

MEMO# 34229

July 20, 2022

China Releases Draft Rules for Mutual Funds in Private Pension Scheme

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TO: ICI Global Members
Global Regulated Funds Committee
Global Regulated Funds Committee - Asia SUBJECTS: International/Global Operations
Pension RE: China Releases Draft Rules for Mutual Funds in Private Pension Scheme

On 24 June 2022, the Chinese Securities Regulatory Commission (CSRC) released for public consultation the Interim Provisions on the Management of Publicly Offered Securities Investment Funds for Private Pension Investments (Draft for Comments) ("Draft Provisions").[\[1\]](#) It is open for public comment until 24 July 2022. ICI Global will track this consultation but does not intend to comment.

The State Council, for the first time, includes mutual funds as one of the qualified investment options under the recently announced private pension scheme ("private pension mutual funds").[\[2\]](#) Fund management companies in China, including wholly foreign-owned (WFOE) and foreign-Sino joint ventures, will be able to offer private pension mutual funds to investors.

This memorandum briefly summarizes the scope for private pension mutual funds and requirements for the distribution of these products proposed in the Draft Provisions.

Scope of Private Pension Mutual Funds

By way of recap, the private pension scheme will be piloted in some cities for one year before a nationwide roll-out. Cities selected for the pilot scheme and the respective launch dates have yet to be announced.

During the one-year pilot period, only pension target funds with at least RMB 50 million (around USD 7.5 million) of assets over the recent four quarters will be eligible for private pension investments. Equity funds, fixed income funds, mixed funds, funds of funds, and other mutual funds that have "clear investment strategies and good long-term track records" will be gradually added to the product scope as the private pension scheme expands.

As of end-March 2022, 82 pension target funds are likely to be eligible for the pilot stage of the private pension scheme, of which around one-third are managed by ICI Global members' foreign-Sino fund management joint ventures.[3] It is expected that more foreign-Sino joint-venture and WFOE fund management companies will be able to participate in the private pension scheme when the product scope expands to include other types of mutual funds.

Separation of Share Classes. Private pension mutual funds should have a separate share class specifically for investors under the private pension scheme. No sales charges should be collected for such share class. Further, fund managers may consider waiving subscription fees or offering discounts on management and custodian charges for this particular share class.

Requirements on Distribution of Private Pension Mutual Funds

Fund managers could engage in the distribution of private pension mutual funds that are managed by themselves. To ensure the suitability of recommendations or solicitations made, fund managers should distribute funds based on an investor's age, retirement date, income level, and risk preference. This is consistent with the refined requirements on fund distribution activities, released by the CSRC in August 2020.[4] Further, fund managers should clearly disclose in the product key facts statement the allocation to high-risk assets (e.g., equity investment) and the fees and charges of a private pension mutual fund.

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endnotes

[1] Interim Provisions on the Management of Publicly Offered Securities Investment Funds for Private Pension Investments (Draft for Comments), 24 June 2022, available (in Chinese only) at <http://www.csrc.gov.cn/csrc/c101981/c3876935/content.shtml>.

[2] In April 2022, the State Council released a high-level policy directive laying out the long-awaited framework for a voluntary private pension scheme as the third pillar of the retirement savings system in China. Under the private pension scheme, individuals may invest in a range of qualified financial products, including mutual funds, wealth management products, commercial pension insurance and deposits, with tax incentives offered. See Opinions on Promoting the Development of Personal Pensions, 21 April 2022, available (in Chinese only) at http://www.gov.cn/zhengce/content/2022-04/21/content_5686402.htm.

[3] TX Investment Consulting's research on pension target funds that are likely eligible for the pilot stage of the private pension scheme, dated 26 June 2022, available (in Chinese only) at <https://mp.weixin.qq.com/s/WvHvnNmtfckPsex5SCLkQQ>.

[4] See Measures for the Supervision and Administration of Sales Agencies for Publicly Offered Securities Investment Funds, 28 August 2020, available (in Chinese only) at http://www.csrc.gov.cn/pub/zjhpublic/zjh/202008/t20200828_382328.htm. Also See ICI Memorandum [32746], dated 8 September 2020, available at <https://www.ici.org/memo32746>.

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