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# China News Alert Issue 348

## Capital Markets

### QFIIs get futures green light

China may allow qualified foreign institutional investors (QFII) to use no more than 10 percent of their investment quotas to trade stock index futures, the China Securities Journal reported on 20th July.

The Chinese securities regulator did not comment directly on the report when contacted by China Daily, but said that the rules will be released for public comment soon after they are issued.

An estimated 12 billion yuan (US$1.77 billion) worth of funds from foreign institutions are expected to participate in index futures trading but they will only be allowed to trade for hedging rather than speculative purposes, the report said, citing an unidentified source.

Analysts said that the inflow of foreign capital will help make the stock index futures market more international but the move will have more of a symbolic impact given the relatively small investment quota and the limit on trading purposes.

"Foreign investors' participation in the trading of index futures will bring fresh capital to the market and make it more international. But the initial quota granted to foreign institutions is relatively small so they won't have much competitive advantage over their Chinese peers," said Liao Qing, a Shenzhen-based analyst at Guohai Securities.

The regulator had granted quotas worth about US$17.72 billion to 89 QFII funds by the end of June, according to China Securities Journal.

Selected overseas investors are allowed to invest in China's stock markets under the QFII program, which was launched in 2003.

The equity-market reforms represent the government's effort to make more investment options available to foreign investors, who have limited access to the world's third-biggest stock market by value.

The trading of index futures would give foreign investors a hedging tool in China and allow them to more effectively compete with local fund managers as the nation prepares to open the market to foreign institutions.

Stock index futures, or agreements to buy or sell the CSI 300 Index at a preset value, began trading on the China Financial Futures Exchange in Shanghai on 16th April.

The regulator may gradually expand investment quotas for foreign investors to trade index futures, according to market watchers. But QFII's participation in the short term is unlikely to cause sharp volatility in the futures or spot markets.

The CSI 300 Index, which tracks 300 large-cap stocks traded in Shanghai and Shenzhen, has slid 25 percent in 2010, one of the worst performers among global benchmark gauges.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90862/7074551.html) ([see archive](QFIIs_get_futures_green_light.pdf))

### China cross-border ETFs in final stage

China is making final preparations to launch cross-border exchange-traded funds (ETFs) as part of plans to widen channels for its growing yuan savings, its securities regulator said on 21st July.

The ETFs would be based on stocks listed on the Hong Kong stock exchange and the China Securities Regulatory Commission is finishing up works to smooth out technical issues involving the products, said Tong Daochi, director-general for international affairs at CSRC.

ETFs are index funds that trade like stocks on major stock exchanges.

"We are in the last mile of preparing the ETFs, which will be based on Hong Kong-listed stocks. We hope to finish this last mile as soon as possible," Tong told a financial conference in Shanghai. "This is a very important product, because it's the first cross-border product under the Qualified Domestic Institutional Investor program," he said.

Last month, Barclays Capital, the investment banking arm of Barclays Bank Plc, said that the Shanghai Stock Exchange had approved 19 of its fixed-income indexes, including the Barclays Capital Global Treasury Bond Index, to be used in ETF products developed by Chinese fund management firms.

In 2006, China launched the QDII scheme, under which domestic funds are allowed to invest their clients' money in overseas markets, and regulators are also discussing allowing foreign companies to list in Shanghai.

The QDII scheme had a rough start as domestic fund managers rushed to tap the new markets and then suffered heavy losses as the global financial crisis broke shortly after the program's launch.

[Source: China Daily](http://www.chinadaily.com.cn/business/2010-07/21/content_11031489.htm) ([see archive](China_cross-border_ETFs_in_final_stage.pdf))

## Company

### Insurance companies to invest in property sector

Insurers will be allowed to expand investment in the real estate sector and in equities of unlisted companies, in a move to help relieve the increasing pressure on investment and to boost returns.

The insurance premiums reached 799.86 billion yuan (US$118.15 billion) nationwide in the first six months, up 33.6 percent year-on-year, according to the China Insurance Regulatory Commission (CIRC).

With the increasing premium income, however, the insurers have come under greater pressure to channel their investments.

The overall return was on average 1.93 percent in the first half of this year, said Wu Dingfu, chairman of the CIRC at a mid-year review meeting Monday.

Most of the insurers promised higher returns close to the upper regulatory limit for selling their products, 3.5 percent for traditional life insurance policies, and 2.5 percent for dividends-sharing and multi-purposed insurance products.

Compared with last year's overall 6.41 percent return, the current low level of returns was mainly because of the collapse of the stock market in the first half of the year, said Tao Zhengao, an insurance analyst with Donghai Securities.

Shanghai Mayor Han Zheng also disclosed that insurance funds and annuity funds are expected to invest in public rental housing.

"I didn't expect that would come so quickly," said Qin Xiaomei, head of research with Jones Lang LaSalle Beijing. She expressed concerns that the injection of insurance funds into the real estate sector would counteract the effects of the government's determined efforts to rein in the soaring housing prices.

Insurers could potentially acquire domestic real estate worth 236 billion yuan (US$34.86 billion), according to conservative estimates.

Real estate investment could generate higher returns but is very risky, Qin said.

China's insurance companies have limited investment options through low-rate bank deposits, government bonds and central bank bills.

The CIRC has been loosening restrictions on insurance funds such as lifting the upper limit from 20 to 25 percent on insurer's investment on stock market.

Insurers were first allowed to invest in the real estate sector as early as last October but the details of the new insurance regulations were never released.

With housing prices continuing to rise in the first quarter and the government's tightening measures released in April, the detailed regulations on property sectors may have been put on hold.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90860/7074469.html) ([see archive](Insurance_companies_to_invest_in_property_sector.pdf))

### Business licenses soon for foreign shipbrokers

Foreign-owned ship broking enterprises will soon be able to get business licenses in Shanghai, the first time for such companies on the Chinese mainland, local industrial and commercial authorities said yesterday.

Nine companies have undergone inspection by the authorities, and will complete registration soon, officials said.

As the categories of company registrations didn't previously include ship broking, such companies were not able to carry out business on the Chinese mainland, but could only trade overseas, said the Shanghai Industrial and Commercial Administrative Bureau.

"The inconvenience has caused industry chain breaking and local economic loss," said Chen Xuejun, the bureau's deputy director.

The government believed ship broking companies were vital for Shanghai to develop into an international shipping center.

Officials said that the city has been improving rapidly in shipping efficiency and specialization, taking a leading position on the Chinese mainland. Business inconvenience had become the biggest obstacle for the city to raise its competitive power, Chen said.

Yesterday, 135 shipbrokers received industry certificates in Shanghai, having passed the qualification examination.

[Source: Shanghai Daily](http://www.shanghaidaily.com/Business/transport/Business-Licenses-Soon-For-Foreign-Shipbrokers/shdaily.shtml) ([see archive](Business_Licenses_Soon_For_Foreign_Shipbrokers.pdf))

### China may let insurers invest in index futures

China may allow insurance companies to invest in stock index futures, the Securities Times reported on 23rd July, citing an unidentified insurance company.

Insurers would be allowed to invest in index futures to hedge against risks and not for speculation, the Shenzhen-based newspaper reported.

[Source: SF Gate](http://www.sfgate.com/cgi-bin/article.cgi?f=/g/a/2010/07/22/bloomberg1376-L5ZDNY6NKMY701-18EIP9P4ARHTMEE0PCALHHNG3T.DTL) (Link no longer active)

### Regulator to step up spot checks of property loans

The banking regulator will step up spot checks on banks in the second half of 2010 to ensure lenders are obeying property loan policies introduced this year, Chinese-language media reports have said.

The China Banking Regulatory Commission (CBRC) will inspect banks' lending and risk management procedures, the Shanghai Securities News reported, quoting an unnamed bank official.

“This indicates there is no relaxing in policies announced in the first half of the year,” the official was quoted as saying.

The regulator also called for prevention of “excessive” lending for land purchases, the newspaper reported. The regulator has ordered that bank loans account for at most 50 percent of financing for property developments, according to the report.

The banking regulator called for national policies to be followed strictly, the paper said.

China has issued a series of measures, including higher down payment requirements and mortgage rates for house purchases, to prevent the property market from overheating and causing a bubble that could derail the economy.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90862/7075395.html) ([see archive](Regulator_to_step_up_spot_checks_of_property_loans.pdf))

## Others

### New rules for labour disputes

South China's Guangdong Province has reviewed a draft of the country's first law to set rules for labour disputes and wage negotiations amid efforts to ease labour tensions after a string of strikes and worker suicides.

One of the major purposes of the revised draft Regulation on the Democratic Management of Enterprises in Guangdong is to establish a legally binding mechanism for negotiating wages.

According to the draft law, unions should organise wage negotiations between elected worker representatives and the employer when more than one-fifth of the workers demand a pay raise.

If the employer refuses to hold or join a wage negotiation, the workers would be entitled to stop working and the employer should not fire them for doing so, the draft reads.

Workers who have previously gone on strike said this regulation was "particularly important."

"Currently, we are not protected by laws like this. Companies often fire striking workers without giving any compensation. In the future, our rights will be better protected," said a worker who declined to give his name.

The regulation will be the most comprehensive labour law in China if it is adopted, said Liu Mu, head of the labour law department of the standing committee of Guangdong's legislative body. "It will establish a mechanism so workers can legally voice demands for pay raises for the first time in China," Liu said.

Some employers also welcomed the draft law. Entrepreneurs in Guangdong said a legal wage negotiation mechanism could help avoid disruptions of company operations and violent confrontations.

"What companies worry about most is work stoppages without prior notice. A standard and legal mechanism can minimise the loss for both companies and the workers," said Cheng Fengyuan, chairman of Guangdong's Taiwan Businessmen Association.

Guangdong first considered the regulation about a year ago but stopped reviewing it amid the global economic crisis for fear of increasing the burden on companies.

A spate of strikes and worker suicides in Guangdong prompted the authorities to relaunch the review of the regulation, said Ou Guangyuan, a local lawmaker.

Guangdong has 30 million migrant workers, most of them employed by overseas-funded labour-intensive manufacturers. Experts say low pay and poor working conditions have been the main cause of the labour strife that has been haunting the area.

"It has become an urgent and imperative mission for Guangdong, and China as a whole, to promulgate laws to ensure that the income of workers increases at a stable and reasonable rate," said He Gaochao, a Zhongshan University scholar.

[Source: Shanghai Daily](http://www.shanghaidaily.com/national/New-rules-for-labor-tiffs/shdaily.shtml) ([see archive](New_rules_for_labor_tiffs.pdf))

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