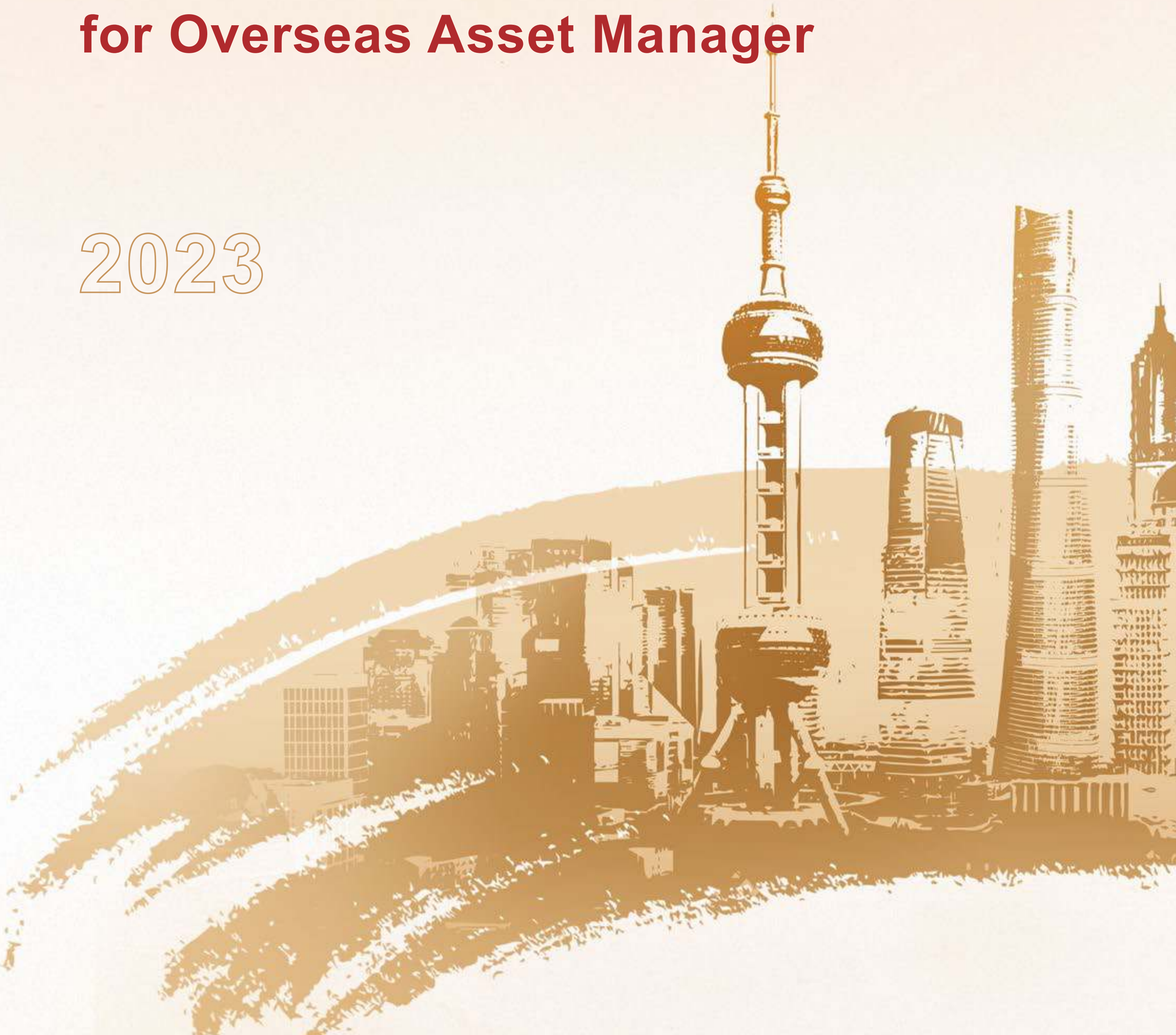
上海市基金同业公会
Shanghai Asset Management Association

# Shanghai Guidebook for Overseas Asset Manager

2023



Supervised by

Shanghai Municipal Financial Regulatory Bureau
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Compiled by

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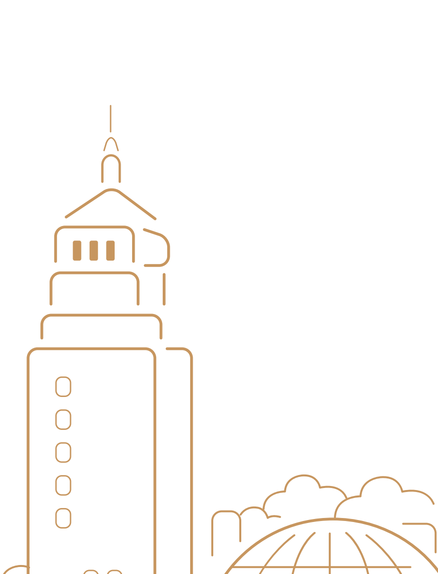


# Foreword

## Building Consensus and Working Together for a New Chapter in the High-Standard Opening-up of the Fund Industry

Through 32 years of development, China's capital market has made great progress under the reform and opening-up policies. The fund industry, in particular, has been committing to internationalization despite the challenges from the complex and ever-changing global economic and financial environment. It embraces innovation, empowers technological advancements, and demonstrates resilience in maintaining an open and thriving market.

The high-standard, two-way opening up of China's capital market requires open policies and supporting mechanisms, as well as "going global" and "bringing in" strategies. As opening-up measures set out in various policies and supportive systems come into effect, China's goals to further open its capital market, to strengthen connections between domestic and overseas markets, and to broaden cross-border investment and financing channels have become far-reaching significant. We will create a diverse, law-based, and attractive business environment that incorporates international market experience and practices. This is crucial for developing a robust market economy and a high standard national governance.

We firmly believe that opening up means not only open policies, mechanisms, or markets for both domestic and overseas parties, but also an important initiative concerning building mutual trust and deeper understanding. Therefore, strengthening cooperation and communication has been a major objective for China's fund industry.

We understand that it is inevitable that different jurisdictions, for their unique political, economic, cultural, and historical background and legal traditions, also differ in their legal and regulatory systems. Accordingly, we are dedicated to international engagement to better understand the unique systems and position of each country's fund industry, and share the structure, legal framework, history, and achievements of China's fund industry. These represent our proactive efforts to build consensus and mutual trust to promote the joint, healthy, harmonious, and high-quality development of the international fund industry.

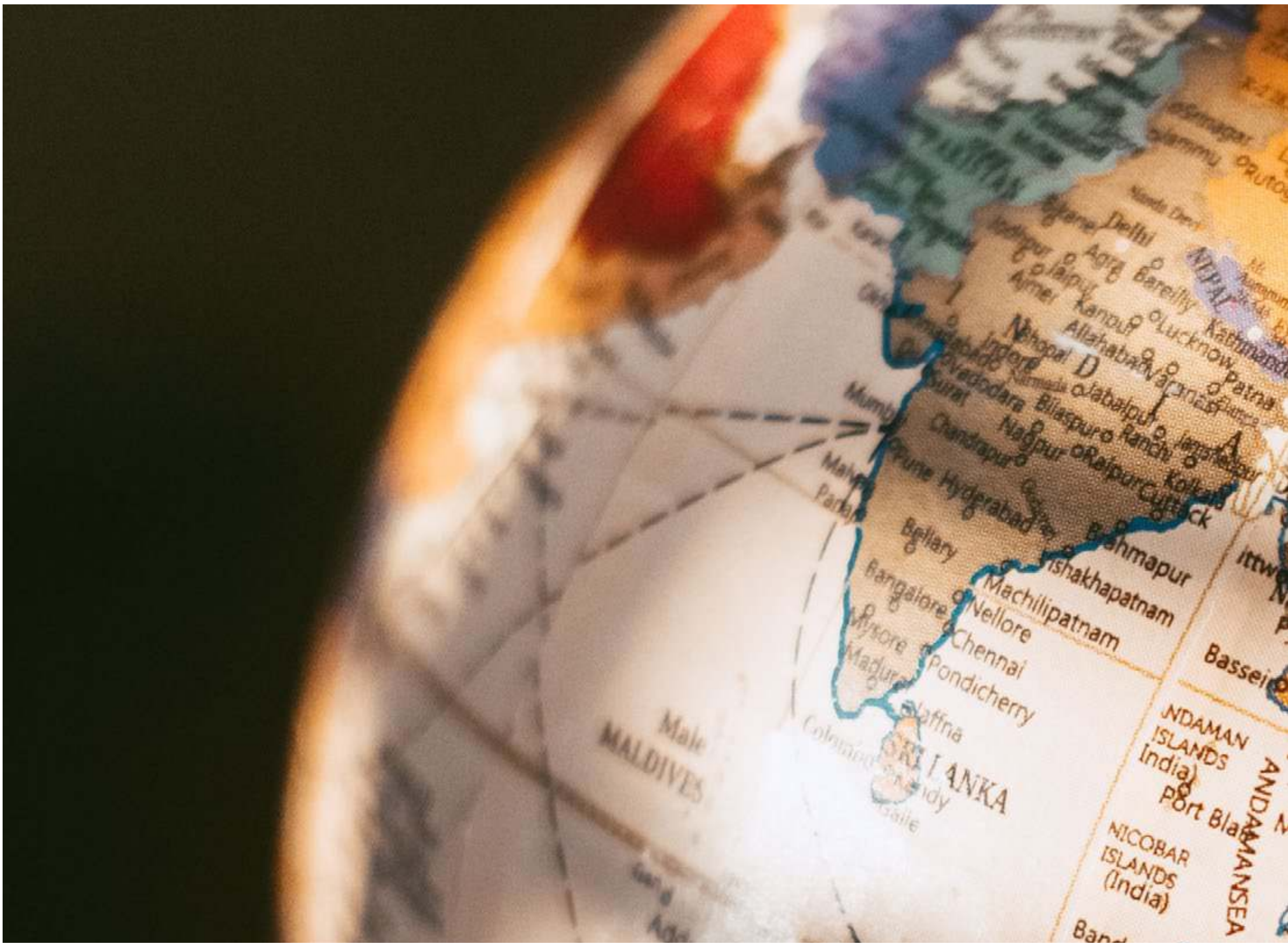
Shanghai is one of the regions at the very forefront of China's reform and opening up. Globally, it is becoming one of the cities with a large cluster of global financial institutions, a most complete financial market, and a most friendly business environment. According to the ***14th Five-Year Plan for the Building of Shanghai International Financial Center,*** by 2025, Shanghai will establish a world-class financial ecosystem by building "two centers, two hubs, and two magnets," i.e., enhancing its role as a global asset management center and fintech center; establishing and consolidating its position as an international green finance hub and a hub for the cross-border use of RMB; and building and highlighting its role as a magnet for international financial professionals and for financial institutions.

By further implementing national strategies, Shanghai has bolstered its urban function and core competitiveness. A plethora of critical measures and reforms in the capital market have yielded fruitful results: i) The city has improved resource allocation. It established a national on-exchange registration center for commodity warehouse warrants, and launched a pilot program for the transfer of investment shares of private equity and venture capital firms. The Free Offshore Trade platform also started operation in the Pilot Free Trade Zone. ii) Shanghai has made breakthroughs in financial innovations. It set up an international reinsurance center and expanded the Shanghai-London Stock Connect to include major European markets. Pilot programs have been promoted for e-CNY and capital-market fintech innovation. In addition, new financial products have been introduced, including public real estate investment trusts (REITs), CSI 1000 stock index futures and options, SSE 50 stock index options, and CSI 500 ETF options. iii) The city has also enhanced the influence of "Shanghai Prices" by launching benchmark products denominated in RMB, such as "Shanghai Gold," "Shanghai Oil," "Shanghai Silver," and "Shanghai Copper." iv) Shanghai's two-way opening up has been widened through open financial programs. These include the establishment of China's first wholly foreign-owned securities company, public fund company, and insurance company, as well as the licensing of nearly 300 financial institutions.

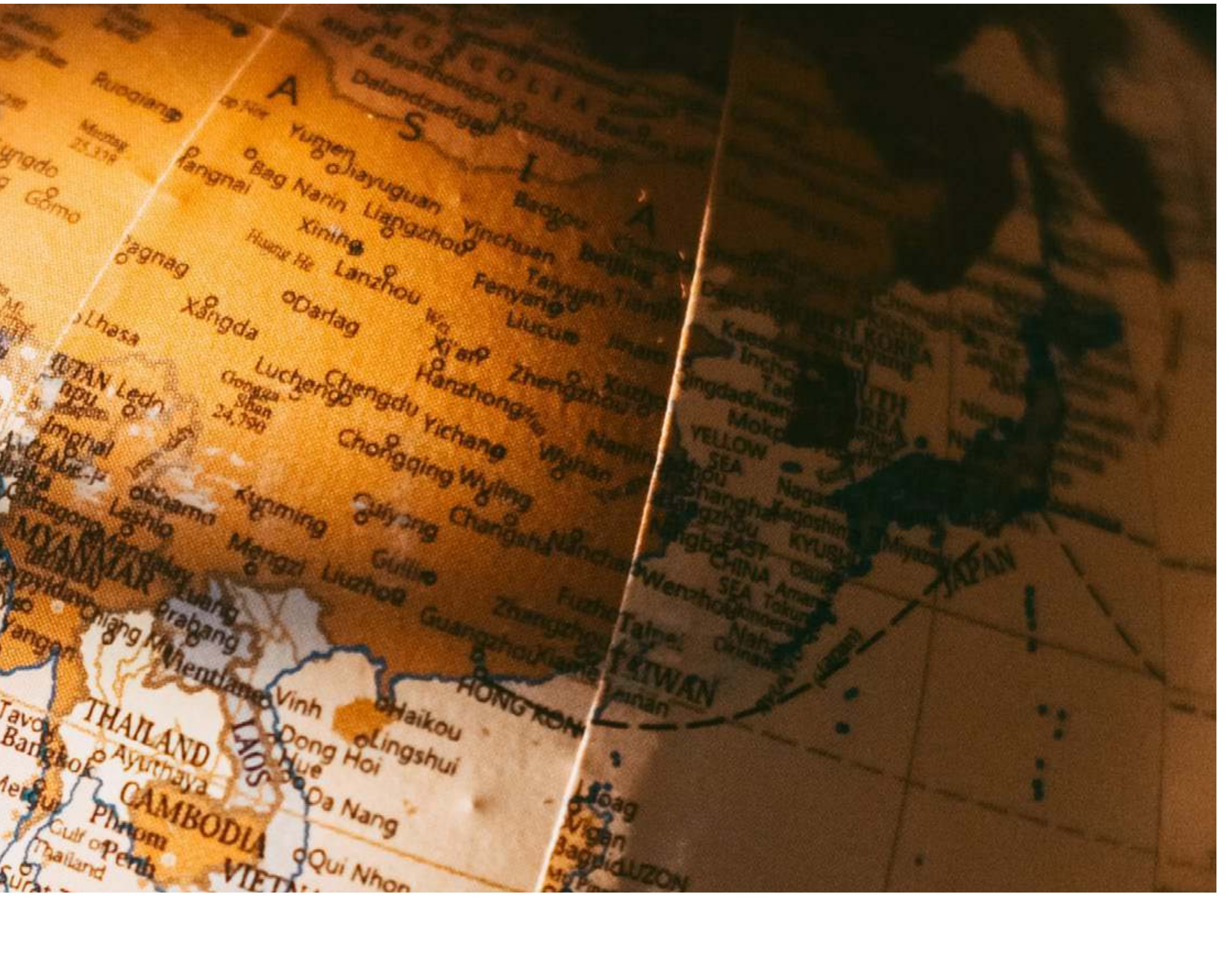
As one of the most open cities in China, Shanghai has gradually increased its international influence on global financial market with upgrading financial infrastructure, such as e-CNY, pilot zones for green finance reform and innovations, and the Cross-border Interbank Payment System (CIPS). The city prides itself on its pro-market practices and law-based business environment, which have attracted a significant number of domestic and foreign financial institutions and financial talent. It has also made milestone progress through groundbreaking initiatives in investment and trade facilitation and liberalization, as well as in financial opening up and innovation.

Shanghai is also one of the birthplaces of the Chinese fund industry. It has witnessed every significant moment of the industry, including the creation of the first fund companies in China, the first wave of Sino-foreign joint venture fund management companies, the first closed-end, open-end, index, money market, and Qualified Domestic Institutional Investor ("QDII") funds, the first wholly foreign-owned public fund manager, and the first wholly foreign-owned private securities fund manager ("WFOE PFM"). Shanghai today—with deeper connectivity mechanisms, ever-more friendly foreign investment policies, and expanding range of financial services—is demonstrating its confidence and determination to achieve greater financial openness and innovation and to build itself into a global asset management center and fintech center.

As the first official guidebook prepared by a city for foreign asset management institutions, ***Shanghai Guidebook for Overseas Asset Manager*** (2023 Version) continues its emphasis on foreign investments and local integration in Shanghai. It focuses on Shanghai's opening-up process and updates the latest regulatory policies, pilot initiatives, and industry data. In terms of policy updating, we add i) investment scope of QFLP/QDLP pilot schemes, ii) new rules on foreign exchange management, iii) policies on the integration of domestic and foreign currency management and other cross-border investment, iv) new introduction covering key contents and framework of the ***Regulation on the Supervision and Administration of Private Investment Funds***, and v) the new stamp duty and other tax-related reforms and tax benefits. In terms of financial infrastructure, this version includes new instruments such as Swap Connect and ETF Connect, Cross-Border Interbank Payment System (CIPS) business, as well as the trading systems and valuation products of Shanghai Stock Exchange (SSE) and the China Securities Index company. In terms of the data, we introduce China's FDI inflow , bond holding in the wealth management market and inter-bank market, latest data of China's wholly foreign-owned and joint venture fund companies, as well as information on existing private managers and the cross-border pilot scheme of QFLP.



We cordially welcome overseas asset management firms to do business in China and in Shanghai in particular, and to build synergy with domestic asset management firms, so as to provide Chinese investors with a richer selection of asset management services and, at the same time, to enjoy a share of the benefits from China's economic growth.



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# Chapter 1 Why China

## 1. Important Role of China in the Global Economy

According to the data released by National Bureau of Statistics, China was an important driver and stabilizer of world economic growth in 2022, contributing to nearly 20% of global economic growth. Between 2012 and 2022, China's gross domestic product (GDP) achieved an annual growth rate of 6.37%, significantly higher than the world average of 2.7%[1] during the same period.

In 2022, China's GDP reached RMB 121 trillion, surpassing the RMB 100 trillion achieved in 2020 and the RMB 110 trillion in 2021, approximately USD 18 trillion at the average annual exchange rate, positioning China as the world's second-largest economy.[2]

According to the ***World Investment Report 2023*** released by the United Nations Conference on Trade and Development, China remains one of the world's most appealing economies. In 2022, global foreign direct investment (FDI) declined by 12% to USD 1.3 trillion. Despite this, China, as the second-largest FDI host country in the world saw a 5% increase of FDI inflows to USD 189 billion.[3]

**Table 1: Foreign Direct Investment in China**

| Year | China's GDP as Percentage of Global Total | FDI Inflow (USD bn) | FDI Ranking |
|---|---|---|---|
| 2020 | 17.4% | 149 | 2nd in the world |
| 2021 | 18.5% | 181 | 2nd in the world |
| 2022 | 17.8% | 189 | 2nd in the world |

## 2. Huge Prospects of Wealth Management Market

From 1952 to 2022, China saw a surge in GDP from RMB 67.91 billion to RMB 121 trillion, accounting for more than 18% of the world economy, and a growth in GDP per capita from RMB 119 to RMB 86,000, indicating a rapid rise in the residents' wealth.[4] China's total private wealth has now jumped to second place in the world. According to a report released by China International Capital Corporation Limited (CICC), the country's private assets reached RMB 440 trillion at the end of 2022. [5] According to ***2023 China Private Wealth Report***, a collaborative effort by China Merchants Bank and Bain & Company, the total

1 Source: The World Bank 2 Source: National Bureau of Statistics 3 Source: World Investment Report 2023
4 Source: Statistical Communiqué of the People's Republic of China on the 2022 National Economic and Social Development 5 Source: China Wealth Report (2023), CICC

investable assets of Chinese individuals amounted to RMB 278 trillion in 2022. This report also highlights a compound growth rate of 7% during the period of 2020-2022, with a double-digit increase of 11% in 2021. It further predicts that by the end of 2024, China's total investable assets will exceed RMB 300 trillion.[6]

In 2022, as the prices of major asset classes declined, the global asset management was down by 13% to USD 98 trillion from USD 112 trillion in 2021. In contrast, China's asset management market remained resilient and saw an increase of RMB 0.1 trillion, reaching a record high of RMB 133.8 trillion. Out of it was approximately RMB 66.74 trillion managed by fund management companies and their subsidiaries, securities firms, futures companies, and private fund manager by the end of 2022. [7] The ***China Asset Management Market Report 2022-2023*** forecasts that the market will grow at nearly 9% each year to RMB 275 trillion in 2030.[8]

# 3. A More Open Financial Market

## 3.1 RMB Internationalization and the Integration of China's Capital Market into Global Indices

### 3.1.1 RMB Internationalization

As the official entry of RMB into the special drawing rights (SDR) currency basket greatly facilitated the cross-border use of RMB, the total amount of cross-border RMB receipts and payments continued its uptrend and reached RMB 42 trillion by December 2022. The RMB has retained its position as the fifth most active currency for global payments by value, with a share of 2.15%.[9]

In May 2022, the International Monetary Fund (IMF) raised the weight of the RMB in the SDR from 10.92% to 12.28%, reflecting a more freely usable RMB.[10]

As of the fourth quarter of 2022, the proportion of RMB assets held by the world's foreign reserve administrators had reached 2.69%, putting RMB reserve assets in the fifth place globally.[11] In early 2021, six government ministries and commissions in China, including the People's Bank of China (PBOC), jointly issued the Notice on Further Optimizing the Cross-Border RMB Policy to Support the Stability of Foreign Trade and Foreign Investment (Yinfa [2020] No. 330). This Notice aims to streamline the cross-border RMB settlement process and enhance the administration of cross-border RMB investment and financing, and has further relaxed the requirements on payment and receipt under capital accounts.

CIPS transaction volume has continued to grow. As of December 2022, the CIPS had 1,360 participants—77 direct participants and 1,283 indirect participants. In 2022, the CIPS processed 4.4 million transactions, totaling RMB 96.7 trillion, increasing by 31.68% and 21.48% YoY, respectively.[12]

### 3.1.2 Integration of China's Capital Market into the Global Index

As the international community increasingly recognizes China's efforts on legalization, marketization and internationalization in the capital market, China A shares and bonds are being included into mainstream international indices with continuously increasing weights.

MSCI has announced that, from March 2019 to November 2019, the inclusion factor of all China large-cap A shares in the index would be increased from 5% to 20%, and China mid-cap A shares (including eligible ChiNext stocks) would be included in the MSCI index with a 20% inclusion factor.

In September 2019, FTSE Russell raised the inclusion factor for A shares from 5% to 15%.

In September 2019, S&P Dow Jones officially added 1,099 China A shares into its S&P Emerging BMI with an inclusion factor of 25%. This marked the milestone that all three major international index companies—MSCI, FTSE Russell, and S&P Dow Jones—have integrated A shares into their indices.

In addition, China's securities market has received

8 Source: China Asset Management Market Report 2022-2023, Everbright Wealth Management Co., Ltd. and Boston Consulting Group (BCG)
9 Source: Society for Worldwide Interbank Financial Telecommunication (SWIFT)
10 Source: RMB Internationalization Report 2022
11 Source: IMF report
12 Source: Payment System Report 2022, People's Republic of China

increasing recognition from major international indices. On February 28, 2020, J.P. Morgan Chase & Co. officially included Chinese treasury bonds into its benchmark emerging-market indices (GBI-EM). In November 2021, Bloomberg Barclays Global Aggregate Index (BBGA) fully incorporated Chinese treasury and policy bank bonds. These RMB-denominated Chinese bonds held a weight of 6.3% in the index and became its fourth largest constituent by currency denomination behind bonds denominated in the US dollar, the Euro, and the Japanese yen.

On October 29, 2021, Chinese treasury bonds became part of the FTSE World Government Bond Index (WGBI); full inclusion is to be completed over a 36-month schedule. Current weight is around 6%. With this, Chinese treasury bonds have become part of three major global bond indices.

In February 2022, FTSE Russell announced to add another 102 Chinese A shares to the FTSE Global Equity Index Series. This addition comprised 26 large-caps, 4 mid-caps, and 72 small-caps, further elevating the weighting of the Chinese A shares within the index.

## 3.2 Opening up of the Capital Market

As the demand for Chinese assets keeps rising, China has established numerous mechanisms to make its capital market more accessible to foreign investors.

### 3.2.1 QFII and RQFII

In 2003, China established the Qualified Foreign Institutional Investor ("QFII") scheme to make its capital market accessible to foreign institutional investors. In December 2011, the RMB Qualified Foreign Institutional Investor (RQFII) scheme was introduced on a pilot basis to permit investment of offshore RMB in the Mainland.

In September 2019, the State Administration of Foreign Exchange ("SAFE") removed the investment quota for QFII and RQFII.

On September 25, 2020, CSRC, PBOC, and SAFE released the ***Administrative Measures for Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors***. At the same time, CSRC issued supporting rules for its implementation—the ***Provisions on Issues Related to the Implementation of the Administrative Measures for Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investor***s—which has greatly facilitated foreign investment in the Mainland by further lowering the barrier to entry and expanding the scope of permissible investments.

From September 2, 2022, QFIIs and RQFIIs have been allowed to participate in the trading of some futures and option contracts listed on the four futures exchanges of China (i.e., China Financial Futures Exchange, Zhengzhou Commodity Futures Exchange, Shanghai Futures Exchange, and Dalian Commodity Futures Exchange).[13]

On September 9, 2022, the CSRC issued the revised ***Provisions on the Domestic Securities Trading, Registration, and Clearing of Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors*** to further facilitate foreign investment in the A-share market.

By the end of June 2023, 772 foreign institutional investors had been granted access to China's financial market.[14]

### 3.2.2 Stock Connect: Shanghai-Hong Kong and Shenzhen-Hong Kong

On November 17, 2014, the Shanghai-Hong Kong Stock Connect was officially launched. On December 5, 2016, the Shenzhen-Hong Kong Stock Connect was officially launched. This mutual market access scheme has been expanding the eligible securities of cross-border investment and facilitating trading and clearing executions out of investors' home market.

Over the 8 years from the end of 2014 to November 30, 2022, the cumulative turnover of Northbound Stock Connect amounted to RMB 89.4 trillion,

13 Source: China Securities Regulatory Commission

14 Source: List of QFII Holders (June 2023), CSRC

accounting for a net inflow of RMB 1.7 trillion into the Mainland stock market; the value of A-shares held by Hong Kong and overseas investors through Northbound Stock Connect increased from RMB 86.5 billion to RMB 2.2 trillion. During the same period, the turnover of Southbound Stock Connect totaled HKD 30.4 trillion, with a cumulative net flow of HKD 2.6 trillion into Hong Kong market; the value of Hong Kong stocks held by Mainland investors increased from HKD 13.1 billion to HKD 2.0 trillion.[15]

In 2022, total turnover of Northbound and Southbound Stock Connect was RMB 23.3 trillion and HKD 7.2 trillion, respectively .[16]

### 3.2.3 Opening up of the Interbank Bond Market: CIBM Direct, Bond Connect, and Swap Connect

In August 2010, the PBOC issued the ***Notice on Issues Concerning the Pilot Program on Investment in the Interbank Bond Market with RMB Funds by Three Types of Institutions Including Overseas RMB Settlement Banks***, thereby permitting overseas central banks and monetary authorities, RMB settlement banks in Hong Kong and Macao, and overseas banks offering RMB settlement services for cross-border trades to access China's interbank bond market through designated settlement agent banks. This marks the official opening up of China's interbank bond market.

In February 2016, the PBOC released Announcement [2016] No. 3 ***("Matters Concerning Investment in the Interbank Bond Market by Overseas Institutional Investors")***, allowing overseas financial institutions and their financial products to invest in the interbank bond market through designated settlement agent banks. This access model is referred to as CIBM Direct and heralds the full opening up of the interbank bond market.

In June 2017, the PBOC issued the ***Interim Measures for the Administration of Mutual Bond Market Access between Mainland China and Hong Kong*** to announce the rules for Bond Connect scheme. On July 3, 2017, the Northbound Trading of the program commenced the pilot operating.

In July 2020, the PBOC and the CSRC jointly released the Announcement [2020] No. 7, approving the connectivity of infrastructures between the interbank bond market and the exchange-traded bond market. On May 27, 2022, the PBOC, CSRC, and SAFE jointly published the ***Announcement on Matters Concerning Further Facilitating the Investments of Overseas Institutional Investors in China's Bond Market*** ([2022] No.4), which makes collective arrangements for promoting the opening up of both the interbank bond market and the exchange-traded bond market, streamlines the supervision over market entry and cross-border capital flows of overseas institutional investors, and encourages eligible overseas institutional investors of China's interbank bond market to access China's exchange-traded bond market directly or through Bond Connect.

On January 20, 2022, the Shanghai Stock Exchange (SSE), the Shenzhen Stock Exchange (SZSE), the National Interbank Funding Center, the Shanghai Clearing House, and the China Securities Depository and Clearing Corporation Limited (CSDC) formulated the Interim Measures for the Connectivity between the Interbank Bond Market and the Exchange Bond Market, aiming at establishing a regulatory framework for the mutual market accessing services between the two bond markets.

In July 2022, the PBOC, the Securities and Futures Commission of Hong Kong (SFC), and the Hong Kong Monetary Authority (HKMA) issued a joint announcement to approve the Swap Connect, a market access scheme that connects the interest rate swap markets of Hong Kong and the Mainland.

On April 28, 2023, the PBOC issued the ***Interim Measures for the Administration of Mutual Access between the Interest Rate Swap Markets of Mainland China and Hong Kong***. These measures came into effect on the same day, marking the formal start of the Northbound Trading of Swap Connect.

On May 5, 2023, the PBOC, SFC, and HKMA announced that the Northbound Swap Connect would commence on May 15. Through this market access scheme, investors from Hong Kong and

15 Source: Trading data under the mutual stock market access schemes disclosed by HKEx
16 Source: 2022 Annual Market Statistics, HKEx

foreign countries and other regions may participate in Mainland's interbank interest rate swap market.[17]

According to the PBOC Shanghai Head Office, as of the end of June 2023, overseas institutions held RMB 3.28 trillion of China interbank market bonds, of which 89.6% or RMB 2.94 trillion were under the custody of China Central Depository & Clearing Co., Ltd. ("CCDC"). CCDC's data showed that, as of the end of June 2023, CIBM Direct accounted for RMB2.35 trillion or 80.0% of the total asset under custody of foreign institution and corporate investors in China's interbank market.

#### 3.2.4. Two-Way Opening up of Public Funds

In 2015, the scheme for Mainland-Hong Kong mutual recognition of funds was launched. By the end of 2022, 54 funds in the Mainland and 115 funds in Hong Kong had been registered under the scheme. (Counted by fund share classes)

In April 2019, the China-Japan ETF Connect was launched. Currently, there are 4 ETFs listed on SSE, 1 ETF on SZSE, and 6 ETFs on Tokyo Stock Exchange.

In 2020, four ETF products were simultaneously listed on the Hong Kong Exchanges and Clearing Limited (HKEx) and the SZSE. In June 2021, one ETF product from Shanghai and another from Hong Kong were listed on HKEx and SSE simultaneously.

In May 2021, SSE entered into a memorandum of understanding with the Korea Exchange to facilitate discussions on a possible China-Korea ETF Connect.

In December 2021, SZSE and Singapore Exchange Limited (SGX) signed a memorandum of understanding (MOU) on a China-Singapore ETF Connect.

In February 2022, the CSRC released the ***Provisions on the Supervision and Administration of Depository Receipts under the Stock Connect Scheme between Domestic and Overseas Stock Exchanges***, in a bid to further facilitate cross-border investment and financing, optimize the allocation of factor resources across the world, and promote rules-based opening up of China's capital market.

In a joint announcement in June 2022, the CSRC and SFC approved the inclusion of eligible ETFs in the Mainland-Hong Kong stock connect schemes. On July 4, 2022, trading of ETFs under the Mainland-Hong Kong stock connect schemes was officially launched. The first wave consisted of 87 ETFs.[18] In December of the same year, ETFs from the Mainland and Hong Kong became products under the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect schemes.

In December 2022, the first China-South Korea co-compiled index product "China-South Korea Semiconductor ETF" debuted on the SSE, becoming the first of its kind in China. On July 28, 2022, the China-Switzerland Stock Connect for Global Depository Receipts (GDRs) was formally launched to further broaden the cross-border investment and financing channels between the two countries.[19]

In May 2023, SSE and SGX signed a MOU on ETF connect.

In July 2023, to mark the first anniversary of the ETF Connect, the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect schemes incorporated 34 new ETFs. This expansion increased the total number of products under the ETF Connect to 137.

## 3.3 Opening-up Policies for Institutions

### 3.3.1 Public Fund Management Companies

China has lifted foreign ownership cap for fund management companies as of April 1, 2020.

In June 2021, CSRC granted a license to BlackRock Fund Management, Co. Ltd., marking the establishment of China's first wholly foreign-owned public fund management company. In September, BlackRock Fund Management launched its first public fund, raising about RMB 6.881 billion from more than 111,000 subscribers.

17 Source: Xinhua Finance
18 Source: CHINAFUND
19 Source: CSRC

In August 2021, Fidelity International received an approval from CSRC to establish FIL Fund Management (China) Co., Ltd. ("FIL"). Neuberger Berman Fund Management (China) Co., Ltd. ("Neuberger Berman") also received an approval of establishment from CSRC in September of the same year.

In November and December of 2022, Neuberger Berman and FIL respectively received a public fund license from the CSRC.

In November 2022, the CSRC approved the equity transfer of Manulife Teda Fund Management, allowing Manulife Investment Management to take full stake of the joint venture. This marks the first conversion of a joint venture into a wholly foreign-owned public fund management company.

In January 2023, the CSRC granted the approval of establishment to Schroder Investment Management (China) Limited ("Schroders Fund"). In June, Schroders Fund received a public fund license from the CSRC.

In January 2023, J.P. Morgan Asset Management Holdings Inc. was approved by the CSRC to fully acquire China International Fund Management Co., Ltd. In April, the legal name of China International Fund Management Co., Ltd. was formally changed to J.P. Morgan Asset Management (China) Company Limited.

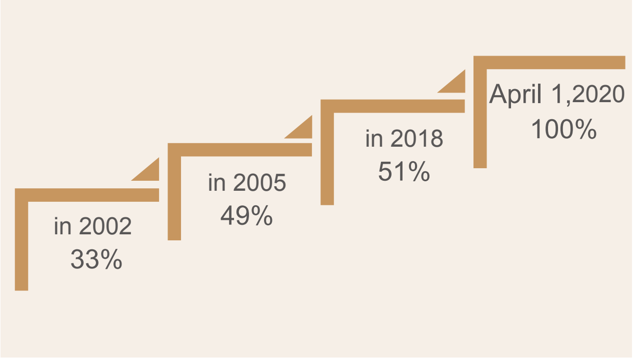
In February 2023, Morgan Stanley Investment Management received approval from the CSRC to take a full controlling stake in Morgan Stanley Huaxin Funds. In June, the legal name of Morgan Stanley Huaxin Funds was formally changed to Morgan Stanley Fund Management (China) Co., Ltd.

In March 2023, the CSRC granted the approval of establishment to AllianceBernstein Fund Management Co., Ltd.

In August 2023, the CSRC also granted the approval of establishment to Allianz Fund Management Co., Ltd.

As at August 2023, China had seen the setup of nine wholly foreign-owned public fund management companies.

**Figure 1: Progression of Foreign Ownership Cap for Fund Companies**




### 3.3.2 Private Securities Fund Managers

On June 30, 2016 at CSRC's approval, the Asset Management Association of China ("AMAC") released the ***FAQs on the Registration and Filing of Private Funds (No. 10)***, allowing foreign-invested financial institutions to set up wholly foreign-owned private securities fund managers ("WFOE PFMs") in China.

In January 2017, FIL Investment Management (Shanghai) Co., Ltd. became the first wholly foreign-owned private securities fund manager to register in China. After that, more foreign institutions, including UBS, Fullerton, Man Group, Value Partners, Invesco, Neuberger Berman, Aberdeen Standard, BlackRock, and Schroders, completed their registration process.

In December 2017, the Ninth Economic and Financial Dialogue between the UK and China recognized the registration of Man Group, Winton Capital, Schroders, and Aberdeen Standard in China as a UK-China cooperation achievement.

In February 2019, the first wave of foreign-invested private fund managers (PFMs) became eligible to offer investment advisory services and were granted access to the interbank bond market.

In June 2019, restrictions on foreign-invested private funds' participation in the Hong Kong Stock Connect were removed.

In September 2020, the CSRC issued the ***Provisions on Issues Related to the Implementation of the Administrative Measures for Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors.*** These provisions expand the investment scope of qualified foreign investors to cover eligible private funds. Moreover, a qualified foreign investor can now entrust a domestic PFM that is under its control or under common control to provide investment advisory services.

At the end of 2022, 38 foreign institutions, including Bridgewater, Winton Capital, and UBS, had established foreign-owned PFMs to carry out business activities.

#### 3.3.3 Private Equity Fund Managers

Thanks to China's increasingly accessible financial market and loosening control on foreign exchange under capital accounts, foreign capital now has much greater flexibility in choosing where and how to invest in China's equity market.

In January 2011, Shanghai officially issued the ***Implementing Measures for the Pilot Program of Foreign-invested Equity Investment Enterprises in Shanghai***, marking the launch of the Qualified Foreign Limited Partnership (QFLP) pilot scheme in the Mainland. This scheme offers a "fast track" for pilot foreign companies to invest in domestic enterprises. Over 30 cities and regions, including Beijing, Tianjin, Chongqing, Shenzhen, Qingdao, Guizhou, Pingtan, Zhuhai, Guangzhou, Xiamen, Suzhou, Hainan, Nanning, Nanjing, and Xiong'an New Area have since launched their own version of the scheme.

In July 2021, the SAFE announced that it will further expand pilot program to facilitate foreign exchange on international trade, cross-border investment in private equity funds, and cash-pooling services for multinational companies.

In February 2023, the CSRC unveiled a pilot scheme for real estate private equity funds, encouraging foreign investment through the QFLP program.

## 4. Complete RMB Price Benchmark System

### 4.1 Chinese Treasury Bond Yield Curves

As an important indicator of monetary and fiscal policies, and one of the important financial risk parameters, Chinese treasury bond yield curves compiled by CCDC are widely used by the Ministry of Finance (MOF), the PBOC, the State Administration of Financial Supervision and Administration, and other government departments, and displayed on their official website. The three-month ChinaBond government bond (CGB) yield is used by the IMF as a representative RMB interest rate to calculate the SDR interest rate. CCDC publishes more than 3,500 yield curves of various types, including government bond yield curves on a daily basis. This complete suite of yield curves accurately reflects the price and risk changes in the bond market and provides a pricing reference for more than RMB 150 trillion of financial assets. CGB yield curves are used by nearly 1,500 domestic and foreign institutions for pricing analysis and risk monitoring.

### 4.2 Benchmark Indices in China's Bond Market

ChinaBond New Composite Index, ChinaBond Treasury Bond Aggregate Index, ChinaBond Finance Bond Aggregate Index, and ChinaBond Credit Bond Index, all provided by CCDC, are the major benchmark indices reflecting the overall trend and yield of the RMB bond market (https://yield.chinabond.com.cn/cbwebmn/). ChinaBond has the most comprehensive RMB bond index series, which consists of more than 1,500 diverse indices, including benchmark indices, theme indices, green bond indices, policy and factor indices, multi-asset indices, and custom indices. ChinaBond indices are listed on SGX, Luxembourg Stock Exchange (LuxSE), and ChongWa (Macao) Financial Asset Exchange (MOX); ETF products tracking ChinaBond indices are listed on the Taiwan Stock Exchange (TWSE), New York Stock Exchange (NYSE), and SGX. The ChinaBond index information is available globally through domestic and foreign information providers, providing a representative investment benchmark and an effective tracking target for overseas investors with exposure to the Chinese bond market.

# Chapter 2 Overview of the Fund Industry in China

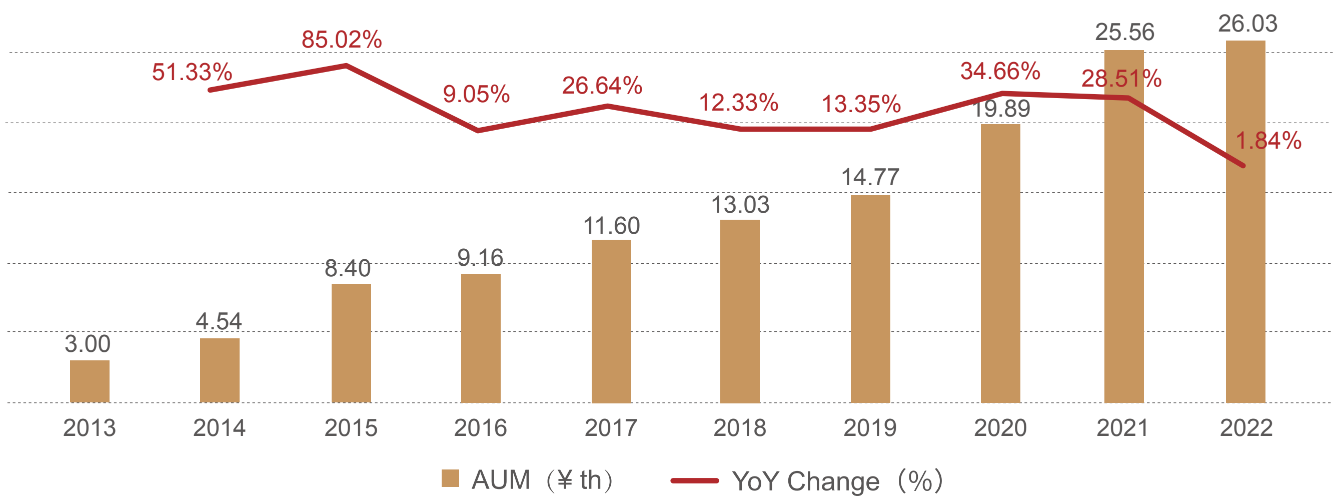
By the end of 2022, the total AUM of public fund management companies and their subsidiaries, securities companies, futures companies, and PFMs was approximately RMB 66.74 trillion,[20] comprising RMB 26.03 trillion of public funds managed by public fund companies, RMB 6.87 trillion of private funds managed by securities companies and their subsidiaries, RMB 7.12 trillion of private funds managed by fund companies and their subsidiaries, RMB 4.27 trillion of pension funds managed by fund companies, RMB 314.7 billion of private funds managed by futures companies and their subsidiaries, RMB 20.28 trillion of private funds managed by PFMs (consisting of RMB 5.61 trillion of private securities funds, RMB 14.01 trillion of private equity and venture capital funds, RMB 5.355 billion of private asset allocation funds, and RMB 649.73 billion of other types of private investment funds), and RMB 1.95 trillion of special asset-backed schemes.

## 1. Public Fund

### 1.1 Rapid Growth of AUM

At the end of December 2022, there were 156 public fund management firms, consisting of 142 public fund management companies (including 47 foreign-funded firms and 95 domestic-funded firms), 12 securities companies or asset management subsidiaries of securities companies with a public fund license, and 2 insurance companies with a public fund license. These public fund management firms managed 10,576 fund products of various types.[21] Since 2013, the AUM of public funds has achieved steady growth for 10 consecutive years, reaching RMB 26.03 trillion by the end of 2022.[22]

**Figure 2: AUM Growth of Public Funds in Past 10 Years**




20 Source: Asset Management Statistics (Fourth Quarter, 2022), AMAC
21 Source: CSRC 22 Source: AMAC

### 1.2 Public Fund AUM Ranking Fourth Globally and First in Asia

At the end of 2022, China remained the world's fourth largest open-end fund market at an AUM of USD 3.27 trillion, or 5.44% of the world's total AUM of public funds, ranking first in Asia.[23]

### 1.3 Over 1,500 Million Fund Investment Accounts

By the end of 2022, there were 1,522 million active fund accounts (i.e., accounts that hold fund shares).[24]

### 1.4 Pivotal Role of Public Fund Management Companies with Foreign Capital

The asset management industry has always been at the forefront of the opening up of China's financial markets. The Sino-foreign equity joint venture public fund management companies have operated in China for 20 years, since the inception of the first joint venture public fund management company in 2002. They have been playing a pivotal role in the public fund development in China.

As of the end of June 2023, 48 foreign-invested fund companies out of 157 public fund companies had a combined AUM of RMB 12.85 trillion, or 47.65% of the total.[25]

## 2. Private Asset Management Business of Securities and Futures Institutions

By the end of 2022, the total AUM of securities and futures institutions through private asset management services was RMB 14.30 trillion.[26]

**Table 2: AUM of Private Asset Management Business of Various Institutions**

| End of 2022 | Number of Products | AUM (¥tn) |
|---|---|---|
| Asset management products of securities companies | 18,414 | 6.87 |
| Asset management products of fund companies | 8,126 | 5.20 |
| Asset management products of subsidiaries of fund companies | 3,521 | 1.92 |
| Asset management products of futures companies | 2,023 | 0.31 |

## 3. Private Fund

At the end of 2022, there were 23,677 PFMs registered with AMAC, managing 145,020 private funds with a total AUM of RMB 20.28 trillion.[26] This makes China one of the top players in the world in both the number and AUM of private funds.

As of December 2022, Shanghai, Shenzhen, and Beijing were the top three places of registration for PFMs—at 4,410, 3,871, and 3,970 managers

23 Source: Worldwide Regulated Open-end Fund Data, Investment Company Institute (ICI)
24 Source: 2023 China Securities Investment Fund Fact Book
25 Source: Wind
26 Source: Asset Management Statistics (Fourth Quarter, 2022), AMAC

respectively— together representing 51.7% of the total number in China. Managers in those three cities were overseeing 41,492, 21,555, and 22,914 products, amounting to 59.3% of the national total; the aggregate AUM of those products were RMB5.05 trillion, RMB 2.20 trillion, and RMB 4.42 trillion, or 58.2% of the national total.[27]

## 3.1 Private Securities Funds

As of the end of 2022, there were 9,023 private securities fund managers in China, managing 92,578 funds with a total AUM of RMB 5.61 trillion.[28] As of the end of 2022, there were 38 WFOE PFMs and joint venture PFMs.[29]

## 3.2 Private Equity Funds and Venture Capital Funds

As of the end of 2022, there were 14,303 private equity and venture capital fund managers registered with AMAC, who were managing 50,876 products with a total AUM of RMB 14.01 trillion, an increase of RMB 0.87 trillion or 6.6% from the close of 2021. Among those, there were 31,523 private equity funds with a total AUM of RMB 11.11 trillion, an increase of 2.3% and 3.2%, respectively, from the close of 2021, and 19,353 venture capital funds with a total AUM of RMB 2.90 trillion, an increase of 33.4% and 22.4% from the close of 2021.[28]

27 Source: Monthly Report on Registration of Private Fund Managers and Filing of Private Fund Products (Issue 12, 2022), AMAC
28 Source: Asset Management Statistics (Fourth Quarter, 2022), AMAC
29 Source: AMAC

# Chapter 3 Why Shanghai

## 1.Unique Location[30]

At the end of 2022, Shanghai had 16 districts with a total land area of 6,340.5 square kilometers and a permanent population of 24.7589 million at an average life expectancy of 83.2 years. Shanghai's GDP in 2022 totaled RMB 4.47 trillion, equaling a per capita GDP of RMB 180,400, continuing to lead other provinces, municipalities, and autonomous regions.

Located in eastern China where the Yangtze River meets the Pacific Ocean, Shanghai, together with the neighboring provinces of Zhejiang, Jiangsu, and Anhui, forms the Yangtze River Delta Region. This is one of the most developed, open, and innovative regions in China. The quickening integration of the region offers vast potential for Shanghai's asset management sector. In 2022, Shanghai, Zhejiang, Jiangsu, and Anhui achieved a total GDP of RMB 29 trillion, roughly a quarter of the national total. Of the top 10 cities by fiscal revenue, five (Shanghai, Hangzhou, Suzhou, Nanjing, and Ningbo) were from the region. This region also leads in terms of the population's wealth, accounting for 6 of the country's top 10 cities by per-capita disposable income in 2022. The introduction of the Yangtze River Delta integration strategy has made it even easier for financial institutions to develop and expand their wealth management business from Shanghai to the whole region. According to the ***Implementing Plan for the 14th Five-Year Plan for the Integrated Development of the Yangtze River Delta Region***, by 2025, the region will achieve substantial integration, such that 70% of the permanent population will live in urban areas; research and development investment will make up 3% or more of the GDP; and the public spending will reach RMB 21,000 per capita.

## 2. Complete Financial Market Framework

Shanghai has one of the most complete financial market systems among Chinese cities. It operates stock, bond, currency, foreign exchange, gold, futures, insurance, commercial papers, and trust markets and offers a robust platform for the efficient allocation of financial assets, especially RMB-denominated assets.

In 2022, the financial market of Shanghai recorded a GDP of RMB 862.7 billion, accounting for 19.3% or nearly one-fifth of the city's total;[31] its aggregate turnover reached RMB 2,932.98 trillion, a growth of 16.8% YoY, up 6.4 percentage points.[32] Particularly, the turnover of SSE's securities, CFFEX, and the interbank market grew by 7.6%, 12.6%, and 23.8%, respectively. At the end of 2022, Shanghai ranked top in the world in terms of IPO proceeds and among the top three by trading volume in spot gold and in crude oil futures. In addition, SSE ranked twelfth over the globe by trading volume of futures and options products.[33] In 2022, the Global Financial Centres Index (GFCI) placed Shanghai seventh in its ranking.[34]

## 3. A Leading Stock Exchange

Founded on November 26, 1990, the Shanghai Stock Exchange (SSE) became China's first national stock exchange. Having developed rapidly for more than three decades, SSE now stands as the third-largest and one of the most vibrant stock exchanges in the world.By May 2023, the exchange secured the 3rd, 1st, and 4th positions worldwide respectively in terms

30 Source: Official Website of the Shanghai Municipal People's Government
31 Source: The 14th Lujiazui Forum
32 Source: ***Statistical Communiqué of Shanghai on the 2022 National Economic and Social Development***
33 Source: China Futures Association
34 Source: The Global Financial Centres Index 33 (GFCI 33) Report

of total market capitalization, proceeds raised, and total turnover; it has also emerged as the largest exchange market for bonds in the world.

SSE offers four categories of securities—stocks, bonds, funds, and derivatives, which constitute a complete range of offerings. At the end of June 2023, the exchange had 2,226 listed companies with a total market capitalization of RMB 49.3 trillion, held RMB 16.5 trillion of bonds in custody, and facilitated RMB 3.3 trillion of bond issuances. It also listed 641 funds carrying a market capitalization of RMB 1.4 trillion and witnessing a turnover of RMB 10.1 trillion. Among these listed funds, ETFs accounted for 77% in turnover and 75% in market capitalization of the domestic total, ranking the 1st and 2nd in Asia, respectively. Moreover, SSE listed 426 options contracts, generating a turnover of RMB 223.6 billion.

As a critical driver of the opening-up of China's capital market, SSE is committed to promoting mutual access between onshore and offshore markets. In November 2014, the Shanghai-Hong Kong Stock Connect scheme debuted to connect the two markets. In June 2019, the westbound trading of Shanghai-London Stock Connect and the China-Japan ETF Connect were successfully launched. In March 2022, the Shanghai-London Stock Connect was expanded to include depositary receipts and cover Switzerland, Germany, and potentially other major European markets. The increasing participation of foreign investors in SSE is a testament to its growing international influence; together, they hold 4.1% of SSE's A-share market capitalization (including CDRs) and concluded 11.2% of the transactions.

## 4. An Open Shanghai

Shanghai, bearing the urban spirit of "embracing diversity, pursuing excellence, and staying open-minded and humble", distinguishes itself through its openness, innovation, and tolerance—a vivid reflection of China's development and achievements in the new era.

In terms of the opening-up history, few other Chinese cities are comparable with Shanghai. Shanghai's development traces back to the Tang and Song Dynasties, when the city prospered due to maritime trade (through the Maritime Silk Road). The Yuan and Qing Dynasties witnessed the burgeoning of Shanghai, due to national strategic needs, economic interests, and its right geographical surroundings after its port was opened in 1843, immigrants from other provinces of China and other countries jointly contributed to the development and prosperity of the city, and thus Shanghai gradually formed a unique community of shared common interests of Chinese and foreigners. As a rare safe harbor during the turbulent times, a large number of populations, industries, capital, technologies, information, and cultures. In particular, young immigrants with different backgrounds who were not content with their situation poured into Shanghai, which maintained the city's momentum of rapid development.

Backing onto the Yangtze River and facing the Pacific Ocean, Shanghai's open attitude is fundamental to its success. High-quality opening up has always been an essential path to Shanghai's high-quality development. "Embracing diversity" is the most cherished element in Shanghai's urban spirit. Shanghai, as a stage for elites to strive together, excels in its tolerant culture, prosperous and diversified economy, free and harmonious thinking, among many other aspects.

## 5. Excellent Business Environment

Shanghai is one of the best places in China for financial development and has all the necessary infrastructures for the efficient allocation of global resources. It is the first city in China to establish a financial court, a court for financial arbitration, a financial consumer protection bureau, and a financial dispute resolution center and the first to release a white paper titled "***Building a Rule-of-Law Environment for the Shanghai International Financial Center***". It is home to the PBOC's Credit Reference Center which has created a national basic database for business and individual credit information. The city boasts nearly 500,000 financial professionals and a wide range of specialized service providers such as accounting firms, law firms, and rating agencies. Shanghai has also been adopting an ever-tougher stance against illegal financial activities. As one of the first cities to participate in the National Pilot Plan for Business Environment Innovation, Shanghai is dedicated to continuously enhancing its business environment. Since 2017, the city has completed six iterations of its business environment improvement plan, starting from version 1.0. These efforts serve as an active trial for the nationwide policy. In 2020, Shanghai unveiled the 3.0 version of its business environment improvement plan to fully promote its one-stop government service portal and build a more internationally competitive business environment. In December 2021, the Shanghai Municipal Government issued the ***Implementation Plan of Shanghai Municipality for Launching Pilot Programs on Innovation in Business Environment***, introducing 172 reform measures covering market ecosystem, government affairs, investment, foreign business, innovation, and regulatory environment, enterprise full-cycle services, innovation engine, regional cooperation, and legal environment.[35] On January 28, 2023, Shanghai held the 2023 conference on optimizing business environment and released the ***Action Plan for Strengthening Integrated Innovation and Continuously Optimizing the Business Environment in Shanghai.*** The plan outlines 195 tasks across 27 categories in 4 broad areas in a bid to optimize the city's business environment. Building on its five previous versions, the plan focuses particularly on innovation, integration, and effectiveness and seeks to deepen reform for higher competitiveness.

Under the supervision of the CSRC Shanghai Office, the Shanghai People's Mediation Committee for the Capital Market provides professional mediation services. The China Securities Investor Services Center, also established in Shanghai, offers yet another safeguard for minority investors. Furthermore, in October 2020 the Shanghai Investor Protection Union was founded in Shanghai at the sponsorship of 30 organizations including the CSRC Shanghai Office, Shanghai Municipal Financial Regulatory Bureau, and the Shanghai Financial Court. The number of the Union members reached 48 at the end of 2022.

## 6. Full Range of Financial Institutions

Shanghai is one of the Chinese cities boasting the most complete range of financial institutions. They produce strong synergies and provide a solid foundation for the global expansion of Shanghai-based asset management institutions. The number of licensed financial institutions operating in Shanghai has risen from 1,537 in 2017 to 1,736 at the end of 2022, 539 or around one-third of which are foreign-funded.[36] As of November 22, 2022, 86 prominent international asset managers have enrolled in Shanghai's Qualified Foreign Limited Partners (QFLP) pilot scheme[37] and 59 domestic asset managers in its Qualified Domestic Limited Partners (QDLP) pilot scheme;[38] 32 of the WFOE and JV PFMs registered with AMAC were based in Shanghai. Out of the world's top 20 asset management institutions, there are 17 managers that have set up offices and carried out business in Shanghai. Many other foreign asset managers have also chosen Shanghai as their base.[39] In addition, 2,117 equity investment managers are registered in Shanghai. Currently, the AUM in Shanghai makes up around a quarter of the national total. Specifically, Shanghai-based insurance asset management companies and public funds account for more than 30% of the total AUM of such firms nationwide.

## 7. Pioneering Financial Reform

Chinese financial authorities have released numerous policies to support financial reform and innovation in Shanghai. In August 2013, the State Council approved the creation of the China (Shanghai) Pilot Free Trade Zone ("Shanghai FTZ"), which was inaugurated on September 29 to explore financial innovation. This was followed up by the creation of the Lin-gang Special Area with the August 2019 release of the ***General Plan for the Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone*** by the State Council. February 2020 saw the issuance of the ***Opinions on Further Expediting the Building of Shanghai into an International***

35 Source: Official social media account of the Information Office of Shanghai Municipality
36 Source: Press Release for Media Briefing of the Shanghai Municipal Government on April 27, 2023 (Forenoon), Information Office of Shanghai Municipality
37 Source: Enterprises under the Shanghai's Qualified Foreign Limited Partners (QFLP) pilot scheme (as of November 22, 2022), Shanghai Municipal Financial Regulatory Bureau
38 Source: Enterprises under the Shanghai's Qualified Domestic Limited Partners (QDLP) pilot scheme (as of November 22, 2022), Shanghai Municipal Financial Regulatory Bureau
39 Source: Press Release for Media Briefing of the Shanghai Municipal Government on May 31, 2023, Information Office of Shanghai Municipality

***Financial Center and Orienting the Financial Sector to Support the Integrated Development of the Yangtze River Delta***, which contains detailed measures for encouraging pioneering financial reforms in the Lin-gang Special Area. On November 21, 2022, the PBOC, the National Development and Reform Commission, the Ministry of Finance, the Ministry of Science and Technology, the Ministry of Industry and Information Technology, the China Banking and Insurance Regulatory Commission (CBIRC), the CSRC, and the State Administration of Foreign Exchange jointly issued the ***Overall Plan for the Construction of Pilot Zones for Scientific and Technological Innovations and Financial Reform in Shanghai, Nanjing, Hangzhou, Hefei, and Jiaxing***. The aim was to facilitate the development of a highly accessible, multi-tiered, and sustainable financial service system with multiple levels, full coverage, and the support of scientific and technological innovations. At present, the financial asset investment companies of the Big Five banks of China (ICBC, Bank of China, China Construction Bank, Agricultural Bank of China, and Bank of Communications) have been approved to engage in equity investment other than for debt-for-equity swap in Shanghai; banks' wealth management subsidiaries to set up Shanghai-based subsidiaries specializing in equity investment and direct investment; overseas financial institutions to establish and invest in pension management companies in Shanghai; and insurance asset management companies to establish specialized asset management subsidiaries in Shanghai.

In July 2021, the CPC Central Committee and the State Council jointly issued the ***Guidelines on Supporting the High-Level Reform and Opening Up of the Pudong New Area and Building It into a Pioneer Area for Socialist Modernization***. The Guidelines call for strengthening the market, product offerings, institutions, and infrastructures of the financial sector; supporting the Pudong New Area to develop the offshore RMB market and offer cross-border trade settlement and overseas financing services; building a trading platform for international financial assets; and enhancing China's influence in the pricing of key commodities. In July 2022, the CBIRC and the Shanghai Municipal Government announced the ***Working Plan for Building a Leading Zone for Science and Technology Insurance Innovation in the Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone***. The plan aims to provide insurance support for key industries, promote the opening up of the science and technology insurance market, and encourage the mutual empowerment of insurance and technology. In September 2022, six government authorities, including the Shanghai Municipal Financial Regulatory Bureau, jointly issued the ***Several Opinions on Supporting the Shanghai Equity Exchange to Pilot the Transfer of Private Equity and Venture Capital Shares***. The goal is to expand the transfer and exit channels for private equity and venture capital shares and facilitate the circulation of financial and business capital.

In addition, on August 12, 2021, the ***14th Five-Year Plan for the Development of the Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone*** was released. According to the Plan, the Lin-gang Special Area will focus on building the digital economy and shaping itself into an international data hub during the 14th Five-Year Plan period. The plan has for the first time proposed security evaluation and a public service platform for cross-border data flows to ensure they are secure and controllable, and permits the testing of non-local storage of data of specified domains if those data do not involve state secrets or personal privacy.

## 8. Cutting-Edge Fintech

Fintech has revolutionized how we work and live. Global networks and cutting-edge technologies such as AI provide the technical foundations for the smarter and more efficient global investment activities of the asset management industry. Shanghai is one of the most important hubs in China for fintech enterprises. It was where China's first fintech firm, CCB Fintech, was established, in 2018. National commercial banks followed CCB's footsteps with the creation of fintech subsidiaries such as BOC Fintech, BOCOM Fintech, and CIB Fintech. In 2020, HSBC Fintech Services (Shanghai), the first foreign-funded fintech company, was established in the Lin-gang Special Area. Also in that year, the Shanghai Insurance Exchange launched the Insurance Exchange Chain system which applies blockchain technology to insurance transactions.[40]

In August 2021, the ***14th Five-Year Plan for the Building of Shanghai International Financial Center*** was unveiled, making it clear that Shanghai would build itself into "two centers", i.e., a global asset management center and a fintech center.

At the 3rd Shanghai Fintech International Forum & 1st Yangtze River Delta Fintech Conference held on December 4, 2021, a number of key initiatives were launched to shape Shanghai into an international financial center, including CSRC's announcement to pilot fintech innovation in Shanghai's capital market; PBOC's publication of a group standard entitled ***Specification for Credit Integration Service of Yangtze River Delta Credit Chain***; inauguration of the "Finance • Technology" industrial zone centered on the Longyang Road; establishment of the Data Industrialization Special Committee of Shanghai Fintech Industry Alliance; publication of the ***Blue Book on Financial Application of Privacy-Preserving Computation*** spearheaded by the Bank of Communications; and signing of agreement for Shanghai Financial Technology Equity Investment Fund (Limited Partnership).

On December 17, 2022, the 4th Shanghai International Fintech Forum announced several critical initiatives for building Shanghai as a fintech center. Firstly, the first CSRC capital market fintech innovation pilot (Shanghai) projects were unveiled, ranging from e-CNY to risk control solutions, trading system upgrading, market maker systems, and customer services. The 26 project applicants all come from the industries such as financial factor market, the securities, futures, and public fund sectors, commercial banks, and technology companies. Secondly, the Shanghai training center for fintech professionals was launched, and its declaration on developing Shanghai fintech was signed. Thirdly, three-year achievements of building Shanghai as a fintech center were formally released, and the cloud exhibition platform of the Shanghai Fintech Industry Alliance (SFIA) was launched. The ***Shanghai Fintech Development White Paper (2021)*** was also published. Lastly, SFIA formally established the Special Committee for Smart Finance and the Special Committee for Cutting-edge Technologies and Security.

## 9. A Deep Talent Pool

Shanghai has a wealth of higher education resources. In 2022, Shanghai boasted 64 colleges and universities with 554,800 enrolled students, 147,300 bachelor graduates (+8.5% YoY), 55,200 master graduates (+11.5% YoY), and 7,500 doctoral graduates (+15.4% YoY).[41]

By the end of the 13th Five-Year Plan (2020), there were 470,000 financial professionals working in Shanghai. With the influx of international and top financial talents, this figure is expected to reach 550,000 by 2025.[42] In addition to its impressive roster of top universities, Shanghai is also reforming its talent program by introducing a broad range of support services to attract financial institutions and professionals alike.

40 Source: ThePaper.cn
41 Source: Shanghai Education Annual Report 2022
42 Source: Shanghai Municipal "14th Five-Year" Plan for the development of financial talents

# Chapter 4 Overview of the Fund Industry in Shanghai

## 1. Public Fund

As of the end of June 2023, 71 of the 157 public fund management firms in China were based in Shanghai,[43] among which are 27 wholly foreign-owned and joint venture fund companies. Nearly 60% of all joint venture and solely-owned fund companies in China had office locations in Shanghai.

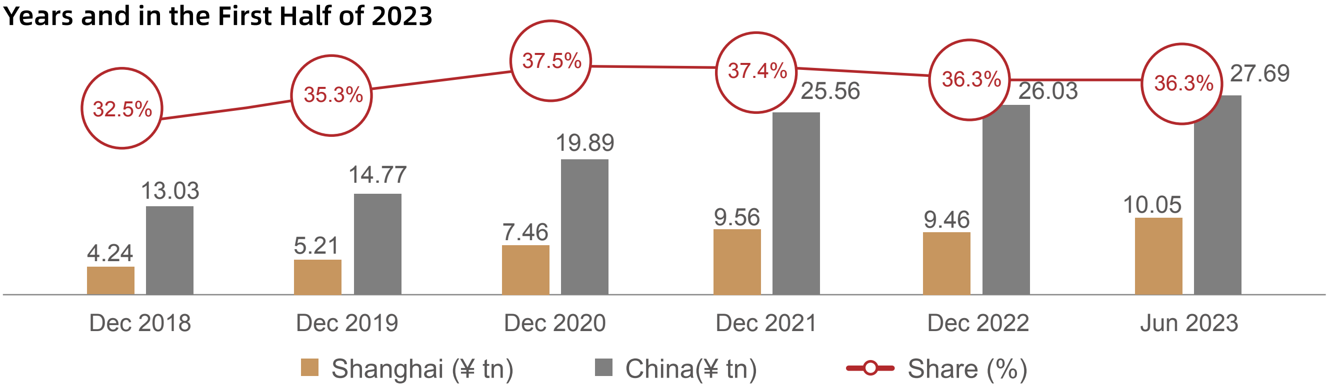
As of the end of June 2023, Shanghai-based public fund managers managed 4,261 public fund products with a total AUM of RMB 10.05 trillion. Non-money market funds contributed RMB 6.29 trillion or 62.6% of this total, higher than the industry average of 58.5%.[44]

Over the past five years, the AUM of the funds managed by Shanghai-based public fund managers has seen steady growth, with the AUM under their active management representing a considerable share of the national total. As of the end of June 2023, the AUM of the public funds, funds excluding money market funds (MMF), and equity and hybrid funds managed by Shanghai-based companies accounted for 36%, 39%, and 40%, respectively, of the national total.

**Table 3: Public Fund AUM by City (by regulatory jurisdiction, as of June 30, 2023)[45]**

| City | AUM(¥tn) | Public Fund Products |
|---|---|---|
| Shanghai | 10.05 | 4,261 |
| Shenzhen | 6.78 | 2,856 |
| Beijing | 5.81 | 2,508 |
| Guangdong | 3.03 | 752 |

**Figure 3: AUM of Public Funds Managed by Fund Companies in Shanghai and China over the Past Five Years and in the First Half of 2023**




43 Source: List of Public Fund Management Companies (June 2023), CSRC
44 Source: Shanghai Asset Management Association (SAMA)
45 Source: Data from SAMA and Wind, prepared by SAMA

**Figure 4: AUM of Funds Excluding MMF Managed by Fund Companies in Shanghai and China over the Past Five Years and in the First Half of 2023**

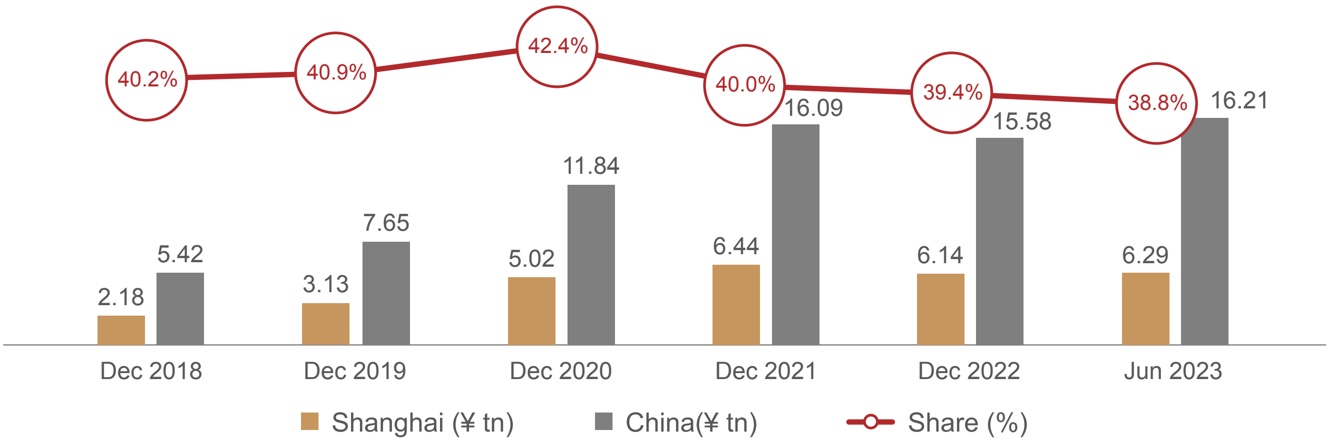
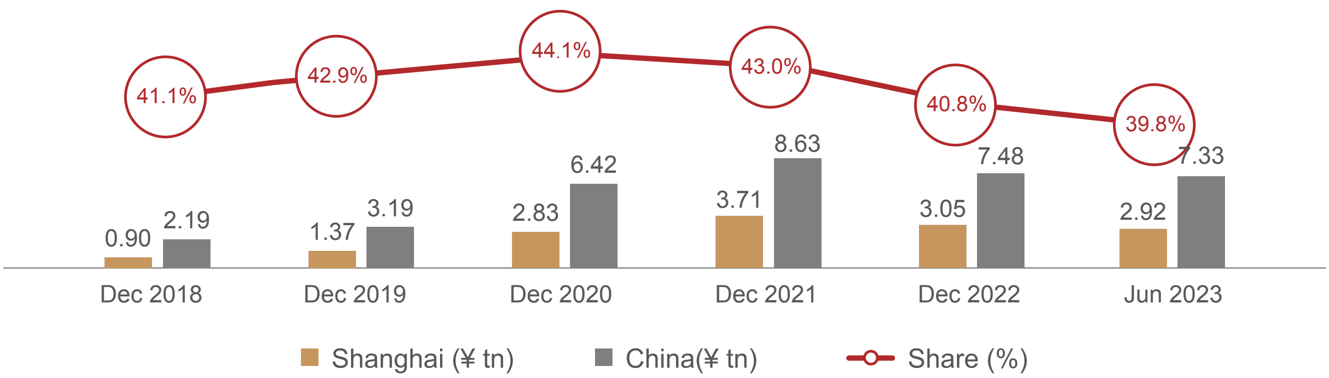



**Figure 5: AUM of equity and hybrid Funds Managed by Fund Companies in Shanghai and China over the Past Five Years and in the First Half of 2023**




## 2. Private Fund

As of the end of June 2023, there were 4,046 PFMs registered in Shanghai. Together they manage 43,300 funds with a total AUM of RMB 5.27 trillion. These figures made Shanghai the first in China.[46]

Over the past five years, the number and AUM of the funds managed by Shanghai-based PFMs have maintained growth along with the steady increase in the AUM of private funds nationwide, with each representing a considerable share of the national total.

46 Source: Monthly Reports on Registration of Private Fund Managers and Filing of Private Fund Products, AMAC

**Table 4: AUM of Private Funds by City (by place of registration, as of June 30, 2023)**

| City | Managers | Funds | AUM (¥tn) |
|---|---|---|---|
| Shanghai | 4,046 | 43,258 | 5.27 |
| Beijing | 3,683 | 24,099 | 4.66 |
| Shenzhen | 3,499 | 21,776 | 2.20 |

**Figure 6: Number of Private Funds Managed by Fund Companies in Shanghai and China over the Past Five Years and in the First Half of 2023**

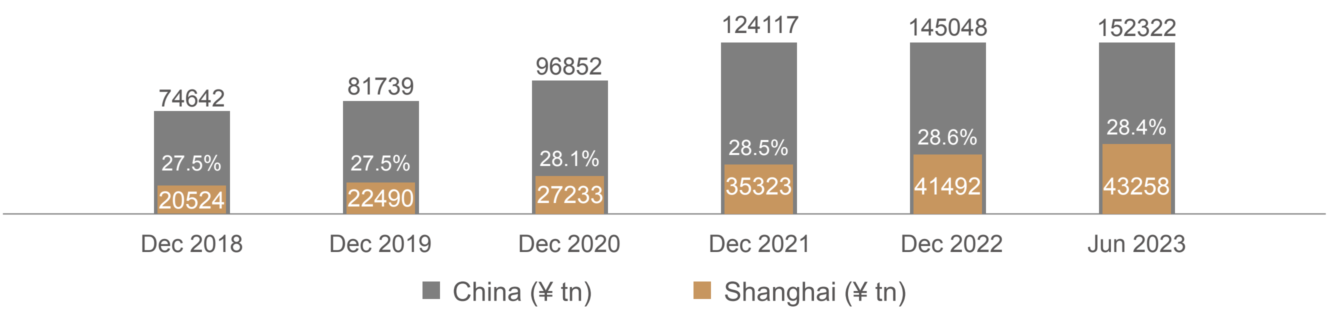
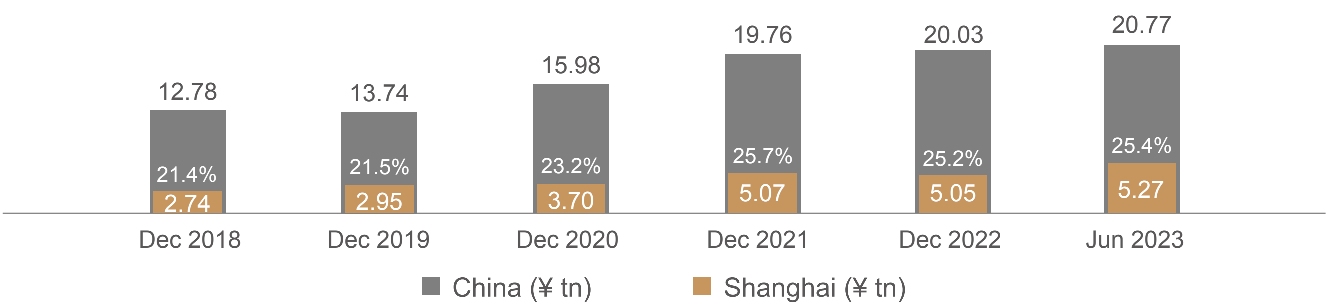



**Figure 7: AUM of Private Funds Managed by Fund Companies in Shanghai and China over the Past Five Years and in the First Half of 2023**




In 2019, around a quarter of large PFMs with an AUM of more than RMB 10 billion were registered in Shanghai. As of the end of April 2023, of the 115 PFMs with such AUM, 52 or 45%[47] were registered in Shanghai, ranking Shanghai first in China.

## 3. International Asset Management Firm

Since the first introduction of the QFLP pilot scheme in 2011, the Shanghai Municipal Financial Regulatory Bureau, Shanghai Municipal Commission of

47 Source: Wind, prepared by SAMA

Commerce, Shanghai Municipal Administration for Market Regulation, and SAFE Shanghai Branch have established a working mechanism for the scheme. On February 17, 2023, SAFE Shanghai Branch issued the ***Circular on Expanding the Scope of Certain Pilot Programs of Lin-gang Special Area for High-Standard Opening-Up of Cross-Border Trade and Investment***. The Circular expands the coverage of the pilot QFLP policy from the Lin-gang Special Area to the entire city, with the aim of further supporting cross-border investment of equity funds. As of November 2022, 86 companies were qualified as participants of the QFLP pilot scheme. Notably, Hamilton Lane became the first institution in Shanghai to establish a secondary fund through the scheme. These QFLP scheme participants focused investment on strategic emerging fields and made nearly 60% of their investments in biopharmaceutical, infrastructure and environmental protection, Internet and information technology, and high-end manufacturing sectors, playing a positive role in the development of innovative high-tech enterprises and the creation of a virtuous circle and interaction among the financial sector, the sci-tech sector and industries. In the past two years, as funds participating in the scheme entered the exit period, a stream of them had made a successful exit through diverse methods, including but not limited to listing, equity transfer, repurchase, transfer by agreement, and M&A.[48]

The QDLP pilot scheme was first introduced in Shanghai in 2013. As of November 2022, nearly 60 globally renowned asset management firms—among them BlackRock, Azimut, Baillie Gifford, Oaktree Capital, Allianz, Barings, and PIMCO—had established their presence in Shanghai and are qualified for the pilot scheme.

The QDLP pilot scheme enables overseas asset management firms to glean insight into the Mainland China market, test their business models, and understand Mainland investors before expanding their business in China.

As overseas asset management firms gain more business development experience in the Mainland, it has become an obvious trend for many overseas asset management firms that have set up an enterprise for participating in the QDLP pilot scheme to engage more deeply in the Mainland market by including but not limited to establishing PFMs, preparing to set up public fund management companies, or funding wealth management subsidiaries of Sino-foreign joint venture banks.

In 2016, overseas financial institutions were allowed to set up private securities funds through WFOEs. Wholly foreign-owned private fund managers or WFOE PFMs are entities established in China by overseas asset management firms to provide private securities investment services. As of the end of 2022, 32 of the 38 WFOE PFMs and joint venture PFMs operating in China were based in Shanghai.

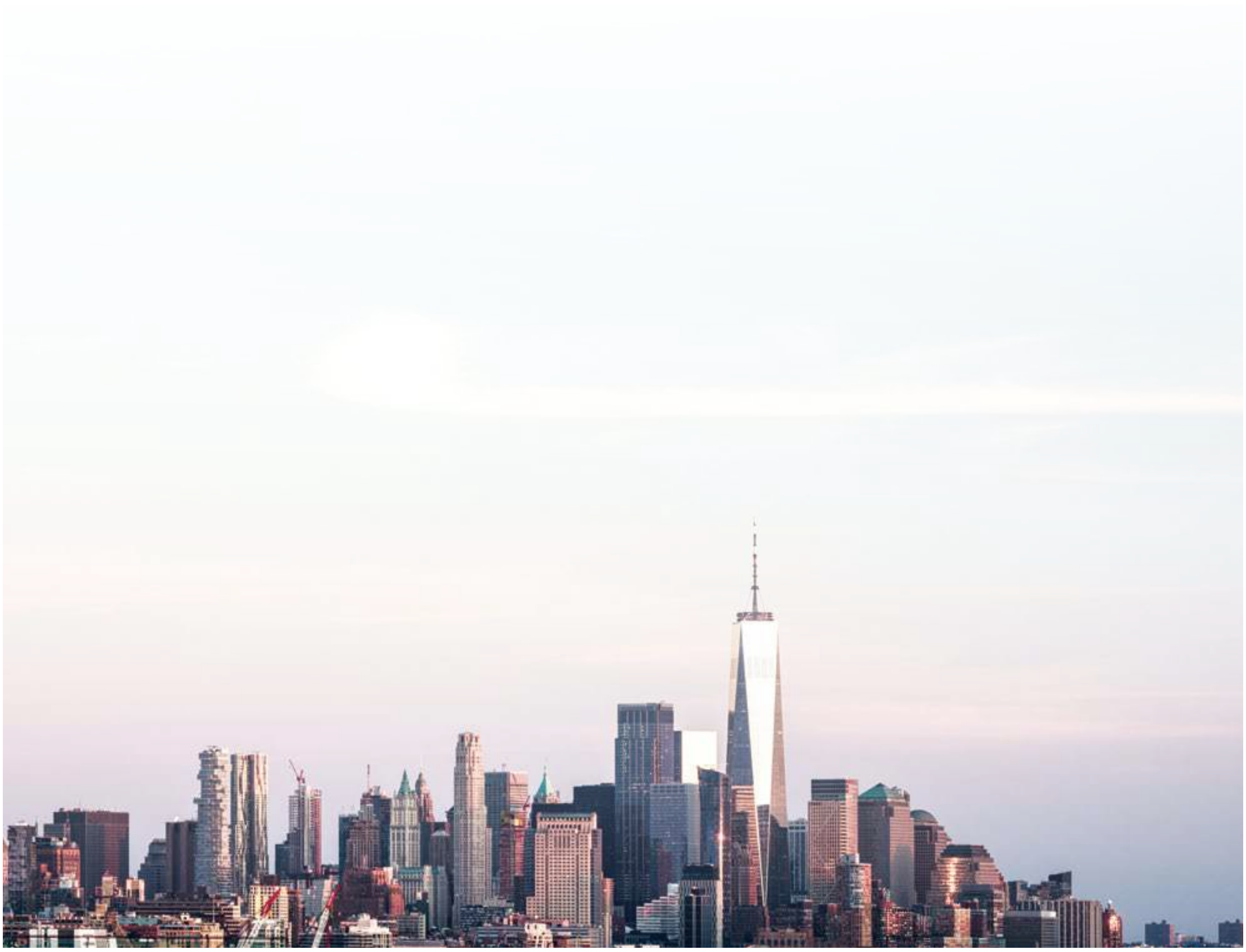
## 4. Shanghai Asset Management Association (SAMA)

Shanghai Asset Management Association ("SAMA") was established on November 18, 2010. Being rated as a 5A social organization, it is a non-profit social organization legal person voluntarily sponsored and formed by relevant enterprises in the fund industry in Shanghai. Under the supervision of the CSRC Shanghai office, SAMA complies with national laws, regulations and policies, protects the legitimate rights and interests of its members, and acts as a bridge between the Shanghai fund industry and the government. It also organizes a wide range of specialized trainings and workshops and provides a platform for exchange and communication to promote the high-quality development of the fund industry in Shanghai.

As of the end of June 2023, SAMA had 313 members, including 69 public fund companies, 155 PFMs (including 25 WFOE PFMs), 36 client-specific asset managers, 23 Shanghai branches of non-Shanghai-based fund companies, and 30 independent fund distribution institutions. The AUM of the public fund management company members totaled RMB 13.43 trillion, accounting for nearly 40% of the national total, while that of the PFM members amounted to around RMB 1.99 trillion, accounting for 38% of the total AUM of PFMs in Shanghai.

48 Source: Yicai

In 2022, SAMA was awarded the title “National Outstanding Social Organization” by the Ministry of Civil Affairs, which is one of the most authoritative honors for social organizations in China.



# Chapter 5 Laws, Regulations, and Regulatory Policies

## 1. Public Funds

The legal cornerstone of China's public fund industry is the ***Securities Investment Fund Law of the People's Republic of China*** ("Fund Law"), which was promulgated in 2004 and revised twice in 2012 and 2015. The Fund Law, as the fundamental law of China's fund industry, sets a framework for the operation of fund managers and funds. In addition, relevant investment activities are also governed by the ***Securities Law of the People's Republic of China*** ("Securities Law") and other relevant laws and regulations.

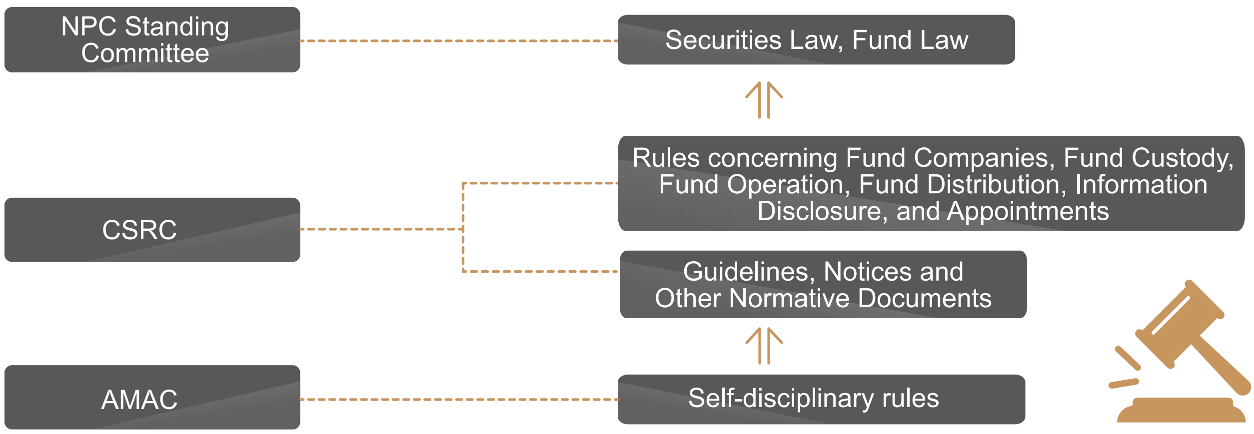
According to the provisions of the Fund Law, CSRC will supervise and manage the activities of securities investment funds in accordance with the law, and its local branches will perform their duties in accordance with authorization; AMAC is a self-regulatory organization of the securities investment fund industry, which is subject to the instruction, supervision and management of CSRC.

As the regulator, CSRC has formulated a number of regulatory provisions within the framework of the Fund Law, the most important of which include:

(1) the ***Measures for the Supervision and Administration of Managers of Publicly Offered Securities Investment Funds***, which regulates the establishment, change and operation and management of public fund managers; (2) the ***Administrative Measures on Securities Investment Fund Custody Business***, which regulate the fund custody; (3) the ***Administrative Measures on the Operation of Publicly-Offered Securities Investment Funds, which regulate the investment restrictions and operation of funds***; (4) the ***Measures for the Supervision and Administration of Distributors of Publicly -Offered Securities Investment Funds***, which regulate the distribution of securities investment funds; (5) the ***Administrative Measures on Information Disclosure of Publicly-Offered Securities Investment Funds***, which regulate the information disclosure of funds; and (6) the ***Measures for the Supervision and Administration of Directors, Supervisors, Senior Management Personnel and Other Practitioners of Securities and Fund Institutions***, which stipulate the qualifications and code of conduct for directors, supervisors, senior management personnel and other practitioners of public fund managers. In addition, CSRC has formulated a large number of regulatory documents to regulate the development of the fund industry. Moreover, since April 2018, the ***Guiding Opinions on Regulating the Asset Management Business of Financial Institutions*** and its supplementary notices have been issued in succession to guide wealth management products in transforming towards being based on net asset value, no guarantee of rigid payment, transparency in and standardization of invested assets, etc. The public fund sector has set a benchmark for the asset management industry through its complete implementation of trust relationships, thorough protection of investors' rights and interests, and standardized and transparent product operation.

As a self-regulatory organization, AMAC formulates self-regulatory rules according to the authorization of law and the instruction of CSRC. The self-regulatory rules provide important guidance on the operation and practice of the fund industry, covering company regulation, practitioner management, fund custody, fund distribution, fund investment, trading, fund information disclosure, fund accounting, taxation and dividends, and information technology. Fund managers are required by law to join AMAC as AMAC members and be bound by the articles of association of AMAC.

**Figure 8: Legislative Framework for Public Funds**




## 2. Private Asset Management Business of Securities and Futures Institutions

Both the ***Administrative Measures on Private Asset Management Business of Securities and Futures Institutions*** and the ***Administrative Provisions on the Operation of Private Asset Management Schemes of Securities and Futures Institutions*** (collectively, the "Asset Management Rules"), the two major regulatory documents issued by the CSRC regarding private asset management products, refer to the Fund Law as their superior law. Therefore, the Fund Law is also the fundamental law in the field of private asset management products.

CSRC and AMAC have issued, respectively, as the regulatory body and the self-regulatory organization, a large number of regulatory provisions and self-regulatory rules applicable to private asset management products, covering broad areas such as product fundraising, compliant investment and operation, and product filing for private asset management products.

## 3. Private Funds

The Fund Law revised in 2012 came into force on June 1, 2013. One of the highlights of this revision is to subject the private securities funds to the applicable scope of Fund Law, which marks the official initiation of PFMs that can independently issue and manage funds. The Fund Law is also the fundamental law for private securities funds. In addition, investment activities with respect to private securities funds are also governed by the Securities Law and other relevant laws and regulations. According to the Fund Law, CSRC is the regulator of the private securities fund industry. In June 2013, CSRC was explicitly granted with supervisory and regulatory functions over private equity funds. CSRC issued the ***Interim Measures for the Supervision and Administration of Private Investment Funds*** in August 2014 and the ***Certain Provisions on Strengthening the Regulation of Privately Raised Investment Funds*** in December 2020. In addition, the regulations formulated by CSRC for certain fields (e.g., the ***Administrative Measures on Investor***

***Suitability for Securities and Futures*** and the ***Measures for Supervision and Administration of Distributors of Publicly Offered Securities Investment Funds***) also apply to private funds.

On July 9, 2023, the State Council released the ***Regulation on the Supervision and Administration of Private Investment Funds*** (“Private Fund Regulation”), which officially came into force on September 1, 2023. The ***Private Fund Regulation*** illustrates the legal status and functional role of private funds for the first time at the level of administrative regulations of the State Council and makes the legal and regulatory system for private funds more complete. The ***Private Fund Regulation*** is applicable to private securities funds and private equity funds, and it also makes special provisions for venture capital funds and includes private investment funds of different organizational forms, such as contractual, corporate and partnership, in the scope of application. The ***Private Fund Regulation*** stipulates comprehensive provisions on aspects including but not limited to market access, business requirements, registration and filing, fundraising, investment and operation, supervision and regulation, and legal liabilities. Next, the CSRC will, in accordance with the authorization provisions of the ***Private Fund Regulation***, make comprehensive improvements to the rules and regulations governing private funds. Specific efforts will include revising the ***Interim Measures for the Supervision and Administration of Private Investment Funds*** and introducing supporting implementation rules. The CSRC will also guide AMAC to revise its self-disciplinary rules regarding the registration and filing, contract guidelines and information reporting in accordance with the ***Private Fund Regulation*** and other relevant rules of the CSRC.

According to the provisions of the Fund Law, AMAC is the self-regulatory organization of the fund industry and is subject to the instruction and supervision of CSRC. Fund managers and fund custodians are required to join AMAC and fund service providers are allowed to join AMAC. Similar to the practice in the public fund sector, AMAC, as a self-regulatory organization, formulates, updates, and implements self-regulatory rules on private investment funds in accordance with the authorization of law and CSRC and in light of market conditions. However, different from the practice in the public fund sector, according to the Fund Law, AMAC is also responsible for the registration of private investment fund managers and filing of private investment funds according to the law. In other words, AMAC’s self-regulatory management of private funds is more comprehensive.In this regard, AMAC has formulated and issued many self-regulatory rules on the registration and filing, fundraising, fund service and information disclosure, etc. regarding private investment funds, including but not limited to the ***Measures for Registration and Filing of Private Investment Funds*** and its supporting guidelines, the ***Guidelines on the Internal Control of Private Investment Fund Managers***, the ***Guidelines on Private Investment Fund Contracts***, the ***Administrative Measures for the Fundraising of Private Investment Funds***, the ***Administrative Measures for the Information Disclosure for Private Investment Funds***, the ***Guidelines on the Implementation of Investor Suitability Management by Fundraising Institutions (For Trial Implementation),*** and the ***Administrative Measures on Private Investment Fund Service Business (for Trial Implementation).***

# Chapter 6
# Fund Types and Legal Framework

## 1. Public Funds

At present, all public funds in China are contractual (i.e., unit trust) funds based on the legal relationship of trust, under which the fund manager and the fund custodian jointly act as the trustee, and the fund unitholder is both the principal and the beneficiary.

The dual-trustee legal structure consisting of the fund manager and the fund custodian is unique to Chinese funds and rarely seen in most other countries and regions. Under this structure:

**1) The functions and powers of the fund manager are as follows**:

- A raising funds and handling the issuance and registration of fund units according to the law
- B handling the fund filing procedures
- C separately managing and keeping accounts of different fund assets under management, and investing in securities
- D determining the fund dividend distribution plan according to the fund contracts, and making dividend distribution to fund unitholders in a timely manner
- E carrying out fund accounting and preparing fund financial accounting reports
- F preparing interim and annual fund report
- G calculating and announcing the net asset value of funds, and determining the subscription and redemption prices of fund units
- H handling information disclosure matters relating to fund assets management activities
- I convening the fund unitholders' meeting in accordance with relevant provision
- J maintaining records, books, statements, and other relevant materials of fund assets management activities
- K exercising litigation rights or taking other legal actions for the benefit of fund unitholders in the name of fund manager; and
- L other duties prescribed by the securities regulatory authority under the State Council

**2) The functions and powers of the fund custodian are as follows:**

- A safekeeping fund assets
- B opening fund accounts and securities accounts of fund assets in accordance with relevant provision
- C setting up separate accounts for different fund assets under custody to ensure the integrity and independence of fund assets
- D maintaining records, books, statements, and other relevant materials of fund custody activities
- E handling settlement and clearing matters timely in accordance with the fund contracts and the investment instructions of the fund manager
- F handling information disclosure matters relating to fund custody activities

- G issuing opinions on the fund's financial and accounting reports, interim and annual fund reports
- H reviewing and examining the net asset value of the fund assets and the subscription and redemption prices of fund units calculated by the fund manager
- I convening the fund unitholders' meeting in accordance with relevant provisions
- J supervising the investment operation of the fund managers according to relevant provisions; and
- K other duties prescribed by the securities regulatory authority under the State Council

3) The fund unitholders exercise their rights through the fund unitholders' meeting. The fund unitholders' meeting has the functions and powers to:

- A decide to offer new fund units or renew the term of the fund contract
- B modify any key provisions of the fund contract or terminate the fund contract early
- C replace the fund manager or the fund custodian
- D adjust the standard of remuneration of the fund manager and the fund custodian; and
- E exercise other functions and powers provided in the fund contract

The fund unitholders' meeting may, as agreed upon in the fund contract, elect personnel to constitute a general office to exercise the following functions and powers: convening the fund unitholders' meeting, proposing the replacement of the fund manager or the fund custodian, overseeing the fund manager's investment operations and the fund custodian's custody activities, and proposing the adjustment of the remuneration standard of the fund manager and the fund custodian.

Public funds must be issued and managed by public fund managers and be under the custody of fund custodians. According to the data released by CSRC, as of the end of May 2023, there were 62 fund custodians in total in China[49], among them are 29 securities companies, China Securities Depository and Clearing Corporation Limited (CSDC), China Securities Finance Corporation Limited, and 31 commercial banks.

Under the Fund Law, the ***Measures for the Supervision and Administration of Managers of Publicly Offered Securities Investment Funds***, and other relevant laws and regulations, the public fund manager may appoint a qualified fund service provider to handle the units registration, accounting, valuation, and other matters for the fund, and the fund custodian may appoint fund service providers to handle the accounting, valuation, review and other matters for the fund; however, the liabilities of the fund manager and the fund custodian under the law will not be exempted due to such appointment.

49 Source : List of Securities Investment Fund Custodians (May 2023), CSRC

## 2. Private Asset Management Business of Securities and Futures Institutions

Most of the private asset management products issued by public fund management companies, securities companies, and futures companies are contractual products based on a legal relationship of trust, under which the manager and the custodian of the private asset management product jointly act as the trustee, and the unitholder is both the principal and the beneficiary. Under this structure:

1) The core functions and powers of the manager upon entrustment are: to undertake investment management, to conduct valuation and accounting as the party responsible for accounting matters, to handle unit registration, and to exercise rights of action or take other legal actions on behalf of investors.

2) The core functions and powers of the custodian upon entrustment are: to preserve the assets of the private asset management product, to carry out clearing and settlement according to the manager's investment instructions, to supervise the investment operation of the manager, and to disclose information related to the custody.

Different from public funds, a single asset management scheme (i.e., a private asset management product that is issued for a specific single investor) may, according to the asset management contract, choose not to engage a custodian for custody, provided that it has set out measures for the safety of its assets and dispute resolution mechanisms in the assets management contract.

3) The units of the asset management scheme at the same level share the same rights and risks. The unitholders of private asset management products will exercise their rights in accordance with laws, regulations, and relevant asset management contracts.

Slightly different from public funds, private asset management products may or may not set up the unitholders' meeting mechanism. The unitholders of private asset management products without unitholders' meeting mechanism may exercise their rights in accordance with laws, regulations, and relevant asset management contracts.

As with pubic funds, the manager or the custodian of private asset management products may appoint service providers for the asset management product, provided that the fiduciary duties of the custodian cannot be outsourced, and the liabilities of the manager and the custodian under the law will not be exempted due to such appointment.

## 3. Private Funds

### 3.1 Types of Funds

In the Chinese market, private funds can be classified by different sets of criteria. A common classification is by the type of target investment and market, by which private funds are divided into private securities funds and private equity funds. A private securities fund mainly invests in stocks, bonds, depository receipts, asset-backed securities, futures contracts, options contracts, swaps, forwards, units of other securities investment funds, and other assets recognized by the CSRC. A private equity fund mainly invests in the equity of unlisted companies, shares of unlisted public companies, shares issued by listed companies to specific investors, shares of listed companies traded through block trading or contractual transfer, non-publicly issued or traded convertible bonds or exchangeable bonds, market- and law-based debt-equity swaps, units of other equity investment funds, and other assets recognized by the CSRC.

The scale of initial paid-in capital raised for a private fund investing in a single target should not be less than RMB 20 million. For a private securities or equity fund (excluding venture capital fund), the scale of initial paid-in capital should not be less than RMB 10 million. For a venture capital fund, the initial paid-in capital at the time of filing should not be less than RMB 5 million (provided that it should be agreed in the fund contract that the paid-in capital should be increased to be RMB 10 million within 6 months after the filing). By the form of organization, private funds can be divided into contractual private funds, corporate private funds, and partnership private funds. By investment approach, private funds can be categorized into direct investment funds, which invest directly in the target companies, and indirect investment funds (or FOFs), which invest in other private funds.

## 3.2 Legal Structure

The legal structures of private funds vary depending on their form of organization. Specifically:

**(1) Contractual funds**

All types of private funds can be structured as contractual funds. In practice, the contractual structure is commonly seen in private securities funds, but seldom in private equity funds.

For contractual private securities funds, like public funds, they are all based on the legal relationship of trust, under which the fund manager and the fund custodian jointly act as the trustee, and the fund unitholder is both the principal and beneficiary. Under this structure:

1) The core functions and powers of the fund manager upon entrustment are: undertaking investment management, conducting valuation and accounting as the party responsible for accounting matters, handling unit registration, exercising shareholder's rights on behalf of the fund, and supervising the fund custodian.

2) The core functions and powers of the fund custodian upon entrustment are: preserving the fund assets, carrying out the manager's investment instructions, conducting compliance review of the investment instructions, handling funds transfers, reviewing valuation and information disclosure, and supervising the fund manager.

3) Each fund unit has equal rights. The fund unitholders exercise their rights through the fund unitholders' meeting. The fund unitholders' meeting has the right to replace the manager/custodian, to adjust the remuneration of the manager and the custodian, to change the fund operating model, investment strategy or distribution mechanism, and to decide on the termination and liquidation of the fund.

The fund manager and the fund custodian of private securities funds may appoint service providers for the fund, provided that the fiduciary duties of the custodian cannot be outsourced. A fund service provider that is appointed to offer unit registration services, valuation and accounting services, or information technology system services should have been registered with the AMAC. The liabilities of the manager and the custodian under the law will not be exempted due to such appointment.

**(2) Partnership funds**

All types of private funds can be structured as partnership funds. Different from the contractual structure, the partnership structure (mostly the limited partnership structure) is the usual choice for private equity funds, but less so for private securities funds.

A partnership fund may be managed by its general partner or a manager hired by the general partner. For this latter option, the manager needs to be a related party of the general partner. The responsibilities of the manager include looking for potential investment targets, conducting due diligence investigations, developing investment strategies, making investment decisions, and performing post-investment management. In addition to investment-related responsibilities, responsibilities related to fund management include but are not limited to raising funds and submitting quarterly, annual, and major event reports of the funds under its management to AMAC.

The partnership structure has tax advantages as income tax is levied on the taxable income allocated to each partner, not on the income of the partnership fund before that allocation.

**(3) Corporate funds**

A corporate fund is an independent legal entity established with capital contributed by investors, who will exercise rights and assume obligations and responsibilities as its shareholders in accordance with its articles of association.

A corporate fund may be managed by itself or by any other private fund manager engaged by it.

Corporate funds are governed by the ***Company Law of the People's Republic of China*** in their management structure. This type of fund is rare in practice for the consideration of tax because corporate income tax applies at the fund level.

# Chapter 7 Application and Approval of Products and Institutions

## 1. Public Funds

### 1.1 Establishment of Public Fund Management Companies

Public fund management companies that are established upon approval by CSRC may raise funds and manage public funds. The Fund Law requires fund assets to be invested only in the following: (1) listed stocks and bonds; and (2) other securities and derivatives thereof prescribed by CSRC. Please see Section 1.3 of this Chapter for other asset management businesses public fund management companies may conduct. The following conditions should be met to establish a public fund management company:

1) Shareholders. According to the ***Measures for the Supervision and Administration of Managers of Publicly Offered Securities Investment Funds,*** shareholders of public fund management companies can be divided into three types: major shareholder(s) (i.e., shareholders holding 25% of equity or more (where there is more than one such shareholder, all such shareholders should be deemed as major shareholders), or, absent of them, the largest shareholder holding 5% of equity or more), non-major shareholder(s) holding 5% of equity or more, and non-major shareholder(s) holding less than 5% of equity. Furthermore, after a public fund management company is established, the new shareholder's qualification shall be preapproved by the CSRC ahead of any change of shareholder holding 5% of equity or more (including any person meeting this criterion after receiving a transfer of 5% of equity or more or subscribing for incremental registered capital), as well as any change of shareholder who holds less than 5% of equity but nevertheless has a significant impact on corporate governance.

The requirements on the qualifications of the sole shareholder of a wholly foreign-owned public fund management company ("WFOE FMC"), which basically combine the requirements on major shareholders, overseas shareholders and actual controllers as prescribed in the ***Measures for the Supervision and Administration of Managers of Publicly Offered Securities Investment Funds***, are as follows:

a) The major shareholder of the WFOE FMC shall meet the following requirements:

(i) The shareholder itself and the institution(s) under its control shall have good credit and compliance records, good asset quality and financial position, sound corporate governance, well-established internal control system, effective risk management and control, and the ability to support the WFOE FMC in improving the latter's comprehensive competitiveness;

(ii) It is an institution that engages in the financial business or manages financial institutions according to law; it has good management performance, social reputation, and net assets of not less than RMB 200 million or its equivalent in a freely convertible currency in the last year; it has made a profit in each of the consecutive preceding 3 years; its investment in the WFOE

FMC is in line with its long-term strategy and contributes to the development of its principal business (if it is an institution that manages financial institutions, at least one of the financial institutions under its management should satisfy the requirements of this (ii) and relevant requirements of CSRC);

(iii) It has a practicable plan to improve the WFOE FMC's corporate governance and promote the WFOE FMC's long-term development and possesses the capital replenishment capacity commensurate with the WFOE FMC's business operation;

(iv) It has established a clear self-discipline mechanism to maintain the independence of WFOE FMC's business management and to prevent risk contagion and tunneling;

(v) It has formulated a rational and effective risk contingency plan for any business interruption of the WFOE FMC due to occurrence of risk events;

(vi) It has no record of material violations of laws and regulations or material negative integrity record in the preceding three years; it has not been imposed with criminal penalties for intentional criminal offenses, or it has been more than 3 years since the enforcement has been fully carried out; it is not under investigation due to suspected material violations of laws or regulations during the rectification period;

(vii) It is not under any circumstance that may adversely affect the exercise of rights or performance of obligations as the shareholder, such as failure to conduct actual business operation for a long time, suspension of business, bankruptcy and liquidation, defective corporate governance, and dysfunctional internal control; and it is not involved in any guarantee, litigation, arbitration or other material events that may severely affect its ongoing operation;

(viii) It has a clear shareholding structure and is able to disclose each layer of its shareholding structure up to the ultimate beneficiary owner; its shareholding structure does not involve any asset management product unless otherwise approved by CSRC; and

(ix) It has neither been subject to substantial public skepticism for any dishonesty or violation of regulations, nor through such dishonesty or violation of regulations, caused a serious negative social impact yet to be eliminated; it shall not have significant liability for the operation failure of any company it invested in, or no less than 3 years have passed since it was held principally liable for the operational failure of any company it invested in; and it has not committed any act that damages the interests of clients, such as misappropriation of clients' assets.

b) The overseas shareholder of the WFOE FMC should meet the following requirements as well:

(i) It is a financial institution with experience in financial asset management or an institution that manages financial institutions, which is duly incorporated and lawfully exists under the laws of the country or region where it is incorporated; it has a sound internal control mechanism; it has complied with the legal provisions and regulatory requirements of jurisdiction of its incorporation regarding major regulatory indicators during the last three years;

(ii) Its domicile country or region has well-established securities laws and regulatory system, whose securities regulatory authority should have entered into a memorandum of understanding on the cooperation in securities regulation and maintain effective regulation cooperation with CSRC or such other institutions as recognized by CSRC;

(iii) It has good international reputation and operating performance; it has ranked top globally in terms of financial assets under management, revenue, profit, and market share and other indicators during the last three years; it has maintained a high credit standing for a long time during the last three years;

(iv) Its cumulative ratio of shareholdings or of holding rights and interests (including direct or indirect holdings) comply with China's arrangement for the opening-up of the securities industry; and

(v) Other requirements prescribed under laws, administrative regulations, and by CSRC upon approval of the State Council.

c) The actual controller of the WFOE FMC should meet the following requirements:

(i) Its net assets account for not less than 50% of its paid-in capital;

(ii) Its contingent liabilities account for less than 50% of its net assets;

(iii) It is not involved in any circumstance where it cannot repay any debts falling due; and

(iv) The requirements as set out in (iii) through (ix) under a) above.

2) Capital. Public fund management companies must be established in the form of a company (instead of partnerships or any other forms) with a registered capital of not less than RMB 100 million which should be paid-in by shareholders in full with their proprietary cash from legitimate sources. Overseas shareholders are to make capital contributions in a freely convertible currency.

3) Personnel. Each public fund management company should have senior management personnel including the general manager, deputy general managers, chief financial officer, chief compliance officer, chief risk officer, and chief technology officer, as well as research, investment, operations, distribution, and compliance personnel. In general, no fewer than 30 of the senior management personnel and aforementioned business personnel should be licensed fund practitioners.

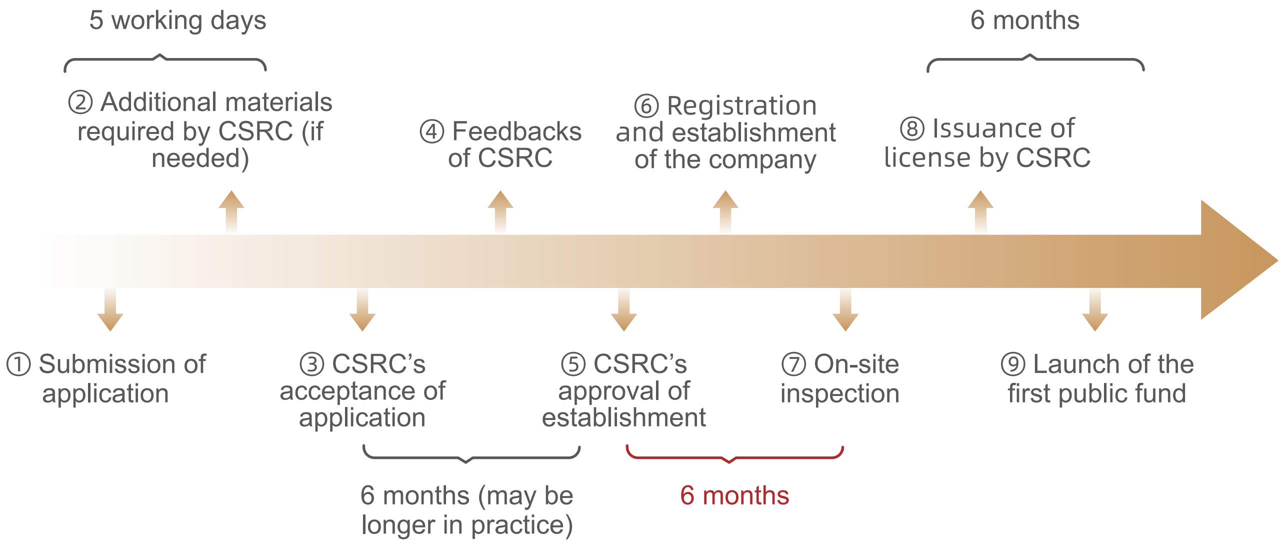
4) Software and hardware facilities. Public fund management companies must have business premises, security protection and other necessary facilities, and IT systems that are sufficient to support their operations. In general, the IT systems should cover aspects such as investment and management, registration, and accounting.

5) Application procedures. The application procedures consist of two phases—establishment application and on-site inspection.

Currently, a public fund management company is established under the "approval first, preparation later" mode. Under this mode, relevant parties need to first apply to CSRC for establishing the public fund management company, during which period they will go through the steps of acceptance of application, review of shareholders' qualifications and feedback of CSRC. During the preparation phase, which commences upon CSRC's approval of the establishment of the public fund management company, the applicant should complete the work required for carrying out public fund management business, including staffing, technology systems, business premises, and facilities. After the preparations have been completed and approved by CSRC upon on-site inspection, CSRC will issue a securities and futures business license to the established public fund management company, after which the company may carry out relevant businesses.

Time required for the above procedures varies depending on such factors as the number of shareholders, the complexity of shareholders' backgrounds, and the work progress of the company's preparation team. At present, CSRC requires that public fund management companies complete the preparation work within six months after obtaining the approval for their establishment.

**Figure 9 | Application Procedures for Establishment of Public Fund Management Companies**




According to the ***Measures for the Supervision and Administration of Managers of Publicly Offered Securities Investment Funds***, in addition to newly established public fund management companies, those other types of asset management organizations—such as asset management subsidiaries of securities companies and insurance asset management companies—that are qualified may also apply to the CSRC to get public fund licenses.

## 1.2 Registration of Funds

In accordance with the Fund Law, funds in China are subject to registration. According to the requirements of CSRC, public fund management companies are required to submit the fund contract, custody agreement, prospectus, legal opinion, and other registration application materials.

The fund registration documents include:

1) the fund contract, which is a fundamental legal document entered into by the manager, the custodian, and the fund unitholder. It is a trust contract setting out the rights and obligations of the fund manager, the custodian, and the fund unitholders. The fund contract generally includes the basic information of the fund, the filing of the fund contract, the effectiveness of the fund contract, the investment, subscription, redemption, and valuation of the fund, the dividend distribution of the fund, modification/termination of the fund contract, liquidation of assets of the fund, rules of procedure of the unitholders' meeting, and other aspects.

2) the custody agreement, which is a bilateral agreement between the manager and the custodian setting forth such matters as mutual supervision, carrying out investment instructions, and clearing and settlement.

3) the prospectus, which is an invitation for offer independently prepared by the manager. It sets out the fund's basic information, distribution channel, and a summary of the fund contract and the custody agreement, through which investors may have a clear view of the elements and purchase method of each fund.

According to applicable laws and regulations, CSRC will decide to approve or deny the registration of the fund within 6 months of accepting the application or, where fast-track procedures apply, generally within 20 working days of accepting the application. The fund manager should conduct fundraising within six months of receiving the registration approval.

### 1.3 Business Licenses for Public Fund Management Companies

Public fund management companies, upon being duly established, are automatically licensed for public fund management and may concurrently apply for the license for private asset management business. In addition, where the requirements of relevant regulations on net assets, AUM, investment performance and staffing are satisfied, public fund management companies may further apply for the licenses for QDII, basic pension investment management, enterprise annuity investment management, social security fund investment management and other businesses, or issue single asset management schemes for insurance funds.

1) License for the Private Asset Management Business

At present, except for a few newly established companies, other public fund management companies have the license for private asset management business. Failing to apply for the license for private asset management business during the phase of establishment application, public fund management company needs to apply to CSRC separately after establishment.

2) License for QDII

With the QDII license, the public fund management company is entitled to raise funds within the foreign exchange quota granted by the foreign exchange administrative authority and invest in offshore markets. The QDII license is subject to the approval by CSRC.

3) License for Enterprise Annuity Investment Managers

Entrusted by enterprise annuity trustees (e.g., the pension company and enterprise annuity council), an enterprise annuity investment manager is to provide investment and management services for fund assets of enterprise annuity. This license is granted by the Ministry of Human Resources and Social Security of China after review by a panel.

4) License for Social Security Fund Investment Managers

A social security fund investment manager, as a professional investment management institution, is to operate and manage China's social security funds pursuant to the contract. This license is granted by the National Council for Social Security Fund ("Social Security Fund Council" or "SSFC"). The SSFC reviews the qualification of investment managers in a prudent and strict manner.

5) License for Basic Pension Investment Managers

Basic pension, including the pension for enterprise employees, staff of government departments and civic institutions, and urban and rural residents, is the most important part of China's pension security. In accordance with the ***Announcement on Assessment of Securities Investment Management Institutions for Basic Pension Insurance Funds*** issued by the Social Security Fund Council on October 26, 2016, the basic pension investment manager should have experience in managing domestic securities investments for national social security funds or managing investments for enterprise annuity funds. Upon review by the expert assessment committee organized by SSFC, this license is granted by the SSFC.

6) Issuance of Single Asset Management Schemes for Insurance Funds

Insurance funds refer to the capital, capital surplus, undistributed profits, various reserves and other funds, denominated in RMB and foreign currencies, of insurance group (holding) companies and insurance companies. According to the ***Notice of the CBIRC on the Investment of Insurance Funds in Financial Products*** issued by the CBIRC in April 2022, an eligible public fund management company may, by virtue of its license for private asset management business, issue a single asset management scheme for insurance funds of insurance group (holding) companies and insurance companies.

7) Subsidiaries of Public Fund Management Companies for Engaging in Specified Businesses

The subsidiaries of public fund management companies may engage in businesses related to asset management, including public fund management, private equity fund management, investment advisory, financial services for pension funds, distribution of financial products, unit registration, valuation and accounting, and other businesses recognized by CSRC. The public funds managed by them include index funds, FOFs, pension investment products, and REITs, among others. In principle, such subsidiary should be wholly owned by a public fund management company and be strictly and effectively segregated from the parent company in the line of business.

It should be noted that the subsidiary of a public fund management company must meet the requirements for a new fund management company before engaging in the public fund management business, i.e., if the public fund management company intends to establish a subsidiary for the public fund management business, the company itself must meet the requirements for major shareholders of a fund management company, and the subsidiary must meet the requirements for the personnel, hardware, policies, and other aspects of a fund management company.

8) License for the Fund Investment Adviser Business

In October 2019, CSRC started the pilot scheme of fund investment adviser business based on the principle of "pilot scheme before steady expansion". Pilot institutions, including fund management companies and their distribution subsidiaries, may engage in fund investment advisory business by accepting the appointment of clients to provide advice on fund investment strategies of investment portfolio and receiving direct or indirect economic profits in accordance with the provisions of agreements.

## 2. Private Asset Management Products of Securities and Futures Institutions

### 2.1Application for the License for Private Asset Management Business

Securities and futures institutions include securities companies, public fund management companies, futures companies, and their legally established subsidiaries engaging in private asset management business. To engage in the private asset management business, a securities or futures institution should meet the following requirements:

1) complying with laws, administrative regulations, and CSRC's rules in terms of net assets, net capital, and other financial and risk control indicators;

2) having a well-established corporate governance structure and sound internal control, compliance management and risk management policies;

3) having qualified senior management personnel and three or more investment managers;

4) having an investment research department with at least three full-time employees engaging in investment research;

5) having business premises, security protection facilities and IT systems that comply with relevant requirements;

6) not having been subject to any administrative or criminal penalty due to a material violation of the laws and regulations in the last two years, not having been subject to any administrative supervision measures by the regulatory authority due to a material violation of the laws and regulations in the past one year, nor being subject to investigation by the regulatory authority or competent authority due to a suspected material violation of the laws and regulations; and

7) other requirements prescribed by CSRC based on the principle of prudent regulation.

If a securities company, public fund management company, or futures company establishes a subsidiary to engage in the private asset management business and causes its investment and research department to provide investment and research services for the subsidiary, it is deemed to have met the requirement in Paragraph 4).

In particular, a public fund management company or futures company that intends to engage in the private asset management business by itself, or a securities company, public fund management company or futures company that intends to establish a subsidiary to do so should apply to the CSRC for approval, while a securities company that intends to change its scope of business (by adding the private asset management business) should apply to the CSRC branch at where the securities company is domiciled for approval.

## 2.2 Business and Investment Operations of Private Asset Management Products

Private asset management products can only be offered to qualified investors in private. Securities and futures institutions may either establish a single asset management scheme for a single investor or a collective asset management scheme for several investors. The number of investors in a collective asset management scheme shall be no less than two and not more than two hundred, but for a qualified employee stock ownership plan, the enrolled employees are not counted as separate investors in a penetrating way. By the type of assets to invest in, asset management schemes can be divided into fixed-income schemes, equity schemes, commodity and financial derivative schemes, and hybrid asset management schemes.

A private asset management scheme may invest in:

1) bank deposits, inter-bank deposits, and standardized credit assets, including but not limited to bonds, central bank bills, asset-backed securities, debt financing instruments for non-financial enterprises and other credit assets that are traded on a stock exchange, the inter-bank market or any other trading venue established upon approval by the State Council, can be divided into equal shares, and have reasonable fair value and a well-established liquidity mechanism;

2) listed companies' stocks, depository receipts, and other standardized equity assets recognized by CSRC;

3) futures, options contracts, and other standardized futures and derivative assets that are centrally traded and cleared on a securities or futures exchange or any other lawful trading venue;

4) public funds, as well as CSRC-recognized asset management products that are administered mutatis mutandis with reference to public funds;

5) non-standardized credit assets, equity assets, and futures and derivative assets other than those set out in Paragraph 1) to Paragraph 3);

6) asset management products issued by institutions regulated by the financial regulatory authority under the State Council other than those set out in Paragraph 4); and

7) other assets recognized by the CSRC.

Assets referred to in Paragraph 1) to Paragraph 4) are standardized assets, while those referred to in Paragraph 5) to Paragraph 6) are non-standardized assets.

There are differences in the scope of standardized assets and non-standardized assets in which different types of securities and futures institutions may invest. The specific differences are as follows:

| Type of Institution | Investable Asset Class | Description |
| --- | --- | --- |
| Securities companies and their subsidiaries engaging in the private asset management business | Assets under Paragraph 1) to Paragraph 6) | Being allowed to invest in standardized assets and non-standardized assets. |
| Public fund management companies | Assets under 1) to Paragraph 4), and Paragraph 6) | Being allowed to invest in standardized assets only. When they invest in the products set out in Paragraph 6) (asset management products issued by other financial institutions), the underlying assets of such products should also be standardized ones. |

| | | |
|---|---|---|
| Subsidiaries of public fund management companies engaging in the private asset management business | Assets under Paragraph 1) to Paragraph 6) | Being allowed to invest in standardized assets and non-standardized assets, but avoiding horizontal competition with the parent companies (public fund management companies). |
| Futures companies (that are not rated AA in Class A or above in either/both of the last two assessment cycles) and their subsidiaries | Assets under Paragraph 1) to Paragraph 4), and under Paragraph 6) | Being only allowed to invest in standardized assets. When they invest in the products set out in Paragraph 6) (asset management products issued by other financial institutions), the underlying assets of such products should also be standardized ones. |
| Futures companies (that are rated AA in Class A or above in the last two assessment cycles) and their subsidiaries | Assets under Paragraph 1) to Paragraph 6) | Being allowed to invest in standardized assets and non-standardized assets. |

### 2.3 Filing of Private Asset Management Products

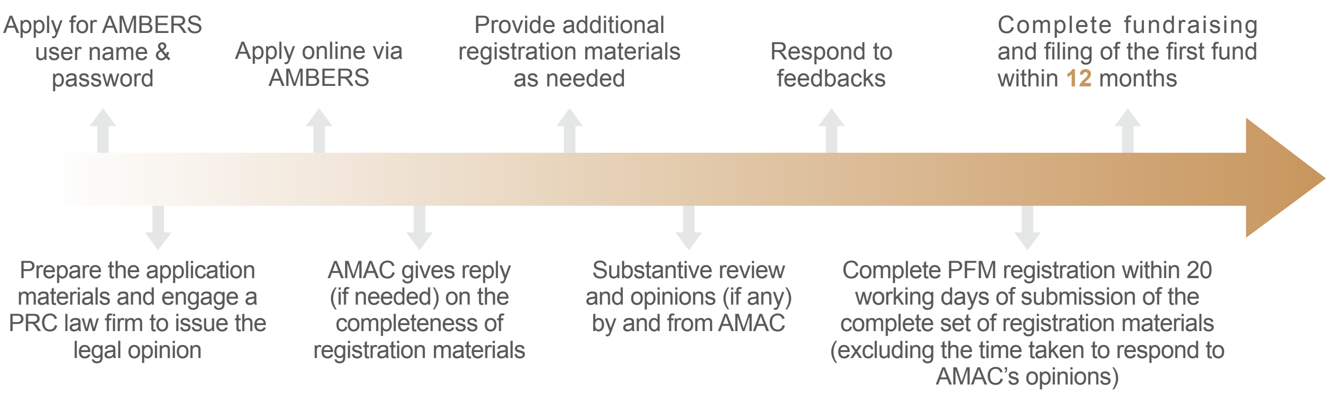
Securities and futures institutions should, within five working days upon the establishment date of a private asset management product, submit the asset management contract, list of investors and their subscription amount, asset payment certificate and other materials to AMAC for filing.

## 3. Private Funds

### 3.1 Registration as PFMst

According to the ***Measures for the Registration and Filing of Private Investment Funds***, a company or partnership should apply for registration as a private fund manager ("PFM") within 12 months after industrial and commercial registration. It may raise

**Figure 10: Application Procedures for Registration of PFMs**



private investment funds only after completing the registration as a PFM with the AMAC. An applicant may register either as a manager of private securities fund or as a manager of private equity/venture capital fund based on the nature of its business. Subject to compliance with the rules and regulations, private securities investment fund managers may also provide investment advisory services to asset management products as a third party. Registration with AMAC requires a legal opinion issued by a CSRC-registered law firm and the legal opinion should affirm that the applicant satisfies the registration requirements for PFM. Upon approving the application, AMAC will publish the registration status on its official website.

### 3.1.1 General Conditions for Fund Manager Registration

Laws and regulations including the Fund Law, the ***Private Fund Regulation,*** the ***Interim Measures for the Supervision and Administration of Private Investment Funds***, and the ***Measures for Registration and Filing of Private Investment Funds*** provide that AMAC is in charge of the registration of PFMs. AMAC, through its self-regulatory rules and operational guidelines, has set out various requirements for the registration of private securities fund managers, which include but are not limited to the following:

| | Criteria | Specific Requirements |
|---|---|---|
| 1) | Limit on the time interval between industrial and commercial registration and PFM registration | The company or partnership should apply for registration as a PFM within 12 months of the date of industrial and commercial registration. |
| 2) | Minimum paid-in capital | • A PFM may only make capital contribution in cash and its paid-in capital may not be less than RMB 10 million or its equivalent in another freely convertible currency;<br>• The registered capital and paid-in capital must meet the thresholds established by the ***Measures for the Registration and Filing of Private Investment Funds*** to ensure sufficient capital for the institution's effective functioning; and<br>• If the paid-in capital is less than 25% of the registered capital, AMAC will provide a special warning in the published information of private fund managers. |
| 3) | Independent and stable business premises | • The PFM may not use shared office or other unreliable venues for its business premises;<br>• The PFM may not share its office with its shareholders, partners, actual controller, or affiliates; and<br>• If the business premises are leased, the remaining lease term should not be less than 12 months from the date of application for registration. |

| | | |
|---|---|---|
| 4) | Internal control | The applicant for PFM registration should develop sound internal control mechanism and ensure that there are well-designed, appropriate, and effective internal control, risk control, and compliance management frameworks, which comprise without limitation firewalls, business segregation mechanisms, policies for the declaration, recording, review, and disposal of investment by practitioners, policies for ensuring fund safety and managing related-party transactions, policies for suitability of qualified investors, and contingency plans. |
| 5) | Specialization | ◉ A PFM should be committed to specialization by having well-defined primary businesses and ensuring its fund investment activities are consistent with the type of activities on record, and in general should not concurrently engage in different types of private fund management businesses either publicly or in disguise;<br>◉ A PFM should not engage in any conflicting or unrelated business either publicly or in disguise. Conflicting businesses include without limitation private lending, private financing, mini-wealth management, mini-lending, guarantee, factoring, pawning, finance leasing, internet lending information intermediary, crowd-funding, OTC margin lending, real estate development, and trading platform operation, and other business in conflict with the management of private funds;<br>◉ To ensure the fulfillment of the specialization requirement for PFM, a PFM must include the words “private fund,” “private fund management,” or “venture capital” in its name and, in its scope of business, words that reflect the nature of the private fund it manages, such as “private investment fund management,” “private securities investment fund management,” “private equity investment fund management,” or “venture capital fund management.” |
| 6) | Personnel | ◉ A PFM must have at least five full-time employees before it files the registration application with AMAC, and must have a general manager, chief compliance/risk officer, and senior management personnel in charge of investment;<br>◉ All employees should have the professional ethics and competence in line with their specialties and positions. |
| 7) | Shareholding by senior management personnel | ◉ The legal representative, executive partner or his/her appointed representative, and senior management personnel in charge of investment must each hold, directly or indirectly, a certain percentage of equity or share of asset in the PFM, and their total contributed capital must not be less than 20% of the paid-in capital of the PFM or RMB 2 million;<br>◉ This shareholding ratio requirement does not apply to (i) any PFM controlled by such financial institutions as commercial banks, securities companies, fund management companies, futures companies, trust companies, and insurance companies; or by the government or its authorized agency; or by an organization regulated by an overseas financial regulator; or (ii) any other qualified PFMs that are exempted from meeting this shareholding ratio requirement. |

| | | | | |
|---|---|---|---|---|
| 8) | Work experience for senior management personnel | a) | Legal representative, executive partner or his appointed representative, principal persons in charge of operations and management, and senior management personnel in charge of investment | ◉ Private securities fund manager: Five or more years of related work experience in managing securities, fund, or futures investments that meets the requirements of Article 4 of the ***Guidelines No. 3 for Registration of Private Fund Managers***.<br>◉ Private equity fund manager: Five or more years of work experience in managing investments in equities or related sectors that meets the requirements of Article 5 of the ***Guidelines No. 3 for Registration of Private Fund Managers***. |
| | | b) | Chief compliance/ risk officer | Three or more years of related work experience in an investment-related legal, accounting, auditing, supervision, or internal audit function, or in the compliance, risk control, regulation, or self-regulatory function in the asset management industry that meets the requirements of Article 6 of the ***Guidelines No. 3 for Registration of Private Fund Managers***. |
| | | c) | Senior management personnel in charge of investment | They should possess the following investment performance:<br>◉ Private securities fund manager: He/She should submit his/her investment performance records of at least 2 consecutive years over the past 10 years, with the AUM of a single product or account no lower than RMB 20 million on an ongoing basis.<br>◉ Private equity fund manager or venture capital fund manager: He/She should submit records of his/her experience in leading at least two equity investments in unlisted enterprises over the past 10 years, with a total investment of not less than RMB 30 million and successful exit from at least one of the investments through IPO, equity acquisition or equity transfer, or other qualified investment performance records. |

### 3.1.2 Foreign-Invested PFMs

Compared with domestic PFMs, foreign-invested PFMs are subject to certain special requirements for their cross-border and foreign-invested nature. For example, foreign-invested PFMs need to comply with the regulations of China’s foreign exchange administrative authority in the use of capital and use of the RMB funds exchanged from foreign currencies.

In addition, the foreign shareholder(s) and actual controller of foreign-invested PFMs should be the financial institution(s) approved or recognized by the financial regulatory authority of the country or region of its domicile, and the securities regulatory authority of the country or region where such foreign shareholder or actual controller is incorporated should have entered into a memorandum of understanding on the cooperation in securities regulation with CSRC or other organizations recognized by CSRC. Furthermore, the foreign shareholder(s) and actual controller may not have been subject to any material penalty by the regulatory authority or judicial authority in the last three years. When trading securities or futures in China, foreign-invested PFMs, being companies incorporated in China, should make investment decisions independently and may not issue trading instructions through an overseas organization or system.

Under the authority of Article 61 of the ***Private Fund Regulations***, the CSRC will work with other departments of the State Council to develop the administrative measures for foreign-invested PFMs in accordance with the laws and administrative regulations on foreign investment and the ***Private Fund Regulation.***

### 3.2 Filing of Private Funds

In accordance with the Fund Law, the ***Private Fund Regulation***, the ***Interim Measures for the Supervision and Administration of Private Investment Funds***, the ***Certain Provisions on Strengthening the Regulation of Privately Raised Investment Funds***, and other laws and regulations, AMAC oversees the filing of private funds and has set out various requirements for such filing through self-regulatory rules and operational guidelines, including the ***Measures for Registration and Filing of Private Investment Funds***, the ***Instructions for the Filing of Private Investment Funds (2019 Version)***, the ***Relevant FAQs about Registration and Filing of Private Funds***, the ***Guidelines on Naming of Privately-raised Investment Funds, and Key Points in the Filing of Private Investment Funds***.

Similar to the registration of PFMs, the filing of private investment funds is also subject to certain requirements, mainly including the following:

1) Naming

All private funds, whether having a contractual, partnership, or corporate structure, must comply with the requirements of the ***Guidelines on the Naming of Private Investment Funds***. For example, the name of a private fund may not indicate or imply zero loss or a minimum guaranteed return on investment, nor contain words such as “asset management scheme,” “trust plan,” “segregated account,” or “wealth management product” which are identical or similar to those asset management products of financial institutions. The name should additionally feature the wording of the type of the private fund business.

A venture capital fund (whether a company or a partnership) should contain the words of “venture capital fund” in its name, or the words of “engaging in venture capital activities” in its business scope.

2) Term

Each private fund should have a specific duration of business. Specifically, private equity funds should have a term of no less than five years, but a term of seven years or longer is encouraged.

3) Investment scope

A PFM is required to expressly state the investment scope of the private investment fund in the fund contract. Private investment funds may not directly or indirectly engage in non-private fund investment activities, such as loans or guarantees (other than those with a term of one year or shorter to the enterprises being invested in according to the relevant contract and for the purpose of equity investment) and debt investment masqueraded as equity investment, or invest in factored assets, finance lease assets, pawned assets and other credit assets, equity or rights to income from equity, or make any other investment without limitation of liability.

4) Custody

It is particularly stressed in the ***Instructions for the***

***Filing of Private Investment Funds*** that private funds are to arrange for a fund custodian in those scenarios where their complex transaction structure is likely to create financial disputes. Examples of such scenarios include contractual private funds, private asset allocation funds or private investment funds indirectly investing in underlying assets through a special-purpose vehicle, such as another company or partnership.

5) Investors

A private fund can only raise funds from qualified investors. A qualified investor must have the ability to identify and bear risks, invest no less than RMB 1 million in the individual private fund, and meet certain asset thresholds.

6) Filing timeline

A PFM should file its private fund with AMAC within 20 working days upon completion of fundraising. The PFM is to provide documents and information required for the filing of the private fund and warrant their authenticity, accuracy, and completeness. If the filing materials are complete and conformant, AMAC will complete the filing procedures within 20 working days from receipt of the complete set of filing materials, and will publish the basic information about the filed private fund on its official website.

A newly registered PFM must file its first independently issued private fund product within 12 months of its registration.

7) Scale of Initial Fundraising Amount of the Fund

With the effectiveness of the ***Measures for Registration and Filing of Private Investment Funds***, a private securities fund or private equity fund must have an initial paid-in capital of not less than RMB 10 million. Notably, the initial paid-in capital of a venture capital fund can and should be no less than RMB 5 million at time of filing, with the provisions in the fund contract requiring the paid-in capital amount to reach at least RMB 10 million within 6 months of filing. Any private fund that invests in a single asset class should raise no less than RMB 20 million in the initial offering.

### 3.3 Provision of Investment Advice by Private Securities Fund Managers

Private securities fund managers that meet all of the following conditions may provide investment advisory services for the private asset management products of securities and futures business organizations (including securities companies, public fund management companies, futures companies, and their respective subsidiaries):

1) being a member of AMAC that has been registered with AMAC for one year or more without any record of material violations of laws and regulations; and

2) having not less than 3 investment management personnel, each of whom should have more than 3 years' continuous and traceable performance record in securities and futures investment management and without negative practice record.

## 4. Cross-Border Investment Pilot Schemes

### 4.1 QFLP Pilot Scheme

The pilot scheme of Qualified Foreign Limited Partners ("QFLP Pilot Scheme") allows qualified foreign investors to participate in the establishment of domestic equity investment enterprises within the regions implementing the QFLP Pilot Scheme. The QFLP Pilot Scheme was first launched in Shanghai in 2011, providing foreign investors with an opportunity to set up enterprises of equity investment in Shanghai alone or jointly with other investors. Since then, many other regions in China have introduced their own frameworks for the QFLP Pilot Schemes. The Shanghai Municipal People's Government has set up a joint conference for the QFLP Pilot Scheme ("Joint Conference") as a deliberative coordination mechanism, led by the Shanghai Municipal Financial Regulatory Bureaus established at the municipal level, to review and approve applications for participating in the QFLP Pilot Scheme.

If a management enterprise under the QFLP Pilot Scheme (i.e., QFLP fund manager) is required to apply to AMAC for registration as a PFM and to complete filing for private funds, it should register with AMAC as a PFM and be subject to the regulations of CSRC and the self-regulatory rules of AMAC. An enterprise under the QFLP Pilot Scheme (i.e., QFLP fund) should be filed with AMAC and be subject to the rules of the private fund regulatory authority and the self-regulatory rules of AMAC.

To become a management enterprise under the Shanghai QFLP Pilot Scheme, the following conditions must be met:

1) The name of the management enterprise should meet the requirements of the competent national authorities;

2) The management enterprise should have at least one investor, and the business scope of the investor or its affiliates should be related to equity investment or equity investment management business;

3) When applying for establishment as a management enterprise, there should be at least two senior management personnel who meet all of the following requirements:

i) having at least five years of experience in equity investment or equity investment management business;

ii) having served as senior management personnel for at least two years;

iii) having the experience of engaging in equity investment in the Chinese market or working experience in a financial institution in China; and

iv) having not been involved in any violations of regulations or pending lawsuits regarding economic disputes during the last five years and having a good integrity record.

The term “senior management personnel” means a manager at or above the level of deputy general manager or an equivalent role.

To become a QFLP fund under the Shanghai QFLP Pilot Scheme, the QFLP fund is required to meet the following conditions:

1) The name of the QFLP fund should meet the requirements of the competent national authorities;

2) Each partner should make a capital contribution in its own name, and each limited partner should make a capital contribution of not less than USD 1 million.

3) The qualified foreign investors of the QFLP fund should mainly include foreign sovereign funds, pension funds, endowment funds, charitable funds, funds of funds (FOFs), insurance companies, banks, securities companies, and other foreign institutional investors recognized by the Joint Conference, and meet all of the following conditions:

i) having its proprietary assets or AUM meet certain thresholds during the financial year preceding the applicant’s application;

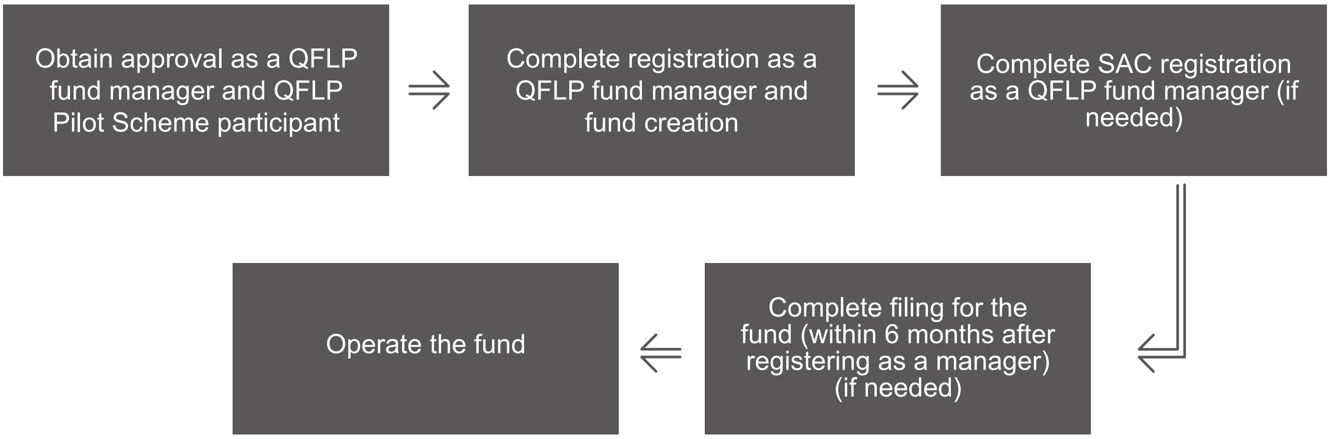
ii) possessing a sound governance structure and internal control system and having not been sanctioned by judiciary authorities or relevant regulators during the last two years;

iii) itself or any of its affiliated entities having at least five years of relevant investment experience; and

iv) meeting other conditions required by the Joint Conference.

4) The QFLP fund should appoint a qualified bank in China as its custodian, and the custodian should file its custody policies with the relevant authorities.

**Figure 11: Application and Registration Procedures for QFLP Fund Manager (Management Enterprise under the QFLP Pilot Scheme)**




On February 17, 2023, SAFE Shanghai Branch issued the ***Circular on Expanding the Scope of Certain Pilot Programs of Lin-gang Special Area for High-Standard Opening-Up of Cross-Border Trade and Investment***. The Circular expands the foreign exchange policies of QFLPs from Lin-gang Special Area to the entire city. The ***Instructions on Foreign Exchange Administration of Shanghai Qualified Foreign Limited Partners (QFLP)*** were released at the same time. Under the two documents, (i) the investment scope of QFLPs' funds raised overseas has been broadened. QFLPs are now allowed to invest in a variety of equity and debt assets in the Mainland, including the equity of unlisted companies, privately issued or traded common stocks of listed companies (including those from block trading and contractual transfer), preferred stocks convertible to common stocks and convertible bonds, and the right to participate in the rights issue of a listed company as an original shareholder. However, investment activities specified in the negative list, investment in real estate companies, and investment in local government financing platforms are excluded; (ii) the foreign exchange quota management and foreign currency registration of QFLP funds have been optimized. In particular, a QFLP manager may freely allocate the foreign exchange quota among the QFLP funds under its management. The requirements for registration of foreign-currency re-investment with proceeds from QFLP businesses and for registration of cash contributions are cancelled. Opening a "settled-to-be-paid" account is no longer mandatory; and (iii) QFLP funds have been permitted to take additional organizational forms. In addition to the original partnership structure, QFLP funds can now adapt a corporate or contractual structure.

## 4.2 QDLP Pilot Scheme

The QDLP pilot scheme policy, introduced in Shanghai in 2012, allows qualified overseas asset management firms to apply to the Shanghai QDLP pilot joint meeting  for recognition as a QDLP pilot scheme participant. A management enterprise under the QDLP Pilot Scheme (i.e., QDLP fund manager) is required to register with AMAC as a PFM, and an enterprise under the QDLP Pilot Scheme (i.e., QDLP fund) is required to file with AMAC and comply with regulatory requirements on private funds, where the QDLP fund manager operates the QDLP fund in the form of a private fund in accordance with regulatory requirements for private fund.

Currently, QDLP funds that have obtained the QDLP pilot qualification mainly adopt the feeder fund structure and directly invest in funds established by overseas asset management firms outside China. Overseas funds, covering public funds, private hedge funds, and private equity funds, are flexible and diversified in type.

Notably, in May 2022 the Shanghai Municipal Financial Regulatory Bureau and other relevant departments approved AZ Investment Management as a participant of the QDLP Pilot Scheme, making it the first registered WFOE PFM being approved for QDLP businesses under the “two-in-one” model. AZ Investment Management completed filing for the first QDLP fund on March 14, 2023.

# Chapter 8 Fund Service Providers

## 1. Fund Operation Service Providers

Pursuant to the ***Fund Law***, institutions providing the distribution, distribution-related payment, unit registration, valuation, investment advisory, rating, IT system and other fund services for public funds should be subject to registration or filing in compliance with the requirements of CSRC.

According to the ***Fund Law*** and the applicable self-regulatory rules of AMAC, a service provider for private funds is subject to the self-regulatory rules of AMAC and should register its type of services with the AMAC. As of June 2023, 45 private fund operation (including valuation accounting, and unit registration) service providers[50] had registered with AMAC, including 8 banks, 8 public fund management companies, 22 securities companies, 6 independent service providers, and 1 IT service provider.

## 2. Securities and Futures Brokers

Fund managers may engage in trading securities and futures listed on an exchange via brokerage services provided by securities and futures business organizations. To be specific, securities should be traded via securities companies and futures should be traded via futures companies.

Securities and futures companies providing brokerage services in China should obtain the prior approval of CSRC.

As of June 2023, 115 securities companies[51] and 150 futures companies[52] had obtained approval from CSRC for providing brokerage services.

## 3. IT System Service Providers

Under Article 44 of the ***Administrative Measures on the Information Technology of Securities and Fund Institutions*** promulgated by CSRC in December 2018, public fund management companies should select and work with IT service providers within the scope of filing with CSRC. The ***Administrative Provisions on the Filing of Securities Service Provided by Securities Service Providers*** issued by CSRC on July 24, 2020 specifies requirements for filing procedures and materials. The ***Guidelines for Application of Regulatory Rules—Technology Regulation (No. 1)*** released by CSRC in October 2020 sets detailed filing requirements. According to these rules, IT system service providers have been filing their securities fund-related businesses. As of April 2023, 373 IT system service providers had completed initial filing and made relevant announcements.[53]

An IT system service provider which conducts private-fund-related businesses is required to file with AMAC. As of June 2023, four IT system service providers had completed their fling with AMAC.[54]

## 4. Accounting Firms and Law Firms

### 4.1 Accounting Firms

Pursuant to the updated Securities Law, since March 2020, China has canceled the administrative approval required for accounting firms to provide securities- and futures-related services. To provide such services today, an accounting firm is only required to

50 Source: Publicized List of Private Fund Service Institutions: Unit Registration Services and Valuation Accounting Services, AMAC
51 Source: List of Securities Companies (June 2023), CSRC
52 Source: Listed of Futures Companies (June 2023), CSRC
53 Notice on Matters Concerning the 2023 Annual Filing of IT System Service Institutions, CSRC
54 Source: Publicized List of Private Fund Service Institutions: IT System Services, AMAC

file with the Ministry of Finance (MOF) and CSRC. During business operations, fund managers and the funds under their management are required to engage an accounting firm that has filed with MOF and CSRC to carry out capital verification, audit and other activities. In addition, during the operation of the funds, in case of changing valuation methodology or other circumstances that may have material impact on the net asset value of the fund, the fund managers should promptly seek the professional opinion from an accounting firm. If a side-pocket mechanism is implemented, the fund managers should also engage an accounting firm as required by applicable regulations to issue a special audit opinion.

On June 19, 2023, MOF and CSRC jointly issued the ***Provisions on Information Disclosure by Accounting Firms Providing Securities-Related Services***, which became effective on July 1.

### 4.2 Law Firms

For a public securities fund to be issued, the legal opinion should be issued by lawyers or a law firm.[55] Legal opinions issued by lawyers or a law form are required when private securities funds, private equity funds ,and venture capital funds are going through fund manager registration or product filing with AMAC. In December 2002, the Ministry of Justice and CSRC canceled the administrative approval required for lawyers and law firms to provide securities legal services.[56] Any lawyer or law firm that complies with relevant provisions of the ***Administrative Measures on the Provision of Securities Legal Services by Law Firms***[57] may provide the service of issuing legal opinions to fund managers. As of June 30, 2023, 470 law firms providing securities-related legal services had completed information filing for 2022.[58]

According to Article 9 of the ***Administrative Measures on AMAC Membership***, the self-regulatory rule of AMAC, associate members include law firms that provide professional legal services for fund business.

## 5. Benchmark Valuation Data Service Providers

### 5.1 China Central Depository & Clearing Co., Ltd.

China Central Depository & Clearing Co., Ltd. (CCDC) provides ChinaBond Yield Curve, ChinaBond Valuation Index, ChinaBond Index, and other benchmark price indices to fully reflect price changes and risks in the RMB bond market. CCDC is a third-party benchmark valuation service provider recognized by AMAC. Of these indices, ChinaBond Valuation is used to measure 90% of the bonds held by onshore funds, and ChinaBond Index is used by 80% of onshore fund managers as the performance benchmark for fund products or the index tracked by bond index fund products. ChinaBond price indices are used as important references by more than 150 overseas institutions, including sovereign funds, when investing in China's bond market. In 2016, the Asian Development Bank (ADB) published ChinaBond Government Bond Yield on its website. In 2017, CCDC became the first Chinese member of the Index Industry Association (IIA).

### 5.2 China Securities Index Co., Ltd.

China Securities Index Co., Ltd. (CSI) is a financial market index provider funded by the Shanghai Stock Exchange and the Shenzhen Stock Exchange. By the end of June 2023, CSI managed over 6,000 indices, covering asset classes such as stocks, bonds, commodities, and funds across 16 major countries and regions around the world, particularly Shanghai, Shenzhen, and Hong Kong. While expanding its index-related businesses, CSI has also been committed to developing bond valuation. Its valuation products now include the CSI yield curve family, CSI bond valuation and CSI special products valuation. As China's bond market continues to grow, valuation—a crucial bond market infrastructure—has been widely used by regulators and market participants as a benchmark indicator for risk management, market pricing, and market comparison.

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55 Article 51 of the Fund Law: To register a publicly offered fund, a prospective fund manager should submit the following documents to the securities regulatory authority under the State Council: (5) a legal opinion issued by a law firm

56 Circular on Canceling the Qualification Approval for the Provision of Securities-Related Legal Services by Lawyers and Law Firms, issued by the Ministry of Justice and CSRC on December 23, 2002

57 Article 8 and Article 9 of the Administrative Measures on the Provision of Securities Legal Services by Law Firms

58 Basic Filing Information of Law Firms Providing Securities Legal Services (as of June 30, 2023), CSRC

# Chapter 9 Fund Offering

## 1. Public Fund Offerings

As of June 2023, there were more than 10,000 public funds in China. The funds are distributed either by fund companies or through sales agents such as commercial banks, securities companies, futures firms, insurance firms, insurance brokerage companies, insurance agencies, securities investment advisers, and independent fund distributors.

Currently, the distribution of public funds primarily relies on the direct distribution by fund companies and the indirect distribution by commercial banks, securities companies, and independent fund distributors.

In 2022, commercial banks and securities companies contributed 53% to the total amount of fund subscription/purchase, showing a consistent increase since 2017. The contribution of independent fund distributors had also grown from 3.9% in 2017 to 27.5% in 2022. On the other hand, the contribution of direct distributors fluctuated over the last decade, peaking at 84% in 2016 before declining to 18.6% in 2022.

**Figure 12: Share of Fund Subscription Channels, 2013-2022（%）**

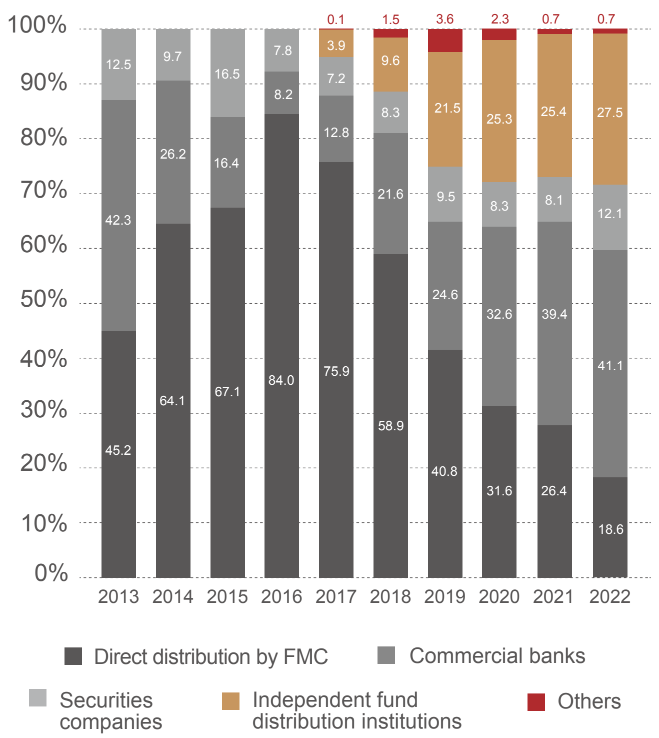
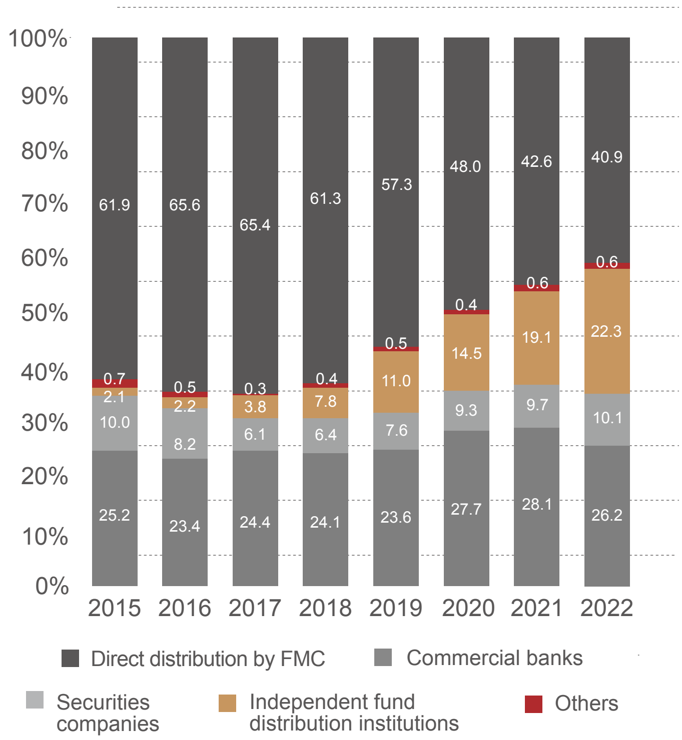



**Figure 13: Breakdown of Fund Sales by Distribution Channels, 2015-2022[60]（%）**




60 Source: AMAC Annual Report 2023, AMAC

As of June 2023, 407 public fund distributors had been approved by CSRC, including 150 commercial banks (including foreign-owned banks incorporated in China), 97 securities companies, 107 independent fund distributors, and 53 other institutions (including insurance companies, insurance brokers, futures companies, and investment advisers).[59]

From 2015 to 2022, direct distribution channel recorded the highest fund sales, but its share had been falling since 2016 to 40.9% at the end of 2022. Sales by commercial banks and securities companies had fluctuated between 30.5% and 37.7% of the total. Independent fund distributors had seen a continuous rise in sales, reaching 22.34% at the end of 2022, up 20.2% from 2015.

The proportion of public funds held by institutional investors surged to a peak in 2019 and then fell. Specifically, this proportion rose from 29% at the end of 2012 to 51% at the end of 2019 and dropped down to 45% at the end of 2021 before an uptick to 48% in 2022.

## 2. Private Fund Offerings

In accordance with the ***Administrative Measures on the Offering of Private Investment Funds*** promulgated on April 15, 2016, the offering of private funds may be carried out either by the PFM itself or by appointed institutions. According to the foregoing ***Administrative Measures*** and the ***Guidelines on the Internal Control of Private Investment Fund Managers***, if private investment funds are to be offered through appointed intermediaries, the intermediaries should have obtained the fund distribution license from CSRC and become AMAC members. The ***Private Fund Regulations*** further requires that "a PFM shall offer private funds directly instead of through intermediaries, unless otherwise specified by CSRC."

Funds are offered variously and in accordance with different requirements based on the type of fund in question. Generally speaking, it is more common for private securities investment funds to be offered through intermediaries.

In most cases, private equity funds are directly offered by their managers to qualified investors. During this process, the managers generally directly send offering materials to target investors, directly engage the qualified investors through roadshows and other means to give presentations, and directly sign subscription documents with these investors.

China-based private investment funds pool their capital from a diverse range of contributors, including various enterprises or government entities, asset management products or investment schemes issued by various asset managers, and individual investors.

As of the end of 2022, private securities investment funds were mainly invested by individual investors, with an increase in the share of contribution from individual and corporate investors and a decrease in that of contribution from asset management schemes. Individual investors[61] accounted for 44.13% with a total investment of RMB 2.23 trillion, various asset management schemes[62] accounted for 41.81% with RMB 2.11 trillion, and corporate investors[63] accounted for 13.47% with RMB 0.68 trillion.[64]

59 Source: CSRC
61 Individual investors are natural persons as employees and non-employees of PFMs who make co-investment
62 Asset management schemes include private funds, trust plans, asset management schemes of securities companies and their subsidiaries, asset management schemes of fund management companies and their subsidiaries, asset management schemes of futures companies and their subsidiaries, asset management schemes of insurance companies, and wealth management products of commercial banks.
63 Corporate investors include domestically incorporated institutions (such as companies), domestically unincorporated institutions (such as general partnerships), and PFMs that make co-investment
64 Source: AMAC Annual Report 2023

**Figure 14: Share of Investment in Private Securities Investment Funds by Investor at the End of 2022**

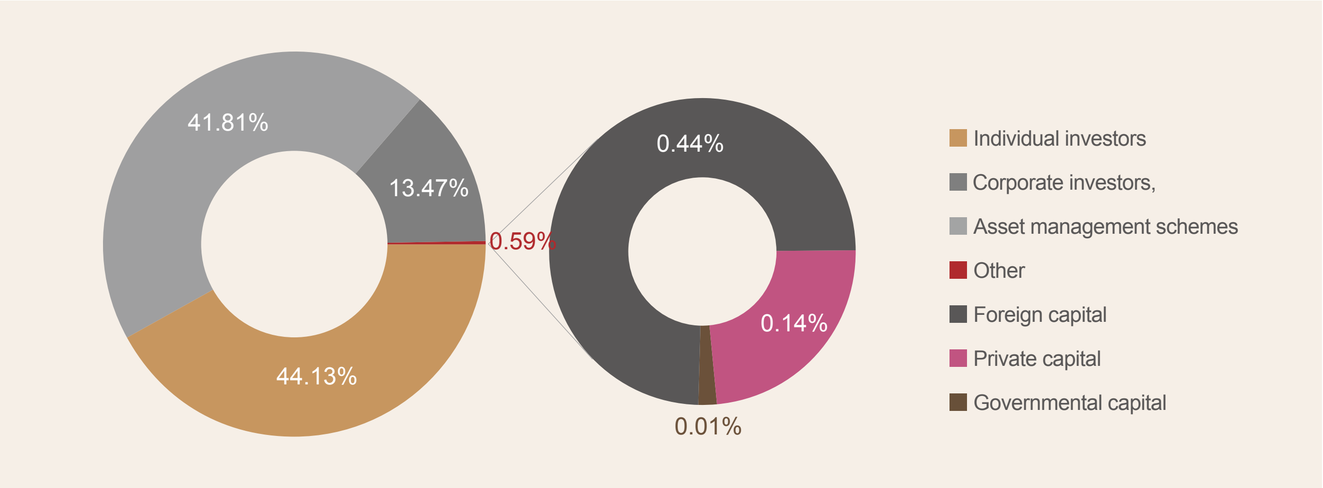
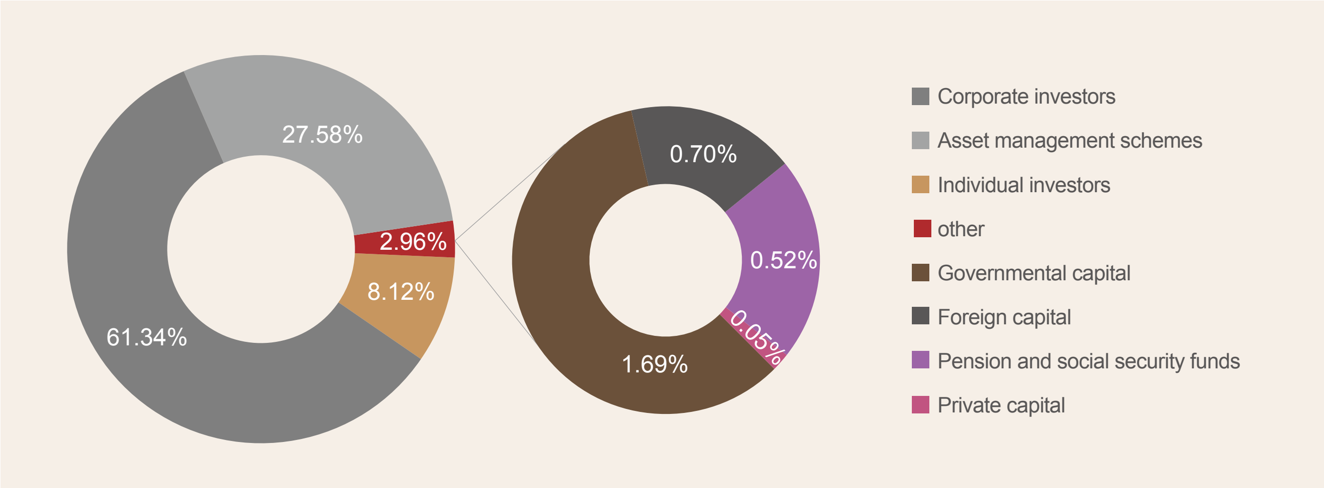



**Figure 15: Share of Contribution to Private Equity Investment Funds by Investor at the End of 2022**



# Chapter 10 Tax Policies on Funds

The tax law system in China is under continuous development. In general, enterprises that are incorporated and doing business in China may be subject to corporate income tax ("CIT"), value-added tax ("VAT"), and stamp duty. If the enterprise holds any real estate, it may also be subject to other taxes such as the property tax, land use tax, and land value appreciation tax. Among all these taxes, CIT and VAT are the two major tax categories, and they are imposed on almost all foreign-funded enterprises that engage in the asset management business in China.

## 1. CIT

### 1) Scope of Taxation and Tax Rate

Under the CIT legal framework in China, a fund that is structured as a company is considered a Chinese tax resident enterprise and is therefore subject to CIT at the rate of 25% for its income generated both in and outside China.

Taxable income for calculating CIT mainly refers to the balance derived from an enterprise's total revenue in each tax year after subtracting various deductions and permitted offsets of losses from the previous year(s). Taxable revenue mainly includes income from sale of goods, provision of services, interest, and investment; various deductions mainly refer to the costs, expenses, tax payments and losses actually incurred by an enterprise. In addition, certain types of revenue will be treated as non-taxable revenue or tax-exempt revenue; for example, government appropriations will be treated as non-taxable revenue and interest revenue from treasury bonds will be treated as tax-exempt revenue.

Private equity funds often take the form of partnerships. For a private fund that is structured as a partnership, the principle of "allocation before taxation" applies to the partnership's income from business activities and other income. Specifically, each partner of the partnership is a taxpayer. Natural-person partners are subject to personal income tax on the taxable income allocated to them; partners that are legal persons or other types of organizations are subject to CIT on the taxable income allocated to them.

### 2) Preferential Tax Treatment

According to relevant tax laws and regulations, CIT is not imposed, for the time being, upon: the revenue obtained by securities funds from the securities market, including the revenue derived from price differences between the purchase and sale of stocks and bonds, revenue from equity dividends and bonuses, and interest and other revenue on bonds; the revenue obtained by securities fund managers from price differences between the purchase and sale of stocks and bonds using funds; and revenue obtained by investors from the distribution of securities funds. The securities funds in this paragraph mainly mean public funds.

According to the ***Notice on the Pilot Corporate Income Tax Policy for Corporate Venture Capital Enterprises in Specific Areas of the Shanghai Pudong New Area*** issued in November 2021, corporate venture capital enterprises in specific areas of the Shanghai

Pudong New Area may be exempt from half or all of corporate income tax when they meet certain requirements.

As China introduced public REITs in 2021, the MOF and the State Taxation Administration (STA) released the Announcement [2022] No. 3 in 2022 to provide preferential tax treatment for these funds. Pursuant to the policy, before the establishment of an infrastructure REITs, where the original equity holder transfers the infrastructure assets to the project company in exchange for the equity interest of the project company, capital gain will not be recognized for both original equity holder and the project company, and CIT will not be levied. If the original equity holder transfers its equity interest of the project company to the infrastructure REITs during the establishment of the infrastructure REITs, the CIT derived from the increased value of the transferred assets will be deferred until the completion of fundraising and payment of the transfer price. The CIT derived from the increased value of transferred REITs units which are held by the original equity holder as per the strategic placement requirements will also be deferred until the actual transfer.

In accordance with applicable tax laws and regulations, if a venture capital structured as a company invests directly in the equity of a technology start-up and meets certain conditions, part of the investment amount could be used to offset its taxable income in the same year, and remaining amount could be carried forward to the subsequent tax years.

If a venture capital structured as a limited partnership invests directly in the equity of a technology start-up, part of the investment amount may be used to offset the income that corporate partners received from the partnership, and remaining amount may be carried forward to the subsequent tax years. Part of the investment amount may be used to offset the operating income that individual partners received from the partnership, and remaining amount may be carried forward to the subsequent tax years.

#### 3) Reporting Requirements

CIT is calculated based on calendar years. Enterprises should file tax returns and complete final settlement with the tax authority within 5 months after the end of a calendar year. In addition, enterprises are generally required to prepay CIT on a quarterly basis and file tax returns with the competent tax authority for prepayment within 15 days after the end of each period.

## 2. VAT

#### 1) Scope of Taxation and Tax Rate

China implemented overall VAT reform starting May 1, 2016. In accordance with relevant regulations, the revenue generated from providing financial and insurance services, including loan services, direct-charge financial services, insurance services and transfers of financial commodities, is subject to VAT. Therefore, foreign-funded enterprises that engage in asset management business are also required to pay VAT on their operating revenue. As funds are an important means of capital formation, the relevant tax system is also being reformed in order to promote the development of funds and the formation of long-term capital.

Under the current VAT system, VAT taxpayers are classified into general taxpayers and small-scale taxpayers. The amount of VAT payable by general taxpayers is calculated as follows:

The amount of VAT payable = sales amount x VAT tax rate - input tax

In the above formula, the VAT tax rate varies based on the type of revenue, and the input tax generally refers to the amount of VAT paid by the taxpayer when purchasing taxable goods, labor and services that are subject to VAT.

The amount of VAT payable by small-scale taxpayers is calculated as follows:

The amount of VAT payable = sales amount x VAT tax rate

In the above formula, the VAT tax rate is 3%.

It should be noted that partnership funds are required to separately file VAT returns and pay VAT on their taxable income according to the method described above because partnerships are independent taxpayers for purposes of VAT. For contractual funds, which are not VAT taxpayers in the traditional sense, their managers are required to pay VAT at a rate of 3% according to the simplified VAT collection method.

Under the current VAT system, taxpayers that engage in asset management business are subject to relatively complicated VAT treatment, which requires separating the business associated with asset management product operations from other businesses for different treatment, as set out in detail below.

For the asset management product operations business of asset management product managers, as mentioned above, the simplified VAT collection method applies at the rate of 3%. The asset management products specified in relevant regulations include public securities funds, private investment funds and other products, and the taxable revenue involved mainly includes revenue from loan services and from transfers of financial commodities.

For other businesses of asset management product managers, if the manager is a general taxpayer, the output tax should be calculated at the rate of 6% and input tax could be credited. "Other businesses" generally refers to direct-charge financial services, and taxable revenue refers to management fees, advisory service fees, etc.

According to the relevant regulations, VAT for the two types of businesses above should be calculated separately.

In addition to VAT, enterprises are generally required to pay additional taxes, including urban maintenance and construction tax, educational surcharges and local educational surcharges, which will be assessed based on VAT paid by entities and individuals. According to the ***Urban Maintenance and Construction Tax Law of the People's Republic of China***, which came into effect on September 1, 2021 and related regulations, when VAT is paid for imported goods or by foreign entities or individuals for labor, services and intangible assets sold in China, no urban maintenance and construction tax, educational surcharge and local educational surcharge should be collected.

### 2) Preferential Tax Treatment

Under the current VAT system, preferential tax treatment mainly applies to small taxpayers in the form of VAT reduction and exemption and to investment-related businesses.

In 2023, the MOF and STA issued the ***Announcement on Clarifying Policies for VAT Reductions and Exemptions for Small Taxpayers and Other Policies***. According to the announcement, small-scaled taxpayers with monthly sales revenue of RMB 100,000 or lower will be exempted from VAT from January 1, 2023 to December 31, 2023. For small-scaled taxpayers whose taxable sales income is applicable to 3% VAT levy rate, a reduced rate of 1% could be enjoyed; for those applicable to 3% VAT pre-levy rate on the pre-paid taxable items, a reduced rate of 1% could be enjoyed. The aforementioned policies are further extended to December 31, 2027 based on the relevant provisions under the ***Guidelines on the Preferential Tax Treatment Policies in Support of Micro and Small Enterprises and Individually-Owned Businesses (1.0).***

For investment-related businesses, such preferential tax treatment is applicable based on the investment targets. For example, tax-exempt treatment may apply to interest revenue derived from investments in treasury bonds, local government debt, and inter-financial institution transactions. Tax-exempt treatment also applies to revenue from transfers of financial commodities that are obtained by securities funds through the purchase and sale of stocks and bonds. The securities funds referred to in this paragraph mainly mean public funds.

Therefore, for asset management product managers, preferential tax treatment is mainly concentrated in the area of asset management product operations.

#### 3) Reporting Requirements

Under the current VAT system, except in certain industries (such as banking and trust companies), general taxpayers are required to file tax returns on a monthly basis, and small-scale taxpayers are required to file tax returns on a quarterly basis. Taxpayers are generally required to file tax returns with the competent tax authority for VAT payment within 15 days after the end of each tax period.

## 3. Other Taxes

According to the ***Deed Tax Law of the People's Republic of China ("Deed Tax Law")*** which came into effect on September 1, 2021, any entities and individuals to whom the land use rights and house ownership are transferred within the territory of the People's Republic of China are considered taxpayers of deed tax and should pay deed tax at 3% to 5%.

According to the ***Stamp Duty Law of the People's Republic of China ("Stamp Duty Law")*** which came into effect on July 1, 2022, stamp duty is a tax category imposed on entities and individuals that issue taxable vouchers and trade securities in China; entities and individuals that issue taxable vouchers outside China and use them in China should pay stamp duty in accordance with the law. For asset management industry, the ***Stamp Duty Law*** provides that the tax basis for a taxable contract should be the amount in the contract, excluding the VAT amount set out in the contract.The law also specifies how to determine stamp duty payment obligations with respect to contracts signed outside China and performed in China. In addition, in accordance with the ***Announcement on Reducing the Stamp Duty by Half on Securities Transactions*** (MOF and STA Announcement [2023] No. 39), the stamp duty on securities transactions would be subject to a 50% reduction starting from August 28, 2023. This means the stamp duty rate is reduced from 0.1% to 0.05% of the transaction amount.

In general, these two laws mainly codify the existing regulations in addition to making updates to some policies.

## 4. Requirements for Compliance with the Common Reporting Standard

The ***Common Reporting Standard*** (CRS), issued by the Organization for Economic Co-operation and Development (OECD) on July 15, 2014, is the standard that guides participating jurisdictions on the regular exchange of financial account information of tax residents. China, as a participating country, promulgated relevant regulations to officially implement CRS on July 1, 2017. Under CRS, financial institutions perform due diligence and report the tax information of financial accounts.

#### 1) Reporting Entities

The financial institutions that are required to collect and report information under CRS include investment institutions, which specifically refer to institutions that meet one of the following conditions:

i) an institution with 50% or more of its gross income in the last 3 accounting years, or during its existence if the institution has existed for less than 3 years, generated from financial asset investment and operations for clients;

ii) an institution with 50% or more of its gross revenue in the last 3 accounting years, or during its existence if the institution has existed for less than 3 years, generated from the investment, reinvestment or purchase and sale of financial assets; and which is subject to the management and investment decision-making of the depository institutions, custodial institutions, specified insurance companies or investment institutions referred to in (i) above; or

iii) securities funds, private investment funds and other investment entities that are established for the purpose of investment, reinvestment or purchase and sale of financial assets.

Meanwhile, relevant regulations have also clarified that securities fund management companies, PFMs, and partnerships engaging in private fund management businesses that are established in the People's Republic of China are reporting entities.

2) Financial Accounts

Relevant regulations have also defined deposit accounts, custodial accounts, and other accounts falling under the category of financial accounts that are subject to due diligence and information reporting under CRS as follows:

Deposit account: an account opened for the business of making deposits, including but not limited to demand deposits, time deposits, traveler's checks, and prepaid credit cards.

Custodial account: an account opened for the business of holding financial assets for the benefit of another person, including purchasing and selling financial assets on behalf of clients, and managing custodial assets for clients upon the client's entrustment.

Other accounts: an account which is:

i) any equity or credit interests of an investment institution, including partnership interests in a private investment fund and beneficiary rights of a trust; or

ii) an insurance or annuity contract with cash value.

For asset managers, financial accounts subject to due diligence and information reporting mainly include: (i) accounts for wealth management products, funds, trust plans, Segregated Account/collective asset management schemes and other financial investment products under their management that are not separate legal entities; and (ii) partnership or corporate funds, fund management companies (investment institutions) and other institutions should perform due diligence and report information on their own equity/interests (financial accounts).

3) Compliance Obligations

Under CRS, asset management firms are mainly under the following obligations:

i) Registration: asset management firms should register on the website of the STA timely.

ii) Due diligence of accounts: asset management firms should design and implement reasonable due diligence procedures to identify reportable financial accounts, i.e., non-resident financial accounts that are opened or maintained by financial institutions in China, and held by non-residents or by passive non-financial institutions with non-resident controlling person(s).

iii) Information collection and reporting: asset management firms should, as required, collect and report the following: basic information, account number or similar information of individual accounts and institutional accounts; the account balance or net value of each single non-resident account as of the end of the calendar year; the gross interest paid or credited to depository accounts in the calendar year; the gross interest, gross dividends, and other gross revenue generated from the assets under custody that are paid or credited to the custodial accounts in the calendar year; and gross revenue paid or credited to other accounts in the calendar year, including total proceeds from redemption. Financial institutions should report the above information as required by May 31 of each year.

iv) Annual reporting: financial institutions should assess the implementation of CRS reporting on an annual basis, and submit a written report to the regulatory authorities of relevant industries and the STA by June 30 of the following year.

According to the ***Notice on Submitting 2020 CRS Reports through AMBERS*** issued by AMAC in May 2021, the function of “CRS Annual Report” added by AMAC to the Asset Management Business Electronic Registration System (AMBERS) as required by the STA would be formally launched on May 28, 2021; PFMs should submit their CRS report for the previous year to AMBERS before June 30 each year. Furthermore, according to the notice issued by the STA Service Platform for Automatic Exchange of Financial Account Tax Information (the Platform) in May 2022, PFMs who have provided written reports in AMBERS are no longer required to submit annual reports to the tax authorities.

On the form of the written reports, the Platform issued the ***Form of CRS Annual Report for Financial Institutions*** in April 2023, which includes the financial institutions’ basic information, rules and systems establishment, due diligence, information reporting, other relevant information, as well as the issues and suggestions.

In April 2023, the Platform released the ***Non-Resident Financial Account Tax Information Reporting Standard*** (version 2.02), which updates the reporting format of certain fields.

Any financial institution that fails to perform relevant obligations under CRS may be subject to punishment by the regulatory authorities, which may include lowering tax credit ratings, winding up for rectification, revoking business permits and disqualifying officers.

In addition, with respect to the ***Foreign Account Tax Compliance Act*** (FATCA), China and the US reached a preliminary agreement on June 26, 2014 regarding their intent to enter into the Model 1 IGA for FATCA. However, China has not announced the official implementation of this Act. Therefore, asset management firms within China are not obligated to comply with FATCA compliance. If an asset management firm in China has a US parent company or has business transactions with any US company, the institution may be required to submit information requested under FATCA at the corporate level.

# Chapter 11 Other Helpful Information on Doing Business in China

## 1. Company Establishment

### 1.1 Name and Establishment Registration

The competent authority for market regulation ("AMR") oversees name and establishment registration for prospective companies.

An overseas institution that intends to establish a foreign-funded enterprise may submit the relevant information and materials via the enterprise name declaration system or at the service window of a local AMR to look up, compare, and screen for potential enterprise names and select one that complies with applicable regulations.

AMR will retain, for two months, the proposed enterprise name successfully submitted via the enterprise name declaration system. If the overseas institution is legally required to seek approval on the business establishment, or if any items in the proposed scope of business have to be approved before business registration, the name will be retained for one year. The overseas institution should complete the procedures for establishing the new enterprise (such as purchasing or leasing office premises and appointing/hiring relevant directors, supervisors and senior management personnel) before the retention period expires and apply to AMR for establishment registration. The new enterprise is duly established upon the issuance of a business license by AMR.

### 1.2 Shanghai's Supporting Measures

In recent years, in order to mitigate risks and combat companies that illegally engage in fundraising, asset management and other activities, local AMRs are generally tightening establishment registration for investment companies (i.e., companies with "investment", "investment management" or similar expressions in their name or business scope).

Shanghai provides quality services for overseas institutions with sound qualifications. For example, the Shanghai Municipal Financial Regulatory Bureau, Shanghai Lujiazui Financial City Development Bureau, and other authorities have actively provided many supportive measures for foreign institutions to invest and establish companies in Shanghai.

## 2. Working in China as Overseas Individuals (including those from Hong Kong SAR, Macau SAR, and Taiwan Region)

### 2.1 Conditions for Foreigners' Employment in China

Foreigners must meet all of the following criteria to work in China:

1) being at least 18 years of age and in good health;

2) having the professional skills required for their work and the relevant work experience;

3) having no criminal record;

4) having a definite employer in China;

5) holding a valid passport, or any other international travel document that can serve as a

substitute for passport;

6) engaging in works that are consistent with demand for economic and social development of China and being a professional urgently needed in China; and

7) meeting any other criteria prescribed by laws and regulations.

### 2.2 Foreign Talent Classification

In accordance with the ***Evaluation Criteria for Foreigners Employed in China (For Trial Implementation***), foreigners working in China are classified into three categories—Category A, Category B and Category C, which are evaluated and administered according to different criteria. Category A foreigners are entitled to the most convenient and favorable policies. Category A foreigners may be identified using a simple and convenient method, i.e., annual salary: if a foreigner's annual salary is higher than 6 times of the average salary published by the local government for the previous year, such a foreigner will be determined as falling under Category A. Shanghai Municipality's current standard is RMB 600,000 in pre-tax annual salary with at least RMB 120,000 in annual individual income tax levied; this standard is expected to be consistently adjusted and raised in the future.

### 2.3 Certificates Required for Foreigners' Employment in China: Work Visa, Work Permit and Residence Permit

If an investment company established by an overseas asset management firm in Shanghai intends to hire a foreign employee, it must assist the foreign employee in obtaining a work visa, work permit and employment-type residence permit before such foreign employee can legally reside and work in China. Specific requirements and procedures for obtaining these permits are listed below.

### 2.4 Work Visa

Foreign talent under Category A, B and C are required to apply for different types of work visas: R Visa (a multiple-entry visa with a validity period of up to 5-10 years) for high-level foreign professionals and urgently needed specialized professionals and Z Visa for Category A, Category B, and Category C foreigners.

### 2.5 Conditions and Requirements for the Alien Employment Permit and Employment-Type Residence Permit

1) Conditions for Applying for the Alien Employment Permit

Within 15 days after a foreigner enters China with a valid visa, his/her employer should apply online for the Alien Employment Permit and obtain such permit from the Shanghai Municipal Science and Technology Commission.

Additionally, since April 2017, in contrast to Category B foreigners who are generally subject to an age limit of 60 years old, Category A foreigners are not subject to any age restrictions. Category A foreigners are also not subject to restrictions in terms of educational background and work experience. Category A foreigners who are over 60 years old can still obtain a work permit.

2) Employment-Type Residence Permit

Within 30 days after a foreigner enters China with a work visa, he/she should apply to the Exit-Entry Administration Bureau of the Shanghai Public Security Bureau for the foreigner residence permit, the validity period of which will be determined based on the validity period of his/her employment permit.

3) Work Permit Is Not Required for Hong Kong SAR, Macau SAR, and Taiwan Region Residents

Starting from July 28, 2018, Hong Kong SAR, Macau SAR, and Taiwan region residents working in the Chinese Mainland are no longer required to obtain a work permit. They may handle various human resources and social security matters using their Mainland residence permits for Hong Kong SAR, Macau SAR and Taiwan region residents, the Mainland travel permit for Hong Kong SAR and Macau SAR residents, the Mainland travel permit for Taiwan region residents, or other valid identity certificates. They may also use the business license, employment contract (engagement contract), salary payment voucher, social insurance payment record or other materials as proof of their employment in the Chinese Mainland.

### 2.6 Ways for Overseas Individuals to Obtain Fund Practitioner Qualification in China

An overseas individual may have himself/herself qualified as a fund practitioner by passing a combination of subjects of the Fund Practitioner Qualification Exam organized by AMAC (i.e., a combination of Subject 1 "Fund-related Laws and Regulations, Professional Ethics and Code of Conduct " and Subject 2 "Basic knowledge of Securities Investment Funds", or a combination of Subject 1 and Subject 3 "Basic knowledge of Private Equity Funds") according to the type of fund business he/she intends to engage in, or by only passing Subject 1 (available in English for overseas individuals) if he/she meets one of the following conditions:

1) serves as the chairman, the senior management personnel or any other director or supervisor for business management of a public fund manager, or the senior management personnel of the fund custody department of a public fund custodian, and has overseas fund practitioner qualification. The overseas fund practitioner qualification means that fund/ asset management or fund sales and any other qualification in a jurisdiction that has signed the Memorandum of Understanding Regarding Securities and Futures Regulatory Cooperation with CSRC, or if such qualification is not required in a jurisdiction, evidence for continuous engagement in asset management, securities investment analysis, fund sales and other business over the past five years;

2) is a Hong Kong specialist engaging in the fund business in Mainland China and holds a Type 4 (advising on securities) or Type 9 (asset management) license issued by SFC;

3) is a Taiwan compatriot engaging in the fund business in Mainland China, and has qualification as a securities investment trust and consulting professional, securities investment analyst, senior securities specialist, trust operations specialist, or advanced financial management analyst (AFMA) in Taiwan;

4) is an overseas specialist employed by a fund manager, fund custodian, or fund service provider in Beijing, Shanghai, Hainan, Chongqing, Hangzhou, Guangzhou, Shenzhen, China (Tianjin) Pilot Free Trade Zone, China (Jiangsu) Pilot Free Trade Zone, China (Shandong) Pilot Free Trade Zone, Chengdu-Chongqing Economic Circle, or China (Yunnan) Pilot Free Trade Zone and engaging in the fund business in such region, and has overseas fund practitioner qualification. See 2.6. 1) for the definition of "overseas fund practitioner qualification".

## 3. Taxes

In accordance with current Chinese statutes on individual income tax, a person's tax residency status is determined by his domicile, duration of stay in China, and other factors. If a foreigner is recognized as a tax resident of China, he is required to pay individual income tax in China on the income obtained both in and outside China (subject to certain special treatment as provided by the regulations). For a non-tax resident, the individual income tax is assessed on the income obtained in China only. The amount of taxable income is based on an individual's income in each tax year after an RMB 60,000 deduction for expenses as well as special deductions and special additional deductions. Special deductions mainly refer to social insurance and housing fund contributed by the individual; special expense deductions include expenses for child education, continuing education, medical treatment for serious illnesses, mortgage interest or rent, support for the elderly, and care of children under the age of 3, among others.

Between January 1, 2019 and December 31, 2027, foreigners that are determined to be tax residents of China may elect to enjoy either the special expense deductions for individual income tax, or the tax exemptions for housing allowance, language training fees, children's tuitions, and other allowances and subsidies as listed below (note that the special expense deductions and the tax exemptions are mutually exclusive):

1) Reasonable housing allowance, meal allowance and laundry fee allowance provided to foreign individuals in non-cash form or on an at-cost basis are exempt from individual income tax.

2) Relocation income provided to foreign individuals on an at-cost basis and in relation to taking or leaving office in China is exempt from individual income tax.

3) Domestic and overseas travel allowance provided to foreign individuals based on a reasonable standard is exempt from individual income tax.

4) Fare for trips home provided to foreign individuals is exempt from individual income tax.

5) Allowances for language training and children's education provided to foreign individuals are exempt from individual income tax.

Once a choice is made, foreign individuals may not change the selection during the same tax year.

# Chapter 12 Relevant Government Authorities, Institutions and Other Organizations

## 1. Financial Regulatory Authorities

### 1.1 CSRC

CSRC is a ministerial-level public institution directly under the supervision of the State Council, which oversees and administrates China's securities and futures market, maintains the order of the securities and futures market, and ensures the lawful operation of the securities and futures market according to the relevant laws and regulations and the authorization of the State Council.

Headquartered in Beijing, CSRC has established 36 regional offices in provinces, autonomous regions, municipalities directly under the central government and cities specifically designated in the national plan, as well as the Shanghai Commissioner Office and the Shenzhen Commissioner Office.

**Official website:http://www.csrc.gov.cn**

### 1.2 CSRC Shanghai Office

The CSRC Shanghai Office is a CSRC's branch in Shanghai. In accordance with relevant laws, regulations and policies, the CSRC Shanghai Office oversees securities and futures activities of listed companies, securities and futures business organizations, securities investment advisers, as well as securities and futures service providers such as law firms, accounting firms, asset appraisal institutions and credit rating agencies within its jurisdiction. In addition, the CSRC Shanghai Office investigates violations within its jurisdiction and mediates controversies and disputes arising out of securities and futures transactions.

**Official website of SSRB: http://www.csrc.gov.cn/pub/shanghai/**

### 1.3 Shanghai Municipal Financial Regulatory Bureau

Shanghai Municipal Financial Regulatory Bureau is in charge of local financial regulation and financial development in Shanghai. The bureau also works under the name Shanghai Financial Work Bureau. The bureau consists of Policy & Regulations Division, Financial Survey & Statistics Division, Financial Stability Division, Local Financial Supervision and Administration Divisions I, II, and III, Financial Development Coordination Division, Financial Market Service Division, Financial Institution Service Division, and Financial Cooperation Division. Its main duties are to facilitate the gathering of financial institutions, to attract financial institutions to develop in Shanghai, and to improve core competitiveness of various categories of financial institutions.

**Official website of Shanghai Municipal Financial Regulatory Bureau: jrj.sh.gov.cn**

### 1.4 Shanghai Pudong New Area Financial Work Bureau

The Shanghai Pudong New Area Financial Work Bureau, previously known as the Shanghai Pudong New Area Financial Service Bureau, is a department of the Pudong New Area People's Government and responsible for building Pudong into a pillar of the Shanghai International Financial Center. It is committed to attracting and empowering financial institutions; building the financial market system and infrastructures; aligning the financial sector with local economic and social development goals; providing better government services to promote the growth of financial institutions and financial talent; and building a law-based, international, and friendly business environment. Since the official expansion of Shanghai FTZ in 2015, the Administrative Committee of Shanghai FTZ has been sharing office premises with the Pudong New Area People's Government, and the Pudong New Area Financial Service Bureau has been newly tasked with promoting financial opening up and innovation in Shanghai FTZ. For this updated role, it is referred to as the "Financial Service Bureau of China (Shanghai) Pilot Free Trade Zone". In February 2019, according to the Plan for Institutional Reform of Shanghai Pudong New Area approved by the Shanghai Municipal CPC Committee and Shanghai People's Government, the Pudong New Area Financial Service Bureau was renamed as the Pudong New Area Financial Work Bureau.

After years of development, Pudong New Area has gathered 13 financial markets and infrastructures. It has become one of the places with the most complete financial market and most active trading activities in the world. It also formed a financial institution system under which emerging financial institutions and financial professional service institutions develop together, and has become one the places with the most concentrated financial institutions in the world. As of the end of June 2023, the Pudong New Area had 1,186 licensed financial institutions in banking, securities, and insurance industries, including 304 bans, 546 securities institutions, and 336 insurance companies.

The Pudong New Area is striving to create a financial service system covering the full lifecycle of science and technology innovation enterprises by optimizing the service chains for IPO process of enterprises located in Pudong New Area. As of the end of June 2023, the Pudong New Area had a total of 228 listed enterprises—accounting for one-third of the public companies in Shanghai—which together raised RMB 478 billion from IPO, nearly half of the total in Shanghai. The region also had 46 STAR-listed companies, representing 57% of the total number in Shanghai.

## 1.5 Shanghai Huangpu District Financial Service Office

Shanghai Huangpu District Financial Service Office ("Huangpu FSO") was established in 2009 and runs the Huangpu District Financial Development Service Center. After the institutional reform in 2019, Huangpu FSO also works under the name of Huangpu District Investment Promotion Office. As a department of the district government, Huangpu FSO, based on the overall strategy of building Shanghai into an international financial center and with a focus on the construction of the Bund financial clustering belt, is mainly responsible for: coordinating and promoting regional financial industry development; implementing and promoting the financial supply-side structural reform, and enhancing the development of new finance and improvement of regional financial functions; organizing, instructing, coordinating, administering and serving for the investment facilitation, building economy, headquarters economy and merchants settlement and retaining.

Currently, Huangpu District has attracted 721 licensed financial institutions and 6 of the 14 national-level financial markets in Shanghai. The district has a solid foundation of banking, securities, insurance, and other traditional financial institutions, and has evident advantages in private banking, trust, securities asset management, funds, and other sub-sectors featuring asset management and wealth management. As high-quality institutions represented by industry finance and sci-tech finance continue to gather in the district, Huangpu now has a multi-type, comprehensive, and integrated clustering of financial institutions. In 2022, the added value of the financial industry in Huangpu District reached RMB 134.857 billion, making up 44.6% of GDP of the district; the financial industry contributed a tax revenue of RMB 23.357 billion, making up 29.3% of total tax revenue of the district. The financial service industry, whose scale and proportion match the position and role of the "One Economic Belt", has become a core sector of the district's high-end service industry system.

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## 1.6 Shanghai Hongkou District Financial Work Bureau

Shanghai Hongkou District Financial Work Bureau ("Hongkou FWB"), previously known as Shanghai Hongkou District Financial Service Bureau, was set up in April 2019. As a department of the Hongkou District People's Government, Hongkou FWB is mainly responsible for promoting the financial industry development and maintaining a stable financial environment in the district. Hongkou FWB has five internal divisions, namely the Office, the Industry Hub Division, the Industry Administration Division, the Capital Market Division, and the Financial Stability Division. Shanghai Hongkou District Financial Service Center is a subordinate institution of Hongkou FWB. Hongkou FWB works to promote the creation of financial hubs, improve the services for financial institutions and professionals, and strengthen exchange and cooperation in the financial industry. The 14th Five-Year Plan for Shanghai's financial industry calls for "creating a financial hub in the Lujiazui-Bund-North Bund region with higher service capacity, and enhancing the financial functions of the North Bund in resource concentration and allocation." To this end, the Hongkou FWB has been committed to developing Shanghai into an international financial center and creating the Pujiang Golden Triangle. The ultimate goal is to transform the North Bund into the central area of Shanghai's aspiration as a global asset management center and fintech center.

The number of financial companies in Hongkou District is increasing at a blistering average annual rate of 35% to more than 2,100. Their AUM is approaching RMB 8 trillion. Among them, there are 18 public fund companies, 15 subsidiaries of public fund companies, close to 150 subsidiaries of securities, futures, trust, and insurance asset management companies, more than 1,600 private funds (including angel funds, VC/PE, buyout funds, and hedge funds), and nearly 160 third-party organizations. They cover almost every type of licensed and emerging financial services found in China, and are becoming ever-more sophisticated and international. To support the real economy, Hongkou District has been nurturing startups, facilitating access to venture loans, and encouraging businesses to seek listing in the appropriate tier of the capital market. This is achieved by devising robust supporting policies and taking a wide array of actions to assist companies, particularly those in key sectors and the industry leaders. Currently, Hongkou District has 103 companies listed in the Shanghai or Shenzhen stock market or NEEQ. It has also established a pipeline of companies in four stages of listing: listed, under listing review, under restructuring, and in candidate pool.

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## 1.7 Shanghai Jing'an District Financial Service Office

Shanghai Jing'an District Financial Service Office ("Jing'an FSO"), a department of Jing'an District Government, consists of the Investment Promotion Division, the Financial Development Division, the Supervision & Administration Division, and the General Office. Jing'an FSO is committed to promoting financial development, maintaining financial stability, and enhancing industry-finance cooperation in the district. As an active contributor to the Shanghai International Financial Center initiative, Jing'an FSO has implemented the "one axis with three belts" program, i.e., building a premier financial hub along the West Nanjing Road, a global wealth management center in the Suhe Bay Area, and a demonstration zone for industry-finance cooperation along the Middle Ring Road, in a bid to develop Jing'an District into a magnet for wealth management firms and a pillar for the Shanghai global asset management center.

The financial service sector in Jing'an District—one of its six major sectors—with its complete set of supporting facilities, a large concentration of high-quality institutions, and clear development priorities, plays an important role in regional economic development. In the Jing'an District, securities companies, finance companies, and asset management companies are highly concentrated; foreign-invested financial institutions are active market participants; and emerging financial sectors such as digital finance are taking shape, which are characterized by a strong core competence, wide influence, and strong global investment capability.

Jing'an FSO will focus more on licensed financial institutions, foreign-invested asset managers, and fintech. It will capture the opportunities brought by the further opening-up of the financial sector; leverage its regional, policy, and service advantages; introduce more talent incentives; and encourage financial institutions to settle locally to jointly open a new chapter for the financial sector in the district.

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## 1.8 Shanghai Xuhui District Financial Service Office

Shanghai Xuhui District Financial Service Office ("Xuhui FSO") was founded in December 2021. In view of its mandates, Xuhui FSO has formulated a host of measures to support the financial sector and to align it with the real economy. Xuhui FSO has enhanced its services and management of the local financial sector to create a better financial environment and attract financial institutions. It has also taken actions to prevent and combat illegal financial activities and helped coordinate the prevention and resolution of financial risks.

Xuhui District boasts a large lineup of financial institutions: there are over 800 financial institutions (including their branches) in the district, offering a wide range of services covering banking, securities, insurance, public funds, futures, asset management, trust, third-party payment, microloans, financing guarantee, finance lease, and pawn services. During the 14th Five-Year Plan period, Xuhui District will build a modern financial hub specializing in sci-tech financial services and asset management. By improving industry structure, planning, and environment, Xuhui is aiming to create a financial hub and a financial street.

In particular, the West Bund Financial District is located at the heart of Binjiang, with Longhua Middle Road to the north, Dong'an Road to the west, Longteng Avenue-Ruining Road to the south, and Ruijin South Road-Rihui Port to the east. Offering an expansive view of the south coast of the Huangpu River, it is the last riverside green land in the downtown of Shanghai. The project boasts an above-grade floor area of 1.08 million m2 and a gross area of 1.7 million m2, and is designed to attract financial infrastructures and markets, licensed financial institutions, and international firms.

The Hengfu Financial Street, located in the Hengfu Historical District, straddles the Tianping Road and Hunan Road sub-districts which are home to more than 1,000 distinctive, century-old houses. Taking advantage of the existing PE and VC firms in the area, the Hengfu Financial Street will appeal to other national-level funds and premier private investment firms to become a center for PE firms. At the policy level, Xuhui District has introduced 15 incentives for financial development and 16 incentives for sci-tech financial services. The aim is to help financial institutions settle in the region and support sci-tech-oriented financial services as well as human resource services. The district also seeks to improve financial services to empower the real economy, bolster sci-tech finance, and encourage more businesses to access the capital market. It will strengthen the demonstration area for inclusive finance with financial support from the central government. Specifically, it will improve financing services for sci-tech innovation companies to provide them with full-lifecycle financial services.

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## 2. Self-Regulatory Organizations and Service Institutions

### 2.1 AMAC

AMAC is a social organization legal person registered with the Ministry of Civil Affairs upon approval by the State Council in accordance with the Fund Law and the Regulations on the Registration and Administration of Social Organizations. AMAC is a self-regulatory organization of the asset management industry and is subject to the instruction, supervision, and administration of CSRC and the Ministry of Civil Affairs. According to the Fund Law, fund managers and fund custodians are required to join the AMAC and fund service institutions are allowed to join the AMAC.

In order to strengthen the legal system construction of the industry and facilitate access to laws and regulations, AMAC provides fund practitioners and investors with access to the "mini app for search for the laws and regulations of the fund industry". The mini app features a wide range of fund-related laws and regulations organized into six categories (namely general industry rules, public funds, private funds, asset management, custodian and distribution, and professionals) and 24 sub-categories. The mini app is accessible by scanning QR code below in WeChat, or by clicking the menu item "Search Regulations" in AMAC's official WeChat account (CHINA AMAC).

**Official website of AMAC: www.amac.org.cn**

### 2.2 SAMA

SAMA is an industry-oriented non-profit social organization legal person voluntarily sponsored and formed by relevant entities of the fund industry in Shanghai. SAMA is registered with the Shanghai Administration Bureau of NGOs, reports to the CSRC Shanghai Office, and is subject to the supervision, administration, and advice of the Shanghai Administration Bureau of NGOs and the CSRC Shanghai Office.

**Official website of SAMA: http://www.samacn.org.cn**

### 2.3 Lujiazui Financial City Development Bureau

Lujiazui Financial City Development Bureau is a statutory institution with separate legal personality. It is sponsored and established, upon approval of Shanghai Municipal People's Government, by Pudong New Area People's Government based on relevant decisions of the People's Congress of Pudong New Area. As a public administration service institution, the Authority, through corporate and specialized operation, implements and coordinates public affairs within Lujiazui Financial City (Lujiazui Finance & Trade Zone), and organizes and implements relevant matters on co-governance with the industry. It is mainly responsible for formulating and implementing the development plan of Lujiazui Financial City, promoting economic development and investment, facilitating the clustering of headquarters of different types of institutions, and encouraging the innovation of various markets.

# Afterword

Shanghai is one of the megalopolises in China, the core city of the Yangtze River Delta region, and one of the cities with the highest concentration of global financial institutions. Shanghai stands at the forefront of China's financial opening up, plays a leadership role in financial reform and innovation, and has one of the most business-friendly financial environments in China. Shanghai has preliminarily developed itself into an international financial center commensurate with the economic strength of China and the international status of RMB. This city has become a magnet to and an innovation incubator for various financial markets, institutions, products, and infrastructures.

In2020, ***Shanghai Guidebook for Overseas Asset Management Institutions*** (this "Guidebook") was first released. It aims to help overseas asset managers in and outside Shanghai to know about the necessary preparations and application procedures for engaging in asset management services in Shanghai, as well as the city's business policies and relevant professional service institutions. In 2021 and 2022, we made yearly updates to the cited laws, regulations, and data and released the Guidebook 2021 and Guidebook 2022 in both Chinese and English versions.

The ***Shanghai Guidebook for Overseas Asset Manager*** (2023 version) continues our efforts on updating the latest policies, regulations, industry data, and innovative practices. Our deep thanks go to Llinks Law Offices, KPMG Advisory (China) Limited, for their great contribution. We also thank Shanghai Everbright Assets Management Limited, JPMorgan Asset Management (China) Company Limited, China Central Depository & Clearing Co., Ltd., and ChinaBond Pricing Center Co., Ltd. for participating in 2023 version of this guidebook.

Due to the limited time of preparation, this Guidebook is open for further improvement. Your comments and suggestions are appreciated. We are committed to making this Guidebook ever more helpful on an ongoing basis.

# Disclaimer

This Guidebook is for informational use only and does not intend to provide advice to any specific person. You are advised to consult qualified professionals before taking or not taking any action based on this Guidebook. None of AMAC, SAMA or any writer of this Guidebook will assume any responsibility for any losses resulting from any decision made based on this Guidebook.

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