Charltons - China News Alerts Newsletter - 08 March 2010

[online version](http://www.charltonslaw.com/china-news-alert-issue-328/)

# China News Alert Issue 328

## Capital Markets

### New board to bring a host of major multinational firms to the mainland

The Shanghai Stock Exchange (SSE) has completed the draft listing and trading rules of its international board, which will allow overseas companies to float shares in China's A-share market, Geng Liang, the exchange's chairman, announced.

"The draft rules are completed but we are still working on the details. They are still subject to change and the revised rules will be available for public comment soon," Geng said at a press conference on the sidelines of the annual National People's Congress session in Beijing.

Geng said the shares of overseas companies listed on the international board will be denominated in yuan. The offering prices should not be above the listing price on their original markets, as floating shares on China's A-share market is an act of refinancing by overseas companies.

The Shanghai bourse is also actively studying the rules on the return of red chip companies that have business in the mainland but are listed on the Hong Kong Stock Exchange. However, Geng said there is still no timetable for the launch of this new board.

The launch of the international board is being widely watched as it will bring a string of multinational companies including banking giant HSBC, global exchange operator Nasdaq OMX Group and red-chip firms such as China Mobile to the mainland fund raising pool, which is considered a key step in making Shanghai an international financial center.

Geng, a member of the Chinese People's Political Consultative Conference, also proposed speeding up the development of the bond market by allowing listed commercial banks to trade bonds on the exchange.

"The bond market is an important way of direct capital raising and we are going to accelerate that development," he said, adding that 10 banks have completed the relevant procedures and are ready to trade bonds on the exchange.

Geng said the Shanghai bourse will also introduce the corporate bonds of listed companies to be traded on the exchange. So far, 20 listed companies have received approval and dozens of others have expressed an interest.

Meanwhile, the bourse is going to introduce the trading of cross-market exchange-traded funds (ETFs). Geng said the framework of the Shanghai-Shenzhen 300 ETF has been established and it will be launched soon.

The trading of overseas ETFs, which will allow Chinese investors to buy a basket of securities that track overseas indices, will also make their debut on the exchange this year but there are still some technical difficulties for the exchange to overcome, he added.

So far, a total of 12 overseas stock exchanges have agreed to let the Shanghai bourse list ETFs that track their indices, according to Geng.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-03/09/content_9558734.htm) ([see archive](Draft_norms_for_overseas_listings_in_Shanghai_soon.pdf))

### China makes policies on overseas institutions to trade China's stock index futures

Chinese authorities are making policies that will give overseas investors access to China's stock index futures trading, said a senior trader in Beijing.

Overseas investors will be able to engage in the stock index futures trading under the status of Qualified Foreign Institutional Investors (QFII), said Zhu Yuchen, general manager of the China Financial Futures Exchange and a deputy to the 11th National People's Congress.

The overseas investors should comply with the overall investment quota of US$30 billion under the QFII program, he said.

According to Zhu, China is to launch index futures for the Shanghai Stock Exchange 50 and the Growth Enterprise Market in the future. Rules that would allow funds to enter the stock index futures market are also in the making and are expected to be publicised soon, he said.

The China Securities Regulatory Commission approved the launch of stock index futures, along with margin trading, on 8th January, and launched the trading accounts on 22nd February.

The regulator said in January that it would take about three months to prepare for the official start of stock index trading, and Zhu said the timetable had not changed.

[Source: People's Daily](http://english.peopledaily.com.cn/90001/90778/90859/6909357.html) ([see archive](China_makes_policies_on_overseas_institutions_to_trade_Chinas_stock_index_futures.pdf))

## Finance and Insurance

### Finance ministry drafts rules on fund raising by local governments

The Ministry of Finance is taking the lead in drafting new rules to regulate fund raising by local governments' special purpose vehicles, a banking regulator has said.

Yan Qingmin, head of the Shanghai bureau of the China Banking Regulatory Commission, said these financing vehicles had borrowed a total of 6 trillion yuan (US$879.1 billion) from banks by the end of 2009.

Yan was speaking to reporters on the sidelines of the annual Chinese People's Political Consultative Conference

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=430259) ([see archive](Finance_ministry_drafts_rules_on_fund_raising_by_local_governments.pdf))

### Bankers give voice to small businesses

Senior bankers are urging regulators to grant tax incentives and relax regulations to boost credit to small businesses as they are an important cog in the Chinese economy and the creator of the majority of jobs in the country.

Ma Weihua, president of China Merchants Bank Company, Dong Wenbiao, chairman of China Minsheng Banking Corporation, and Yan Bingzhu, chairman of the Bank of Beijing, called for further government support for lending to small businesses. They are members of China's top political advisory body, the Chinese People's Political Consultative Conference, and are attending the third session of the 11th CPPCC in Beijing.

"Lending from commercial banks is still the main financing avenue for small and medium companies in China," Ma said in a proposal. "More efforts should be made to channel banks' support to small businesses."

Ma said regulators should give tax incentives, simplify the bad loans write-off procedure and offer funds to cover risks so more banks will offer small business credit.

His view is mirrored by Dong who urged the Ministry of Finance, the State Administration of Taxation and other related bodies to introduce tax incentives, including lower corporate income tax and business tax for banks' small credit centers.

Dong suggested a corporate income tax of 15 percent for small credit facilities, down from the current 25 percent which the majority of companies in China pay. He also suggested that newly set-up small credit departments should enjoy zero business tax in the first five years of operation and that the tax should be halved over the following three years. The tax is 5 percent now.

Yan said small and medium sized banks face discrimination vying for clients.

She said there should be a more flexible regulation mechanism with preferential policies for qualified small banks, which can help the growth of small enterprises.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=430117) ([see archive](Bankers_give_voice_to_small_businesses.pdf))

## Corporate

### City gets first private equity venture after rules eased

Carlyle Group and Fosun Group received a business license for their private equity joint venture, the first to be registered in Shanghai after China simplified the registration process in March for overseas investors to form local joint ventures.

China enacted a new rule that exempts foreign companies from applying to the Ministry of Commerce to form joint ventures in non-restricted industries in the country. They can apply directly to local authorities for approval.

"The partnership between Carlyle and Fosun will inject a new vitality into Shanghai as it aims to become a global financial hub by 2020. The new rule has facilitated the development of foreign private equity firms in China," said Chen Xuejun, deputy director-general of the Shanghai Administration of Industry and Commerce.

The two partners signed an agreement for the venture late last month with an initial pledge of US$50 million each to invest in China's high-growth companies.

A Shanghai government official has disclosed that four other global PE giants, which have already set up general partnership companies in Shanghai, also inquired about the new rule. As foreign firms showed interest, local business-registration authorities said they are studying new policies to boost the healthy development of PE in Shanghai.

The city has issued a series of preferential policies such as tax breaks, subsidies and cash incentives to boost the PE industry, especially in Pudong New Area where it has provided benefits of up to 15 million yuan for PE investors who set up funds or management firms in the district.

By the end of January, 17 foreign PE firms had set up joint ventures in Shanghai with a total registered capital of US$81.47 million.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=430152) ([see archive](City_gets_1st_PE_venture_after_rules_eased.pdf))

### Li Yizhong: Google must obey Chinese laws to stay

Global Internet giant Google must obey Chinese laws if it still wishes to continue to operate in the country, a senior government official said.

Li Yizhong, Minister of Industry and Information Technology, made the statement to reporters in Beijing on the sidelines of the ongoing National People's Congress, or parliamentary session. "If Google still plans to continue its operations in China, it must abide by Chinese laws and respect the will of Chinese Internet users," the minister told reporters at the Great Hall of the People.

Asked whether his ministry or any related government departments are engaged in discussion with Google on Internet management policies in China, the minister declined to respond. "On this matter, Google knows best itself," Li Yizhong said.

On 18th January, one of the top executives of the California-based Internet search giant alarmed many and raised the eyebrows of more, by declaring that its operation in China is harassed by allegedly China-based hackers, and that it was going to shut down its operations in China. He also said Google objected to Chinese government policies to administer Internet content.

Google's intent to leave China has drawn widespread ridicule and criticism from Chinese Internet users. Some analysts say that China's own Internet search giant baidu.com could benefit, and Chinese users could do without Google.

[Source: People's Daily](http://english.peopledaily.com.cn/90001/90776/90883/6912771.html) ([see archive](Li_Yizhong_Google_must_obey_China_laws_to_stay.pdf))

## Others

### Personal income tax threshold may rise to spur demand

Chinese income tax payers may enjoy an increase in their individual tax threshold this year as part of the government's move to boost domestic consumption, according to industry watchers.

Li Shufu, a member of the Chinese People's Political Consultative Conference, the top political advisory body, has suggested that the individual income tax threshold be raised from 2,000 yuan (US$29.28) to 5,000 yuan to reduce the burden on low-income families and free more funds for domestic consumption.

Freeman Bu, an Ernst & Young partner in Shanghai, said low-income families, rather than the wealthy ones, will benefit from a cut in individual income tax as that could boost their consumption.

"The increase in the threshold and the reduction in the maximum rates are very likely to occur this year, backed by China's strong economic growth and the need to boost consumption," said Bu.

But Bu said the taxation bureau may view the proposed 5,000 yuan threshold as too much; a 3,000 yuan level is more likely as it would want the increase to be gradual.

The State Administration of Taxation has put forward several tax cutting measures for this year, earlier media reports said.

The top individual income tax rate is 45 percent on the Chinese mainland while it is only 16 percent in Hong Kong.

China has reiterated for a long time the need to cut reliance on exports and investments for economic growth and to boost domestic demand as a driver for expansion. Cutting taxes is expected to be part of the measures to achieve the aim.

Jia Qinglin, chairman of the CPPCC, has outlined initiatives to trim the income gap as among the key strategies for the year ahead.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=430261) ([see archive](Personal_income_tax_threshold_may_rise_to_spur_demand.pdf))

**This newsletter is for information purposes only.**

Its contents do not constitute legal advice and it should not be regarded as a substitute for detailed advice in individual cases.

Transmission of this information is not intended to create and receipt does not constitute a lawyer-client relationship between Charltons and the user or browser.

Charltons is not responsible for any third party content which can be accessed through the website.

If you do not wish to receive this newsletter please let us know by emailing us at unsubscribe@charltonslaw.com

**Charltons - China News Alerts Newsletter - Issue 328 - 08 March 2010**