Regulator cracks down on ChinaAMC

The China Securities Regulatory Commission (CSRC) has suspended the creation of new financial products by China Asset Management Company (ChinaAMC), after the firm's sole shareholder failed to meet a deadline to dilute its stake in the company.

The suspension went into effect January 1, ChinaAMC announced on its website Saturday, and came after CITIC Securities, China's largest listed brokerage firm, failed to reduce its stake in ChinaAMC following the companies' merger, approved by the regulator in July last year.

"If the stake problem can't be solved before April 1, the China Securities Regulatory Commission will take further administrative measures accordingly," the CSRC said in a statement released by CITIC Securities on the Shanghai Stock Exchange Saturday.

ChinaAMC's vice president Wu Zhijun said the limit on new products wouldn't affect the interests of current fund holders, the Beijing News reported.

According to the CSRC's rules, no shareholder is allowed more than a 49 percent stake in a fund management firm. Domestic shareholders are not subject to the 49 percent limit so long as a foreign investor also holds a stake of no less than 25 percent.

ChinaAMC, which has 25 funds and manages assets of 265.76 billion yuan ($38.91 billion), is the largest fund management firm in China, said Wang Rui, a fund analyst working with Morning Star Research.

CITIC Securities took over ChinaAMC starting in 2006 at a total cost of 9.2 billion yuan ($1.35 billion) and merged it with CITIC Funds, a subsidiary under CITIC Securities, last year.

The CSRC approved the merger in July and CITIC Securities promised that it would transfer shares within six months from the date of approval to comply with the rule.

However, CITIC Securities failed to meet the deadline.

The company told the China Securities News Monday that the transfer had been moving forward and it was not time to make a disclosure.

Some industry speculation has named China International Capital or Morgan Stanley as potential buyers of shares in ChinaAMC. CITIC Securities and Morgan Stanley China were not available immediately for comment.

A foreign shareholder can hold a 25-49 percent stake in a fund company, according to the CSRC's rules. Market analysts believe that CITIC Securities might transfer as few shares as possible to meet the minimum requirement of the rules.

ChinaAMC's fund management income reached 1.25 billion yuan ($183.02 million) in the first half of 2009, and contributed 1.23 billion yuan ($180.09 million) to CITIC Securities in 2008. CITIC Securities' long-term profits are expected to drop in spite of short-term financial gains, the Shanghai Securities News reported Monday.

The dilution of CITIC Securities holdings in ChinaAMC, however, is good for the individual investors buying shares of ChinaAMC, according to Liu Shengjun, deputy director of the CEIBS Lujiazui International Finance Research Center.

Having absolute control of the fund company, a holding company might ask the fund manager to buy at a higher price the stakes of another company it controls, and individual investors might suffer the loss of the wrong decision subsequently, Liu explained.

Source: Global Times

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