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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 and industry news.

In February of 2024, **for new rules and regulations**, the State Administration for Market Regulation ("SAMR") issued the *Provisions of the State Council on the Implementation of the Registered Capital Registration Administration System Under the Company Law of the People's Republic of China (Draft for Comments)*; the China Securities Regulatory Commission ("CSRC") issued the *Rules for Information Disclosure Compilation for Public Companies No. 4 — Special Provisions on Information Disclosure for Insurance Companies (Draft for Comments)*; the CSRC released *Guidance on the Application of Regulatory Rules — Accounting No. 4*; the National Financial Regulatory Administration ("NFRA") issued *Measures for the Administration of Fixed Asset Loans, Measures for the Administration of Working Capital Loans, Measures for the Administration of Personal Loans*; the People's Bank of China ("PBOC") issued the *Notice of Matters Concerning Over-the-Counter Trading Services for the Interbank Bond Market*; the General Office of the State Council issued *the Notice of the Action Plan for Steadily Advancing High-level Opening up and Making Greater Efforts to Attract and Utilize Foreign Investment.*

For industry news, the CSRC published an article titled "*Strictly Cracking Down on Illegal Acts of Fraudulent Issuance and Financial Fraud in Information Disclosure*"; the CSRC convened a symposium on supporting mergers and acquisitions of listed companies; the CSRC announced the first list of key money market funds; the spokesperson of CSRC addressed questions of reporters regarding the DMA business of private funds; the Pilot Program of High-Level Opening-up of Cross-Border Trade and Investment expanded to entire Hainan.

I Latest Rules and Regulations

1. The SAMR Issued the *Provisions of the State Council on the Implementation of the Registered Capital Registration Administration System Under the Company Law of the People's Republic of China (Draft for Comments)*

On February 6, 2024, the SAMR issued the Provisions *of the State Council on the Implementation of the Registered Capital Registration Administration System Under the Company Law of the People's Republic of China (Draft for Comments)* ("Registered Capital Provisions"). The main content of the Registered Capital Provisions includes: (1) a three-year transition period for existing companies, whereby limited liability companies are required to adjust their contribution deadlines to five years starting from July 1, 2027, and joint-stock companies must fully pay their subscribed share capital by July 1, 2027; (2) the capital contribution deadline for newly established companies shall follow the new Company Law, with any increase in registered capital for limited liability companies to be fully paid within five years; (3) companies meeting certain conditions (i.e., no outstanding debts or debts significantly lower than the paid-in capital, and all shareholders undertake to jointly and severally bear liability for the company's debts within the original subscribed capital amount, and all directors undertake not to impair the company's debt servicing capability and sustained profitability) may adopt the 20-day public notice procedure for capital reduction (i.e., reducing subscribed but unpaid registered capital); (4) clarification on the determination of significantly abnormal contribution deadlines and amounts, such as a contribution deadline exceeding 30 years, or registered capital exceeding RMB 1 billion; (5) specification of exceptions for companies involving major public interests, where the limitation on the contribution deadline does not apply; (6) detailed requirements for information disclosure, for example, information on the amount of subscribed and paid-in capital and the method and date of capital contribution, must be publicly disclosed on the National Enterprise Credit Information Publicity System within 20 days.

Haiwen Comments

This draft for comments on the Registered Capital Provisions further specifies the actual payment requirements under the new Company Law, particularly clarifying the transition period for existing companies that has been of market concern. It aims to provide guidance to companies for registered capital adjustment in a legal and orderly manner, safeguarding market transaction security, and continuously optimizing the business environment.

2. The CSRC Issued the *Rules for Information Disclosure Compilation for Public Companies No. 4 — Special Provisions on Information Disclosure for Insurance Companies (Draft for Comments)*

On February 9, 2024, the CSRC issued the *Rules for Information Disclosure Compilation for Public Companies No. 4 — Special Provisions on Information Disclosure for Insurance Companies (Draft for Comments)* ("Disclosure Provisions"). The main revisions in this draft include: (1) adjustments to disclosure indicators and descriptions based on current accounting standards, including adjustments to indicators under old standards and the addition of accounting data or financial indicators under new standards that help investors understand the operational situation of insurance companies; (2) adjustments to descriptions based on the *Insurance Company Solvency Regulation Rules (II)* among others; (3) clarification of policy requirements for the transition period leading up to January 1, 2026, meaning that companies using transition period policies can continue to follow the provisions of *Accounting Standard for Enterprises No. 25 — Insurance Contracts* during this time period.

Haiwen Comments

The Disclosure Provisions is mainly based on updates to accounting standards such as *Accounting Standard for Enterprises No. 25 — Insurance Contracts* and industry regulatory rules such as the *Insurance Company Solvency Regulation Rules (II)*. It aims to provide guidance to publicly listed insurance companies to enhance the relevance and effectiveness of their disclosure, thereby helping investors better understand the production and financial information of these companies.

3. The CSRC Released *Guidance on the Application of Regulatory Rules — Accounting No. 4*

On February 8, 2024, the CSRC released the *Guidance on the Application of Regulatory Rules — Accounting No. 4* ("Guidance No.4") to provide guidance on the implementation of accounting standards in the capital market. Guidance No.4 addresses eight specific issues, including financial instruments, revenue, research and development expenses, and long-term equity investments. Each specific guidance comprises three parts: the context of the transaction and specific accounting issues, the relevant accounting standards, and opinions or regulatory perspectives on applying the accounting standards to specific issues. For example, for the classification of equity or debt on the consolidated financial statements level for the originators in terms of units held by other entities in infrastructure REITs, the test is "whether the enterprise has an unconditional obligation to avoid delivering cash or other financial assets", which can mitigate the impact of secondary market price fluctuations on the income statements of institutional investors.

Haiwen Comments

Guidance No. 4 provides guidance on how to apply accounting standards to specific transaction items, facilitating consistency in capital market information disclosure and improving the quality of information disclosure.

4. NFRA Issued *Measures for the Administration of Fixed Asset Loans, Measures for the Administration of Working Capital Loans, Measures for the Administration of Personal Loans*

On February 2, 2024, the NFRA issued the *Measures for the Administration of Fixed Asset Loans, Measures for the Administration of Working Capital Loans, Measures for the Administration of Personal Loans*("the Three Measures"), which will come into effect on July 1, 2024. The Three Measures integrate and revise the *Interim Measures for the Administration of Working Capital Loans, Interim Measures for the Administration of Fixed Asset Loans, Interim Measures for the Administration of Personal Loans, and Guidelines for the Project Financing Business* issued by the China Banking Regulatory Commission in 2009. The main revisions are as follows:

(1) The *Measures for the Administration of Fixed Asset Loans* incorporates content related to *Guidelines for the Project Financing Business* and defines fixed asset investment as the construction, purchase, reconstruction and other acts of fixed assets in the course of business operation, clarifies the frequency and installment details of loan repayments, refines the investigation requirements for banks to provide fixed asset loans, and adjusts project financing guarantee conditions and loan repayment methods;

(2) The *Measures for the Administration of Working Capital Loans* expands the scope of loan subjects to include unincorporated organization, adds restrictions against using loans for the borrower's dividends to shareholders, investment in financial assets etc., clarifies that loan terms should not exceed three years and not exceed five years the longest, incorporates

special loans such as intellectual property loans and online loans, and adjusts loan due diligence methods and repayment methods;

(3) The *Measures for the Administration of Personal Loans specifies* that the term of a loan for personal consumption shall not exceed five years and the term of a loan for production and business operation shall not exceed ten years. It adds conditions where simplified or no on-site inspections are required and streamlines the materials and processes related to borrower's entrusted payments.

Haiwen Comments

The Three Measures update the banking loan business systems to adapt to the new trends in credit business and the new requirements for financial services to the real economy in recent years, reducing the limitations and lag of the original systems. This is conducive to strengthening the standardization of commercial banks' credit business.

5. The PBOC issued the *Notice of Matters Concerning Over-the-Counter Trading Services for the Interbank Bond Market*

On February 29, 2024, the PBOC issued the *Notice of Matters Concerning Over-the-Counter Trading Services for the Interbank Bond Market* ("the Notice"), which will come into effect on May 1 of this year. Based on the *Measures for the Administration of Over-the-Counter Trading Services for the National Interbank Bond Market* released in 2016, the Notice makes further clarifications on bond varieties, investor account management and foreign investors for the interbank bond market through Over-the-Counter trading service ("OTC trading service"), specifically:

(1) Corporate credit bonds could be invested in the interbank bond market through OTC trading service, and various bond varieties that have been traded in the interbank bond market can be invested in and traded over the counter without the issuer's approval;

(2) Investors who have opened a bond account for interbank bond market is not required to obtain approval from the PBOC to open a bond account at the OTC trading service institution. This means that the investors only need to open accounts at the OTC trading service institution;

(3) Overseas investors approved to enter the interbank bond market may open bond accounts through OTC trading service institutions and domestic custodian banks.

Haiwen Comments

The Notice expands the scope of bonds that can be traded through OTC trading service institution, increasing investment channels for investors. This is expected to attract more investors to the bond market. While overall increasing the demand for bonds, it also imposes higher requirements on OTC trading service institutions in terms of investor suitability management, risk management, and other aspects.

6. The General Office of the State Council Issued *the Notice of the Action Plan for Steadily Advancing High-level Opening up and Making Greater Efforts to Attract and Utilize Foreign Investment*

On February 28, 2024, the General Office of the State Council issued the Notice of the *Action Plan for Steadily Advancing High-level Opening up and Making Greater Efforts to Attract and Utilize Foreign Investment* ("the Action Plan"), outlining twenty-four measures across five aspects to further expand openness. These five aspects encompass expanding market access and raising the level of foreign investment liberalization; intensifying policy efforts to make it more attractive to foreign investment; optimizing fair competition environment and effectively providing services for foreign-funded enterprises; smoothing the flow of innovation factors and promoting innovative cooperation between domestic and foreign-funded enterprises; improving domestic regulations and more effectively connecting with international high-standard economic and trade rules.

Among these measures, in the aspect of expanding market access, the Action Plan proposes to further implement the pilot program for qualified foreign limited partners to make domestic investment. Specific measures include expanding the scope of the pilot program for qualified foreign limited partners, standardizing the requirements for registered capital and shareholders of enterprises and funds managed by qualified foreign limited partners, and expanding the scope of investments that funds may make. In terms of aligning domestic regulations with international high-standard economic and trade rules, the Action Plan proposes to maximize the opening-up and leading role of the national comprehensive demonstration zone for expanding and opening up the service industry, support qualified pilot free trade zones and the Hainan Free Trade Port in connecting with high-standard international economic and trade rules based on national conditions, and take the lead in exploring and implementing the domestic rules of the WTO on trade in services, and the negotiation achievements in the investment facilitation, digital trade and other fields.

Haiwen Comment

The Action Plan formulates various measures from multiple perspectives and levels to facilitate the entry of foreign investment and enhance its attractiveness. It effectively provides policy support for foreign investment in China, which is conducive to consolidating foreign investment confidence and promoting cooperation in foreign investment.

II Industry News

1. The CSRC Strictly Cracking Down on Illegal Acts of Fraudulent Issuance and Financial Fraud in Information Disclosure

On February 4, 2024, the CSRC published an article titled "*Strictly Cracking Down on Illegal Acts of Fraudulent Issuance and Financial Fraud in Information Disclosure*", summarizing the crackdown on fraudulent issuance and financial fraud in information disclosure over the past three years. Regarding fraudulent issuance, the CSRC has (1) intensified comprehensive accountability, (2) implemented the concept of "responsibility upon application", and (3) committed to a full-coverage process in its crackdown. As for financial fraud by listed companies, the CSRC has (1) emphasized accountability for "key individuals", (2) struck hard against malicious financial fraud, (3) eradicated the financial fraud "ecosystem" across the entire chain, and (4) closely monitored performance manipulation activities. Moving forward, the CSRC will employ a comprehensive strategy focusing on improving the clue discovery mechanism, imposing penalties on related illegal cases more severely and swiftly, insisting on "one case, multiple investigations", and emphasizing both punishment and prevention, to safeguard the legitimate rights and interests of investors.

2. The CSRC Convened a Symposium on Supporting Mergers and Acquisitions of Listed Companies

On February 5, 2024, the Listing Department of the CSRC convened a symposium to further refine the regulatory framework for mergers and acquisitions, aiming to robustly support listed companies in augmenting investment value through M&A activities. The event is aiming to seek insights and recommendations from select listed and securities companies and facilitate communications on pressing market concerns. The CSRC has been promoting market-oriented reforms in M&A in recent years. Moving forward, it plans to implement several strategies to invigorate the M&A market: (1) enhancing tolerance for reorganization valuation, (2) maintaining categorized regulation, (3) exploring "fast-track reviews" for reorganizations involving top large-cap companies, (4) encouraging SSE STAR Market and ChiNext Market companies to acquire synergistic and high-quality targets within the same or related industries, and (5) promoting mergers among listed companies.

3. The CSRC Announced the First List of Key Money Market Funds

On February 9, 2024, the CSRC evaluated and designated 13 money market funds as key money market funds ("MMF"), in accordance with the *Interim Provisions on the Regulation of Important Money Market Funds* ("Interim Provisions"). These funds originate from seven fund companies: Tian Hong Asset Management Co., Ltd, E Fund Management Co., Ltd., China Southern Asset Management Co., Ltd., China Universal Asset Management, ICBC Credit Suisse Asset Management, China Asset Management Co., Ltd., and GF Fund Management Co., Ltd.

The CSRC will continue to carry out the following actions: (1) guiding relevant industry institutions to implement the regulatory requirements of the "Interim Provisions", enhancing the risk prevention, control, and disposal capabilities of key MMF; (2) periodically assessing money market funds reported by fund managers, timely update and publish the list of key MMF; (3) together with the PBOC, persisting in risk monitoring and routine supervision of key money market funds to promote safer and more stable operation of MMF and effectively protecting the legitimate rights and interests of fund shareholders.

4. The Spokesperson of the CSRC Addressed Questions of Reporters Regarding the DMA Business of Private Funds

In response to media reports about the tightening of Direct Market Access ("DMA") business of private funds, the CSRC spokesperson provided clarification. The spokesperson explained that Long/Short Equity Swap is a market-neutral strategy transaction conducted between private funds and securities companies. In this arrangement, private funds select a basket of stocks and employ stock index futures for hedging to obtain hedged stock selection gains. Previously, some net value retracements occurred in private funds due to strategy reasons amid market fluctuations. Securities companies and private funds proactively strengthened risk prevention and control, steadily reducing leverage and scale, which led to a certain degree of risk mitigation. According to data from China Securities Index Co., Ltd., since the market reopened after the Spring Festival, the scale of DMA business has steadily decreased, with its average daily transaction volume accounting for about 3% of the total market transaction volume. The stable deleveraging of DMA business aids in market risk control and contributes to the stable and healthy operation of the market.

The CSRC plans to continue to strengthen supervision over DMA and other OTC derivative businesses, improve regulations, guide the industry to control business scale and leverage properly, and strictly combat illegal and non-compliant activities to maintain stable market operation.

5. The Pilot Program of High-Level Opening-up of Cross-Border Trade and Investment Expanded to Entire Hainan

On February 5, 2024, the Hainan Branch of the SAFE issued the *Notice of Foreign Exchange of Expanding the Pilot Program of High-Level Opening-up of Cross-Border Trade and Investment* aiming to facilitate more business entities to comply with and handle cross-border trade and investment activities. This move seeks to promote high-quality development through high-level openness. The pilot policy encompasses eight measures, divided into five for current account transactions—such as facilitating fund receipt and payment of current accounts in foreign exchange, supporting banks in optimizing new-type international trade clearing, expanding the scope of net amount clearing of revenues and expenditures under trade, special return of remittance for trade in goods beyond the time limit are exempt from registration, and optimizing the management of reimbursement or apportionment business under trade in service. There are three measures for capital account transactions, including exemption from registration for domestic reinvestment by foreign-invested enterprises, shared foreign debt quotas between parent and subsidiary companies in financing leasing, and direct handling of some capital account foreign exchange registrations by banks.

The highlights of this pilot policy, termed "two expansions and one addition", are based on the successful implementation of high-level openness policies in the Yangpu Economic Development Zone. This initiative extends the previously successful pilot policies to the entirety of Hainan Province. It relaxes the conditions for banks under the current account transactions pilot, further expanding the scope of prudent and compliant banks and a new measure has been added allowing financing leasing parent and subsidiary companies to share external debt quotas.

The source of industry news in this article:

http://www.csrc.gov.cn/csrc/c100028/c7461590/content.shtml

http://www.csrc.gov.cn/csrc/c100028/c7461718/content.shtml

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