

MEMO# 33566

June 2, 2021

China Released Rules Governing the Distribution of Wealth Management Products

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TO: ICI Global Members

ICI Global Pacific Chapter

ICI Global Regulated Funds Committee SUBJECTS: International/Global

Operations RE: China Released Rules Governing the Distribution of Wealth Management Products

On 27 May 2021, the China Banking and Insurance Regulatory Commission (CBIRC) released the Wealth Management Measures for the Administration of Sales for Wealth Management Products Issued by Wealth Management Companies^[1] (Wealth Management Measures), governing the distribution of wealth management products (WMPs). The Wealth Management Measures will come into effect on 27 June 2021.

1. Background

The Wealth Management Measures apply to all wealth management companies regulated by the CBIRC, including direct subsidiaries of Chinese commercial banks and joint ventures between these subsidiaries and offshore asset management companies, and their distribution of WMPs. It draws on the China Securities Regulatory Commission (CSRC) regulatory framework that governs the marketing and distribution of public funds and imposes similar requirements on conduct, internal control, and risk management on WMP distribution. China has been gradually moving towards "regulation by function," a regulatory model advocated in many circles of China's financial industry over the years. The concerns are that, while CBIRC-regulated wealth management companies and CSRC-regulated institutions involved in providing investment and product services perform broadly similar functions, they are regulated by different regulators under different rules. China Wealth Management 50 Forum, a Chinese think tank led by Madam Wu Xiaoling, the former Deputy Governor of the People's Bank of China, also supports the thesis that intermediaries performing similar functions should be regulated under a similar framework. Going forward, it is expected that Chinese regulators will continue to narrow the regulatory gap in the asset/wealth management industry.

This memo briefly summarises the key differences between the requirements on the distribution of WMPs and those on public funds.

2. Prohibition on Distribution of Wealth Management Products on Third-Party Online Platforms

Unlike CSRC-authorized public funds,[\[2\]](#) WMPs cannot be distributed on third-party online platforms. Without CBIRC's approval, non-financial institutions and individuals are prohibited from engaging in the distribution of WMPs. The Wealth Management Measures state that WMPs can be distributed only by the wealth management companies that issued the products (WMP issuers) or via other banking institutions that take deposits from the public, including other CBIRC-regulated wealth management companies, commercial banks, and rural cooperative banks (WMP distribution agents).

When the CBIRC unveiled the Wealth Management Measures in a media briefing, the CBIRC acknowledged that the WMP market is currently under transition to net asset value-based products without any principal or return guarantee features, as mandated by the Guiding Opinion on Regulating Financial Institutions' Asset Management (also known as the New Asset Management Rules). CBIRC will review the transition progress and expand the distribution channels of WMPs when appropriate.

3. Responsibilities of Distributors of WMPs

Under the Wealth Management Measures, wealth management companies may distribute WMPs themselves or appoint WMP distribution agents. In either case, a WMP distributor is charged with a number of key responsibilities. These include understanding the risk profiles of investors and ensuring the suitability of solicitations made. WMP distributors are required to establish and implement processes on investor suitability assessment, record keeping, and information disclosures. A designated team shall be appointed to review if the WMP distribution activities are compliant. Nevertheless, the Wealth Management Measures do not specify restrictions against data sharing on a global basis.

To facilitate the transition process of WMPs into net asset value-based products that adopt standardized methodologies for performance benchmarking, the Wealth Management Measures further prohibit the distributors from using absolute or interval values as the performance benchmark of a WMP.

4. Responsibilities of WMP Issuers

The requirements discussed in Section 2 above are applicable to a WMP issuer if it distributes its own WMPs. Where a WMP issuer appoints WMP distribution agents, the WMP issuer must conduct due diligence on the proposed WMP distribution agents. The WMP issuer is also required to conduct an annual evaluation of the distribution activities of its WMP distribution agents. The annual evaluation shall include but not be limited to the review of transaction records and recordings of the selling process for WMPs.

5. Additional Requirements Applicable to WMP Distribution Agents

Before distributing any WMPs, a WMP distribution agent is required to conduct product due diligence independently. Such due diligence shall not solely rely on the product information provided by WMP issuers. The WMP distribution agent shall also independently assess the risk level of the WMPs and assign appropriate risk ratings. It shall notify the WMP issuers on the risk assessment results promptly. Where a WMP is assigned different risk ratings by its

issuer and its WMP distribution agent, the higher rating must be adopted for the product in the selling process.

The Wealth Management Measures is an attempt to level the playing field between bank wealth management services and fund managers' asset management services. We will continue to monitor developments in this space and report to members regularly.

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endnotes

[1] The Wealth Management Measures are available (in Chinese only) at <https://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=986451&itemId=915&generaltype=0>

[2] CSRC-authorized public funds could be distributed on third-party online platforms as long as the fund managers meet certain requirements pursuant to the CSRC Measures for the Supervision and Administration of Sales Agencies for Publicly Offered Securities Investment Funds (Public Fund Distribution Rule), available (in Chinese only) at http://www.csrc.gov.cn/pub/zjhpublic/zjh/202008/t20200828_382328.htm. See ICI Memorandum No. 32746 (8 September 2020), available at <https://www.ici.org/memo32746>