Charltons - China News Alerts Newsletter - 19 August 2009

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# China News Alert Issue 302

## Capital Markets

### China to continue financial system reform

China vowed to continue its reform of the financial system in order to encourage more efficient financial intermediation to meet domestic demand. This is according to a fact sheet released in Beijing recently.

To meet these commitments, China would promote interest rate liberalisation and consumer finance, said the first U.S.-China Strategic and Economic Dialogue (S&ED) economic track joint fact sheet.

It said China would accelerate the allocation of QFII quotas to US$30 billion and continue to allow foreign-invested banks incorporated in China that meet relevant prudential requirements to enjoy the same rights as domestic banks with regard to underwriting bonds in the inter-bank market.

China would gradually increase the number of qualified joint-venture securities companies that can participate in A-share brokerage, proprietary trading and investment advisory services subject to relevant laws and regulations.

The country would also support qualified overseas companies to list on Chinese stock exchanges through issuing shares or depository receipts and continue to support qualified Chinese companies to list abroad, including in the United States, said the fact sheet.

The U.S. would pursue comprehensive reform of financial regulation and supervision to create a more stable financial system and to help prevent and contain potential future crises.

Regulation and supervision would be strengthened to ensure that all financial firms posing a significant risk to the financial system will be well regulated, that major financial markets will be strong enough to withstand system-wide stress and the failure of large institutions, and that the government has the tools it needs to respond rapidly and effectively when problems arise, the fact sheet said.

The United States pledged to continue overseeing Government Sponsored Enterprises (GSEs). Through Congressional action, the country remained committed to ensuring that GSEs were able to meet their financial obligations, it said.

The country was committed to exploring the future of GSEs, including through seeking public input, and the U.S. government resolved to report to Congress and the public by S&ED II.

In the joint fact sheet, China and the United States pledged continued close communication and coordination to promote financial stability and would work together to expedite financial sector reform, to improve financial regulation and supervision, and to promote greater financial market transparency, so as to make their financial sectors more robust.

"We recognise the importance of ensuring sound regulation in our own countries and globally," said the fact sheet.

The two countries were undertaking IMF Financial System Assessment Programs (FSAPs) and would complete them in a timely manner, it said.

Both countries would continue to promote convergence towards a single set of high quality global accounting standards and would continue discussions on financial reporting matters.

"The United States and China welcome continued dialogue between the bilateral competent authorities on the supervision of accounting firms providing auditing services for public companies in the two countries based on mutual respect for sovereignty and laws," it said.

The two countries would also conduct technical exchanges on the development of private pensions, and would share experiences and strengthen cooperation regarding the improvement of insurance regulation.

The first S&ED was held in Washington, D.C from 27th to 28th July. The mechanism was jointly launched by Chinese President Hu Jintao and U.S. President Obama during their meeting in April in London as a way to show an elevation of the importance of China-U.S. cooperation.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-08/06/content_8533449.htm) ([see archive](China_to_deepen_financial_system_reform.pdf))

### China's securities watchdog strengthens market supervision

The China Securities Regulatory Commission (CSRC) has banned 205 people from trading in the country's stock market as of 30th June, with 55 being banned for life, said the CSRC recently.

This is one in a series of punishments made by the CSRC over market malpractice since October 2006, when the CSRC reformed its law enforcement. The securities watchdog has fined 548 people and revoked the security-trading licence of 30 people involved in insider trading and price rigging as of the end of June 2009.

The CSRC has confiscated 190.97 million yuan (about US$27.8 million) in illegal gains and issued fines of 216.05 million yuan from the 154 insider trading cases, said Yao Gang, vice chairman of the CSRC, in a meeting attended by officials in charge of discipline penalties from the CSRC, the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

Yao said the meeting signaled that the country's securities watchdog and stock exchanges have established a system of coordination to improve law enforcement and the crackdown on insider trading.

China's stock market has rebounded more than 80 per cent from the beginning of this year due to soaring bank lending and the prospect of economic recovery.

[Source: People's Daily](http://english.peopledaily.com.cn/90001/90778/90857/90861/6714770.html) ([see archive](Chinas_securities_watchdog_strengthens_market_supervision.pdf))

## Corporate & Commercial

### China's new policies to spur used car sales

China's second-hand vehicle market is expected to get a new lease of life with a number of policies likely over the next few months, thanks to the record sales of new vehicles and the stimulus measures announced by the central government.

"The long-expected policies will come out soon, and will regulate and encourage second-hand vehicle trade in China. The era of second-hand vehicles is coming," Shen Rong, deputy secretary-general of the China Automobile Dealers Association, said recently.

Shen said the Ministry of Commerce has worked out a policy jointly with the Ministry of Finance to establish standard second-hand vehicle trading markets in 10 cities and provinces from this month.

The locations are Beijing, Tianjin, Shanghai, Shenzhen, Jiangsu Province, Zhejiang Province, Hubei Province, Shandong Province, Jiangxi Province and Liaoning Province.

Local governments should submit their detailed plans before 31st August and finish the construction of the national standard second-hand vehicle markets before July 2010, Shen said.

[Source: China.org](http://www.china.org.cn/government/policy_updates/2009-08/08/content_18299303.htm) ([see archive](Chinas_new_policies_to_spur_used_car_sales.pdf))

### Shanghai encourages growth of biopharmaceutical Industry

The General Office of the Shanghai Municipal Government recently released a ‘Circular on Several Provisions to Stimulate the Development of the Biopharmaceutical Industry in Shanghai'.

This was drafted by the Shanghai Municipal Development and Reform Commission and the Shanghai Municipal Science and Technology Commission, and stipulated that qualifying biopharmaceutical enterprises and institutions may be entitled to financial support, tax benefits and relevant financial services.

Under the program, Shanghai will promote the development of key enterprises and the construction of key projects. Shanghai encourages the growth of foreign invested enterprises and joint ventures by providing preferential policies in respect of land, taxation and the market.

In recent years, the biopharmaceutical Industry in Shanghai maintained an annual growth rate of 15 per cent. A total of 410 biopharmaceutical enterprises in Shanghai reported a productivity of 103.46 billion yuan in 2008.

[Source: Net Ease](http://news.163.com/09/0803/21/5FQPTJMI000120GR.html) ([see archive](Shanghai_encourages_growth_of_biopharmaceutical_Industry.pdf))

## IPR

### China continues crackdown on copyright infringement and pornographic publications

China will continue its crackdown on copyright infringement and pornographic publications as crime syndicates become more sophisticated at maintaining their illegal businesses, a Chinese official said recently.

Jiang Jianguo, deputy head of the National Anti-Pornography and Anti-Illegal Publications Office, said the quantity of illegal publications was still rising in some areas.

More advanced digital and network technologies are used by offenders to produce these publications, he said at a meeting held in Tianjin, northern China's port city.

At the meeting, Tianjin law enforcement and culture departments, as well as the intellectual property rights watchdog, were cited for smashing a crime syndicate involved in copyright infringement in early June 2009.

Jiang, also deputy chief of the General Administration of Press and Publications, said this demonstrated the Chinese government's long-term dedication to the fight against the violation of intellectual property rights and the publication of pornography.

Tianjin authorities spent a long time investigating the group, whose business once extended almost all over China. Law enforcement officers eventually seized more than 100,000 counterfeit audio and video discs and more than 1,000 pornographic DVDs, the largest case of this kind ever reported in Tianjin.

The convicted leader of the 11-member group, Fu Wei, has been sentenced to seven years in prison and was fined 105,000 yuan (US$15,370). Other members were given prison sentences from one to five years.

"This is a successful example of all relevant government departments working together to speed up the investigation and crackdown on copyright-related crimes," Jiang said.

[Source: People's Daily](http://english.people.com.cn/90001/90776/90884/6722527.html) ([see archive](China_continues_crackdown_on_copyright_infringement_pornography_publication.pdf))

## Taxation

### Macau and Beijing sign protocol to prevent double taxation and tax evasion

The governments of Macau and mainland China recently signed a protocol to change an agreement that has been in place since 2003 to prevent double taxation and tax evasion.

The new protocol, which comes into effect on 1 January 2010, plans to reduce taxes for Macau residents in mainland China, according to a statement released by the Office of the Macau Secretary for Economy and Finance.

The original agreement, signed six years ago, defines measures to prevent the two governments from simultaneously taxing the same income earned by residents from Macau and mainland China.

Among the Special Administrative Region taxes that are referred to in the agreement are those applying to professional income, additional income and urban property, as well as the stamp duty attached to these taxes.

The protocol refers to mainland China's tax applied to income earned by individuals, businesses with foreign investment and foreign businesses, and also local income tax.

The agreement also offers reciprocal tax benefits for income from real estate, associated businesses, dividends, interest, royalties, one-time gains, pensions, state remunerations, teachers, researchers, students and interns, among others.

The agreement was signed by Wang Li, the deputy director of the Taxation Administration of the People's Republic of China, and Francis Tam Pak Yuen, Macau's Secretary for Economy and Finance.

[Source: Macau News](http://www.macaunews.com.mo/index.php?option=com_content&task=view&id=492&Itemid=3) ([see archive](Macau_and_Beijing_sign_protocol_to_prevent_double_taxation_and_tax_evasion.pdf))

### China ends tax breaks for tobacco advertising

Chinese tobacco companies have been banned from claiming tax relief for advertising, promotion and sponsorship spending.

In a joint circular issued recently, but backdated to 1st January 2008, the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) declared an end to tax relief on promotional spending by tobacco firms.

The circular is effective until 31st December 2010, after which all forms of tobacco promotion will be banned in China.

The circular said cosmetic, medical and beverage companies (excluding alcohol producers) can deduct advertising expenses to a maximum of 30 per cent of their total sales income.

Before the law on enterprise income tax went into effect in January 2008, Chinese firms could claim back 2 to 8 per cent of their taxable income. Under the new law, the rate was standardised at 15 per cent for all industries, except the tobacco industry.

The new provision means tobacco companies will have to pay more tax and their after-tax profits will drop, indicating the government is taking a tougher stance to reduce smoking, said Zhang Bin, an expert on price and tax studies with the Chinese Academy of Social Sciences.

The policy already applies to alcohol advertising, said Zhang Xuedan, a MOF official and tax expert.

Xu Guihua, vice president and secretary general of the Association of Tobacco Control, said a comprehensive ban on tobacco advertising, promotion and sponsorship would be enforced from 2011.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-08/11/content_11863750.htm) ([see archive](China_ends_tax_breaks_on_tobacco_advertising.pdf))

## Other

### SPC to standardise sentences for convictions

The Supreme People's Court of China (SPC) is introducing criminal sentencing standards under new guidelines that move authority away from individual judges, according to China's Legal Daily.

Gao Jinghong, a member of the SPC's judicial committee and presiding judge of the third criminal tribunal, said the SPC is introducing a guideline to establish set penalties for criminal convictions across the country.

Gao said more than 120 courts had tried the new guidelines under a pilot program beginning 1st June. The new program seeks to standardise five criminal charges relating to traffic offences, intentional injury, theft and drugs.

"Lawsuits concerning these five criminal activities make up more than 95 per cent of the country's criminal cases," he said, adding that the guideline is intended to attain "just and balanced sentencing."

The SPC aimed to enlarge the scope of the guideline to 15 charges, including rape, fraud, robbery, blackmail, illegal detention, disrupting public services, white-collar crimes and mass violence, before the end of next year, he said.

Gao said currently the terms of sentencing before courts was not open and transparent, "leading to a few unjust sentences involving money and relationships, and damaging judicial authority and credibility."

"The sentencing terms at present are not quantified and some penalties are so broad that different judges could hand out very different rulings," he said. "The guideline is to ensure a unified enforcement of law."

Gao said people's courts across the country should establish sentencing standards in line with the guideline based on the conditions of their own regions, as the economic and social development was unbalanced among different parts of the country.

He said procedures for measuring penalties should be efficient, independent and transparent.

"Prosecuting agents could offer sentencing suggestions during trial and prosecution, and the defense should fully voice opinions to ensure justice," Gao said.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-08/12/content_18319237.htm) ([see archive](SPC_to_standardize_sentences_for_convictions.pdf))

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