

Haiwen Finance and Asset Management Monthly (March 2024)

Author: Julia ZHANG WEI, Shuangjuan HUANG, Shudan YANG, Yuge LEI, Junting XU, Jingyuan

Introduction

To make the finance and asset management industry keep abreast of the latest industry developments, Haiwen prepares the "Haiwen Finance and Asset Management Monthly". This monthly reading aims to introduce and provide brief comments on regulatory development and industry news.

In March of 2024, **for new rules and regulations**, the China Securities Regulatory Commission ("**CSRC**") revised the *On-site Inspection Regulations for IPO Enterprises and the Regulations on Supervision on Tutoring for the IPO of Stocks and Listing*; the National Financial Regulatory Administration ("**NFRA**") released the *Implementation Measures for Administrative Penalty Discretion* and the *Data Security Management Measures for Banking and Insurance Institutions (Draft for Comments)*; the Asset Management Association of China ("**AMAC**") issued the *Guidelines of the Asset Management Association of China on the Negative List of Underlying Assets for Asset Securitization Business and the Standards for the Compliance Management of Securities Investment Fund Management Companies*; the State Council issued the *Opinions on Further Optimizing Payment Services to Facilitate Payment*; the Ministry of Commerce issued the *Special Administrative Measures for Cross-Border Service Trade (Negative List) (2024 Edition)* and the *Special Administrative Measures for Cross-Border Trade in Services in Pilot Free Trade Zones (negative list) (2024 Edition)*; ten authorities including the Ministry of Commerce issued the *Several Policies and Measures for Further Supporting Overseas Institutions to Invest in Domestic Technology Companies*.

For industry news, the State Council Information Office held a press conference regarding the interpretation of policies related to strengthening regulation, preventing risks, and promoting the high-quality development of the capital market; Superannuation Arrangements of the University of London applied for China's QFII license.



I Latest Rules and Regulations

1. The CSRC Revised the *On-site Inspection Regulations for IPO Enterprises*

On March 15, 2024, the CSRC issued the revised *On-site Inspection Regulations for IPO Enterprises* (the "**Inspection Regulations**"). The revisions specifically address issues such as arbitrary withdrawal of IPO applications by inspected entities, uncooperative attitudes, and repeated occurrences of similar issues. Additionally, the Inspection Regulations have been adjusted in response to the comprehensive registration system, modifying the relevant inspection processes and terminology previously under the approval system.

The main amendments to the Inspection Regulations include: (1) clarifying that withdrawing an application during the inspection period does not affect the implementation of the inspection or the handling of discovered issues; (2) enhancing the integrated coordination system mechanism, strengthening the overall coordination and guidance of the CSRC's registration department responsible for on-site inspections; (3) improving organizational and implementation processes, setting time limits for the submission of inspection plans, initiating on-site work, and applying for extensions by the inspection institutions (CSRC and its dispatched agencies or exchanges), and refining the format of on-site inspection reports; (4) standardizing the use of inspection results, with the audit registration department advancing the audit registration work based on identified issues, consultation opinions, and the status of rectifications.

Haiwen Comments

The Inspection Regulations increase the cost of non-compliance for IPO companies and intermediary institutions during the application process, introducing targeted measures against the common market phenomena of "immediate withdrawal upon inspection" and "attempting to pass with unresolved issues". These measures are crucial for improving the quality of information disclosure by IPO companies, regulating the behavior of intermediary institutions, enhancing investor confidence, and promoting the long-term healthy development of the capital market.

2. The CSRC Revised the *Regulations on Supervision on Tutoring for the IPO of Stocks and Listing*

On March 15, 2024, the CSRC released the revised *Regulations on Supervision on Tutoring for the IPO of Stocks and Listing* ("Tutoring Regulations"). The main revisions to the Tutoring Regulations include: (1) Further clarifying the supervisory responsibilities of the dispatched authorities. In addition to assessing the effectiveness of the tutoring provided, these authorities should also enhance the transmission of supervisory concepts and policies. (2) Responding to market concerns, increasing the flexibility and adaptability of the system. During the tutoring period, changes to the listing segment can be continuously counted towards the tutoring duration, and individuals who pass the securities market knowledge test can be exempted from the same segment test within one year. (3) Preventing risks, establishing a reputation system. Tutor agencies must submit statements regarding the reputation of the IPO entities and their actual controllers, directors, supervisors, and senior management personnel, which will serve as important references in subsequent stages. (4) Reinforcing the responsibility of intermediary institutions. Tutor agencies should establish professional standards and operational procedures for the tutoring phase and strictly handle any dishonest behaviors in the securities market knowledge tests.

Haiwen Comments

The Tutoring Regulations, in conjunction with the Inspection Regulations, enhance the comprehensive supervision of the IPO process, emphasizing the overall standardization of the IPO application process, and setting stricter standards for the tutoring and audit responsibilities of the sponsoring institutions.

3. The NFRA Released the *Implementation Measures for Administrative Penalty Discretion*

On March 27, 2024, the NFRA issued the *Implementation Measures for Administrative Penalty Discretion* ("**Penalty Discretion Measures**"), which will come into effect on May 1, 2024. The main contents of the Penalty Discretion Measures include: (1) Clarifying the definition and principles of administrative penalty discretion. The implementation of penalty discretion should adhere to basic principles such as statutory punishment, proportionality of penalty, and legality of procedures. (2) Detailing the levels of discretion and applicable situations. Clarifying the basic connotations of mitigated, lenient, moderate, and aggravated penalties, further detailing the situations applicable for non-penalization, reduced penalties, lenient penalties, and aggravated penalties, clarifying the factors that should be considered in determining personnel responsibility, and distinguishing between primary and secondary responsibilities when penalizing multiple individuals. It also specifies that provincial branches of the NFRA can adjust the levels, extent, and applicable situations of administrative penalties within their jurisdiction according to local economic and social development, based on the Penalty Discretion Measures. (3) Specifying the standards for reduced, moderate, and increased penalties in the banking and insurance industries, as well as the recognition and calculation methods for illegal gains. (4) Clarifying that if the application of the Penalty Discretion Measures appears to be clearly inappropriate, obviously unfair, or if the objective circumstances for applying the benchmark of penalty discretion have changed, adjustments can be made.

Haiwen Comments

The Penalty Discretion Measures clarify the discretion standards and penalty standards of the NFRA, which helps to increase the transparency of administrative penalty standards, reduce legal disputes due to unclear penalty standards, and promote self-regulation in the industry.

4. The NFRA Released the *Data Security Management Measures for Banking and Insurance Institutions (Draft for Comments)*

On March 22, 2024, the NFRA published the *Data Security Management Measures for Banking and Insurance Institutions (Draft for*

Comments) ("**Banking and Insurance Data Security Measures**"), and is soliciting public feedback. The main contents of the Banking and Insurance Data Security Measures include:

- (1) Clarifying the data security governance structure. Banking and insurance institutions are required to establish a data security accountability system and designate a specific department responsible for the institution's data security.
- (2) Establishing data classification and grading standards. Banking and insurance institutions must formulate a data classification and grading protection system, establish a data catalog and classification standards, dynamically manage and maintain the data catalog, and adopt differentiated security protection measures.
- (3) Strengthening data security management. Banking and insurance institutions are required to establish data security management systems and data processing control mechanisms in accordance with national data security and development policies, based on their own development strategies, and conduct data security assessments for business activities involving sensitive and higher-level data. Institutions should classify data into core, important, and general data based on its importance and sensitivity.
- (4) Improving the data security technical protection system. Banking and insurance institutions are required to establish a data security technical protection system for diverse and heterogeneous environments such as big data, cloud computing, mobile internet, and the Internet of Things, establish a data security technical architecture, clarify data protection strategies and methods, and employ technical means to ensure data security.
- (5) Enhancing the protection of personal information. When processing personal information, banking and insurance institutions should implement it based on the principles of "clear notification and authorized consent" and fulfill necessary notification obligations; the collection of personal information should be limited to the minimum scope necessary to achieve financial business processing objectives and should not be excessive; when sharing and providing personal information externally, individual consent must be obtained.
- (6) Perfecting data security risk monitoring and handling mechanisms. Banking and insurance institutions are required to incorporate data security risks into their comprehensive risk management systems, clarify the organizational structure and management processes for data security risk monitoring, risk assessment, emergency response and reporting, and incident handling, and effectively prevent and manage data security risks.
- (7) Clarifying supervisory management responsibilities. The NFRA and its branches are responsible for supervising and managing the data security protection of banking and insurance institutions, conducting off-site supervision and on-site inspections, and handling data security incidents involving banking and insurance institutions according to law. Legal responsibilities will be pursued for violations of the Banking and Insurance Data Security Measures.

Haiwen Comments

The draft of the Banking and Insurance Data Security Measures is a further refinement of the requirements for data security in the financial industry based on the higher-level data protection laws such as the "Data Security Law" and "Personal Information Protection Law", applying uniform regulatory standards to all types of financial institutions under the jurisdiction of the NFRA. Due to overlapping regulatory domains, the Banking and Insurance Data Security Measures and the "Data Security Management Measures for the Business Areas of the People's Bank of China (Draft for Comments)" issued in July 2023 by the central bank may lead to dual regulatory compliance pressures for financial institutions. It is recommended that financial institutions closely follow up on the issuance of the official rules.

5. The AMAC Issued the *Guidelines of the Asset Management Association of China on the Negative List of Underlying Assets for Asset Securitization Business*

On March 27, 2024, the AMAC issued the *Guidelines of the Asset Management Association of China on the Negative List of Underlying Assets for Asset Securitization Business* ("**Negative List Guidelines**"), aiming to regulate the specific requirements of basic assets in asset

securitization business and strengthen the management of the negative list of basic assets. The Negative List Guidelines were reviewed and approved by the council of the AMAC and officially implemented from the date of publication.

The Negative List Guidelines clearly stipulate that the basic assets of asset securitization business are subject to negative list management, listing types of basic assets that are not suitable for asset securitization or do not meet regulatory requirements. The appendix of the Negative List Guidelines lists eight items, mainly including assets that do not comply with local government debt management regulations or newly added local government debt, assets provided by dishonest persons or entities subject to enforcement as cash flow providers, assets with significant uncertainties in cash flow capability, real estate or related income rights that cannot generate stable cash flow, assets that cannot directly generate cash flow, asset portfolios of different types and lack of relevance, assets that violate laws, regulations, or policy provisions, and assets that serve as underlying assets or sources of cash flow.

Haiwen Comments

The issuance of Negative List Guidelines is an important step in the standardized management of the capital market. The Negative List Guidelines not only provide clear norms and guidance for asset securitization business but also effectively prevent potential financial risks through the negative list format. This helps to improve the quality of asset securitization products and market transparency, and reflects the regulatory authority's rapid response capability to market changes.

6. The AMAC Issued the *Standards for the Compliance Management of Securities Investment Fund Management Companies*

On March 13, 2024, the AMAC issued the revised *Standards for the Compliance Management of Securities Investment Fund Management Companies* ("**Compliance Management Standard**"). The aim of this standard is to adapt to changes in laws and regulations and the development of the fund industry, further strengthen the compliance management of fund management companies, and refine and improve the compliance management responsibilities.

The Compliance Management Standard explicitly requires fund management companies to establish a comprehensive compliance management system, adhering to the five principles of integrity, effectiveness, matching of rights and responsibilities, mutual restraint, and timeliness. It particularly emphasizes the independence of the compliance management system, requiring that the shareholders, directors, and senior management of fund management companies shall not interfere with the work of the compliance department, ensuring the right to information and investigation of the compliance officers and compliance management personnel. The Compliance Management Standard delineates the compliance management responsibilities of the board of directors, general manager, other senior management, heads of subordinate units, and staff of fund management companies, and fully identifies relevant compliance risks in business decision-making, operational management, and professional conduct, actively preventing, responding to, and reporting compliance risks. Additionally, the Compliance Management Standard also specifies the requirements for the chief supervisors, the setting of compliance departments, the allocation of compliance management personnel, compliance assessment and accountability mechanisms, ensuring the effective implementation of compliance management.

The Compliance Management Standard requires fund management companies to supervise and inspect the compliance management of their subsidiaries to ensure that the compliance management work of subsidiaries complies with the requirements of the parent company. Furthermore, specific provisions are made for compliance and risk management of information technology, requiring securities fund management institutions to establish a continuous and effective risk monitoring mechanism and to conduct special audits of information technology management work on a regular basis.

Haiwen Comments

The revised Compliance Management Standard reflects the continuous strengthening and updating of regulatory requirements for compliance management in the fund industry. By refining compliance management responsibilities, enhancing compliance independence, and promoting overall compliance awareness among all staff, the Compliance Management Standard aims to improve the overall compliance level of fund management companies, prevent financial risks, and protect the interests of investors.

7. The State Council Issued the *Opinions on Further Optimizing Payment Services to Facilitate Payments*

On March 7, 2024, the General Office of the State Council issued the *Opinions on Further Optimizing Payment Services to Facilitate Payment* ("**Optimizing Payment Opinions**"), aimed at further enhancing the level of payment services to meet the payment needs of different groups, especially the elderly and foreign nationals residing in China.

The Optimizing Payment Opinions clarify the overall requirements and basic principles for improving payment service convenience, and propose six main tasks, including effectively improving the environment for the acceptance of bank cards, continuously optimizing the cash use environment, further enhancing the convenience of mobile payments, better protecting consumers' right to choose payment methods, improving account service, and continuously strengthening the publicity and promotion of payment services. The Optimizing Payment Opinions also require strengthening organizational leadership to ensure that policies are implemented, enhancing payment convenience, optimizing the business environment, and promoting openness to the outside world. Additionally, the Optimizing Payment Opinions propose the effective enhancement of the compatibility and inclusiveness of various payment methods, maintaining traditional service methods, and supporting innovative payment services.

Haiwen Comments

The issuance of the Optimizing Payment Opinions marks an important optimization of the current payment service environment. By targeting the payment habits of different groups and coordinating the optimization of bank cards, cash, and mobile payment services, it not only helps to improve the payment experience of the elderly and foreign nationals but also promotes the healthy development of the payment industry.

8. The Ministry of Commerce Issued the *Special Administrative Measures for Cross-Border Service Trade (Negative List) (2024 Edition)* and the *Special Administrative Measures for Cross-Border Trade in Services in Pilot Free Trade Zones (negative list) (2024 Edition)*

The Ministry of Commerce issued the *Special Administrative Measures for Cross-Border Service Trade (Negative List) (2024 Edition)* and the *Special Administrative Measures for Cross-Border Trade in Services in Pilot Free Trade Zones (negative list) (2024 Edition)* on March 22, 2024. ("**National Negative List**" and the "**FTZ Negative List**" respectively, collectively referred to as the "**New Negative Lists**"), both of which will come into effect on April 21, 2024.

The National Negative List contains a total of 71 items, while the FTZ Negative List contains 68 items, covering various sectors of the national economy such as agriculture, forestry, animal husbandry, fisheries, construction, and finance. Compared with the National Negative List, the FTZ Negative List provides more open arrangements in areas such as personal professional qualifications, professional services, finance, and culture. It relaxes restrictions on the proportion of Chinese personnel in key creative roles for TV dramas produced through Sino-foreign cooperation, and expands the opening up of the financial industry, such as allowing eligible overseas individuals (such as those employed in FTZs) to apply for the opening of securities and futures accounts in accordance with the law.

Haiwen Comments

The New Negative Lists demonstrate China's firm steps in promoting the liberalization of service trade and deepening reform and opening up. By reducing restrictive measures, the New Lists will effectively promote the liberalization and facilitation of service trade.

9. Ten Authorities Including the Ministry of Commerce Issued the *Several Policies and Measures for Further Supporting Overseas Institutions to Invest in Domestic Technology Companies*

The Ministry of Commerce, along with nine other ministries including the Ministry of Foreign Affairs and the National Development and Reform Commission, jointly issued the *Several Policies and Measures for Further Supporting Overseas Institutions to Invest in Domestic Technology Companies* ("**Supporting Measures**") on March 22, 2024. The aim of Supporting Measures is to attract and encourage overseas

institutions to invest in China's technology enterprises by providing a clearer and convenient policy environment, thus promoting technological innovation and industrial upgrading. The Supporting Measures propose 16 specific measures focused on optimizing management services, increasing financing support, enhancing communication and cooperation, and improving exit mechanisms.

(1) In terms of optimizing management services, the Supporting Measures propose to efficiently approve the qualification applications of Qualified Foreign Institutional Investors (QFII) and Renminbi Qualified Foreign Institutional Investors (RQFII) in accordance with the law, simplify the foreign exchange management process, support overseas institutions to invest in domestic technology enterprises through Qualified Foreign Limited Partner (QFLP) method and ensure that overseas institutions enjoy equal treatment with domestic venture capital funds when establishing entrepreneurship investment funds (enterprises) domestically.

(2) Regarding increasing financing support, the Supporting Measures encourage overseas institutions to issue Renminbi bonds in China, invest in the technology field, and promote the pilot program of cross-border financing facilitation, which includes including early-stage technology enterprises in the pilot scope, while enriching technology financial product services.

(3) In terms of strengthening communication and cooperation, the Supporting Measures encourage overseas institutions to cooperate with domestic institutions to establish funds, support the transformation and application of scientific and technological achievements, and deepen cooperation with industrial chains in relevant countries.

(4) For the improvement of exit mechanisms, the Supporting Measures clarify various diversified exit channels such as supporting overseas listings, encouraging mergers and acquisitions, and advancing the pilot program of private equity fund share transfer. It specifically encourages overseas institutions to leverage their professional expertise and strengths, actively participate in the pilot investment trading of private equity fund shares transfer.

Haiwen Comments

The issuance of the Policy Measures is an important step in China's capital market opening-up, it offers broader financing channels and development opportunities for China's technology enterprises. This move will further stimulate market vitality, promote technological innovation, and drive high-quality economic development.

// II Industry News

1. The State Council Information Office Held a Press Conference regarding the Interpretation of Policies Related to Strengthening Regulation, Preventing Risks, and Promoting the High-Quality Development of the Capital Market

The State Council Information Office held a press conference on March 15, 2024, Vice Chairman Li Chao of the CSRC and other officials attended the conference.

Li Chao emphasized that the new policies aim to improve the quality of listed companies from the source, strengthen market supervision, protect the legitimate rights and interests of investors, and promote the high-quality development of the capital market. The policy documents propose a series of specific measures, including strict supervision of the issuance and listing activities of enterprises, intensified crackdown on financial fraud, optimization of the system of reduction of holdings rules, and enhancement of the self-construction of the CSRC system. The new policies will strengthen the supervision of securities companies and public funds, accelerate the construction of first-class investment banks and investment institutions, and implement standards for political integrity, professional competence, and work style, comprehensively strengthening the self-construction of the CSRC system. It was specifically pointed out that the punishment for illegal activities will be intensified to ensure the strictness and effectiveness of regulation.

In addition, the CSRC plans to improve the institutional mechanisms for the long-term stable development of the capital market through a series

of supporting rules and institutional measures, ensuring the consistency of policies with macroeconomic policy orientations and forming a synergy of policies. These measures are expected to further enhance the overall quality and international competitiveness of the capital market, and promote its stable and healthy development.

2. Superannuation Arrangements of the University of London Applied for China's QFII License and Received Approval

According to public information on the website of the CSRC, Superannuation Arrangements of the University of London has applied for the Qualified Foreign Institutional Investors (QFII) license^[1]. This follows the approval of QFII status for the UK Board of the Pension Protection Fund in late February of this year, marking another major foreign pension entity beginning to invest in China's capital markets.

In 2023, the number of institutions approved as QFII continued to increase, with a total of 81 institutions from 15 countries, regions, and international organizations being granted the qualification, showing active foreign investment in the Chinese capital markets. Additionally, Chinese regulatory authorities have continued to streamline the approval process to enhance the convenience of foreign investments.

* ^[1] According to public information on the website of the CSRC, Superannuation Arrangements of the University of London and received approval on April 7, 2024

The source of industry news in this article:

- <http://www.csrc.gov.cn/csrc/c100028/c7468002/content.shtml>
- <https://baijiahao.baidu.com/s?id=1794565206688876161&wfr=spider&for=pc>

2024-04-30