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# China News Alert Issue 259

## Capital Markets

### Stamp tax dropped to lift stock market

China's government has recently scrapped stamp tax on the purchase of equities and State-owned investment agency, Central Huijin, has announced that it will buy shares in three major Chinese banks.

The moves are aimed at stabilising the fragile stock market, currently reeling under the impact of the US financial crisis.

In the US and Europe, news of central banks across the world pumping billions of dollars into the market appeared to calm investors' nerves.

The triple blow of Lehman Brothers going bust, Merrill Lynch being sold and AIG needing US$85 billion of US government funds for survival has sent financial markets across the globe tumbling.

China's top assets regulator said that it will back up and encourage its 147 State-owned enterprises (SOEs) to buy more stocks of their listed subsidiaries.

Analysts, however, said more measures are needed to put the market back on track to healthy development.

The stock trading tax cut takes effect from 19th September, which means the 0.1 per cent tax will apply only to the sale of shares. The government had already slashed the tax from 0.3 per cent to 0.1 per cent on 24th April to invigorate the market.

Central Huijin, an arm of the country's sovereign wealth fund China Investment Corporation, said it has started buying shares in major banks, such as Industrial and Commercial Bank of China, Bank of China and China Construction Bank.

Li Rongrong, head of the State-owned Assets Supervision and Administration Commission (SASAC), said the regulatory body has long wanted SOEs, especially the 147 that report to the central government directly, to become an active force in facilitating a stable development of the stock market. Companies owned by the 147 giants should play an exemplary role in the market.

He said the national economy is basically sound, and key SOEs are performing well. The SASAC encourages them to buy more stocks of their listed companies.

Banks' shares have fallen steeply during recent trading sessions, due in part to the news of Lehman's bankruptcy.

"The government has taken steps to protect the market from irrational sell-offs," Li Zhikun, China Jianyin Investment Securities' senior analyst, said. Chinese stocks have become fairly undervalued after steep falls during the past year, and the government is trying to restore investor confidence, he said.

Though the market is expected to rebound, analysts are not sure for how long this will be sustained. To prevent the market from diving further, more measures need to be taken, they said.

For example, the fear of a mass floating of shares, locked up before the share-merger reform in 2005, has triggered a continuous sell-off since early 2008, said Zhao Xijun, professor of finance at Renmin University of China. The authorities could issue new regulations to make it more difficult for those shares to flood the market.

[Source: China Daily](http://www.chinadaily.com.cn/china/2008-09/19/content_7039637.htm) ([see archive](Stamp_tax_dropped_to_lift_stock_market.pdf))

### China Huijin increases stake in three top commercial lenders

China's three largest commercial banks announced recently that Central Huijin Investment Company Limited, an investment arm of the government, had increased its shareholdings in the three banks.

According to announcements released by the banks, Huijin has increased shareholdings by 2 million shares for each bank through shares purchase on the Shanghai Stock Exchange.

China Construction Bank (CCB) said that following the acquisition, Huijin holds 152,844,297,904 shares of the CCB (including 2,000,000 A-shares and 152,842,297,904 H-shares), representing approximately 65.405 per cent, up from 65.4041 per cent, of the total issued share capital of the bank.

The Industrial and Commercial Bank of China said Huijin now holds 118,008,174,032 shares in the bank after the acquisition, increasing its stake in the country's top lender from 35.3292 per cent to 35.3298 per cent.

The Bank of China said the government investment arm now holds 171,327,404,740 shares in the bank after the purchase, increasing its stake from 67.4937 per cent to 67.4945 per cent.

This is one of a package of moves by the government to stabilise the sliding stock market, including the recent cancellation of stamp tax on stock purchases.

Huijin intends to continue to increase its shareholdings in the three banks on the secondary market within the next 12 months, according to the banks' announcements.

[Source: People's Daily Online](http://english.people.com.cn/90001/90776/90884/6505059.html) ([see archive](China_Huijin_increases_stake_in_three_top_commercial_lenders.pdf))

### China to ease control over share repurchases

China's securities watchdog announced recently that it will make it easier for listed companies to buy back their stocks in the latest government move to boost the equity market.

Share repurchases through bidding on the stock exchange will no longer need approval from the China Securities Regulatory Commission (CSRC), according to a draft regulation issued by the CSRC.

It stated that such acts could take place after a report is submitted to the CSRC and a public disclosure of the information is made.

The change has been made to improve the mechanism of share repurchases, which could help maintain investor confidence and stabilise the stock market when equities are undervalued, said the CSRC.

The rally came after the government canceled the 0.1 per cent stamp tax on stock purchases and let its investment arm purchase shares in three major Chinese lenders on the secondary market.

Despite the gains, China's key index was still only at about a third of where it stood at its peak in October 2007.

The CSRC will solicit public opinion on the draft regulation until 28th September.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-09/21/content_7045730.htm) ([see archive](China_to_ease_control_over_share_repurchase.pdf))

### CSRC regulates listed companies' equity incentive activities

The China Securities Regulatory Commission (CSRC) has stipulated in a circular that listed companies must not revise equity prices or incentive measures during the equity incentive plan record-filing process.

Under the 'Memo on Issues Concerning Equity Incentives: No.3' released on 16th September 2008 by the CSRC, if listed companies plan to revise equity prices or incentive measures, their original equity incentive plans must be approved and released by the board of directors, and listed companies must submit their application to the CSRC to teminate the original equity incentive plan record-filing.

If the board of directors approve the cancellation of the equity incentive plans or the shareholders' meeting fails to approve the equity incentive plans, the board of directors must not re-deliberate or disclose the draft equity incentive plans within 6 months of the disclosure date of the decisions.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4707) ([see archive](CSRC_Regulates_Equity_Incentive_Activities_of_Listed_Companies.pdf))

## Corporate & Commercial

### Details of banks' foreign investment sought

Financial regulators have asked domestic financial institutions to submit detailed records of their investments in US and European financial assets to ascertain the full extent of their exposure to the US financial crisis.

The China Banking Regulatory Commission, the China Insurance Regulatory Commission and the China Securities Regulatory Commission reportedly made the request to financial institutions under their supervision.

At least six Chinese commercial banks have reportedly disclosed their holdings of bonds issued by US investment bank Lehman Brothers, which has filed for bankruptcy protection.

Industrial and Commercial Bank of China has said it holds US$151 million in bonds issued by or linked to Lehman. China's largest State-controlled commercial bank in terms of assets is known to have the highest exposure to securities associated with Lehman.

China Merchants Bank said in a statement to the Shanghai stock exchange that it holds US$70 million worth of Lehman bonds, out of which US$60 million is senior debt and the rest subordinate bonds.

Bank of China said it holds Lehman bonds worth US$75.62 million, and has lent US$53.2 million to Lehman and its subsidiaries.

The three other commercial banks that have reportedly invested in Lehman-related assets are China Construction Bank, Bank of Communications, and Industrial Bank Company.

The only known Chinese insurer holding substantial foreign assets is Ping An, which has a 4.18 per cent stake in Fortis, one of the largest European insurance conglomerates.

[Source: People's Daily Online](http://english.people.com.cn/90001/6502277.html) ([see archive](Details_of_banks_foreign_investment_sought.pdf))

### Association rebuttal of local court's query on vehicle insurance

The Insurance Association of China (IAC) has made its response to the judicial advice on vehicle liability insurance submitted by the people's court of Changping district, Beijing.

Earlier this month, the court sent its judicial advice to the China Insurance Regulatory Commission (CIRC), China's insurance regulator, explaining problems confronted while handling cases related to compulsory vehicle liability insurance. This again makes the controversial insurance policy a focal point after its debut in 2006.

The advice submitted pointed out that insurance companies are reluctant to settle claims, and that medical compensation is not enough to cover the losses of policy holders. The long-winded procedures in payment collection cause many policy holders to turn to the courts for easier dispute settlement, stretching limited judicial resources.

IAC secretary-general, Wang Zhichao, argued in an interview that as the first compulsory insurance in China, the vehicle liability insurance is still a "young insurance policy" and has much room for improvement. "We welcome constructive suggestions, but hope there will be less hostility from the media."

Among the 172 cases related to traffic accident damage compensation accepted in the court last year, 121 of them were filed with insurance companies as defendants, accounting for 70.35 per cent of the total. Statistics from the courts revealed that the insurers' active settlement rate concluded from the lawsuit procedure only came to 0.826 per cent.

Chen Wenjie, a judge in the Changping district court, said the situation could be eased if insurance companies prepay economic damages to victims following the regulation on compulsory vehicle insurance.

However, Wang, the head of the insurers' association, refuted the statistics from cases in 2007, saying they could not reflect the current situation as the new regulation on compulsory vehicle insurance took effect in January 2008 and has specified insurers' duties on the prepaying of compensation.

Even in 2007, vehicle collisions resulting in damages below 2000 yuan (US$293.15) would have been prepayed. There is no need to file a lawsuit if damages of a large amount are processed smoothly. "The operation and service status of the compulsory vehicle liability insurance cannot be measured through figures from lawsuits."

Chen believes that the medical compensation is not adequate enough to cover the economic losses of the injured. Her court suggested that CIRC lift ceilings on all liabilities in the compulsory insurance, especially those relating to personal injuries.

Wang retorted that the compensation limit was decided in accordance with the premiums, which are set on the basis of previous traffic accident risk rates. Premiums may rise 30 to 35 per cent if the compensation limit increases by 10,000 yuan, resulting in the financial burden being shouldered by all policy holders. "The extra medical benefit can be achieved through commercial insurance." said Wang.

As for the frequently long-winded procedure in damages collection, Wang explained that claim verification was essential in order to prevent fraud and cheating in compensation applications. However, he said that joint efforts were needed to tackle the delay in undertaking the claims.

He indicated that simplified procedures regarding vehicle collision disputes are under examination and the IAC was standardising the claim documents and procedures, and the new standards are expected to be implemented early next year.

The regulation on compulsory vehicle liability insurance came into force on 1st July 2006. It prescribed that all the vehicles within China must purchase the compulsory insurance, with the purpose of ensuring victims in traffic accident with compensation and enhancing traffic safety. Sections on premiums and liability limits were revised in January 2008.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-09/23/content_7052524.htm) ([see archive](Association_rebut_of_local_courts_query_on_auto_insurance.pdf))

## Other

### China issues regulation to clarify labour contract law

China's State Council issued an implementation regulation for the Labour Contract Law in Beijing recently in an effort to clarify confusion surrounding the law.

The new law, which was put into effect on 1st January was hailed as a landmark step in protecting employee's rights. But many complained the law increased companies operational costs as it overemphasised protection of workers.

One of the most debated terms was one that entitled employees of at least 10 years' standing to sign contracts without specific time limits. Some employers believed the "no-fixed-term contract" would bring a heavy burden to them and lower company vitality.

"By issuing the regulation, we hope to make it clear that labour contracts with no fixed termination dates do not amount to lifetime contracts," said a Legislative Affairs Office of the State Council official.

The regulation listed 14 conditions under which an employer can terminate a labour contract. These included an employee's incompetence to meet job requirements, serious violations of regulations and dereliction of duty.

Another 13 circumstances were also included in the regulation, under which an employee could terminate his or her contract with an employer, including delayed pay and forced labour.

Compensation should be given if employers terminate the contract lawfully. Employers should double the amount of compensation if they terminate a contract at their own will. No further financial compensation is required, according to the regulation.

China's top legislative body, the Standing Committee of the National People's Congress, adopted the Labour Contract Law in June 2007, which was followed by a string of staff-sacking scandals.

The best known was the "voluntary resignation" scheme by Huawei Technologies Company Limited, the country's telecom network equipment giant. The Guangdong Province-based company asked its staff who had worked for eight consecutive years to hand in "voluntary resignations." Staff would have to compete for their posts and sign new labour contracts with the firm once they were re-employed.

Huawei later agreed to suspend the controversial scheme after talks with the All China Federation of Trade Unions.

The NPC Standing Committee said on Thursday it would start a law enforcement inspection at the end of September in 15 provinces, municipalities and autonomous regions.

The Legislative Affairs Office of the State Council issued a draft of the implementation regulation on 8th May to solicit public opinion. By 20th May, the office had received 82,236 responses. On 3rd September, the State Council approved the regulation.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-09/18/content_7040389.htm) ([see archive](China_issues_regulation_to_clear_labor_contract_law.pdf))

### Regulation on inspection exemptions for food abolished

China's State Council recently announced the abolishment of regulations on inspection exemptions for food.

In a circular distributed to ministries and governments at all levels, the State Council said that it had decided to abolish the regulations relating to quality inspection exemptions for food in a document issued on 5th December 1999.

It urged the ministries and governments to increase supervision, perform their duties diligently and carry out food quality inspections in line with relevant laws to ensure food safety.

[Source: China Internet Information Center](http://www.china.org.cn/government/central_government/2008-09/19/content_16503954.htm) ([see archive](Regulation_on_inspection_exemptions_for_food_abolished.pdf))

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