

PANORAMIC

# SECURITIES LITIGATION

China



LEXOLOGY

# Securities Litigation

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**Generated on: May 8, 2026**

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# Contents

## Securities Litigation

### GENERAL FRAMEWORK

- General climate
- Courts and time frames
- Government regulation and enforcement

### CLAIMS AND DEFENCES

- Available claims
- Offerings versus secondary-market purchases
- Public versus private securities
- Primary elements of claim
- Primary defences
- Materiality
- Scienter
- Reliance
- Causation
- Other elements of claim
- Limitation period

### REMEDIES, PLEADING AND EVIDENCE

- Remedies
- Pleading requirements
- Procedural defence mechanisms
- Evidence

### LIABILITY

- Primary liability
- Secondary liability
- Claims against directors
- Claims against underwriters
- Claims against auditors

### COLLECTIVE PROCEEDINGS

- Availability
- Reliance, causation and damages
- Court involvement and procedure
- Opt-in/opt-out
- Regulator and third-party involvement

### FUNDING AND COSTS

- Claim funding

Costs  
Privilege

#### **INVESTMENT FUNDS AND STRUCTURED FINANCE**

Interests in investment funds  
Structured finance vehicles

#### **CROSS-BORDER ISSUES**

Foreign claimants and securities  
Foreign defendants and issuers  
Multiple cross-border claims  
Enforcement of foreign judgments

#### **ALTERNATIVE DISPUTE RESOLUTION**

Options, advantages and disadvantages

#### **UPDATE AND TRENDS**

Key developments of the past year

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## GENERAL FRAMEWORK

### General climate

Describe the nature and extent of securities litigation in your jurisdiction.

According to the Judicial Interpretation on Securities Litigation, securities litigation is classified as a civil tort dispute. The scope of securities litigation encompasses: (1) civil cases for tort damages arising from misrepresentation committed by information disclosure obligors in the process of offering and trading securities on securities trading venues; and (2) civil cases for damages for the tort of misrepresentation in regional equity markets formed in accordance with the provisions prescribed by the State Council.

Law stated - 10  2026

### Courts and time frames

What experience do the courts in your jurisdiction have with securities litigation? Are there specialist courts for securities disputes? What is the typical time frame for securities litigation in your jurisdiction?

Chinese courts (excluding Hong Kong, Macau, Taiwan for the purpose of this document) have extensive securities litigation experience. In 2025, courts accepted 27,000 securities disputes, building solid experience. Local courts also issue white papers and typical cases to build consensus.

China has no specialised securities courts. For general securities disputes, hierarchical jurisdiction lies with the Intermediate Court. Territorial jurisdiction lies with the intermediate or specialised court of the municipality, independent planning city or special economic zone where the issuer's provincial people's government is located.

Securities litigation follows general trial time frames. Under the Civil Procedure Law, first-instance ordinary procedure: six months, extendable by another six months with court president approval; further extension requires higher court approval. Second-instance: appeals against judgments – three months; against rulings – 30 days; extensions available in special circumstances.

Practical factors affecting trial length include case complexity, use of model judgment mechanism and involvement of expert appraisal.

Law stated - 10  2026

### Government regulation and enforcement

What is the relationship between private securities litigation and government regulation and enforcement in your jurisdiction?

Private securities litigation and government enforcement have a clear division of functions and close ties. Previously, an administrative penalty or criminal judgment was a prerequisite for private litigation, but this was abolished under the Securities Law and related judicial interpretations.

Under the current regime, government enforcement falls within public authority (eg, supervision, sanctions, fines, market prohibitions) to maintain market order and punish violations. Private litigation belongs to civil remedies, focusing on investor compensation and recovery of illegal gains; government agencies may not exercise civil rights on behalf of private parties. Together, they form a multi-dimensional accountability system.

Misrepresentation often triggers both administrative and civil liability. Administrative liability focuses on the wrongful conduct; civil liability on causation and harm. They are complementary: government enforcement provides factual and institutional support, while private litigation extends accountability and achieves individual redress.

Law stated - 10  2026

## CLAIMS AND DEFENCES

### Available claims

#### What types of securities claim are available to investors?

Types of securities claims

The types of securities claims available to investors include the following four categories:

- False record: material misrepresentation of financial or other key information.
- Misleading statement: omission of material facts or failure to timely correct, rendering disclosure incomplete and misleading.
- Material omission: failure to disclose material events as required.
- Failure to disclose as required: failure to disclose timely and fairly per prescribed deadlines or methods.

Documents, information disclosures or trading activities

- Initial disclosure documents (prospectuses, offering documents at IPO/bond issuance).
- Ongoing disclosure (periodic/interim reports, investor Q&A).
- Special transactions (acquisitions, major restructurings, connected transactions).

Litigation arising from novel products or trading activities

- Claims from interactive platform replies: ambiguous or misleading replies by listed companies may constitute misrepresentation.
- Claims from agreed repurchase trading: as the actual holder, the investor may include the transaction shares in loss calculation.
- Bond misrepresentation claims are rising, involving corporate bonds, interbank debt instruments and ABS.

#### Corporate business areas

- Financial misrepresentation cases dominate, including revenue fabrication, cost/expense manipulation, cash falsification and accounting estimate abuse.
- Concealment of connected transactions (eg, related-party relationships, guarantees, fund occupation) is also common.
- Failure to disclose material contracts or forward-looking information properly accounts for a certain proportion.

#### Specific claims for losses arising out of securities transactions

Under the Chinese legal system, there is no specific type of claim or cause of action established for losses arising from securities transactions. Investors have the right to file a tort claim, requesting the relevant liable parties to bear corresponding civil liability for compensation.

#### Claims available under different bodies of law

With respect to private placements of shares and bonds, in both types of financing instruments there exists a direct contractual or debtor-creditor relationship between the investor and the issuer. After violations occur, the investor has the option to seek both contractual and tort remedies.

#### The Chinese legal system

Within the Chinese judicial jurisdiction, the rules governing securities litigation are uniformly composed of national laws, administrative regulations and judicial interpretations.

Law stated - 10  2026

### **Offerings versus secondary-market purchases**

#### **How do claims (or defences to claims) arising out of securities offerings differ from those based on secondary-market purchases of securities?**

For claims from securities issuance and secondary market purchases, investors may seek compensation under Securities Law article 85. The legal basis is essentially the same, but practical emphasis differs.

Issuance claims (public offerings only) typically arise from fraudulent issuance, focusing on misrepresentation in offering documents, with special rules for disclosure, sponsorship and underwriting. Causation is straightforward: if the investor subscribed during the misrepresentation period and did not sell before disclosure, transaction causation is generally established. Additionally, the Securities Law provides for compulsory repurchase of fraudulently issued and listed securities.

Secondary market claims target post-listing violations (continuous disclosure failures, insider trading, market manipulation), governed by continuous disclosure and trading regulation rules.

Law stated - 10  2026

## Public versus private securities

### Are there differences in the claims or defences available for publicly traded securities and for privately issued securities?

Public vs private securities

Under Chinese law, investors in both public and private securities may claim, but four differences exist:

- Presumption of reliance applies to public securities, not private placements, where defendants argue institutional investors' sophistication precludes it.
- Intermediaries' due diligence is relaxed in private placements (looser conditions, lower disclosure, lighter review). Defendants may argue liability should match reduced duty of care.
- False information in private placement documents is often previously disclosed, not new. Defendants may argue no independent violation.
- Transaction causation for secondary market investors: private placements target institutional investors, not the secondary market. Defendants may argue no causation.

Large vs small private companies (unlisted)

Legal rules for claims and defences are the same for both, governed by the Civil Code, Securities Law, and private placement regulations. Practically, company size may affect defence effectiveness.

Large unlisted companies have robust internal controls, proper documentation, and strict suitability management, making it easier to prove full disclosure and due diligence.

Small unlisted companies often have weak governance, poor disclosure, and inconsistencies between oral and written statements, making it easier for investors to allege fraud or misleading conduct.

Law stated - 10  2026

## Primary elements of claim

### What are the elements of the main types of securities claim?

In China, securities misrepresentation is a special tort requiring four elements:

- Material violation: substantial impact on investor decisions or securities price.
- Causation: transaction causation (reliance on market price reflecting the violation) and loss causation (loss directly caused by the violation).
- Loss: actual loss incurred by the investor.
- Fault: issuer – no-fault liability; others (eg, controlling shareholders, directors, intermediaries) – presumed fault liability (liable unless they prove no fault or statutory compliance).

Mainland China applies uniform securities laws and judicial rules; no regional differences in determining these elements.

Law stated - 10 2026

### Primary defences

What are the most commonly asserted defences? Which are typically successful?

Based on the four elements for establishing securities misrepresentation, five common defences arise:

- Limitation expired: lawsuit filed more than three years after disclosure/correction date.
- No material misrepresentation: alleged act is not a violation or lacks materiality.
- No transaction causation: investor purchased after disclosure/correction, or trading driven by other factors.
- No loss causation: investor sold before disclosure/correction, or loss should deduct systemic/non-systemic risks.
- No fault: for non-issuer wrongdoers (eg, controlling shareholders, directors, intermediaries), they have fulfilled due diligence.

In practice, materiality and causation are the key focal points, as they directly determine tort liability.

Law stated - 10 2026

### Materiality

What is the standard for determining whether the misstated or omitted information is of sufficient importance to be actionable?

Under current law, materiality follows a dual standard: "material event" and "price/volume sensitivity".

First, if the misrepresentation concerns a statutory material event or would materially affect a reasonable investor's decision, it is material. Minor amounts or proportions may be immaterial.

Second, price/volume sensitivity: if the misrepresentation's commission, disclosure or correction causes significant price or volume changes, materiality is presumed; otherwise, it is deemed immaterial.

Law stated - 10  2026

### Scienter

**What is the standard for determining whether a defendant has a culpable state of mind to support liability? What types of allegation or evidence are typically advanced to support or defeat state-of-mind requirements?**

The issuer/listed company is subject to the principle of no-fault liability. Directors, supervisors, senior management personnel and other directly accountable personnel of the issuer/listed company, as well as intermediaries, sponsors and underwriters, are subject to the principle of presumed fault liability.

Fault includes: (1) intentional creation or issuance of misrepresentations, or knowing failure to identify/disclose them; and (2) grossly negligent breach of duty of care.

For issuer's directors, supervisors, officers, if they gave reasoned written opinion and disclosed it, the court finds no subjective fault.

For securities service institutions (eg, accounting firms, law firms), liability is limited to their expertise. If they relied on another institution's work but prove prudent verification and reasonable reliance, the court finds no fault.

Law stated - 10  2026

### Reliance

**Is proof of reliance required, and are there any presumptions of reliance available to assist plaintiffs?**

Under article 11 of the Judicial Interpretation on Securities Litigation, in a non-face-to-face trading environment such as the secondary securities market, an investor is not required to prove their actual reliance on the misrepresentation. Instead, provided that the investor can demonstrate that they engaged in the relevant trading activity after the misrepresentation was committed but before it was disclosed or corrected – that is, they purchased the relevant securities in a case of bullish misrepresentation, or sold the relevant securities in a case of bearish misrepresentation – transaction causation between the investment decision and the misrepresentation is presumed. This rule lowers the evidentiary burden on the plaintiff.

Law stated - 10  2026

### Causation

**Is proof of causation required? How is causation established? How is causation rebutted?**

Transaction causation is presumed. Investors need only prove they traded (bought/sold) after the misrepresentation but before its disclosure. To rebut, wrongdoers may argue:

- transaction before misrepresentation or after disclosure/correction;
- investor knew or should have known of the misrepresentation at trading time;
- transaction affected by other material events (eg, acquisition, restructuring);
- transaction itself violates securities laws; or
- other circumstances negating causation.

Loss causation: wrongdoers may argue loss partly/wholly caused by market risk, company's operating environment, etc. In practice, they contend that share price fluctuations from broader market, industry, or company conditions should be excluded from loss calculation.

**Law stated - 10**  **2026**

### **Other elements of claim**

#### **What elements or defences present special issues in the securities litigation context?**

The following contentious issues also arise in securities litigation::

First, Whether conduct constitutes misrepresentation. Investors often sue based solely on exchange inquiries. Defences include:

- Violating only exchange business rules does not constitute misrepresentation; only violation of laws, regulations or regulatory rules may.
- An accounting error corrected for objective reasons (not intent/negligence) is not a false record.

Second, the determination of the implementation date, disclosure date (correction date), base date, and base price. The question directly determining investors' eligibility to claim, the scope of loss and the amount of compensation. Among these, the implementation date is the date on which the misrepresentation was made or occurred; the disclosure date is the date on which the misrepresentation was first publicly disclosed and became known to the market; the base date is the cut-off date on which the share price returns to its true value and the calculation of losses ceases; and the base price is the arithmetic average of the daily closing prices between the disclosure date and the base date.

**Law stated - 10**  **2026**

### **Limitation period**

#### **What is the relevant period of limitation or repose? When does it begin to run? Can it be extended or shortened?**

The limitation period for securities litigation is three years, commencing from the disclosure date or correction date. Where the disclosure date and correction date are not the same, the earlier date shall prevail.

The statute of limitations is subject to suspension or interruption.

If, within the last six months of the limitation period, a claim cannot be asserted due to force majeure or other obstacles, the limitation period shall be suspended.

The limitation period shall expire six months after the date on which the cause of suspension is removed.

The limitation period shall be interrupted under any of the following circumstances, and shall recommence from the time of interruption or upon the conclusion of the relevant proceeding:

- the right holder makes a demand for performance to the obligor;
- the obligor agrees to perform the obligation;
- the right holder institutes legal proceedings or applies for arbitration; or
- other circumstances having equivalent effect to the institution of legal proceedings or application for arbitration.

Law stated - 10  2026

## REMEDIES, PLEADING AND EVIDENCE

### Remedies

What remedies are available? Do any defences present special issues in the context of securities litigation? What is the measure of damages and how are damages proven?

Under the Securities Law, the main remedy for securities misrepresentation is damages. The law also provides for compulsory repurchase of fraudulently issued and listed securities.

Regarding loss calculation

- Compensable losses: actual losses, including investment price difference, related commission and stamp duty.
- Base date: cut-off for loss calculation, limiting recovery to losses caused by the misrepresentation after its disclosure/correction.
- Base price: average closing price from disclosure/correction date to base date.
- Specific loss amount: courts typically entrust third-party institutions for loss verification (four main institutions in practice).

Law stated - 10  2026

### Pleading requirements

What is required to plead the claim adequately and proceed past the initial pleading?

The conditions for the acceptance of a claim brought by a plaintiff in a civil compensation action for tort arising from securities misrepresentation are as follows:

- the plaintiff submits identity documents to prove a direct interest in the case;
- there is a clearly identified defendant;
- there are specific claims and the facts and grounds on which they are based;
- the plaintiff submits relevant evidence that the defendant committed securities law violations;
- the plaintiff submits evidence of the plaintiff's trading and resulting losses caused by the securities law violations; and
- the case falls within the scope of civil litigation accepted by the people's courts and is under the jurisdiction of the court seized of the matter.

Law stated - 10  2026

### Procedural defence mechanisms

What are the procedural mechanisms available to defendants to defeat, dispose of or narrow claims at an early stage of proceedings? What requirements must be satisfied to obtain each form of pretrial resolution?

At an early stage of proceedings, defendants may utilise the following procedural defence mechanisms to defeat, dispose of or narrow claims:

- Filing an objection to jurisdiction. The defendant may seek to have the case transferred to a more favourable jurisdiction, while also objectively increasing the time and cost burden on the plaintiff in asserting their rights. This may deter certain speculative or reactive investors from pursuing claims, thereby reducing the scope of potential claims.
- Raising an objection to the plaintiff's standing. The defendant may argue that the plaintiff lacks a direct interest, for instance, where the shares were held indirectly, or where the plaintiff purchased the securities outside the period during which the violations occurred.
- Asserting that the plaintiff's claim is time-barred. Where the plaintiff files the claim after three years have elapsed since the disclosure date or correction date of the violations, the defendant may raise a statute of limitations defence.
- Arguing that the alleged conduct does not constitute violations or lacks materiality.

Law stated - 10  2026

### Evidence

How is evidence collected and submitted to the court to support securities claims and defences in your jurisdiction? What rules and common practices apply to the introduction of expert evidence and how receptive are courts to such evidence?

Evidence collection

In China, transaction causation is presumed once the investor proves basic facts (violations existence, compliant trading timing). To sue, the investor must submit:

- evidence of violations (eg, exchange disciplinary actions); and
- evidence of actual losses (trading records: statements, contract notes).

The defendant must rebut causation (eg, showing trading was driven by other material events).

Expert evidence

The Supreme Court endorses expert witnesses for professional judgments. In practice, courts on their own motion entrust third-party institutions to issue Investor Loss Assessment Opinions to exclude systemic risk and calculate losses. The legal status of such opinions is ambiguous (neither formal appraisal nor typical expert assistance), yet courts highly accept them.

Law stated - 10  2026

## LIABILITY

### Primary liability

Who may be primarily liable for securities law violations in your jurisdiction?

Under articles 78 and 85 of the Securities Law, issuers and other information disclosure obligors must perform their disclosure obligations timely and lawfully. If they fail to do so, or if disclosure documents contain false records, misleading statements, or material omissions causing investor losses, the obligor shall bear compensation liability. Thus, the issuer, as the original source of information, bears primary responsibility for disclosure accuracy.

Law stated - 10  2026

### Secondary liability

Are the principles of secondary, vicarious or "controlling person" liability recognised in your jurisdiction?

The controlling shareholder and actual controller, by virtue of their control over the issuer, exercise substantial influence over information disclosure and shall bear "controller" liability, assuming liability for compensation for investors' losses. In judicial practice, courts have further clarified that where an actual controller of a listed company organises or directs the company to commit financial fraud, such controller shall be deemed the "primary wrongdoer" causing investors' losses and may be directly held liable as the primary liable party for compensation.

Law stated - 10  2026

## Claims against directors

### What are the special issues in your jurisdiction with respect to securities claims against directors?

If a director cannot prove no fault for violations, they bear proportionate joint and several liability. Fault is determined by the director's position, role in information disclosure, access to information and verification measures.

Independent directors are not at fault if they prove:

- after consulting specialists on non-expertise matters, still failed to identify the issue;
- before disclosure/correction, they objected, supervised rectification, or reported to the exchange/regulator;
- they expressed a qualified/adverse/disclaimer opinion (unless they voted in favour);
- issuer's obstruction prevented assessment, and they timely reported; or
- other due diligence circumstances.

In practice, directors must prove due diligence; otherwise, the court determines proportionate liability (typically 5%–20%) based on fault degree.

Law stated - 10  2026

## Claims against underwriters

### What are the special issues in your jurisdiction with respect to securities claims against underwriters?

Under article 85 of the Securities Law and article 17 of the Judicial Interpretation, the underwriter bears presumptive fault liability and shares joint and several liability with the issuer. If the underwriter or its directly responsible personnel prove the following, the court shall find them not at fault:

- they have conducted prudent due diligence on the relevant information disclosure content as required;
- for material content without professional support, after prudent due diligence and independent judgment, they have reasonable grounds to believe it is true; or
- for material content with professional support, after prudent verification and necessary review, they have reasonable grounds to rule out professional scepticism and form reasonable reliance.

In judicial practice, the court determines an underwriter's proportionate joint and several liability based on its degree of fault (intent or gross negligence), the extent of its causative role in the misrepresentation (eg, participation, knowledge of the fraud), and whether it fulfilled its due diligence obligations.

Law stated - 10  2026

## Claims against auditors

### What are the special issues in your jurisdiction with respect to securities claims against auditors?

Under article 163 of the Securities Law, an accounting firm bears presumptive fault liability and joint and several liability with the issuer. Fault is determined by laws, regulations, industry standards and working papers.

The firm is not at fault if it relied on another institution's opinion after prudent verification, forming reasonable reliance. The court also finds no fault if the firm proves:

- professional prudence was maintained but errors still undetected;
- reliance on false documents from third parties despite necessary prudence;
- warning of fraud signs and prudent audit opinion issued; or
- other circumstances showing no fault.

In practice, some courts determine proportionate liability based on the firm's fault degree and causative force.

Regarding individual auditors: some courts hold a signing CPA at fault bears liability; others hold the accountant's acts are official conduct, so the firm bears external liability.

Law stated - 10  2026

## COLLECTIVE PROCEEDINGS

### Availability

#### In what circumstances does your jurisdiction allow collective proceedings?

Securities representative litigation under the Securities Law comprises ordinary and special types.

- Ordinary representative litigation applies where the subject matter is the same and many parties exist; investors elect representatives.
- If, during the public registration period, an investor protection institution receives special authorisation from at least 50 claimants, it may act as representative, converting the case into special representative litigation.

Test case proceedings: a court selects representative cases for prior hearing and judgment to guide parallel dispute resolution. No unified national regulation exists, but some courts have local rules. For instance, the Shanghai Financial Court requires a test case to satisfy three conditions: common factual and legal issues across the group; representative issues; and adequate litigation capability and expertise of the parties or their agents.

Law stated - 10  2026

## Reliance, causation and damages

### Can reliance, causation and damages be determined on a class-wide basis, or must they be assessed individually?

In representative litigation, the judgment binds non-parties. If an unregistered rights holder sues on the same facts and legal grounds as an effective representative judgment, the court may apply that judgment by ruling, specifying compensation. The ruling is immediately effective.

Reliance and transaction causation may be determined collectively based on common facts (eg, materiality, impact on investor decisions), binding all claimants. Damages are assessed individually; while a uniform loss calculation method may be set, trade timing, volume and loss amount vary. In practice, the court states total compensation and method in the holding, and lists each plaintiff's award in a schedule.

Law stated - 10  2026

## Court involvement and procedure

### What is the involvement of the court in collective proceedings and what procedures must be followed to achieve collective treatment of claims?- What is the procedure for settling collective proceedings and what is the extent of the court's involvement in settlement?

General procedures for representative litigation

The court leads and supervises the entire process of securities dispute representative litigation. Pursuant to relevant provisions, the procedure is as follows:

- Initiation: At least 10 plaintiffs, two to five qualified representatives determined at filing, and preliminary evidence of the alleged securities violation are required.
- Determination of rights scope: For representative actions where the number of parties is undetermined at filing, the court may, within 30 days of acceptance, review the nature of the alleged violation and relevant facts, and issue a ruling defining the scope of rights holders with identical claims.
- Rights registration notice: Within five days after the scope of rights is determined, the court shall issue a 30-day registration notice.
- Registration and review: Rights holders shall register within the specified period. The court shall complete its review within ten days after the registration period expires. Investors outside the scope shall not be confirmed as plaintiffs.
- Selection of representatives: If the number of parties is known at filing, specially authorised representatives shall be designated in advance and explained in the complaint. If unknown, proposed representatives and their qualifications shall be stated. If no objection or application, the court may confirm them; otherwise, the court organises a vote. If no representative is elected, the court appoints.
- Adjudication: After representatives are determined, the court issues a notice, and the case proceeds to adjudication.

Mediation procedures in representative litigation for securities disputes

During mediation, the court leads and supervises to ensure fairness and legality. The procedure in representative litigation is as follows:

- Representatives and the defendant submit a draft mediation agreement to the court.
- The court examines the draft; if lawful and proper, it notifies all plaintiffs within 10 days.
- Objecting plaintiffs may raise objections at a hearing or in writing. The draft may be amended accordingly, with amendments highlighted to all plaintiffs.
- The court decides whether to issue a mediation order. If so, objecting plaintiffs may opt out within ten days; otherwise, they are bound. The order is issued within 10 days of the opt-out period, effective upon signature by representatives and the defendant. Opt-out plaintiffs continue with separate proceedings and a judgment.

Law stated - 10  2026

### **Opt-in/opt-out**

#### **In collective proceedings, are claims opt-in or opt-out?**

Under article 95 of the Securities Law, ordinary representative litigation adopts an opt-in mechanism, while special representative litigation adopts an opt-out mechanism.

In opt-in, within five days of determining the claimant scope, the court issues a registration notice. Investors failing to register are deemed not to participate but may sue separately.

In opt-out, after the claimant scope is determined, the court issues a registration notice. Investors who expressly decline to participate must opt out within fifteen days after the notice period; otherwise, they are deemed to consent.

Law stated - 10  2026

### **Regulator and third-party involvement**

#### **What role do regulators, professional bodies and other third parties play in collective proceedings?**

In securities class actions, regulators, professional institutions, and third parties form a collaborative framework of "regulatory leadership, professional support, and multi-party coordination".

- Regulators (eg, CSRC) provide institutional support and enforcement, including rules for investor protection institutions and factual basis via administrative penalties.
- Investor protection institutions (eg, China Securities Investor Services Centre, Investor Security Fund) execute litigation, handling data analysis, loss calculation and distribution in coordination.

- Professional appraisal institutions (eg, China Securities Legal Services Centre) offer technical support for loss verification.
- Other third parties (mediation organisations, dispute resolution centres) play roles in diversified resolution.

In summary, regulators provide guarantees, protection institutions execute litigation, appraisal institutions supply technical support and mediation organisations supplement dispute resolution, all supporting efficient class actions.

Law stated - 10  2026

## FUNDING AND COSTS

### Claim funding

**What options are available for plaintiffs to obtain funding for their claims? What are the pros and cons of each option, including any ethical issues relating to litigation funding?**

Contingency fee arrangements are the most common model in securities misrepresentation litigation. Lawyers charge no or low upfront fees, with fees paid as an agreed percentage after investors receive compensation, reducing upfront financial burdens.

Courts also provide cost support: no case acceptance fee prepaid in special representative litigation; losing plaintiffs may apply for fee reduction or waiver; and investor protection institutions may not need to provide security for property preservation.

Litigation funding is at an early stage in China, and judicial practice is cautious. Reasons: (1) may contradict civil litigation values; (2) may violate financial regulatory policy; and (3) may erode litigation rights, lawyer independence and judicial fairness.

Law stated - 10  2026

### Costs

**Who is liable to pay costs in securities litigation? How are they calculated? Are there other procedural issues relevant to costs?**

In securities rights protection litigation, the litigation costs most frequently involved include case acceptance fees, property preservation application fees and enforcement application fees.

With respect to general securities litigation, the case acceptance fee is calculated and paid in instalments based on the amount of the claim according to a progressive scale. The property preservation application fee is calculated and paid based on the amount of property actually preserved.

The plaintiff prepays litigation costs when filing the lawsuit or applying for preservation. If the plaintiff prevails, the court may, after the case is concluded, refund the prepaid amount in full via the original payment method, with the ultimate burden of litigation costs falling on

the losing party. In cases where the plaintiff partially prevails and partially loses, the court generally determines the amount of litigation costs to be borne by each party based on the specific circumstances of the case outcome.

Law stated - 10  2026

## Privilege

### What types of legal privilege exist between litigation funders and litigants?

There is no legal privilege. Litigation funding is still in its early stages of development in China, and judicial practice takes a prudent approach toward it. The main reasons include: (1) litigation funding may run counter to the values pursued in civil litigation; (2) litigation funding may violate the policy direction of financial regulation; and (3) litigation funding may erode the litigation rights of the parties, compromise the independence of lawyers, and undermine the fairness of the judicial process.

Law stated - 10  2026

## INVESTMENT FUNDS AND STRUCTURED FINANCE

### Interests in investment funds

#### Are there special issues in your jurisdiction with respect to interests in investment funds? What claims are available to investors in a fund against the fund and its directors, and against an investment manager or adviser?

Classified by operation mode, China's securities investment funds are primarily divided into open-end funds and closed-end funds. Classified by investment targets, they are mainly divided into equity funds, bond funds, money market funds, fund of funds (FOF), hybrid funds and other funds. Based on different trading venues, some funds can be traded on exchanges, such as exchange traded fund (ETF) and LOF.

Investors may assert claims against the fund, its directors, managers, or advisers as follows:

Fund managers owe fiduciary duties. Claims may arise from: (1) breach of suitability obligation; (2) misappropriation of assets, unfair treatment, self-dealing, or unauthorised guarantee of principal/returns; (3) failure to disclose; (4) investment decisions breaching contract.

Fund custodian safeguards and supervises fund assets. If its own conduct causes damage, it bears compensation; if joint conduct with the manager, joint and several liability.

Fund distribution institutions typical faults: unqualified personnel improper promotion; failure to assess investor risk tolerance; misleading statements (exaggerating returns or concealing risks).

Fund itself and senior executives – if harm caused by illegal acts, they must compensate. Investors may choose: (1) subrogation action under Civil Code for supplementary liability of directors, supervisors, senior executives to extent of fault; (2) direct suit under Company Law against executives with intent or gross negligence for compensation.

## Structured finance vehicles

### Are there special issues in your country in the structured finance context?

#### Structured finance vehicles

In China, structured financing vehicles primarily include asset-backed securitisation (ABS), commercial mortgage-backed securities (CMBS), real estate investment trusts (REITs) and asset-backed notes (ABN). These products typically use a special purpose vehicle (SPV) as the issuing entity, with underlying assets mainly comprising: "credits/fee income rights" (such as corporate accounts receivable, lease credits, credit assets, consumer loans, water supply/gas/bus/toll road fee rights) and "real estate interests" (such as commercial properties, rental housing).

In terms of trading venues, ABS, CMBS and REITs are issued on the Shanghai Stock Exchange/Shenzhen Stock Exchange; ABN are issued on the inter-bank market.

#### Claims by relevant parties

In ABS, the manager owes due diligence and prudent management obligations: during the special plan's term, it shall supervise relevant entities and take necessary measures for asset protection upon material abnormalities.

If the ABS product defaults at maturity and the manager fails to perform its duties diligently, it may face investor civil claims. Generally, two avenues exist: (1) breach of contract claim against the manager under the contract; and (2) suit against the manager and its directly responsible persons under the Securities Law for joint and several liability.

Under relevant provisions, an insurance company's claim is typically based on a guarantee contract or independent letter of guarantee. After paying investors due to cash flow shortfall or issuer default, the insurer may exercise recourse against the original equity holder, manager or other credit enhancement providers.

## CROSS-BORDER ISSUES

### Foreign claimants and securities

#### What are the requirements for foreign residents or for holders of securities purchased in other jurisdictions to bring a successful claim in your jurisdiction?

Under article 5 of the Civil Procedure Law, foreigners filing a lawsuit or responding to a lawsuit in a court shall have equal litigation rights and obligations as Chinese citizens. Therefore, foreigners or overseas holders of securities filing a lawsuit must likewise satisfy the following conditions: (1) the plaintiff is a citizen, legal person or other organisation that has a direct interest in the case; (2) there is a clear defendant; (3) there are specific claims, facts, and

grounds; and (4) the case falls within the scope of civil litigation accepted by Chinese courts and is under the jurisdiction of the people's court where the action is filed.

Law stated - 10  2026

### **Foreign defendants and issuers**

**What are the requirements for investors to bring a successful claim in your jurisdiction against foreign defendants or issuers of securities traded on a foreign exchange?**

Under article 2 of the Securities Law, Offering and trading of securities outside China which disrupt the domestic market order and harm the legitimate rights and interests of domestic investors shall be dealt with pursuant to the relevant provisions of this Law, and legal liability shall be pursued.

In 2024, the Beijing Financial Court and the Beijing Higher People's Court ruled that mainland Chinese courts have jurisdiction over securities fraud litigation against a Cayman company listed on the Hong Kong Stock Exchange, clarifying that as long as overseas securities activities satisfy either condition – "disrupting the order of the domestic market" or "harming the legitimate rights and interests of domestic investors" – Chinese courts may exercise jurisdiction.

Under relevant provisions, lawsuits filed by domestic investors (or individuals/institutions) claiming harm from overseas securities/futures activities or from financial products/services of overseas financial institutions are under the jurisdiction of the Shanghai, Beijing and Chengdu-Chongqing Financial Courts.

Law stated - 10  2026

### **Multiple cross-border claims**

**How do courts in your jurisdiction deal with multiple securities claims in different jurisdictions?**

Chinese law has no special provisions for cross-border parallel securities disputes; general civil procedure rules apply.

Chinese courts adopt an "acceptance as the rule" stance. Even if a foreign court is already seised, a Chinese court may still accept the case if it has jurisdiction, unless the parties have a valid exclusive foreign jurisdiction agreement that does not violate Chinese exclusive jurisdiction or public policy.

Procedural coordination combines stay of proceedings and forum non conveniens. A Chinese court may stay proceedings if a foreign court accepted the case first, except where exclusive or consent jurisdiction applies or the Chinese court is clearly more convenient. If the foreign court fails to conclude within a reasonable time, the Chinese court resumes. Where the dispute primarily occurred outside China, involves no significant Chinese interests, and a more convenient foreign court exists, the Chinese court may dismiss on forum non conveniens grounds.

Once a foreign judgment is recognised by a Chinese court, the same dispute cannot be relitigated. For parallel litigation already pending in China, a subsequent foreign judgment will not be recognised or enforced in principle, unless otherwise provided by treaty.

Law stated - 10  2026

## Enforcement of foreign judgments

### What are the requirements in your jurisdiction to enforce foreign court judgments relating to securities transactions?

Under articles 298–302 of the Civil Procedure Law and relevant judicial interpretations, recognition and enforcement of foreign judgments in securities disputes by Chinese courts require the following:

- First, basis: international treaty or reciprocity. The applicant may apply directly to the competent intermediate court, or via foreign court through treaty/reciprocity. If neither exists, the application shall be dismissed. Reciprocity is flexibly determined, considering whether Chinese judgments are recognised under the foreign law, or mutual commitments exist.
- Second, substantive review requirements. The foreign judgment must satisfy proper jurisdiction, procedural fairness, no fraud and compliance with China's public policy.
- Third, securities disputes are within civil and commercial judgment scope. Substantive judgments are generally eligible, excluding procedural rulings such as preservation orders.
- Fourth, special issues. If the judgment includes punitive damages clearly exceeding actual losses, the excess may be denied. If a valid arbitration agreement exists and the absent party has not waived arbitration, recognition shall be denied. For securities market judgments, the court also examines whether they harm China's market order or public interest, safeguarding national financial security.

Law stated - 10  2026

## ALTERNATIVE DISPUTE RESOLUTION

### Options, advantages and disadvantages

#### What alternatives to litigation are available in your jurisdiction to redress losses on securities transactions? What are the advantages and disadvantages of arbitration as compared with litigation in your jurisdiction in securities disputes?

In addition to civil litigation, alternative dispute resolution methods available to investors mainly include advance compensation, settlement and mediation, arbitration, etc.

Regarding advance compensation, according to article 93 of the Securities Law, the issuer's controlling shareholder, actual controller and relevant securities companies may authorise an investor protection institution to agree on advance compensation with aggrieved investors, and then recover from the issuer and other jointly liable parties. This system helps

investors obtain compensation efficiently, avoiding issues such as lengthy litigation periods and difficulties in evidence production. Currently, there have been four typical advance compensation cases in China's securities market.

Regarding settlement and mediation, before or during securities litigation, investors and the parties liable for misrepresentations may reach a voluntary settlement on the amount of compensation, or voluntarily negotiate for mediation under the auspices of a court or other third-party mediation organisation.

Regarding arbitration, China's securities arbitration system is being piloted. Under relevant provisions, arbitration institutions in Beijing, Shanghai and Shenzhen may accept securities misrepresentation disputes, subject to three conditions: "pilot region, mutual consent, and scope alignment". Compared with litigation, Arbitration features strong professionalism, finality and confidentiality.

Law stated - 10  2026

## UPDATE AND TRENDS

### Key developments of the past year

**What are the most significant recent legal developments in securities litigation in your jurisdiction? What are the current issues of note and trends relating to securities litigation in your jurisdiction? What issues do you foresee arising in the next few years?**

The most significant legal developments in the securities litigation landscape can be summarised in three aspects: continuous improvement of the regulatory framework, refinement of liability determination, and the widespread adoption of model judgment proceedings.

First, the regulatory framework has been steadily enhanced. With the implementation of the new Securities Law and the issuance of a series of judicial interpretations and guidance opinions, clear rules and guidance have been established for the basis of claims, allocation of the burden of proof, and loss calculation methods in traditional securities misrepresentation litigation. The Supreme People's Court is currently accelerating the development of judicial interpretations on civil compensation for insider trading and market manipulation, providing clear legal bases for application in judicial practice.

Second, liability determination has become more refined, and the boundaries of intermediary liability are now clearer. Courts apply piercing liability to controlling shareholders, de facto controllers, directors, supervisors and senior executives, while reasonably defining the liability of independent directors based on their actual duties. The court determines differentiated proportions of joint and several liability based on factors such as the scope of duties, professional division of labour, degree of fault and causation of securities service institutions and other relevant entities.

Third, the model judgment mechanism has been widely adopted, and the adjudicative process has become standardised. Courts first issue model judgments in representative cases to establish clear legal rules, and then resolve batches of parallel cases or refer them to mediation, thereby unifying adjudicative standards and improving efficiency.

Finally, professional appraisal institutions have become regularly involved, shifting loss calculation from "rough estimation" to "precise quantification". Courts entrust third-party institutions to use multi-factor models to isolate systemic risk, thereby enhancing scientific accuracy.

Current notable issues and trends in securities litigation include: the rise of misrepresentation cases involving other financing instruments, which have become a new hotspot. Disputes concerning bonds, interbank bonds, asset-backed securities, and the like are emerging rapidly. Meanwhile, adjudicative rules for insider trading and market manipulation cases are still evolving, and there is no unified approach to issues such as standing for plaintiffs, presumption of causation and loss calculation methods.

Issues likely to emerge in the coming years include: first, the judicial application of the forthcoming judicial interpretations on civil compensation for insider trading and market manipulation. Second, jurisdictional and choice-of-law issues in cross-border securities litigation. As capital markets become increasingly open on both sides, determining jurisdiction over cross-border disputes and the standards for applying the extraterritorial provisions of the Securities Law are likely to become focal points in judicial practice.

**Law stated - 10**  **2026**