Charltons - China News Alerts Newsletter - 17 September 2010

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# China News Alert Issue 352

## Capital Markets

### Mini-QFII rules may come out before October

China may release the regulations for its "mini-QFII (qualified foreign institutional investors)" program before the National Day holidays, the Securities Times reported, citing an unnamed source close to the matter.

The mini-QFII will allow overseas institutional investors to facilitate investments of offshore yuan deposits back into mainland capital markets.

The volume of the first batch of quotas under the mini QFII would probably be around 20 billion yuan. Fund houses and securities brokerages would equally split that quota after getting approval from the China Securities Regulatory Commission, the nation's top securities regulator, the paper said.

The paper also said 80 percent of the quota would be free to be invested in China's exchange-listed bonds, and the remaining 20 percent would be allowed in stocks.

[Source: China Daily](http://www.chinadaily.com.cn/business/2010-09/17/content_11318872.htm) ([see archive](Mini-QFII_rules_may_come_out_before_Oct.pdf))

## Company

### China to release new version of foreign investment catalogue

China will release its fourth revised version of the foreign investment catalogue in the near future, Caijing reported.

The new version of the foreign investment catalogue would further increase the transparency of policies, simplify approval procedures and optimise the investment environment, the report said.

The new version of the catalogue would encourage funds to invest in China's middle and western regions. It would also encourage funds to invest in industries such as new energy, new materials, biological medicine, advanced manufacturing, the information industry, and so on, Liu Yajun, director-general of the Ministry of Commerce's Foreign Investment Department, was quoted by Caijing as saying.

Meanwhile, it would encourage multinational corporations to set up research and development centers and to extend their industry chains in China.

Liu said China's stance of opening to foreign investment would not change. He echoed the United Nations Conference on Trade and Development (UNCTAD) that the country remains the most popular destination in the world for foreign direct investment.

[Source: China Daily](http://www.chinadaily.com.cn/business/2010-09/13/content_11295964.htm) ([see archive](China_to_release_new_version_of_foreign_investment_catalogue.pdf))

### Chinese firms seal 46 M&As

Chinese mainland companies were involved in 46 mergers in August, a rise of 27.8 percent from a month earlier, an industry report has said, adding that the value of six of the deals involving overseas firms accounted for nearly 86 percent of the total.

The six mergers involving overseas firms totaled US$3.25 billion, which took up 85.5 percent of the total, Zero2IPO Research Center said in a report.

The report also disclosed that 42 companies in the mergers have revealed the value of their deals which surged 87.3 percent on a monthly basis to US$3.8 billion.

The biggest merger by value in August was a joint takeover of Australian coal seam developer Arrow Energy by China National Petroleum Corp, the largest oil producer in Asia, and Royal Dutch Shell. PetroChina International Investment Company, a subsidiary of CNPC, and Shell Energy Holdings Australia Limited agreed on a joint venture to buy Arrow for AUS$3.5 billion (US$3.3 billion).

Another big merger last month was Geely Holding Group sealing the biggest overseas acquisition in China's auto industry with its purchase of Volvo Car Corporation from Ford Motor Company. The deal is valued at around US$1.5 billion, including US$1.3 billion in cash.

The 46 deals covered 16 industries, including real estate, energy and mineral, biotechnology, health care and machinery manufacturing.

Seven mergers occurred in the real estate industry, more than any other industry, in August, followed by the energy and minerals sector with five deals, Zero2IPO said.

Six mergers were backed by venture capital and private-equity investors, according to the report.

[Source: Shanghai Daily](http://www.shanghaidaily.com/Business/finance/Chinese-firms-seal-46-MAs/shdaily.shtml) ([see archive](Chinese_firms_seal_46_MAs.pdf))

### Tighter banking rules planned

China is reportedly planning tighter banking supervision to avoid a "too big to fail" scenario seen in the Western countries during the global financial crisis.

A new banking supervision rule under discussion, which may be introduced in 2011, will require at least an 11 percent capital adequacy ratio on "systematically important" banks and 10 percent on other banks, China Business News said, citing sources it didn't disclose.

The banking authority has the power to require an extra 5 percent on certain banks, the report said.

The minimum CAR requirement is 8 percent. However, banking authorities have already raised the requirement on the big five state-owned banks to 11.5 percent while smaller banks have to meet 10 percent.

Another indicator under discussion is one to trim bad loan exposure. The requirement for provisions against total loans of at least 2.5 percent is expected to be added to the list of supervision indicators next year, the report said.

The China Banking Regulatory Commission was not available for comment yesterday.

Big-name banks in the West that were mired in the global crisis managed to survive with the help of state bailouts, leaving the "too big to fail" a buzzword as taxpayers and analysts criticized the lack of supervision on such banking behemoths. High leverage among Western banks was blamed as the cause of the global crisis.

In the aftermath of the crisis there were calls for more efficient and effective supervision of financial firms.

In August, China ordered lenders to shift off-balance sheet loans onto their books to beef up risk control and plug a loophole that banks could use to sidestep liquidity curbs.

The assets related to wealth management products managed by trust firms must be transferred onto bank's balance sheets by the end of 2011, according to the CBRC.

[Source: Shanghai Daily](http://www.shanghaidaily.com/Business/finance/Tighter-banking-rules-planned/shdaily.shtml) ([see archive](Tighter_banking_rules_planned.pdf))

### Rules to tighten spill disclosure

Listed Chinese companies in heavily polluting industries are required to inform investors of environmental accidents, the Ministry of Environmental Protection announced in a statement.

A draft guideline for listed companies to release environment-related information was published on the ministry's website to solicit public opinions.

According to the draft, listed companies in 16 heavily polluting industries, including thermal power, steel, cement and electrolytic aluminum, will have to release information about their pollutant emissions and management of environmental impact annually.

In addition, a listed company will have to inform investors of details of environmental accidents, including the date, location, casualties and damage, within a day of its occurrence, the draft rules said.

Any listed company that is punished, fined, suspended or shut down by the authorities for environmental reasons must inform investors of the violations, punishment and remedy measures within a day of receiving the penalty, according to the draft.

Individuals and organisations were invited to submit opinions on the draft rules by fax or e-mail by 25th September. It did not say when the rules would be formally announced.

The rules were expected to force companies to publish environment information promptly and precisely, the statement said.

[Source: Shanghai Daily](http://www.shanghaidaily.com/Business/economy/Rules-to-tighten-spill-disclosure/shdaily.shtml) ([see archive](Rules_to_tighten_spill_disclosure.pdf))

### Pace of FDI moderates sharply

Foreign direct investment in China climbed for the 13th consecutive month in August― but at a much slower rate than in the previous few months.

August FDI edged up 1.38 percent from a year earlier to US$7.6 billion, the Ministry of Commerce said.

The minor advance compared with the increases of 29.2 percent in July and 39.6 percent in June.

In the first eight months of this year, the investment rose 18 percent year on year to US$65.9 billion.

"The sharp moderation is very unexpected," said Xue Jun, an analyst at the CITIC Securities Co. "It is a reflection of a high comparative base and the growing concerns among foreign investors who demand a level playing ground in China."

Analysts said the rate will rebound because China remains a top destination for foreign investors with its good infrastructure, vast domestic market and the government's support for businesses.

Despite last month's growth setback, Yao Jian, a spokesman for the ministry, expected the total FDI for this year will surpass a record US$100 billion thanks to rapid expansion of investment in China's mid and western areas.

But issues about fairness are troubling to some foreigners. The European Union Chamber of Commerce in China released a report earlier this month, urging less protectionism fairness in China's trade and investment.

The report said 36 percent of EU companies have seen the regulatory environment in China become less fair towards foreign investors over the past two years. More worrisome, 39 percent of respondents expect the regulatory environment for foreign companies to worsen over the next two years.

They demanded more transparency in regulatory framework, more stable laws and regulations, as well as stronger implementation and enforcement of the rules.

In response, Chinese Premier Wen Jiabao on Monday told the World Economic Forum that foreign businesses will be given the same treatment as domestic companies. It's a statement he has repeated numerous times to soothe foreign investors.

China unveiled new policies last month to boost foreign investments, including discounts of land rents and the offer of research funds.

[Source: Shanghai Daily](http://www.shanghaidaily.com/Business/economy/Pace-of-FDI-moderates-sharply/shdaily.shtml) ([see archive](Pace_of_FDI_moderates_sharply.pdf))

### Mainland branches for Taiwan

The China Banking Regulatory Commission has said it had approved the first four Taiwan-based banks to set up branches on the Chinese mainland.

The four are the Land Bank of Taiwan, First Commercial Bank, Taiwan Cooperative Bank and Chang Hwa Bank.

The Land Bank of Taiwan and First Commercial Bank are allowed to set up branches in Shanghai, while Taiwan Cooperative Bank could set up a branch in Suzhou City and Chang Hwa Bank in Kunshan City, both in Jiangsu Province, the CBRC said.

It called the event "another historic breakthrough" in banking cooperation after the two sides signed the cross-strait financial cooperation agreement and cross-strait financial supervision memorandum of understanding.

"It signals the advent of a new era for cross-strait exchange and cooperation in the banking sector," it said.

Taiwan Cooperative Bank is the second-largest lender by asset in the island, the Land Bank of Taiwan fourth, First Commercial Bank fifth and Chang Hwa Bank eighth.

[Source: Shanghai Daily](http://www.shanghaidaily.com/Business/finance/Mainland-branches-for-Taiwan/shdaily.shtml) ([see archive](Mainland_branches_for_Taiwan.pdf))

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