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# China News Alert Issue 245

## Capital Markets

### Curb on 'gambling'-like service

China's banking regulator has banned finance companies from offering customers loans to trade foreign exchange, saying 90 per cent of investors have lost money in a service that resembles "gambling."

"The ability of banks' clients to fully identify risks in this service and the banks' risk control capabilities are still inadequate," the China Banking Regulatory Commission said in a statement on its Website recently. Banks have failed to select qualified clients, "blindly" granted large loans and lowered entry criteria to compete for business, it said.

The Bank of Communications Limited, partly owned by HSBC Holdings Plc, was the first to offer margin trading in currencies starting in 2006. Transactions were typically over 20 times the amount put down by investors as a deposit, and mounted to as much as 50 times in some cases, the statement said.

"I hope the restriction will be temporary and that banks can start this business again after improving internal risk-controls," said Guo Zhaoyang, a foreign-exchange strategist at China Everbright Bank Company in Guangzhou, Guangdong Province. "It's a very profitable business for banks."

Foreign-exchange margin trading is expanding across Asia. Trading of currencies in Japan using borrowed funds rose 86 per cent in the first quarter to 213 trillion yen (US$1.97 trillion), figures from the Financial Futures Association of Japan showed on 16th May.

The Chinese regulator said "only a very small number of banks have been offering the service in some cities on a trial basis, and the number of investors is limited."

The banking regulator will study the service's risk regulations and enact new rules when "all conditions are ripe," the statement said. Contracts signed before the ban remain valid, it said. Investors should aim for an "early" settlement of their transactions, and banks must stop offering new deals.

The regulator issued an order curbing the service after oral warnings failed and banks continued to offer the service.

[Source: Shanghai Daily](http://www.shanghaidaily.com/sp/article/2008/200806/20080613/article_363042.htm) (Link no longer active)

### SSE to regulate enterprise bonds' registration, custody and settlement

The "Notice of Issuance, Registration, Custody, Trading, Settlement and Charges of Bonds Issued with the Approval of Relevant Authorities under the State Council and Registered in Securities Accounts" (the Notice), was issued recently by the Shanghai Stock Exchange (SSE) and the China Securities Depository & Clearing Corporation Limited.

The Notice stipulates that the listing, custody, trading, settlement, charges and payment of principal and interest of bonds, issued with the approval of relevant authorities under the State Council and registered in securities accounts, should be implemented according to the rules for corporate bonds issued with the approval of the China Securities Regulatory Commission.

According to the Notice, if such bonds are issued through the SSE's system, the issuance and registration should be conducted according to the relevant rules for corporate bonds; otherwise, registration should be processed in another manner filed by the issuer.

The Notice also stipulates that spot trading of such bonds shall be executed through the SSE auction trading system and the comprehensive electronic platform of fixed income securities. The same security codes and ticker symbols must be adopted.

Orders for such trading will be placed through securities accounts and executed at the net price and settled at the full price.

In addition, if they qualifiy, such bonds are allowed to participate in new general collateral repos, with requirements for repo qualification and conversion ratio pursuant to the current rules on corporate bonds.

[Source: Shanghai Stock Exchange](http://english.sse.com.cn/aboutsse/news/c/28492.shtml) ([see archive](SSE_to_regulate_enterprise_bonds_registration_custody_and_settlement.pdf))

### China's central bank to curb price rise

The People's Bank of China has recently stated that it will take "forceful" measures to curb excessive price rises and improve the monitoring of cross-border capital flow.

It will also try to improve the assets market and prevent any drastic fluctuations of asset prices. The central bank made these statements in the annual financial stability report reviewing last year's financial and economic developments.

China's top leaders, including President Hu Jintao and Premier Wen Jiabao, said in a meeting that the country will promote the healthy development of capital markets and prevent inflation from worsening, according to a State radio report.

Growth of China's consumer price index dropped to 7.7 per cent year-on-year in May, down from 8.5 per cent in April. But economists are still worried that multiple factors, such as ample liquidity, may push up prices again in the coming months. In May, the country's money supply growth accelerated to 18.07 per cent year-on-year from 16.94 per cent in April.

In a summary of the report, the central bank pledged to keep a close watch on international financial markets and ward off any risk spreading from other countries.

The report was prepared more than two months ago and was not a comment on the country's most recent economic performance, Reuters said, citing a bank official. But recent financial woes in Vietnam have aroused Chinese domestic concerns.

[Source: Xinhua](http://news.xinhuanet.com/english/2008-06/14/content_8366498.htm) ([see archive](Chinas_central_bank_to_curb_price_rise.pdf))

## Corporate & Commercial

### Swiss bank gets approval to enter China

Credit Suisse Group said China's securities regulator has approved its investment-banking venture, allowing the second-biggest Swiss bank to participate in China's domestic stock underwriting market, which topped US$68 billion in 2007.

The Zurich-based bank owns 33.3 per cent of the venture, and Founder Securities Company owns the rest, Credit Suisse said. It will also be able to underwrite foreign-currency shares, and government and corporate bonds.

China's market generated a record US$1.2 billion in equity underwriting fees last year, according to data compiled by Bloomberg News.

The approval is the first since China announced rules in December that retained its 33-per cent cap on foreign ownership of investment banks and restricted participation to publicly traded brokerages.

"This is a very important milestone in the implementation of Credit Suisse's ambitious Asia-Pacific growth strategy, particularly for a vitally important country like China," Kai Nargolwala, chief executive officer of Credit Suisse Asia Pacific, said.

Lei Jie, chairman of Founder Securities, a unit of the Beijing-based Founder Group, was appointed chairman of the investment bank. Neil Ge, a managing director of Credit Suisse's investment banking in Shanghai, was named CEO.

New York-based Goldman Sachs Group and Zurich-based UBS AG, the biggest Swiss bank, are so far the only global securities firms with management control of investment-banking units in China.

UBS's China venture was the third-largest arranger of domestic stock offerings last year, with a 13-per cent market share.

China had previously resisted opening its market further to foreign competition.

[Source: China.com](http://english.china.com/zh_cn/business/news/11021613/20080616/14911249.html) ([see archive](Swiss_bank_gets_nod_to_enter_China.pdf))

### NDRC outlines requirements for investment project appraisal reports

The National Development and Reform Commission (NDRC) requires that when enterprises invest in projects falling under the Government-approved Investment Project Catalogue, they must provide a project application report in line with related rules and submit the report to project approval authorities for approval.

Authorities will then decide whether the report must be reviewed by an engineer consultation institution, and will outline the key points requiring appraisal.

Such institutions will make their appraisal based on aspects such as maintenance of economic security, proper resource development, environmental protection, public interest guarantees and prevention of monopolies and unfair competition.

Institutions will also compile an enterprise investment project consultation and evaluation report and submit it to the entrusting authorities. This report then becomes an important consideration for project verification and approval.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4121) ([see archive](NDRC_Outlined_Requirements_on_Investment_Project_Appraisal_Reports.pdf))

### Aviation market consolidates for large jet construction

China began the restructuring of its aviation industry by consolidating the two leading state-owned aircraft designers and producers.

China Aviation Industry Group Corporation will emerge after the re-merging of the China Aviation Industry Corporation I (AVIC I) and the China Aviation Industry Corporation II (AVIC II), two state-owned enterprises spun off in 1999 from the former Aviation Industries of China.

AVIC I elevated China to the world's fourth country to develop its own advanced fighter aircraft, the "Jian 10", last year.

The preparation group, led by AVIC I's general manager, has been approved by the government and the new company is expected to be officially inaugurated in July.

No further details were available about the new company.

Experts with the Development Research Center of the State Council (DRC) said the merger of the companies represented the launch of a new round of strategic restructuring of the aviation industry after China's first ever large-passenger-aircraft company was established in Shanghai in May.

The current model is not conducive to integrating resources and gives rise to redundant projects. China should concentrate its resources in scientific research and manufacturing if it wants to catch up with leading aviation development in western countries, the DRC expert said.

The industrial manoeuvre was intended to concentrate resources of both companies and prepare the industry for the production of large jets.

Shares in the newly-established commercial large-passenger-aircraft company and the Airbus's Tianjin plant, originally owned by the two companies, will also consolidate to give the new company a bigger say in those corporation projects, an official with the AVIC II said.

With 240,000 employees and aggregate assets of more than 100 billion yuan, AVIC I is the parent of 47 industrial enterprises, 31 research and development institutes, provides 90 per cent of the aviation weaponry systems for the People's Liberation Army and has produced over 15,000 aircraft in 20 projects, 50,000 aero-engines and more than 10,000 missiles, according to company statistics.

The maiden flight of ARJII1, China's first 90-seat regional jet with AVIC I holding the intellectual property rights, is scheduled for this year.

The smaller AVIC II boasts total assets of 31.5 billion yuan (US$4.56 billion), with its aero production covering a wide range of military and civilian vehicles including helicopters, general aircraft, unmanned aerial vehicles, engines and airborne equipment.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200806/t20080618_1496925.html) ([see archive](Aviation_market_consolidates_for_large_jet_building.pdf))

### China's first disaster cover launched

China Life, China's largest life insurer, has launched the country's first accident insurance policy, in part, to address the increased insurance demand after the earthquake in Sichuan.

It will cover six types of natural disasters; earthquakes, floods, tsunamis, typhoons, mudslides and landslides.

"This trial is to help people transfer risks through commercial means," said Wan Feng, president of China Life.

Compared with other accident insurance policies, the premium rate for this new policy is low, the company said. Usually, people need to pay a 200 yuan premium for common accident insurance covering 100,000 yuan's worth of liability. But for the catastrophe accident policy covering the same amount, people need only pay 65 yuan. The rate, however, could vary across regions.

"We will launch the product in catastrophe-hit areas such as Sichuan, Zhejiang and Hainan," said Shirley Shao, chief actuary of China Life.

She said that the company would also look at working with reinsurance companies to spread risks due to the concentration of risk in particular regions.

According to statistics from the China Insurance Regulatory Commission, the country's insurance industry has paid 303 million yuan for 249,000 claims as of 11th June, of which 169 million yuan went to life insurance and 133 million yuan went to property and casualty insurance.

By 11th June, China Life had received 13,181 claims, and the company is expected to pay 230 million yuan for the Sichuan earthquake, said Wan.

"Our overall payment may exceed 300 million yuan as time passes, but it is not going to dent our profits too much, given our rapidly growing premium this year," he added.

China Life has seen a more than 40 per cent increase in premium income for the first quarter of 2008. Wan said the company will maintain this rapid growth in the second quarter.

"The overall premium growth for this year will largely exceed our target," Wan added.

Insurance companies' quick claim settlement after the earthquake sparked the public's awareness and interest in buying policies.

Zhang Lin, a 28-year-old company executive in Ningbo, Zhejiang province, said she was quite interested in the new policy as Ningbo is often hit by typhoons in the summer.

Earthquakes are not generally included in insurance liabilities for household property insurance. Even with commercial property insurance, enterprises have to buy an independent rider to cover earthquake risks.

[Source: Xinhua](http://news.xinhuanet.com/english/2008-06/14/content_8366431.htm) ([see archive](Chinas_first_disaster_cover_launched.pdf))

## Other

### Pension fund gets private managers

China's social security fund will allow Hony Capital and CDH Venture Partners to manage its investment in private equity funds, said Dai Xianglong, chairman of the National Council for Social Security Fund.

The council issued a statement stating that China's social security fund, or SSF, has been granted approval to invest up to 10 per cent of its assets in industry investment funds and private equity funds.

Traditionally, it invested in treasury bonds, corporate bonds and the stock market.

The council has decided to inject money into Hony Capital and CDH Venture Partners. It is expected that the council will soon issue rules to regulate the investment of SSF in private equities, said Dai during a forum in Tianjin.

He did not elaborate on how much would be invested in the two companies.

Meanwhile, Hony Capital and CDH Venture Partners announced they would establish a fund management unit in Tianjin.

Beijing-based Hony Capital is an arm of the Lenovo Group that deals in private equity investment. According to its Website, it manages over US$700 million worth of funds and has invested in some of China's top enterprises, including the world's largest vitamin C producer, Asia's largest fiberglass manufacturer and China's largest listed flat glass company.

CDH Venture Partners was the former direct investment department of China International Capital Corporation Limited and later became independent.

The value of China's SSF was 516.1 billion yuan (US$73.4 billion) by the end of 2007. It is estimated the value could exceed 1 trillion yuan by 2010, said Dai.

[Source: China Securities Journal](http://www.cs.com.cn/english/markets/200806/t20080612_1490671.html) ([see archive](Pension_fund_gets_private_managers.pdf))

### Growing consumer market attracts foreign investment

Foreign direct investment (FDI) in China rose 37.94 per cent in May from a year earlier to US$7.76 billion, the Ministry of Commerce said recently.

The growth decreased from the peak in January when FDI posted a 110-per cent rise and compared with an increase of 54.97 per cent in the first five months. New foreign-funded firms fell 10.94 per cent in May to 2,425.

"China is very cautious about the inflow of hot money, or speculative money, when the yuan has accelerated in appreciation. The slower pace of FDI and the cut in new foreign-funded firms indicated such concerns but also demonstrated investors' focus on bigger and more capital-intensive projects," said Li Maoyu, an analyst with Changjiang Securities Company

The Chinese currency has appreciated about 5.3 per cent so far this year against the dollar. The pace was much faster than the combined growth of 7 per cent for the entire year of 2007.

But it can't be denied that China's rapidly expanding consumer market has made the country an attractive destination for investment.

Robert Brown, chairman of Watson Wyatt Global Investment Committee, said China was fit for stable investment in the long term because of the dynamics and the established infrastructure here. Watson Wyatt provides investment consulting services to clients, including many institutional investors.

Meanwhile, the slower pace of FDI growth can help ease government concern over excess liquidity and lead to less harsh macroeconomic control after consumer prices also eased in May, analysts said. The central bank has recently ordered lenders to set aside more money as reserves to curb liquidity and inflation.

The Consumer Price Index, the main gauge of inflation, eased to 7.7 per cent in May from April's 8.5 per cent, according to the National Bureau of Statistics.

Investment from United States companies increased 25.09 per cent in May from a year earlier while spending from European Union countries gained 35.2 per cent.

Last year, China's FDI grew 13.6 per cent to US$74.8 billion.

In the first five months this year, the figure jumped by 54.97 per cent to US$42.8 billion.

[Source: Shanghai Daily](http://www.shanghaidaily.com/sp/article/2008/200806/20080613/article_363047.htm) ([see archive](Growing_consumer_market_attracts_foreign_investment.pdf))

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