China issues draft rule on investment using equity interest

BEIJING, Dec. 18 (Xinhua) -- China's national industrial and commercial regulator on Thursday released a draft measure that would provide the first national standards on how companies could use equity to invest in other entities.

At present, there is no national standard for such investments, only a series of varying provincial requirements.

The rule, from the State Administration for Industry and Commerce, will cover all types of listed and unlisted companies, including state-owned enterprises.

The length of the comment period will depend on how many comments are received, the regulator said.

Under the draft rules, equity interest that has been mortgaged, frozen, or locked-up should not be used for investments. Also, non-cash capital, including equity interest, should not account for more than 70 percent of the target company's registered capital.

The practice of investment using equity is fairly new in China, and it has mostly been tried on the provincial level in Zhejiang, Jiangsu and Shandong. Analysts said that early attempts at financing investment in this way appeared to be effective.

For example, a government mining agency in Zhejiang Province used equity interest from its five subsidiary companies and 15 million yuan (about 2.2 million U.S. dollars) to set up a parent company. Using cash would have cost an estimated 50 million yuan.