

FANGDA PARTNERS
方達律師事務所

PRC
FINANCIAL
REGULATION

2025

Annual Report

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Preamble



Time marches on, and the seasons keep flowing. In 2024, the global stage was a tapestry of turbulence and transformation, marked by escalating geopolitical conflicts and a "super election year" that amplified the clash of political ideologies. Against this backdrop, China's financial policies navigated the storm with resilience, advancing steadily. A raft of incremental policies effectively bolstered overall market confidence, while new quality productive forces developed steadily, propelling the nation forward on the course of high-quality development.

Despite the fierce winds, China presses ahead with determination. As the final year of the 14th Five-Year Plan, 2025 presents a global landscape that remains complex and challenging. In this context, China's financial regulators have adhered to the principles of "risk prevention, robust regulation, and development promotion." Through precise and impactful policy measures, they have effectively helped domestic demand to grow, driven the sustained recovery of the real economy, and injected powerful momentum into global economic revival.

Through thick and thin, we stand with our clients, helping them to seek opportunities in a challenging market. The Financial Industry Group (FIG) of Fangda Partners has prepared the PRC Financial Regulation: Annual Report (2025) to help our clients with our assessment of what we think is going to happen and to help them

with their future planning. The Report covers milestone events, main regulatory developments and outlooks in the banking, securities and futures, asset management/wealth management, FinTech and insurance sectors, as well on the special sector of green finance and carbon markets.

Identifying certainty in the midst of uncertainty and helping our clients to achieve stable and long-term development are the unremitting pursuits of Fangda's Financial Industry Group. We advise both domestic and overseas clients on the most cutting-edge and complex legal issues involved in China's financial services sector. We are at the forefront of significant initiatives in this sector, leading the market's most groundbreaking transactions and new product structures. With our profound understanding of the market, we are able to provide creative solutions to our clients in a complex financial regulatory environment.

We believe that, as market participants, you may have your comprehensive and practical observation and understanding of the market. If you have any comments or suggestions on the content of this report, please feel free to contact us. We have been committed to China's financial services sector for many years and are looking forward to observing changes in the market, facing those changes and identifying the future trends together with you and are willing to have your thoughts and feedback!



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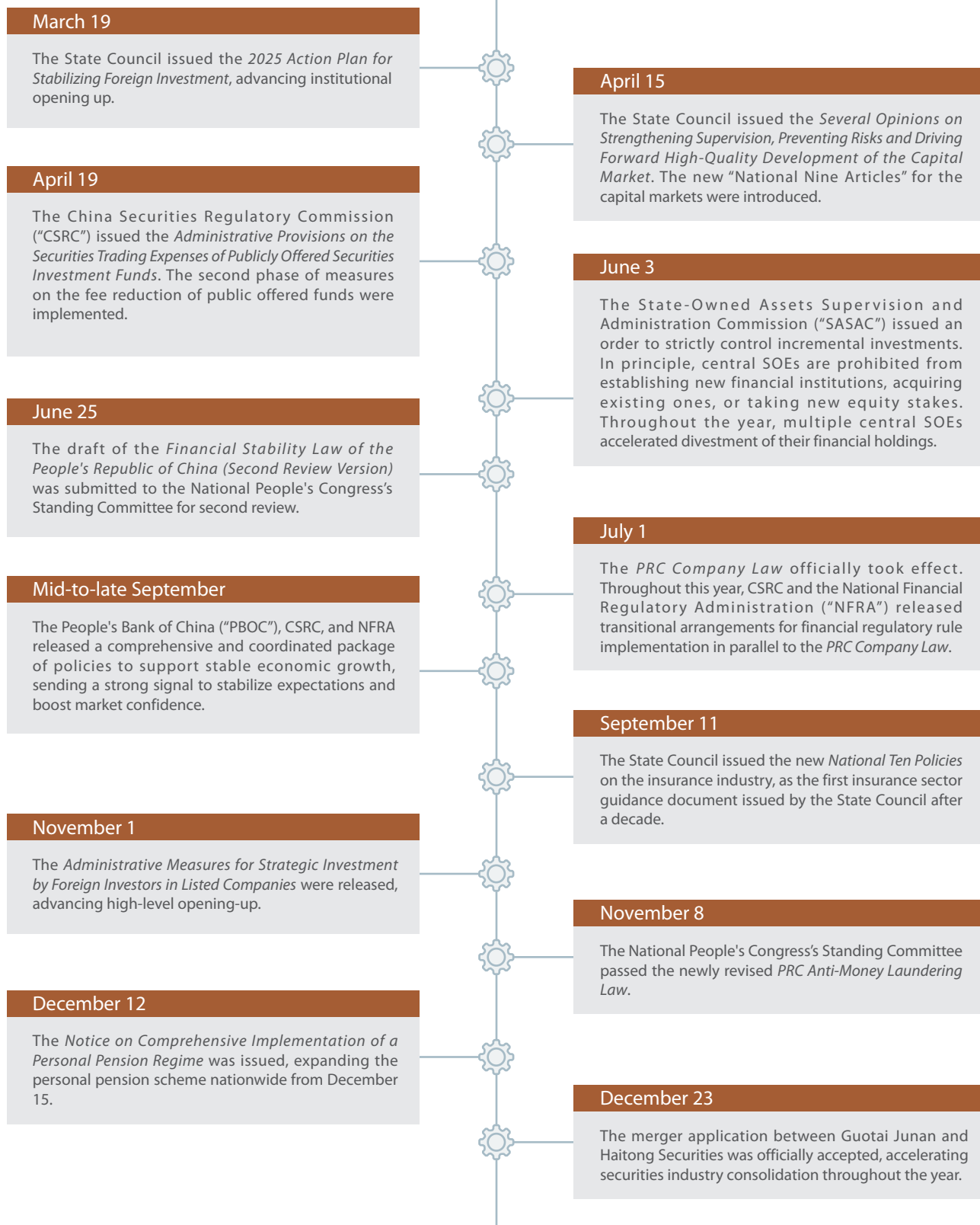
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General

2024 Regulatory Milestones



2024 Regulatory Mainline Review

01

Staying True to Original Commitment: Finance for the People

President Xi Jinping emphasized at the Central Financial Work Conference the importance of “adhering to a people-centered value orientation” and “deeply understanding the political and people-oriented nature of financial work”. The year 2024 marked a further implementation and deepening of the principle of “finance for the people.”

As one of the Five Major Articles, inclusive finance has developed along a steady trajectory. Within this, there has been an increase in lending to private enterprises, small and micro businesses, and loans for livelihood purposes, with wider coverage and lower costs. Investor gains has been the priority when it comes to supervision of the capital markets. Encouraging interim dividends by listed companies and revising the classification of public mutual fund institutions have also been introduced to enhance the operation of the capital markets. The role of insurance in providing greater social stability has been further anchored with the enactment of the “National Ten Articles”. With a focus on the “people-oriented principle” the policies operating in respect of real estate credit have been improved, and more regulations have been introduced to ensure better compliance in debt collection. Pilot programs for pensions have been rolled out nationwide. The courts have been more active in releasing typical cases of protecting the rights and interests of financial consumers.

The principle and application of “finance for the people” has had a direct impact on the short-term profits of financial institutions, i.e., adjustments are being made not only in terms of overall fee reductions and profit concessions at the institutional level, but also in terms of remuneration and professional requirements for personnel. However, in the long term, it is of great significance for improving the quality of services provided, bringing out institutional and product differentiation, and extending the reach of financial services to many more people.

02

Accelerated Implementation of Reform of Regulations at the Local Level

After the successful completion of the institutional reform at the central level, in 2024 there was a focus on reform of the financial system at the local level.

By the close of the first half of 2024, many financial commissions and financial work committees had been set up in many cities.

As important extensions of the national financial commission and financial work committee at the local level, local financial commissions and financial work committees have been set up in provinces and sub-provincial cities. These newly established financial commissions and financial work committees, together with the local financial bureaus, are now sharing offices, and therefore achieve coordination. In May, the National Local Party Committee Financial Office Directors' Conference was held in Beijing, which effectively marked the completion of reforms of the local financial regulatory system.

Before the reform, local financial regulatory bureaus tended to promote local economic development under the name of “financial office,” and this created contradictions and potential conflicts of interest between supporting development while exercising regulatory functions. After the reform, local financial regulatory bureaus at the prefecture level (except for sub-provincial cities) were abolished and replaced by unified provincial management, thus avoiding the dispersal of regulatory forces and the lack of uniform regulatory standards. (Sub-provincial cities are a distinct administrative level, falling between prefecture-level and provincial levels.) At the same time, the local financial regulatory institutions established by local governments after the reforms are now solely responsible for regulatory duties and no longer use the names of financial work bureau or financial office, which has effectively removed the conflict between such dual roles.

The financial service functions of the original local financial management institutions - such as guiding enterprises on how to go public and providing support for financing - have also been largely diverted to ministries such as the National Development and Reform Commission. Overall, “regulation” has become the core principle of local financial regulatory work, and “strengthening the management of existing organizations and the withdrawal of non-compliant institutions” has become the main focus of local financial regulatory work.

In 2024, local financial bureaus have been “strictly” implementing the withdrawal operations of relevant “7+4” institutions (i.e., micro-credit companies, financing guarantee companies, regional equity markets, pawnshops, financial leasing companies, commercial factoring companies, local asset management companies, as well as all types of local trading venues, specialized farmers’ cooperatives, investment companies and social crowdfunding institutions), in accordance with the *Notice on Further Strengthening the Supervision of Local Financial Organizations*. Although the *Local Financial Supervision and Administration Regulations* had not been formally released as of 2024, the general policy of central government setting rules and localities implementing them has been more clearly defined. The structure of unified management from top to bottom has also been established. In the future, local financial supervision

will continue to operate on the basis of good coordination between the central government and the localities to ensure efficiency.

03 Disposal of Financial Risks: Precise and Targeted

Disposing of risks in the financial services sector is a key task in driving forward high-quality development of the sector. In 2024, the ongoing program of risk disposal, much of which was fraught with challenges, amply demonstrated the maturity and efficiency of the legal and regulatory system when dealing with complex financial risks.

In the complex situation of risk disposal in the financial industry, the reform and risk mitigation of small and medium-sized financial institutions hold a pivotal position. Drawing on the experience of the previous years and following the principles of “one province, one policy,” “one bank, one policy,” and “one company, one policy,” central and local authorities collaborated to ensure that the disposals were arranged to meet the actual conditions of the particular province, the particular institution, and the particular situation that applied. Taking the reform of provincial credit unions as an example, two models were applied: the provincial rural commercial union bank model and the provincial rural commercial bank model. The provincial rural commercial bank model is more suitable for provinces with relatively small business areas, fewer institutions, or higher risks. Liaoning Rural Commercial Bank and Hainan Rural Commercial Bank are two banks that adopted this model. By contrast, the provincial rural commercial union bank model retains the legal person status of both provincial and local level entities largely unchanged and offers the opportunity to apply for more business qualifications and licenses in the future. Sichuan Rural Commercial Union Bank, Guangxi Rural Commercial Union Bank, and Jiangsu Rural Commercial Union Bank were practitioners of this model. In 2024, more than 120 village and town banks were disposed of, whether through sales to the market, absorption, merger or dissolution. The variety of mechanisms used for such disposals is a good reflection of the wisdom and professional ability of the regulatory authorities in quickly formulating and implementing carefully thought-through plans after a comprehensive assessment of the institutions.

Institutions in the trust business have also been subject to well-planned disposals. One good example is the disposal of Minsheng Trust, which involved the engagement of three firms (a law firm, an accounting firm, and an asset evaluation firm) to assess risk and assets, the drawing up of a multidisciplinary reorganization plan and then implementation. Another example is Sichuan Trust, which carried out an acquisition plan at the start of 2024 and was

similar to acquisitions carried out previously by Anxin Trust and New Times Trust – showing that the regulatory authorities have been learning from experience of what plans work. In the so-called “quasi-financial sector”, local financial regulatory bureaus carried out a comprehensive review and rectification of local quasi-financial institutions in accordance with the requirements of “no more increase in total number of quasi-financial institutions and strict prohibition of cross-provincial operations” in the *Notice on Further Strengthening the Supervision of Local Financial Organizations*. Among them, micro-credit companies, financing guarantee companies, pawnshops, and financial leasing companies are orderly reducing their scale and optimizing their business structures. Financial assets trading centers are gradually being phased out to completely standardize the industry order. This differentiated regulatory strategy fully reflects the meticulous consideration and precise policy-making of the regulatory authorities.

In line with the disposal of financial institution risks, the field of non-performing asset disposal witnessed significant changes in 2024. In November 2024, the NFRA issued the Measures for the Management of Non-Performing Asset Business of Financial Asset Management Companies (“AMCs”), which is a high-level legislation in this field in recent years. This regulation not only incorporates more types of non-performing assets that fall within the ambit of those to be disposed of, but also provides a broader space for AMCs to expand beyond their narrow core business. Looking back at the past few years, AMCs themselves have been deeply involved in a series of risk resolution efforts and have faced criticism from the outside for deviating from their core business. This legislative approach should empower further development of AMCs. In February 2025, the equity transfer work of the four major AMCs (i.e., Cinda AMC, Citic Financial AMC, Great Wall AMC, Orient AMC) was finalized, separating management from administration and separating government from enterprise. Following the transfers, AMCs are expected to focus on their core business and operate properly as market enterprises. Now with relevant supporting regulations, such as the *Notice on Implementing the Guiding Opinions of the Office of the China Banking and Insurance Regulatory Commission on Guiding Financial Asset Management Companies to Focus on Core Business and Actively Participate in the Reform and Risk Mitigation of Small and Medium-sized Financial Institutions* issued by the NFRA in April 2024, there are likely to be different ways in which AMCs can participate in risk disposal activities, including reverse entrustment collection (i.e., the assignee, after acquiring the claim from the assignor, entrusts the assignor to collect the claim on its behalf), market-based debt-to-equity swap, and light-asset service.

04 Focus on Science and Technology to Support Development of the Real Economy

In 2024, “financial services for the high-quality development of the real economy” continued to be one of the core elements of China’s financial regulatory policies. President Xi Jinping wrote that “new quality productive forces” have already shown their potential in practice and have demonstrated strong impetus and support for high-quality development.

In 2024, developing new quality productive forces was written into the government work report for the first time and was listed as the top priority among the ten major tasks for the year. Behind the vigorous rise of new quality productive forces, the role of finance as a catalyst has become increasingly evident. In respect of indirect financing, in April 2024, the People’s Bank of China (“PBOC”), together with the Ministry of Science and Technology and other ministries, launched an RMB500 billion central bank lending program for scientific and technological innovation. This measure precisely supports science and technology enterprises and encourages financial institutions to more actively invest in early-stage, small-scale but hard-tech capable companies. In November, the NFRA revised the regulatory evaluation system for micro and small financial services, aiming to guide financial institutions to build a long-term lending mechanism, in order to better meet the financing needs of science and technology innovation enterprises. In respect of direct financing, financial institutions have increased equity investment in science and technology innovation enterprises and provided long-term and stable financial support for new quality productive forces, patiently accompanying the growth of enterprises. Since 2024, the CSRC has introduced a range of new measures to further strengthen the “hard-tech” positioning of the STAR Market and promote the convergence of high-quality resources to the field of new quality productive forces. These policy measures include: *16 Measures for the Capital Market to Serve the High-level Development of Scientific and Technological Enterprises*; *Eight Measures for Deepening the Reform of the STAR Market to Serve Scientific and Technological Innovation and the Development of New Quality Productive Forces*; and *Opinions on Deepening the Market Reform for the Merger and Acquisition and Restructuring of Listed Companies*. As of November 15, 2024, the number of A-share listed companies in the strategic emerging industries was close to 2,700, accounting for 39% of the total number of A-share listed companies, with emerging industries becoming the focus of mergers and acquisitions in 2024.

The Central Economic Work Conference in December 2024 proposed to “enhance the inclusiveness and adaptability of the capital market system,” emphasizing that the capital market should be

more compatible with the development of new quality productive forces and have stronger inclusiveness for new industries, new forms of business, and new technologies. In February 2025, the implementation plan for the capital markets to implement the Five Major Initiatives of finance was officially introduced. By introducing a supportive regulatory framework, the aim is to help finance new tech businesses, including those in artificial intelligence, new energy, and quantum technology. We expect that new quality productive forces will not only continue to deepen their roots in traditional fields such as new-energy vehicles and chips, but will also continuously expand into emerging hot-spot fields such as low-altitude economy, artificial intelligence, and robotics, demonstrating even stronger vitality.

05 Opening Up: High-Quality and Institutional

In March 2024, the State Council proclaimed in the *Action Plan for Vigorously Promoting High-Level Opening Up and Attracting and Utilizing Foreign Investment with Greater Intensity* that foreign investment is an important force in participating in modernization and driving economic prosperity and development.

In recent years’ financial industry opening-up policies, there is a trend of continuous evolution from gradual and pipeline-style opening up to institutional opening up. Traditionally, the opening up of China’s financial sector has been somewhat sporadic and on a pilot basis, often taking the form of local policies or gradual relaxation of business or equity of certain financial institutions. However, regulations such as the *Several Measures for Conducting the Pilot Program of Aligning with International High Standards and Institutional Opening Up in Eligible Pilot Free Trade Zones and the Pilot Free Trade Ports* in June 2023 and the *Opinions on Conducting the Pilot Program of Aligning with International High Standards and Institutional Opening up in Eligible Pilot Free Trade Zones (Port) in the Financial Field* in January 2025 have clearly declared the “equality between domestic and foreign” in the financial field, and granted equal status to domestic and foreign financial institutions at the institutional level by allowing foreign financial institutions to carry out new financial services of the same type as domestic financial institutions. Although based on the prudence of financial supervision, the relevant rules are still implemented within defined scope (such as free trade zones), institutional opening has been achieved within such scope which already reflects a high degree of “certainty”.

We noted that in the practice and implementation of opening up in

2024, the previously opened fields also demonstrated clear stability, further solidifying the orderliness of the system and providing confidence and support for foreign investment in China.

In terms of financial institution licenses, the expansion of institutions continued. 61 new QFIs were approved. Alliance Fund and Allianz Fund had their approvals granted to start business, and Huatai Baoxing Fund received approval to have a foreign “actual controller”. BNP Paribas Securities secured approval as the fourth foreign wholly-owned securities company in China. US Prudential's wholly-owned insurance asset management subsidiary was given approval to be established, as the second foreign wholly-owned insurance asset management company after the set-up of Allianz Insurance Asset Management three years ago. Beijing BNP Paribas Tianxing Property Insurance was given approval to be established in Beijing in the same month. Besides, the fund custody qualification of foreign banks was reopened after being suspended for many years, with HSBC Bank successfully obtaining this qualification. Many foreign private equity firms also entered the PRC market.

In terms of product and business opening up, the expansion of foreign access continued. The State Council's *Action Plan* called for efforts to expand the access of foreign financial institutions in the banking and insurance sectors and to expand the scope of business of foreign financial institutions participating in the domestic bond market. In April, the CSRC released five measures for cooperation with Hong Kong in the capital markets. In July, the CSRC released a draft on short-swing trading, which for the first time prescribed the long-discussed exemption from aggregation calculation for foreign mutual funds. In November, the CSRC released an operational guidance on the tax preferences for sovereign funds investing through the QFII channel, and also permitted consideration of qualifications of foreign parent banks when approving foreign bank fund custody and individual pension investment business. In December, the Cross-boundary Wealth Management Connect 2.0 was officially launched, with securities companies competing to join. As stated by relevant officials of the CSRC at the International Investors Conference of the Shanghai Stock Exchange, they will “remove the uncertainties faced by foreign investors in the market through the application of the rule of law.”

In addition to the financial sector, opening up is a comprehensive and multi-dimensional fundamental national policy, which complements and integrates with the financial sector, as reflected by the reduction of the negative list in the industrial sectors, foreign strategic investment opening up by the new *Measures for the Administration of Strategic Investment Made by Foreign Investors in Listed Companies* and visa facilitation policies. It is worth noting that in 2024, there were also major breakthroughs in data-related policies. In March, the *Regulations on Promoting and Regulating Cross-border Data Flows* were officially released, clearly taking the

“encouragement” of cross-border data flows as the main legislative intent and reshaping the compliance supervision of cross-border data transfer. This was followed up by Tianjin, Shanghai Lingang, and Fujian Pingtan releasing cross-border data transfer lists for free trade zones. The Shanghai Lingang New Area also released a positive list of cross-border data transfer in fields such as mutual funds and biomedicine, providing clear guidance for the cross-border data flows of related industries. In February 2025, the negative lists for cross-border data transfer in the Shanghai and Hainan Free Trade Zones were also implemented, with Shanghai covering key areas such as finance (reinsurance). According to the regulatory authorities, the compliance guidelines for cross-border data flows in the financial industry will soon be issued, which will provide financial institutions with clearer guidance in the field of cross-border financial data flows. These measures reflect China's determination to open up the flow of cross-border financial data, underscoring President Xi's desire that “the door of opening up will only open wider and wider.”

06

Strict Regulation: Uniformity and Precision

Strict regulation has long been a feature in China's financial regulation. However, increasingly, financial regulation has become more precise and uniform. A number of steps took shape during 2024:

- In March, the NFRA issued the *Measures for the Implementation of Administrative Penalty Discretion*.
- In June, the CSRC solicited opinions on the *Basic Rules for Administrative Penalty Discretion of the China Securities Regulatory Commission* and released the formal version in January 2025.
- In November, the PBOC reviewed and approved the *Regulations on the Application of Administrative Penalty Discretion Criteria of the People's Bank of China*.

Since then, the PBOC, CSRC and NFRA have all established administrative penalty discretion criteria, which have become an important basis for the harmonization of administrative penalties in financial regulation. Specifically, all three documents emphasize proper procedures and reasonable discretion, specify the levels of discretion and applicable circumstances, and, for the first time, the principle of proportionality between fault and penalty is specified in financial regulations: that is, whether to impose administrative penalties, the type and extent of the discretion that can apply in imposing administrative penalties – strictly matching the facts, nature, circumstances, consequences - and degree of subjective fault of the illegal act. For example, in setting out how discretion should

be exercised, all three documents specify the circumstances of “no penalty” in specific cases, and the CSRC has even set six levels of “no penalty, exemption from penalty, mitigation of penalty, lenient penalty, general penalty, and severe penalty.” These regulations also make provisions on how to measure joint violations and illegal gains in law enforcement. They lay out some key principles, such as no retroactive application of the law and no double punishment for the same act. Although most of the above-mentioned items are existing concepts in administrative law, considering the seriousness of the field of strict financial regulation and the high degree of discretion of the regulatory authorities, the introduction of these principles in financial regulations has aligned the scale of financial law enforcement with general law enforcement, and to some extent, has made it easier to predict how financial regulations will be enforced in future.

The NFRA regulations on administrative penalty discretion issued previously have been fully implemented in 2024. In 2024, the NFRA processes allowed for better planning of projects and streamlining of inspections and investigations, cutting out multiple and repeated inspections, and thus improved the quality and efficiency of inspections and investigations. A total of 4,527 banking and insurance institutions were punished throughout the year in 2024, with a total fine and confiscation amount of RMB4.35 billion. In comparison, in 2023, a total of 4,750 banking and insurance institutions were punished, with a total fine and confiscation amount of RMB7.84 billion. It can be seen that there is a significant decrease in the fine and confiscation amount and the number of financial institutions involved are basically the same. This shows that after the implementation of the NFRA regulations on administrative penalty discretion, regulatory authorities are targeting breaches more effectively and appropriately, according to the nature of each breach, rather than using the “one-size-fits-all” approach. This sends a message to the market that financial regulation is steady and based on the rule of law.

07

Financial Innovation: Progress Through Prudence

Regulation and innovation are mutually balanced and reinforcing. There were many breakthroughs in financial innovation in 2024 against the backdrop of continued stringent regulation.

System innovation

- In January 2024, the Chinese Certified Emission Reduction (CEER) mechanism was restarted after seven years. It is closely coordinated with the National Carbon Emission Trading Market to form an integrated national carbon market. This marks a key step in China's development of a green finance sector and further enhances the openness and flexibility of the carbon market. In December, the first new national CCER project was successfully implemented, and several securities companies obtained CSRC approval to access the carbon market.
- In December 2024, the Guangdong-Hong Kong-Macao Greater Bay Area welcomed the Cross-boundary Wealth Management Connect 2.0, which made bold innovations in aspects such as expanding the scope of participating institutions and refining the entry conditions for investors. Securities companies were added as pilot institutions, and the first batch of 14 pilot securities companies announced their commencement of business, greatly enriching the financial service in the Greater Bay Area.
- The Hong Kong mutual recognition fund policy was amended after a decade, with the removal of scale restrictions such as the proportion of sales in the mainland and the re-authorization limitations. This expanded the investment window for domestic investors to diversify their global asset allocation.

Product innovation

Financial institutions have continued to respond to market demand and introduce innovative products. With the rapid development of green finance regulation and the green market, a series of landmark green financial products have been launched, including the first national “Climate Financing Guarantee” loan, the first comprehensive ocean carbon sink value insurance, and the first hydropower public real estate investment trusts (REITs).

Financial technology innovation regulatory tools, originating from regulatory sandboxes, continued to develop in 2024. According to incomplete statistics, at least 110 related innovative applications were announced, covering the application of cutting-edge technologies such as artificial intelligence (including large language models), blockchain, and big data in the financial field.

The gold market performed very well in 2024. There were many more gold-linked wealth management products, including the launch of "fixed income & gold" wealth management products and gold-linked structured wealth management products which precisely met the diversified investment needs of the market.

The PBOC also stated in the China Financial Stability Report (2024) that it will be committed to providing higher quality and more efficient product supply for the gold market in the future.

Policy tools

In April 2024, the PBOC introduced a re-lending tool to support scientific and technological innovation, leveraging monetary policy to bring more social funds into the field of scientific and technological innovation. In October, two innovative tools to support the capital markets - swap facilities and stock repurchase and increase loan - were officially launched, introducing incremental funds into the capital market. Although these innovations are essentially monetary policies focused on key areas with relatively limited coverage, they fully demonstrate the regulatory authorities' positive attitude towards the flexibility of financial innovation and lay the groundwork for the further introduction and promotion of future financial innovation tools, with the potential to benefit more market entities in the future.

The Central Economic Work Conference held at the end of 2024 introduced a new expression: "Exploring the expansion of the functions of the central bank's macroprudential and financial stability, innovating financial tools, and maintaining the stability of financial markets." We have good reason to believe that in the new year, financial tools will continue to advance, infusing the financial market with a continuous flow of vitality to ensure its prosperity and stability.

08

"Comprehensive consumer protection" framework is being accelerated, with more diversified ways of resolving financial disputes

The "people-oriented" focus of regulation is leading to greater protection for consumers. The year 2024 marked a pivotal year for the financial services sector in building a "comprehensive consumer protection" framework, as the overall framework and practical pathways for financial consumer protection have gradually become clear and the collaborative efforts of regulatory authorities have significantly improved.

- In January, the Financial Consumer Protection Department of the NFRA issued its first paper, which lays the foundation for the implementation of consumer protection work with the focus on "building a new mechanism for financial consumer protection

and constructing a "comprehensive consumer protection" work system."

- In June, the PBOC, the CSRC and the NFRA jointly released the *Announcement on the Work Arrangements for Financial Consumer Protection*, delineating the responsibilities and divisions of labor among regulatory authorities in financial consumer protection, and signaling the entry into a new era of "comprehensive consumer protection" in financial consumer protection work.
- In November, the NFRA, together with the PBOC and the CSRC, held the first joint regulatory meeting on financial consumer protection, formally establishing the coordination mechanism for financial consumer protection work.

Meanwhile, supporting regulations and rules were strengthened, with the enactment and coming into effect of the *Implementation Regulations of the Law on the Protection of Consumer Rights and Interests*. The administrative measures and rating measures for consumer finance companies issued in 2024 both added two elements: consumer rights protection and management of cooperative institutions.

There were increasingly more consumer complaints in 2024. More diversified ways of resolving financial disputes are expected to be put in place to resolve financial disputes in a timely and efficient manner. According to information disclosed at the launch ceremony of the "Financial Education and Publicity Month" in September, the NFRA will jointly issue the *Opinions on How to Drive High-Quality Development of Financial Dispute Mediation Work* with the PBOC and the CSRC, to further strengthen the uniform governance of mediation organizations and improve the links between litigation and mediation. In December, the NFRA, together with the Supreme People's Court, released two batches of typical cases of financial lending dispute mediation, effectively leveraging the role of professional and industry-specific mediation when resolving financial disputes. The "Diversified Dispute Resolution Case Database" initiated by the Supreme People's Court in May 2024 was officially launched in January 2025, covering cases resolved through non-litigation methods such as mediation and arbitration. With the rise of the concept of diversified dispute resolution in the financial sector, the number of new "financial mediation centers" centered on mediation has increased year by year. Statistics show that over 200 new financial mediation centers were established in 2024. Driven by both regulatory policies and market demand, the buildup of diversified dispute resolution mechanisms will continue to deepen and solidify, providing strong support for the stable development of financial markets.

2025 Regulatory Outlook

01 Accelerated development for financial institutions through reform in existing institutions, supporting high-quality institutions and limiting the operations of “substandard” institutions

The 2023 Central Financial Work Conference called for steps to be taken that in the development of financial institutions efforts will be made to “support high-quality institutions and limit substandard ones.” Specific measures include strictly implementing the entry standards and regulatory requirements for small and medium-sized financial institutions, encouraging them to “operate with local characteristics,” and promptly addressing and resolving any risks that arise. Meanwhile, the conference emphasized “nurturing first-class investment banks and investment institutions” and “supporting state-owned large financial institutions to become stronger and better.” We anticipate that in 2025, financial regulatory policies will further accelerate progress in guiding the standardization and high-quality development of the financial services sector, as well as in fortifying the structure of financial institutions.

One of the core directions of current financial institution reform is risk prevention. The removal of institutions under risk is an essential part of risk disposal. The ongoing clearance of local financial exchanges and “pseudo-financial exchanges” in 2024, as well as the pressure on unqualified local financial organizations either to meet regulations or to disband, all reflect the regulators’ firm attitude towards clearing out substandard small and medium-sized financial institutions. However, the ultimate goal of risk prevention and strict regulation is still high-quality development. For example, the *Notice on Further Strengthening the Regulation of Local Financial Organizations* requires that the total number of local financial organizations shall not increase, rather than there being a complete ban on new entries. Micro-credit companies and others will continue to exist after their operations have been upgraded to conform with regulatory standards. The SASAC’s “order to exit financial activities” calls for strict control over new entrants but does not prohibit them altogether, emphasizing that financial businesses should operate to higher standards rather than restricting the development of the financial sector. It is implicit in the regulators’ intentions that they want to “make room” for truly needed and high-quality financial institutions.

Under the framework of reform in existing financial institutions, mergers and acquisitions (M&A) and reorganizations are essential pathways for optimizing the financial industry landscape. M&A and reorganizations are, it could be said, means to mitigate risks. The NFRA’s 2025 regulatory work conference highlighted that one of the key tasks for 2025 is to accelerate the reform and risk mitigation of small and medium-sized financial institutions, building on the

previous wave of mergers among small and medium-sized banks. The *Action Plan for Promoting High-Quality Development of Property Insurance through Strong Regulation, Risk Prevention, and Reform* issued by the NFRA in December 2024 also proposed enriching methods for risk resolution and disposal, encouraging property insurers to merge and reorganize, and supporting qualified institutions in “relocating to mitigate risks,” using market-oriented and rule-of-law approaches to clear risks. M&A and reorganizations can also effectively integrate and streamline businesses. With the goal of building a strong financial nation and benchmarking against world-class financial enterprises to become stronger and better, the requirements for first-class investment banks and investment institutions are clear, and M&A and reorganizations have received explicit regulatory support. From the mergers of small and medium-sized securities companies, including the acquisition of Guodu Securities by Zheshang Securities and the acquisition of Minsheng Securities by Guolian Securities, to the participation of leading securities companies, with Guosen Securities acquiring Vanho Securities and Guotai Junan absorbing and merging Haitong Securities, we anticipate that the wave of M&A we are seeing in 2025 will continue. Moreover, M&A and reorganization will not be limited to the securities sector; there will also be significant M&A activity among trust companies, fund management companies, and insurance institutions. As the financial sector faces a major reshuffling and increased industry concentration, more opportunities will emerge within the M&A wave, although there may still be difficulties of obtaining new licenses.

02 The year of intensified financial compliance is already underway

We expect the drafting or revision of several fundamental and basic laws in 2025.

Unlike the existing system’s progressive updates and filling of gaps, the *Decision of the Central Committee of the Communist Party of China on Further Comprehensively Deepening Reform and Driving Chinese Modernization* has, for the first time, proposed the formulation of the *PRC Financial Law*. This will be an important legislative act with great significance, based on the integration of existing financial laws and regulations. The Financial Law is expected to comprehensively coordinate and establish the overall positioning and regulatory responsibilities of China’s financial sector, fill the regulatory gaps and blind spots left by the current “separate supervision” in China’s financial system, and may also put forward fundamental requirements for financial infrastructure, financial markets, and financial consumer protection. Although the process from legislation to implementation of the Financial Law is a challenging

and long-term task, 2025 is likely to witness a crucial first step. Once the draft is released, its principles will inevitably have a significant impact on the sector. Once the basic framework of the Financial Law is established, the revised drafts of the People's Bank of China Law and the Commercial Bank Law, which were open for public comments a year ago, may also be introduced separately ahead of the Financial Law.

The *PRC Financial Stability Law*, which has been deliberated for quite some time, is also expected to be released soon. The Financial Stability Law has been explicitly included in the legislative plan of the 14th National People's Congress's Standing Committee. It is considered a relatively mature proposal that is intended to be proposed during the term. The Financial Stability Law underwent its second deliberation in June 2024, with some policies (such as the financial stability guarantee fund) already being implemented in advance, making the timing for its introduction in 2025 quite likely. In addition to this, the new "National Nine Articles" explicitly propose a revision of the Fund Law. According to information disclosed at the 2024 China Trust Industry Annual Conference, the revision of the Trust Law is expected to be substantively put on the agenda, with the "1+N" policy system¹ currently in the making. The fundamental laws of the fund and trust industries are likely to be significantly reshaped.

In addition to the aforementioned major laws, as we can see from the regulatory and legislative work plans of the PBOC, the NFRA, and the CSRC in 2024, the drafting and finalization of regulations such as the Administrative Measures for the Suitability of Banking and Insurance Institution Products, the *Supervision and Administration Measures for Financial Holding Companies*, the *Supervision and Administration Measures for Derivatives Trading*, and the *Administrative Measures for Securities and Fund Investment Consulting Business* will also be pushed forward as scheduled. Undoubtedly, 2025 will be another extraordinary and significant year in the process of financial legalization.

03 Countercyclical Adjustment: Precise and Targeted Implementation in the Five Major Articles

The year 2025 marks the concluding year of the "14th Five-Year Plan." When deploying the key tasks for 2025, China's financial regulatory authorities all emphasized the need to "fully form and consolidate the positive momentum of market stabilization and improvement" and to "exert every effort to promote an upward and positive trend in economic operations," demonstrating the direction and determination of the work of financial regulatory authorities.

In December 2024, the Political Bureau of the Central Committee of the Communist Party of China first proposed "strengthening unconventional countercyclical adjustment." While "countercyclical adjustment" is not uncommon, the "unconventional" prefix signals a further enhancement of the proactive and dynamic intent of macro-control policies. Since the moderately loose monetary policy in 2009–2010, after a span of 14 years, the central government has shifted its monetary policy tone from "steady" back to "moderately loose." This shift is sufficient to suggest that there will be more room to introduce fiscal and monetary policies in future. It is possible that more specific financial stimulus policies could be introduced after the "two sessions" (i.e., National People's Congress and the National Committee of the Chinese People's Political Consultative Conference) in March 2025.

Echoing this change in monetary policy, the PBOC, the NFRA and the CSRC all proposed in their 2025 work conferences that financial regulatory policies will be "more proactive and effective." In the in-depth implementation of the financial "Five Major Articles", the promotion of consumption within inclusive finance will continue to be a key focus of countercyclical regulatory measures in 2025. The emphasis on consumption-related work had already begun to take shape in 2024: in July, RMB300 billion of ultra-long-term special treasury bond funds were specifically allocated to support the "Two New" initiatives, namely, equipment renewal and the trade-in of consumer goods. Regulations such as the *Notice on Adjusting Policies on Automobile Loans* provided financial support for automobile consumption of residents. Looking ahead to 2025, it is expected that more policies will be introduced to guide financial institutions to boost consumption through adjustments of loan policies, classification and rating evaluation. These policies are likely to focus more on non-banking institutions within the banking sector. From

1. The "1" refers to the Guiding Opinions on Further High-Quality Development of the Trust Industry, while the "N" refers to the detailed rules for business areas such as service trusts and asset management trusts.

the perspective of technology finance, following the first proposal in 2024 for “financial services for the entire life cycle of technology-based enterprises,” financial policies in 2025 are expected to further tilt towards technology-based enterprises, covering bank loans, special guarantees for technological innovation, initial public offerings, and bond issuance. Considering that high-end manufacturing and artificial intelligence are “of vital national importance,” more precise and effective policy support covering these particular areas is also anticipated.

04 Ongoing Transformation and Restructuring in the Asset Management Sector

As an important tool for household wealth management, a series of reforms in the asset management sector in recent years have all embodied the principle of “people-oriented” approach. In April 2024, the second phase of the public mutual fund fee reform (transaction fees) was officially implemented. In November, multiple fund management companies lowered the management and custody fees of their ETFs, making ETFs the main product type to reduce public mutual fund fees. The public mutual fund market in 2024 generally showed a trend of passive investments over active investments and favoring fixed income products over equity products. Passive investment has been gaining momentum, with exchange-traded ETFs becoming the main force. For the first time, the market value of A-shares held by passive index funds exceeded the total market value of actively managed equity funds at the end of the third quarter.

In 2025, we expect the pressure on companies to lower the fees they charge to manage public mutual funds will continue, and the third phase of the public mutual fund fee reform (sales fees) may will be implemented in 2025. In addition, money market funds may also see further fee reductions. In January 2025, the *Implementation Plan for Driving the Entry of Medium and Long-Term Funds into the Market* was released, calling for specific reform measures such as the “vigorous” development of equity funds and increasing their categories of regulatory classification and their regulatory evaluation weighting. Equity funds are expected to gradually recover. The Implementation Plan also aims to improve the fund advisory regime, indicating that the change of public mutual fund advisory services from pilot to normal practice is likely to be implemented and once normalized, licensed advisory institutions are likely to expand further to include more wealth management institutions, making for a more diversified competitive landscape. As people increasingly put their money with asset management institutions, regulatory attitudes are also likely to become more conservative and prudent, with potentially stricter and more detailed policies emerging in areas such as information

disclosure, product issuance, and investor suitability.

In 2024, the scale of the trust sector reached a historic high, which reflects the effectiveness of the trust sector in returning to its original purpose, serving the real economy and meeting the needs of household wealth management. In January 2025, the *Several Opinions on Strengthening Regulation, Preventing Risks, and Driving High-Quality Development of the Trust Industry* (the “Opinions”) was introduced. Building on the *Notice on Regulating the Classification of Trust Business of Trust Companies* and the *Interim Measures for the Regulatory Rating of Trust Companies and the Implementation of Tiered and Categorized Regulation* in 2023 and the base of category-based regulation in 2024, the Opinions represent a systematic upgrade and have become the most comprehensive “top-level design reconstruction” document for the trust sector since the *Guiding Opinions on Regulating the Asset Management Business of Financial Institutions*. The Opinions call for establishing a long-term mechanism of “risk prevention and control & high-quality development” and to vigorously promote “reducing quantity and improving quality” in the sector. It is expected that the Opinions will serve as a guiding document, together with the revision of the Trust Law and the detailed implementation rules or guidelines for the *Notice on Regulating the Classification of Trust Business of Trust Companies*, to further form a “1+N” regulatory regime. In 2025, the trust sector will continue to undergo change and development.

05 Private Economy: The Right Time for the Legal and Financial Regulatory Support

Since 2023, there has been a focus on the development of the private economy at a strategic national level. The *Opinions of the Central Committee of the Communist Party of China and the State Council on Encouraging the Development and Strengthening of the Private Economy* has planned the development of the private economy through top-level design and a variety of measures. Subsequently, the Supreme People’s Court has provided full-process protection for the development of the private economy in all aspects of law enforcement and judicial proceedings. The National Development and Reform Commission and other ministries have jointly increased efforts to make sure that private enterprises are paid what they are owed. The PBOC and seven other ministries have targeted their efforts through the *Notice on Strengthening Financial Support Measures to Assist the Development and Strengthening of the Private Economy*, encouraging the use of financial resources to boost the vigorous development of private enterprises.

It was emphasized in the 2025 private enterprise symposium that “the development prospects of the private economy are broad and full of potential” and “continued efforts should be made to

solve the problems of difficult and expensive financing for private enterprises.” Following the symposium, a number of policies were implemented. The NFRA explicitly stated that it would strengthen the supply of incremental credit supply and increase support for first-time loans, renewal loans and credit loans. The CSRC deployed measures to increase support for equity and debt financing of private enterprises, and the PBOC further improved the three financing channels of equity, debt, and loans. Meanwhile, there has been steady progress of legal and institutional safeguards. Since it was first submitted for deliberation to the National People’s Congress’s Standing Committee at the end of 2024, the legislation of the *Law on Encouraging the Development of the Private Economy* has been accelerated. In February 2025, the second draft included an additional provision that there will be no fines imposed without legal or regulatory justification. Once formally introduced, it will fill the legislative gap covering the private economy in China and safeguard the high-quality development of the private economy. Compared with the private enterprise symposium in 2018, at this symposium, enterprises representing new-quality productive forces accounted for an important proportion, including fields such as artificial intelligence, new energy, and semiconductor chips. Since 2024, the six emerging technology enterprises in Hangzhou, including Game Science and DeepSeek, have achieved major breakthroughs in domestic games and artificial intelligence. In 2025, we believe that financial regulatory policies will lend support towards these areas, ensuring that private enterprises play a significant role in innovation-driven development in the era of science and technology.





Banking

2024 Regulatory Milestones

January 30

The National Financial Regulatory Administration (“NFRA”) revised and released *Measures for the Administration of Personal Loans, Measures for the Administration of Working Capital Loans and Measures for the Administration of Fixed Asset Loans* (the “**Three Measures**”), which officially came into effect from July 1, 2024, urging commercial banks to further improve the precision and standardization of credit management.

March 7

The General Office of the State Council released *Opinions on Further Optimizing Payment Services and Enhancing Payment Convenience*, which push for meeting the diverse needs of multiple groups for payment services.

April 10

The People’s Bank of China (“PBOC”), jointly with multiple departments, issued a notice which expressly extended the inclusive special aged care refinancing policy into 2024 and expanded the pilot scheme nationwide. By the end of 2024, the scheme was successfully implemented in Jilin, Shanxi, and other regions.

May 9

The NFRA issued *Notice on Matters Concerning Commercial Banks’ Agency Insurance Business*, eliminating quantitative limits on insurance companies collaborating with banks at bank branches, thus broadening cooperation between commercial banks and insurance companies.

May 9

The NFRA released *Guiding Opinions on the Banking and Insurance Industries’ Work on the ‘Five Major Articles’*, setting clear requirements for banking institutions to work on the Five Major Articles.

June 19

The NFRA approved the merger of 36 rural small and medium-sized banking institutions by Liaoning Rural Commercial Bank, which enabled the smooth takeover of performing assets, all liabilities, businesses, outlets and employees after completion of asset checking and auditing.

September

The NFRA issued two notices which expand the equity investment pilot scheme for financial asset investment companies (AIC) from Shanghai to Beijing and another 18 large and medium-sized cities. Limits on the amount and proportion of equity investment were simultaneously relaxed, and the regimes for due diligence exemption and evaluation of performance were further improved.

September 27

Following the reduction of the reserve ratio in February and the policy interest rate in July, the PBOC once again reduced the reserve ratio by 0.5 percentage points and lowered the policy interest rate by 20 basis points to release market liquidity and reduce financing costs.

November 8

The 12th Session of the Standing Committee of the National People’s Congress passed revised the *Anti-Money Laundering Law of the People’s Republic of China* to strengthen the national financial risk prevention and control system and comprehensively enhance the legal governance aspects of the anti-money laundering regime.

December 25

The NFRA issued *Notice on Matters Concerning the Connection between Corporate Governance Regulatory Provisions and Company Law* and solicited opinions on *Decision on Amending Certain Regulations (Draft for Comments)*, which comprehensively implemented the new *Company Law*, and drove forward improvements in corporate governance structures and the quality and efficiency of governance in banks.

December 27

The NFRA released *Compliance Management Measures for Financial Institutions*, which prescribe guidelines for banks to improve their compliance management and strengthen checks on business operations. On the same day, the NFRA also issued *Data Security Management Measures for Banking and Insurance Institutions*, which prescribe guidelines for banks to enhance data security protection and safeguard customer information and financial transaction data.

December 27

The State Administration of Foreign Exchange (“SAFE”) released *Provisional Regulations on Due Diligence Exemption for Bank Foreign Exchange Business (Trial)* and *Management Measures for Bank Foreign Exchange Risk Transaction Reports (Trial)*, which improve banks’ management of their foreign exchange business and FX transaction risk reporting policies.

2024 Regulatory Mainline Review

01 Innovatively Supporting Expansion of Technology Finance and Realizing Due Diligence Exemptions in Inclusive Finance

Financial support for micro, small, and medium-sized enterprises and technology companies remained a key priority for the banking sector in 2024, with innovation extending beyond traditional credit support. Substantial progress was seen in 2024 on the bundling of investments with loans, with results gradually being seen at the policy level. The NFRA's *Notice on Strengthening Financial Services for the Whole Life Cycle of Technology-based Enterprises* encourages banks to proactively explore business models such as "loans + external direct investment" by cooperating with third party investment firms to provide financial support for start-up technology-based enterprises through a combination of investments and loans, provided that laws and regulations are complied with and risks are controllable. In addition, the NFRA issued the *Notice on Matters Related to Financial Asset Investment Companies Expanding the Pilot Program of Equity Investment* and the *Notice on Expanding the Scope of the Pilot Program of Equity Investment by Financial Asset Investment Companies*, extending the pilot program from Shanghai to 18 large and medium-sized cities and relaxing the restrictions on the amount and proportion of equity investment by AICs. These policy mechanisms enable further development of diversified financing channels, more effectively address the financing difficulties of technology companies, and are of great significance in improving the quality and efficiency of financial services provided by the banking sector.

On the building of a supportive framework for inclusive finance, regulatory authorities have, while adhering to the principle of "strict accountability", also focused on updating the due diligence exemption mechanism for inclusive credit and detailing its various requirements. The NFRA's *Notice on Effectively Carrying Out Inclusive Credit Work in 2024* also emphasized that banking institutions should "implement and detail the due diligence exemption mechanism" and set standards and procedures for due diligence exemptions for different positions and different products in the inclusive finance business line. Notably, in August, the NFRA issued the *Notice on Due Diligence Exemption for Inclusive Credit*, which adjusted and refined the due diligence exemption policy for inclusive credit. Compared with the previous regulations, the new regulations have made many substantive adjustments and changes. For example, the scope of credit recipients has been expanded from micro enterprises to small scale micro enterprises, business loans for small business owners and sole traders, and business loans for farmers. Furthermore, a new provision has been added, which by allowing for reduced or exempt liability when job responsibilities have been fulfilled with only minor faults, further improves the regime for accountability and exemptions. The improvement of liability exemption for

inclusive credit is able to effectively reduce the burden, encourage responsible action and enhance proactivity of frontline credit personnel, thus supporting the development of inclusive finance-related businesses.

02 Stabilizing after the Decline to Ensure the People's Well-being - Banking Sector Supports Healthy Development of Real Estate

Stabilizing the real estate sector was a crucial policy objective for China in 2024. To this end, the NFRA, in conjunction with the PBOC, issued several supportive policies for the real estate industry. As a core policy, the relevant ministries introduced the combination of "four cancellations, four reductions, and two increases". Among these, banking-related measures include providing credit support to both the demand and supply sides. The demand side involved improvements in home loan policies, adjusting the down payment ratio and interest rates for individual mortgages. The supply side focused on project financing for real estate: a "whitelist" to cover compliant real estate projects based on the principle of "including all that should be included", and credit support to projects whose relevant conditions and requirements remain unchanged, following the principle of "lending to all that should be lent to". In 2024, the "whitelist" projects continued to expand, with banks increasing loan disbursements, enhancing approval and disbursement efficiency, with approved loans totaling over RMB 5 trillion yuan throughout the year. Furthermore, the PBOC and NFRA issued the *Notice on Managing Real Estate Business Loans*, which allows commercial banks to disburse real estate business loans to real estate development enterprises for the purpose of repaying their existing real estate loans and publicly issued bonds. These policies have started to see results; for example, the campaign to ensure the delivery of pre-sold houses in 2024 realised the delivery of 3.38 million units.

On ensuring the livelihood of the population, regulatory authorities continued to push forward a series of existing measures. The PBOC introduced a RMB 300 billion refinancing facility for affordable housing to support local state-owned enterprises in acquiring completed unsold commercial housing at reasonable prices to be either sold or rented out as affordable housing. Simultaneously, the PBOC's funding support ratio for the affordable housing refinancing facility was increased to 100% in order to enhance market-based incentives for banks and acquiring entities. On the renovation of urban villages and dilapidated urban housing, a million more units were built in 2024, building upon previous efforts, while monetization was used to enhance policy support, including by allowing development and policy-based financial institutions to provide special loans and permitting commercial banks to disburse commercial loans based on project evaluations.

03 Banking Sector Steadily Advancing Opening-up, Effectively Optimizing the Cross-Border Payment Environment

In 2024, the opening-up of the banking sector to foreign investment continued to deepen, with multiple new rules and policies reflecting the receptivity to foreign capital. In March, the General Office of the State Council issued the *Action Plan on Solidly Promoting High-Level Opening Up and Attracting and Utilizing Foreign Investment with Greater Efforts* (the “**Action Plan for Foreign Investment**”), calling to expand the scope of foreign-funded financial institutions’ participation in the domestic bond market, including studying the prudent provision of access to the pilot program of treasury bond futures trading to more qualified foreign banks, thus broadening the business possibilities for foreign banking institutions. In September, the NFRA issued the *Administrative Measures for Financial Leasing Companies* (the “**New Rules on Financial Leasing**”), which relaxes the eligibility requirements for foreign investors, allows overseas manufacturing enterprises to act as major investors in financial leasing companies, and removes the total asset requirements for overseas financial institutions acting as general investors in financial leasing companies, which enables more overseas institutions to invest in non-bank institutions in China. In December, the PBOC and the SAFE decided to upgrade the pilot policies for cross-border corporate RMB and foreign currency integrated cash pooling in 10 provinces and cities including Shanghai, facilitating the pooling and utilization of funds by multinational corporations.

Significant progress was made in various initiatives, particularly in relaxing investment restrictions and enhancing payment convenience in the payments sector. The Action Plan for Foreign Investment also emphasized greater access for foreign financial institutions in the banking and insurance sectors, supporting qualified foreign institutions in lawfully conducting bank card clearing operations. The establishment of Mastercard NetsUnion(万事网联), a joint venture between Mastercard and NetsUnion, which officially opened for business in May, is the second joint venture bank card clearing institution to operate in China. This increases the number of market participants and available options in the domestic bank card clearing business. Simultaneously, multiple measures were introduced to enhance payment convenience, improving the payment methods in order to attract foreign consumption and investment. At its beginning-of-year working meeting, the PBOC emphasized the need to focus on improving payment services for foreigners visiting China, guiding key banks and payment institutions to improve the account services for them. In March, the PBOC issued the *Opinions on Further Optimizing Payment Services and Enhancing Payment Convenience for Foreigners Coming to China*. Market participants proactively responded to policy exhortations, with China UnionPay(中国银联) launching “Splendid Action 2024”,

collaborating with various industry stakeholders to revamp and explore comprehensive payment solutions, including supporting overseas e-wallets for domestic QR code payments. Multiple banks are also focusing on reducing service fees in the foreign card acquisition business in order to enhance merchants’ willingness to accept foreign cards.

04 Implementation of the New Company Law Calls for Reform of Banks’ Governance and Operations

The newly revised *Company Law*, which was officially implemented in July 2024, makes significant changes in multiple areas which significantly impact business activity including corporate capital and governance, responsibilities of directors, supervisors, and senior management, and minority shareholder protection. In December, the NFRA issued the *Notice on Matters Concerning the Links between Corporate Governance Regulatory Provisions and the Company Law*, which pushes banking institutions to upgrade their corporate governance structure and enhance their corporate governance in accordance with the requirements of the new *Company Law*. The *Notice* clarifies that banking institutions may, according to the new *Company Law*, choose to establish a board of supervisors or appoint supervisors, or have the audit committee under the board of directors perform the functions of the board of supervisors. The *Decision on Amending Certain Regulations (Draft for Comments)*, released on the same day, also intends to clarify existing regulatory provisions on corporate governance of banking institutions in conjunction with the new *Company Law*. For example, in response to the requirement added by the new *Company Law* that related-party transactions involving directors, supervisors, and senior management shall be subject to resolution by the board of directors or the shareholders’ meeting, the *Decision on Amending Certain Regulations (Draft for Comments)* clarifies that such transactions do not fall under the circumstances exempted from review and approval under the *Administrative Measures for Related-Party Transactions of Banking and Insurance Institutions*, but allows the board of directors to pass a single resolution on small-value, day-to-day transactions.

Beyond the specific scenarios explicitly mentioned in the regulations of the NFRA, the new *Company Law* impacts the operations of banking institutions from multiple angles. Firstly, in terms of their own shareholder management and corporate governance, banks will need to make changes to their articles of association, internal policies, and personnel appointments, taking into account their specific situations, the requirements of the new *Company Law*, and existing regulatory provisions such as the *Interim Measures for the Administration of Equity Interests of Commercial Banks* and the *Guidelines for Corporate Governance of Banking and Insurance*

Institutions. These adjustments are crucial to ensure compliance. Secondly, concerning the new provisions of the *Company Law* relating to capital contribution timeframe, acceleration of shareholder contribution due dates, and forfeiture of rights in the event of failure to pay when demanded, banks will need to make changes to their relevant business processes (e.g., due diligence and collateral management) and manage risk based on their specific situation.

05 Full Speed Ahead with Anti-Money Laundering Governance and Formalizing the Management of Beneficial Ownership Information

2024 concluded the Three-Year Action Plan (2022-2024) for combating money laundering and related crimes, and China is also scheduled to undergo the fifth round of the Financial Action Task Force (FATF) international evaluation in 2025. Against this backdrop, a series of rules and initiatives related to anti-money laundering governance were successively introduced in 2024. The most notable among these was the newly revised *Anti-Money Laundering Law of the People's Republic of China*, a highlight of which is the introduction of a beneficial ownership information regime into China's anti-money laundering governance framework through legislation, thus further aligning with international standards. This prescribes general obligations of legal persons and unincorporated organizations to maintain, update, and submit beneficial ownership information, and also stipulates rules for financial institutions and designated non-financial businesses to look into and provide beneficial ownership information in accordance with the law. Prior to the revision of the *Anti-Money Laundering Law of the People's Republic of China*, the PBOC, jointly with the State Administration for Market Regulation (SAMR), had also issued the *Administrative Measures for Beneficial Ownership Information* and released the *Beneficial Ownership Information Filing Guidelines (First Edition)*. These documents concisely establish the basic framework of the beneficial ownership information regime from the perspectives of the scope of application, identification criteria, filing requirements, and legal liabilities, thus providing specific guidance for market participants to implement beneficial ownership information filing in practice. The beneficial ownership information management regime provides important support and policy enshrinement of anti-money laundering governance, demonstrating China's resolve to uphold the order of the financial system and the public interest, continuously improve the business environment, and in-depth participation in international anti-money laundering cooperation.

Although the current rules have detailed the identification and filing process for beneficial ownership information, the rules for the use of beneficial ownership information are still relatively simple.

For example, the new regulations only prescribe general rules for state organs, financial institutions, and certain non-financial institutions to access beneficial ownership information, without specifying use cases and prerequisites. Moreover, the link between the use of beneficial ownership information and privacy protection requirements also needs to be clarified. All of these issues await future clarification. Improving the practical working of the beneficial ownership information management regime is expected to be a key focus of future anti-money laundering work.

06 Systematically Updating Rules for Non-Bank Financial Institutions, Simultaneously Promoting Unified and Differentiated Supervision

In the area of non-bank financial institutions regulation, 2024 saw the passing of multiple new regulations which systematically updated the regulatory requirements for the relevant types of institution. Following the revisions for enterprise group finance companies and auto finance companies in 2023, consumer finance companies and financial leasing companies also saw comprehensive revisions to their basic rules, with the *Administrative Measures for Consumer Finance Companies* (the "**New Rules on Consumer Finance**") and the *New Rules on Financial Leasing* being issued in March and September, respectively. Concurrently, regulatory rating measures for auto finance companies and consumer finance companies were released in February and December, respectively. Business rules such as the *Notice on Issuing the Encouragement List, Negative List, and Project Company Business White List for Financial Leasing Companies' Business Development* and the *Administrative Measures for Non-Performing Asset Business of Financial Asset Management Companies* were also published during 2024. Throughout the process of rule revision or formulation, regulators continued to adopt unified standards for matters of the same type. For instance, similar to the revised regulations for enterprise group finance companies and auto finance companies in 2023, the *New Rules on Consumer Finance* and the *New Rules on Financial Leasing* also emphasized regulation of matters such as institutional equity, corporate governance, related-party transactions, and information disclosure, all of which have been common concerns in the regulation of financial institutions in recent years. The regulatory rating measures for both auto finance companies and consumer finance companies added the protection of consumer rights into the rating matrix, which reflects these two institutions' significant involvement in the retail business.

The drafting and implementation of regulatory rules also took full account of differences and unique characteristics of different types of institution. In September, the NFRA issued the *Notice on*

the Differentiated Application of Corporate Governance and Other Regulatory Provisions to Certain Non-Banking Institutions, which prescribes differentiated application of some rules based on the different circumstances of five categories of non-banking institution. This helps mitigate the issue of inapplicability when trying to apply to non-bank institutions regulations which were designed primarily for banks. For example, compared to banks, non-bank institutions typically have more concentrated shareholding structures. Consequently, the notice explicitly exempts institutions with fewer shareholders from several requirements under the *Guidelines for Corporate Governance of Banking and Insurance Institutions*, thus addressing practical challenges in the corporate governance design of non-bank institutions. Furthermore, given the smaller asset scale of non-bank institutions, the notice clarified the tiered application standards under the *Commercial Bank Capital Management Measures*. The different requirements also reflect regulatory expectations for the future development of different types of institution. For instance, in order to address the industry norm where institutions frequently cooperate with their shareholders in business, both the New Rules on Consumer Finance and the New Rules on Financial Leasing raised the minimum holding ratio of 30% for principal shareholders, thereby reinforcing shareholder accountability and enhancing decision-making efficiency. However the newly applicable minimum shareholding ratio is 50% for consumer finance companies and 51% for financial leasing companies, indicating that financial leasing companies but not consumer finance companies are required to have a controlling shareholder. This shows the regulatory emphasis on higher corporate governance stability for financial leasing companies compared to consumer finance companies.

07 Accelerating Reform and Risk Disposal of Small and Medium-Sized Banks, Encouraging the Development of Non-Performing Asset Business by Financial Asset Management Companies

In 2024, the process of reform and risk containment of small and medium-sized banks continued. In January, the Rural Small and Medium-Sized Bank Supervision Department of the NFRA issued a notice of support and cooperation with provincial party committees and governments to progress reform of rural credit cooperatives on a “one-province-one-policy” basis, while also promoting the merger of rural credit cooperatives in the same prefecture-level city in order to further improve allocation of financial resources and enhance financial support for rural and small businesses. In May, the NFRA issued another notice, calling for accelerated mergers and reorganizations of rural small and medium-sized banks in order to reduce the number and layers of these institutions, strengthen centralized and unified management, streamline institutional

buildup in accordance with local characteristics, revamp business policies and drive continued risk containment. With the policy encouragement, the pace of reform and risk disposal for small and medium-sized banks saw significant increase in 2024. According to relevant data, more than one hundred small and medium-sized banking institutions were merged in 2024, significantly higher than in previous years. Through mergers in the form of “conversion of rural-to-branch” or “conversion of rural-to-sub-branch”, small and medium-sized banks with less competitive scale and strength were integrated and reorganized. While many rural credit cooperatives, village banks, and rural commercial banks disappeared, this was accompanied by the emergence of other banks of certain asset scale. In addition to the case of Liaoning Rural Commercial Bank mentioned above, in April, the business commencement of Hainan Rural Commercial Bank, which was formed from the merger of Hainan Provincial Credit Union and 20 other institutions including Haikou Rural Commercial Bank, was approved. In the same month, Xinjiang Bank’s absorption merger of Korla Bank was approved, with an asset scale reaching 146.5 billion yuan, marking the first absorption merger of a city commercial bank in Xinjiang. In December, Lanzhou Bank was approved to absorb and merge Heshui County Jincheng Village Bank, Gansu Xigu Jincheng Village Bank, and other institutions through the “conversion of rural-to-branch” method and establish sub-branches. How the new banks will leverage their strengths, reform governance, restructure management and reorganize business to achieve the regulatory expectations of “unique locally-based operation” and “small but beautiful” after the risk has been contained will be a topic on the agenda for some time.

Although the *Financial Stability Law* was not officially enacted in 2024, the supporting framework of financial risk disposal is gradually taking shape. For example, the changes in rules related to financial asset management companies in 2024 are particularly noteworthy. Against the backdrop of rising non-performing rates in an economic downturn, the role of financial asset management companies is becoming increasingly important, and their non-performing business is backed by policy support. In April, the NFRA issued the *Notice on Implementing the Guidance on Guiding Financial Asset Management Companies to Focus on Their Main Business and Actively Participate in the Reform and Risk Mitigation of Small and Medium-Sized Financial Institutions*, which expand (such as by expanding the scope of acquisitions, improving pricing mechanisms, and standardizing reverse mandates, etc.) the 2022 incentives targeted at financial asset management companies participating in risk containment of small and medium-sized financial institutions to cover the assets of large banks and joint-stock banks. In November, the NFRA issued the *Administrative Measures for Non-Performing Asset Business of Financial Asset Management Companies*, which expand the scope of eligible non-performing assets to include

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restructured assets and credit impairment assets, and detailing the operating procedures for the entire process of acquisition, management, and disposal of non-performing assets. The Measures also specify that financial asset management companies can accept mandates from governments and institutional shareholders, and may also be designated by regulatory authorities to take over risky institutions, which corresponds with the financial risk disposal mechanisms envisaged in the draft *Financial Stability Law*. These changes will help facilitate financial asset management companies to better leverage their professional advantages and contribute to financial risk mitigation.

08 Overall Decline in Banking Penalties, with Credit and Rural Small and Medium-Sized Financial Institutions Remaining as Key Focus Areas

In 2024, the intensity of penalties in the banking sector declined. Compared with previous years, numbers and penalty amounts of penalty notices were significantly reduced. Neither the NFRA nor the PBOC issued any large penalty notice in an amount exceeding one hundred million yuan. There were only five penalty notices issued by the NFRA with amounts over ten million yuan. In terms of the grounds for penalties, the key area for banking penalties in 2024 remained credit violations, which is similar to previous years. For example, in May, a bank received the largest penalty of 2024, approximately 67.24 million yuan, with the main violations related to credit business, including non-compliant loan disbursement, non-compliant use of personal loans, and inadequate accountability for credit approval responsibilities, etc. It is worth noting that due to the significant fluctuations in the stock market in 2024 and the continued trend of early repayments, the flow of loan proceeds into the stock market and the real estate market has become a focus of attention. In 2024, a significant number of banks was penalized by regulators for these reasons, and the number of penalty notices issued for inadequate post-loan management became the top ground for credit business penalties. In terms of the types of penalized institution, rural commercial banks and rural credit cooperatives continued to form the main pool of penalized institutions in 2024. Throughout 2024, rural commercial banks and rural credit cooperatives received the highest number of penalty notices and the largest amount of penalties among all types of banks. In 2023, although rural banks had the most penalty notices, joint-stock banks were fined the most. This also indicates that rural small and medium-sized financial institutions have relatively weak compliance and a higher overall risk level compared to other banks.

01 Persistence in Opening-Up, Policies to Facilitate Banking Services

In July, the Third Plenary Session of the 20th Central Committee emphasized the “need to adhere to the fundamental national policy of opening-up”. In December, the Central Economic Work Conference further stressed the importance of “expanding high-level opening-up to stabilize foreign trade and investment”. Against this backdrop, the liberalization will continue across industries and sectors in 2025 in order to achieve the goals of orderly expansion of autonomous and unilateral opening-up and steady expansion of institutional opening-up. As a consequence, the banking sector is expected to see more regulations and policies to facilitate opening-up and cross-border cooperation, covering areas such as foreign exchange management for cross-border trade, fund settlement for multinational companies, facilitating foreign investment, and supporting enterprises in “going global”. These policies will give banks more authority and operational flexibility and clarify compliance requirements and implementation mechanisms, guiding them to prudently conduct related business and control business risks. Additionally, according to the *2024 Report on the Internationalization of RMB* released by the PBOC, the amount of RMB cross-border payments and receipts on behalf of customers in 2023 and from January to August 2024 was 52.3 trillion yuan and 41.6 trillion yuan, respectively, with year-on-year growth exceeding 20%. As the cross-border connect policies are upgraded and the role of the RMB in global trade financing increases, the cross-border investment and financing functions of the RMB are gradually strengthening. Therefore, it is expected that in 2025, multiple policies will be introduced to facilitate cross-border RMB business which will support the internationalization of the RMB.

02 Anti-Money Laundering Governance to Enter a New Stage, with Further Improvements to Supporting Rules Expected

With the implementation of the new *Anti-Money Laundering Law of the People's Republic of China* and the related supporting regulations taking shape, China's anti-money laundering work will enter a new stage of institutionalization in 2025. At the start of 2025, the Shanghai Head Office of the PBOC emphasized in its working meeting the need to continuously combat money laundering crimes and prepare for the international AML two-way assessment. We foresee that anti-money laundering work in 2025 will focus on the new *Anti-Money Laundering Law of the People's Republic of China*. Regulatory authorities will closely follow the “risk-based”

regulatory approach, step up detailed drafting of compliance requirements and regulatory guidance at the operational level, guide anti-money laundering reporting entities to voluntarily take on more risk management responsibilities, and improve the various supporting measures. In addition to specifying the practical details of beneficial ownership information management, the *Measures for Customer Due Diligence and the Preservation of Customer Identity Data and Transaction Records by Financial Institutions*, which was suspended due to “technical reasons”, may be revised and resume implementation in 2025. The new *Anti-Money Laundering Law of the People’s Republic of China* now officially includes certain non-financial institutions in the regulatory coverage and authorizes relevant departments to pass anti-money laundering regulations for these non-financial institutions, and it is expected that the related regulatory rules will be introduced in 2025. Moreover, considering the imminent new wave of FATF assessment, more technical standards, compliance guidelines, and enforcement requirements related to anti-money laundering governance are also expected to be introduced or upgraded in 2025.

03 Accelerated Reform and Risk Disposal in Small and Medium-Sized Banks, with Multiple Measures to Eliminate Key Risks

According to the NFRA’s 2024 work summary, regulatory authorities have comprehensively mapped out the risk profiles of small and medium-sized financial institutions and are cooperating to develop reform and risk disposal plans. For those regions with a concentration of high-risk institutions, specific reform and risk disposal plans have taken shape and are being solidly implemented on a “one-province-one-policy” basis. At the same time, in its 2025 regulatory working meeting the NFRA continued to emphasize the need to accelerate the reform and risk disposal of small and medium-sized financial institutions, requiring coordinated efforts at all levels, case-by-case handling, and the mobilization of all forces to fully tackle high-risk institutions and push forward the reshaping of governance, restructuring of management, and reorganization of business. Therefore, it is expected that 2025 will see more cases of mergers and dissolutions of small and medium-sized banks, with smaller and weaker players continuing to be reduced. To strengthen the special role deposit insurance in financial risk mitigation, the related rules may also be revised including beefing up early corrective measures and utilization measures for deposit insurance funds. The *Financial Stability Law*, which is currently in the second draft stage, may also be enacted in 2025.

Preventing and resolving financial risks in key areas continues to be a priority in 2025. The NFRA has emphasized the need to speed up coordination of effective urban real estate financing, support

a new model for real estate development, and actively cooperate in preventing and resolving debt risks of local governments. Accordingly, 2025 is expected to see multiple policies to encourage banking institutions to fund risk disposal in the sectors of real estate and local government debt, including preferential credit policies and pilot programs for new financing models.

04 Enhancing Financial Consumer Protection from Multiple Angles, Focusing on Dispute Resolution Mechanisms

In the complex and testing economic environment, financial service disputes and complaints by financial consumers are increasingly seen. In 2024, the NFRA, jointly with the PBOC and the China Securities Regulatory Commission (“CSRC”), held the first regulatory coordination meeting on financial consumer and investor protection, which formally established the coordination mechanism for financial consumer and investor protection work. The joint meeting emphasized the need to strengthen coordination of laws, regulations, and policy measures and comprehensively improve complaint handling, dispute mediation, and public education, and called on financial institutions to integrate the requirements for protecting financial consumers and investors into all aspects of the entire business process. NFRA and the Supreme People’s Court also jointly released typical mediation cases for financial lending disputes, and launched platforms to provide financial consumer protection and financial product inquiry services within the year of 2024. At the regulatory working meeting of 2025, NFRA proposed to better fulfill its overall coordination responsibilities in financial consumer protection and implement the “Fengqiao Experience” of the new era. We therefore expect that in 2025, multiple regulatory rules will be introduced to strengthen consumer protection from multiple aspects. The *Asset Management Product Information Disclosure Management Measures (Draft for Comments)*, which has been internally consulted, are expected to be officially released in 2025 and will align and strengthen information disclosure requirements for trust, wealth management, and other asset management products regulated by the NFRA. Consumer suitability management measures which have twice been included in the annual regulatory legislative plan may also be put out for consultation in 2025. Additionally in terms of financial consumer complaints and dispute resolution, it is expected that regulatory authorities will strengthen coordination and call upon regulated institutions to expand complaint channels, standardize complaint handling mechanisms, and enhance the proactivity and specificity of financial consumer protection efforts.

05 The Credit Business Supports Recovery and Improvement of Economy and Potential Tightened Regulation for Online Lending Business

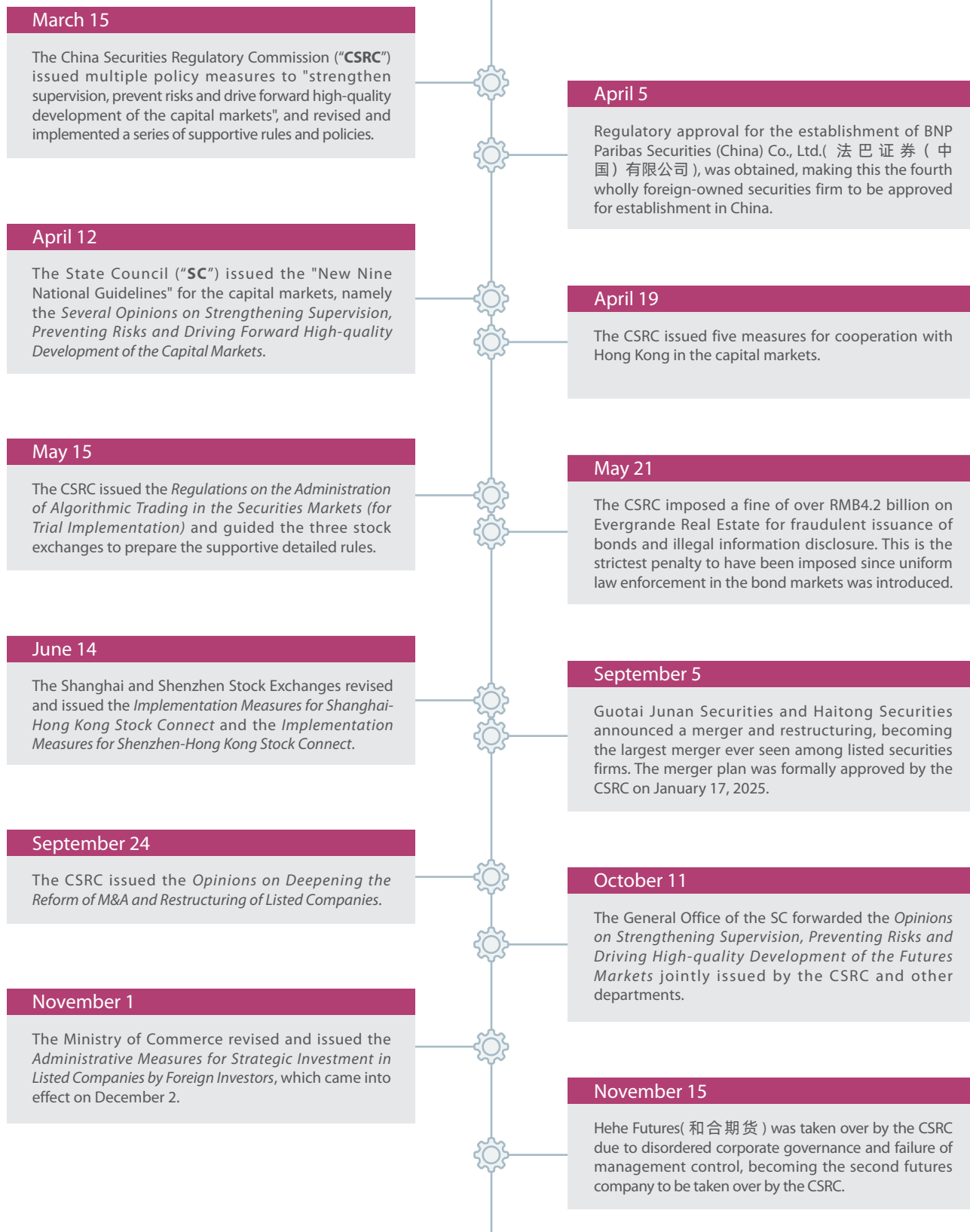
In 2024, the PBOC made multiple cuts and reductions in the reserve ratio and interest rates, which released funds to provide market liquidity while reducing financing costs for enterprises and individuals. Policy tools supported economic growth and enhanced the financing environment for the real economy. The NFRA officially issued the “Three Measures” to improve credit management, and issued notices to encourage non-bank financial institutions to take action to boost consumption. In 2025, this policy direction will remain unchanged, with efforts to expand domestic demand and drive forward the upward and positive development of the economy. In particular, more preferential credit policies may be introduced in areas such as business equipment upgrade and consumer goods trade-ins. The banking sector may also introduce innovative credit regulations linked to policies that “invest in early stage, small businesses, invest for the long term, and invest in core technology”.

At the same time, the online lending business may once again face significant regulatory policy change. Notwithstanding that the revised *Personal Loan Management Measures* issued in 2024 enhanced the flexibility of personal loan business, regulatory authorities are also considering adjustments to the supervision of commercial banks’ internet-assisted lending business, and are likely to strengthen requirements for the risk control capabilities of funding parties, cooperation with institutions, and require profit-sharing conditions to be set. It is expected that in 2025, related rules will be put out for consultation or be introduced, making substantive adjustments to the existing regulatory framework for commercial banks’ assisted lending business. Additionally, the *Interim Measures for the Supervision and Administration of Small Loan Companies* were officially released at the beginning of 2025, which have expressly restricted small loan companies from engaging in business models that merely involve referral, risk control, or debt collection, which will also have substantial impact on assisted lending business involving small loan companies.



Securities and Futures

2024 Regulatory Milestones



2024 Regulatory Mainline Review

01 The release of the third series of "Nine National Guidelines" for the capital markets provides a top-down framework for high-quality development of the capital markets.

In April 2024, the SC issued the *Several Opinions on Strengthening Supervision, Preventing Risks and Driving Forward High-quality Development of the Capital Markets* (the "**New Nine National Guidelines**"). The New Nine National Guidelines focus on multiple aspects, such as strengthening the supervision of listed companies (including delisting supervision), fortifying the issuance and listing regime, driving the entry of medium- and long-term funds into the markets, enhancing trading regulation and market stability, improving and strengthening the performance of securities and fund institutions through enhanced regulation, and deepening reform and opening up. Wu Qing, Chairman of the CSRC, stated that the New Nine National Guidelines espouse a systematic mindset which combines short- and long-term considerations and integrates implementation with policymaking. The New Nine National Guidelines, together with the implementing measures coordinated and implemented by the CSRC in conjunction with relevant parties, will jointly form a "1+N" policy regime of which "1" refers to the "New Nine National Guidelines" themselves, and "N" refers to the supportive institutional rules. From our review of legislative and law enforcement actions of the CSRC in 2024, it can be seen that the CSRC has been continuously expanding and improving "N", and the key word "high-quality development" prominently appears in the regulatory approach and framework of the CSRC.

The New Nine National Guidelines is a top-down framework document issued by the SC for the capital markets to follow those issued in 2004 and 2014 and reflect the central government's emphasis on high-quality development of the capital markets, serving as a guide for high-quality development of the capital markets in the next ten years. The "1+N" policy regime under its policy framework will safeguard the continuous improvement of the capital market ecosystem.

02 Multiple policy documents to drive forward the process of nurturing world-class international investment banks and the merger of securities firms.

In October 2023, the Central Financial Work Conference initially floated the requirement to "nurture first-class investment banks and investment institutions." Further to this guidance, in March 2024, the CSRC issued the *Opinions on Strengthening the Supervision of Securities Firms and Public Funds Management and Accelerating*

the Setup of First-class Investment Banks and Investment Institutions (for Trial Implementation), which set a clear goal of creating 2 to 3 internationally competitive, market-leading investment banks and investment institutions by 2035. These institutions will be expected to occupy a leading position internationally in terms of strategic capabilities, professional standards, corporate governance, compliance, risk control, talent pool, and business culture. Immediately after this, in April, the New Nine National Guidelines were issued, which further explicitly support the efforts of leading institutions to enhance their core competitiveness through M&A, restructuring, organizational innovation and other means. In May of the same year, the CSRC revised and issued the *Regulations on Strengthening the Supervision of Listed Securities Firms* which strengthens requirements for administrative licensing, information disclosure, information management and regulatory reporting, urges listed securities firms to focus on their main responsibilities and play a leading and exemplary role in the industry and provides solid support for achieving the goal of "accelerating the nurturing of first-class investment banks" while maintaining the basic framework of the original rules.

Amidst the backdrop of policy encouragement and support, the pace of industry integration has significantly accelerated. In September, Guotai Junan Securities and Haitong Securities announced their merger, which was formally approved by the CSRC on January 17, 2025. The rapid progress and approval of the merger and restructuring of the two leading securities firms not only reflects the firm determination of the regulatory authorities to push forward the creation of first-class investment banks, but also sets an unprecedented blueprint for further integration in the domestic securities industry. The previous mergers and acquisitions within the industry predominantly involved small and medium-sized securities firms, with at most one party being a listed securities firm (examples include Guolian Securities' acquisition of Minsheng Securities, Zheshang Securities' acquisition of Guodu Securities, and Western Securities' acquisition of Guorong Securities). In comparison, the merger of Guotai Junan Securities and Haitong Securities will achieve industry breakthroughs in the big leagues of "listed" and "leading" securities firms. The merger was relatively much more complex and challenging, involving many issues such as A/H share valuation differences, pricing for state-owned enterprise share swaps in mergers, and the M&A delisting regime. Some details of the plan still remain to be clarified – such as how to solve the "one participation and one control" restriction for the fund management companies held by the two securities firms. The merger is expected to provide a case study for future mergers and acquisitions of other listed securities firms and accelerate the merger and restructuring process of other large securities firms, once the relevant details are further clarified.

03 Rules of securities firms have been improved and amended in multiple key business areas.

In 2024, the CSRC, stock exchanges, and the Securities Association of China ("SAC") issued and revised multiple regulatory rules for securities firms, covering both comprehensive governance and specific business areas of securities firms.

In terms of comprehensive governance, the CSRC revised and issued the *Regulations on the Calculation Standards for Risk Control Indicators of Securities Firms*, which made all business activities of securities firms subject to risk control indicators. CSRC also implemented strict supervision of innovative and high-risk businesses. The aim of the Regulations is to guide securities firms in fortifying their business structure and asset allocation, and to enhance their efforts in serving the real economy and managing the citizens' wealth. Within the same year, the SAC revised and issued the *Administrative Standards for Alternative Investment Subsidiaries of Securities Firms* and the *Administrative Standards for Private Equity Investment Fund Subsidiaries of Securities Firms* and the applicable opinions, further fortifying and improving management rules in an effort to achieve compliant operation by these two types of securities subsidiaries.

In terms of specific business areas, the CSRC and stock exchanges issued multiple revision notices on margin financing and refinancing, fully leveraging the role of countercyclical adjustment. In addition, the SAC issued the *Administrative Measures for the Issuance of Income Certificates by Securities Firms*, which for the first time clarified the business standards and regulatory requirements for the entire process of issuing income certificates by securities firms, thus filling the regulatory gap in this business area.

04 The regulatory regime for futures and derivatives developed steadily, implementing the "high-quality development" policy.

In 2024, the regulatory buildup in the futures and derivatives markets was speeded up. In April, the New Nine National Guidelines, a framework document for the capital markets, was issued. It devoted much attention to exploring a futures regulatory regime and business models suitable for China's stage of development, setting the basic regulatory tone for the stable, prudent and orderly development of the futures and derivatives markets. In October, the futures and derivatives markets welcomed another important regulatory document, namely the *Opinions on Strengthening Supervision, Preventing Risks and Driving High-quality Development of the Futures Markets* ("**Opinions on the High-quality Development of the Futures Markets**"). The Opinions on the High-quality

Development of the Futures Markets outlined phased development goals and 17 key measures in 8 aspects, for the first time providing a complete and clear roadmap and action plan for high-quality development of the futures and derivatives markets.

Meanwhile, the CSRC and the China Futures Association ("CFA") were intensively drafting or revising supportive implementation rules for the *Futures and Derivatives Law* and expediting the implementation of policies in the *Opinions on High-Quality Development of the Futures Markets*. In January, the CFA issued the *Rules on Reputational Risk Management for Futures Companies*, emphasizing that futures companies should comprehensively strengthen reputational risk management from governance and internal control aspects. In April, the CSRC announced its 2024 legislative work plan, which included the revision of the *Administrative Measures for Futures Practitioners* and the *Administrative Measures for the Supervision of Futures Companies* as key projects to be rolled out within the year. These revised regulations, which had been open for public consultation in 2023, focused on the corporate governance, business activities and practitioner management of futures companies, thus further strengthening the regulation of futures market participants. In addition, the CFA improved rules in areas such as investor suitability, professional ethics, commodity risk management business of futures risk management companies, and the "Insurance + Futures" business of futures companies. Among them, the *Rules on the 'Insurance + Futures' Business of Futures Companies (for Trial Implementation)* issued by the CFA is the first industry regulatory document in this field. The Rules prescribe basic guidelines and baseline requirements for the "Insurance + Futures" business, filling the regulatory gap in this field and thus helping to fully leverage the functional role of the futures and derivatives markets in order to meet the pricing risk management needs of the agricultural sector.

In 2024, several new futures and options covering agricultural products, metals and new energy were listed on the various futures exchanges, providing more comprehensive risk management tools for related industries.

The role of the futures markets to serve the real economy and national strategy is frequently mentioned in central and ministerial policy documents. The development of the above-mentioned regulatory regime and the expansion of business aspects once again demonstrates the regulatory authorities' high degree of emphasis on industry development, and clarifies that risk prevention, high-quality prudent development and enhancing the futures markets' ability to serve the real economy are to be key goals of futures and derivatives markets regulation.

05 Opening-up of the securities market was broadened and deepened, advancing a high-quality and orderly opening-up process.

In 2024, China's securities market continued to progress steadily in its opening-up efforts. Significant progress was made in areas including the buildout of foreign-invested securities firms' footprint, cross-border capital market collaboration and encouraging domestic enterprises to list overseas.

Global securities firms have been expanding their footprint in the Chinese market. In March, Standard Chartered Securities (China) Co., Ltd. officially announced its commencement of business. In April, BNP Paribas Securities (China) Co., Ltd. received approval for its establishment. The applications for the establishment of Citigroup Securities (China) Co., Ltd. and Mizuho Securities (China) Co., Ltd. are also steadily progressing, with feedback received from the CSRC in February and September 2024.

Regarding cross-border cooperation in capital markets, the CSRC unveiled, in April, five initiatives aimed at enhancing cooperation with Hong Kong. These measures are designed to further expand and refine the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect programs, fostering the harmonized development of both markets. Concurrently, the SSE, SZSE and the Hong Kong Stock Exchange reached an agreement to broaden the range of ETFs included under the Stock Connect scheme. In December, the CSRC issued a revised version of the *Regulations on Mainland-Hong Kong Mutual Recognition Funds (MRF)*. The revised Regulations lift the cap on the sales ratio of MRFs in the investor markets from 50% to 80% and ease restrictions on the delegation of investment management responsibilities for MRFs, and allow, under certain conditions, delegation of such responsibilities to overseas affiliated institutions within the same group. This is the first amendment since the inception of the Regulations in 2015 and further fortify the MRF mechanism between mainland China and Hong Kong.

In the field of overseas expansion by domestic enterprises, CSRC made efforts to expand the routes for overseas listing of domestic enterprises and make overseas listing filings more efficient. According to data taken from CSRC's official website, in 2024 alone, 156 domestic enterprises received new overseas issuance and listing filing notices from the CSRC, marking a significant increase compared to 2023 (as of December 31, 2023, a total of 81 enterprises had successfully filed; this total included both overseas issuance and listing applications, as well as "full circulation" applications for domestic unlisted shares). This demonstrates that since the implementation of the new regulations for overseas listing applications nearly two years ago, the application process has gradually become more efficient and reliable.

06 The regulatory framework for program trading was further improved to better regulate program trading, especially high-frequency trading.

Since 2023, when the SSE, SZSE and BJSE (collectively, the "**Stock Exchanges**") first implemented equities program trading rules, the CSRC and Stock Exchanges have further advanced the regulatory framework. In May 2024, the CSRC issued the *Interim Regulations on the Management of Program Trading in the Securities Market (Trial)*. Subsequently, the CSRC guided the three Stock Exchanges to craft the *Detailed Implementation Rules for the Management of Program Trading (Draft for Comments)*. These regulations and rules clarify the requirements of reporting management, high-frequency trading regulation, information technology system security, and regulation of trading behavior, resulting in a more comprehensive regulatory framework for equities program trading. The CSRC is also actively pushing forward implementation of the program trading reporting rules under the northbound end of the Stock Connect scheme in collaboration with the Hong Kong authorities, adhering to the principle of equal treatment of domestic and foreign investors.

Sound progression in the regulatory framework for program trading in the futures market was also seen. From as early as 2010, each futures exchange had already implemented the futures program trading reporting and by way of implementation, has been gradually building up a system of testing and monitoring indicators as well as a regime to manage abnormal trading behavior. In 2022, the *Futures and Derivatives Law* incorporated the futures program trading reporting regime into the legal framework, providing a higher-level legal basis for its regulation. However, there was still a lack of unified and clear regulatory provisions at the departmental rulemaking level of the CSRC. In January 2025, the CSRC solicited public opinions on the *Interim Regulations on the Management of Program Trading in the Futures Market (Draft for Comments)*. If this regulation is introduced, it will fill the gap in the regulatory framework for program trading, marking a further improvement in the regulatory regime for futures program trading.

From a law enforcement perspective, the CSRC and Stock Exchanges took a series of actions against program trading violations in 2024. For example, the SSE and SZSE imposed regulatory measures against abnormal program trading behavior by certain institutions. Subsequently, the CSRC coordinated with the Stock Exchanges to look into and pass abnormal trading monitoring indicators, for gradual implementation on a trial basis. Meanwhile, the SSE and SZSE are also looking into and testing differentiated charging schemes for high-frequency trading.

By pushing forward the regulation of program trading, CSRC has shown its willingness to accept and uphold market developments alongside the principle of prudent regulation. It also shows the CSRC's resolve to

continuously refine its regulatory toolbox, fully uphold market order, ensure market fairness, and drive stable development of financial markets.

07 Regulation of listed companies was strengthened to ensure stable and healthy capital markets.

In March, the CSRC issued two framework documents - the *Opinions on Improving the Quality of Listed Companies from the Source through Access Controls for Issuances and Listings (Trial)* and *Opinions on Strengthening the Regulation of Listed Companies (Trial)*, the purpose of which is to take multiple actions for the high-quality development of the capital markets. As regards management and supervision at source, stringent requirements are applied to all participants in the listing process, including the listed companies, intermediary institutions, stock exchanges, and the CSRC. Ongoing supervision of listed companies focuses on enhancing investment value and strengthening investor protection. Focus areas include combating financial fraud, strict regulation of sell-downs, increased dividend supervision, and strengthening the management of market capitalization. Following the issuance of and to implement the two framework documents, the CSRC and the stock exchanges released a series of supportive measures. Notably, in the field of sell-down regulation, the CSRC released the revised version of the *Administrative Measures for Share Reduction by Shareholders of Listed Companies*. Compared to the previous *Several Provisions on the Reduction of Shares by Shareholders, Directors, Supervisors, and Senior Management of Listed Companies*, the status of the new Measures has been upgraded from regulatory document to departmental regulation. The regulatory framework for illegal share reduction was amended and refined, effectively blocking illegal forms of sell-down conduct (such as indirect sell-downs).

By strictly controlling the access to securities issuance and listing, and selecting high-quality enterprises, problematic companies can be prevented from entering the capital market. This helps enhance the overall quality and stability of the market. Through the strengthening of ongoing supervision of listed companies, especially by combating illegal share reduction, legitimate rights and interests of investors can be effectively protected, thus boosting their confidence in the market. The regulatory reforms in 2024 highlight the regulators' emphasis on market stability and sound development. Through comprehensive institutional buildup and implementation, a systemic guarantee has been provided for sound operation and long-term development of the capital market.

08 Intensifying the crackdown on securities and futures violations and crimes, and implementing long-armed, sharp-toothed regulatory measures.

According to CSRC statistics, in the first half of 2024, it investigated a total of 489 securities and futures violations and made over 230 penalty decisions, marking a 22% year-over-year (YoY) increase. The CSRC imposed punishments on 509 occasions, up 40% YoY; imposed market entry bans on 46 individuals, a 12% YoY rise; and collected fines and confiscations totaling over 8.5 billion yuan, surpassing the total for 2023. The CFA reported in its 2024 self-discipline management work report that the number of leads followed up by it and disciplinary measures imposed saw a significant increase compared to previous years. In 2024, the CFA followed up on approximately 140 potential cases, imposed disciplinary actions on 14 companies and 118 individuals, summoned 28 companies and 14 individuals for regulatory talks, and issued warning letters to 15 companies and 1 individual.

Of the typical cases in 2024, Evergrande Real Estate and relevant responsible parties were fined a total of over 4.2 billion yuan for fraudulent issuance and illegal information disclosure. The relevant audit firms also received the maximum fines and had their branches deregistered for issuing false audit reports. In addition, the CSRC has also intensified its crackdown on illegal information disclosure, market manipulation, and insider trading. In market manipulation cases, fines of at least twice the illegal gains have become the norm. These heavy penalty cases result from regulators' willingness to use their "long arms and teeth" and their "zero-tolerance" policy of severely punishing securities and futures violations and crimes.

In terms of regulatory tools, in 2024 securities and futures regulatory authorities further enhanced the application of technology in regulation, thus improving sensitivity and precision in detecting misconduct. At the same time, various agencies established robust regulatory collaboration by strengthening inter-departmental coordination, contributing to the prevention of regulatory gaps and redundant oversight. Regulatory authorities also significantly increased the cost of securities and futures violations and crimes by implementing multi-faceted accountability in administrative, criminal, and civil aspects.

Overall, the increased enforcement intensity and enhancement of tools by regulatory authorities in 2024 have not only effectively deterred violations and crimes, but also established robust safeguards for sound and stable development of capital markets. This stringent regulatory approach not only helps fortifying the market environment and safeguarding the legitimate rights and interests of investors, but also showcases the regulatory authorities' commitment and capability to foster high-quality development of capital markets.

2025 Regulatory Outlook

01 Further encourage M&A and restructuring among securities firms to achieve survival of the fittest

Since the Central Financial Work Conference in October 2023 explicitly proposed “nurturing first-class investment banks and investment institutions”, M&A and restructuring became a key focus for the development of the securities industry in 2024. Given the acute lack of differentiation and oversupply of licenses in China’s securities industry, we believe that this “M&A and restructuring” theme will further develop in 2025. Due to licensing restrictions, the restructuring of securities firms will also trigger further redeployments and reorganizations of their controlled entities (such as funds entities under securities firms).

In addition, it is reported that the CSRC is currently soliciting industry views on the *Measures for the Administration of Business Qualifications of Securities Companies (Draft for Comments)* and related supportive rules. At present, the exit mechanisms from securities business qualifications available to securities firms are not well-developed, leading to some “license hoarding” or “license retention” being observed. The new regulations clarify that securities firms that do not actively engage in certain businesses must proactively request cancellation of their relevant business qualifications. If the new rules are implemented in 2025, this will further facilitate M&A and restructuring in the securities industry and survival of the fittest.

02 Progressively advance the regulation of the futures and derivatives market with “stability” as the priority

In March and November 2023, CSRC publicly solicited views on the *Measures for the Supervision and Administration of Derivatives Trading (Draft for Comments)* but to date, these measures have not been officially released. From the “thirty years of sharpening” of the Futures and Derivatives Law to the multiple solicitations of views for departmental regulation of derivatives, the CSRC has consistently maintained a prudent and steady approach to the regulation of derivatives trading. Following such thorough internal discussions and market consultations, we look forward to the introduction of new regulations in the derivatives sector in 2025 which are expected to set a unified regulatory standard for the CSRC-regulated derivatives market.

In addition, the revised draft of the *Administrative Measures for the Supervision of Futures Companies*, also released for consultation in 2023, was not officially released in 2024 as expected. Although there is currently no clear policy encouraging M&A and restructuring in

China’s futures industry, China’s futures industry also suffers from acute lack of differentiation and oversupply of licenses. In November, Hehe Futures was taken over by the CSRC due to disordered corporate governance and failure of management control, making it the second futures company to be placed under CSRC receivership. Risk management subsidiaries of futures companies have typically operated a broad range of businesses, including physical commodities trading, equity and futures market investments, and over-the-counter (“OTC”) derivatives. However, their risk tolerance is limited, and risks may build up in their operations. The revised *Administrative Measures for the Supervision of Futures Companies* is expected to expand the business scope of futures companies, allowing qualified firms to directly engage in futures market-making, derivatives trading, and other activities under certain conditions. This will help leading futures companies grow in scale and encourage risk management subsidiaries of futures companies to shift businesses such as futures market-making and OTC derivatives trading back to their parent companies, thus enabling the subsidiaries to refocus on core operations, better serving the real economy. We anticipate that the revised *Administrative Measures for the Supervision of Futures Companies* will be officially released in 2025, which will improve regulation of the futures market.

03 Continue with a high degree of openness in order to share China’s new opportunities with the rest of the world

The “New Nine National Guidelines” emphasize the need to balance high-level institutional openness of the capital market with security; expand and fortify cross-border connectivity in the capital market; broaden financing channels for companies listing overseas and improve the quality and efficiency of overseas listing filings; strengthen regulatory capabilities in an environment of opening up; and deepen international securities regulatory cooperation. In November, Wu Qing, Chairman of the CSRC, stated at the “2024 International Financial Leaders Investment Summit” that “maintaining openness is the necessary path for the Chinese capital market to achieve high-quality development. We will focus on high-level institutional openness, balance development with security, steadfastly deepen the two-way opening up of the capital market, and further facilitate cross-border investment and financing.” Looking ahead to 2025, we believe more measures to encourage opening up will be rolled out.

In terms of attracting more foreign institutions to operate China, further facilitative measures are expected. For instance, on January 22, 2025, the People’s Bank of China, the Ministry of Commerce, the National Financial Regulatory Administration, the CSRC, and the State Administration of Foreign Exchange jointly issued the

Opinions on Pushing Forward Financial Sector Institutional Opening-Up by Piloting Systemic Alignment with International High Standards in Eligible Free Trade Zones (Ports) which puts forward a package of preferential policies for foreign financial institutions operating in free trade zones. These include shortening administrative approval timelines, supporting cross-border purchases of overseas financial services, facilitating the inflow and outflow of investment-related funds, and improving arrangements for the cross-border flow of financial data. We believe more detailed supportive measures and implementation rules will be introduced in 2025.

As regards the opening up of the futures market, the CSRC is progressively advancing efforts to include eligible commodity futures and options within the list of instruments open to foreign participation, which will enable qualified overseas investors to trade in more commodity futures and options. At the same time, regulators are actively evaluating the feasibility of including stock index futures and government bond futures within the list of specific varieties available to foreign investors. CSRC supports deeper product and business cooperation between domestic and overseas futures exchanges, and encourages foreign exchanges to launch more financial products linked to domestic futures prices. Looking ahead to 2025, we expect to see more futures and options varieties opened to overseas investors.

In terms of international securities regulatory cooperation and connectivity, in 2025, Hong Kong will continue to serve as a vital bridge connecting the Chinese mainland capital market to the world. We anticipate the emergence of more ETF products and further improvements to the mutual recognition arrangement for funds between the Chinese mainland and Hong Kong.

04 Focus on developing high-quality listed companies to enhance the appeal and influence of the Chinese capital market

In recent years, the Chinese capital market has continuously deepened reforms to encourage the high-quality development of listed companies. In 2024, impactful new regulations were released to facilitate M&A and restructuring of listed companies and to support the introduction of foreign strategic investors in listed companies. The market is expected to respond positively in 2025 with increased activity in M&A and restructuring and accelerated inflows of foreign capital.

This group of new rules fortifies the regulatory environment for listed company M&A and restructuring and inbound foreign investment by simplifying approval processes, lowering investment thresholds, multiplying investment strategies and improving regulatory flexibility (amongst others). Specifically, in September,

the CSRC issued the *Opinions on Deepening the Reform of the M&A and Restructuring Market for Listed Companies and publicly solicited opinions on the Decision on Revising the Administrative Measures for Major Asset Restructuring of Listed Companies (Draft for Comments)*. These documents explicitly emphasize market and economic principles, better leveraging the market's role in resource allocation, and increasing flexibility on issues such as valuation in restructurings, results commitments, horizontal competition, and related-party transactions. In December, the newly revised *Administrative Measures on Strategic Investment in Listed Companies by Foreign Investors* came into force, which sent multiple positive signals on the opening up of securities and capital markets to foreign investment. These include enabling foreign individuals to directly participate in strategic investments, relaxing asset requirements for non-controlling shareholders, permitting strategic foreign investments in listed companies to be made by tender offer and use of cross-border share swaps to make both investments and payments, lowering shareholding thresholds to 5%, and reducing the lock-up period from 3 years to 12 months.

These developments are valuable market opportunities for domestic and foreign investors, which facilitate their participation in the M&A and restructuring of listed companies in order to share the benefits of corporate growth, and help achieve improved global asset allocation by overseas investors.

05 Embrace the digital age with standardization in the securities and futures industry becoming an inevitable trend

In November, the CSRC released the *Three-Year Action Plan to Strengthen Standardization in the Securities and Futures Industry (2024-2026)*, aiming to enhance governance capabilities in the securities and futures industry through standardization in order to strive for high-quality development. The Plan focuses on key areas such as general foundations, data governance, business standards, information technology, financial technology, green securities, and information technology innovation. It calls for a framework to advance development of standards and strengthen their implementation, enhance the development of teams of standardization professionals and a regime to support standardization efforts.

In recent years, innovative development of digital technologies—represented by artificial intelligence, blockchain, cloud computing, and big data—has expanded the horizons and sophistication of the securities and futures industry. The pursuit of technology empowerment and the enhancement of standardization are essential paths for achieving high-quality development in the Chinese securities and futures sectors. In 2024, the CSRC

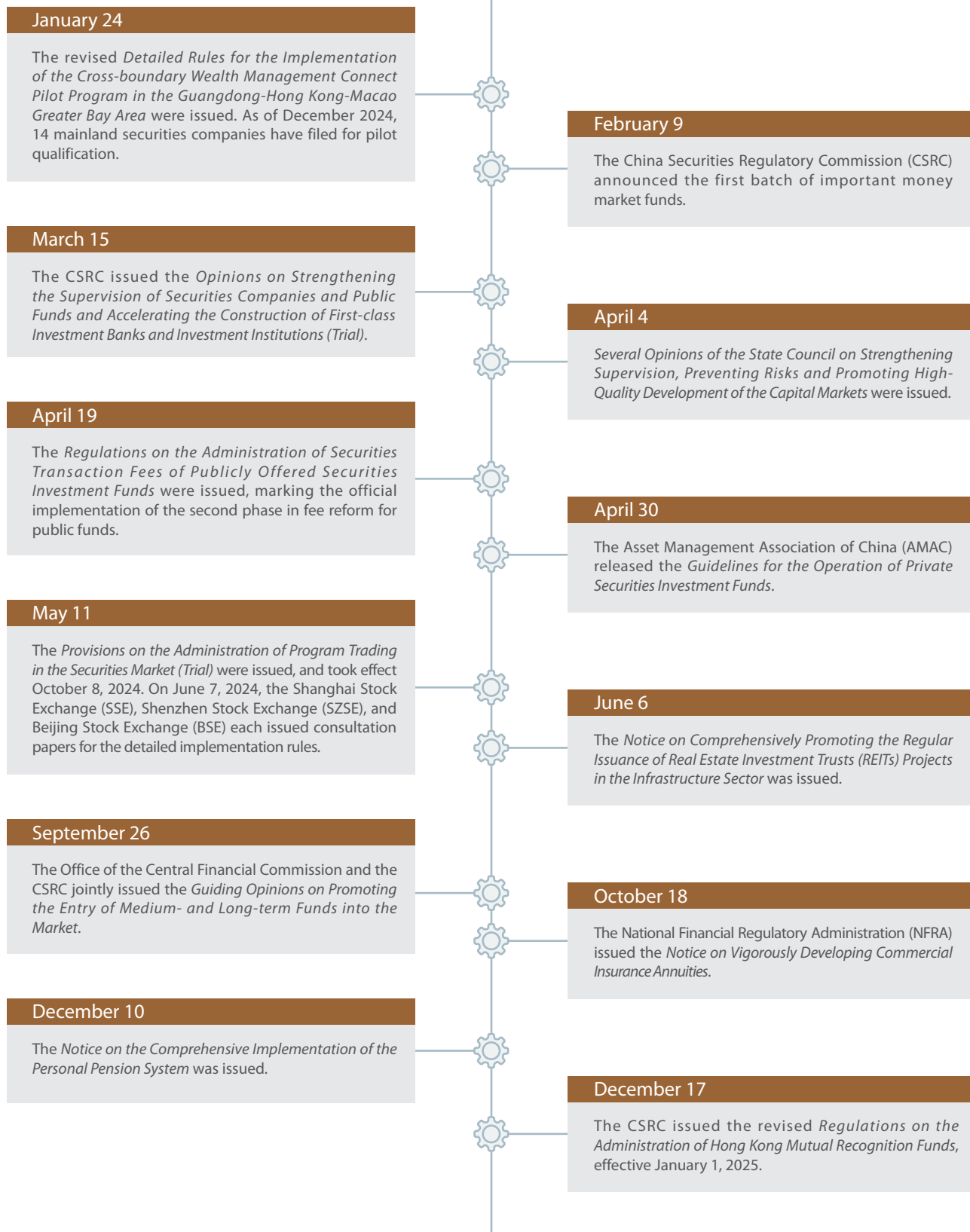
successively published and implemented a series of recommended financial industry standards. We believe that in 2025, the CSRC will further implement the three-year action plan, introduce more financial industry standards, and apply a standardization approach to the legislative and enforcement processes. This will fortify resource allocation, as well as enhance the quality and effectiveness of regulation.





Asset Management and Wealth Management

2024 Regulatory Milestones



2024 Regulatory Mainline Review

01 High-quality development of capital markets continues as policies encourage long-term investment

The *Several Opinions of the State Council on Strengthening Supervision, Preventing Risks and Promoting High-quality Development of the Capital Markets ("Nine Guidelines")* establish high-level requirements on "improving basic systems suitable for long-term investment" and "building a policy system that supports 'long-term funds for long-term investment'". The principle of "long-term investment" is a continuation of past policies and regulatory guidance.

In 2024, the top-level systems and regulatory measures in the asset management/wealth management industry have to some extent implemented these high-level requirements. For example, the *Guiding Opinions on Promoting the Entry of Medium- and Long-term Funds into the Market* proposed establishing and improving a long-cycle assessment mechanism of more than three years for various medium- and long-term funds, improving the investment policies of the National Social Security Fund and the Basic Pension Fund, and encouraging bank wealth management and trust funds to enter the capital markets and increase equity investment scale. In another example, the CSRC optimized the registration of equity-investment public funds, promoted the innovation of index products such as broad-based ETFs, and increased the weight of equity-based funds in the classified evaluation of fund management companies while optimizing the bonus indicators for medium- and long-term returns for various products. In addition, the release of the CSI A500 Index has diversified the supply of broad-based indexes and provided a basis for innovative broad-based ETF products.

In 2024, all capital market rules and measures were centered around the key phrase "high-quality development of the capital markets". Since the release of the *Opinions on Accelerating the High-Quality Development of the Public Fund Industry* in 2022, regulatory authorities have clearly defined the public fund industry's basic mandate as serving capital market reform and development and meeting the wealth management needs of the public. The Nine Guidelines further extend such scope of public funds to various types of long-term funds, which also creates a synergistic effect with other requirements under the Nine Guidelines. This extension aims to jointly promote a virtuous cycle between the capital markets, the real economy, and the wealth of the public, and inject lasting momentum into the high-quality development of the capital markets.

02 Supervision over the public fund industry was strengthened, with a focus on investor-centric principles

In 2023, the release of the *Work Plan for the Fee Rate Reform of Public Fund Industry* initiated a fee reform process centered around "management fees—transaction fees—sales fees". In July 2024, to implement the second phase of that fee reform process, the *Regulations on the Administration of Securities Transaction Fees of Publicly Offered Securities Investment Funds* officially took effect to not only clarify the rules for allocating securities trading commissions among different brokers by public fund managers but also to strengthen the supervision of transaction fees.

Evidencing the success of the second phase, in November 2024, several fund management companies such as E Fund, ChinaAMC, Harvest Fund, Southern Asset Management, Hua An Fund, and Huatai-PineBridge announced further reductions in the management and custody fees for their large broad-based ETFs, including six ETFs with assets over CNY 100 billion.

The core of this fee reform lies in benefiting investors. To accomplish these investor benefits, the measures in the second phase of the fee reform aim to guide public fund managers toward establishing a business philosophy that prioritizes investor interests and to encourage them to focus on improving long-term performance and on optimizing their trading, research, and investment capabilities. This reform direction aligns with the regulatory authorities' overall regulatory approach to the public fund industry. That approach insists on putting investors first, balancing the relationship between the industry's functional role and its profitability, and promoting a return to the industry's origins. To reinforce this approach, in 2024, regulatory authorities also implemented supporting measures, such as adding investor service indicators to the classification evaluation system and clarifying regulatory requirements for trading behavior in the Regulations on Transaction Fees. These measures further highlight China's investor-centric regulatory orientation.

03 Trust Industry: Positioning, Transformation, and Development

With the introduction of the new asset management rules and the adjustment of the top-level financial structure, the advantages of trust products as channels or financing tools have gradually diminished. In addition, in recent years, several trust companies have encountered risk events, leading the industry to focus on compressing channel business and resolving risks. As such, progress has been limited in cultivating active management capabilities, diversifying product types, and improving service capabilities. Nevertheless, as of the end of the second quarter of 2024, total trust assets still reached CNY 27 trillion. Compared with public funds in the same period (net asset value of more than CNY 31 trillion), the importance of the trust industry in the financial system is self-evident.

In recent years, regulatory authorities have used top-level design and adjustments in regulatory measures to continuously guide the trust industry to undergo profound transformations. For instance, the newly implemented “*Charity Law (2023 Amendment)*” in September 2024 proposed that the establishment of charitable trusts can enjoy tax benefits and established the basic principles for beneficiaries. The new law not only provides legal protection for the development of charitable trusts but also helps trust companies to seek differentiated development directions through charitable trusts.

Additionally, the “*Notice on Effectively Conducting the Registration of Real Estate Trust Property (Trial)*” issued by regulatory bodies such as the NFRA’s Beijing Supervision Bureau concretely implements the proposal in the “*Work Plan for Supporting the Construction of Beijing Comprehensive Demonstration Zone for Deepening National Service Industry and Expanding Opening-up*” about exploring mechanisms for real estate trust property registration. This notice lays a policy foundation for establishing real estate trusts.

Compliant operation is the cornerstone of the successful transformation and sustainable development of the trust industry. The “*Compliance Management Measures for Financial Institutions*”, effective March 1, 2025, clarify the basic requirements for trust company compliance systems. The measures aim to ensure the steady development of the trust industry by integrating compliance management into all aspects of the industry’s corporate governance, organizational structure, and internal policies.

04 Wealth management is further standardized within the framework created by the new asset management rules and other business rules

In 2024, although no significant special regulations were issued for the bank wealth management industry, it faced a stricter regulatory environment. Some wealth management business models were halted or required to be rectified. For example, regulators explicitly prohibited wealth management subsidiaries from investing in high-interest contractual deposits through investment in insurance asset management products; strengthened investor suitability management for wealth management products; and required some valuation models/methods used in wealth management business to eliminate smoothing mechanisms and to ensure compliance with the net value management requirements under the new asset management rules.

As for industry dynamics, no new wealth management licenses were approved in 2024. (for clarity, China Zheshang Bank’s wealth management subsidiary was approved in late 2023 and officially opened in early 2025). Major banks and their wealth management subsidiaries have been building distinctive brands and exploring differentiated wealth management service modes through providing services such as private banking, investment advisory, family trusts and pension finance.

This slowdown in the establishment of new wealth management companies and in the industry’s exploration of new business modes aligns with regulatory guidance encouraging banks to specialize their wealth management business and explore differentiated development paths for wealth management following the release of the new asset management rules.

05 Regulators improve the regulatory system for private funds and remove the bottom-tier private fund managers

In April 2024, AMAC issued the *"Guidelines for the Operation of Private Securities Investment Funds"* to specifically implement the *"Regulations on the Supervision and Administration of Private Investment Funds"*, effective September 2023. The new guidelines cover fundraising, investment and operation of private securities funds. They set out different requirements based on industry issues and risks.

Following those guidelines, the Nine Guidelines propose further streamlining the process of "fundraising, investment, management and exit", giving full play to the role of venture capital and private equity investment in supporting scientific and technological innovation. And the Nine Guidelines implement and improve the tax policies for venture capital funds.

Since April 2024, a series of policies and measures have been issued, including the *"Sixteen Measures for the Capital Market to Serve the High-level Development of Technology Enterprises"* and the *"Several Policies and Measures for Promoting the High-quality Development of Venture Capital"*. In addition, the NFRA issued the *"Notice of Effectively Completing the Work of Expanding the Scope of the Pilot Program of Equity Investment by Financial Asset Investment Companies"* and the *"Notice of Expanding the Scope of the Pilot Program of Equity Investment by Financial Asset Investment Companies"*, injecting more financial vitality into the private equity industry. Shanghai, Shenzhen, Anhui and other places have also launched supportive policies for the private equity industry.

These policies are an important step in standardizing the private equity industry and lay a solid foundation for the long-term, healthy development of the industry.

At the same time, the regulators adhered to the concept of "supporting the superior and restricting the inferior" in their supervision to rectify the chaos in the private equity industry and remove the bottom-tier private fund managers. The rectification also responds to the requirement to "make concentrated efforts to address prominent risks and hidden dangers in the field of private funds" established in the Nine Guidelines.

In 2024, regulatory inspections and industry self-inspections were conducted in parallel. About 1,500 private fund managers were deregistered in 2024, and the AMAC issued more than 500 disciplinary decisions, far more than in previous years. These measures are not only helping the private equity industry become more standardized and professional but are also helping to funnel funds and resources to high-quality private equity institutions.

These changes will ultimately help to protect the legitimate interests of investors.

06 China opens capital markets and deepens mainland cooperation with Hong Kong and Macao

The Nine Guidelines propose adhering to high-level institutional opening-up of the capital markets and promoting capital market interconnection mechanisms. To further these goals, in 2024, the CSRC further deepened its cooperation with Hong Kong by proposing to expand the scope of eligible equity ETF products offered on the Hong Kong Stock Connect, permit REITs on the Hong Kong Stock Connect, optimize the mechanism for the mutual recognition of funds, etc.

Substantial regulatory progress has been achieved in support of these policies. For example, the CSRC promulgated the *"Regulations on the Administration of Hong Kong Mutual Recognition Funds"*, issued supporting FAQs and guidelines for application materials of Hong Kong mutual recognition funds, and optimized the original mechanism for the mutual recognition of funds. This optimization includes adjusting the portion of mainland funds, regulating the delegation of investment management functions, and diversifying the categories of Hong Kong funds that can be included in mutually recognized funds.

In addition, the cross-border wealth management connect mechanism has also been further optimized in 2024. This optimization includes relaxing investor eligibility criteria, increasing individual investment quotas, and expanding the scope of pilot programs. Meanwhile, the first batch of cross-border ETF products invested in the Saudi market was formally approved. Shanghai proposed deepening the QDLP pilot program while Shenzhen optimized the local QDLP policies.

These initiatives have enriched the supply of cross-border investment products for the public and provided more channels for globalized asset allocation, better meeting the public's growing demand for globalized wealth management.

07 Regulatory framework for program trading has been further improved with program trading by various types of managers brought under unified regulation

In 2024, the regulatory system for equities program trading was further improved. The Nine Guidelines released in April clearly proposed strengthening the regulation of program trading to stabilize capital markets.

As part of the implementation requirement under The Nine Guidelines to “issue provisions on the regulation of program trading and strengthen the regulation of high-frequency quantitative trading”, the CSRC issued in May the *“Provisions on the Administration of Program Trading in the Securities Market (Trial)”*. Those provisions create unified supervision over the program trading behaviors by public fund managers, private fund managers, and other institutions engaged in the private asset management business.

Subsequently, the SSE, the SZSE and the BJSZ jointly issued their *“Implementing Rules for the Management of Program Trading (Draft for Public Comments)”*. Under these rules, all managers must fulfill reporting, policy establishment and other obligations for program trading. In terms of high-frequency trading, they must also fulfill special reporting obligations and special requirements for differentiated fee rates.

At the implementation level, the exchanges have taken regulatory actions against abnormal trading behavior by certain institutions. And, in follow-up to these actions, the CSRC organized the exchanges to research and formulate monitoring indicators for abnormal trading, which have gradually entered the trial operation phase.

08 The asset management industry puts the green finance philosophy into practice

2024 is regarded as the inaugural year for the opening of the green finance sector. Macro policies were issued in 2024, including the *“Guiding Opinions on Further Strengthening Financial Support for Green and Low-Carbon Development”*, the *“Opinions on Accelerating the Comprehensive Green Transformation of Economic and Social Development”*, and the *“Guiding Opinions on Effectively Completing the Five Significant Sectors in the Banking and Insurance Industries”*.

These policies provide guidance for the asset management industry in promoting green finance. For example, they emphasize support for issuing REITs for eligible infrastructure projects, promote the development of green asset management products, support the development of green investment products, and propose incorporating green finance into institutional performance evaluation systems.

Under this policy guidance, the scale of green-themed asset management products increased year-on-year during 2024. Additionally, asset management institutions actively explored product and strategy innovation, injecting new vitality into green finance.

Despite the asset management industry actively promoting the development of green finance during 2024, there is still room for improvement in terms of product volume and innovation. Moreover, the absence of carbon futures has also constrained the development of green asset management products to a certain extent. Thus, innovation in carbon financial products and derivatives will still be a key focus for the future development of the green financial market.

2025 Regulatory Outlook

01 Equity products will continue to develop to promote high-quality development of the capital markets

The regulatory authorities have established a multitiered and relatively comprehensive regulatory framework for equity products, covering statutory provisions, regulatory measures, and self-disciplinary rules. In line with the Nine Guidelines on promoting high-quality development of the capital markets, we anticipate that the regulatory authorities will continue to support the development of equity-investment asset management products, especially passive products. Specifically, regulatory support may be reflected in the following:

- (1) Promoting the development of index products: The regulatory authorities may support the development of index products by diversifying the supply of indexes, encouraging innovation in index products, optimizing the product registration process, and encouraging investments from various types of medium-term and long-term funds into index products.
- (2) Strengthening investment and research capabilities: By optimizing the evaluation systems, the regulatory authorities will guide institutions to enhance their investment and research capabilities, improve asset management service capabilities, and create long-term value for investors.
- (3) Introducing new regulations to standardize industry development: The regulatory authorities are likely to introduce new regulations to promote the sound development of private securities investment funds and private equity-investment asset management businesses and to further standardize the trading activities of equity-investment products.

02 Asset management services will serve the public's wealth management needs

We anticipate that the third phase of fee reform in the public fund industry is likely to be launched within 2025. The specific plan will fully consider the stable development of the industry, aiming to balance investor cost reductions with the sustainability and functionality of public funds, thereby ensuring the industry's capacity to meet the public's wealth management needs.

In 2025, the regulatory authorities may issue regulations aimed at diversifying product categories, encouraging the enhancement of investment and research capabilities, exploring differentiated development paths, standardizing fee mechanisms, and promoting

investment advisory services. These measures would be intended to guide the asset management industry to focus on improving long-term returns for investors, better serving the growing wealth management needs of the public, and providing regulatory safeguards for the standardized development of the wealth management market. Concurrently, the regulatory authorities and self-regulatory organizations may introduce new rules and optimize policy support to expand fundraising channels for private funds, streamline exit channels, improve exit mechanisms, and strengthen industry supervision. These efforts are designed to foster the steady development of private asset management and private fund businesses, thereby meeting the diverse wealth management demands of the public.

03 The 1+N regulatory framework in the trust industry will be implemented with several significant reforms

We anticipate that the regulatory authorities will further optimize the regulatory framework for the trust industry to thereby facilitate its successful reform. In alignment with the work agenda of the November 2024 China Trust Industry Conference, the optimization and upgrade of the trust industry's regulatory framework will follow a "1+N" model. This model centers on a guidance document that promotes the high-quality development of the trust industry, while also being supplemented by specialized implementation rules for specific business areas such as asset management trusts and service trusts. Together, these efforts will provide clear policy guidance to support the industry's reform.

In addition to the overall optimization of the regulatory framework, the fundamental institutional framework of the trust industry may also undergo significant reforms. For example, we expect revisions to the Trust Law, establishment of a trust property registration system and a non-trading transfer system for trust assets, and implementation of tax incentives for charitable trusts in the new Charity Law. These measures will help improve the regulatory framework of the trust industry, promote its transformation toward a standardized and professional industry, and provide stronger support for the industry to serve the real economy and meet the public's wealth management needs.

04 Pension finance coverage will be expanded and products will be innovated

The regulatory authorities will actively respond to the national strategy for addressing population aging and continue to promote the development of pension finance to help ensure that the elderly are well cared for, can continue to contribute to society, and can enjoy their later years.

To achieve this aim, in 2025, the private pension scheme will be further reformed. This includes expanding private pension schemes from pilot cities to nationwide implementation, broadening the investment scope (such as including equity index funds and other financial products), and increasing the flexibility for participants to make early withdrawals. These measures aim to enhance the appeal and coverage of the system.

At the same time, the regulatory authorities will encourage financial institutions to increase product innovation and diversify pension financial products to better meet pension needs. For example, trust companies will be supported in developing pension service trusts. And with regulations for these businesses, the establishment, fundraising, and selection of pension service institutions will be standardized, ensuring the standardized products and providing flexible and reliable pension financial services.

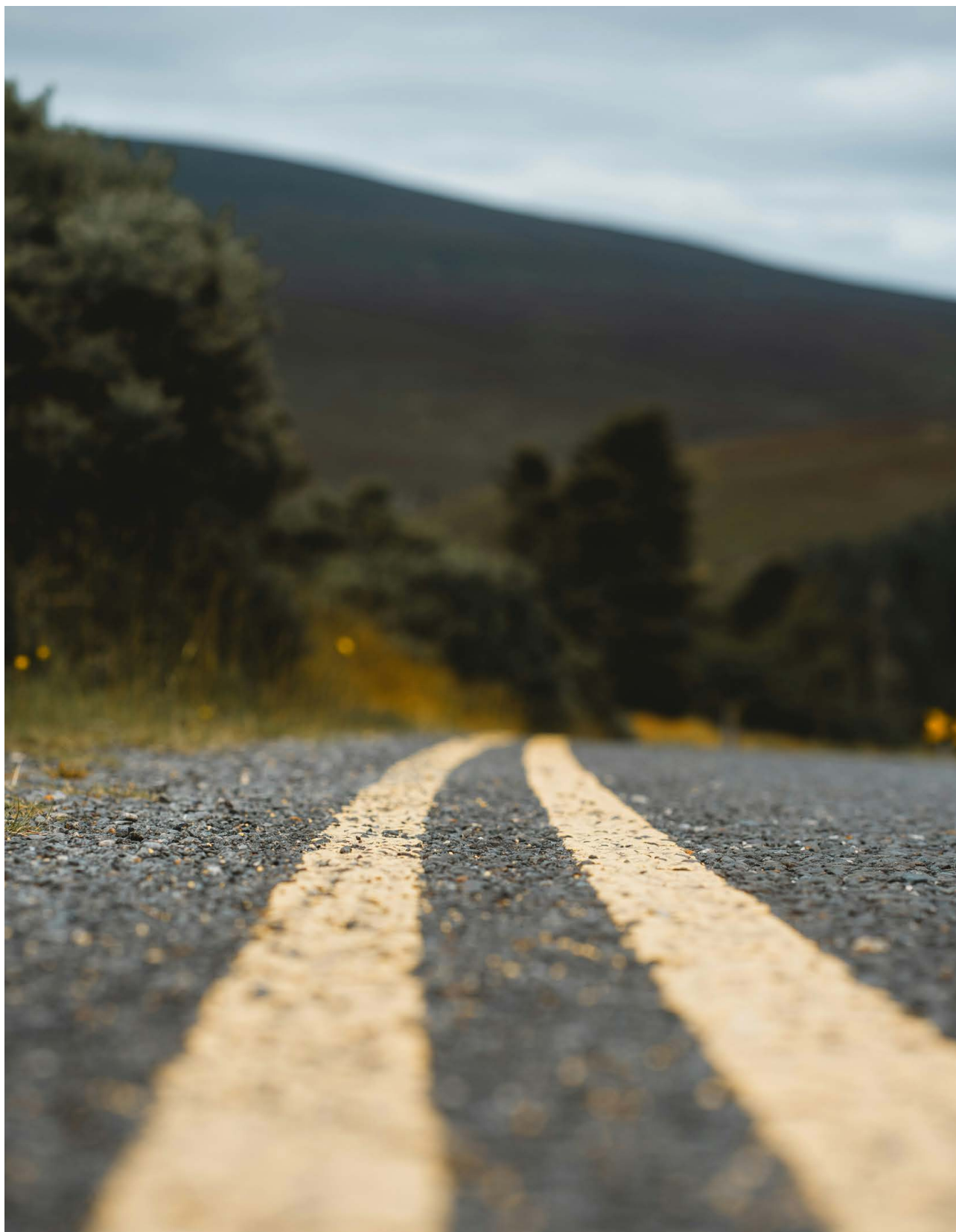
Other regulatory measures may include incorporating pension financial business as one of the factors in wealth management regulatory rating system to encourage wealth management companies to actively develop pension finance, encouraging pilot wealth management companies to issue long-term products and provide pension financial planning and advisory consulting services, and vigorously promoting commercial insurance annuities. These measures will further improve the pension financial system and provide more diversified and professional solutions for the public's pension wealth management.

05 Improved classification and rating systems will be established with differentiated supervision

We anticipate that the regulatory authorities will introduce or improve the regulatory rating systems for financial institutions. For example, the CSRC will further improve the rating system for public fund management companies and their private asset management subsidiaries. We also expect specialized classification and evaluation systems for wealth management companies to be introduced. The rating work for trust companies will be carried out in an orderly manner in accordance with the *"Interim Measures for the Regulatory Rating and Tiered Classification Supervision of Trust Companies"*. Meanwhile, the AMAC will further implement the differentiated supervision requirements proposed in the *"Regulations on the Supervision and Administration of Private Investment Funds"*.

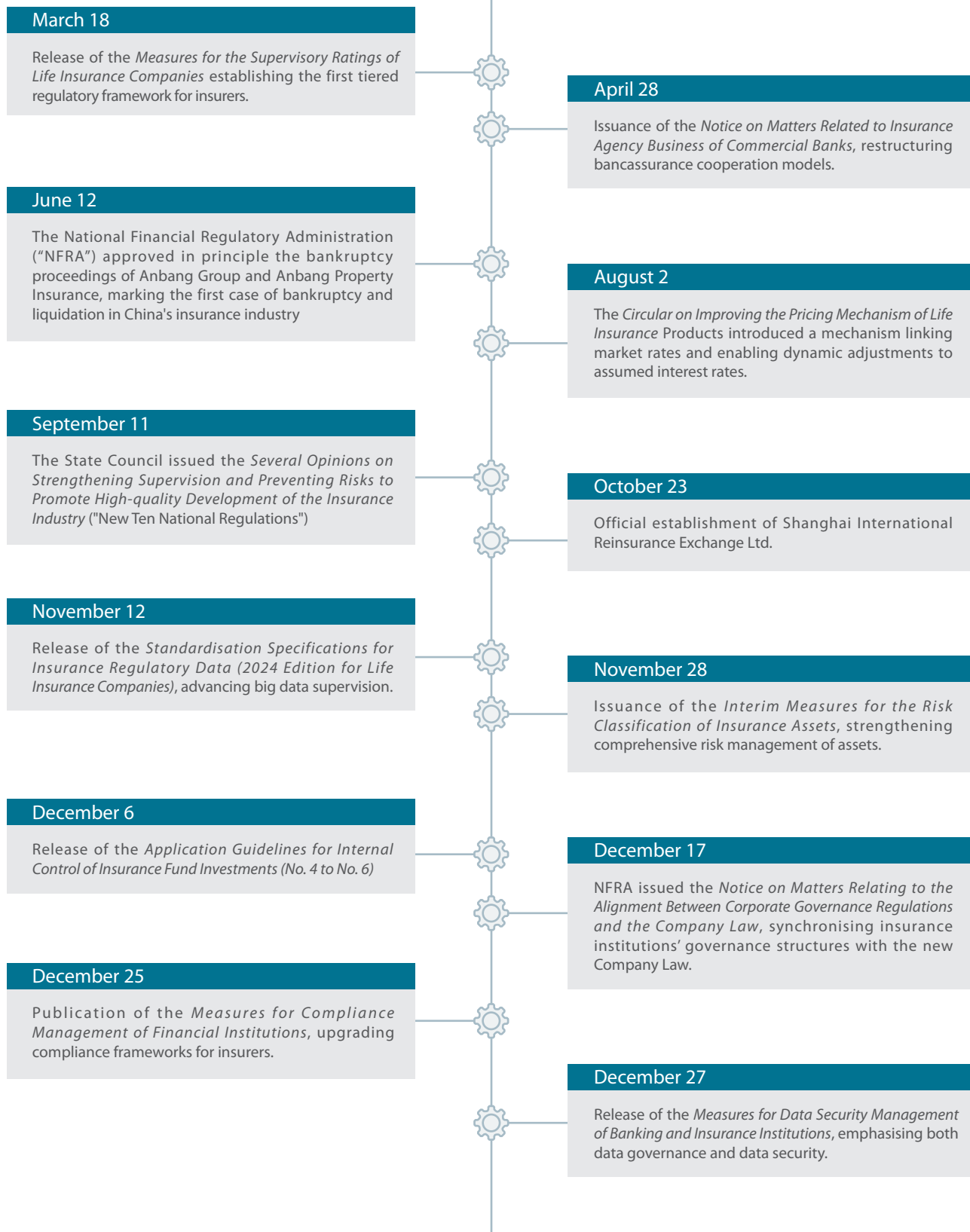
In terms of evaluation priorities, the regulatory authorities will shift their focus from scale and profitability to more comprehensive indicators. The focus is likely to shift to compliance and risk control, investor service capabilities, long-term investment returns, and specialized services in areas like pension finance or green finance. This adjustment aims to guide institutions to focus on creating long-term value and fulfill social responsibilities, thereby promoting high-quality development across the entire industry.

Based on the evaluation results, the regulatory authorities will implement differentiated and tiered regulatory measures, distinguishing among institutions in terms of innovative business opportunities and regulatory actions such as mandatory rectification or exit. This approach aims to encourage professionalized and standardized institution operations.



Insurance

2024 Regulatory Milestones



2024 Regulatory Mainline Review

01 Curbing liability-side costs with dual levers: assumed interest rate cuts and "Bao Xing He Yi" (报行合一)

In response to declining market interest rates and the growing risk of interest rate and expense spreads, the insurance sector has embarked on a series of top-down reforms. Central to this transformation are two key policy instruments: the control of assumed interest rates and the implementation of "Bao Xing He Yi", which translates literally as "Filing-Implementation Consistency."

Amid declining interest rates and breaking implicit guarantees in the asset management sector, insurance products offering combined savings and protection features have gained increasing appeal among investors. However, diminishing returns on the asset-side have threatened to undermine insurers' ability to cover liability-side costs, giving rise to spread loss risks.

To mitigate the cost of new policies, regulators reduced the assumed interest rate for life insurance products from 3.5% to 3.0% in 2023. In August 2024, NFRA further lowered the cap to 2.5%, back to the 2013 level, through the *Circular on Improving the Pricing Mechanism of Life Insurance Products*, while also cutting the assumed or minimum guaranteed rates for participating insurance and universal insurance by 0.5 percentage points. A dynamic adjustment mechanism has also been introduced, linking assumed interest rates to market benchmarks such as the Loan Prime Rate (LPR), deposit rates, and government bond yields, as well as to the industry's asset-liability management status. Industry associations now publish quarterly reference rates, and life insurers are expected to align the pricing of new products with these benchmarks, enabling more timely and disciplined matching of spreads across the insurance sector.

In addition to interest rates, high distribution channel costs have long burdened Chinese insurers. In response, regulators introduced the "Bao Xing He Yi" initiative, literally translated as "Filing-Implementation Consistency", as a primary measure to address this issue. Initially piloted in the auto insurance sector, the program requires that the actual expense rates incurred by an insurance product align strictly with those filed with and approved by the regulator. While this principle may appear straightforward, the practice of reporting inflated expenses has been a longstanding challenge in the industry. To gain market share and compete in a highly homogeneous landscape, insurers have historically ceded excessive benefits to distribution channels. This has resulted in actual cost levels significantly exceeding the assumptions used in product design, thereby accumulating the risk of fee loss over time.

The reform has been implemented in a determined yet phased manner. Regulatory authorities have demonstrated strong

commitment to this top-down initiative, beginning with the bancassurance channel in 2023 and progressively expanding its scope. This step-by-step approach has allowed regulators to identify and resolve implementation challenges iteratively, moving from easier to more complex scenarios. In 2024, the requirements were further extended: life insurers are now obliged to specify all distribution channels, such as individual agency, online, bancassurance, brokerage, and other agency channels, in their product filing or approval applications, and to disclose the corresponding fee rates and cost structures. This has effectively broadened the "Bao Xing He Yi" framework to include the brokerage and agency sectors.

While the primary objective is to rein in costs, the broader strategic aim is to curb destructive competition and incentivise insurers to concentrate resources on building sustainable competitive advantages. In the non-auto property and casualty insurance sector, the "Bao Xing He Yi" reforms are currently under consultation. However, given the diversity of products and business models within P&C insurance, compared with the more standardized life insurance sector, a uniform, one-size-fits-all approach is unlikely to be feasible. As these reforms take shape, insurers are expected to face challenging renegotiations with distribution channels, a process that could fundamentally reshape the brokerage and agency landscape.

02 Unleashing "patient capital": differentiated supervision to guide insurance funds toward strategic investments

Building on the policy signals of 2023 that encouraged insurance fund participation in capital markets, 2024 saw the introduction of successive measures to further advance this direction. In September, the Central Financial Commission (CFC) and the China Securities Regulatory Commission (CSRC) jointly issued the *Guiding Opinions on Promoting Medium-Term to Long-Term Market Entry*. Though concise, the document put forward substantive proposals to remove institutional barriers to long-term insurance investments, improve performance appraisal mechanisms, and diversify the long-term investment models available to commercial insurance funds. This was followed by the launch of a pilot scheme permitting insurance institutions to sponsor private securities investment funds, an asset class previously off-limits for insurers. Under the pilot, insurers are allowed to establish private securities fund managers and invest in private securities funds. Unlike direct equity holdings, investing through such funds can help mitigate the impact of stock price fluctuations on insurers' financial statements, while the flexible distribution mechanisms of funds also offer potential for smoother return profiles.

In October, the People's Bank of China introduced the Securities, Funds, and Insurance Companies Swap Facility (SFISF), which enables qualified insurers to exchange eligible assets with the central bank for liquidity to facilitate stock market investments. By early 2025, six government bodies including CFC had further encouraged large state-owned insurers to increase their allocations to A-shares, including equity-type funds, and to extend investment appraisal timeframes. Insurers were also granted the right to participate as strategic investors in private placements by listed companies, with insurance asset managers receiving treatment equal to that of mutual fund managers in areas such as private placement subscriptions and investment disclosure rules.

These gradual but systematic relaxations have drawn enthusiastic market responses. By mid-2024, insurance companies were frequently filing disclosures as significant shareholders of listed companies, with both the frequency and scale of such investments repeatedly reaching new highs.

In June, the State Council issued guidance to channel insurance funds and other long-term capital into venture capital funds, signaling a potential easing of concentration ratio limits to facilitate such investments. Meanwhile, the CSRC's policy supporting asset-backed securitisation (ABS) by insurance asset managers has been put into practice. All five insurance asset management companies approved for the ABS pilot program on stock exchanges in 2024 have successfully issued products, with proceeds directed toward key real economy sectors including new energy, infrastructure, and engineering machinery, etc.

On the other hand, the regulatory landscape for alternative investments by insurance funds saw significant tightening. In November, NFRA introduced the *Interim Measures for the Risk Classification of Insurance Assets*, which streamlined the risk classification framework from five tiers to three. These measures enhance risk sensitivity by incorporating both internal and external risk factors classified according to fixed income, equity, and real estate assets, while strengthening look-through principles to better reflect underlying asset quality. Consequently, insurers have been required to reclassify existing assets and maintain adequate provisioning in accordance with the new classifications, placing additional strain on firms already facing capital adequacy pressures.

In December, regulators further supplemented the framework by issuing the *Application Guidelines for Internal Control of Insurance Fund Investments (No. 4 to No. 6)*. These guidelines specify detailed operational and internal control requirements for investments in unlisted equity, real estate, and financial products. While the sectoral regulations governing such assets have long been in effect, the new guidelines provide a timely and comprehensive update, modernising supervisory expectations from an internal control standpoint.

03 Steady progress in risk resolution: local state capital plays key role in stabilizing smaller insurers

In June 2024, NFRA approved in principle the entry of Anbang Group and Anbang Property & Casualty Insurance into bankruptcy proceedings. In August, the Shanghai Financial Court formally accepted Anbang Group's bankruptcy petition, marking the first bankruptcy liquidation case of an insurance company in China.

Unlike the successful restructuring of the former Yi'an Property & Casualty, Anbang adopted a more complex resolution model: the original entities were placed into bankruptcy, while the newly established vehicles assumed their core operations and obligations. Seven years after the 2018 regulatory takeover, all pre-takeover short- and medium-term wealth management products, totaling approximately CNY 1.5 trillion, have been fully redeemed. The new entity has largely completed the divestment of non-core domestic assets, with the disposal of overseas financial licenses and non-financial assets still underway. This arrangement has allowed the new vehicle to emerge from the shadow of legacy risks, while the original entities move toward legal closure.

Although the *Financial Stability Law* has not yet been formally enacted, local governments have already assumed active roles in preventing, resolving, and disposing of financial risks. In Shanghai, state-owned Shenneng Group established Shenneng Property & Casualty Insurance, which was approved to take over the business operations of Tian'an Property & Casualty. Elsewhere, insurers including Xintai Life, Junkang Life, Evergrande Life, and Anxin Property & Casualty have received capital injections from local state-owned entities, though each continues to face distinct operational and restructuring challenges. Local state capital is drawn not only to the long-term value of insurance licenses but also to the strategic influence they offer, enabling the channeling of insurance funds into local priority sectors and in turn supporting regional tax revenue and employment.

In September 2024, the State Council issued the *Several Opinions on Strengthening Supervision and Preventing Risks to Promote High-quality Development of the Insurance Industry* (commonly referred to as the "New Ten National Regulations"). The document underscores the principle of territorial responsibility, assigning clear duties to local Party committees and governments in risk resolution, while also reinforcing the supervisory mandate of central financial regulatory authorities. Going forward, local state capital is expected to continue playing a central role in stabilising the insurance sector, with meaningful participation by commercial investors likely contingent on receiving state capital's endorsement.

04 Diversifying foreign presence: proactive responses to the opening-up policy

2024 saw frequent foreign insurance investments across multiple license categories. In life insurance, AGI and Belgium's Ageas made financial investments in pensions insurers. In P&C, Generali acquired Generali China Insurance's remaining 51% stake, ending a long period of no 100% foreign acquisition of a P&C license, followed by Starr Property & Casualty announcing the proposed closing of its foreign shareholder's 100% acquisition at the end of 2024. In November, BNP Paribas, with Xiaomi and Volkswagen, were approved to establish a P&C joint venture, completing its dual P&C and life insurance footprint in China. Following BYD's success in achieving rapid profitability for its P&C subsidiary by eliminating the intermediary and the establishment of BNP's new joint venture, more domestic and foreign EV manufacturers have been looking for P&C investment opportunities beyond insurance intermediary licenses. However, the hurdles of shareholder qualifications and investment caps remain. Combined with the indication of the "New Ten National Regulations" that new institutional approvals will be tightened, new setups are increasingly hard to replicate, making brownfield investments the mainstream.

Existing large insurers often have dispersed ownership, while smaller targets lack branch networks, which might not be attractive to foreign investors. However, liability-side profitability pressures and asset-side risk exposures are increasing capital replenishment needs, which are likely to fuel more M&A opportunities.

In reinsurance, Spain's Mapfre Re Beijing Branch opened in July after two years' preparation. In insurance asset management, U.S. based Prudential Financial was approved to establish an insurance asset management company. Though not the first, it signals increasing foreign access to the insurance asset management market.

05 Strengthened equity management and governance alignment under the new Company Law

The "New Ten National Regulations" impose stringent equity management requirements for insurance institutions, prohibiting companies with non-compliant cross-sector operations, excessively high leverage, having serious credit defaults, or been implicated in major regulatory violations from becoming major shareholders or actual controllers of insurance companies. In 2024, NFRA publicly identified the sixth batch of seriously non-compliant shareholders, comprising 18 entities including shareholders of several troubled insurers, who now face potential governance restrictions or

mandatory divestment.

Following the revision of the Company Law, the question of how its new provisions apply to financial institutions has drawn significant attention. Key differences have been noticed between existing industry regulations and the new law, particularly regarding the composition and role of supervisory boards and the appointment of employee directors. Rather than undertaking a comprehensive revision of sector-specific governance rules, regulators adopted a more expedient approach. In December, NFRA issued the *Notice on Matters Relating to the Alignment Between Corporate Governance Regulations and the Company Law*. This notice permits insurance institutions to remove their supervisory boards entirely and transfer the corresponding oversight functions to board-level audit committees. It further stipulates that financial institutions with 300 or more employees must include employee directors on their boards, though this requirement does not apply to institutions that already have employee representatives serving on their supervisory boards. Senior management personnel and supervisors are explicitly barred from serving as employee directors.

This regulatory adjustment requires institutions to carefully evaluate the implications of potential board restructuring when deciding whether to retain their supervisory boards. Notably, on the same day, CSRC released its own transitional arrangements, mandating that all listed companies abolish their supervisory boards by 1 January 2026. This parallel requirement will effectively compel listed insurers to adopt a single-tier governance structure, triggering a widespread revision of articles of association and another round of governance restructuring across the sector.

Further alignment with the revised Company Law is required across several existing regulatory domains, including rules governing related-party transactions, model articles of association, and broader corporate governance provisions, to ensure full regulatory consistency and predictability.

06 Shanghai International Reinsurance Center upgraded; cross-border data flow facilitation via negative list mechanism

In July 2024, NFRA and the Shanghai Municipal Government jointly issued the *Implementation Opinions on Accelerating the Construction of the Shanghai International Reinsurance Center*. Compared with the implementing guidelines issued in 2023, the new guidelines contain more detailed provisions regarding institution set-up, local currency settlement, and data security. The document explicitly supports the establishment of a specialised subsidiary by the Shanghai Insurance Exchange in the Lingang New Area, tasked with the professional operation of the center. In October 2024, Shanghai

International Reinsurance Exchange Ltd. officially opened for business, accompanied by the release of a second batch of business rules covering operation, information, and seat management. These additions complete the operational framework for the International Board.

By the end of 2024, 19 insurance companies had received approval to establish reinsurance operating centers in the Lingang New Area. The updated guidelines further explicitly permit branches of foreign reinsurers to participate - a move expected to attract greater international involvement and enrich the market ecosystem. Notably, the "local currency priority" principle introduced in the document encourages the use of RMB in cross-border reinsurance settlements. This supports the broader strategic goal of RMB internationalisation while advancing the institutional opening of China's financial sector.

Cross-border reinsurance operations are inherently dependent on the seamless flow of data. In a significant regulatory development, the Shanghai Cyberspace Administration, in collaboration with other relevant authorities, has formulated China's first specialised negative list for reinsurance data outbound transfer and corresponding operational guidelines, which apply to both life and P&C reinsurance business. Reinsurance companies, insurers, and brokers registered within the Shanghai Free Trade Zone or the Lingang New Area are eligible to apply for a filing that permits them to utilise either a general data list, the prescribed negative list, or a customised, entity-specific scheme when transferring data across borders. Each filing is valid for one year and requires annual renewal.

Against the backdrop of China's generally stringent data export controls, these tailored institutional safeguards, combined with explicit regulatory endorsement, are expected to alleviate compliance concerns among market participants, thereby supporting the secure and efficient growth of cross-border reinsurance activities.

07

Balancing data governance and security: a dual priority for the insurance industry

High-quality data reporting serves as the cornerstone of effective insurance supervision. The comprehensiveness, uniformity and reliability of submitted data directly determine its ultimate quality and, by extension, indirectly shape regulatory policy direction. Life, P&C, and reinsurance companies have historically conducted full-scope business data reporting in accordance with their respective regulatory standards, primarily through the Examination and Analysis System Technology (EAST) platform. In a significant update at the end of 2024, NFRA released the *2024 Version of the Life Insurer*

Regulatory Data Specification, scheduled to take effect in May 2025. The new specification substantially expands both data domains and specific data points, incorporating previously unreported areas such as distribution channel management, consumer protection, and end-to-end data spanning underwriting, claims, and reinsurance activities.

While most institutions are actively working toward compliance, several implementation challenges have emerged in the near term. These include difficulties in reconciling historical data and inconsistencies in reporting that lead to inaccuracies, which are typically rooted in longstanding disconnects between data management functions and various business units. Over the long term, it will be essential to more closely integrate internal data generation and reporting workflows with clear lines of individual accountability.

In addition to EAST, insurers are currently required to report to multiple other supervisory systems covering areas such as statistical information, solvency, fund utilisation, and related-party transactions. While this multi-system approach can support data cross-validation, it also presents operational difficulties, including isolated internal systems, differing regulatory interpretations across platforms, and redundant data collection and processing.

Data security serves as a critical counterpart to data governance. In December, NFRA issued the *Measures for Data Security Management of Banking and Insurance Institutions*, establishing its supervisory role in this domain. The measures create a comprehensive framework for institutional data governance and individual accountability. Under the new rules, an institution's Party committee, board of directors, and principal leadership assume overall responsibility for data governance, while senior managers overseeing data security are designated as directly accountable. A tiered data classification system is introduced, comprising core data, important data, and general data, with the latter further categorised into sensitive and non-sensitive general data. This structure aligns with broader national data laws and industry standards.

Regarding personal information protection, the rules reinforce key principles including explicit consent, proper authorisation, and the "minimum necessity" doctrine. They also stipulate that the sharing of personal information within a corporate group is subject to the same compliance requirements as disclosure to external parties.

08

Evolving internal control frameworks and regulating administrative discretion in financial compliance

The "New Ten National Regulations" emphasize the establishment of robust internal control, compliance, and risk management frameworks as the foundation for strengthened ongoing supervision of financial institutions. In December 2024, NFRA issued the *Measures for Compliance Management of Financial Institutions*, notably adopting the term "financial institutions" in the document title instead of the previously used "banking and insurance institutions." While the measures apply specifically to entities regulated by the NFRA, thus excluding those under the purview of CSRC, they also extend to consolidated financial subsidiaries of NFRA-regulated institutions without explicit scope limitations. This broader coverage may potentially encompass certain entities licensed by other regulatory authorities. Within the insurance sector, the measures apply to insurers, reinsurers, insurance asset management companies, and insurance groups, but explicitly exclude insurance intermediaries.

The measures supersede earlier compliance regulations for commercial banks and insurers, moving beyond the traditional "three lines of defense" model, comprising business units, compliance functions, and internal audit, toward a revised governance structure based on graded management and tiered accountability. Under the new framework, chief compliance officers, compliance personnel, and dedicated compliance departments are granted clearly defined authority, including rights of review, supervision, recommendation, veto power in compliance assessments, access to information, and investigative powers. Institutions are afforded a one-year transition period to fully align with the updated compliance requirements. This period is likely to give rise to implementation challenges for insurers stemming from legacy operational constraints and potential conflicts of interest.

The compliance framework is being systematically extended both "horizontally and vertically" across the financial sector with emphasis on apportioning responsibility to specific individuals. In 2024, the total number and value of industry fines remained largely consistent with 2023 levels; however, penalties targeting individuals saw a marked increase, with lifetime industry bans becoming a recurring sanction.

In a complementary move, NFRA issued the *Measures for Implementing Administrative Penalty Discretion* in March, which provide detailed guidance on the application of different enforcement categories, including no penalty, reduced penalty, mitigated penalty, and aggravated penalty, along with methodologies for calculating illegal gains. This standardisation

aims to enhance the precision of enforcement actions and reduce regulatory arbitrariness. Looking ahead, further institutional safeguards are expected, particularly in areas such as parties' remedies and the regulation of administrative acts.

2025 Regulatory Outlook

01

Forward-shifting risk through insurance product suitability management

In the recent institutional restructuring, NFRA was assigned an expanded mandate to protect financial consumers, leading to a series of new regulations. Although specific rules governing life insurance distribution conduct have yet to be formally issued, the *Measures for the Administration of Insurance Distribution Conduct* came into effect in March 2024, serving as a framework to address this gap. These measures establish a foundational structure for future product classification and management. They require insurance companies to implement a hierarchical management system for their insurance products. In addition, both insurers and insurance intermediaries are expected to support industry associations in developing and implementing competency-based grading systems for insurance sales personnel.

The classification of financial products is not a new regulatory concept. Back in 2016, the CSRC issued the *Measures for the Administration of Securities and Futures Investor Suitability*, which required relevant institutions to categorise both their products and services by risk level and to classify investors accordingly. Subsequent key regulatory instruments, including the Jiumin Minutes (the *Minutes of the National Courts' Civil and Commercial Trial Work Conference*) and the New Asset Management Rules (the *Guiding Opinions on Regulating the Asset Management Business of Financial Institutions*), reaffirmed the suitability obligations of financial institutions. The Jiumin Minutes further clarified that institutions bear joint liability for violations of these duties. In an environment where implicit guarantees have been largely dismantled, asserting an institution's failure to fulfill its suitability obligations has become a primary strategy for investors seeking recourse.

Unlike most financial products, which are primarily focused on investment returns, the core function of insurance products lies in providing personal and property security. Historically, only investment-linked insurance products were subject to explicit customer assessment requirements; other types of insurance lacked clearly defined suitability obligations. Under the new regulatory guidance, the introduction of a tiered management framework, encompassing products, customers, and distribution channels, is expected to integrate insurance products into the broader suitability regime. This evolution will likely present significant compliance and operational challenges for both insurers and intermediaries in their distribution activities.

02

Consolidating regulatory resource allocation through a unified rating system for insurance institutions

The regulatory framework for insurance institution ratings has evolved significantly in recent years. Three years after the 2021 rules for insurance asset manager ratings, the early 2024 *Measures for Life Insurer Supervision and Rating* introduced a comprehensive scoring system evaluating life insurers across six dimensions: corporate governance, business operations, fund utilisation, asset-liability management, solvency adequacy, and other relevant aspects. This system assigns ratings from 1 to 5, with higher numbers indicating greater risk exposure; entities undergoing restructuring or under regulatory takeover are automatically classified as Level 5. These ratings are dynamic rather than static. Insurers engaging in aggressive business practices that breach specific regulatory thresholds may see their risk levels elevated, potentially resulting in an immediate downgrade to Level 5.

In early 2025, the *Measures for Insurance Company Supervision and Rating* extended this framework to cover insurance groups, P&C insurers, life insurers, reinsurers, and branches of foreign insurers. While largely consistent with the life insurance rating system, the expanded rules incorporate additional assessment elements and introduce sub-grades within certain rating levels. The ratings will serve as a crucial reference for regulatory actions, market access decisions, and on-site inspection. This unified approach enables meaningful comparisons across different types of insurance entities. For local offices of NFRA, the ratings of insurers within their jurisdictions may also serve as indicators for evaluating the effectiveness of their supervisory work.

The "New Ten National Regulations" identified tiered classification as a regulatory priority. With the implementation of rating rules for insurers in 2025, the intermediary sector remains the only segment lacking a unified rating framework. While some local regulators have introduced their own classification rules for intermediaries, standards vary significantly across localities. Similarly, industry associations have developed competency grading standards for sales personnel, though these have yet to be formally implemented.

The next phase of regulatory development is expected to focus on establishing a tiered classification system for both intermediaries and their sales personnel. Such a framework would strengthen oversight of distribution channels and facilitate the exit of non-compliant market participants.

03 Elevated insurance group supervision: strengthened consolidation and concentration controls

Since the introduction of the 2021 *Measures for the Supervision of Insurance Group Companies*, most of the earlier insurance group regulations issued by the former China Insurance Regulatory Commission have been superseded or are no longer operative. In practice, many insurance groups have expanded beyond their core business into diverse financial sectors, including asset management, securities, banking, and trust services, and some have further diversified into non-financial areas such as real estate and industrial investments. This diversification has resulted in complex multi-layered organisational structures, complex governance challenges, and heightened risks of cross-sectoral contagion, presenting significant challenges to traditional models of institutional supervision.

The "New Ten National Regulations" set the priority of implementing strict consolidated supervision, with more detailed rules anticipated in areas such as concentration limits, related-party transactions, and group-wide consolidation. While insurance-related investments within groups remain subject to clear regulation, non-core investments and transactions often lack equivalent transparency. Going forward, investments by group members in the same entity, asset class, or industry will be subject to heightened concentration management. Similarly, intra-group financing, guarantees, and transfers of economic benefits will face increased regulatory scrutiny. In this evolving environment, insurance group companies are expected to take on a more proactive management role, leveraging tools such as consolidated oversight, related-party transaction controls, vertical compliance systems, and group-wide governance rights as key operational levers.

04 Driving sustainable innovation in the "Five Key Areas" of financial services

The Central Financial Work Conference called on the financial industry to deliver on the "Five Key Areas", developing technology finance, green finance, inclusive finance, pension finance and digital finance with high quality. In 2024, NFRA issued a series of documents including the *Guiding Opinions on Banking and Insurance Sectors' Execution of the "Five Key Areas"*, the *Notice on Strengthening Financial Services for Technology Enterprises Through Their Full Life Cycle*, the *Guiding Opinions on Promoting High-quality Development of Green Insurance*, the *Guiding Opinions on Promoting High-quality Development of Inclusive Insurance*, and the *Guiding Opinions on*

Further Improving the Accessibility of Financial Services for the Elderly, all focusing on high-quality development of insurance services across these sectors.

In the near term, inclusive insurance is poised to expand in both coverage and quality, improving accessibility for small and medium-sized enterprises and vulnerable groups. On the asset-side, insurers are expected to increase their allocations to green bonds and raise the proportion of green investments, while insurance asset management products will provide further financial support to green, low-carbon, and circular economy initiatives.

For technology startups, innovative products such as entrepreneurial liability insurance are likely to reemerge as key risk transfer solutions. More mature technology companies may access comprehensive coverage through co-insurance arrangements, large-scale commercial insurance programs, or master policy structures.

Within the pension finance segment, insurance products will continue to play a central role. By effectively isolating risks, insurers can invest in elderly care infrastructure and service systems, thereby creating synergies between long-term care coverage, risk protection benefits, and integrated senior service offerings.

In the digital finance domain, the ongoing digital transformation of insurance institutions will further deepen, enhancing both internal operational efficiency and their capacity to serve the real economy through externally focused, technology-enabled solutions.

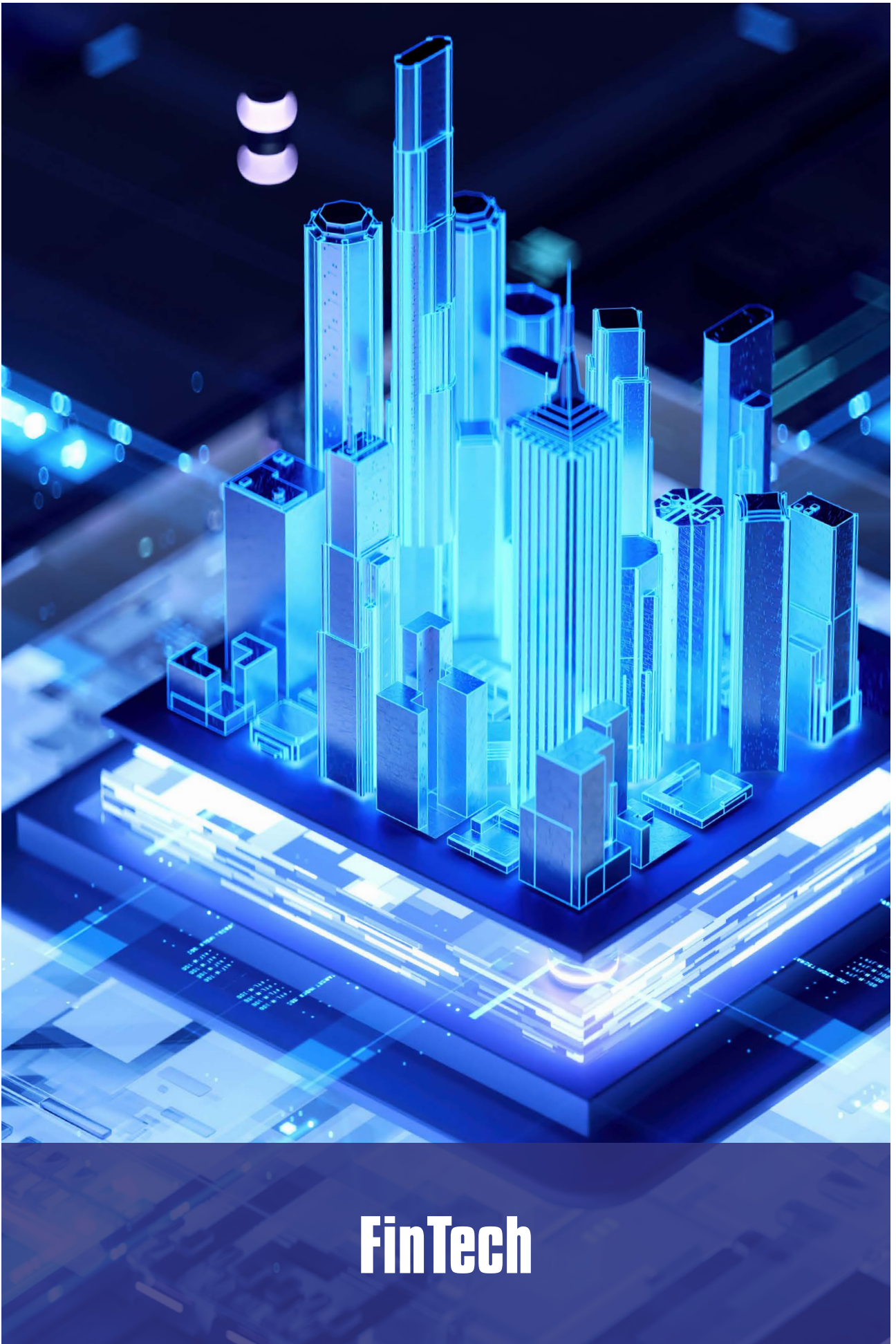
05 Solvency regulation temporarily eased to create space for timely sector recovery

Against the backdrop of declining interest rates, the implementation of "C-ROSS Phase II", new accounting standards, and the "Bao Xing He Yi" (Filing-Implementation Consistency) initiative, solvency levels across the insurance industry, particularly among life insurers, have come under growing pressure. As anticipated, 2024 set a new record for bond issuance by insurers, with capital replenishment bonds and perpetual instruments emerging on top of conventional capital increases. In December, NFRA issued a notice extending the transitional period for "C-ROSS Phase II" by one year, introducing a conditional "one-company-one-policy" approach for insurers significantly affected by the new standards. That same month, the *Notice on Improving Financial Reinsurance Supervision* conditionally allowed insurers to enhance their comprehensive solvency adequacy ratio by up to 30 percentage points through qualifying financial reinsurance arrangements, with a three-year grace period available for entities demonstrating genuine implementation difficulties.

The regulatory measures introduced at year-end have provided

insurers with additional time to address solvency shortfalls. Given the concurrent move toward more differentiated, tiered supervision, a unified industry-wide transition to the full "C-ROSS" standards might take more time. Instead, solvency-based ratings are expected to play a greater role in triggering targeted regulatory restrictions for underperforming insurers. This mechanism is likely to effectively encourage improvements in risk management and capital planning capabilities across the sector.





2024 Regulatory Milestones

March 22

The *Provisions on Facilitating and Regulating Cross-border Data Flow* were issued and came into effect.

July 9

The PBOC issued the *Detailed Rules for the Implementation of the Regulation on the Supervision and Administration of Non-Banking Payment Institutions*, providing further details on the *Regulations on the Supervision and Administration of Non-Banking Payment Institutions* effective on 1 May 2024.

August 19

The Supreme People's Court and the Supreme People's Procuratorate jointly released the *Interpretation on Several Issues Regarding the Application of Law in the Handling of Criminal Cases of Money Laundering*, which for the first time includes "virtual asset" transactions as a money laundering method.

September 14

The Cyberspace Administration of China (CAC) released the *Measures for Labeling Synthetic Content Generated by Artificial Intelligence (Consultation Draft)*.

November 11

Qiantang Credit Co., Ltd. obtained a license for personal credit business, becoming the third personal credit agency in China after Baihang Credit and Puda Credit.

December 31

The NFRA issued the *Interim Measures for the Supervision and Administration of Small Loan Companies*.

June 28

The National Financial Regulatory Administration (NFRA), the People's Bank of China (PBOC), and the China Securities Regulatory Commission (CSRC) released the *Announcement on Work Arrangements Related to the Protection of the Rights and Interests of Financial Consumers*, clarifying the division of work among financial regulators in protecting financial consumers.

August

The NFRA, the CSRC, and State Administration for Market Regulation jointly issued the *Notice on Further Strengthening the Supervision of Local Financial Organizations*, imposing stricter regulations on local financial institutions.

September 12

The NFRA released the *Notice on Strengthening the Management of Mobile Internet Applications in the Banking and Insurance Industries*.

September 24

The State Council issued the *Regulations on Network Data Security Management*.

December 27

The NFRA finalized and issued the *Administrative Measures for the Data Security of Banking and Insurance Institutions*.

December 31

The National Development and Reform Commission (NDRC), the National Data Administration, and the Ministry of Industry and Information Technology issued the *Guidelines for the Construction of National Data Infrastructure*.

2024 Regulatory Mainline Review

01 As supporting rules for “routine regulation” continue to improve, local financial institutions are facing the strictest supervision yet

In 2024, supporting rules for the routine regulation of fintech continued to improve, particularly in areas such as Internet lending (including lending facilitation) and mobile app oversight. Meanwhile, local financial institutions faced the strictest regulatory scrutiny in history.

On April 23, the National Financial Regulatory Administration (NFRA) issued the *Notice on Further Regulating the Internet Loan Business of Joint-Stock Banks and Other Two Types of Banks*. The notice provides new rules for internet lending by joint-stock banks, city commercial banks, and private capital banks. The notice deals with the following:

- More stringent regulation of business management
- Closer regulation of cooperative arrangements with partners
- Protecting customer data
- Safeguarding consumer rights throughout the lending process.

Separately, a draft notice titled *Strengthening the Management of Commercial Banks’ Internet Lending Facilitation Business* has been shared with industry stakeholders for feedback. It is expected to be open for public comment soon. This draft proposes stricter rules on lending facilitation activities, including business evaluation, service provider management, fee standards, and independent risk control by funding parties.

In September and December, Chinese regulators introduced important new rules for mobile apps used in the banking, insurance, securities, and futures sectors (including funds).

The NFRA now requires banking and insurance institutions, along with financial holding companies, to manage their mobile apps more carefully throughout an app’s full lifecycle, implement risk management responsibilities, reasonably control the number of mobile applications, and improve or discontinue specific apps.

Meanwhile, the three industry associations under the China Securities Regulatory Commission (CSRC) jointly issued guidelines to further standardize the filing of mobile apps in the securities and futures sectors (including funds). Some local CSRC branches have also required institutions under their jurisdiction to submit reports on app filing status and plans for improving testing and certification by August 31, and to complete all necessary filing, testing, and certification for investor-facing apps by the end of 2025.

Although the *Regulations on Local Financial Supervision and*

Administration have not yet been officially released, in 2024, the NFRA, CSRC, and the State Administration for Market Regulation (SAMR) jointly issued the *Notice on Further Strengthening the Supervision of Local Financial Organizations* to strengthen oversight of local financial organizations. This notice has de facto set the strictest rules so far, including: accelerating the closure of non-compliant institutions, tightening approval for new ones, restricting cross-province operations, and tightly regulating leverage and funding sources. Local regulators have also begun closing local financial asset exchanges.

For small loan companies, the NFRA made major legislation progress in 2024. In August, it sought public feedback on interim measures for small loans, and on December 31, it officially issued the *Interim Measures for the Supervision and Administration of Small Loan Companies*. These new measures leave key issues—such as entry qualifications, administrative penalties, and cross-regional operations—to future national laws. However, they clearly address urgent areas like corporate governance, business operations, risk control, and consumer protection. The measures leave in place existing rules, such as those requiring management via special purpose accounts and on loan concentration, and caps on loan balances.

In many respects, the supervision of small loan institutions is similar to that of typical financial institutions like consumer finance companies, though differences remain. Investors need to carefully evaluate commercial practice needs and future regulatory trends when making investment decisions.

02 Multiple national regulations and measures were issued to clarify and reasonably relax requirements for cross-border data flows in the financial sector

In March 2024, the Cyberspace Administration of China (CAC) issued the *Provisions on Facilitating and Regulating Cross-Border Data Flows* (the “**Cross-Border Data Provisions**”), along with the second edition of the *Guide for Applying for Security Assessments of Outbound Data Transfers* and the *Guide for Filing Standard Contracts for the Outbound Transfers of Personal Information*.

Compared to the 2023 consultation draft, the Cross-Border Data Provisions further lower the thresholds and compliance costs for outbound data transfers, and expand and clarify data export scenarios that are exempt from CAC requirements on security assessments, standard contracts, and personal information protection certification. For instance, the Cross-Border Data Provisions explicitly exempt “cross-border payments,” “cross-border account openings,” and “cross-border courier”.

Based on the Cross-Border Data Provisions and the State Council's 2023 opinions on improving the environment for foreign investment and business, free trade zones, including Beijing, Shanghai, Tianjin, Fujian, and Guangdong, released their respective negative lists or general lists for outbound data transfer.

Among them, the Lin'gang New Area of the China (Shanghai) Pilot Free Trade Zone is the first area that issued a scenario-based general data list, along with accompanying operational guidance, in May 2024. This list covers three business sectors: publicly offered funds, intelligent connected vehicles, and biomedicine.

For publicly offered funds, the general data list—which functions as a "whitelist" of data that does not require cybersecurity review, standard contract filing, or personal information protection certification by the Cyberspace Administration of China (CAC)—includes 11 data categories across two scenarios: market research and internal management.

The whitelist model adopted by free trade zones has been widely welcomed by foreign-invested institutions, offering valuable pilot experience for cross-border data transfers in broader scenarios and among a wider range of financial institutions.

In practice, foreign investment and cross-border finance still involve many situations where data must move across borders. Industry participants and regulators need to work together to enable freer data flows—while keeping risks under control—to support investment and trade. The Chinese government continues to make progress in this area.

At the "Data Governance Forum" during the 2024 World Internet Conference Wuzhen Summit in November, Li Wei, Director of the Technology Department at the People's Bank of China (PBOC), shared that early in 2024, under coordination by CAC, the PBOC worked with other financial regulators to develop the *Compliance Guide for Facilitating and Regulating Cross-Border Data Flows in the Financial Industry*. This guide aims to clarify regulatory expectations for cross-border financial data transfers. It also reviews, refines, and expands the permitted data transfer scenarios under the existing Cross-Border Data Provisions.

We also understand that regulators have been actively discussing and communicating with financial institutions to define what constitutes "important data" in the financial sector.

03 Data security legislation and enforcement in the financial sector continue to evolve, while supporting standards for personal information protection continue to refine

In 2024, significant progress was made in both data security legislation and enforcement in the financial sector.

At the legislative level, to implement the *Regulations on Network Data Security Management* issued by the State Council in September 2024, the NFRA released the *Administrative Measures for Data Security of Banking and Insurance Institutions* on 27 December 2024. These measures establish a comprehensive framework for data security management in banks and insurance companies. This is the NFRA's first major data security regulation since its creation. It aims to strengthen both data protection and financial security, while also encouraging reasonable data use and innovation.

In addition, two key industry standards on personal information protection were released and piloted: in September, the *Cybersecurity Standard Practice Guide—Guidelines for Identifying Sensitive Personal Information*; and in November, the *Data Security Technology—Requirements for Personal Information Protection Compliance Audits (Consultation Draft)*.

At the enforcement level, throughout 2024, several financial institutions, including securities firms, futures companies, banks, and insurance companies, were penalized for failing to meet data or cybersecurity requirements. Notably, multiple banks were fined by financial regulators for weak data security practices, with some penalties reaching millions of *renminbi*.

In response to the growing number of cyber and data security incidents at securities firms in recent years, the China Securities Association (SAC) released *Demonstration Cases for Handling Public Opinion on Cybersecurity Incidents Involving Securities Companies* in September. This guidance is designed to help the securities industry better respond to and manage cybersecurity incidents and emergencies, as well as public opinion thereon.

04 The action plan for digital finance development has been implemented, further enhancing the digitalization of the financial sector

"Digital finance" is one of the five key priorities introduced at the 2023 Central Financial Work Conference and a major task in the financial regulatory agenda for 2024. On 21 November, the PBOC, the NDRC, the Ministry of Industry and Information Technology, the NFRA, the CSRC, the National Data Administration, and the State Administration of Foreign Exchange jointly issued the *Action Plan for High-Quality Development of Digital Finance*.

The plan proposes to systematically advance the digital transformation of financial institutions, use digital technology to enhance the quality and efficiency of financial services in key areas, strengthen the foundation for digital finance development, and improve the digital financial governance system. It also sets a clear goal to generally establish a financial system that can adapt to development in the digital economy by the end of 2027.

Meanwhile, local governments have successively introduced policies to promote the digital economy and support financial institutions in accelerating their digital transformation. Industry organizations have also released guidelines to advance digital finance.

On 11 October, the SAC released the *Guidelines for Digital Capability Maturity of Securities Companies*, establishing a digital maturity model for securities companies, covering nine areas including digital governance, digital infrastructure, digital products and services, and digitalization of internal control systems.

In terms of digital market developments, according to the *Digital Economy and Digital Finance Situation Analysis Report (Q1-Q3 2024)* released in November 2024 by the Digital Finance Cooperation Forum and the Shenzhen Xiangmihu International Financial Technology Research Institute, there were 23 new blockchain information service applications in the financial industry in 2024. Notably, the portion of these new registrations for blockchain services registered by financial infrastructure operators reaches 60.9%.

At the Fintech Forum during the 2024 Financial Technology Conference in October, Liu Tiebin, Deputy Director of the CSRC's Technology Supervision Department, said that digital transformation in capital markets has already delivered measurable progress.

Meanwhile, the use of digital RMB continues to grow. Public data indicates that by the end of 2024, the digital RMB pilot program had expanded to 26 areas across 17 provinces and cities. In Shenzhen alone, as of September 2024, there were 2,868 institutions

authorized to accept digital RMB, with regulated funds totaling CNY 1.315 billion. The city also established 18 demonstration zones for digital RMB prepaid services. Throughout the year, cities including Shanghai, Fuzhou, and Hebei launched action plans to promote digital RMB pilots. Shanghai, in particular, aims to build a robust digital RMB ecosystem by the end of 2025, featuring broad application scenarios, high-quality payment service, diverse and innovative uses, and widespread participation.

05 Enhanced monetization of data elements in parallel with law enforcement measures to ensure compliant applications

In December 2024, after China's Third Plenary Session of the 20th Central Committee called for building a national data system to support data sharing and creating rules for data ownership, trading, rights, and protection, the National Development and Reform Commission (NDRC), the National Data Administration, and other agencies released two key policy documents: the *Guiding Opinions on Promoting the High-Quality Development of the Data Industry* and the *Guidelines for the Construction of National Data Infrastructure*.

The *Guidelines for the Construction of National Data Infrastructure* state that, under national coordination, a national data infrastructure will be established, comprising various data infrastructures from regions, industries, and enterprises, with a focus on releasing the value of data elements. The goal is to have the core infrastructure framework in place by 2029, with a reliable, standardized, and efficient system for sharing and using data.

The *Guiding Opinions on Promoting the High-Quality Development of the Data Industry* seeks to develop the data industry in the following ways:

First, the guiding opinions encourage companies to offer specialized services that help move and trade data. These services include providing business advice, helping complete transactions, assessing legal compliance, and providing financial services. The goal is to grow a strong group of data service companies and create new ways for data to be shared and used.

Second, the guiding opinions also call on financial institutions to design new financial products that fit the unique needs of data-driven businesses—while staying within legal rules and managing risks properly.

Third, the guiding opinions also set a key focus on building a market for buying, selling, and sharing data as part of China's broader data technology and industry development strategy.

Turning to the institutional framework, in October 2024, the National Data Standardization Technical Committee held its

inaugural meeting, approved by the National Standardization Administration Committee. Organized and guided by the National Data Administration, the committee's work scope includes formulating and revising core standards of general application for data circulation and digital transformation, standards for data infrastructure that support how data is shared and used, and security standards to protect data during sharing and use.

In practice, data exchanges and financial institutions across China have been working to improve how data is shared and used, and how its value can be realized.

For example, on 28 June 2024, the Shanghai Data Exchange launched a pilot for the nation's first data asset trading market. The exchange aims to fix common problems such as unclear rules and weak valuation methods. To do this, it has created a data asset trading system with "one regulation and five guidelines," which supports five core functions: registration, valuation, trading, disclosure, and disposal of data assets.

Beyond regulatory improvements, the range of industries involved in data trading is growing, and deal structures are becoming more innovative. For instance, in 2024, a tech company launched the first RWA (Real World Asset) project for an agricultural product on the Shanghai Data Exchange.

While policies and local pilots continue to evolve, authorities are also strengthening enforcement to ensure data is used properly. On 6 September 2024, the Shanghai Municipal Administration for Market Regulation issued an administrative penalty decision under anti-monopoly law related to data abuse. The decision found that a specific part of a data product offered by an IT company could be considered a standalone product, and its sale formed a separate market.

This was China's first administrative enforcement action against monopolistic behavior involving data. It marks a significant milestone for regulating competition in the data economy and offers guidance for companies on how to comply with anti-monopoly rules when using or selling data.

06

AI industry standards proliferate, with continuous development in related administrative regulation and judicial practice

As AI technology is increasingly used and tested in industries like finance, efforts to standardize the AI industry are accelerating.

In February 2024, the National Technical Committee 260 on Cybersecurity of Standardization Administration (TC 260) issued the *Basic Requirements for the Security of Generative Artificial Intelligence*

Services. As China's first technical guideline document concerning the security of AIGC services, it specifies norms and requirements for key areas such as corpus security, model safety, protective measures, vocabulary and test database standards, and security assessments.

In June 2024, the Ministry of Industry and Information Technology, the Office of the Central Cyberspace Affairs Commission, the NDRC, and the National Standardization Administration released the *Guidelines for Building a National Comprehensive Standardization System for the AI Industry (2024 Edition)*. These guidelines set a goal: by 2026, strengthen the connection between standards and technical innovation, develop more than 50 new national and industry standards, and expedite the formation of a standard system that supports high-quality growth in the AI sector.

Then, in September 2024, the TC 260 released version 1.0 of the *AI Security Governance Framework*, which aims to further implement the *Global AI Governance Initiative* and effectively mitigate AI security risks.

In terms of administrative rule-making and compliance enforcement, in September 2024, the CAC released the *Measures for Labeling Synthetic Content Generated by Artificial Intelligence (Consultation Draft)*. Building on existing regulations such as the *Interim Administrative Measures for the Generative AI Services*, the measures provide clearer guidance on who must label AI-generated content, what types of content are covered, and what labels should include.

On 12 November 2024, the CAC, the General Office of the Ministry of Industry and Information Technology, the General Office of the Ministry of Public Security, and the General Office of the State Administration for Market Regulation jointly issued the *Notice on Carrying Out the Special Action of "Clear and Bright: Governance of Typical Problems in Internet Platform Algorithms"* and the *Guidelines for Algorithm Special Governance Checklist*. This special campaign runs from the release date until February 14, 2025. It targets key issues such as recommending repetitive or similar content that traps users in information silos, manipulating list rankings illegally to create artificial hype, prioritizing profits at the expense of workers' rights in applying new employment structures, using algorithms to discriminate against consumers, and lacking ethical safeguards in algorithms, leading to infringement of user rights. The campaign requires companies to conduct self-audits, as well as effectiveness assessments of their AI governance.

In terms of judicial practice, in 2024, courts across China have handled several landmark AI cases. These include the first case on AI voice infringement, the first case on AI cheating software, the first case on AI audiovisual work infringement, the first case on copyright infringement involving AI painting model training, and several cases on AI face-swapping. The rulings from these cases provide a valuable foundation for establishing AI-related legal standards and rules.

07 The domestic virtual asset sector continues to face strong regulatory oversight with virtual asset trading designated as money laundering

In 2024, the domestic virtual asset sector continued to face strong regulatory oversight following the Supreme People's Court's release of the *Interpretation on Several Issues Regarding the Application of Law in the Trial of Criminal Cases of Illegal Fundraising* on 23 February 2022, which classified virtual currency trading as a new form of illegal fundraising.

On 19 August 2024, the Supreme People's Court and the Supreme People's Procuratorate jointly issued the *Interpretation on Several Issues Regarding the Application of Law in the Handling of Criminal Cases of Money Laundering*. It clarified that using "virtual assets" in transactions may also qualify as a type of money laundering behavior, formally recognizing virtual asset trading as a money laundering method.

On 26 December 2024, SAFE issued the *Trial Management Measures for Reports on Foreign Exchange Risk Transactions by Banks*. These measures clarify that foreign exchange risk transactions include underground banks, cross-border gambling, and illegal cross-border financial activities related to virtual currencies. Banks are required to monitor and report foreign exchange risks based on the identities and behaviors of individuals and institutions, as well as the sources of fund, frequency, and nature of transactions.

On the other side, the *China Financial Stability Report (2024)* issued by the PBOC has significantly increased the coverage of crypto assets compared to the 2023 edition. Based on the international regulatory framework for crypto assets, the report demonstrates that China is closely monitoring global cryptocurrency markets and regulatory trends. The report also notes Hong Kong's active efforts to establish a licensing system for crypto asset activities. However, it highlights that there are still regulatory differences between mainland China and Hong Kong in the cryptocurrency sector.

08 Detailed implementation rules are released for non-banking payments, with cross-border payment policies continuing to improve

After the formal implementation of the *Regulation on the Supervision and Management of Non-Banking Payment Institutions* ("**Payment Regulations**") on 1 May 2024, the PBOC released the *Detailed Rules for the Implementation of the Regulation on the Supervision and Administration of Non-Banking Payment Institutions* ("**Implementation Rules for Payment Regulations**", collectively referred to as the "**New Payment Rules**" with the Payment Regulations) in July 2024.

The Implementation Rules for Payment Regulations provide clearer guidance on the Payment Regulations, including how new and old rules apply to different business types. Under the new rules, non-bank payment institutions established before the regulations took effect must meet updated requirements—such as those for licensing, net assets, and reserve fund ratios—by the end of a transition period. Other requirements under the New Payment Rules will take effect as of the implementation date of the Implementation Rules for Payment Regulations.

The transition period begins 9 July 2024 and ends when an institution's payment license expires. If that period is less than 12 months, it will be extended to 12 months.

While these rules are being phased in, consolidation and exits continue in the non-bank payment sector. As of the end of 2024, according to PBOC announcements, 95 payment institutions have been deregistered, including 9 in 2024.

In 2024, along with updates to institutional regulations, cross-border payment policies also saw further improvements.

On 1 March 2024, the General Office of the State Council issued the *Opinions on Further Optimizing Payment Services and Enhancing Payment Convenience*. These guidelines recommend a simple approach: use cards for large payments, QR codes for small ones, and keep cash as a backup option. On the same day, Vice Governor of the People's Bank of China, Zhang Qingsong, at a State Council policy briefing, stated that the PBOC would guide major payment institutions like Alipay and WeChat Pay to increase the single-transaction limit for foreigners' mobile payment in China from USD 1,000 to USD 5,000, and the annual cumulative transaction limit from USD 10,000 to USD 50,000.

In June 2024, the Ministry of Commerce, the NDRC, the Ministry of Finance, the Ministry of Transport, the PBOC, the General Administration of Customs, the State Taxation Administration, the NFRA, and the CAC jointly issued the *Opinions on Expanding Cross-*

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Border E-Commerce Exports and Promoting Overseas Warehouse Construction. These opinions continue prior efforts to allow qualified banks and non-bank payment institutions to offer fast, low-cost cross-border settlement services for e-commerce businesses.

To promote cooperation in international payment connectivity, in August 2024, the PBOC signed memorandums of understanding on regulatory cooperation with the Hong Kong Monetary Authority and the State Bank of Vietnam.

01 Local financial regulatory rules are being released at an accelerated pace, while regulations of internet lending business continue to improve

With the release of the *Notice on Further Strengthening the Supervision of Local Financial Organizations* and the official issuance of the *Interim Measures for the Supervision and Administration of Small Loan Companies*, we expect that local financial regulators will soon initiate a comprehensive update to regulatory mechanisms and applicable rules for local financial organizations.

At the local level, in addition to the *Regulations on Local Financial Supervision and Administration (Consultation Draft)*, we expect in 2025 updated regulatory rules and supporting implementation details for the “7+4” types of local financial organizations, such as financing guarantors and cross-regional small loan companies, will also move forward faster. Overall, local financial organizations are entering a new phase of stronger, more systematic oversight.

Beyond local financial institutions, we anticipate that supporting regulatory rules for internet lending businesses will further develop and strengthen in 2025. This may include areas like lending facilitation business and mobile apps. For example, regulations such as the *Notice on Strengthening the Management of Commercial Banks' Internet Lending Referral Business* may be implemented more quickly. In line with the improvement of regulatory rules, law enforcement is also expected to be strengthened.

02 Expedited finalization of POBC's data rules as well as further developments in data export regulatory rules are expected

Following the official release of the *Measures for Data Security Management of Banking and Insurance Institutions* in 2024, we anticipate that the *Measures for Data Security Management in the Business Areas of the People's Bank of China (Consultation Draft)*, issued in 2023, to move more quickly toward finalization and implementation. Given that these measures differ in their requirements for data security management mechanisms compared to the *Measures for Data Security Management of Banking and Insurance Institutions*, it remains to be seen how the final version or its supporting rules will resolve these differences.

In another data regulatory development, based on information disclosed by Li Wei, Director of the Technology Department of the People's Bank of China, at the “Data Governance Forum” of the 2024 World Internet Conference Wuzhen Summit, we expect that a draft for comments or the official version of the *Compliance Guide for*

Facilitating and Regulating Cross-Border Data Flows in the Financial Industry will be released in 2025. This development could also speed up the release of the catalog of critical and core data in the financial industry. It remains to be seen whether there will be real progress on the whitelist for data exports in free trade zones.

03 Data application and AI regulation continue to evolve while anti-money laundering and anti-fraud supervision keep strengthening

Following the decisions made at the third plenary session of the 20th Central Committee of the Communist Party of China on building national data infrastructure, accelerating the identification and transaction of data property rights, and improving governance systems for AI and other industries, we expect in 2025 for rules to be further formulated to unleash data value and to support the development of the AI industry. At the same time, enforcement of security and compliance in data applications and AI fields will continue to be strengthened as a key part of ensuring industry-wide compliance.

With the *Anti-Money Laundering Law* taking effect on 1 January 2025, anti-money laundering enforcement in the fintech sector will undoubtedly become a key regulatory focus. We also anticipate updates to the rules and compliance standards that apply to payment institutions and other organizations with anti-money laundering obligations.

In addition, in light of the strengthened enforcement against telecom fraud in 2024, we can expect further guidance, compliance standards, or enforcement actions in 2025 following the 1 December 2024 implementation of the *Joint Punishment Measures for Telecom Network Fraud and Related Illegal Activities*—which require banks and non-bank payment providers to impose financial penalties on those punished.

04 Regulations on credit reporting, payment, clearance and credit reporting regulations continue to be introduced, while personal credit reporting business embraces a new chapter of development

The New Payment Rules establish a new regulatory framework and legal foundation for non-bank payment institutions. However, at the operational level, many existing rules still apply, which do not yet fully reflect the regulatory requirements on the new forms of business activity. As such, once the Implementation Rules for Payment Regulations take effect, updating the business-specific

rules for non-bank payment institutions will likely become a priority.

In addition, with the release of the *Administrative Measures for the Bank Card Clearing Institutions (Consultation Draft)* in December 2024, we expect that a new round of updates to the entry standards and applicable regulatory rules for clearing institutions. These updates are expected to further open the bank card clearing sector to more competition.

In respect of credit reporting business, on 11 November 2024, Qiantang Credit Co., Ltd. obtained a personal credit reporting business license, becoming the third personal credit reporting agency following Baihang Credit and Pudao Credit. With the implementation of the intermediary system for data on credit reporting and the resumption of regulatory approval of new personal credit reporting licenses, we anticipate that in 2025, credit business rules will continue to be refined, and personal credit services will enter a phase of comprehensive standardized development.

05 The financial consumer protection mechanism has been further improved, accelerating the development of a comprehensive consumer protection regime

In January 2024, the Consumer Rights Protection Bureau of the NFRA issued its first document, proposing the “construction of a new financial consumer protection mechanism and the establishment of the ‘Comprehensive Consumer Protection’ system” as the focus for financial consumer protection work.

Following such proposal, in March 2024, the Financial Consumer Protection Service Platform began a trial run under NFRA guidance. As a key industry infrastructure, the new platform initially launched two services: complaint handling and dispute mediation. These services provide financial consumers free, convenient, and more diverse ways to voice concerns and resolve issues.

In June, the NFRA, the PBOC, and the CSRC jointly issued the *Announcement on the Work Arrangements Related to the Protection of Financial Consumer Rights*, which clarified the task allocation among the NFRA, the PBOC, and the CSRC in terms of policy formulation for consumer rights protection, and the reception of complaints, petitions, and reports. It’s also confirmed that a work coordination mechanism among the three organizations will be established for financial consumer rights protection.

Later, in November, the three regulators held their first joint regulatory meeting on financial consumer and investor protection. This meeting marked the formal launch of a coordinated regulatory approach across banking, securities, and insurance sectors.

The introduction of the “Comprehensive Consumer Protection”, along with clearer roles and cooperation among financial regulators, lays a strong foundation for future legislation and enforcement in financial consumer protection.

Courts in various regions such as Shanghai, Beijing, Zhejiang, Guangxi, and Hebei have also issued typical cases related to financial consumer rights protection. The rulings in these cases help strengthen legal safeguards for consumer rights. For example, on “5-15 National Investor Protection Awareness Day”, the Shanghai Financial Court released five important investor protection cases, covering topics such as legal obligations of futures intermediaries, asset management product liquidation, and compensation responsibilities.

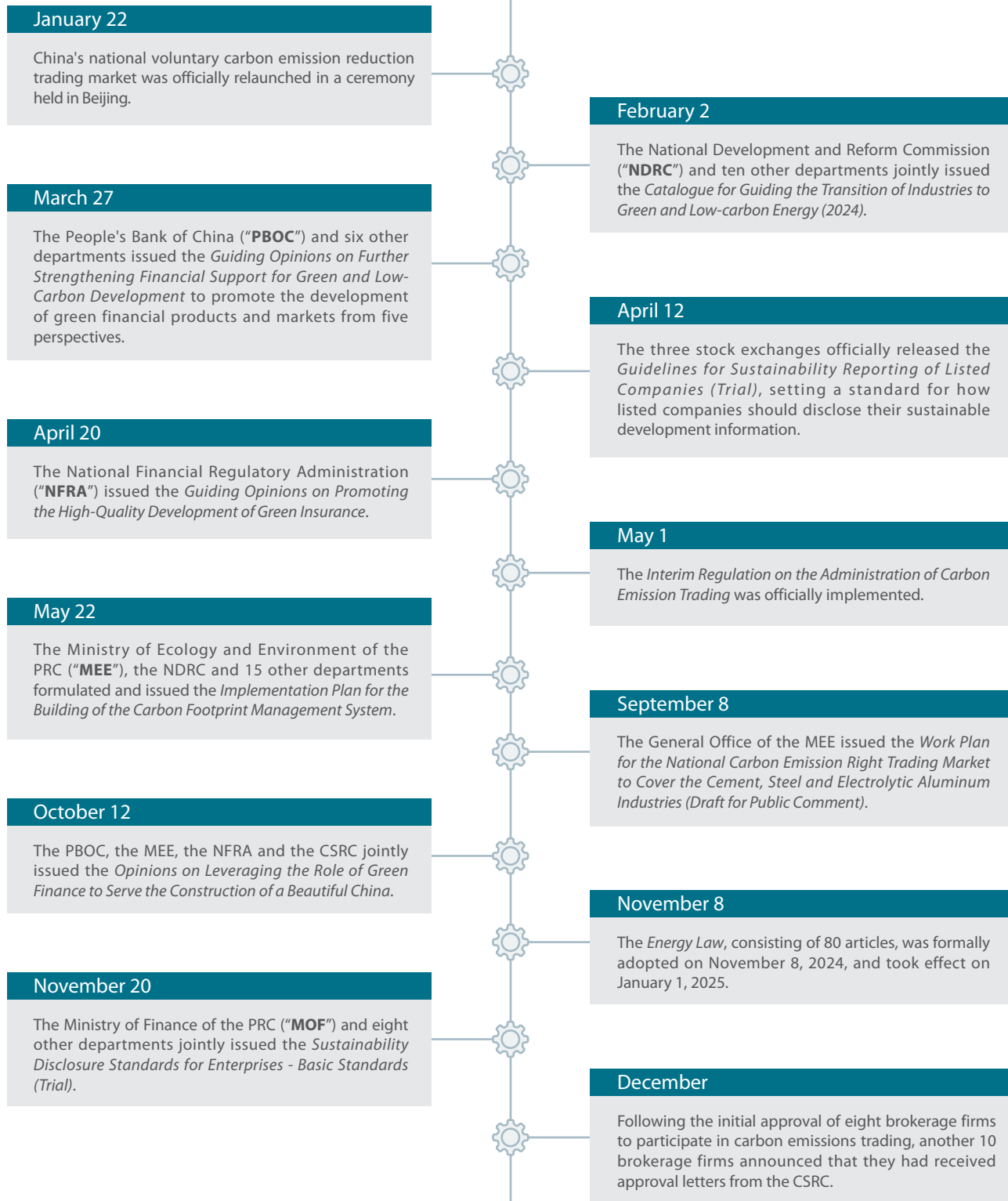
Looking ahead to 2025, we can expect continued progress in financial consumer protection—through better laws, court decisions, and enforcement. High-level legislation dedicated to this area may also be on the legislative agenda.





Green Finance and Carbon Markets

2024 Regulatory Milestones



2024 Regulatory Mainline Review

01 The first year of the green finance major chapter: institutional frameworks and legal systems continue to improve

In October 2023, the Central Financial Work Conference explicitly listed green finance as one of the "Five Major Chapters" in finance. Following this announcement, 2024 was the first year for prioritizing green finance. During the year, green finance institutional frameworks were improved and gaps in high-level legislation were filled.

In 2024, the State Council and various departments issued a number of major macro policies to support green finance:

- In April 2024, the PBOC and six other departments issued the *Guiding Opinions on Further Strengthening Financial Support for Green and Low-Carbon Development*, providing a clear roadmap and timetable for the development of green finance.
- In July 2024, the CPC Central Committee and the State Council issued the *Opinions on Accelerating the Comprehensive Green Transition of Economic and Social Development*, under which the comprehensive green transition was for the first time elevated to the level of national strategy.
- In October 2024, the PBOC, the MEE, the NFRA and the CSRC jointly issued the *Opinions on Leveraging the Role of Green Finance to Serve the Construction of a Beautiful China*, focusing on key areas and emphasize the professional service capabilities of green finance and green financial products.

In addition to these measures, regulatory authorities and local governments at all levels also introduced other green finance measures. In May 2024, the NFRA issued the *Guiding Opinions on the Banking and Insurance Industries' Implementation of the "Five Major Chapters" in Finance* to formulate a five-year plan for the banking and insurance industries. In July 2024, the CSRC held a special symposium on how the capital markets can implement the "Five Major Chapters" in finance to promote green finance development in ways that fit each financial field's unique characteristics and development plans.

Consistent with these efforts, the NFRA issued the *Guiding Opinions on Promoting the High-Quality Development of Green Insurance in 2024* to promote high-quality development of green insurance. These guiding opinions emphasize strengthening green insurance in key areas, increasing support for green investments through insurance funds, and enhancing management capabilities for green insurance operations.

Moreover, in 2024, local governments and financial regulatory departments in various provinces and cities issued green finance

development plans and action guides tailored to local development practices.

Together, these national and local policies have achieved strong initial progress in green finance in 2024.

In terms of improving the green legal framework, the enactment of the Energy Law in November 2024 filled a legislative gap in the energy sector and specifically focused on green development and energy transition. Additionally, according to the 2024 legislative plan of the Legislative Affairs Commission of the National People's Congress, the compilation of the Ecological Environment Code has officially launched and is progressing as scheduled. These efforts aim to systematically integrate, revise and codify the existing ecological environment legal frameworks, thereby enhancing the coherence, comprehensiveness, and coordination of current environmental laws and completing a crucial component of the green legal framework.

02 Effective connection between green finance and transition finance, and the integrated development of inclusive finance and green finance

Green finance and transition finance are increasingly connected because of being a key focus in both national policy and local practice.

In March 2024, the PBOC, along with seven other authorities, jointly issued the *Guiding Opinions on Further Strengthening Financial Support for Green and Low-Carbon Development*, which call for faster development of standards for transition finance.

Later, in July 2024, the CPC Central Committee and the State Council issued the *Opinions on Accelerating the Comprehensive Green Transition of Economic and Social Development*, a major policy document on accelerating green transformation across the economy and society. For the first time, it laid out a comprehensive national strategy for green transition and highlighted the need to expand financial tools that support this change.

Progress has been made in setting these transition finance standards. Led by the PBOC, transition finance standards have been reviewed and set for four industries—coal power, steel, building materials, and agriculture, with work on transition finance standards for multiple other industries still ongoing.

Moreover, several provinces and cities have formulated guidelines for transition finance that align with local development and industrial needs and that help financial institutions identify green projects and further integrate green finance and transition finance. For example, in January 2024, the *Shanghai Transition Finance*

Catalog (For Trial Implementation) came into effect, incorporating six major industries as the first batch of supported industries based on local demand. In August 2024, Huzhou released the *Management Standards for Transition Finance Loans*, further exploring standard practices for transition finance loans within Huzhou.

Financial product innovation is also growing. While transition finance products—such as loans and insurance—are still in early developmental stages, institutions are beginning to act under the guidance of transition standards in various regions. For example, Agricultural Bank of China issued the first loan product (a CNY 7.25 million loan) linked to transition finance for the ceramic industry, being aligned with the *Guangdong Province Implementation Guidelines of Ceramic Industry Transition Finance*. In another example, Wuxi Huaguang Environment & Energy Group issued China's first sci-tech innovation bill linked to green sustainability. In a final example, Shanghai Branch of China Pacific Property Insurance Co., Ltd. supported China's first insurance product and loan product linked to transition finance.

Overall, 2024 has shown a clear trend: transition finance is being shaped by strong policy direction, active local experimentation, and growing product diversity.

The integration of green finance and inclusive finance is gaining momentum, with notable progress in both policy and practice in carbon-related financial inclusion.

At the national policy level, in September 2023, the State Council released the *Implementation Opinions of the State Council on Promoting the High-Quality Development of Inclusive Finance*, which emphasized the role of inclusive finance in supporting green and low-carbon development. And, in May 2024, the State Council issued the *2024-2025 Energy Conservation and Carbon Reduction Action Plan*, which stressed the importance of extensive public involvement.

In response to this State Council guidance, multiple provinces have implemented practices to integrate green finance and inclusive finance. For example, Quzhou launched China's first pilot plan for integrating green finance and inclusive finance, the *Pilot Work Plan for the Integrated Development of Green Finance and Inclusive Finance*. And in December 2024, it released the *Catalogue of Green and Inclusive Credit Support*, making it easier for financial institutions to identify green inclusive credits.

As for carbon financial inclusion, significant progress has been made. For example, Wuhan released seven methodologies focused on carbon financial inclusion initiatives that involve public participation.

Additionally, new green financial products integrating green finance and inclusive finance have emerged. For example, in May and June 2024, China launched its first group of four preferred index funds of green and inclusive themed financial bonds.

As local practices expand and financial innovation continues, green finance and inclusive finance are expected to become more closely integrated. This integration will provide stronger financial support for the transition to a greener, low-carbon economy and society, and it will help advance the goal of shared prosperity.

03

Legislative progress in environment, social and governance (ESG) disclosure sees significant progress and provides legal basis for corporate sustainability disclosure

The new Company Law, which was officially implemented in July 2024, includes new ESG-related provisions. It requires companies to consider public interests, such as environmental protection, and encourages them to publish social responsibility reports. This marks the first time that ESG considerations have been formally included among the legal requirements for enterprises.

In 2024, to provide further guidance on ESG disclosures, the Shanghai, Shenzhen and Beijing stock exchanges each issued guidelines:

- Shanghai Stock Exchange: *Guidelines No. 14 of Shanghai Stock Exchange for Self-Regulation of Listed Companies - Sustainability Report (Trial)*
- Shenzhen Stock Exchange: *Guidelines No. 17 for Self-Regulation of Listed Companies - Sustainability Reporting (Trial)*
- Beijing Stock Exchange: *Guidelines No. 11 of Beijing Stock Exchange for Continuous Regulation of Listed Companies - Sustainability Report (Trial)*

The exchanges also jointly released the *Guide for Preparation of Sustainability Report (Draft for Public Comment)*.

Together, these documents form a qualitative framework governing the content in disclosures for important market indices issued by both domestically and internationally listed companies. Required disclosures include information on carbon emission trading, pollutant discharge, waste treatment, water resource utilization, innovation, and more. These documents also include regulatory penalties for disclosure violations.

Meanwhile, the sustainability disclosure standard generally applicable to enterprises was unveiled in 2024. Based on an assessment of how IFRS S1 and IFRS S2 apply in China, and after consulting with various stakeholders, the MOF and nine other departments issued the *Sustainability Disclosure Standards for Enterprises - Basic Standards (Trial)* ("**Standards**") in November. The Standards cover key areas such as general provisions, disclosure objectives and principles, information quality requirements,

disclosure elements, other disclosure requirements, and supplementary provisions. In its official notice when the Standards were issued, the MOF clarified that the Standards are currently voluntary until a future notice specifies exactly how and when enterprises must implement the Standards.

In general, listed companies are pioneering sustainability disclosure in China, while non-listed companies follow the path laid by the listed companies. The approach is moving from voluntary adoption toward a more mandatory, standardized, systematic, and widespread framework.

In the drafting notes for the Standards, the MOF outlined a timeline: by 2027, basic standards for corporate sustainability disclosure and climate-related disclosure standards will be issued; by 2030, a unified national system of sustainability disclosure standards is expected to be largely in place. With this timeline in mind, companies should start preparing now and treat sustainability disclosure as a priority.

04 National legislation on carbon trading has been introduced, creating a more mature National Carbon Market

On May 1, 2024, China's first administrative regulation on carbon trading took effect. The *Interim Regulation on the Administration of Carbon Emission Trading* supports the stable operation of the National Carbon Market through clearly defining the roles and responsibilities of regulatory authorities, strengthening the carbon trading system, and introducing stricter penalties for non-compliance. It also lays the foundation for expanding the National Carbon Market and promoting its coordinated development with related markets, such as Chinese Certified Emission Reductions ("CCER") and green certificates.

As for specific National Carbon Market rules, two notable changes have occurred.

First, the compliance mechanism has been improved. In October 2024, the *National Carbon Emission Rights Trading Power Generation Industry Allowance Total and Allocation Plan for 2023 and 2024* was released. It changed the compliance cycle of the National Carbon Market from two years to one year. This change indicates that after three years of testing and operation, the National Carbon Market has achieved a more regular compliance mechanism. An annual compliance cycle fits better with companies' yearly planning and operations. Thus, it will help reduce heavy carbon trading before compliance deadlines and promote a steady and healthy growth in the National Carbon Market.

Second, improvements are underway to the carbon allowance allocation mechanism. Although free allocations of carbon allowances remain the main allocation method, paid allocations are

being explored as a supplement. These paid allocations are being explored in local carbon markets such as Beijing and Shanghai.

And based on the experience gained in local carbon pilot programs for paid allocations, the Beijing Municipal Ecological Environment Bureau released the *Measures for the Administration of Paid Allocation and Repurchase of Carbon Emission Allowances in Beijing (Draft for Public Comment)* in August 2024, which attempt to create a formal regulatory system for the paid allocation of carbon emission allowances.

05 The voluntary carbon market has officially restarted and is thriving

China's voluntary carbon market has officially restarted under the CCER verification and trading rules issued in 2023, and the official relaunch was marked by the inauguration at the Beijing Green Exchange on January 22, 2024.

In terms of CCER verification and issuance, the MEE has been steadily advancing the verification of CCER methodologies across various fields, and has released the draft of the second batch of voluntary carbon emission reduction project methodologies in July 2024. The National Certification and Accreditation Administration has initiated the qualification approval process for institutions engaged in the validation of voluntary greenhouse gas emission reduction projects and the verification of emission reductions. In June 2024, the first batch of approved institutions was officially announced. Regarding CCER trading, in December 2024, the Beijing Green Exchange published the *Announcement on Matters Concerning the Trading Entities and Methods of the National Voluntary Carbon Emission Reduction Trading Market*, and in January 2025, the Beijing Green Exchange released the *Announcement on the Fee Items and Standards for National Voluntary Carbon Emission Reduction Trading*. Thus, the market trading rules, elements, and conditions necessary for CCER trading have essentially been established.

With this framework in place, the policy support is encouraging market entities to declare CCER emission reduction projects. By the end of 2024, 54 projects had been listed on the national voluntary carbon emission reduction registration system and information platform. However, no projects have yet received final certification or issued carbon credits. While interest is high, approvals have been delayed. Many companies are still learning the new rules, and some have submitted incomplete or incorrect application materials. Adjusting to the new system will take time.

Regulators are not pushing for fast, large-scale growth. Instead, they are focused on quality—ensuring each project meets high standards. This careful approach aims to build a strong, credible

voluntary carbon market in China, ready to meet strict international requirements in the future.

06 Legal status of green certificates and green power becoming clearer and the trading system continuously improves

In 2024, green certificates and green power saw significant progress. In May 2024, the State Council issued the *2024-2025 Energy Conservation and Carbon Reduction Action Plan*, which called for faster development of the green certificate trading market, integration with the carbon market, and increased green electricity use. With this high-level guidance, green certificates and green power progressed in legal positioning, trading rules and systems, and carbon market connectivity.

The legal status of green certificates has become clearer. The earlier *Notice of Effectively Completing the Full Coverage of Renewable Energy Green Electricity Certificates to Promote Renewable Electricity Consumption* stated that green certificates are the only proof of renewable electricity production and consumption. Building on that, the *Energy Law*, released in November 2024, further demonstrates at the higher-level law that a green electricity certificate system should be implemented, indicating that the green certificate system is provided with institutional safeguards at a higher legal level.

In terms of trading rules and systems, in April 2024, the National Energy Administration (“NEA”) issued the *Renewable Energy Green Power Certificate Issuance and Trading Rules (Draft for Public Comment)*, which set out more detailed regulations on how green certificates are issued and cover key aspects such as who can trade, how they can trade, where they can trade and how frequently they can trade.

In June 2024, the national green certificate issuance and trading system was officially launched. By July, the system's core functions were up and running, marking an important milestone in renewable energy in China. The system provides strong support for promoting the full coverage of green certificate issuance, improves efficiency in issuing green certificates, and boosts renewable energy power consumption.

In terms of linking the green power market and the carbon market, the General Office of the NEA and the General Office of the MEE jointly issued the *Notice on Connecting Green Power Certificates for Renewable Energy with the Voluntary Emissions Reduction Trading Market* in September 2024. This notice serves as an important step in connecting green certificate trading with the CCER market. The notice states that during a two-year transition period, companies with offshore wind or concentrated solar power projects can choose to issue green certificates or apply for CCER credits—but not both.

For now, photovoltaic and other onshore wind projects are not included in this policy.

This clearer connection between the two markets helps resolve uncertainty about whether projects should be classified as green certificate projects or CCER projects. It also prevents project owners from claiming benefits twice (double-dipping) from the same renewable energy generation, closing an important policy loophole.

07 Regulators focus on ensuring carbon market data quality through intensified enforcement efforts

As the national carbon trading market grows steadily and the CCER market restarts, ensuring accurate carbon data has become a top regulatory priority. In February 2024, MEE Vice Minister Zhao Yingmin announced a “zero tolerance” approach to falsifying carbon emissions data, with strict penalties and public exposure of violations. This regulatory focus is further reflected in other regulatory updates and market changes in 2024 that highlight data integrity in the carbon market.

Compared to the *Measures for the Administration of Carbon Emissions Trading (for Trial Implementation)*, which were implemented in 2021, the *Interim Regulation on the Administration of Carbon Emission Trading*, which took effect in May 2024, strengthen efforts to ensure carbon data quality. It expands the scope of penalties, introduces a dual penalty system punishing both companies and individuals, increases the severity of punishments, and adds new enforcement measures. The regulation also works alongside the *Interpretation by the Supreme People's Court and the Supreme People's Procuratorate of Several Issues Concerning the Application of Law in Handling Criminal Cases Involving Environmental Pollution*, combining administrative and criminal penalties to address issues such as carbon data falsification.

In August 2024, the MEE released the 18th batch of typical environmental law enforcement cases. The cases were chosen to specifically address issues such as data falsification by third-party environmental service providers and were drawn from various departments, including the MEE, the Supreme People's Court, the Supreme People's Procuratorate, the Ministry of Public Security, and the State Administration for Market Regulation.

In the cases, enforcement authorities linked administrative and criminal enforcement. For institutions repeatedly caught falsifying testing reports, criminal charges were pursued after administrative penalties were applied. These cases demonstrate the regulatory authorities “zero tolerance” approach and strong resolve to address carbon data falsification.

08

Carbon footprint certification accelerates under newly established carbon footprint management system

Some are calling 2024 the “First Year of Carbon Footprint”. From the State Council down to various ministries and local governments, a series of policy and implementation rules have been issued to elevate carbon footprint management to a critical level in China’s green transition and in its efforts to strengthen international competitiveness.

At the national policy level, there is a clear trend toward policy advancement and standard setting. Since November 2023, when the NDRC and other departments issued the *Opinions on Accelerating the Establishment of a Product Carbon Footprint Management System*, the central government has repeatedly emphasized the importance of developing a carbon footprint management system. The *Report on the Work of the Governments in 2024* specifically listed “developing a carbon footprint management system” as a key task.

In May 2024, the MEE and 14 other departments jointly released the *Implementation Plan for Building of the Carbon Footprint Management System*, which proposes steps for building a comprehensive carbon footprint management system covering accounting, certification, disclosure and other aspects. It also provides phased development goals for the implementation of the carbon footprint management system.

Additional policies, such as the *Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization*, the *Work Plan for Accelerating the Establishment of a Dual Control System for Carbon Emission*, and the *Opinions on Accelerating the All-round Green Transformation of Economic and Social Development*, emphasize the need to develop carbon emission statistics and accounting systems, product carbon identification and certification systems, and carbon footprint management systems. Together, these policies provide strong support for improving carbon footprint governance in China.

At the implementation level, work on product carbon footprint accounting standards is steadily progressing. In August 2024, the State Administration for Market Regulation and other departments jointly issued the *Notice by the State Administration of Market Supervision and Other Authorities on Launching the Pilot Program for Certification for Product Carbon Footprint Identification*, aiming to implement pilot projects for product carbon footprint identification certification in selected regions and industries. In September 2024, the MEE released the national standard *Greenhouse Gases - Carbon Footprint of Products - Requirements and Guidelines for Quantification* (GB/T 24067-2024), laying foundation for international exchange and mutual recognition of product carbon footprint measurement

methods and data. In November 2024, the Ministry of Industry and Information Technology issued the *Guidelines on the Preparation of the Carbon Footprint Accounting Rules and Standards for Key Industrial Products*, outlining how to develop carbon footprint accounting rules for key industrial products and specifying which products and details should be covered. Then, in January 2025, the *Work Guidelines for the Preparation of the Accounting Standards for Product Carbon Footprint* set the goals and methods for preparing product carbon footprint standards, providing a solid foundation for upcoming standardization efforts.

Following these national policies, provinces and cities have actively advanced carbon footprint management, turning policy guidance into real-world market actions. For example, in February 2024, the Shanghai municipal government held an executive meeting calling for faster development of a product carbon footprint management system and a green low-carbon supply chain. Following this meeting, the *Action Plan for Accelerating the Establishment of a Product Carbon Footprint Management System and Building a Green Low-Carbon Supply Chain* was released. And in June 2024, the Shanghai Municipal Administration for Market Regulation launched a “Product Carbon Footprint Certification” pilot program and published rules for the first 11 product types, helping companies to resolve key carbon accounting issues and to ensure the industry chain aligns with international standards. Other provinces, such as Hubei, Guangdong, Zhejiang, Sichuan, Tianjin, Shandong, and Jiangsu, have also released provincial-level plans or opinions on carbon footprint management. With this growing number of policies and local actions, China’s carbon footprint management system is steadily transitioning from a planning stage to an implementation stage.

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01 Green financial service models continue to innovate and develop, with carbon futures expected to be introduced soon

In 2024, as standards improved and policy support grew stronger, green financial products advanced significantly, expanding to areas such as green loans, green insurance, and green funds. With the relaunch of the CCER, financial institutions introduced many new derivative products aligned with CCER policies. For example, in March 2024, the first loan product linked with CCER was issued in Chengdu. Then, in April 2024, the first bond product linked with CCER carbon emission reduction was successfully issued.

Despite significant progress in green financial products, the range of available green finance tools still needs to grow. The *Opinions on Accelerating the Comprehensive Green Transition of Economic and Social Development* clearly call for more diverse financial instruments to support this green transition.

Specifically, multiple policies and speeches in 2024 have advocated for the development of carbon futures; without these carbon futures, companies have been prevented from effectively hedging the cost risks associated with long-term carbon price increases. In July 2024, the *Implementation Plan for National Carbon Peak Pilot (Guangzhou)* recommended that the Guangzhou Futures Exchange accelerate the listing of carbon emissions rights and other futures products. Then, in December 2024, Chen Huaping, the Vice Chairman of the CSRC, stated at the International Futures Industry Conference that the timely launch of carbon emissions futures would help improve the National Carbon Market, optimize resource allocation, and promote emissions reduction.

This innovation in carbon financial products and derivative instruments will continue to be a key focus for the development of the green financial market in 2025. We might even see trading products such as carbon futures being officially launched, which will bring more vitality and innovation to the green financial market.

02 New participants will enter an expanded National Carbon Market

The National Carbon Market will gradually expand.

In September 2024, the Ministry of Ecology and Environment (MEE) released a draft plan titled *Work Plan for Including Cement, Steel, and Electrolytic Aluminum Industries in the National Carbon Emission Trading Market (for Public Comment)*. This plan lays out a step-by-step process to bring these three high-emission industries into the carbon market.

The MEE also published guidelines on how to measure and report greenhouse gas emissions for these sectors, offering clear technical support for accurate emission tracking. Although the final rules have not been officially issued yet, the progress of supporting policies suggests the expansion will likely be confirmed soon—possibly in 2025. By the end of 2025, companies in these industries are expected to begin meeting their carbon quota obligations under the national system.

This expansion means more emissions will be covered and more types of companies will join the market, greatly increasing its scale and impact. The MEE has also signaled that the building materials industry will be next in line for inclusion.

Based on these policy pronouncements, the growth of the National Carbon Market will continue steadily in the years ahead.

Beyond the growth in companies required to comply with carbon rules, the involvement of voluntary participants is even more important for the future of carbon finance. In December 2024, a succession of securities companies including Guoyuan Securities, Caida Securities, China Merchants Securities, Guosen Securities, Industrial Securities, Great Wall Securities, GF Securities, and Southwest Securities announced that the CSRC had permitted them to participate in domestic carbon emission trading.

Reports indicate that at least 18 securities companies now have permission to trade carbon emissions. Going forward, more voluntary participants, especially financial institutions, are expected to join the National Carbon Market. Their participation will bring fresh energy to the development and innovation of carbon finance.

03 An ESG disclosure standard applicable to all types of financial institutions is expected to be introduced

In 2024, as key guidelines and standards were released, a common framework for sustainability disclosures began to take shape. As leaders in ESG practices, financial institutions face higher expectations when it comes to disclosing ESG information.

While listed companies already have disclosure requirements, the newly issued Guidelines—though non-mandatory and designed for all businesses—could become a key reference for financial institutions' future sustainability reporting. However, it remains to be seen how these institutions will apply the Standards and how regulators will oversee their use.

Currently, there is no comprehensive disclosure system tailored to all types of financial institutions. As the only existing guidance, the *2021 PBOC Guidelines on Environmental Information Disclosure for Financial Institutions* contain limited requirements and can no longer

meet China's evolving sustainability goals or align with international standards.

Despite this gap, Chinese financial institutions are voluntarily adopting stronger disclosure practices, and the quality and completeness of their sustainability reports have been improving each year. In 2024, the ESG disclosure rate among listed financial firms reached 91.8%, far surpassing other sectors.

Even so, the market continues to call for clearer, more detailed, and mandatory disclosure rules for all financial institutions.

From a policy standpoint, it is only a matter of time before standardized disclosure rules are introduced. In March 2024, the People's Bank of China (PBOC) and seven other agencies jointly released the *Guiding Opinions of Further Strengthening Financial Support for Green and Low-Carbon Development*, which call for stronger financial support for green and low-carbon development. This included promoting environmental information disclosure by financial institutions and exploring the gradual creation of a disclosure system covering all types of financial institutions. Then, in September 2024, a PBOC deputy governor stated that financial institutions would be encouraged to further improve their sustainability reporting.

Given these developments, we expect regulators to introduce clearer and more consistent ESG disclosure requirements for all financial institutions by 2025, helping bring greater standardization and transparency to the sector.

04 Market participants look forward to cross-border carbon trading opening because of COP29

In November 2024, new opportunities for global carbon markets and carbon trading became possible when, at the 28th session of the Conference of the Parties to the UN Framework Convention on Climate Change ("COP 29"), a final agreement was reached on Articles 6.2 and 6.4 of the Paris Agreement.

Although there are still huge practical challenges in ensuring transparency, environmental integrity and social fairness of the carbon market, these articles create new possibilities for linking carbon markets. Article 6.4 aims to create a unified international carbon market. Article 6.2 allows countries to trade carbon credits through bilateral or multilateral cooperation, and sets out rules for how countries will approve these trades and how transaction records will be tracked.

For China, this agreement creates a major opportunity to open its carbon market to the world. With the restart of China's CCER mechanism and the agreement on Article 6 of the Paris Agreement,

China can now connect with the global carbon market, trade carbon credits internationally, and attract foreign investment to support green projects at home. Chinese companies will also be able to sell their domestic carbon credits overseas, gaining greater access to international funding through these trades.

Currently, the lack of clear regulatory guidance has limited cross-border carbon trading in China. The current regulation—the *Interim Regulation on the Administration of Carbon Emission Trading*—only states that "the state shall strengthen international cooperation in carbon trading," but does not provide specific rules for cross-border transactions. Thus, as the world's largest mandatory carbon market, the mainland carbon market is looking forward to new international possibilities as the global framework under Article 6 takes shape.

05 Judicial practice continues to improve to meet the new market challenges

As the carbon market grows rapidly, courts are actively studying legal issues related to carbon trading to provide strong judicial support. In 2024, court rulings on carbon trading disputes and enforcement actions involving carbon quotas helped set important precedents and guidance for the market.

Early this year, Shandong Province saw its first case involving a carbon emissions trading dispute. The ruling in the case invalidated off-site trades by major emitters, helping ensure that China's national on-site carbon trading system remains effective and not just symbolic.

In April, the People's Court of Fengtai District in Beijing successfully enforced a judgment by liquidating carbon quotas held by a local company. This marked a key step in integrating carbon quotas into the property enforcement system and confirmed their value as property rights.

In August, a ruling was issued in Beijing's first carbon emission quota trading case. The ruling stated that even if a party lacks formal qualifications to trade carbon quotas, the contract is not automatically invalid.

These cases help close the legal gap between emerging carbon rights and existing civil law. They play a vital role in supporting the market-based development of carbon trading in China.

And as carbon trading becomes more common, the judiciary's role in guiding the market is expected to continue to grow.

In July 2024, the Supreme People's Court held a seminar in Beijing on legal issues related to carbon trading. The court shared lessons learned from supporting carbon peaking and carbon neutrality goals and discussed ways to improve coordination between the

judiciary and other administrative agencies, legislative bodies, and carbon trading platforms. The discussion highlighted the need for better cooperation—both within courts and between courts and these other institutions—to build a stronger, more unified legal framework for the carbon market.

Going forward, we anticipate that the courts may work more closely with carbon market agencies to clarify key issues such as how emission reductions are calculated, how prices are set, and how compensation should be handled. These efforts will help provide clearer legal guidance for businesses and investors, showing how to balance economic interests with social benefits, align with national industrial policies, and support low-carbon development while protecting both financial institutions and the public interest.



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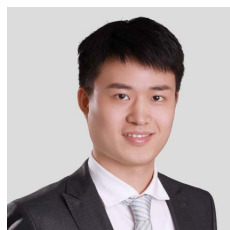
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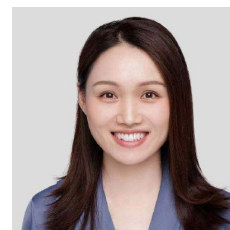
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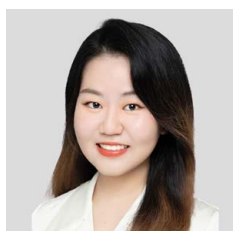
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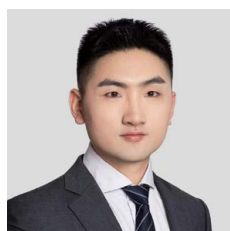
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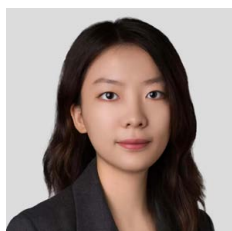
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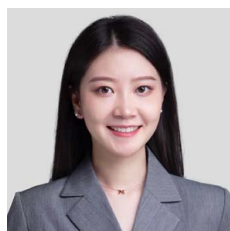
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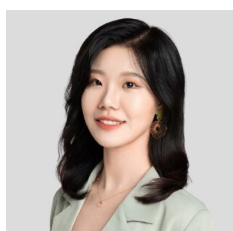
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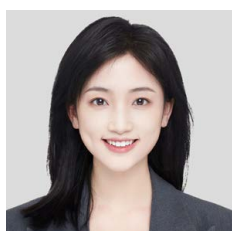
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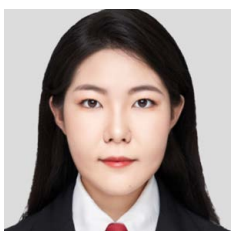
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