

MEMO# 31867

July 25, 2019

Update on the Opening Up of China's Fund Management Sector

[31867]

July 25, 2019 TO: ICI Global Members

ICI Global Pacific Chapter

ICI Global Regulated Funds Committee

International Operations Advisory Committee SUBJECTS: International/Global RE: Update on the Opening Up of China's Fund Management Sector

On 19 June 2019, ICI Global published a memo summarizing the key messages from our meetings with officials from the China Securities Regulatory Commission (CSRC) and the Asset Management Association of China (AMAC) in Beijing regarding the progress of China's capital market opening.[\[1\]](#) Since then, Chinese officials have on different occasions reiterated the government's commitment to market reforms and wider opening of China's capital market and financial sector. The most significant, of course, is the announcement on 2 July by China's Premier Li Keqiang that the complete liberalization of foreign ownership of public fund management companies will happen in 2020, one year ahead of the previously set agenda of 2021.

This memo provides a brief update on the developments in China since our last memo.

Roadmap to Foreign Majority Ownership

When China joined the World Trade Organization in 2001, it started to open its mutual fund management business to foreign investment. Initially capped at 33%, the foreign ownership ceiling was increased to 49% in 2005. During the 8th round of the US-China Strategic and Economic Dialogue in June 2016, China agreed to gradually relax foreign ownership limits in certain types of financial institutions. In November 2018, following US President Donald Trump's visit to Beijing, China [announced](#) that foreign entities would be allowed to own a 51% stake in fund management joint ventures, up from the cap of 49%. The ownership limit would be completely removed after three years (*i.e.*, by 2021). Since the announcement, two foreign asset managers have received approval from the CSRC to increase the ownership stake in their JVs to 51%.

On 2 July 2019, China's Premier Li Keqiang announced, during his keynote speech[\[2\]](#) at the Summer Davos Forum held in Dalian, that China will deepen the opening-up of its financial and service industries and will bring forward the removal of foreign ownership limits on the securities, futures, and insurance industry to 2020.

Following this announcement, the People's Bank of China (PBoC) released on 20 July 2019^[3] the "*Measures for Further Opening Up the Financial Sector*." In this document, the PBoC set out 11 areas in the financial sector where foreign ownership restriction will be relaxed/removed. These areas include banking, credit rating, brokerage, bond underwriting, insurance, and fund management businesses. No. 9 of the Measures states that foreign ownership restrictions in securities companies, asset management companies, and futures companies will be completely lifted by 2020. The CSRC is now charged with the task of preparing for implementation of this policy.

Update on the One Control One Participation ("1+1") Policy

Foreign asset managers who already have a minority-owned asset management JV have been concerned that their WFOE might not be granted a mutual fund license because of the strict rule that prohibits an entity from owning an interest in more than one asset management company. The CSRC has softened this strict rule for domestic players under the "1+1" policy. Under this policy, a shareholder may wholly-own one mutual fund company and at the same time own/control a minority stake in another mutual fund company provided the two companies have absolute Chinese walls between them (*i.e.*, completely separate management and control, no common directors or employees, independent and separate systems, no sharing of premises or resources, *etc.*). Until now, the "1+1" policy has not been available to foreign players. During our last meeting with AMAC in early June, AMAC indicated that the "1+1" policy might be extended to foreign asset managers soon. Shortly after our meeting, CSRC announced during the Lujiazui Forum on 13 June 2019 that it will extend the "1+1" policy to foreign asset managers. This means that a foreign manager now has two options. One option is to acquire a controlling stake from or buy out its Chinese partner and thus wholly-own or control the mutual fund company. Another option is to separately apply for a mutual fund license through its WFOE and at the same time continue to control a minority interest in its existing JV, thus effectively coming under the "1+1" policy.

ICI Global will continue to monitor developments in China and provide timely updates to members.

Irene Leung
Regional Lead, Member Relations and Research, Asia Pacific
ICI Global

Alexa Lam
Chief Executive Officer, Asia Pacific
ICI Global

endnotes

^[1] See ICI Global Memorandum No. 31814, "*Update on ICI Global's Recent Meetings with CSRC and AMAC Regarding China Market Access*," dated 19 June 2019, available at: <https://www.iciglobal.org/iciglobal/pubs/memos/memo31814>.

^[2] China's Premier Li Keqiang's keynote speech at the Lujiazui Forum on 13 June 2019 (in Chinese) is available at: http://www.xinhuanet.com/2019-07/03/c_1124706984.htm.

[3] The “*Measures for Further Opening Up the Financial Sector*”, released by the PBoC on 20 July 2019, is available at:
<http://www.pbc.gov.cn/en/3688110/3688172/3863256/index.html>.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.