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Loosening the Reins on Regulation for Foreign-Invested Financial Institutions in China

China Securities Regulatory Commission and China Banking and Insurance Regulatory Commission attract further investment into the financial services sector.

In October 2019, China Securities Regulatory Commission (CSRC) and China Banking and Insurance Regulatory Commission (CBIRC) announced further measures to relax shareholding restrictions for foreign-invested financial institutions. These include securities, funds, banks, and insurance firms. Restrictions are being lifted earlier than initially anticipated. This article outlines what you need to know.

Securities, funds, and futures

The Office of Financial Stability and Development Committee under China's State Council originally announced a series of policies to further open the financial sector to foreign investment on July 20th. The timeline for removing foreign ownership limits in foreign-invested securities, fund management, and futures companies was moved to 2020—one year ahead of the original schedule. After comprehensive and thorough deliberations, the new timelines are as follows:

1. Foreign ownership limits in fund management companies will be removed nationwide as of Apr.1, 2020.

2. Foreign ownership limits in securities companies will be removed as of Dec.1, 2020.

3. Foreign ownership limits in futures companies will be removed as of Jan.1, 2020.

Moving forward, the CSRC will implement these new policies and plans to facilitate overseas participation in the financial services sector. Review of applications for new foreign-invested companies, as well as existing firms in the securities and fund management sectors, will be carried out smoothly in accordance with the laws and regulations.

Please follow the securities and funds and futures links to view the CSRC's original announcement.

Banks and insurance

Premier LI Keqiang of the State Council signed a decree on October 15th, announcing its decision to revise the "Regulations of the People's Republic of China on Foreign-funded Insurance Companies" and the "Regulations of the People's Republic of China on Foreign-funded Banks." These updates will take effect from the date of promulgation.

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Below, we discuss the main revisions for both regulations.

Regulations of the People's Republic of China on Foreign-Invested Insurance Companies:

- Removal of the requirement that a foreign insurance company applying for the establishment of a foreign-invested insurance firm in China must be involved in the insurance business for more than 30 years and must have a representative office in China for over 2 years.

- Foreign insurance group companies can now invest and set up foreign-invested insurance companies in China, and overseas financial institutions can take shares in foreign-invested insurance companies in China.

Regulations of the People's Republic of China on Foreign-Invested Banks:

- The requirement for companies in China to have total assets of $10-20 billion USD when trying to start a 1) foreign-owned bank 2) joint venture 3) foreign bank branch, as well as the prerequisite that the local shareholder of a joint venture bank be a financial institution, have both been removed in the recent revision.

- Foreign banks are now allowed to concurrently set up foreign-owned subsidiaries and branches, or concurrently set up Sino-foreign joint venture banks and foreign bank branches in China.

- Restrictions on some areas of operation of foreign banks have been lifted, permitting banks to engage in issuance, redemption, and underwriting of government bonds, while also acting as payments agents. The threshold for foreign bank branches taking term deposits from citizens in China has been lowered from RMB 1 million to RMB 500,000 per transaction. The approval requirement for foreign-funded banks to engage in RMB business has also been removed.

- There are improved regulatory measures for foreign bank branches, relaxing the requirement for them to hold a certain proportion of interest-bearing assets. Additionally, restrictions on the proportion of RMB capital to RMB risk assets for foreign bank branches in China have been reduced, including firms whose capital adequacy ratio continues to meet relevant regulations.

Please follow this link for the original announcement from CBIRC.

Multinational financial institutions in China

In the past few years, multinational financial institutions have had a very small market share in China, especially when compared to their market presence globally. One reason for this is the regulatory environment, which restricts them from establishing wholly-owned subsidiaries. Business operations are limited as well.

However, China has recently accelerated progress to open the financial sector, boosting economic development through the use of mature and advanced finance tools from which global leading financial institutions have already benefited. Therefore, there is a big opportunity for the leading global players to expand their business scope and volume in China, which will serve as a critical growth engine in the future.

Presence of multinational financial institutions in China

Securities	**Mutual Funds**
8 Joint Ventures out of 131*	43 Joint Ventures out of 124
Foreign Banks	**Foreign Insurance Companies**
1.29% Total Asset vs. All Banks in China	1.9% Original Premium vs. All Life Insurance
	8.0% Original Premium vs. All P&C Insurance

Data Source: CSRC, CBIRC and Annual Reports. *Excluding firms under CEPA.

As of October, there are already three securities firms and one mutual fund controlled by multinational institutions. We anticipate more firms in the securities and funds sectors to take control of current joint ventures by finding a new partner for majority ownership or establishing a wholly owned business entity.

We will continue to follow the progress of regulatory changes and market trends, support the business development of multinational firms, and help to understand the market through a solid local database.

To learn more about regulation updates in Mainland China, please contact our team.

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