PRC Financial Regulation: Annual Report (2022) Asset Management / Wealth Management

2021 Key Dates

January 8

The CSRC published the *Certain Provisions on Strengthening the Supervision of Private Investment Funds*, summarizing regulatory experience and refining regulatory requirements.

March 30

The *Opinions on Financial Support for Hainan's Comprehensive Deepening of Reform and Opening-Up* was promulgated, aiming to explore the introduction of the cross-border asset management business pilot scheme to issue RMB-denominated asset management products in offshore markets, and to launch Qualified Domestic Limited Partnership ("**QDLP**") and Qualified Foreign Limited Partnership ("**QFLP**") pilot schemes in Hainan Province.

May 11

The CBIRC published the *Provisional Measures for Administration of Distribution of Bank Wealth Management Products by Bank Wealth Management Companies.*

May 14

The *Several Opinions on Accelerating Building Shanghai into a Global Asset Management Center* was promulgated, raising the initiative of an international financial asset trading platform, and exploring the feasibility of using one platform to conduct QDLP and WFOE PFM businesses; on the same day, the first batch of public Real Estate Investment Trusts ("**REITs**") (9 in total) were approved by the Shanghai Stock Exchange ("**SSE**") or the Shenzhen Stock Exchange ("**SZSE**").

May 27

The CBIRC published the *Circular on Matters Related to the Regulation of the Management of Cash-management Bank Wealth Management Products.*

June 1

The opening ceremony of Shanghai-Hong Kong ETF Connect was held and one ETF product from each of SSE and the Hong Kong Exchanges and Clearing Limited ("**HKEX**") was listed and traded on both markets.

June 29

The NDRC published the *Circular on Further Improving the Pilot Scheme of the Infrastructure Sector REITs.*

July 27

The first wholly foreign-owned insurance asset management company, Allianz Insurance Asset Management Company Limited, was approved to commence business.

September 10

The regulators on the mainland, Hong Kong and Macau respectively released the implementation details of the Cross-Border Wealth Management Connect in the Greater Bay Area ("**WM Connect**"). Thereafter, the Hong Kong Monetary Authority, the Macau Monetary Authority, the Guangzhou Branch of the PBOC, and the Shenzhen Central Sub-branch of the PBOC announced the first batch of banks permitted to conduct WM Connect business on October 18, and such business was launched on the following day.

September 24

The Southbound Trading under Bond Connect was officially launched four years after Northbound Trading was implemented.

October 13

The CSRC announced to allow Qualified Foreign Investors ("**QFIs**") to invest in commodity futures, commodity options and stock index options.

December 10

The CBIRC published the consultation paper of the *Regulations on the Administration of Insurance Asset Management Companies*, which clarified the position of insurance asset management companies as "aiming to achieve long-term value maintenance and asset appreciation"; the *Measures for the Administration of the Liquidity Risk of the Bank Wealth Management Products of Bank Wealth Management Companies* was promulgated.

2021 Regulatory Observations

01 Post-*Asset Management New Rules* Era: the regulatory systems of the CBIRC and the CSRC move towards consistency while characteristics of different institutions are taken into consideration, and financial institutions endeavor to take challenge to finish the "last mile" of the transitional period

The year 2021 is the last year of the transitional period of the *Asset Management New Rules* (issued by multiple financial regulators in 2018), and the regulatory systems of asset management gradually become well bedded in. Various supporting rules of the *Asset Management New Rules* have been gradually put in place (except for the *Provisional Measures for Administration of Cash Trust of Trust Companies* in the trust sector, which has not been officially promulgated following public consultation), and the regulatory systems of bank wealth management (i.e. asset management services offered by commercial banks or their dedicated subsidiaries. The industry tends to continue to use this terminology even though the "wealth management (理 财 in Chinese)" service in most contexts is asset management in nature), funds, securities asset management, insurance asset management, and other related industries and products are becoming unified.

Taking the bank wealth management business as an example, in 2021, the CBIRC published the *Provisional Measures for Administration of Distribution of Bank Wealth Management Products by Bank Wealth Management Companies*, the *Circular on Matters Related to the Regulation of the Management of Cash-management Bank Wealth Management Products*, and the *Measures for the Administration of the Liquidity Risk of the Bank Wealth Management Products of Bank Wealth Management Companies*. Additionally, according to the 2022 legislative plan released by the CBIRC, it intends to issue the *Measures on Consumer Appropriateness Management of Banking and Insurance Institutions* in 2022.

The system and rules for bank wealth management companies (including wealth management subsidiaries ("**WMSs**") and other non-bank financial institutions approved by the CBIRC which mainly conduct bank wealth management business, such as the bank wealth management companies controlled by foreign shareholders) are gradually converging with the CSRC system. At the same time, the regulatory authorities' approaches towards asset management products are still based on the types of product manufacturers. For example, the distribution channels of WMSs are still limited to banking institutions. And the consultation paper of the *Regulations on the Administration of Insurance Asset Management Companies* emphasizes that insurance asset management companies still need to be anchored in long-term and steady investment strategies to achieve the goal of long-term value maintenance and asset appreciation.

With the end of the transitional period approaching, financial institutions have been stepping up their efforts to make all changes to meet the requirements of regulators to upgrade their operations ("**Rectification**"), such as clearing out the principal-protected or non-compliant asset management/bank wealth management products. Although most institutions are said to be able to accomplish the Rectification on time, the work of some institutions is more of "form over substance", and some products are still being secured by the credit of financial institutions while the *Asset Management New Rules* requires the financial institutions shall not provide any direct or indirect, explicit or implicit guarantees, repurchases and other commitments to bear risk on behalf of the asset management products. After the expiration of the transitional period, the regulators will promptly deal with assets that are not "rectified" by financial institutions on a case-by-case basis. The regulator may take additional measures against any financial institutions still not in compliance with new regulations, including but not limited to suspension of new business and adjustment of regulatory ratings until such assets have been fully "rectified". In addition, new issues and challenges have emerged in the process of strictly implementing the requirements of the *Asset Management New Rules*. For example, the requirement of net worth management (which means that the actual value and the return on assets shall be reflected in the net worth of the asset management product) has caused financial institutions to rethink the importance of their investment and research capabilities in order to produce more competitive asset management products.

02 Regulatory approaches have been further refined to cover the full life cycle (i.e. fundraising, investment, management, and exit) of asset management products

In 2021, regulators continued to refine their regulatory approaches with regard to individual asset management products, with new regulatory requirements covering the entire life cycle of asset management products, including "fundraising, investment, management, and exit". Regulators also began to pay special attention to key fields and high-risk transaction scenarios.

(1) "Fundraising": The regulators have stressed that the online distribution by internet platforms has to be licensed and those that are not licensed need to rectify.

(2) "Investment": In recent years, the regulators have regulated investment behaviors from multiple perspectives, such as concentration restriction on investments (i.e. the regulators impose upper limits on underlying assets an asset management product can invest in from different perspectives), investment scope, and market misconduct prohibitions. However, the regulators rarely mention specific investment/trading activities from a micro perspective. It is worth pointing out that new trading models such as quantitative trading and high-frequency trading have recently developed rapidly in the Chinese market. Regulators have tentatively imposed information reporting requirements on these special trading models in 2021, laying the groundwork for future regulation.

(3) "Management": In September 2021, the General Office of the Ministry of Finance published the consultation paper of the *Regulations on Accounting Treatment Related to Asset Management Products*. The proposed unified accounting treatment will promote the implementation of the principle of net worth management and prevent financial risks. In addition, the official of the Market Department of the CSRC mentioned in 2021 that the CSRC will facilitate the issuance of the *Regulations on Supervision and Administration of Private Investment Funds* as soon as possible.

(4) "Exit": The importance of diversity of exit routes for private equity/venture capital ("**PE/VC**") products cannot be overstated. In 2021, the establishment of the Beijing Stock Exchange has provided a new way for domestic companies to go public. Added to that, earlier this year, the Beijing Equity Trading Center took the lead in implementing applicable supporting rules of equity transfers relating to PE/VC investments. In November, the CSRC approved the pilot transfer of PE/VC investments in the Shanghai regional equity market. Other regions in China such as Sanya, Hainan Province have also proposed to actively explore the establishment of similar mechanisms.

03 Taking fund investment advisory service as an opportunity, both domestic and foreign institutions have made comprehensive arrangements in the wealth management sector, and the overall regulatory system over the wealth management sector has gradually taken shape

In the post-coronavirus era, the transformation of asset management institutions has begun, and wealth management is one of the market's key concerns (unlike the bank wealth management service, the wealth management service (财富管理 in Chinese) refers to the comprehensive buy-side advisory services and tailored investment and financing solutions to clients, which is close to the term as used in most offshore jurisdictions).

In the first half of the year 2021, several institutions obtained the public fund investment advisory pilot qualification, which may provide a catalyst for the transformation of the wealth management business. After assessing the actual situation in the wealth management sector and gathering regulatory experience, in the second half of the year 2021, the CSRC and the AMAC focused on further regulation of fund investment advisory businesses. For example, the CSRC publicly issued the draft of the *Circular on the Regulations of Fund Portfolio Strategy Advisory Activities* in November 2021, which aims to differentiate and regulate fund investment advisory services (which is regarded as buy-side service) from investment advisory services ancillary to fund distribution (which is more from the perspective of sellers). In addition, the AMAC issued guidelines on the content and format of legal documents for fund investment advisory services for public consultation, and the CSRC issued guidelines on service performance and client asset presentation for public consultation. As a result, the regulatory regime for fund investment advisory business is gradually taking shape, and the standardization of the investment advisory market is also expected.

Meanwhile, foreign institutions have started to become actively involved in wealth management businesses in China. In 2021, several foreign financial institutions, such as Credit Suisse, have been preparing for, or have submitted, applications for business qualifications covering important segments of wealth management services, such as product distribution, investment advisory service, and securities brokerage.

Trust companies have also been actively developing investment trusts (mainly securities-based investments) and family trust businesses, to fall in line with regulatory pressure. As for bank wealth management products provided by bank wealth management companies, the official release of the *Provisional Measures for Administration of Distribution of Bank Wealth Management Products by Bank Wealth Management Companies* added another piece of the puzzle to the supporting regulatory system for bank wealth management business. Currently, bank wealth management products are only allowed to be sold by bank wealth management companies themselves and banking institutions, which has an impact on the ability of acquiring consumers through internet platforms, brokers and other sophisticated distribution channels. However, for small and medium-sized banks that have not yet set up WMSs, such restrictions on distribution channels may offer them an opportunity to approach their existing customers directly to develop their wealth management business.

04 Mutual market access between the mainland and Hong Kong/Macau deepens with greater range of products

Based on the experience gained from Stock Connect and Bond Connect, the mutual market access concept is being consistently explored and deepened. Four years after the introduction of the Northbound Trading under the Bond Connect, Southbound Trading was launched in September 2021. As one of the channels by which onshore institutions are allowed to make offshore investment in the overseas bond market, Southbound Trading further accelerates the pace of internationalization of the PRC bond market.

After nearly two years of preparation since the announcement of the Greater Bay Area Construction Leading Group in November 2019 to explore the establishment of the WM Connect in the Greater Bay Area, the first batch of business of the WM Connect was officially launched in October 2021. The approach in the early stage of the WM Connect was to proceed cautiously with proper risk controls, involving low-risk products, closed-loop funds flow, careful regard for investor protection and methods introduced for resolving disputes, among other measures.

Unlike previous mutual market access programs, the WM Connect allows retail customers to open investment accounts and make investments directly across the border for the first time, providing investors in the Greater Bay Area with a wider degree of flexibility in choosing investment products. According to the Guangzhou Branch of the PBOC, a total of 20 banks provided services to individual investors in November, leading to 7,517 new investors. Of these, a total of 5,100 people from Hong Kong and Macau participated in the Northbound Connect, and a total of 2,417 people from the mainland participated in the Southbound Connect.

In addition to the Southbound Trading under Bond Connect and the WM Connect, the mainland and Hong Kong are also actively exploring the cooperation mechanism of ETF Connect. SSE, SZSE and HKEX have listed ETF products respectively under ETF Connect. Given the different regulatory regimes of the mainland and Hong Kong and other practical reasons, ETF Connect is still mainly achieved through the QDII/QFII channel by way of "mutual investment". HKEX, SSE, SZSE, and China Securities Depository and Clearing Corporation ("**CSDC**") reached a high-level agreement at the end of December 2021 on the availability of eligible ETFs under Stock Connect. As the next step, HKEX, SSE, SZSE, and CSDC will work closely on the details of inclusion, including business and technical preparations such as amendments to applicable rules.

05 Steady progress in further opening-up and integration into the global financial system

Since the new QFI regulations came into effect in 2020, the hurdle for hedge funds to apply for QFI qualification was removed and several hedge fund managers already successfully obtained a QFI qualification in 2021. In addition, on October 13, 2021, the CSRC issued a regulation that allows QFIs to invest in commodity futures, commodity options and stock index options, which is a further implementation of the new QFI regulations (but specific transactions are subject to upcoming rules of exchanges). Besides, in 2021, quota approvals for QDIIs tend to be seen more often.

On March 30, 2021, the PBOC, the CBIRC, the CSRC, and the SAFE jointly issued the *Opinions on Financial Support for Hainan's Comprehensive Deepening of Reform and Opening-up*, proposing to explore the development of the pilot scheme of cross-border asset management and to support foreign investors to invest in various types of asset management products issued by financial institutions in the Hainan Free Trade Zone. This has become one of the financial pilot schemes that the market is viewing with great interest to see how it works in practice. In May 2021, the Shanghai Municipal Government released *Several Opinions on Accelerating Building Shanghai into a Global Asset Management Center*, an indication of the Shanghai government's determination to asset management sector to put in place a good system to support bank wealth management, trusts, securities, funds, insurance, private equity and futures in order to build a global asset management center. Shanghai Lingang District also intends to build an international financial asset trading platform with both issuance and trading functions. Furthermore, the SAFE has approved multiple regions to carry out cross-border business such as those conducted through QDLP and QFLP schemes. The Sino-French Financial Dialogue also mentions that China welcomes French asset management institutions to set up joint venture bank wealth management companies with WMSs of Chinese banks.

At the same time, foreign investors continue to be enthusiastic about the asset management market in China and are entering the market:

- Allianz became the first wholly foreign-owned insurance asset management company;
- The bank wealth management joint venture of BlackRock, CCB and Fullerton was approved to open for business and issued its first product;
- The bank wealth management joint ventures between Schroders and Bank of Communications and between Goldman Sachs and ICBC were approved for their respective establishments;
- The first wholly foreign-owned public fund company, BlackRock Fund Management Limited Company, was approved to open for business and promptly launched its first public product;
- Both Fidelity and Neuberger Berman were approved to establish their wholly foreign-owned public fund companies;
- JP Morgan announced it would acquire 10% equity interest of China Merchants Bank's WMS; and
- Bridgewater became the first WFOE PFM with assets under management ("**AuM**") reaching RMB10 billion.

These foreign institutions are likely to bring new developments to the asset management market in China.

06 The asset management sector contributes to the reform of the pension system, while, in turn, the pension system introduces new long-term funds into the asset management sector

China's reform of pensions continued. Compared with the first pillar (public pensions) and second pillar (annuities and other pensions serving similar purposes and functions), the development of the third pillar (individuals contributing to their own pensions through, for example, personal savings and commercial pension insurance) has lagged behind. Faced with the pressure of an aging society, the reform of the pension system is essential. Regulators are also actively exploring other ways to develop the third pillar (apart from commercial insurance).

Pilot pension bank wealth management products made their debut in 2021. Unlike the pension-target funds under the CSRC system, the pension bank wealth management products issued by the WMSs are equipped with more "pension" features, such as: (1) the products come under closed-ended operation, but supports early redemption when certain conditions are met (e.g., major diseases);

(2) the products adopt the "income-smoothing funds" mechanism to ensure regular investment return (a certain percentage of excess income over the benchmark is distributed to the income-smoothing fund to cope with the situation where the return of the product is uneven).

Bank wealth management companies have certain advantages in carrying out pension asset management: (1) commercial banks have an extensive base of savings clients; (2) bank wealth management has extensive experience in asset allocation and the offering of low- and medium-risk products; (3) regulators intend to guide the development of professional products with real pension-saving functions. In a speech in October 2020, CBIRC Chairman Guo Shuqing said that the regulators should explore uniform standards for pension financial products and should abolish products that do not live up to their names.

The pension system is also closely linked to the asset management sector. For a long time, institutional investors, represented by social security funds, pension funds and enterprise annuities, have argued for the sound development of the asset management sector. The reason is, compared with retail investors who pursue short-term interests, they are more concerned to achieve long-term investments. Pension bank wealth management products are conducive to the transferring of individual investors' "deposits" into investments with the aim of achieving a balance of risks.

07 While emphasizing the elimination of mandatory repayment, the principle of *caveat venditor* ("seller beware") and *caveat emptor* ("buyer beware"), clearly stated in the *Minutes of the National Courts' Ninth Conference on Civil and Commercial Trial Work*, has been carried through in judicial practice

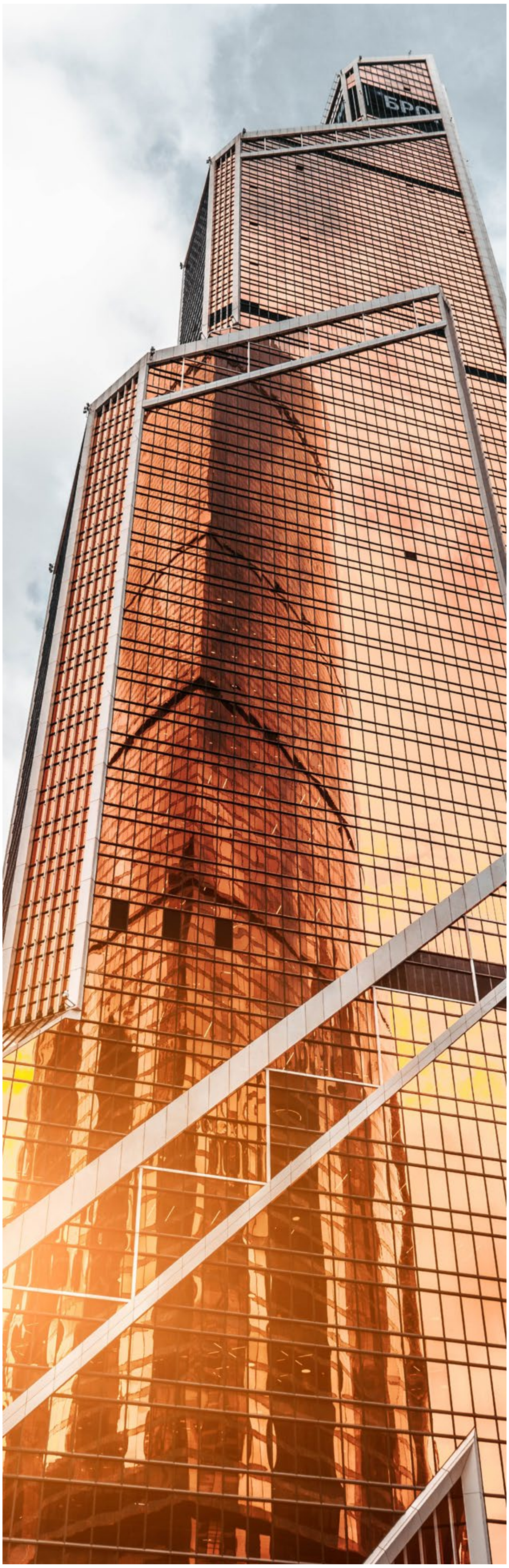
The core purpose of the *Asset Management New Rules* is to put an end to mandatory repayment to investors and to let the investors bear the investment risks. Regulators have enforced this strongly. For example, Sichuan Trust was fined RMB34.9 million for, amongst others, promising zero principal loss or minimum investment return. At the same time, in recent trials, the regulatory directive that the mandatory repayment-related provisions shall be deemed invalid has also been signaled by judges. For instance, in the Zenith Steel Group vs. Sandu Xinghe case, the court of second instance upheld the first instance judgment, holding that, despite the general principle that violation of regulations would not affect the validity of a contract, a contract should be considered invalid if the content of such regulations involves financial security, market order, national macroeconomic policy, and other public policies. Accordingly, the court held in this case that the contract on mandatory repayment should be invalid. The court of the first instance also mentioned that if Zenith Steel Group considered that the manager was at fault for the investor's loss, the investor could claim damages separately once the amount of loss had been determined. This also confirmed the principle that the manager with management responsibility should be liable for losses caused by their fault (at least to some extent).

Furthermore, in recent trials, it was held that a distributor (or a non-licensed institution that substantially performs the distribution and related functions), as the agent of the manager, may be held jointly and severally liable, in accordance with the *Minutes of the National Courts' Ninth Conference on Civil and Commercial Trial Work*. For example, in the Ju Pai case, the controlling shareholder of the manager was substantially involved in the promotion, distribution, investment, and management of the private fund, and therefore in essence constituted the agent of the manager, and thus the shareholder should be jointly and severally liable with the manager.

08 Carbon trading system gradually improved to promote the development of the green asset management business

The year 2021 is the first year of the 14th Five-Year Plan, out of which emerged a number of key goals so far as the promotion of the environmental industry is concerned.

· In March, the State Council issued the *14th Five-year Plan for China's National Economic and Social Development (2021-2025) and the Outline of Perspective Goals for 2035*, proposing to promote green development and the harmonious coexistence of human beings and nature, build a green development policy system, strengthen the legal and policy guarantees for green development, and



vigorously develop green finance.

- In February, the *Management Rules of Carbon Emissions Trading (for Trial Implementation)* came into effect; and in July, the national carbon emissions trading was officially launched in the Shanghai Environment and Energy Trade Exchange.

- In November, the *Guiding Opinions on Strengthening the Integration of Industry to Promote the Green Development of Industry* were promulgated, proposing to innovate green financial products and services and to support the orderly transfer of production capacity, relocate hazardous chemical production enterprises, and build advanced manufacturing clusters with a comprehensive package of financial tools such as M&A loans and asset management.

The green policies and market practice represented by peaking carbon dioxide emissions and achieving carbon neutrality (the so-called "30-60" objective) progressed steadily in 2021.

Along with the high-level policy support from the regulators, green asset management products with the theme of peaking carbon dioxide emissions and achieving carbon neutrality have emerged in various forms in the market this year. For example, the first domestic "carbon neutrality" asset securitization product issued by Yingda Trust, the first carbon-neutral service trust established by Zhonghai Trust with Chinese Certified Emission Reduction (CCER) as the underlying asset, and several ESG ETFs have been approved. It is not difficult to find that green asset management products with the theme of peaking carbon dioxide emissions and achieving carbon neutrality play a role in value discovery and value investment in the field of energy conservation and environmental protection.

2022 Regulatory Outlook

01 Asset management institutions will pay more attention to specialized positioning, with less-sophisticated players expected to exit the market

The *Asset Management New Rules* and its supporting provisions will continue to promote the sound development of the asset management sector. With the asset management business gradually returning to its original purpose (i.e. active management), the importance of professional operation and compliance has become more and more pronounced. We expect that regulators will continue to build a regulatory system for asset management to guide the healthy, long-term development of the sector.

In addition to the banks' splitting bank wealth management business from their banking businesses, securities companies have also set up specialized asset management subsidiaries, which is an important measure to implement the *Asset Management New Rules* on risk segregation of legal persons and represents a further specialization of the asset management business. However, since 2021, the pace of license approvals for WMSs has slowed significantly, which we believe is related to the CBIRC's mindset of urging the transformation of the bank asset management business and emphasizing compliance.

We also expect that regulators will be more cautious in approving the splitting of asset management business or the new qualification of asset management business, and the approval of new licenses for WMSs or other bank wealth management companies might be tightened. For commercial banks that cannot achieve a "clean start", regulators might suspend or even not approve the establishment of WMSs. Under such circumstances, these commercial banks will not be able to continue their bank wealth management business after the terms of their existing self-manufactured products expire. With this trend, the less sophisticated players will cease to exist, and the phenomena of asset management institutions being "large in quantity but undesirable in quality", or "large in AuM but undesirable in return" will be improved.

In addition to the above, as part of growing professionalism that is being encouraged, we expect that the regulation of the third-party service sector will be strengthened. The regulator's attention will be extended to cover other aspects of the business, such as custody, FATA, distribution, valuation and IT, as it will be the responsibilities of managers to ensure that the asset management institutions focus on their core business and risk management.

02 From commission fee-first to client interest-first, the wealth management sector will undergo profound changes

We expect that the consultation paper of the investment advisory business qualification issued by the CSRC will probably be formally promulgated and implemented in 2022, and the approval of fund investment advisory qualification (currently only on a pilot basis) will become more common in the future. The importance of buy-side advisory business will be further highlighted, particularly when it comes to fund investment advisory services. The wealth management market will gradually move from a seller-led one to a more mature model, i.e. being closer to the needs of investors and relying on the professional capabilities of financial institutions to provide multi-category and multi-dimensional advisory services.

The regulatory approaches of the regulators will put more emphasis on the different fiduciary responsibilities of service providers to the product issuers and to the investors, and discussions over the boundaries of the responsibilities of service providers from different perspectives, as well as the prevention and handling of conflicts of interest.

On this basis, the provision of integrated and customized services will further lead to growth opportunities in a series of businesses such as brokerage, private products and structured products. No single financial institution can yet provide comprehensive and full process wealth management services under PRC law. The advantages of a group company will be shown at this stage and the intra-group cooperation model will be further explored. We expect that the leading experience in this regard may shed new light on the regulation of intra-group collaboration.

03 Cross-border regulation and enforcement issues may be highlighted as asset management and wealth management markets go global

Along with the deepening of the mutual market access regime and the steady progress of financial opening-up, the wealth management sector and the asset management sector will continue to promote global operation, and bringing new opportunities for global asset allocation for global and Chinese investors. On this basis, the wealth management sector and asset management sector may usher in a new development boom. We expect that regulators will continue to promote the development and improvement of policies and systems related to cross-border asset management, such as further expanding the scope of QFI investment and issuing supporting implementation rules, expanding the QDLP/QFLP pilot schemes, and promoting pilot cross-border investment by private equity funds. In addition, regulators will also focus more on practical issues, such as how to regulate the cross-border transmission of financial services related data.

As the global financial system becomes more closely integrated, the importance of cross-border regulatory supervision and enforcement cooperation becomes all the more important. How to strengthen the collaboration and information sharing between regulators, prevent the risks arising from cross-border capital flows, and cope with the different financial supervision requirements of different jurisdictions will become new challenges for regulators. We believe that the implementation of the "place of business segment" principle established by the WM Connect will bring fresh ideas to solve these challenges. We expect that, while the possibility of introducing specific implementation rules on cross-border regulations and enforcement in the near term is low, the regulators will continue to gain experience and lay the groundwork for future rules.

04 More efforts to be devoted to investor education

In the era following the introduction of the *Asset Management New Rules*, there is likely to be a reversion to the position where investors have greater influence. For example, how individual investors can further release the funds in their savings accounts to diversify asset allocation, how institutional investors should invest to maximize returns by balancing the risks, and how government investors can balance maximizing returns with the benchmarking role of the government will all come to the fore. In this process, sound investor education will help investors gain a deeper understanding of how the asset management sector works and how they can best work out what investments are best for them.

The "net worth transformation" of bank wealth management business and the elimination of "mandatory repayment" will overturn the traditional perceptions of investors of bank wealth management products. It will become an important issue for bank wealth management to gain investors' understanding and continue to win their investment. We expect that the CBIRC will continue the regulatory focus on protecting consumer rights, with more emphasis on making sure that investors of asset management products are suitable and investor education in the overall process of issuance and distribution of asset management/wealth management products. So far as keeping investors well informed is concerned, bank wealth management businesses could learn from mutual funds.

Domestic and foreign institutions need to put themselves in their clients' shoes and assist "non-professional" investors (represented by individuals, or "retail" investors) to select suitable products which are best suited to their own needs and conform to their risk appetite. In addition to general educational content such as risk disclosure and elimination of "guaranteed repayment", we expect that regulators may place more emphasis on the introduction of offshore products (especially those that are more innovative and complex in structure compared to asset management products available in the onshore market).

05 The theme of "green" may become an important direction for the transformation of the asset management sector

In recent years, the green finance business in the PRC has laid a good foundation, with green credit and green bonds performing very well. Financial regulators have made clear their encouraging and supportive attitude towards green finance businesses and products in the *Guiding Opinions on Strengthening the Cooperation of Industry and Financing to Promote the Green Development of Industries*. Currently, the asset management sector has started to actively issue green products. We believe that the green theme will be an important direction for the transformation of the asset management sector in the coming year.

We expect that supporting policies will clarify the meaning of "green theme", provide clearer identification criteria, improve the framework and standards for information disclosure of applicable entities and define the legal responsibilities of managers. Accordingly, regulators might also issue relevant preferential or supportive policies to provide the impetus for the development of green asset management.

Authors

Grace Yu

Partner, Fangda Partners
grace.yu@fangdalaw.com

Xiaoying Zhang

Counsel, Fangda Partners
xiaoying.zhang@fangdalaw.com

Xiaoying Zhang

Counsel, Fangda Partners
xiaoying.zhang@fangdalaw.com

Veronica Yu

Fangda Partners
veronica.yu@fangdalaw.com