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# China News Alert Issue 327

## Capital Markets

### China approves final rules for index futures

Chinese securities regulators have approved the last important rules for trading the country's stock index futures, which will soon make it possible for investors to open accounts. The index futures will allow domestic investors to sell short for the first time.

The China Securities Regulatory Commission (CSRC) approved the trading contracts and the revised trading rules submitted by the China Financial Futures Exchange (CFFEX), where the index futures will trade, xinhuanet.com has reported.

A regulatory commission official told xinhuanet that the system to open an account is ready and qualified investors are expected to be notified within a couple of days. But he cautioned that opening an account does not necessarily signal the beginning of trading. Before the official launch of the derivatives, access regulations need to be issued for institutional investors and the number of registered investors should reach a certain level.

The commission said in January that it would take about three months to prepare for the index futures.

The futures exchange, based in Shanghai, issued index futures' trading rules in June 2007, and simulated trade has been conducted since October 2006. On 19th January, it announced revised trading rules, raising the minimum trading margin from 10 percent to 12 percent and reducing the single-day maximum holding of futures contracts to 100 from 600, which was previously set during the trial period.

"The main functions of the revision are to ensure the smooth launch of index futures, effectively control trading risks and improve the risk-management system," said a futures exchange spokesman.

Trading contracts for index futures are based on the CSI 300 Index, which is composed of the 300 largest A shares listed on the Shanghai and Shenzhen stock exchanges.

[Source: Eastday](http://english.eastday.com/e/100220/u1a5030325.html) ([see archive](China_approves_final_rules_for_index_futures.pdf))

### China launches stock index futures trading accounts

Chinese investors will be able to begin applying to open accounts for stock index futures trading, the China Financial Futures Exchange said, in a key step towards the long-awaited launch of index futures trade. The exchange was set to begin taking applications at 9 am, state media reported.

Individuals will be required to have a minimum of 500,000 yuan (US$73,206) to open an account, while initial margins will be set at 15 to 18 percent.

China is launching stock index futures, along with margin trading and short selling of stocks, and other reforms, to expand its financial markets with hedging tools and new products while improving liquidity, as it aims to build Shanghai into a global financial center over the next decade.

The Xinhua state news agency quoted a regulatory official as saying that rules for stock index futures trade had received formal approval and that the way would be cleared to start opening accounts within the next few days.

Regulators have said, however, that it was likely to take about three months to prepare for the launch of stock index futures trade following the initial announcement of regulatory approval in January.

The Shanghai and Shenzhen stock exchanges are also moving forward with preparations for a pilot programme for margin trading and short selling of stocks, recently setting the scheme's initial basket of eligible stocks to include the 50 shares of the Shanghai 50 Index and the 40 shares of the Shenzhen Component Index.

The exchanges also set rules for using stocks, exchange-traded funds, and other instruments as collateral.

Stock index futures are an agreement to buy or sell an index at a certain price on an agreed date. Index futures will give investors a mechanism to profit from declines in stock prices, allow them to hedge risks and help ease market fluctuations.

China's A-share stock bourses in Shanghai and Shenzhen will resume trade on 22nd February. They stayed closed during the one-week Spring Festival, the most important Chinese traditional festival for family reunions.

[Source: Eastday](http://english.eastday.com/e/100222/u1a5033537.html) ([see archive](China_launches_stock_index_futures_trading_accounts.pdf))

### SZSE and SSE officially release name-list

The Shenzhen Stock Exchange (SZSE) and the Shanghai Stock Exchange (SSE) have recently released the “Notice on the Name List for Target Securities and the Scope of Securities allowed to be used as collateral in the Initial Stage of the Pilot Margin Trading and Securities Lending Business”.

The list clearly specifies the names of securities included in the initial pilot stage, collateral allowed to be used, the conversion rate and other relevant matters.

The move marks an increased pace in the rolling out China's margin trading and securities lending business.

According to a SZSE official source, the determination of eligible securities and collateral is one of the core issues regarding margin trading and securities lending business.

The two stock exchanges have made slight adjustments to a previous notice entitled “Implementing Rules for Pilot Margin Trading and Securities Lending Business”, promulgated in 2006, in terms of selecting standards for eligible securities.

The official source also highlighted that even though the scope of collateral is a little wide, the SZSE will stringently control risks by setting different conversion rates.

Meanwhile, investors are reminded that the eligible securities released by the SZSE merely refer to the securities in which investors may make margin trading or securities lending. A securities company may determine their own list of securities offered to clients from within the official SZSE list based on market situation and its own condition.

With respect to the specific conversion rate of any collateral securities, a securities company may make the final decision on the basis of factors including listed companies analysis and risk judgments on secondary market trading.

Lastly, the official source stressed that the launch of margin trading will have the positive effect of improving the market trading system and boosting the steady development of the market. But, the business itself has certain operating risks, especially when major change or business adjustment occurs in one of the relevant securities. In such cases, margin trading and securities lending is likely to be affected.

Investors must know the relevant rules and requirements, and fully understand possible risks when engaging in margin trading and the securities lending business.

[Source: Official Website of Shenzhen Stock Exchange](http://www.szse.cn/main/en/AboutSSE/MarketNews/39741918.shtml) ([see archive](SZSE_and_SSE_Officially_Release_Name-list_of_Target_Securities_and_Collaterals_Scope_for_Initial_Stage_of_Pilot_Margin_Trading_and_Securities_Lending_Business.pdf))

## Finance and Insurance

### New lending rules in effect, CBRC says

Two new regulations aimed at monitoring working capital loans and personal loans have been put into effect, the China Banking Regulatory Commission (CBRC), the country's banking watchdog, announced on its website.

Working capital loans cannot be used in investments including fixed assets and shareholding, the regulation on working capital loans stipulates. The issuance of excessive loans and appropriation of loans should be avoided, according to the regulation.

Face to face interviews will be made necessary when approving personal loans, according to the regulation on personal loans.

The two regulations both state lenders and borrowers should declare the purpose of loans before they are given.

The implementation of the two regulations, aimed at reining in excessive liquidity and preventing potential credit risks, is timely and a must in the current economic context, said Lu Zhengwei, a senior economist at Industrial Bank.

Loan growth in the first month of this year totaled 1.39 trillion yuan (US$203.51 billion). "Though it's a bit shy of those extremely high numbers in 2009, a year of extraordinarily loose money policy, this…is a huge amount by any standards," economists led by Lu Ting of Bank of America-Merrill Lynch in Hong Kong said in a research note released on 12th February.

The January data came after the country's monetary authorities began to take actions to control the flood of liquidity in the latter part of the month. It's widely believed that loans for the whole year will be about 7.5 trillion yuan (US$1.10 trillion), compared with nearly 10 trillion yuan (US$1.46 trillion) last year.

Credit growth this year will continue to concentrate on medium- to long-term loans, said Sun Peng, a banking sector analyst with BOCI, a subsidiary of Bank of China (BOC), adding that though banks' operation costs will be raised and their profitability will be affected after the implementation of the regulations, their credit risks will be later lowered.

But Lu was concerned the regulations may not prove as feasible as expected. Personal information including credit records and repayment capability is not as transparent as that of corporations, which poses a challenge to examining the authenticity of information vital to evaluating credit risks, he said. The declaration of loan use ahead of time stipulated by the regulation is also tough to monitor, Lu said. He said emerging unsecured loans issued by some banks do not make clear the definite purpose of loans. Current banking services may have to be adjusted to conform to the regulations, he said.

Loan growth will stay stable this year, as "financial institutions and regulatory bodies have started to understand each other after the tug of war between the two sides in January," Lu said.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90859/6897624.html) ([see archive](New_lending_rules_in_effect_CBRC_says.pdf))

### More credit lines for small businesses, says CBRC

China's banking regulator said it would open up more credit avenues for small enterprises this year, despite the recent government clampdown on excessive lending.

"Commercial lenders should ensure that the amount of new loans they advance to small enterprises this year exceeds that of last year and the pace of such loan growth in 2010 must be faster than the average level of credit growth in the previous year," said Xiao Yuanqi,

director general of the banking supervision department II, China Banking Regulatory Commission (CBRC). "This is a mandatory requirement and lenders could face market access restrictions or differentiated supervision if they fail to adhere to it," Xiao said.

The remarks closely follow steps taken since the start of the year by the authorities to curb lending and prevent asset bubble risks. The government has set a lower loan target of 7.5 trillion yuan (US$1.1 trillion) this year, compared with the 9.6 trillion yuan lent in 2009.

The credit tightening has sparked concerns that small enterprises, which are inferior to medium and large companies when competing for credit resources, could be the first to feel the pinch.

New loans for small enterprises accounted for 24.8 percent of the 5.7 trillion yuan corporate new loans in 2009, according to the central bank.

Small- and medium-sized enterprises (SMEs) have long been underserved in China, as commercial lenders were reluctant to give loans to them due to the high risk, instead preferring to lend to large State-run companies.

Xiao said the regulator would be more tolerant about the bad loan ratio of small enterprise-focused lenders, and if the risks could be well managed, some technical requirements, such as the loan-to-debt ratio, could be moderately eased for these lenders. "We are drafting new supervision rules governing banks' small enterprise business and these are likely to come out later this year," Xiao said.

An increasing number of domestic mid-sized lenders, including Minsheng Bank and China Merchants Bank, are planning to shift their focus to SMEs to tap a differentiated market and fend off competition with large State-run lenders, said Xiao.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-02/24/content_9495627.htm) ([see archive](More_credit_lines_for_small_businesses_says_CBRC.pdf))

## Corporate

### Tengzhong explores Hummer options

China's Tengzhong could use an offshore vehicle to buy General Motors' (GM) Hummer brand if it fails to win Chinese regulatory approval.

Sichuan Tengzhong Heavy Industrial Machinery Company (Tengzhong), a little known construction machinery maker with no experience in the auto industry, had started communicating with Chinese regulatory bodies after signing an initial deal with GM in October 2009.

The partners had to push back the deadline of the deal to the end of February from a previous deadline of 31st January.

However, China's Ministry of Commerce, which is responsible for the approval of outbound investment by Chinese companies, has repeatedly said it has not received an application from Tengzhong.

One source said earlier this month that the chances of having the deal approved had dropped to 50-50, adding that the Hummer's image as a gas-guzzler was working against it as China pushes for a greener economy and the global trend shifts to low-emission cars.

"Tengzhong has not given up hope yet to win government approval, but buying Hummer through an offshore investment vehicle could be an option if it can't get the green light," said a source close to the deal.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=429323) ([see archive](Tengzhong_Explores_Hummer_Options.pdf))

### 10 foreign-capital enterprises are required to self-examine their tax obligations

The State Administration of Taxation (SAT) recently called for tax self-examination by 10 foreign-funded enterprises and asked them to pay the overdue amount by themselves. The self-examination period runs from 18th December 2009 to 30th June 2010, according to First Financial Daily.

The 10 foreign companies are: Nokia (China) Investment Co., Ltd., Samsung (China) Investment Co., Ltd., Motorola (China) Electronics Co., Ltd., Panasonic Electric Works China Co., Ltd., Siemens (China) Co., Ltd., McDonald's (China) Co., Ltd., HSBC Bank, Foxconn Technology Group, General Electric (China) Co., Ltd. and Wal-Mart (China) Investment Co., Ltd. Self-examination covers all members of these groups.

The tax self-examination is the second half of the tax inspection action launched in 2009. The State Administration of Taxation selected 11 state-owned companies and 10 foreign-funded enterprises to conduct tax checks.

The self-examination will cover members at all levels of the 10 foreign-funded companies, covering all taxes and tax-related matters, giving comprehensive inspection of all taxes and fees, and examining three year's tax from 2006 to 2008.

Liu Tianyong, founding partner of Hwuason Lawyers, China's first specialist tax law firm said that the tax self-examination is a win-win approach for the tax authorities and companies. For enterprises, if they can pass the self-examination, problems found can not only avoid the penalties, but also may be exempt from late payment penalty. For the State Administration of Taxation, because the 10 foreign companies are large with many branches, self-examination can save a lot of manpower and resources.

Once the examination enters the inspection phase, companies will face the burden of huge fines and late payment penalties.

[Source: People's Daily](http://english.peopledaily.com.cn/90001/90778/90862/6903345.html) ([see archive](10_foreign-capital_enterprises_face_tax_self-examination.pdf))

## Others

### Shanghai to promote service economy

Shanghai will develop new intermediary services, such as shipping and international trade, over the next five years, the local industrial and commercial authorities said at a weekly press conference.

According to a newly released document, the city government will help to set up six new intermediary service sectors by 2015.

Besides helping domestic firms get a leg-up in these sectors, the government will also make every effort to attract more foreign agencies to the city, said the Shanghai Industrial and Commercial Administrative Bureau.

As the present level of expertise, the city's shipping and international trade is not fully developed. Chen Xuejun, deputy director of the bureau, said it is vital to entice some internationally recognised intermediary agencies and firms to the city which aims to be a global shipping and financial center by 2020.

The bureau will give preference to the new agencies in terms of company registration, business scope and business locations. But Chen said the bureau will "strengthen supervision after the companies are established."

Detailed policies, however, are still under discussion, Chen said.

Under the document, the government will also help develop other intermediary services such as law, intellectual property rights, exhibition and human resources.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=429548) ([see archive](Shanghai_to_promote_services_economy.pdf))

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