

THE ASSET
MANAGEMENT
REVIEW

TWELFTH EDITION

Editor
Paul Dickson

THE LAWREVIEWS

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Published in the United Kingdom
by Law Business Research Ltd
Holborn Gate, 330 High Holborn, London, WC1V 7QT, UK
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www.thelawreviews.co.uk

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Clare Bolton – clare.bolton@lbresearch.com.

ISBN 978-1-80449-203-1

ACKNOWLEDGEMENTS

The publisher acknowledges and thanks the following for their assistance throughout the preparation of this book:

ADVOKATFIRMAET BAHR AS

ARTHUR COX

CHRYSSES DEMETRIADES & CO LLC

DEYNECOURT

HAN KUN LAW OFFICES

HENGELER MUELLER

KING & SPALDING LLP

LENZ & STAEHELIN

MARVAL, O'FARRELL & MAIRAL

MORI HAMADA & MATSUMOTO

PINHEIRO NETO ADVOGADOS

SLAUGHTER AND MAY

STUDIO LEGALE CROCENZI E ASSOCIATI

URÍA MENÉNDEZ

YULCHON LLC

CHINA

*Lin Zhou and Yao (Ally) Hu*¹

I OVERVIEW OF RECENT ACTIVITY

The year 2022 was a year of both progress and challenge for China's asset management industry. The Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (the New AMR) entered its first year of full implementation. Over the past five years since the New AMR was promulgated in 2018, most of the rectification tasks to be completed during the transition period² have been completed, with a few individual cases entering the final stage of resolution.

However, due to various factors, such as epidemic control measures, a significant portion of asset categories faced restrictions due to market fluctuations in 2022. As at the end of 2022, the aggregate assets under management of China's asset management industry reached 131 trillion yuan, which was slightly lower than the 133.7 trillion yuan at the end of 2021. Nevertheless, China is still the world's second largest asset management market after the United States and has achieved outstanding accomplishments in terms of industry professionalism, diversification and social impact, laying a solid foundation for the industry's sound and sustainable growth.³

II GENERAL INTRODUCTION TO REGULATORY FRAMEWORK

The primary regulators for asset management business in China include the Financial Stability and Development Committee, the People's Bank of China (PBC), the China Banking and Insurance Regulatory Commission (CBIRC)⁴ and the China Securities Regulatory Commission (CSRC). There is no unified regulatory authority in China for

1 Lin Zhou and Yao (Ally) Hu are partners at Han Kun Law Offices. The authors acknowledge the assistance of John D Fitzpatrick, Zhuo Zhou, Jiner Chen, Mingyu Xia and Jianyang Ding from Han Kun Law Offices.

2 According to Article 29 of the New AMR, the transition period was originally scheduled to last until the end of 2020. However, on 31 July 2020, with the approval of the State Council, the PBC, together with the National Development and Reform Commission, the Ministry of Finance, the CBIRC, the CSRC, SAFE and other departments, decided to extend the transition period of the New AMR until the end of 2021. In 2022, the New AMR finally came into effect.

3 Data and information are from the 2021 China Asset Management Series Report by BCG & Everbright Bank (EBC) and Navigating the Present, Orienting Towards the Future: Path to High-Quality Development of China's Asset Management Industry (Summer 2023 issue) China Financial Industry CEO Quarterly by McKinsey & Company.

4 On 10 March 2023, the National Administration of Financial Regulation was established to replace the CBIRC, also taking over some roles from the PBC and the CSRC.

the asset management industry. Regulators for cross-border asset management businesses also include the Ministry of Commerce and the State Administration of Foreign Exchange (SAFE). It is notable that some self-regulatory organisations also issue self-regulatory rules that apply to their respective industries, including the Securities Association of China, the Asset Management Association of China (AMAC), the China Trustee Association, the China Banking Association, the China Futures Association and the Insurance Asset Management Association of China (IAMAC), among others. In fact, compared with departmental rules and normative documents, asset management institutions more often rely on self-regulatory rules for their routine operations.

III COMMON ASSET MANAGEMENT STRUCTURES

i Types of issuers of asset management products

To issue asset management products, asset management institutions in China are required to apply for licences with their respective regulators or industry self-regulatory organisations. Licensed institutions may issue and operate asset management products within the scopes of their licences. Asset management products may be categorised by both their competent regulators and different types of issuers.

Issuer	Asset management product	Legal structure	Open-ended or closed-ended
Securities companies and their subsidiaries	<ul style="list-style-type: none"> Collective asset management plan Directional asset management plan Special asset management plan Special asset-backed plan 	Contractual arrangement	Open-ended or closed-ended
Fund management companies and their subsidiaries	<ul style="list-style-type: none"> Public fund Specific asset management plan 	Contractual arrangement	Open-ended or closed-ended
Futures companies and their subsidiaries	<ul style="list-style-type: none"> Collective asset management plan Single asset management plan 	Contractual arrangement	Open-ended or closed-ended
Trust companies	<ul style="list-style-type: none"> Single fund trust Collective fund trust 	Trust	Open-ended or closed-ended
Insurance asset management companies	<ul style="list-style-type: none"> Equity investment plan Debt investment plan Hybrid insurance asset management product 	Contractual arrangement	<ul style="list-style-type: none"> Equity investment plan should be closed-ended Hybrid insurance asset management product can be open-ended or closed-ended
<ul style="list-style-type: none"> Wealth management departments of commercial banks Wealth management subsidiaries of commercial banks 	<ul style="list-style-type: none"> Public wealth management product Private wealth management product 	Contractual arrangement	Open-ended or closed-ended

Private fund managers	<ul style="list-style-type: none"> • Private securities investment fund • Private equity investment fund • Asset allocation fund, etc. 	<ul style="list-style-type: none"> • Corporation, partnership • Contractual arrangement 	<ul style="list-style-type: none"> • Private securities investment fund can be open-ended or closed-ended • Other products should be closed-ended
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ii Types of investors – public and private asset management products

Asset management products can be classified as either publicly offered or privately offered, depending on the offering targets. Publicly offered products are offered to unspecified members of the public, with the criteria for determining a public offering outlined in the Securities Law of the People's Republic of China (2019 Revision) (Presidential Order No. 37). By contrast, privately offered products are offered in a non-public manner to qualified investors, which are defined in relevant departmental rules and normative documents promulgated by regulators.

iii Types of underlying investments

Asset management products can also be classified by the nature of the underlying investments, which include fixed income products, equity products, commodity or financial derivative products, and hybrid products.

Asset management institutions are required to disclose to investors the types of asset management products based on these classification standards when the products are issued and are required to make investments in accordance with the designated targets and strategies.

IV MAIN SOURCES OF INVESTMENT

Looking back at 2022, the bank wealth management industry witnessed a significant decline in scale due to the impact of the net asset value (NAV) transformation⁵ and discounting among wealth management products. The trust industry experienced a steady rebound, but the decline in business income from some sectors led to negative growth in the overall operating income of the industry. The number of registered insurance asset management products also decreased, and other major products experienced a reduction in both registered number and scale compared with the previous year, except for insurance private equity funds.

Recent industry growth highlights include the following:

- a* Bank wealth management industry: in 2022, two rounds of market discounts led to significant redemptions of wealth management products, with their overall scale shrinking as a consequence. By the end of 2022, 34,700 products were offered in the bank wealth management industry, down 4.41 per cent from the beginning of the year. The remaining balance was 27.65 trillion yuan, down 4.66 per cent from the beginning of the year. Notably, however, the NAV transformation and product optimisation and restructuring achieved significant results in 2022. By the end of 2022, the scale of net

⁵ NAV transformation commonly refers to the shift from traditional fixed income products to investment instruments that are priced and traded based on their NAV.

value-based products reached 26.40 trillion yuan, accounting for 95.47 per cent of all wealth management products and increasing by 2.52 per cent compared with the same period in the previous year.⁶

- b Trust industry: the trust industry continued to be stable and rebounded in 2022. By the end of the fourth quarter of 2022, the scale of trust assets reached 21.14 trillion yuan, representing an increase of 2.87 per cent, or 589.344 billion yuan, from the end of the fourth quarter of 2021. However, due to the general decline in inherent business and trust business income, the trust industry's cumulative operating income was 83.879 billion yuan as at the end of the fourth quarter of 2022, a decrease of 36.92 billion yuan, or 30.56 per cent, compared with the end of the fourth quarter of 2021. The industry continues to face operational pressures.⁷
- c Products under CSRC and AMAC supervision: by the end of 2022, the total scale of the asset management business of fund management companies and their subsidiaries, securities companies, futures companies and private fund managers reached 66.74 trillion yuan,⁸ which was slightly lower than the scale of 67.87 trillion yuan in 2021.⁹ As at the end of the fourth quarter of 2022, 23,667 private fund managers were registered with the AMAC, a decrease from 24,610 at the end of the fourth quarter of 2021.¹⁰
- d Insurance asset management industry: in 2022, a total of 529 debt investment plans, equity investment plans and insurance private funds were registered with the IAMAC, representing a 5.37 per cent decrease compared with 2021. The registered scale was 1.05 trillion yuan, showing a 6.78 per cent decrease.¹¹

V KEY TRENDS

i Regulations and policies in the asset management industry were frequently issued, further improving the supervision of the industry

Looking back to 2022, the regulators in China's asset management industry issued crucial laws, regulations and industry guidelines for different business areas, further strengthening the supervision of the asset management industry and improving the legal framework.

In the public funds industry, the CSRC successively released the Opinions on Accelerating the Promotion of High-Quality Development of the Industry of Publicly Offered Funds, the Measures for the Supervision and Administration of Managers of

6 Data and information come from the China Banking Wealth Management Market Report (2022) by the Banking Wealth Management and Registration Centre.

7 Data and information come from the Assessment and Analysis of China's Trust Industry Development for 2022 by the China Trustee Association. Please see <http://www.xtxh.net/xtxh/statistics/48366.htm>.

8 According to the Data Report on Asset Management Business (Q4 2022), the duplicated portion of private equity fund adviser management products and private equity management plans are excluded here.

9 Data and information come from the Data Report on Asset Management Business (Q4 2021). Please see <https://www.amac.org.cn/researchstatistics/datastatistics/comprehensive/zcglhybg/202203/P020220311522745804489.pdf>.

10 Data and information come from the Data Report on Asset Management Business (Q4 2022). Please see <https://www.amac.org.cn/researchstatistics/datastatistics/comprehensive/zcglhybg/202303/P020230303607247593348.pdf>.

11 Data and information come from Registration of Products by the IAMAC in December 2022. Please see <https://mp.weixin.qq.com/s/51vopjrO1FHCAAd5piyec9w>.

Publicly Offered Securities Investment Funds and its supplemental rules; the AMAC released the Guidelines for Performance Assessment and Remuneration Management of Fund Management Companies. The release of these regulations and guidelines enhanced the regulatory mechanism for managers of public funds and established a long-term incentive and restraint mechanism in the public funds industry.

In the private fund industry, on 30 December 2022, the AMAC issued an exposure draft of the Measures for the Registration and Recordation of Private Investment Funds and their accompanying guidelines. The release of these drafts aims to improve the AMAC's self-regulatory rules system and lay a foundation for the formulation of subsequent complementary rules in the future. It also summarises and responds to the development of the Chinese private funds industry over the past decade.

For the insurance asset management industry, the Provisions on the Administration of Insurance Asset Management Companies formulated by the CBIRC were officially implemented on 1 September 2022, filling the regulatory gap in the supervision system for insurance asset management companies during the 'new era of asset management'.

ii The overall scale of the asset management industry steadily expanded, with the growth rate of new assets decreasing to varying degrees compared with the prior year

The scale of the public funds industry steadily increased, with the growth of new assets declining

The development of China's asset management industry experienced varying degrees of fluctuation due to geopolitical conflicts and global macroeconomic conditions in 2022. After experiencing rapid growth in 2021, the development of the public funds industry gradually stabilised and the industry volume steadily increased. By December 2022, the number of public funds exceeded 10,000 for the first time, and the overall scale of the public funds industry showed a slight increase compared with 2021. However, the number of newly launched public funds experienced a decline compared with 2020 and 2021.¹²

Steady increase in utilisation of insurance funds and slight decrease in number and scale of insurance asset management products

In 2022, the utilisation of insurance funds in bank deposits, bonds, stocks and securities investment funds maintained a steady growth. The asset allocation structure remained relatively unchanged, with fixed income assets still dominating the overall insurance funds.¹³ Despite the growth in the utilisation of insurance funds, the overall number and scale of insurance asset management products in China experienced a slight decline due to the impact of the covid-19 pandemic and macroeconomic conditions. Specifically, there was a slight decrease in the number and scale of debt-based investment products compared with

12 Data and information come from the Review and Prospect of Asset Management Industry in 2022 by China Life Insurance (Group) Company, 28 March 2023.

13 Data and information come from the Review and Prospect of Asset Management Industry in 2022 by China Life Insurance (Group) Company, 28 March 2023.

2021, while the number and scale of equity investment plans and insurance private funds continued to grow. Overall, the launch of equity investment plans and insurance private funds remained active.¹⁴

Private funds facing a wave of liquidation and exits, with a decrease in newly raised funds compared with the prior year

The private equity funds industry potentially faces a wave of liquidations and exits going forward due to the expiration of the terms of private equity funds established over the past decade.

Similarly, affected by the covid-19 pandemic and macroeconomic conditions, the amount of newly raised funds in China's private funds industry in 2022 decreased by approximately 33 per cent compared with 2021, reaching a historically low level. Among newly raised funds, the proportion of yuan-denominated funds was about 86 per cent of all funds, while US dollar funds comprised about 14 per cent. This indicates the trend that private funds now prefer to raise yuan funds. In terms of investment perspective, the Chinese private equity investment market has also undergone changes, with foreign capital making net withdrawals from the Chinese private equity market. In 2022, the total investment amount in the equity investment market decreased by about 50 per cent compared with 2021, returning to the levels of 2015 to 2017. Of the total investment amount, the proportion of yuan funds accounted for 79 per cent, the highest in the past decade, while the proportion of US dollar funds accounted for only 21 per cent, showing a decrease of 78 per cent compared with 2021.¹⁵

iii Structural changes in the private equity fundraising market, with a prominent role for state-owned capital

In 2022, the pace of foreign capital entering China slowed down, while a large number of government-guided funds with state-owned backgrounds were established, further enhancing the 'internal circulation' capability of the Chinese private equity market. As at 31 December 2022, the managed assets of Chinese funds of funds (FOFs) increased by 28.69 per cent compared with the end of 2021, with 113 newly established FOFs, which include 103 government-guided FOFs and 10 market-oriented FOFs.¹⁶ The accelerated establishment of government-guided funds with state-owned backgrounds has, to some extent, promoted the yuan fundraising process in the Chinese private funds industry in 2022. Among the newly raised funds with a scale of over 1 billion yuan, 67 per cent of the funds were managed by state-owned general partners, indicating the increasing involvement of state-owned capital in the private funds industry.¹⁷

14 Data and information come from Registration of Products by the IAMAC in December 2022. Please see <https://mp.weixin.qq.com/s/51vopjrO1FHCAAd5piyec9w>.

15 Data and information come from Private Equity Market Annual Review 2022: Five Key Trends of a Pivotal Year by China Renaissance, 9 February 2023.

16 Data and information come from the China Fund of Funds Panorama Report in 2022 by China-fof.com, 27 February 2023.

17 Data and information come from the Private Equity Market Annual Review 2022: Five Key Trends of a Pivotal Year by China Renaissance, 9 February 2023.

iv The issuance of individual pension rules brings long-term funds to the asset management industry

In the fourth quarter of 2022, the CBIRC, the CSRC and other relevant government departments jointly issued a series of individual pension policies, including the Implementing Measures for Individual Pensions, the Interim Provisions on the Administration of the Business of Private Pensions' Investing in Publicly Offered Securities Investment Funds and the Interim Measures for the Management of Individual Pension Business of Commercial Banks and Wealth Management Companies, etc. These regulations stipulate that individuals can supplement their pension insurance by establishing individual pension accounts, making voluntary contributions and independently selecting eligible savings deposits, financial products, commercial pension insurance, public funds and other individual pension products. The public funds that individual pension funds can invest in include retirement funds, with the scale complying with the applicable laws and regulations, and equity funds, hybrid funds, bond funds and FOFs that have stable investment styles, clear investment strategies, and compliant and steady operations, and are suitable for long-term investment by individual pension funds. The introduction of the aforementioned series of individual pension policies indicates that the regulations and rules for the construction of China's third pillar individual pension system are basically in place, which may bring more long-term funds to the asset management industries in the future, such as the public funds industry and the bank wealth management industry.

v The issuance of ESG policies has accelerated, and the standardisation of ESG investment is taking shape

In 2022, the environmental, social and governance (ESG) market in China continued to experience rapid development and, owing to the expedited introduction of ESG policies, ESG investment has gradually shifted from a broad concept to substantial implementation. In September 2022, the National Council for Social Security Fund (NCSSF) issued the Guidelines for Industrial Investments by the National Council for Social Security Fund, which increased the social security fund's investment in ESG-themed funds and projects, incorporating ESG factors into due diligence and evaluation systems for industrial investments.¹⁸ The public funds industry also witnessed the introduction of more ESG investment guidelines and standards. In April 2022, the CSRC released the Opinions on Accelerating the High-Quality Development of the Public Fund Industry,¹⁹ which emphasised that public funds should leverage their influence, actively engage in ESG governance of listed companies, guide the industry in summarising ESG investment patterns, vigorously develop green finance, and gradually enhance the popularisation and maturity of ESG investment management. In the private equity funds industry, a report from the AMAC revealed that, in 2022, ESG investment among private equity firms showed improvement compared with 2021. With the introduction and implementation of China's dual carbon strategy and its supporting policies, the fund industry has embraced more opportunities for green investment development.²⁰

18 Information sourced from Article 3 of the Guidelines for Industrial Investments by the National Council for Social Security Fund. Please see <http://www.ssf.gov.cn/portal/rootfiles/2022/09/27/1665925788891218-1665925788914601.pdf>.

19 Full text please see http://www.gov.cn/zhengce/zhengceku/2022-04/27/content_5687452.htm.

20 Information sourced from the Self-Assessment Report on Fund Managers' Green Investment (2022) issued by the AMAC in December 2022. Please

VI SECTORAL REGULATION

i Insurance

Insurance companies and insurance asset management companies play different roles in various types of asset management products as follows:

Participant	Role	Asset management product	Regulations
Insurance company	Investor	Private fund	<ul style="list-style-type: none"> • Notice of the China Insurance Regulatory Commission on Issuing the Interim Measures for Equity Investment with Insurance Funds (CIRC [2010] No. 79) • Notice of the China Insurance Regulatory Commission on Issues Relating to Investment in Equity and Real Estate by Insurance Funds (CIRC [2012] No. 59)* • Notice of the China Banking and Insurance Regulatory Commission on Matters Concerning Financial Equity Investment with Insurance Funds (CBIRC [2020] No. 54)
		Venture capital fund	Notice of the China Insurance Regulatory Commission on Matters Concerning the Investment of Insurance Funds in Venture Capital Funds (CIRC [2014] No. 101)* (Notice No. 101)
		Security	Notice of the China Insurance Regulatory Commission on Investment in Securities Trading by Insurance Institutions (CIRC [2011] No. 77)*
		Bank deposit	Notice of the China Insurance Regulatory Commission on Regulating the Bank Deposit Business for Insurance Funds (CIRC [2014] No. 18)*
		Wealth management products	Notice on Insurance Fund Investments in Financial Products (CBIRC Regulation [2022] No. 7) (Notice No. 7)
		Bond and debt-to-equity investment plan	Notice of the General Office of the China Banking and Insurance Regulatory Commission on Issues Concerning Adjusting the Requirements for the Credit Rating of Investment of Insurance Funds in Bonds (CBIRC [2021] No. 118) Notice No. 7
		Single asset management plan	Notice No. 7
		Infrastructure fund	Notice of the General Office of the China Banking and Insurance Regulatory Commission on Issues Concerning the Investment of Insurance Funds in Publicly Offered Real Estate Investment Trusts (General Office of the CBIRC [2021] No. 120)

see https://www.amac.org.cn/businessservices_2025/ywfw_esg/esgj/ygxb/202212/P020221213341035900020.pdf.

<ul style="list-style-type: none"> • Insurance company • Insurance asset management institution • Subsidiaries of insurance asset management institution 	<ul style="list-style-type: none"> • Manager • Promoter • Investor 	Insurance private fund	Notice of the China Insurance Regulatory Commission on Matters Concerning the Formation of Insurance Privately Offered Funds (CIRC [2015] No. 89)* (Notice No. 89)
Insurance asset management company	Manager	Debt investment plan	<ul style="list-style-type: none"> • Interim Measures on the Administration of Insurance Asset Management Products (Order of the CBIRC [2020] No. 5) • Notice of the General Office of the China Banking and Insurance Regulatory Commission on Issuing Three Documents Including the Detailed Rules for the Implementation of Portfolio Insurance Asset Management Products (General Office of the CBIRC [2020] No. 85)* • Regulations on Entrusted Investment Management of Insurance Funds (CBIRC [2022] No. 9)
		Equity investment plan	
		Portfolio product	
<p>* These rules were partially invalidated by Notice of the China Banking and Insurance Regulatory Commission on Revisions to Certain Regulatory Documents in the Area of the Use of Insurance Funds (CBIRC [2021] No. 47) promulgated by the CBIRC on 8 December 2021 (Notice No. 47).</p>			

Notably, Notice No. 7 has updated the range of financial products in which insurance funds can invest. For example, it specifically includes wealth management products offered by asset management companies, specific debt-to-equity investment plans, single-asset management plans issued by securities companies, securities asset management companies and securities investment fund management companies as eligible financial products for insurance funds. These updates have broadened the investment channels for insurance funds to a certain extent and provided a wider range of choices for insurance fund asset allocation.

ii Pensions

Primary laws and regulations

Significant primary laws and regulations are the following:

- a* Social Insurance Law of the People's Republic of China (2018 Revision);
- b* Regulations on the National Social Security Fund (Order of the State Council No. 667);
- c* Interim Measures for Administration of National Social Security Fund Investment (Order of the Ministry of Finance and the Ministry of Labour and Social Security No. 12);
- d* Notice of the State Council on Issuing the Measures for the Administration of Investment in Basic Pension Insurance Funds (State Council [2015] No.48);
- e* Measures for Enterprise Annuities (Order of the Ministry of Human Resources and Social Security and the Ministry of Finance No. 36);
- f* Measures for the Management of Enterprise Annuity Funds (2015 Revision);
- g* Implementation Measures for Individual Pension (Ministry of Human Resources and Social Security [2022] No. 70);
- h* Interim Provisions on the Administration of the Business of Individual Pensions' Investing in Publicly Offered Securities Investment Funds; and
- i* Interim Measures for the Management of Individual Pension Business of Commercial Banks and Wealth Management Companies (CBIRC [2022] No. 16).

Product classification

Pension funds in China include national social security funds, basic old-age insurance funds, enterprise annuities and other products.

National Social Security Fund

The National Social Security Fund (NSSF) is composed of funds allocated by the central government, transfer of state-owned capital, fund investment proceeds and funds raised through other means approved by the State Council.

Note the following:

- a* regulators: the Ministry of Finance and the Ministry of Human Resources and Social Security;
- b* operation and management: the NCSSF is responsible for the operation and management of the NSSF;²¹ and
- c* investment scope: the scope of domestic investment includes bank deposits, bonds, trust loans, asset securitisation products, stocks, securities investment funds, equity investments and equity investment funds, etc. The scope of overseas investment includes bank deposits, banknotes, large transferable deposit certificates and other money market products, bonds, stocks, securities investment funds and derivative financial instruments, etc.

The NSSF had previously suspended its investment in private equity funds. However, since resuming investment in private equity funds in 2019, the NSSF has continued to invest in such funds in 2020, 2021 and 2022.

Basic old-age insurance funds²²

Basic old-age insurance funds are composed of the contributions of individuals and their employers.

Note the following:

- a* regulators: the Ministry of Finance and the Ministry of Human Resources and Social Security, the PBC, the CBIRC and the CSRC;
- b* operation and management: the provincial people's governments entrust the NCSSF as the entrusted institution, and qualified managers are engaged to provide specific investment management services; and
- c* investment scope: bank deposits, central bank notes, interbank certificates of deposit, national debts, bonds, asset-backed securities, bond repurchase, pension products, securities investment funds, stocks, equities, stock index futures and treasury bond futures.

21 Article 6 of Interim Measures for Administration of National Social Security Fund Investment.

22 Notice of the State Council on Issuing the Measures for the Administration of Investment in Basic Pension Insurance Funds (State Council [2015] No. 48).

Supplemental old-age insurance funding – enterprise annuity funds

The enterprise annuity is a voluntary old-age insurance that supplements basic old-age insurance and is jointly paid by an enterprise and its employees. Enterprise annuity funds refer to funds raised by an enterprise in accordance with its enterprise annuity plan and the investment proceeds therefrom. Management of enterprise annuity funds is entrusted to a qualified pension management company or the enterprise's annuity council.

Note the following:

- a* regulators: the Ministry of Finance, Ministry of Human Resources and Social Security, the CBIRC and the CSRC;
- b* operation and management: qualified pension management company or the enterprise's annuity council; and
- c* investment scope: limited to investment in mainland China and Hong Kong. The scope of investment in mainland China includes bank deposits, standardised credit assets, repurchase of bonds, trust products, debt investment plans, public offered securities funds, stocks, share price index futures, treasury bond futures and pension products. The scope of investment in Hong Kong includes indirectly investing in stocks listed on the Stock Exchange of Hong Kong that are allowed to be traded under the interconnection mechanism for mainland and Hong Kong stock markets by direct investment in stock pension products or public offered securities funds.²³

Supplemental old-age insurance funding – individual pension

The individual pension policy is also another form of supplemental old-age insurance in addition to the basic old-age insurance. China's multi-tiered old-age insurance system mainly consists of three aspects, commonly known as the 'three pillars': the first pillar is the basic old-age insurance, which is the main part; the second pillar includes enterprise annuities and occupational pensions; and the third pillar includes individual pension and other personal commercial old-age insurance financial services, which serve as an effective supplement to the first pillar.²⁴

The individual pension system refers to a system supported by government policies, voluntarily participated in by individuals, operated in a market-oriented manner and serving as a supplemental function to the basic old-age insurance. The individual pension adopts an individual account system, where the contributions are fully borne by the participants themselves. They can independently choose to purchase regulated financial products such as savings deposits, wealth management products, commercial old-age insurance and public funds. The system operates on a fully accumulated basis and enjoys preferential tax policies in accordance with relevant national regulations.

Note the following:

- a* regulators: Ministry of Human Resources and Social Security, the Ministry of Finance, the State Taxation Administration, the CBIRC and the CSRC;
- b* operation and management: commercial banks and wealth management companies designated by the CBIRC; and

23 Article 2 of Notice by the Ministry of Human Resources and Social Security of Adjusting the Investment Scope of Annuity Funds.

24 See press conference of the State Council policy briefing on Opinions on Promoting the Development of Individual Pension held by the Information Office of the State Council of the People's Republic of China on 25 April 2022, available at <http://www.gov.cn/xinwen/2022zccfh/11/index.htm>.

c investment scope: financial products such as savings deposits, wealth management products, commercial pension insurance and public funds.

iii Real property

The main asset management products in the real estate sector are as follows.

Real estate asset-backed securitisation

Asset-backed securitisation (ABS) refers to business activities involving the issuance of asset-backed securities by securities companies, fund management subsidiaries and other relevant entities through the setting up of special purpose vehicles or through other structured financing methods. In 2022, China issued a total of 1.97 trillion yuan in ABS products, and the year-end outstanding balance reached nearly 5.24 trillion yuan.²⁵ ABS products are created for purposes of credit enhancement, and income is derived from the cash flows generated from the underlying assets. Real estate ABS products in China mainly include supply chain ABS, securities backed by receivables from property sales, property management fee ABS, commercial real estate mortgage-backed securities and quasi-real estate investment trust (REITs).

REITs

REITs are a type of contractual or corporate fund. When an investor invests in a REIT, the investor's money is pooled together in a collective scheme that invests in a portfolio of income-generating real estate assets such as shopping malls, infrastructure, offices, hotels or serviced apartments. These assets are professionally managed by REIT managers and property managers who charge a fee in exchange for their services. Revenues generated from assets (primarily rental income) are normally distributed at regular intervals to REIT holders after accounting for fees such as REIT management fees and property management fees.

Following the issuance on 30 April 2020 of the Notice of the CSRC and the National Development and Reform Commission (NDRC) on Promoting the Work Related to the Pilot Program of REITs in the Infrastructure Field, the NDRC, together with its general office, issued a series of notices, including instructions for applying for a REIT pilot project,²⁶ establishing a REIT pilot project pool²⁷ and promoting REIT pilot work.²⁸ On 21 June 2021, the first batch of nine public REITs were listed on the stock exchanges, marking the official commencement of the public REIT market in China.²⁹

25 Data is sourced from the 2022 Development Report on Asset Securitization published by the China Central Depository & Clearing Co, Ltd Zhongdeng Research and Development Center in January 2023.

26 For more information, please see the Notice of the General Office of the NDRC on the Declaration Work of Real Estate Investment Trusts (REITs) Pilot Projects in the Infrastructure Field (NDRC Investment [2020] No. 586), issued 31 July 2020.

27 For more information, please see the Notice of the General Office of the NDRC on Establishing the National Pilot Project Pool of the Real Estate Investment Trusts (REITs) in the Infrastructure Field (NDRC Investment [2021] No. 35), issued 13 January 2021.

28 For more information, please see the Notice of the NDRC on Further Effectively Completing the Work of the Pilot Program of Real Estate Investment Trusts (REITs) in the Infrastructure Field (NDRC Investment [2021] No. 958), issued on 29 June 2021.

29 Data and information are sourced from China Viewpoint – China REITs Update, CBRE China, June 2021.

In 2022, regulators issued a series of policies, including increasing tax incentives, improving efficiency in the review process, expanding the types of pilot projects, allocating regulatory resources and enhancing supporting policies, and promoting the normalised issuance of REITs and the standardised operation and development of Chinese REITs. Specifically, these policies include the Announcement on the Pilot Tax Policies for Real Estate Investment Trusts (REITs) in the Infrastructure Sector, issued by the Ministry of Finance and the State Taxation Administration in January 2022; the Opinions on Further Mobilizing Stock Assets to Expand Effective Investments, issued by the General Office of the State Council in May 2022; and 10 measures to accelerate the normalised issuance of infrastructure REITs, jointly issued by the CSRC and the NDRC in August 2022.

Real estate private funds

Prior to the introduction of certain AMAC restrictions on private funds' debt investments, real estate private funds focused mainly on debt-related investments. Following these restrictions, real estate private funds have increasingly focused on equity-related investments. Since 2021, real estate enterprises have been faced with increasingly tight liquidity and stricter supervision and policies, which have made it difficult to change the circumstances that resources are concentrated in certain major enterprises in the real estate industry. By the end of 2022, the number of the real estate private funds filed with the AMAC is 838, whose total size reaches 404.3 billion yuan.³⁰

iv Hedge funds

Public securities funds

Compared with regulations for other asset management products, the regulation of public securities funds is more consistent with the principles of the New AMR, and public funds are thus less affected by the New AMR. According to AMAC statistics, as at the end of the fourth quarter of 2022, there were a total of 10,576 public funds with assets under management of 26.03 trillion yuan. In the same period of 2021, there were 9,288 public funds with assets under management of 25.56 trillion yuan.³¹

In October 2019, the CSRC promulgated the Notice on the Pilot Implementation of the Public Offered Mutual Fund Investment Advisory Business, which marked the establishment of a pilot programme for investment advisory services in public funds. According to the CSRC statistics, as at July 2022, a total of 60 institutions have obtained pilot qualifications, with assets under management reaching nearly 120 billion yuan.³²

Since 1 April 2020, the restrictions on the shareholding ratio of foreign investors in fund management companies have been lifted nationally by the CSRC. Between 2020

30 Data and information are sourced from Drafting Instructions for the Pilot Filing Guidelines for Real Estate Private Equity Investment Funds, AMAC, 20 February 2023.

31 Data and information are sourced from the Asset Management Business Statistics (Q4 2022) and the Asset Management Business Statistics (Q4 2021) published by AMAC.

32 Data and information are sourced from a press conference held by the CSRC on 16 July 2021. Please refer to the report on the China Securities Regulatory Commission's website: <http://www.csrc.gov.cn/csrc/c100029/c0d1ef2b845b34714af0abb063b656a6c/content.shtml>. Please also refer to the research report Global Practices and China Outlook of Wealth Management Business jointly published by the National Institute of Financial Research, Chinese Academy of Social Sciences, and Ant Group Research Institute on 3 March 2023.

and 2021, BlackRock, Fidelity International and Neuberger Berman were successively approved to establish wholly foreign-owned public fund management institutions.³³ On 18 November 2022, the CSRC approved Manulife Investment Management (Singapore) Pte Ltd to become the major shareholder and actual controller of Quantamize Manulife Fund Management Co, Ltd. On 13 January 2023, the CSRC approved the establishment of Schroder Fund Management (China) Co, Ltd. On 19 January 2023, the CSRC approved JPMorgan Asset Management Holdings Inc to become the major shareholder and actual controller of ShangTou Morgan Asset Management Co, Ltd.³⁴ So far, six wholly foreign-owned public fund management companies have been established in China.

Private securities funds

Private securities funds are privately offered to qualified investors, managed by institutions licensed as private securities fund managers, and mainly invest in stocks, bonds, futures and other securities.

Notably, private securities fund management business has opened up to foreign investors much earlier than public fund management. Eligible foreign-invested private securities fund managers may carry out fund management business within China in the form of a joint venture or wholly foreign-owned entity, according to the Answers to Questions No. 10 concerning the Registration and Record-filing of Privately Offered Funds issued by the AMAC on 30 June 2016. In 2022, there were five wholly foreign-owned enterprises, and Sino-foreign joint ventures completed the registration as private securities fund managers registered with the AMAC. As at the end of 2022, a total of 38 foreign-invested private securities fund managers had registered with the AMAC, whose assets under management reached 67.284 billion yuan.³⁵

v Private equity funds

The market in China does not recognise clear differences between private equity funds and venture capital funds; thus, unless otherwise specified, references to private funds in this chapter include both private equity funds and venture capital funds.

Depending on their organisational form, private funds may be divided into corporate funds, partnership funds and contractual funds. The first two types of funds are registered as legal entities in accordance with the Company Law of the People's Republic of China (2018 Amendment) and the Law of the People's Republic of China on Partnership Enterprises (2006 Revision), respectively.

The AMAC is a self-regulatory organisation for the fund industry that supervises the fund industry under the authorisation and guidance of the CSRC. Responsibilities of the

33 On 21 August 2020, the CSRC approved the establishment of BlackRock Fund Management Co, Ltd. BlackRock, the global asset management giant, thus established the first wholly foreign-owned public fund management institution in China and applied for its first public fund product in July 2021. On 5 August 2020, Fidelity International's Fidelity Fund Management (China) Co, Ltd was approved for establishment. On 22 September 2020, the CSRC approved the establishment of Neuberger Berman Fund Management (China) Co, Ltd.

34 ShangTou Morgan Asset Management Co, Ltd changed its name to Morgan Fund Management (China) Co, Ltd on 10 April 2023.

35 Data is sourced from The Review of Private Funds Registration and Filing in 2022, AMAC, 3 January 2023.

AMAC include formulating and implementing industry self-regulatory rules, processing registrations of private fund managers, filing of private funds, management of professional qualifications and practitioners, information disclosure and the performance of other functions in accordance with relevant laws and regulations.

In respect of foreign investment, overseas investors can invest in yuan-denominated funds in the People's Republic of China (PRC) pilot cities as qualified foreign limited partnership (QFLP) funds³⁶ or invest in portfolio companies directly through QFLP funds. In 2022, QFLP pilot cities increased significantly, with various cities updating or issuing their QFLP policies. For example, the government of Shandong Province expanded its QFLP pilot scope from three free trade zones in Qingdao, Jinan and Yantai to all the 16 prefecture-level cities throughout the province. Subsequently, cities such as Weifang and Jining in Shandong Province introduced interim measures for their QFLP pilots, providing clear implementation guidelines. By the end of 2022, nearly 50 pilot cities had released their QFLP policies, which remain currently effective.

Notably, in 2022, multiple QFLP pilot cities relaxed their requirements for filing QFLP funds with the AMAC. Both Shenzhen³⁷ and Hainan³⁸ issued notifications stating that filing with the AMAC is not a necessity for QFLPs as long as the QFLP does not raise funds from onshore investors.

With significant numbers of private equity funds entering their harvesting period or even approaching the end of their term, regulators have actively expanded ways for funds to liquidate their investments. In terms of distribution in specie, on 8 July 2022, the CSRC initiated a pilot programme allowing private equity funds to distribute stocks to their investors.³⁹ In October 2022, the CSRC granted approval for a pilot application of stock distribution by a fund in Shanghai, which became the CSRC's 'first order' following the announcement of the pilot programme.⁴⁰

vi Other sectors

QDLPs

The QDLP pilot programme was first introduced in Shanghai in 2012 and, subsequently, Chongqing, Tianjin, Qingdao, Beijing and other regions promulgated relevant regulations for the launch of their own QDLP pilot programmes. The QDLP programme allows qualified foreign investment managers (QDLP managers) to raise capital from qualified domestic investors to set up overseas investment funds (QDLP funds) in China for outbound

36 In practice, cities such as Tianjin accept the set-up of a foreign invested limited partnership (FILP). With more accommodative requirements and less time cost, setting up a FILP is relatively easier than for a QFLP.

37 On 9 September 2022, the Local Financial Regulatory Bureau of Shenzhen issued the Supplementary Notice on Pilot Work for Foreign Investment Equity Investment Enterprises.

38 On 27 October 2022, the Local Financial Regulatory Bureau of Hainan Province issued the Supplementary Notice on Matters Concerning Foreign Investment Equity Investment Enterprises, stating that filing with the AMAC is not a necessity for QFLPs as long as the QFLP does not raise funds from onshore investors.

39 Information is sourced from the website of the CSRC. Please see <http://www.csrc.gov.cn/csrc/c100028/c4277340/content.shtml>.

40 Information is sourced from the website of the CSRC. Please see <http://www.csrc.gov.cn/csrc/c100028/c5979494/content.shtml>.

investment. At present, QDLP funds can be organised in the form of a limited partnership fund or contractual fund, and their investment scope is also extended to all overseas investments (including making investments through fund of funds entities).

According to AMAC rules, QDLP managers that carry out private investment fund business in China must be registered with the AMAC as private fund managers.⁴¹

As at the end of 2022, the number of provinces and cities approved for QDLP pilot programmes has grown to nine. These pilots are Shanghai, Shenzhen, Qingdao, Chongqing, Beijing, Tianjin, Guangdong, Jiangsu and Hainan. Among them, the QDLP quota for Beijing, Shanghai and Shenzhen has been expanded in each city to US\$10 billion.

Qualified domestic investment enterprise

Shenzhen introduced the qualified domestic investment enterprise (QDIE) programme in 2014, which is currently available only in Shenzhen. Compared with QDLP, QDIE has been more relaxed and flexible in terms of fund organisation form and investment scope since its implementation. QDIE funds can be established in various forms, such as a company, partnership, contract and special account, and their investment scope covers all overseas investments. On 13 October 2022, the NDRC issued a notice⁴² promoting nationwide the Shenzhen QDIE policy, which allows licensed financial institutions to directly apply for outbound investment quotas without the need for a separate equity investment entity.

Qualified domestic institutional investors

The qualified domestic institutional investor (QDII) programme is an arrangement for domestic institutions to invest offshore in stocks and bonds and to engage in other securities investment business in overseas capital markets. According to SAFE data, the approved quotas for QDIIs reached US\$159.729 billion as at 30 December 2022.⁴³

Qualified foreign institutional investors and RMB qualified foreign institutional investors

On 1 November 2020, the Measures for Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (QFII and RQFII Measures) issued by the CSRC and other authorities came into effect, the key points of which involve the following aspects: (1) the QFII and RQFII qualifications and rules were combined into one, relaxing access conditions; (2) expansion of the scope of investment in a steady and orderly manner (the QFII and

41 According to the Special Statement on the Registration of Qualified Domestic Limited Partners (QDLP) as Managers released by AMAC on the WeChat platform on 19 June 2018, a management body of a QDLP that intends to carry out private equity investment fund business within the territory of China shall be registered with AMAC as a privately offered fund manager, and the current QDLP management body can be registered as another privately offered fund manager.

42 Information sourced from the Notice on Promoting and Learning from the Typical Experiences and Innovative Measures of the First Batch of Authorized Matters in the Shenzhen Comprehensive Reform Pilot Information on the official website of the National Development and Reform Commission. Please refer to https://www.ndrc.gov.cn/xgk/zcfb/tz/202210/t20221014_1338566.html.

43 Form for the Examination and Approval of Investment Quota of QDII (by 30 December 2022) released by SAFE.

RQFII Measures allow QFII and RQFII to invest in National Equities Exchange and Quotations-listed securities, private investment funds, financial futures, commodity futures and options, etc.); and (3) continuously strengthening regulation.

Over the past decade, the number of approved QFIIs has increased nearly fourfold. As at the end of July 2022, over 700 institutions have been granted QFII qualifications, representing a nearly fourfold growth compared with 2012. Additionally, there have been subtle changes in the investment structure of QFII. Looking at the industry QFIIs have invested in, by the end of 2012, the top five industries were banking, household appliances, food and beverages, architectural ornaments and real estate. However, by the end of the first quarter of 2022, the top five industries were banking, electrical equipment, electronics, biotechnology and pharmaceuticals, and building materials. This shift indicates that foreign investments have quietly moved from traditional industries such as household appliances and food and beverages to growth stocks in sectors such as healthcare and technology while maintaining banking stocks as core investments.⁴⁴

VII TAX LAW

i Taxation of asset management products and investors

Public funds are currently not subject to enterprise income tax in respect of investment proceeds obtained in securities markets, including net gains on the sale of shares and debentures, equity dividends and bonuses, interest and other income.⁴⁵ PRC-sourced income derived by QFIIs and RQFIIs from the transfer of equity investments such as shares and from bond interest in the domestic bond market are temporarily exempt from enterprise income tax.⁴⁶

Investors may also be entitled to tax incentives in respect of certain distribution proceeds received from asset management products. For example, no income tax is imposed on interest from treasury bonds or savings deposit interest, and net proceeds obtained by enterprise investors from the sale of publicly traded securities are not subject to income tax. Private funds commonly adopt the limited partnership form, which is considered fiscally transparent and thus not a taxpayer for enterprise income tax purposes. Rather, the partners themselves are considered to realise taxable income from the partnership's investment activities. Differences existed in the past between official rules and practices in respect of whether the 20 per cent income tax rate applicable to fund distributions applies to income that investors derive from venture capital fund distributions. In January 2019, Notice of the Ministry of Finance, the State Administration of Taxation, the National Development and Reform Commission and the China Securities Regulatory Commission on Issues Concerning Income Tax Policies for

44 Information and data sourced from Securities Daily report. Please see <http://www.zqrb.cn/stock/redian/2022-08-25/A1661358968872.html>.

45 Article 2(1) of Circular of Ministry of Finance and State Administration of Taxation on Enterprise Income Tax Incentive Policies (Cai Shui [2008] No. 1).

46 Notice of the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission on Issues Concerning Temporarily Exempting the Income Derived by QFII and RQFII from the Transfer of Stock or Any Other Equity Investment Asset in China from Enterprise Income Tax (Cai Shui [2014] No. 79).

Individual Partners of Venture Capital Enterprises was promulgated, which has provided a clearer, uniform basis for taxation, allowing venture capital funds to elect for their individual investors a flat 20 per cent rate or graduated rates of 5 per cent to 35 per cent.

On 30 December 2021, the Announcement of the Ministry of Finance and the State Taxation Administration on the Administration of the Collection of Individual Income Tax on Income from Equity Investment Operations was promulgated, providing that individual income tax shall be calculated and collected by means of tax collection on audit of accounts to individual proprietorship enterprises and partnership enterprises that conduct equity investment such as holding equities, stocks and partnership interests.

ii Taxation of asset management product managers

Asset management product managers, as value-added tax taxpayers, are subject to a 3 per cent VAT on their taxable activities deriving from asset management product business (including private investment funds), including loan services, direct financial service fees, insurance services and transfers of financial products.⁴⁷ There remains an ongoing debate whether VAT is assessable on carried interests, which are often received by general partners of limited partnership private funds.

VIII OUTLOOK

The year 2022 witnessed the continuous optimising of structures for asset management products whose space for transformation and development have grown ever wider, the official launch of the individual pension system, and the acceleration of ESG and sustainable investment development driven by the dual carbon strategy. Since December 2022, with the significant relaxation of covid-19 control measures, business operations have gradually returned to normal, major obstacles to external openness have been eliminated and the asset management industry is anticipated to further leverage its investment function, connect capital to assets, support the expansion of domestic demand and actively respond to external economic challenges. We have reasons to be optimistic about the development prospects of the asset management industry in 2023 and look forward to a swift and full recovery in both domestic and global markets bringing new vitality and growth in the face of opportunities and challenges.

⁴⁷ Article 1 of Circular on Issues Relating to VAT on Fund Management Products (Cai Shui [2017] No. 56).