

Haiwen Finance and Asset Management Monthly (September)

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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 September of 2023, **for new rules and regulations**, the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) issued regulatory guidelines on underwriting misconduct; the SSE, SZSE and the Beijing Stock Exchange (BSE) published detailed standards related to share reduction activities and issued a notice on matters concerning programmatic stock trading; the Asset Management Association of China (AMAC) released three guidelines for the filing of private investment funds, along with a list of supporting materials; the Shenzhen Municipal Financial Regulatory Bureau issued the *Measures for the Pilot Program of Shenzhen Qualified Foreign Limited Partners (Draft for Comment)*.

For industry news, the People's Bank of China (PBOC), along with other relevant authorities, decided to optimize the pilot program for the Cross-boundary Wealth Management Connect Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area, further facilitating financial market connectivity in the region; the China Securities Regulatory Commission (CSRC) released a plan to optimize the securities trading model for public mutual fund managers; the PBOC and the National Administration of Financial Regulation (NAFR) identified 20 domestically systemically important banks; the PBOC lowered the reserve requirement ratio for financial institutions as well as the foreign exchange reserve requirement ratio.



I Latest Rules and Regulations

1. The SSE and SZSE issued regulatory guidelines on issuance and underwriting misconduct

On September 28, 2023, the SSE and SZSE each released the Regulatory Guidelines for Violations in Issuance and Underwriting (Trial) (the "**Guidelines**"). The Guidelines apply to securities issuers, their controlling shareholders, actual controllers, senior management, securities firms, securities service institutions, investors, and directly responsible supervisors and other liable individuals. The Guidelines mainly clarify: (1) self-regulatory or disciplinary actions that the exchanges may take against parties violating rules related to securities issuance and underwriting, along with relevant consideration factors; (2) typical violations by securities issuers, underwriters, securities service institutions, and investors, as well as their corresponding handling procedures; and (3) special inspection procedures for issuance and underwriting.

Haiwen Comments

Building on the Guidelines, the SSE and SZSE put into practice a comprehensive 'full-chain' regulatory and accountability framework for issuance and underwriting. By defining the typical violations and penalties in each phase of the issuance and underwriting process, they enhance regulatory standardization and transparency, thereby guiding all market participants toward compliance.

2. The SSE, SZSE and BSE published detailed standards related to share reduction activities

On September 26, 2023, the SSE and SZSE separately issued *Notices on Further Regulating Share Reduction Activities*, while BSE released its updated *Guideline No. 8 on Continuous Supervision of Listed Companies—Share Reduction and Shareholding Management*. These notices and guidelines refine the regulatory requirements set forth by CSRC in its *New Regulation on Further Regulating Share Reduction Activities* (the "**New Share Reduction Rule**") published in August 2023. Specifically, the notices and guidelines: (1) clarify the applicable standards for situations such as broken IPOs, negative net assets, or substandard dividends; (2) specify the scope for secondary market share reduction; (3) strengthen pre-disclosure requirements, including mandatory pre-disclosure for block

trades and shortening the maximum time frame for pre-disclosed share reduction plans from controlling shareholders and actual controllers from 6 months to 3 months; and (4) exempt certain special situations, based on the benchmark date of the New Share Reduction Rule (August 27, 2023), where shares had been previously pledged and the pledge registration had been completed.

Haiwen Comments

The above share reduction notices and guidelines issued by the SSE, SZSE, and BSE further clarify the execution standards of the New Share Reduction Rule. The core concept behind these new notices and guidelines links the share reduction activities of controlling shareholders and actual controllers to company dividends and share prices. In the current market environment, this helps to prevent significant share price fluctuations in the secondary market due to share reduction activities. It is beneficial for the long-term stable development of listed companies and the protection of small and medium investors' rights. However, it may also continue to impact future choices of listing venues and the design of shareholding structures for companies.

3. The SSE, SZSE and BSE issued notices on matters concerning program stock trading

On September 1, 2023, the SSE, SZSE and BSE each issued *Notices on Strengthening the Management of Programmatic Trading* (the "**Management Notice**") and *Notices on Matters Related to Programmatic Stock Trading Reports* (the "**Reporting Notice**"). The Management Notice aims to reinforce the governance of program trading, with key aspects including: (1) clarifying the duties of member firms in managing program trading; (2) identifying key monitoring items in program trading such as anomalous and high-frequency trading behaviors; (3) specifying that exchanges may set differentiated management requirements for high-frequency trading; and (4) outlining the self-regulatory obligations of the exchanges. The Reporting Notice sets out specific requirements for program stock trading reports, which include: (1) identifying the reporting entity, method, and timeframe; (2) detailing report content, including basic account information, fund information, trading data, and trading software information, and providing a reporting template; (3) reinforcing high-frequency trading management; (4) specifying duties of member firms to enter into relevant supplemental agreements with clients; and (5) delineating the scope of the reporting system, requiring

investors engaged in program trading in exchange-traded funds and depositary receipts to apply by analogy.

Haiwen Comments

The Management Notices and the Reporting Notices encapsulate the practical experiences in managing program trading of convertible bonds, and extend the program trading reporting system from convertible bonds to stocks, funds, and other trading instruments, further enhancing the management of program trading behaviors in the securities market.

4. The AMAC released three guidelines for the filing of private investment funds, along with a list of supporting materials

On September 28, 2023, the AMAC released the *Guideline No. 1 for Private Investment Fund Filing—Private Securities Investment Fund* (the "**Guideline No. 1**"), *Guideline No. 2 for Private Investment Fund Filing—Private Equity and Venture Capital Fund* (the "**Guideline No. 2**"), and *Guideline No. 3 for Private Investment Fund Filing—Change of Fund Manager* (the "**Guideline No. 3**"), collectively referred to as the "**Filing Guidelines**" along with the ancillary checklists for fund filing. After the release of the Filing Guidelines and the ancillary checklist, the AMAC previously released *Private Investment Fund Filing Guidelines*, *Key Points for Private Fund Filing*, and the relevant material checklist have been replaced.

The Guideline No. 1 and Guideline No. 2 introduce few new requirements and are mainly principle-based, and their key contents include: (1) retaining, updating, and further detailing the targeted, industry-recognized provisions from the previously released filing rules by AMAC. Key aspects include loosening the restrictions on subsequent fundraising scale, adding special provisions for funds invested by municipal and higher-level governments, insurance capital, clarifying the process of converting private funds into general partnerships or limited liability companies, specifying the "important information" scope to be disclosed in fundraising materials, and detailing the ad hoc opening days for private securities funds, etc.; (2) implementing differentiated supervisory requirements and supporting the development of private equity funds, especially venture capital funds. This includes targeted improvements in subsequent fundraising limits, permitting private equity funds to increase their holdings of BSE-listed stocks, optimizing post-filing fundraising requirements for private equity funds, and clearly

outlining debt investment rules associated with convertible equity rights. The Guideline No. 3 focuses on the procedural and material requirements for changing the fund manager of the filed private investment fund, distinguishing between changes made during the normal course of business and those made under incapacitated circumstances such as deregistration or loss of contact.

Haiwen Comments

Overall, the Filing Guidelines represent the consolidation, update, and refinement of existing regulations and supervisory practices, with only minor substantive revisions. It is an ongoing effort by AMAC to enhance its multilevel self-regulatory rule system, following the releasing of *Private Investment Fund Registration and Filing Measures* and the No.1-3 Guidelines for Private Fund Manager Registration.

5. The Shenzhen Municipal Financial Regulatory Bureau issued the *Measures for the Pilot Program of Shenzhen Qualified Foreign Limited Partners (Draft for Comment)*

On September 7, 2023, the Shenzhen Municipal Financial Regulatory Bureau issued the *Measures for the Pilot Program of Shenzhen Qualified Foreign Limited Partner (Draft for Comment)* (the "**Draft**"). The Draft introduces amendments to Shenzhen's existing QFLP (Qualified Foreign Limited Partner) pilot policy, with main changes including (but not limited to): (1) clarification that pilot funds may adopt a contract-based organizational structure; (2) specification that the pilot funds may invest in additional asset classes, including "preferred shares convertible into common stock, convertible bonds, and non-performing assets," and allows pilot funds to operate using a Fund of Funds (FOF) structure; (3) stipulation that once pilot fund managers obtain their aggregate QFLP pilot quota, they can autonomously establish pilot funds within the aggregate quota.

Haiwen Comments

Currently, the QFLP pilot policy has been implemented in 23 regions nationwide. The amendment to Shenzhen's QFLP pilot policy incorporates the latest national macro policies and private equity industry regulatory requirements. It is expected to further loose the restrictions on the establishment and investment aspects of QFLP, elevate the financial openness of Shenzhen, and offer other cities an adaptable and universally applicable

"Shenzhen experience" for their own QFLP/QDIE (Qualified Domestic Investment Enterprise) pilot schemes.



II Industry News

1. The PBOC along with other relevant authorities, have decided to optimize the pilot program for "Cross-boundary Wealth Management Connect Scheme" in the Guangdong-Hong Kong-Macao Greater Bay Area, further facilitating financial market connectivity in the region

On September 28, 2023, the PBOC, the NAFR, and the CSRC announced that Mainland financial regulatory authorities, along with those in Hong Kong and Macao, have decided to optimize the pilot program for "Cross-boundary Wealth Management Connect Scheme" in the Guangdong-Hong Kong-Macao Greater Bay Area. The main optimizations include: (1) refining investor access conditions; (2) expanding the scope of participating institutions to include eligible securities companies as new participants; (3) extending the range of qualified investment products for "Southbound Connect" and "Northbound Connect"; (4) moderately increasing the individual investment quota; (5) further optimizing cross-boundary marketing and sales arrangements. Going forward, the financial regulatory authorities in Mainland, Hong Kong, and Macao will revise and improve the relevant implementing details or operational guidelines to facilitate the early implementation of these measures. Meanwhile, they will continue to optimize the "Cross-boundary Wealth Management Connect Scheme" based on the pilot's performance.

The pilot program for "Cross-boundary Wealth Management Connect Scheme" in the Guangdong-Hong Kong-Macao Greater Bay Area has been in operation for two years. This round of optimization aims to further promote financial market connectivity in the Greater Bay Area and better meet the diversified needs of investors.

2. The CSRC released a plan to optimize the securities trading model for public fund managers

In mid-September 2023, the CSRC issued *Optimizing the Securities Trading Model of Public Fund Managers* (the "Notice"). The Notice emphasizes improving the convenience level of brokerage trading

models and allows all types of public fund managers to autonomously select and optimize brokerage trading models based on their own business development needs. The specific measures include promoting a reduction in the procurement costs of trading system modules and continuing to strengthen the supervision of securities trading behavior of public fund managers. It is reported that financial institutions such as insurance companies and insurance asset management companies, pension fund investment management organizations, commercial banks, and their managed products will apply to the optimization plan for this securities trading model by analogy.

Experts believe that optimizing the securities trading model will further reduce the operating costs for small and medium-sized public mutual fund managers, encouraging them to focus on improving core capabilities such as investment research. It will also enhance the service capabilities of the brokerage trading model, promoting the entry of medium and long-term funds from banks and insurance companies into the market.

3. The PBOC and NAFR identified 20 domestically systemically important banks

On September 22, 2023, the PBOC and NAFR announced that they had carried out the 2023 assessment of China's systemically important banks and identified 20 domestic systemically important banks. Among these are six state-owned commercial banks, nine joint-stock commercial banks, and five city commercial banks. They are divided into five groups based on their systemic importance scores, from low to high (no bank has entered the fifth group for now).

The assessment for 2023 adds the Bank of Nanjing as a systemically important bank (in the first group) compared to 2022. The aforementioned systemically important banks must comply with the regulations set forth in the *Provisions on the Additional Regulation of Systemically Important Banks (Trial)*, including additional capital, additional leverage ratio requirements, the formulation of recovery and resolution plans, information reporting and disclosure, and corporate governance requirements.

4. The PBOC lowered the reserve requirement ratio as well as the foreign exchange reserve requirement ratio for financial institutions

Starting from September 15, 2023, the PBOC has decided to lower the foreign exchange reserve requirement ratio for financial institutions by 2 percentage points, from the current 6% to 4%. Additionally, the reserve requirement ratio for deposits will be lowered by 0.25 percentage points (excluding financial institutions that are already at a 5% deposit reserve requirement ratio). After the adjustment, the weighted average deposit reserve requirement ratio for financial institutions will be about 7.4%. This reduction in both foreign exchange and deposit reserve requirement ratios aims to enhance the ability of financial institutions to utilize foreign exchange funds, maintain adequate liquidity, and relieve downward pressure on the RMB exchange rate.

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