Charltons - China News Alerts Newsletter - 18 March 2010

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# China News Alert Issue 329

## Capital Markets

### China's foreign ETF plan signals market reform

China's plan to introduce exchange-traded funds that track overseas stock indexes signals a push to create more opportunities for investors as the market matures, according to West China Securities Company.

The Shanghai Stock Exchange will try to introduce exchange-traded funds that track foreign indexes this year, Chairman Geng Liang said at a briefing in Beijing, without disclosing the indexes.

"This is the way China is gradually relaxing control over overseas investment and the first destination for overseas ETF funds will probably be the Hong Kong market, because of familiarity," said Wei Wei, an analyst at West China Securities in Shanghai. "Investors will have more options to invest overseas."

Shanghai is pushing to have an exchange-traded fund of Hong Kong's Hang Seng Index listed on the city's stock exchange, the government said in May of last year.

ETFs are designed to mimic the performance of market indexes and are traded like stocks on an exchange.

The Shanghai exchange approved some fund managers to develop exchange-traded funds that track overseas indexes including the Dow Jones Industrial Average, the Nikkei 225 Stock Average and the Hang Seng China Enterprise Index, the Shanghai Securities News reported, citing Xu Ming, the exchange's vice general manager.

"The Shanghai Stock Exchange will develop the cross-border ETF this year," Geng said. "The main setback we're facing now is on the technical side and we will try to overcome those difficulties and introduce the product this year."

The Shanghai Stock Exchange is drafting rules for its international board where foreign companies will be able to sell shares publicly in China, Geng also said.

The first stock index contracts, based on China's CSI 300 Index, may begin trading in mid or late April, Shang Fulin, chairman of the China Securities Regulatory Commission, said in March.

Chinese nationals aren't allowed to invest in overseas stocks except through products sold by approved financial institutions under a qualified domestic institutional investor, or QDII, program.

In January, China scrapped a plan to allow local investors to buy Hong Kong stocks directly, abandoning a proposal that drove the city's benchmark Hang Seng Index to a record high in October 2007.

Shanghai-based HuaAn Fund Management Company signed an agreement to license the FTSE 100 Index for an exchange traded fund to be listed on the Shanghai Stock Exchange, the FTSE Group said in a press release.

[Source: China Post](http://www.chinapost.com.tw/business/asia/b-china/2010/03/10/247704/Chinas-foreign.htm) ([see archive](Chinas_foreign_ETF_plan_signals_market_reform.pdf))

## Finance and Insurance

### China's banking regulator introduces performance guideline for executives and employees

China's banking regulator has issued a guideline requiring the country's commercial bank executives' and employees' pay to be based on performance assessment in a move to align the pay systems in the sector.

Under the guideline, at least 40 percent of bonuses for banks' top executives must be deferred for a minimum 3-year period. Banks will recover earlier payments and hold back the retained bonuses if executives cause heavy losses due to poor performance.

Assessments will cover the banks' business performance, social responsibility, and risk management such as capital adequacy, bad loans ratio and provision coverage ratio.

Bonuses to bank employees will be no higher than the level the year before if the bank does not meet any one of the above three requirements.

The guideline requires bonuses to executives to be no more than 3 times their base salary.

It also stated the base salary for bank employees should not exceed 35 percent of their total remuneration.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90859/6915220.html) ([see archive](Chinas_banking_regulator_introduces_performance_guideline_for_executives_employees.pdf))

### Banks barred from index futures investment

The China Banking Regulatory Commission has announced in a statement on its website that commercial banks are not allowed to invest in the soon-to-be-launched stock index futures trading.

According to law, commercial banks are not permitted to participate in index futures and it was still under discussion whether commercial banks could clear and settle index futures trading. No official decision has been made yet, the statement said.

The purpose of barring banks from index futures is to avoid banks' unlimited risk liability as a clearing member and to keep in accordance with the restriction of laws. It has no influence on the launch of the index futures, said a Securities Times report.

China will launch stock index futures in mid-April, a few months after the approval by the State Council in January.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-03/15/content_9591122.htm) ([see archive](Banks_barred_from_index_futures_investment.pdf))

### Greater supervision for non-banking financial institutions

The China Banking Regulatory Commission (CBRC) has announced that it will redouble its efforts to monitor possible risks brought by non-banking financial institutions, according to the Wall Street Journal.

Cai Esheng, vice chairman of the CBRC, stated on the commission's website that it will focus on supervising the cooperation between banks and trust companies, and trust companies and local governments.

The supervision will also cover platform-financing and debt risks.

Trust companies have a special place in the Chinese financial system because they have greater freedom for investment flow, as their capital mainly comes from business investors and wealthy individuals.

Compared with trust companies in other countries, the operation model for Chinese trust companies is similar to that of hedge funds. Previously Chinese trust companies were not strictly supervised like other organisations.

However, at the end of 2009, trust companies became the CBRC's new target for monitoring due to the increase in debt risks from trust companies to investment platforms of local governments, said Tang Liqiong, an analyst at Shanghai Benefit Investment Consulting.

High risks in investment platforms of local governments may lead to losses in commercial banks and public finance.

[Source: People's Daily](http://english.peopledaily.com.cn/90001/90778/90859/6915130.html) ([see archive](Greater_supervision_for_non-banking_financial_institutions_CBRC.pdf))

## Corporate

### Net regulator warns Google it must comply with Chinese law

China's top Internet regulator warned Google against flouting the country's laws, insisting that the company must obey laws or "pay the consequences."

"If you want to do something that disobeys Chinese law and regulations, you are unfriendly, you are irresponsible and you will have to pay the consequences," Li Yizhong, Minister of Industry and Information Technology, said on the sidelines of the annual session of National People's Congress.

Li gave no details of Beijing's talks with Google over the search engine's January announcement that it planned to stop complying with Internet censorship rules and might close its China-based site.

"Whether they leave or not is up to them," Li said. "But if they leave, China's Internet market is still going to develop."

China has the world's most populous Internet market, with 384 million people online. Google has about 35 percent of the Chinese search market since it launched google.cn about three years ago, compared with about 60 percent for local rival Baidu Inc.

China encourages Internet use for education and business purposes but tries to block access to material deemed subversive or pornographic.

Li insisted the government needs to censor Internet content to protect the rights of the country and its people. "If there is information that harms stability or the people, of course we will have to block it," he said.

Google's chief executive, Eric Schmidt, said on he hoped to soon announce a result to talks on offering an uncensored search engine in China.

"Google has made its case, both publicly and privately," Li said, but did not confirm directly that his ministry was in talks with Google.

Speaking in the United Arab Emirates, Schmidt declined to provide specifics or predict how long the discussions would last.

Even if Google is shut down, Google wants to keep a Beijing development center, advertising sales offices and a fledgling mobile phone business in China, according to a person familiar with the company's thinking.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=431066) ([see archive](Net_regulator_warns_Google_it_must_comply_with_Chinese_law.pdf))

### China Mobile buys 20% of Pudong Bank

China's largest mobile phone service provider became a strategic investor in the Shanghai Pudong Development Bank (SPDB) after a multi-billion dollar stock purchasing deal.

Guangdong Mobile, China Mobile's branch in south China's Guangdong province, bought 2.2 billion shares at a cost of 39.8 billion yuan (US$5.83 billion), claiming 20 percent of the bank and becoming its second largest shareholder.

The deal would benefit China Mobile's shareholders in the short, medium and long term, said the company's President Wang Jianzhou. It serves as part of a plan to develop mobile phone banking and business services.

The deal would also expand the capital adequacy from 4 to 10 percent, enough to support a three-year rapid development phase for the bank, said Wu Yonggang, an analyst with Guotai Junan Securities.

The two companies will launch extensive cooperation with each other, combining their capital and technological advantages, according to a strategic cooperation memorandum.

Shanghai International Group is the largest shareholder of SPDB. China Mobile will not seek to hold more than 20 percent unless consented to by SPDB, according to the purchase agreement.

China Mobile would not involve itself in the operation of SPDB, Wang added.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-03/11/content_9572061.htm) ([see archive](China_Mobile_buys_20_of_Pudong_Bank.pdf))

## Real Property

### Strict measures to curb land hoarding

The Ministry of Land and Resources has unveiled strict measures to crack down on land hoarding in a bid to rein in soaring real estate prices.

Developers must make a 50 percent down payment on all land put up for auction within one month of signing a contract or face the prospect of losing the land along with their deposit, according to a directive issued by the ministry.

The directive also stipulates that all bidders must deposit 20 percent of the suggested land price before they are allowed to place a bid at auction and that all payments on the winning bid must be completed within a year. Otherwise, the land will be reclaimed and the deposits will not be returned to the developers who fail to hand in their installments on time or sign contracts within 10 days after winning bids, according to the directive.

The move comes after the National Bureau of Statistics announced that in February the country recorded the fastest growth in house prices for two years.

Prices in 70 major cities rose 10.7 percent year on year in February, amid growing public concern over the sizzling property market.

The measures to combat land hoarding are part of a larger strategy designed to ensure there is sufficient land for low-income housing, said Liao Yonglin, director of the ministry's Department of Land Use and Administration.

"We will strive to guarantee that land used for low-income housing, for rebuilding shanty areas and for self-occupied small- or medium-sized houses accounts for more than 70 percent of the overall supply," he said.

Some experts believe that the limited supply of land for low-income housing is helping to drive up house prices in China.

Although the supply of land to the real estate industry increased 36.7 percent to exceed 100,000 hectares in 2009, the percentage of land that is available for affordable, small- and medium-sized houses actually shrank in some regions, Liao said.

According to figures from the ministry, 10,000 hectares of land that had already been sold remained undeveloped last year―an example of land being hoarded for the future― which is affecting the supply of houses and driving up their prices.

Yan Jinming, a professor of land management at Renmin University, told China Daily that, by curbing land hoarding, the new measures will, hopefully, help the housing market operate more fairly, though he expressed his doubts that the new rules would be adhered to throughout the industry, as some developers would still find ways to bypass the system.

However, he acknowledged the new rules would play an active role in curbing land hoarding, which will help to keep the housing market from heating up further and ensure there is a sufficient supply of land for low-income housing.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-03/12/content_9576900.htm) ([see archive](Strict_measures_to_curb_land_hoarding.pdf))

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