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# China News Alert Issue 219

## Capital Markets

### China to allow foreign governments to issue yuan bonds

China is deciding whether to allow certain foreign governments to issue yuan-denominated bonds on the domestic capital market, the country's Finance Minister, Xie Xuren, said on 1st December.

"We are actively researching bond issuance by foreign governments in China." Xie made the comment at the first China-Japan high-level economic dialogue held in Beijing. China allowed international development organisations to issue yuan-denominated bonds on the domestic capital market in 2005.

The International Financial Corporation (IFC) and the Asian Development Bank (ADB) were among the first group of financial institutions approved by the country's cabinet to issue the bonds. The two organisations raised a combined total of 2.13 billion yuan (US$287.8 million) in 2005 by issuing bonds under the name of "Panda Bonds".

Xie stressed that China is committed to the policy of opening the domestic bond market and is willing to look at some of the issues causing concern across Asian markets.

Xie also spoke of China and Japan's cooperation in the financial sector. The People's Bank of China and the Bank of Japan signed a US$3 billion currency swap agreement in March 2002. The two sides renewed the agreement in September of this year. This shows the will of both sides to improve financial risk control in the region. China is willing to continue to work with Japan under the Chiang-Mai Initiative.

Xie said: "We sincerely hope that Japan will continue to implement shared regional foreign exchange reserves. China is willing to work with Japan in order to maintain regional economic stability and prosperity."

[Source: cs.com](http://www.cs.com.cn/english/markets/200712/t20071203_1254235.html) ([see archive](China_to_allow_foreign_govts_to_issue_yuan_bonds.pdf))

### Compliance for brokerage firms fast-tracked

The Securities Association of China recently held its first training class on the compliance-management system for brokerage firms, which signals the installation of such a system among brokers.

This training class highlights several important messages:

1. compliance management plays a key role in the sustainable development of brokerage firms;
2. regulatory bodies will pay close attention to compliance management in brokerage firms and supervisory measures will benefit companies complying with laws and regulations;
3. a complete and effective compliance-management system will be a precondition for the approval of new business, products and networks of brokerage firms; and
4. brokerage firms must ensure that their compliance-management system works properly rather than being implemented merely as a formality.

Experts believe that the establishment of a compliance-management system will have a direct impact on the success of brokerage firms. It is an integral part of brokers' core competitiveness. The system is also a key element to guarantee the survival and development of the industry, as well as to raise the effectiveness of regulatory supervision, and to meet the demands of brokers for growth and innovation. The establishment of the system requires people who are proficient in the securities business and related laws and regulations. It also requires an independent department that has the power to look into all business-management sectors of the firm.

Heads of compliance departments within Citigroup, Lehman Brothers Inc, Royal Bank of Canada and BOC International Holdings Ltd introduced their practices during the training class.

Nearly 300 company executives and regulatory officials participated in this training. Zhuang Xinyi, vice chairman of CSRC, gave a speech and Yang Xiaowu, vice chairman of the Securities Association of China, attended the training class.

[Source: cs.com](http://www.cs.com.cn/english/ei/200711/t20071130_1253564.html) ([see archive](Compliance_for_brokerages_fast-tracked.pdf))

### CSRC promotes real name registration system for the financial futures market

A spokesman from the China Securities Regulatory Commission (CSRC) highlighted the importance of real name registration for the financial futures market on 2nd December. The real name registration system was introduced on 1st December.

The spokesman said that the financial futures market will have new development opportunities if there is a better regulatory regime and risk control. The implementation of a real name registration system is very important.

Promoting a real name system in the futures market will not only ease the launch of financial futures, but will also provide a sound basis and further opportunities for the market.

According to CSRC, the system was introduced on 1st December and requires real names to be used when opening accounts.

This system orders futures investors to open accounts with their own ID cards and requires futures brokers to keep an image of the of investor's ID card. The launch of the real name system is one of the preparations made by regulators for the issue of index futures.

The real name registration system will help improve the transparency of the futures market, regulate futures brokers, protect legitimate rights and interests of investors and strengthen supervision of the market. Launching the real name system will also help guard against financial crimes such as money laundering, the CSRC official said.

The real name system is the foundation of a complete financial market. China has already implemented the system for bank deposits and securities trades to help ensure security.

[Source: China.com](http://www.china.com.cn/news/txt/2007-12/03/content_9333323.htm) ([see archive](Real_name_registration_system.pdf))

## Taxation

### Draft enforcement regulations for corporate income tax law passed

On 28th November, China's State Council passed a draft of the regulations aimed at helping to enforce the country's new corporate income tax law. The State Council also passed a draft social securities law and discussed the deployment of resources to promote sustainable urban development.

It is necessary to draw up the regulations to ensure the implementation of the new law, which will come into effect on 1st January next year, said a State Council executive, at a meeting presided over by Premier Wen Jiabao. The regulations will be announced by the State Council after further revisions.

[Source: cs.com](http://www.cs.com.cn/english/ei/200711/t20071129_1252766.html) ([see archive](Draft_enforcement_regulations_for_corporate_income_tax_law_passed.pdf))

## Intellectual Property

### China ratifies protocol amending WTO's TRIPS agreement

China notified the World Trade Organisation (WTO) on 28th November that it had ratified the 'Protocol Amending the Agreement on Trade-Related Aspects of Intellectual Property Rights' (TRIPS).

The Chinese Ambassador, Sun Zhenyu, sent a notification letter to WTO Director-General Pascal Lamy, together with the document signed by President Hu Jintao and Foreign Minister Yang Jiechi, said the Chinese representative to the WTO. "China believes that this amendment of the TRIPS Agreement is part of the wider national and international action to address the public health problems afflicting many developing countries, particularly the least-developed countries," the Chinese representative said in a statement.

"In ratifying the protocol, China has showed its consistent commitment to the WTO's development objectives and its support for the rights of developing members to protect public health and gain improved access to medicines," the statement said.

The protocol can only come into force when two thirds of the WTO's 151 members have accepted it. China is the 13th WTO member to have accepted.

[Source: cs.com](http://www.cs.com.cn/english/ei/200711/t20071129_1253117.html) ([see archive](China_ratifies_protocol_amending_WTOs_TRIPS_agreement.pdf))

## Corporate & Commercial

### Development of institutional investors encouraged

The securities regulator will further encourage the development of institutional investors, Shang Fulin, chairman of China Securities Regulatory Commission (CSRC), said on 2nd December at a forum in Shenzhen.

Shang said that the foundation of the market should be improved in order to provide opportunities for the growth of investors.

The CSRC will continue to boost investment by insurance, annuity, and social security funds in capital markets and introduce more diversified, long-term institutional sources.

In addition, risk control should be strengthened and innovation encouraged. Investments by institutional investors should be monitored to prevent the transfer of benefits and market manipulation. Institutional investors are encouraged to use different investment tools to gradually increase investment in corporate bonds and expand the business scope of fund management companies.

He called on institutional investors to explore ways to educate individual investors, and help them develop appropriate investment strategies.

The CSRC will improve the competitiveness of institutional investors by gradually opening the market. Shang said that the CSRC will continue its Qualified Foreign Institutional Investor (QFII) scheme, and will encourage mutual fund managers to seek more investment opportunities overseas.

[Source: China.com](http://news.china.com.cn/chinanet/07news/china.cgi?docid=7633616386080432353,5629203848132598218,0&server=192.168.3.137&port=5757) (Link no longer active)

### China signs MOU with US and Mexico on subsidies

China has reached understanding with the United States and Mexico on their alleged trade subsidy measures, sparing a World Trade Organisation (WTO) panel ruling on the case, the Chinese WTO representative said in Geneva on 29th November.

The Chinese Ambassador, Sun Zhenyu, signed respective memorandums of understanding with his US and Mexican counterparts "regarding certain measures granting refunds, reductions or exemptions from taxes or other payments" at the WTO headquarters on 29th November, the representative said in a statement.

In the MOUs, China made it clear to the US and Mexico that "the policy of exemption for certain foreign-invested enterprises from payments to the State for worker allowances is no longer operative." Also, the policy of value-added tax (VAT) refunds to enterprises for the purchase of domestically produced equipment does not constitute prohibited subsidies as detailed in some WTO agreements.

"Other preferential policies on income tax pertinent to the disputes have been repealed or will be repealed along with the implementation of the new Enterprise Income Tax Law of China," the statement added.

According to the Chinese representative, the MOUs will be presented to the WTO as mutually acceptable solutions to the above-mentioned dispute in accordance with the 'Dispute Settlement Understanding'.

The United States filed the case to the WTO in February and was later joined by Mexico. The two countries alleged that China was using tax breaks and other incentives to "subsidise" its exports, which might violate WTO regulations. A WTO panel was established in August to investigate the case, following failed consultations between the three sides. The three sides have now finally reached an understanding on the dispute through continued discussions.

[Source: cs.com](http://www.cs.com.cn/english/ei/200711/t20071130_1253740.html) ([see archive](China_signs_MOU_with_US_Mexico_on_subsidies.pdf))

### China uncovers six price manipulation cases

China's top economic planning agency, the National Development and Reform Commission (NDRC) said on 28th November that it has uncovered six diesel price manipulation cases in a nationwide inspection. A total of six petrol filling stations sold diesel at prices up to 42 per cent higher than the government controlled levels, benefiting from ongoing fuel shortages. Many petrol stations across the country are experiencing shortages, with refineries unwilling to raise output in light of low domestic prices. Experts said the government should reform the oil pricing mechanism to reflect international levels and allow oil firms to transfer costs to customers.

In one case, the Shiyang Petrol Station in Chengdu, capital of southwest China's Sichuan Province, sold the No. 0 diesel at 7.5 yuan (US$1.01) per liter, 2.22 yuan, or 42 per cent, higher than the government-set price of 5.28 yuan, the NDRC stated.

The other five are: Nantian Petrol Station in Weng'an, Guizhou; Changhong Petrol Station in Zhangjiakou, Hebei; Yingu Oil Co. Ltd. Petrol stations in Yinchuan, Ningxia; Jinyuan Petrol Station in Xi'an, Shaanxi; and Mixin Petrol Stations in Miluo, Hunan. The NDRC added that the stations have received severe penalties for price offenses.

The NDRC also stated that publishing the cases helps to regulate oil pricing and warns operators to behave legally. All violation of pricing policies will be strictly punished.

The NDRC requires local authorities to increase market regulation and punish petrol retailers that withhold stocks and raise prices without government authorisation.

[Source: cs.com](http://www.cs.com.cn/english/ei/200711/t20071128_1252368.html) ([see archive](China_uncovers_6_price_manipulation_cases.pdf))

## Real Estate

### Measures to ensure affordable housing

National guidelines on economically affordable housing were released on 30th November by the Ministry of Construction, the National Development and Reform Commission, and five other ministries, to regulate the function, construction and sale of affordable housing. There is a lot of public concern surrounding the issue of affordable housing.

Affordable housing is part of the overall policy to solve housing difficulties experienced by low-income urban families. It supplements the ‘Measure on Low-rent Housing Security'. With the release of the guidelines, low-income families who did not qualify for low-rent housing are now covered by the housing security system.

Land for the construction of affordable housing is allocated by the government and included in the annual land plan to ensure the there is sufficient supply. This means that there is almost no cost for land, which greatly reduces the price of affordable housing.

The government will also reduce or abolish administrative fees for affordable housing, and provide fundamental construction expenses. Projects undergoing construction can be mortgaged for loans to reduce time for development and increase supply.

In addition, supervision will be tightened over the commercial development of land once it has been allocated for affordable housing.

Low income families are more dependent on public service such as transportation, hospitals and schools compared with medium and high income families. The guidelines give full consideration to these conditions and clarifies that affordable housing shall be located near public service facilities.

Economically affordable housing should be around 60 sq m per unit and be small but comfortable.

Profits from affordable housing developments should not exceed 3% and projects under the direct guidance of local government are to be sold without profit.

The guidelines state that eligible purchasers will "have limited property rights", and that the housing can only be directly sold after five years. If the property is to be sold within five years due to special circumstances, the government can repurchase the property taking into consideration the depreciation value. Where a purchaser intends to sell the house after 5 years, the price gap between the commercial property price and the affordable housing price must be paid to the government. However, the purchaser can obtain complete property rights by paying a fee to the government.

[Source: China.com](http://www.china.com.cn/economic/txt/2007-12/03/content_9333926.htm) ([see archive](Affordable_housing.pdf))

## Other

### NDRC launches coal sector policy

The National Development and Reform Commission (NDRC) has launched an industrial policy clarifying the entry requirements of the coal sector. China will not approve new coal mining projects with an annual capacity of less than 300,000 tons before 2010, according to the nation's top economic planning body.

A total of 13 large coal-producing bases will be built in the country.

The policy states that 13 large coal bases will be established to ensure the sustainable and stable supply of coal for the nation.

One large project can be developed by just one enterprise and one enterprise is able to develop several large projects. Large coal mining projects are encouraged in regions with rich resources. The scale of development shall be based on local resources, transportation, water resources and environment.

According to the policy, the state encourages recycling and efficient use of resources.

No coal chemical industry in regions with insufficient environmental conditions.

The policy states that coal chemical industry is encouraged in resource-abundant regions and banned in regions with insufficient environmental resources.

An assessment on environmental impact must be conducted when developing coal resources. The environmental protection facilities shall be designed, built and put into operation at the same time as the main project.

Zhang Guobao, deputy director of NDRC, said that environmental protection is as important as the development and use of coal resources. A mechanism for the restoration of the ecological environment must be formed.

The policy emphasises the importance of environmental assessment and evaluation systems, and urges the implementation of environmental assessment, soil and water conservation, land reclamation and sewage charges. Coal mining in regions with high incidences of geological disasters, important groundwater resources and a vulnerable ecological environment is restricted. Coal mining in nature reserves, dangerous areas and important water conservation regions is prohibited.

Large-scale coal companies are encouraged to merge and reorganise small and medium sized enterprises.

Large-scale coal companies are encouraged to expand operations by moving into different regions and various industries. Mergers and acquisitions are also encouraged in the sector.

China will release more policies to encourage large international enterprises in the coal mining, electricity, railway and port sectors. The state will also improve systems relating to the shut down of small and medium coal production enterprises.

[Source: People.com](http://nx.people.com.cn/GB/channel3/19/200711/30/91228.html) (Link no longer active)

### New lottery regulation may be launched next year

The first regulation of the fast-growing lottery industry will be issued next year to stamp out fraud in the sector, which has been on the rise since the country launched its first lottery two decades ago.

Legislators will draw on the experience of other countries and regions to provide regulations on aspects of lotteries such as distribution, sales, announcement of results and management of funds, an official with the Legislative Affairs Office (LAO) of the State Council said at a recent symposium in Shanghai.

Lotteries have generated enormous economic and social returns in China over the past two decades. The country issued a total of 363 billion yuan (US$49 billion) worth of lottery tickets by the end of last year, with more than a third of the money raised being spent on public projects.

"Lack of laws and regulations over lottery supervision has become a significant factor impeding the sound development of the industry," Ding Feng, deputy head of LAO's department of political science, law, labor, social security and legislative affairs, said.

At present, China has only a provisional regulation on the management of lottery distribution and sales, which was issued by the Ministry of Finance in 2002. Unfortunately, this is only a departmental regulation.

"Other countries and regions have made laws before developing the lottery industry, while China has acted to the contrary," Ding said.

China started drawing up a national regulation more than a decade ago but it has been repeatedly delayed due to differences among government departments, such as the Ministry of Finance, Ministry of Civil Affairs and the General Administration of Sport. "The regulation is expected to be issued next year, a result of growing public attention and the acceleration of the legislation process," Ding said.

[Source: cs.com](http://www.cs.com.cn/english/ei/200712/t20071203_1254333.html) ([see archive](New_regulation_on_lotteries_by_2008.pdf))

### Chinese lawyer elected as WTO judge

A Chinese lawyer has been elected to the World Trade Organisation's (WTO) highest court, becoming the first Chinese national to serve on the judicial body. The WTO Dispute Settlement Body (DSB) has formally appointed Zhang Yuejiao to the seven-member Appellate Body, which issues final rulings in trade disputes, the world trade body announced on 27th November.

Zhang will take her seat in June of next year.

The announcement was originally scheduled for last week, but Taiwan's surprise objection blocked the process.

Taiwan lifted its objection after consultations with WTO Director-General Pascal Lamy and senior diplomats. "China highly appreciates the tremendous efforts" made "to ensure the holding of the DSB's regular meeting, without which the operation of the dispute settlement mechanism, one of the key components of WTO, would have been endangered," China's ambassador to the WTO, Sun Zhenyu, said in a statement to the DSB.

A law graduate from Rennes University in France, Georgetown University and Columbia University in the US, Zhang is fluent in English and French, and teaches law in Guangdong Province's Shantou University.

Zhang once served as director of the treaty and law department of the erstwhile Ministry of Foreign Trade and Economic Cooperation (now the Ministry of Commerce). As a veteran negotiator, she has taken part in China's talks with its trade partners to settle disputes and its accession into the WTO. Zhang has worked for the World Bank and is senior counsel for a leading law firm in China. She is widely respected as a lawyer with extensive experience both in the public and private sectors.

[Source: cs.com](http://www.cs.com.cn/english/ei/200711/t20071129_1252715.html) ([see archive](Chinese_elected_as_WTO_judge.pdf))

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