

Haiwen Finance and Asset Management Monthly (June)

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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 industry news.

In May and June of 2023, **for new rules and regulations**, HKEX launched the “HKD-RMB Dual Counter Model”; PBOC issued the *Interim Measures for the Interconnection and Cooperation of Mainland and Hong Kong Interest Rate Swap Markets*, and the Northbound Swap Connect was officially launched; CSRC issued the *Administrative Provisions on Investment Advisory Services of Publicly Offered Securities Investment Funds (Draft for Comments)*; SAC issued the *Implementing Rules for the Administration on Securities Brokerage Services*, the *Administrative Rules on Client Fund Accounts of Securities Company*, and their supporting documents; National Administration of Financial Regulation NAFR issued the *Notice on Strengthening Network and Data Security Management in Third-Party Cooperation*; from June 30, 2023 to July 20, 2023, the Hainan Municipal Bureau of Local Financial Regulation and Supervision will accept applications for the third batch of QDLP overseas investment pilot application. **For industry news**, Schroder Fund Management has been approved to become the eighth wholly foreign-owned fund manager; Warburg Pincus acquired the equity interest in Zhong Ou, making it the largest institutional shareholder of Zhong Ou; CSRC approved the establishment of Morgan Stanley Futures; GSGH has been renamed as Goldman Sachs (China) Securities Co., Ltd..



I Latest Rules and Regulations

1. HKEX- Launch of HKD-RMB Dual Counter Model

On June 19, 2023, Hong Kong Exchanges and Clearing Limited (HKEX) officially launched the

"HKD-RMB Dual Counter Model" ("**Dual Counter Model**") and the Dual Counter Market Making Programme. A total of 24 Hong Kong-listed companies, including HSBC, Tencent Holdings, China Mobile, and Kuaishou, etc., accounting for 40 per cent of the average daily turnover of the cash equities market, will trade and transact as Dual Counter securities at launch, offering both HKD and RMB counters. In addition, 9 Exchange Participants (including CICCHKS, BOCI, CLSA and other securities companies) have joined the Dual Counter Market Making Programme as market makers.

The Dual Counter Model encompasses the trading process, market maker activities, and settlement arrangements for HKD-RMB dual counter trading. Under the Dual Counter Model, investors will be able to interchange qualified securities listed in both HKD and RMB counters. Securities under the two counters are of the same class and holdings of securities in the two counters can be transferred without change of beneficial ownership. The Dual Counter Model also incorporates the Dual Counter Market Making Programme to solve the liquidity and minimize price discrepancies between the two counters. The Dual Counter Model will be promoted in phases and starts initially focusing on Hong Kong or overseas investors. Mainland investors currently cannot participate in the Dual Counter Model through the Southbound Stock Connect, but relevant institutions are actively preparing to include the RMB counter in the Southbound Stock Connect in the future.

Haiwen Comments

Under the Dual Counter Model, overseas investors can directly invest in RMB-denominated stocks using their offshore RMB, thereby promoting the internationalization of RMB and expanding the scale of Hong Kong securities market. The subsequent inclusion of the RMB counter in the Southbound Stock Connect will help reduce exchange rate risk for both domestic and overseas RMB investors. It will also provide more asset allocation choices for offshore RMB.

2. Northbound Swap Connect Officially Launched

On April 28, 2023, the People's Bank of China (PBOC) issued the *Interim Measures for the Interconnection and Cooperation of Mainland and Hong Kong Interest Rate Swap Markets*, specifying that overseas institutional investors who meet the requirements of the PBOC and have

completed the filing for China Interbank Bond Market can participate in the Mainland's interbank financial derivatives market through the "Northbound Swap Connect" for the purpose of risk management in derivative transactions. The regulations for the "Southbound Swap Connect" are yet to be formulated. In the initial stage of the "Northbound Swap Connect," the tradable instruments are interest rate swap products, and the quotation, trading, and settlement currency is RMB. On May 15, 2023, the Northbound Swap Connect was officially launched, with an initial daily net nominal trading limit of 20 billion RMB and a clearing limit (i.e., total risk exposure limit) of 4 billion RMB.

In addition, domestic investors participating in the "Northbound Swap Connect" (i.e., Swap Connect market makers) need to sign a market maker agreement with the China Foreign Exchange Trade System (CFETS) and either be a clearing member for the interest rate swap central clearing business of Shanghai Clearing House or a clearing customer of such a member. As for qualified overseas investors participating in the "Northbound Swap Connect", they are required to obtain the "Northbound Swap Connect" trading permissions via CFETS. Furthermore, overseas investors who intend to apply for these trading permissions must concurrently submit an application to become a clearing member or clearing client of the OTC Clearing Hong Kong Limited.

Haiwen Comments

As international investors' exposure to domestic onshore bond market has grown, so has their need for investment management tools. The "Northbound Swap Connect", following the Stock Connect and the Bond Connect, is another significant milestone in connecting the onshore and offshore financial markets. It is currently the only global channel that allows international investors to participate in the Mainland's interbank interest rate swap market with their own trading and settlement practices. Prior to the introduction of the "Northbound Swap Connect", overseas investors were typically limited to participating in offshore RMB interest rate swaps. The "Northbound Swap Connect" will enable them to manage interest rate risks by participating in onshore RMB interest rate swaps in the Mainland.

3. CSRC Issued *the Administrative Provisions on Investment Advisory Services of Publicly Offered Securities Investment Funds (Draft for Comments)*

On June 9, 2023, the CSRC issued the Notice on Seeking Public Comments on the Administrative Provisions on Investment Advisory Services of Publicly Offered Securities Investment Funds (Draft for Comments) (the "New Regulations"). This is another significant development in China's fund investment advisory services since the CSRC issued the *Notice on the Piloting of Investment Advisory Services of Publicly Offered Securities Investment Funds* (the "Pilot Notice") on October 25, 2019, which launched the piloting of fund investment advisory services.

Key points of the New Regulations are as follows:

Follow the regulations and restrictions on "investment" during the Pilot Period. For example, (i) fund investment advisors shall provide clients with investment advice on specific fund types in the form of portfolio strategies, and establish and implement a centralized and unified investment decision-making management system; (ii) discretionary fund investment advisors should make decisions on behalf of clients within the scope of authorization and dynamically monitor authorized accounts, and shall abide by concentration limits for the investment in a single fund for a single client.

Standardize fund investment advisory services. For example, (i) fund investment advisors shall fully perform the obligation of investor suitability management, and only present overall performance over the past 1 year after matching fund portfolio strategies for the clients; (ii) fund investment advisors shall fulfill their fiduciary duties and establish a sound mechanism to prevent conflicts of interest in terms of fee collection, personnel incentives and other aspects.

Add additional regulatory requirements for fund investment advisory services. For example, (i) if fund investment advisors cooperate with other fund investment advisors, fund distribution agencies and other institutions, effective segregation of their respective businesses should be ensured; (ii) with respect to the investment scope, the New Regulations clarify the regulatory requirements on the allocation of investment varieties recognized by the CSRC other than publicly offered funds by investment advisors. Specifically, for providing investment advice on private securities investment funds, the New Regulations have specified concentration limits for the investment in a single fund for a single client, the proportion of total allocation to such funds, and the scope of private securities investment funds.

Haiwen Comments

The New Regulations will promote the development of fund investment advisory business from the pilot phase to regularization, improve the guidance and supervision on fund investment advisory business on the basis of the Pilot Notice, and further implement the opinions on the orderly development of fund investment advisory services in the Opinions on Accelerating the High-Quality Development of the Publicly Offered Raised Fund Industry issued by the CSRC on April 26, 2022.

4. SAC Issued the Implementing Rules for the Administration on Securities Brokerage Services, the Administrative Rules on Client Fund Accounts of Securities Company, and their supporting documents

In order to implement the *Administrative Measures on Securities Brokerage Services* (the "Measures"), which came into effect on February 28, 2023, and to guide securities companies to standardize their securities brokerage services, on June 9, 2023, the Securities Association of China (SAC) released the *Implementing Rules for the Administration on Securities Brokerage Services* (the "Implementing Rules"), the *Administrative Rules on Client Fund Accounts of Securities Company* (the "Administrative Rules"), and their supporting documents, i.e. the *Compulsory Provisions of Client Account Opening Agreement and the Compulsory Provisions of Securities Trading Agency Agreements* (collectively, the "Compulsory Provisions").

The key points of the Implementation Rules are as follows: (i) refine investor identification requirements. For example, for individual investors whose financial assets in fund accounts and securities accounts exceed RMB 10 million for the first time, the identification on such investors shall be strengthened; when there is a large sum fund transfer in an investor's account, securities companies should re-identify the investor's identity if there exists anomalies in transfer amount or frequency; (ii) improve requirements for return visits. including clarifying the return visit requirements for different business scenarios and requiring securities companies to strengthen the management of third-party agencies if they are entrusted to carry out investor return visit; (iii) clarifying regulations for marketing activities of securities brokerage services. Securities companies shall establish marketing management system and prohibit monopoly and unfair competition, and when advertising through third-party platform, securities companies should enter into agreements with such third parties that contain required terms.

Further to the Measures and the Implementing Rules, the Administrative Rules clarify the management requirements for securities fund accounts, such as specifying the definition of fund accounts, improving the opening and management of fund accounts in terms of account-opening entities, account-opening methods, KYC, and account identification, requiring securities companies to strictly implement the requirements of the real-name account system, fulfill anti-money laundering obligations. Meanwhile, the Compulsory Provisions have reflected updates to the related agreement guidelines issued by SAC in 2014 based on the new rules and recent years' industry practice.

Haiwen Comments

The Implementing Rules, the Administrative Rules and their supporting documents further clarify and refine the responsibilities of securities companies engaging in securities brokerage services, and require securities companies to strengthen self-discipline and management. Securities companies are hereby reminded to update their internal systems and brokerage business documents in accordance with the new rules.

5. NAFR Issued the Notice on Strengthening Network and Data Security Management in Third-Party Cooperation

On June 27, 2023, the National Administration of Financial Regulation (NAFR) issued *the Notice on Strengthening Network and Data Security Management in Third-Party Cooperation* (the "Notice") to local banking and insurance regulatory bureaus, banks, insurance companies, wealth management firms, and other institutions. The Notice requires banking and insurance institutions to continuously strengthen their tracking and supervision of security responsibilities when carrying out business cooperation with third-party commercial entities.

The Notice primarily mentions two types of risks: enterprise WeChat service risks and technology outsourcing risks. Regarding the risks associated with enterprise WeChat services, the Notice points out the following main risks and issues: banking and insurance institutions have a lack of overall management and understanding of cooperation in the digital ecosystem, and there is a lack of clear identification and division of data security risks and responsibilities in the cooperation with third parties. NAFR requires banking and insurance institutions to conduct risk self-examination, and strengthen overall management of technology risks, and enhance

monitoring and reporting of off-site outsourcing risks.

Regarding technology outsourcing risks, the Notice identifies the following risks and issues: banking and insurance institutions have inadequate performance in supply chain security management, their emergency management mechanism for outsourcing services are unsound, and outsourcing service providers have severe inadequacy in security management and technical protection. NAFR emphasizes the need for banking and insurance institutions to enhance their understanding of “outsourcing services without outsourcing responsibilities”. This includes fulfilling network and data security protection obligations, implementing targeted security protection measures, and establishing and strengthening emergency response mechanisms.

Haiwen Comments

When engaging third-party service providers, banking and insurance institutions shall pay attention to network and data security management, effectively fulfilling the requirements stipulated in the Measures for the Supervision of Information Technology Outsourcing Risks of Banking and Insurance Institutions and the Data Security Management Measures (Trial), etc.

6. Commencement of the Third Batch of QDLP Overseas Investment Pilot Applications

The Hainan Municipal Bureau of Local Financial Regulation and Supervision announced that it would accept applications for the third batch of Qualified Domestic Limited Partner (QDLP) overseas investment pilot program from June 30, 2023, to July 20, 2023. Enterprises interested shall prepare their application materials in accordance with the requirements provided in the *Interim Measures for the Pilot Work of Qualified Domestic Limited Partner (QDLP) Overseas Investment in Hainan Province*. QDLP pilot enterprises in Hainan should also be in compliance with relevant provisions of the *Measures for the Registration and Filing of Private Investment Funds*.

Haiwen Comments

After nearly two years since the second batch of QDLP programs in August 2021, Hainan Province has once again announced acceptance of QDLP application. It opens up another cross-border investment channel for domestic fund managers and investors.

**II Industry News**

1. Schroder Fund Management Has Been Approved to Become the Eighth Wholly Foreign-owned Fund Manager; Warburg Pincus Acquired the Equity Interest in Zhong Ou, Making It the Largest Institutional Shareholder of Zhong Ou

On June 8, 2023, Schroder Fund Management (China) Company Limited ("Schroder Fund Management") announced that it has recently obtained the "License for Conduct of Securities and Futures Business" issued by CSRC, becoming one of the newly established wholly foreign-owned fund managers in China. As of now, a total of eight wholly foreign-owned fund managers have been established, among which, BlackRock Fund Management Co Ltd, Neuberger Berman Fund Management (China) Limited, Fidelity International Fund Management (China) Company, Schroder Fund Management, and Alliance Bernstein Fund Management Co., Ltd. are newly established ones, and Manulife Teda Fund Management Co., Ltd., J.P. Morgan Asset Management and Morgan Stanley Fund Management Co Ltd are converted from Sino-foreign joint venture to wholly foreign-owned fund managers. With the official announcement of Schroder Fund Management, the number of operational newly established wholly foreign-owned fund managers has reached four.

Meanwhile, there have been recent cases of foreign investment in existing domestic fund managers: Warburg Pincus announced on June 1, 2023 that it has acquired the 23.3% equity interest in Zhong Ou Asset Management Co., Ltd. from Intesa Sanpaolo, making it the largest institutional shareholder of Zhong Ou.

2. CSRC Approved the Establishment of Morgan Stanley Futures

On May 26, 2023, CSRC approved Morgan Stanley to establish Morgan Stanley Futures in Beijing, and stated that CSRC will continue to deepen the opening up of the futures market, support qualified foreign institutions to invest in domestic futures companies, and continuously improve the operation quality of futures market to serve the high-quality development of the real economy.

On May 25, 2023, Fang Xinghai, Vice Chairman of CSRC, also stated at the 20th Shanghai Derivatives Market Forum that CSRC will continue to expand the breadth and depth of the opening up of the futures market. At present, 23 specific futures varieties have been opened to foreign traders, and 39 commodity futures options varieties have been opened to QFII and RQFII. CSRC will also continue to steadily expand the opening up of specific varieties of futures, broaden the investment scope of QFII and RQFII, attract more foreign institutions to fully participate in the pricing of China's primary product futures varieties, enhance the representativeness and influence of China's futures prices, and provide more accurate price signals for industrial enterprises.

Up to now, among the domestic futures companies, in addition to J.P. Morgan Futures Co., Ltd. and Morgan Stanley Futures, which are wholly foreign-owned futures companies, there are three Sino-foreign invested futures companies, i.e. UBS Futures Co., Ltd., China Industrial Futures Ltd. and Maiké Futures Co., Ltd.

3. CSGH Has Been Renamed as Goldman Sachs (China) Securities Co., Ltd.

On June 28, 2023, The Goldman Sachs Group, Inc. (“GS”) announced that Goldman Sachs Gao Hua Securities Co., Ltd. (“GSGH”), its core business entity in China, has been approved to officially change its name to Goldman Sachs (China) Securities Co., Ltd.

GS stated that the name change marks a new milestone for GS’s business in China. On October 17, 2021, GS announced that CSRC had approved GS to become the sole shareholder of GSGH. Following GS’s achievement of full ownership in GSGH, this name change gives GS a clearer brand image in China, ensuring consistency with its global presence.

2023-07-10

