 million yuan in agriculture-related claims, with 200 million yuan related to damaged crops covering 445 hectares of farmland. But when compared with the 11.87 million hectares of farmland affected by the weather, the agricultural insurance rates and total compensation paid out are obviously on the low side, Wu said.

[Source: China.org.cn](http://www.china.org.cn/english/news/242926.htm) ([see archive](Calls_for_national_insurance_fund.pdf))

### FDI doubles despite tax concerns

Foreign direct investment (FDI) in China more than doubled last month compared with a year earlier despite concerns over the impact of increased corporate income tax on foreign investors, which took effect this year.

FDI in January was US$11.2 billion, 109.78 per cent more than in the corresponding month of last year, the Ministry of Commerce said recently. However, its department for foreign investment administration declined to disclose the reasons for the unusual increase.

The ministry said the government approved 2,918 foreign-invested enterprises last month, down 13.41 per cent from a year earlier.

In 2007, FDI rose 13.8 per cent to US$82.7 billion despite curbs meant to cool a boom in spending on real estate and other assets.

[Source: CQ News](http://english.cqnews.net/system/2008/02/19/001072498.shtml) (Link no longer active)

## Other

### Beijing Bar Association warns against investment fraud

The Discipline Committee of the Beijing Bar Association recently issued Practice Guide No. 3, No. 4, and No.5, taking effect as of 1 February 2008.

Practice Guide No. 5, warns lawyers against involvement in fraud, and has attracted public attention.

The Beijing Bar Association requires law firms or lawyers to provide clients with full and complete advice on risks when issuing legal opinions, ask investors for valid certificates of their qualifications and provide these to those parties seeking financing, and to protect the lawful rights of clients.

Lawyers and law firms are strictly prohibited from illegal trade such as paying commissions from lawyers' fees to intermediates. Any such act shall be punished severely.

The Beijing Bar Association requests that law firms carry out internal inspections in accordance with the above guidelines and make corrections if any misconduct is found.

Unlawful conduct occurring after the implementation of the guidelines will be investigated and punished.

Statistics from the association show that the Beijing Bar Association received 292 complaints in 2007, among which 248 cases were placed on file and 252 cases were handled (including those placed on file before 2007). The Discipline Committee held hearing conferences for 121 cases.

The guidelines reflect common characteristics of the cases dealt with in recent years, including: an increase in the number of cases in which lawyers' and law firms helped non-lawyers to engage in practice; an increase in the number of cases in which a lack of handover by employees leaving their jobs caused damage to clients and lawyers; frequent cases in which lawyers were involved in fraud while issuing legal opinions or during due diligence in the financing business.

This is the second time the Beijing Bar Association has released practice guides; Practice Guide No. 1 and No. 2 were announced on 3 April 2006.

[Source: Xinhuanet](http://news.xinhuanet.com/politics/2008-02/17/content_7618992.htm) ([see archive](Beijing_Bar_Association_warns_against_investment_fraud.pdf))

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