Charltons - China News Alerts Newsletter - 03 September 2010

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# China News Alert Issue 350

## Capital Markets

### Yuan may be allowed for overseas investment

China will continue to loosen restrictions on cross-border yuan flow and consider allowing companies to use the yuan for overseas investments, Hu Xiaolian, vice governor of the central bank, People's Bank of China (PBOC), announced.

She also said China will approve the "Mini QFII (qualified foreign institutional investor)" scheme, which allows institutions to channel overseas yuan deposits into investments in China within certain limits, the National Business Daily reported.

Liu Yuhui, an economist with the Institute of Finance and Banking under the Chinese Academy of Social Sciences, said the key for the renminbi's overseas investment is whether the destination country accepts renminbi and how the central bank would get the yuan to flow back.

[Source: China Daily](http://www.chinadaily.com.cn/business/2010-09/01/content_11243252.htm) ([see archive](Yuan_may_be_allowed_for_overseas_investment.pdf))

### China may see first hedge fund registered

E Fund Management Company ("E Fund") plans to launch China's first officially registered hedge fund to limit market risks through stock index futures and maximise returns of each unit of risk.

The country's second-largest asset management company will be able to raise money from high-net-worth individuals in separate managed accounts.

E Fund, its clients and trustee Bank of China have signed agreements and the fund has been submitted to the China Securities Regulatory Commission for registration, according to the company.

The asset manager had about 200 billion yuan (US$29 million) of assets under management as of the end of March.

China is expanding money-management products to meet growing demand for investment.

The CSRC eased rules in July to allow separately managed accounts at asset management companies to trade stock index futures based on clients' needs.

Hedge funds are mostly private pools of capital whose managers participate substantially in profits from their speculation on whether the price of assets will rise or fall.

[Source: Shanghai Daily](http://www.shanghaidaily.com/Business/finance/China-may-see-first-hedge-fund-registered/shdaily.shtml) ([see archive](China_may_see_first_hedge_fund_registered.pdf))

## Company

### Investors urged to think rural

China is encouraging domestic and overseas investors to take over its poor-performing rural credit cooperatives.

Domestic banks are allowed to buy out or hold 100 percent of such rural financing bodies while foreign or private investors can buy up to 20 percent of the rural cooperatives. This is according to new rules on rural financial bodies published by the China Banking Regulatory Commission on its website.

The country's top banking regulator said it hoped investors could help realise the potential of China's rural financing bodies that serve the country's developing rural areas.

"The rural cooperatives will find it hard to make market-driven reform on their own in the near future," the regulator said. "We hope that rural cooperatives could offer better services and have stronger performance through mergers and acquisitions."

The rural cooperatives are relatively untapped by overseas investors, who have already entered China's rising banking industry by investing in the big-five state-owned lenders, joint-stock or city commercial banks.

Rural cooperatives are often overlooked by investors due to their relatively small scale, heavy rural involvement and poor performance.

Farmers have little collateral and are vulnerable to climate changes which could damage their crops and leave them little to pay back banks.

The rural cooperatives reported a combined bad loan ratio of 6.6 percent at the end of June, the highest of the industry. The average non-performing loan ratio of China's commercial banks dipped 0.28 percentage point to 1.3 percent at the end of June.

Overseas banks in China have the lowest bad loan ratio of 0.72 percent.

China had 2,023 rural cooperatives at the end of June, with total outstanding loans of 5.5 trillion yuan (US$808 billion). The segment accounted for 12 percent of China's banking assets.

China is beefing up its rural economy by encouraging more financial support. Rural banks and small-sum lending companies are being set up.

The Agricultural Bank of China has the biggest network in China, half of which is in rural areas. The lender touts it as its future growth engine while some analysts see it as a short-term burden.

[Source: Shanghai Daily](http://www.shanghaidaily.com/Business/finance/Investors-urged-to-think-rural/shdaily.shtml) ([see archive](Investors_urged_to_think_rural.pdf))

### Insurers allowed to invest in PE and real estate

Chinese insurers will be able invest in the private equity (PE) and real estate sectors after new rules were issued by the country's regulator, Reuters reported.

Insurers can invest up to five percent of their assets in private equity and 10 percent in real estate, according to a statement published on the website of the China Insurance Regulatory Commission.

Total assets at Chinese insurers reached 4.5 trillion yuan (US$661 billion) at the end of the first half of this year, meaning more than 450-billion-yuan can be invested in the real estate sector and 220 billion yuan in PE, according to the Shanghai Securities News.

[Source: China Daily](http://www.chinadaily.com.cn/business/2010-09/06/content_11260540.htm) ([see archive](Insurers_allowed_to_invest_in_PE_real_estate.pdf))

### Bank regulator to curb speculative property investment

China's banking regulator will strictly implement the central government's macroeconomic policies that aim to curb soaring housing prices, an official has said.

Ye Yanfei, deputy head of the Statistics Department of the China Banking Regulatory Commission (CBRC), said the CBRC will restrain speculative property investment and support the building of affordable housing while controlling risk.

China's housing market and lending to the property sector are crucial to the national economy and people's livelihood, as well as to the stable and steady development of the nation's banking sector, Ye said at a seminar in Beijing.

Ye's remarks come after the banking regulator said it would further "instruct and monitor" commercial banks' efforts to strengthen the management of lending to home-buyers.

Ye's comments echo those of Zhang Ping, director of the National Development and Reform Commission, who said in a recent report to China's top legislature that the government will "further implement the measures meant to curb excessive gains in housing prices and resolutely restrain speculative property investment in the second half the year."

Ye also said the CBRC has pushed lenders to test the impact of falling house prices, although the regulator said earlier that hypothetical scenarios examined in stress tests do not herald any change in policy.

Housing prices in major Chinese cities rose 10.3 percent year on year in July, slower than the 11.4 percent growth rate in June, according to official figures.

On a monthly basis, housing prices in June fell 0.1 percent from May, and July prices were unchanged from June.

[Source: China Daily](http://www.chinadaily.com.cn/business/2010-09/01/content_11238687.htm) ([see archive](Bank_regulator_to_curb_speculative_property_investment.pdf))

## Others

### China to create blacklist to enhance product quality

China's Ministry of Industry and Information Technology (MIIT) said it would urge industrial enterprises to produce high-quality products as part of the effort to enhance the image of "made in China."

The Ministry would also draw up a blacklist displaying the names of those firms breaching quality-related regulations, said Li Yizhong, Minister of the MIIT.

The MIIT would reward those companies that have a good record for producing quality products with increased policy and funding support, and punish those with a poor quality-control record, said Li at a forum held in Beijing which focused on how to improve the quality and reputation of Chinese industrial products.

The MIIT would also move forward on a campaign to allow enterprises to make promises on producing quality products, and work together with quality supervision authorities to incorporate the quality-based credit system of enterprises into the whole social credit system, Li said.

During the forum, 156 Chinese firms signed a written proposal "promising to make quality products for the world," and called upon their peers in China to raise the quality of industrial products.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-09/03/content_11251542.htm) ([see archive](China_to_create_blacklist_to_enhance_product_quality.pdf))

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