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# China News Alert Issue 53

## Headlines

### Chinese central bank to hike reserve ratio again by 0.5% as of April 25, 2004

BEIJING, (AFP) - The People's Bank of China, the country's central bank, has further increased the required reserve requirements of the major commercial banks in an effort to cool an economy facing increasing inflationary pressure and rapid growth in lending.

The bank said the Required Deposit Reserve Ratio (RDRR) for commercial banks, including the big four state-owned banks, will rise to 7.5 percent from seven percent from April 25.

The ratio for other poorer performing banks will rise to eight percent from 7.5 percent.

"There are still problems (facing the economy) -- increasing investment demand, excessive credit growth and mounting inflationary pressure," the central bank said in a statement on its website.

"Excessive credit growth will lead to inflation or asset price bubbles, which could create new non-performing loans in the banks and increase financial risks."

On March 25, the bank announced a April 25 rise in the RDRR for poorer performing banks to 7.5 percent, while the four main commercial banks -- the Bank of China, the Construction Bank of China, the Industrial and Commerce Bank of China and the Agricultural Bank of China -- were to be exempt.

At that time the central bank said RDRRs will be set on the basis of four criteria -- capital adequacy ratio, non-performing loans ratio, irregularity record and risk control ability.

In September, the People's Bank of China increased the RDRR by one percentage point to seven percent for all commercial lenders in an attempt to rein in loose credit practices.

In spite of a series of measures over the past few months to curb surging bank lending and investment growth, the economy continues to power ahead.

Figures out Monday showed foreign trade rising sharply in March.

Imports soared 42.8 percent to 46.4 billion dollars as the country continued to suck in raw materials and energy to feed the economy which is expected to have grown at more than nine percent in the first quarter.

Industrial value-added output in March jumped 19.4 percent, the highest monthly growth rate for more than five years, excluding the distorting impact of annual Lunar New Year holidays.

Figures from the National Development Reform Commission released by the Xinhua news agency on Sunday showed investment in steel rose 172 percent year-on-year in the first two months of the year.

"Raising the deposit reserve rate by another 0.5 percentage points is mainly to prevent excessive growth in credit and maintain the healthy development of the national economy," the People's Bank of China said.

It also warned it would continue to adjust monetary policy to keep inflation under control, curb credit growth and prevent over-investment in some sectors such as steel, cement and aluminum.

"The People's Bank of China will continue to carry out a moderate monetary policy and maintain the continuity and stability of monetary policy to improve its macro-economic control."

### "Measures for the administration of corporate counsels of state owned enterprises" will be implemented soon

According to sources, the State-owned Assets Supervision and Administration Commission will implement the corporate general counsel system in 53 identified enterprises owned by the Central Government, and in other qualified enterprises owned by the Central Government. The State will also push for qualified local government-owned enterprises to adopt the corporate general counsel system. Also, the "Measures for the administration of corporate counsels of state-owned enterprises" will come into force in the near future.

### "Provisional regulations on the supervision of insurance asset management companies" to be implemented in June

BEIJING, April 26, (Xinhuanet)-- The China Insurance Regulatory Commission(CIRC) released yesterday a long-awaited provisional regulation on the supervision of insurance asset management companies, aiming to further enhance insurers' ability to manage their bulging coffers well.

Issuance of the landmark regulation, which will take effect on June 1, was an imperative step as huge piles of premium income have been built up, putting heavy pressure on insurance companies for better yields, according to officials with the CIRC, the industry regulator.

"The underwriting operations and asset management operations are seen as two important wings for insurance companies," said Yang Huabai, director of the CIRC's legal department.

"Managing assets well has become a pressing challenge for insurance companies."

The newly released regulation sets a high threshold for establishing an insurance asset management company."That's mainly out of the consideration that asset management companies should have enough capability to dodge investment risks," said Yang.

The regulation stipulates that the establishment of an insurance asset management company should be initiated by an insurance company or one of its shareholders should be an insurance company.

The insurance company should have a history of more than eight years with more than three years of clean records. The net asset of the insurance company should be no less than 1 billion yuan(US$120 million) and the registered capital for the insurance asset management company should be no less than 30 million yuan(US$3.6 million).

The regulation stipulates an insurance asset management company should only dispose of insurance assets, which means no assets from other industries should be involved even if the assets are from the company's non-insurance shareholders.

Yang said small insurance companies are allowed to team up with qualified large insurers to establish asset management companies. Foreign and joint venture insurance companies are also allowed to set up asset management companies if requirements are met.

The issuance of the new regulation, according to Yang, did not hint at the broadening of investment channels for insurers.

But insurance companies would be better positioned to place their money in capital markets once the rules are relaxed, he said.

Increasing by one-third annually, on average, the industry's premium income has been approaching 1 trillion yuan(US$120 billion) as Chinese people grow richer and as the government dismantled a cradle-to-grave welfare system.

However, due to policy restrictions, insurers are only limited to investing in bank deposits, bonds and mutual funds.

Insurance companies have long been hankering for more investment freedom to enhance returns, a key factor in ensuring their ability to pay claims, but the process is expected to be gradual.

Insurance companies are urged to come up with a professional approach to operate their massive fund reserve.

According to Yang, the original method of setting up an internal asset management department under an insurance company cannot respond well to the current needs of some insurers with large reserves, which demand high efficiency in operating huge funds.

Forming a separate asset management company is also in line with common practice in Western mature markets.

By the end of 2002, among the 34 world's largest insurers on the Fortune 500 list, 20 have established asset management companies.

The country's top property insurer PICC Property & Casualty and top life insurer China Life were also given the green light last year by the government to establish their own asset management companies and the one with PICC has already been set up.

Yang said there are many insurance companies expressing interest in establishing asset management companies, but he declined to name them.

## Corporate & Commercial

### Jiangsu branch of SASAC issued "Circular on appointing institutions responsible for the assignment of state-owned property rights in Jiangsu Province"

On April 6, 2004, the Jiangsu branch of SASAC issued the "Circular on appointing institutions responsible for the assignment of state-owned property rights in the province of Jiangsu". According to the Circular, SASAC Jiangsu branch has appointed the Jinagsu Property Exchange as the institution responsible for all property trading activities in the Province of Jiangsu. According to the Circular, each municipality in the Province of Jiangsu must appoint an institution responsible for assignment of property rights activities within their jurisdiction; the municipalities must file the name of the appointed institution with the Jiangsu branch of SASAC before April 30, 2004.

### China Association of Chartered Certified Accountants issued the "Guiding opinions on financial report audit for enterprise groups"

Recently the China Association of Chartered Certified Accountants issued the "Guiding opinions on financial report audit for enterprise groups". The Guiding Opinions purports to standardize the financial report auditing activities of Chinese chartered certified accountants with respect to enterprise groups including enterprises controlled by the Central Government, commercial banks, securities companies, and insurance companies. The Guiding Opinions also purport to improve upon the quality of the audits, and to decrease the risk level associated with financial report auditing.

### Ministry of Propaganda, State Administration for Industry and Commerce and three governmental departments jointly implemented the "Circular on cleaning up inappropriate advertising contents"

Recently, China's Ministry of Propaganda, State Administration for Industry and Commerce, State Administration of Radio, Film and Television, and the State Press and Publications Bureau jointly issued the "Circular on cleaning up inappropriate advertising contents". In the Circular, the Central Government requires the relevant authorities to strictly investigate and sanction vulgar, misleading or inappropriate advertising contents, as well as the misuse of language in advertising contents.

## Insurance

### CIRC issued circular on implementing reform with respect to the premium rates filing system for property insurance companies

Recently the CIRC issued a circular to formally implement a reform with respect to the premium rates filing system for property insurance companies. Starting this year, all insurance products (with the exceptions of insurance products required by law, motor vehicle insurance products, investment-type, savings-type and participating insurance products, short-term health insurance products, guaranteed property insurance products with a term of more than one year, credit insurance products, and other insurance products that require the prior approval of, or that are subject to pre-product launch filing with the CIRC) will be subject to the a newly implemented post-product launch premium rates filing system.

According to the reform plan, where a property insurance company's headquarter approves the launch of a new insurance product, the headquarter must submit a post-product launch filing with the CIRC within 7 days of approving the launch of the product. Provincial subsidiaries of property insurance companies may submit a post-product launch filing with the provincial CIRC department within 7 days of the subsidiaries approving the launch of a new insurance product within their jurisdictions.

## Capital Markets

### Provisional measures for the administration of corporate pension funds

The Ministry of Labor and Social Security, CBRC, CSRC and CIRC jointly issued the "Provisional administrative measures on corporate pension funds". The Provisional Administrative Measures provided that the assets of corporate pension funds could only be invested in bank deposits, government bonds, short-term bond repurchases, qualified financial and corporate debts, convertible debts, and investment-type insurance products, securities investment funds and stocks.

The Provisional Administrative Measures is composed of 11 chapters and 69 articles, and provided detailed regulations for trustees, account managers, investment managers, intermediaries, and with respect to corporate pension fund investments, earnings distribution and the related fees, information disclosure, as well as supervision and inspections. The Provisional Administrative Measures will come into effect on May 1, 2004.

### Yian Technology (ST ÒÚ°²000008 on the Shanghai Stock Exchange) fined RMB 470 million for share manipulation

In the latest development in the Guangdong Yian Group Limited Company case, the Guangong Mid-Level Municipal People's Court found Guangdong Yian Group Limited Company guilty of securities trading price manipulation. As such, the Court fined the Company RMB470 million, and ordered the all of the company's illicit income to be frozen and confiscated.

## Other

### General Administration of Customs, State Administration of Taxation (SAT) and seven other state departments jointly issued "Approval standards and procedures for the establishment of export processing zones"

Recently, the General Administration of Customs, SAT, State Development and Reform Commission, Ministry of Finance, Ministry of Land Resources, Ministry of Commerce, State Administration for Industry and Commerce, State Administration of Quality Supervision and Quarantine, and State Administration of Foreign Exchange jointly issued a circular to implement the "Standards and procedures for the establishment of export processing zones" (Standards). According to the Standards, in principle one national level development zone approved by the State Council may only accommodate one export processing zone, and the total import/export value derived from the processing trade should be more than USD 100 million. Also, in principle, provinces, autonomous regions and municipalities directly under the control of the Central Government with an import/export processing trading volume of less than USD 1 billion in principle only needs to have one export processing zone. Whereas provinces, autonomous regions and municipalities directly under the control of the Central Government with an import/export processing trading volume of more than USD 1 billion in principle may apply to set up more than one export processing zone. The Standards also provided for the application and approval procedures for setting up export processing zones.

### PRC Road Safety Law" and six other laws and regulations will come into force on May 1, 2004

1. On October 28, 2003, the "PRC Road Safety Law" was passed during the 5th Meeting of the 10th Standing Committee of the People's Congress of the PRC.
2. On December 29, 2003, the Supreme People's Court issued the "Interpretation on the applicable laws in the adjudication of personal injury cases".
3. On April 1, 2004, the Ministry of Justice promulgated the "Procedural rules with respect to fee collections by law firms".
4. On March 19, 2004, the Ministry of Justice issued the "Conduct standards for inmates".
5. On February 10, 2004, the Ministry of Land Resources issued the "Rules for hearings conducted by the Ministry of Land Resources".
6. On April 5, 2004, the Ministry of Labor and Social Security issued the "Collective labor agreement regulations".
7. On March 19, 2004, the Ministry of Construction issued the "Administrative measures on special permits for municipal public works undertakings"

### Ministry of Health drafted "Ministry of Health opinions on strengthening professionalism in the health sector"

Recently the Ministry of Health drafted the "Ministry of Health opinions on strengthening professionalism in the health sector" (Opinions) which set out clear guidelines with respect to the professional conduct of medical professionals. In particular, the Opinions clearly provided that medical professionals may not accept "hongbaos" (or under-the-table cash payments), gifts, or meal and entertainment invitations by patients. Also according to the Opinions, medical professionals may not accept kickbacks directly or indirectly from medical equipment companies, pharmaceutical companies, or any other manufacturing or sales enterprises. Furthermore, medical professionals may not raise their medical fees above and beyond government-set rates. Medical professionals found in breach of the provisions of the Opinions will be subject to sanctions ranging from public reprimand, suspension, to revocation of their practicing license.

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