

Legal Commentary

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CSRC to Accelerate the Mutual Fund Industry Development

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Mutual fund managers have long been important institutional investors in the capital markets. At present, there remain issues to be improved in the mutual fund industry, such as insufficient suitable professional capabilities, culture development weaknesses, and structural imbalances. In light of this, the China Securities Regulatory Commission has put forward the following guiding opinions to promote the developments of the mutual fund industry.

General requirements

Take the interests of investors as the core, and simultaneously promote development and improvement of both the industry and the interests of investors.

Facilitate the professionalization of asset management institutions

1. Support the differentiated development of mutual fund management companies (“**FMCs**”). Encourage eligible FMCs to set up subsidiaries specializing in publicly offered REITs, private equity investment, fund investment advisory, pension fund financial services, etc. Optimize the trading models of FMCs, switch outsourcing of FMC support operations from pilot to routine practice, and guide FMCs that fail to operate to realize market-oriented exits through applying for license cancellation, mergers and acquisition, reorganization, and other means.
2. Promote the corporate governance of FMCs. Give full play to the supervisory function of independent directors, supervisors, and chief compliance officers. Major shareholders and actual controllers are strictly prohibited from interfering with the daily operation and management of FMCs.
3. Actively promote commercial banks, insurance institutions, securities companies, and other eligible financial institutions to lawfully set up FMCs. Moderately reduce restrictions on the number of FMC licenses held by a single entity and support professional asset management institutions to lawfully apply for mutual fund manager licenses to engage in mutual fund business, such as asset management subsidiaries of securities companies, insurance asset management companies, and bank wealth management subsidiaries.

4. Support high-quality offshore financial institutions with long-term investment intentions to set up FMCs or expand current shareholding ratios, and encourage eligible FMCs to lawfully set up offshore subsidiaries. Expand QDII quotas and continuously promote the mutual recognition of funds between China's mainland and Hong Kong, support qualified mutual funds to participate in the "Cross-Boundary Wealth Management Connect" business pilot program in the Greater Bay Area and promote the inclusion of stock ETFs in the Stock Connect between China's mainland and Hong Kong.
5. Supervise FMCs to establish and improve long-term appraisal mechanisms covering key personnel such as senior management and portfolio managers and implement compensation deferral policies. Encourage FMCs to attempt the implementation of diversified long-term incentive mechanisms with equity, options, restricted equity, dividend rights, etc.

Strengthen overall professional capabilities

6. Improve the investment and research capabilities of FMCs. Encourage FMCs to establish integrated and platform-based investment and research systems with teamwork instead of the "star portfolio managers-based" model. Facilitate FMCs to achieve full-dimensional macro, strategy, industry, and company research coverage.
7. Further strengthen compliance and risk control capabilities. Those illegal behaviors which harm the interests of investors such as "rat trading", market manipulation, "tunnel" behaviors and unfair trading are strictly prohibited. Promote FMCs to continuously improve comprehensive risk management systems and strengthen the liquidity risk management. Supervise fund managers to conduct regular information system security assessments, stress tests, emergency drills, etc. Encourage FMCs to strengthen capital accumulation and to establish "living wills" and shareholder rescue mechanisms.
8. Encourage product and business innovation, and vigorously promote the development of equity funds, index products, and ETF products. Expand the investment scope and strategies of mutual funds and steadily promote investments in financial derivatives. Support the development of fixed income products for individual investors, develop fund products to match long-term individual pension funds, and continuously strengthen the AUM and risk management of money market funds.

Create a healthy industry environment

9. Cultivate a "compliance, integrity, professionalism and stability" industry culture and enhance personnel training on professional ethics and conducts. Encourage fund managers to comprehensively strengthen integrity risk management in key business steps, including investment research, commission allocation, and sales promotion.
10. Encourage fund managers and fund distributors to strengthen investor suitability management with investor interests as the core. Incorporate into assessment mechanisms the scale of sales retention and investors' long-term returns. Steadily develop fund advisory business, enhance the accuracy of investor profiles, and focus on the role of advisors.
11. Support qualified fund custodians to carry out mutual fund operation outsourcing business and provide

value-added services to funds such as liquidity facilities. Fund rating agencies are encouraged to further play leading roles in fund rating services.

12. Establish a multi-level supplementary pension system based on individual accounts and support more high-qualified fund managers to participate in pension management. Continue to promote insurance, wealth management, trust, and other asset management institutions to increase the proportion of equity investment through direct investment, entrusted investment, and mutual funds investment, etc., with long-cycle assessments.
13. Promote innovation-driven development and economic upgrading and transformation. Encourage mutual funds to play a professional buy-side role and facilitate reform of the registration-based IPO system. Proactively guide the industry to summarize ESG investment rules, vigorously develop green finance and practice responsible investment concepts.

Constantly improve the effectiveness of regulatory transformation

14. Strengthen the building of industry infrastructure. Improve the quality of data interaction and monitoring and analysis ability of central data exchange platform in mutual fund industry. Accelerate the building of a unified inquiry platform for mutual funds accounts to provide investors with “one-stop” inquiry services called “Fund E-Account”. Improve the building of information platforms for individual pension funds to invest in mutual funds and explore sources for OTC investors to invest in publicly offered REITs and other investment instruments.
15. Accelerate regulatory transformation. Clarify the boundaries of regulatory responsibilities and adhere to “look-through supervision and full-chain accountability”. Use a combination of various penalties to fight against illegal activities such as monetary fines, qualification cancellations, and reputation penalties.
16. Continuously improve supervision efficiency. Integrate supervision processes with technology and further optimize the funds registration mechanism and the fund manager classification and evaluation mechanism, and distinguishably implement incentive, prudential and restrictive measures.

Important Announcement

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