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PRC Financial Regulation: Annual Report (2022) FinTech



2021 Key Dates

January 13 / February 19

The China Banking and Insurance Regulatory Commission (CBIRC) and the People's Bank of China (PBOC) issued the *Notice on Matters Concerning the Regulation of Internet-based Personal Deposits of Commercial Banks*, and the CBIRC issued the *Notice on Further Regulating the Internet Lending Business of Commercial Banks*.

February 7

The Anti-monopoly Commission of the State Council issued the *Anti-monopoly Guidelines on Platform Economy*.

June 10 / August 20

The Standing Committee of the National People's Congress passed the *Data Security Law* and the *Personal Information Protection Law* (PIPL).

July 30

The State Council issued the *Regulations for Security Protection of Critical Information Infrastructure*.

September 28

The Beijing Financial Technology Innovation Supervision Working Group and the Shenzhen Financial Technology Innovation Supervision Working Group both announced the completion of the tests on "the innovative applications of financial technology innovation supervision tools". The first batch of applications "exiting the sandbox" came out.

December 2

Pudao Credit Co. completed the filing of corporate credit investigation business, becoming the second credit investment institution after Baihang Credit Co. Both have licenses to provide individual and corporate credit business.

January 20

The PBOC issued the *Regulations on Non-bank Payment Institutions (Consultation draft)*.

April 29

The financial regulatory authorities summoned 13 internet platform enterprises and imposed seven requirements to change their practices.

July 6 / November 25

The Shenzhen Municipal People's Congress issued the *Data Regulations of Shenzhen Special Economic Zone*; the Shanghai Data Exchange was officially launched in Shanghai, 8 types of data products relating to financial industries and other industries were listed, and the Shanghai Municipal People's Congress passed the *Shanghai Data Regulations*.

September 27

The PBOC issued the *Administrative Measures on Credit Investigation Business*.

October 29 / November 14

The CAC issued the *Measures for the Security Assessment of Data Outbound Transfer (Consultation draft)* and the *Network Data Security Management Regulations (Consultation draft)*.

December 28

The CAC and 12 other authorities issued the amendment to the *Cybersecurity Review Measures*.

2021 Regulatory Observations

01 Fintech regulatory framework developed, strengthening the requirement that financial businesses must operate under license

On March 5, 2021, Premier Li Keqiang stated in the government work report that the supervisions of financial holding companies and fintech companies should be reinforced to ensure that financial innovation is carried out under prudential regulation. In 2021, financial regulators further emphasized that all types of institutions that are substantially involved in financial business in the form of platform cooperation and technological innovation should be licensed and subject to unified regulation. Following the momentum of 2020, regulators continued to issue a series of rules to strengthen fintech regulation. By the end of 2021, fintech-related regulations or consultation papers were released in all major areas covering banking, securities, insurance, funds, microcredit, and credit investigation, bringing both financial and non-financial institutions under the purview of regulation, and applying equivalent standards to the similar financial activities.

With respect to financial institutions, the regulators issued new regulations addressing financial institutions' violations or circumventions of regulations in deposit and loan businesses that were conducted via the internet, collaborating with third parties, and so on. In January 2021, the CBIRC and the PBOC issued the *Notice on Matters Concerning the Regulation of Internet-based Personal Deposits of Commercial Banks*, emphasizing that commercial banks conducting deposit business through the internet should strictly comply with laws and regulations, and they must not violate or circumvent any regulatory requirements by means such as online operations. The Notice also clarifies that commercial banks should not operate time deposit or time-demand deposit businesses through non-self-operated online platforms. In February 2021, the CBIRC issued the *Notice on Further Regulating the Internet Lending Business of Commercial Banks*, setting out the regulatory requirements on the funding proportion between commercial banks and their cooperating agencies when granting internet loans.

With respect to non-financial institutions, the financial regulators have continued the strong regulatory position they have taken about the operation of online platforms businesses. The *Administrative Measures on Credit Investigation Business* issued by the PBOC on September 27, 2021 stated the licensing requirement to carry out credit investigations, which also includes the provision of *de facto* credit investigation

services operating under the name of "credit information services," "credit services," "credit scoring," "credit rating" and "credit repair", is necessary. The PBOC made it clear that those engaging in personal credit investigation business without the PBOC approval under the façade of big data companies, fintech companies, and so on, will be acted against the law. The measures further clarified that financial institutions shall not be permitted to cooperate with market entities that have not yet obtained a proper credit investigation license.

On April 29, the PBOC, the CBIRC, the China Securities Regulatory Commission (CSRC), the State Administration of Foreign Exchange (SAFE), and other financial regulators held talks with 13 leading online platforms to raise "rectification" requirements they needed to fulfil with regard to the issues such as licensed operation of financial services, shareholder qualifications, shareholding structure, capital, risk segregation, related transactions, improving corporate governance, and implementing "two participation/one control" shareholding limitations in banking and insurance institutions. In October, Guo Shuqing, the chairman of the CBIRC, further stated that similar businesses and entities should be treated alike and regulatory arbitrage should be eliminated.

02 Evaluation and assessment of consumers' financial rights gained further attention, prioritizing the prohibition of inducing consumers to take on too much debt

Financial consumer protection has been repeatedly strengthened by the financial regulators in recent years. Regulators effectively urged fintech-related institutions, including commercial banks, to establish and improve financial consumer protection mechanisms by incorporating consumer protection into their assessment criteria for financial institutions, and by sanctioning and investigating their behavior regarding consumer right infringements. For example, the *Measures for the Regulatory Evaluation of Banking or Insurance Institutions' Protection of Consumer Rights and Interests*, promulgated by the CBIRC on July 5, 2021, established annual supervisory evaluations for consumer protection, prompting affected financial institutions to include consumer protection as a key aspect of their internal compliance; and the CBIRC Beijing Branch set out standard requirements for auto finance companies and consumer finance companies within its jurisdiction with regard to the protection of financial consumer rights in a number of ways, such as corporate

governance, price management and contract management.

Prohibiting the inducement of consumer over-indebtedness has been the focal points of the regulators' consumer protection endeavors. The 2021 PBOC Working Meeting required that excessive marketing of financial products and inducing over-indebtedness should be strictly prohibited. On February 24, 2021, the CBIRC, the CAC, the Ministry of Education, the Ministry of Public Security, and the PBOC jointly issued the *Notice on Further Regulating the Supervision and Administration of Online Consumer Loans for College Students*, prohibiting the inducement for college students to take on too much debt, which might lead them to becoming over-burdened with debt.

Since 2021, the financial regulators have launched several "rectification movements" for financial consumer protection in the fintech sector, criticizing some financial institutions for infringing consumer rights. The CBIRC and the Financial Consumer Protection Bureau of the PBOC have circulated critical, in some cases imposing administrative penalties, on a number of financial institutions and internet companies and/or their related personnel for illegally deceiving consumers or seriously infringing consumers' basic rights, such as the right to information, the right to independent choice, and the right to being dealt with fairly in transactions. The problems of inadequate consumer rights protection systems are particularly significant when it comes to those cooperating with online platforms. The regulators have adopted a strong regulatory stance and strict enforcement towards the violations of consumer rights and interests.

03

Personal data protection reinforced, including collection and use of data

The promulgation of the PIPL on August 20, 2021 marked the establishment of the basic legal framework for personal information (which is more commonly referred to as "personal data" outside China) protection. As the first special law on personal information protection in the PRC, the PIPL has defined the scope of personal information and has covered all manner of possessing personal information, including collection, storage, use, processing, transfer (including cross-border transfer), provision, disclosure, erasure, and so on. Based on the applicable laws, the PIPL refined principles and rules

for personal information protection such as "the principle of consent", improved the system of rights and obligations related to personal information protection, and restricted certain conduct such as "big data discriminatory pricing" and illegal processing of personal information. In short, the PIPL has laid the legal foundation for governing the digital society.

For all financial institutions and fintech companies, who invariably process people's personal information, protecting personal information will become a critical part of the legal obligations in their operations. Violating such obligations under certain circumstances will constitute a criminal offence, as well incurring administrative penalties and giving rise to potential civil liabilities.

So far as law enforcement is concerned, national and local regulators have identified the major applications (apps) and online platforms that were being used to collect people's personal information. For example, on May 10, the CAC issued a circular on the illegal and "abnormal" collecting and using of personal information by 84 apps; on November 18, the CAC Hainan Branch issued a circular on the illegal usage of personal information by 13 apps.

On top of this, in recent years, banks have been restricted from certain lending collaboration businesses (what are called "channeling services"). In July 2021, regulators required online platforms, when collaborating with financial institutions in forms of lending channeling, lending facilitation, joint lending, and so on, must not directly provide information (including information voluntarily submitted by individuals, information generated within the platform, and information externally obtained) to financial institutions in the name of application information, identity information, basic information, and personal profile scoring information. Instead, any such collaboration had to be conducted through a new form of agency, called "online platform-credit investigation agency-financial institution", which has stricter controls on the collection and use of personal information.

The courts have also delineated the legal boundaries for personal information processing activities of e-commerce platforms. For example, on October 29, 2021, the Hangzhou Internet Court published a judgment in which an e-commerce platform's unauthorized provision of user information to the platform's built-in payment software has been identified as constituting a tort (a "wrong" in legal terminology) and ruled that the platform was liable to compensate individual users.

04 Financial data regulation strengthened, and data trading on the horizon

On June 10, 2021, the *Data Security Law* (DSL) was formally promulgated as a fundamental law in the field of data security, establishing a multi-layer classification of data protection to enforce a stricter administration of the national core data related to national security, the core economic sectors of the national economy, people's wellbeing, and major public interests. Regulators formulated a series of supporting rules for the implementation of data security-related laws. In the second half of the year, the CAC issued the *Measures for the Security Assessment of Data Outbound Transfer (Consultation draft)* and the *Network Data Security Management Regulations (Consultation draft)*, which are the key supporting regulations for the implementation of the three major data laws, namely the *Cybersecurity Law*, the DSL and the PIPL. Those draft regulations set out the strict criteria of cross-border data transfer requiring security assessment, refined rules implementing provisions of the major data laws and upgraded obligations for data processors. Specific to the *Network Data Security Management Regulations (Consultation draft)*, it expanded the scope of network security review to include foreign listings (for those data processors processing personal information of more than 1 million people), Hong Kong listings, and mergers and acquisitions under specific circumstances for online platforms.

The *Cybersecurity Review Measures* issued at the end of 2021 and to be implemented in February 2022 also prescribed that any foreign listing of an internet platform operator, which had a database of information with more than 1 million people, shall be submitted to the Office of Cybersecurity Review for its prior review.

Regulators also addressed the data protection requirements and obligations that the financial sector need to abide by. For example, on December 3, 2021, the China Financial Standardization Technical Committee issued the *Financial Data Security - Data Security Assessment Specification (Consultation draft)*, which provided guidelines on the circumstances and assessment requirements under which financial institutions should conduct data security assessments. In addition, regulators also clarified the responsibilities of regulatory departments and regulatory coordination for data security regulation. On January 15, the CBIRC publicly issued the *Administrative Measures on Regulatory Data Security (for Trial Implementation)*, which established how regulatory data security should be managed. On July 6, the *Opinions*

on Strictly Cracking Down on Illegal Securities Activities in Accordance with the Law, jointly issued by the General Office of the Communist Party of China Central Committee and the General Office of the State Council, specified the responsibilities of domestic industry supervisors and regulatory authorities, while strengthening collaboration between regulatory authorities.

In the first half of 2021, the CBIRC imposed administrative penalties of as much as several millions in RMB on a bank for issues including failing to report important information system emergencies and leaking sensitive information on its internet portal website. The DSL, effective since September 2021, increased the penalties for violations such as data leakage, with the maximum fine raised to RMB10 million. Financial institutions will face stricter data security regulation and penalties from the authorities in the future, and it is imperative for those institutions to improve their internal data security governance procedures. At present, based on the experience of data security projects in the financial sector, China Financial Certification Authority (CFCA) has summarized the "IPDR" model of data security governance, which might provide a good reference for financial institutions to improve their level of detail on data governance and application of data security technology.

Property rights associated data first came to be considered at a special meeting of the Financial Stability Committee in October 2020, at which it proposed "to establish basic systems and standards for the property rights of data resources and the circulation of transactions". In December 2020, Guo Shuqing, the chairman of the CBIRC, also stated that, with large technology companies in control of data, the ownership of data rights and interests needed to be clarified. Since 2021, the leading large technology companies have launched projects related to privacy computing and data property rights, promoting novel concepts such as "data property rights" and "data property rights trading". Local governments such as Shanghai and Shenzhen had already laid out the framework of regulations in this area. For example, on November 25, Shanghai promulgated the *Shanghai Data Regulations*, protecting "the legal or contractual property rights and interests of natural or legal persons formed in the use, processing and other data processing activities, as well as the legitimate property rights and interests obtained in relation to data innovative activities in the development of the digital economy".

In addition, these Regulations provide that data trading activities can be carried out in accordance with the law, and that those market players engaged in data trading activities can independently set prices subject to the law. On the same day, the Shanghai Data Exchange

was established, it received and completed applications for listing of about 100 data products, covering finance, transportation and communication sectors, among others, and some of the first order data trading was also concluded. Among these were an "enterprise electricity smart-graphing" product and a civil chart service product, between the Industrial and Commercial Bank of China and Shanghai Electric Power Co., which was the first transaction in the banking sector and reflected that the traditional financial institutions have already successfully entered the market. However, the central regulators have not yet clarified rules and arrangements for data property rights and their protection.

05 Scope of credit information defined and limits on license credit investigation businesses set

Regulators have long been concerned by the existence of thousands of "quasi-credit investigation institutions" that engaged in semi-legal or illegal businesses such as online lending and misused data. On September 27, 2021, the PBOC promulgated the *Administrative Measures on Credit Investigation Business*, a major new regulation covering credit investigation businesses (which mean credit checks), following the 2013 *Administrative Regulations on Credit Investigation Industry* and the *Administrative Measures for Credit Investigation Institutions*. The *Administrative Measures on Credit Investigation Business* defined "credit information" and has expanded its scope from the traditional lending information to include information (such as the basic information, the lending information, and other relevant information, as well as the analytical and evaluation information based on such information) collected in accordance with law for providing financial services to identify and determine the credit status of enterprises and individuals. All of these collectively helped to set the boundaries of credit investigation businesses.

Since December 2020, regulators have repeatedly signaled their intention to tighten supervision of credit investigation businesses. Specifically, the PBOC has constantly stated that there is a requirement when carrying out credit investigations that "alternative credit data" outside of the scope of lending data must be used, and any personal credit investigation business must be licensed. On December 22, 2020, the PBOC issued the first penalty in the personal credit investigation

sector against a credit investigation company for "engaging in personal credit investigation business activities without approval" and "delaying in filing for the appointment of senior management personnel by the enterprise credit investigation institution". The fine and the confiscation of illegal gains amounted to just under RMB20 million, which, so far, is the largest fine imposed for breaches of regulations relating to credit investigation. In July 2021, the PBOC issued a directive saying that online platforms could only conduct investigations into people's creditworthiness through licensed credit investigation institutions. It also demanded that financial institutions could only collaborate with licensed personal credit investigation institutions to deliver personal credit investigation services.

At the same time, there are opportunities in the credit investigation business. In February 2021, China's second licensed national personal credit investigation institution, Pudaocredit Co., opened. Following that, a number of market participants, such as Shanghai Lujiazui International Financial Asset Exchange Co. and 360 DigiTech, have also disclosed their plans to obtain credit investigation licenses.

06 Stronger anti-monopoly supervision measures on the online platform economy and payment sector adopted

At the beginning of 2021, both the PBOC and the CBIRC made it clear that they would strengthen the supervision of the financial activities of online platform companies and steadfastly implement the policies of the CPC Central Committee and the State Council to strengthen anti-monopoly regulation and prevent the disorderly expansion of capital.

Regulators have introduced a series of anti-monopoly regulations, and have improved the existing rules:

(i) On January 20, 2021, the PBOC issued the *Regulations on Non-bank Payment Institutions (Consultation draft)*, which defined the scope of "a relevant market", the criteria for determining market dominance and alter measures, so as to strengthen anti-monopoly regulatory measures in relation to the payment sector;

(ii) On February 7, the Anti-monopoly Commission of the State Council issued the *Anti-monopoly Guidelines on Platform Economy*, emphasizing

their commitment to prevent and stop monopolies in online platforms so as to promote the healthy and orderly development of the platform economy;

(iii) On September 27, the *Administrative Measures on Credit Investigation Business* was promulgated, setting out a number of principles by which credit investigation businesses should operate, including "fairness" in providing credit investigation products and services to the public, not imposing unreasonable commercial conditions to restrict the use of information by different users, and not leveraging any dominance to sell discriminatory or exclusionary products and services; and

(iv) On October 23, the Draft Amendment to the *PRC Anti-Monopoly Law* was published for *public* consultation. The draft amendment also added anti-monopoly rules for digital platforms based on the experience of the above-mentioned Guidelines, providing that "operators shall not abuse advantage in data, algorithms, technology, and capital and platform rules to exclude or restrict competition".

In terms of enforcement, in 2021, the regulatory penalties for market players' unfair competition practices became stricter. For example, the SAMR imposed penalties on several online platforms for the monopolistic conduct of forcing merchants into "exclusive dealing agreements". On April 29, 2021, the PBOC, the CBIRC, the CSRC, the SAFE, and other financial regulators held regulatory talks involving 13 online platforms operating financial business, requiring, among others, the platforms to break the information monopoly and carry out personal credit investigation business strictly through licensed credit investigation institutions. And in July 2021, the PBOC Credit Information System Bureau issued a notice to online platforms, requiring them to fully "stop direct connection" in providing personal information for financial institutions. On November 18, the State Anti-Monopoly Bureau was officially inaugurated at the SAMR headquarters, which means that China's anti-monopoly enforcement agencies will be more independent and authoritative.

07

Regulators confirmed the legal status of e-CNY, continued to promote research and development pilot programs, and gradually expanded application scenarios

With the issuance of the *Law on People's Bank of China (Consultation draft)* in the second half of 2020, the legal status of e-CNY (the digital currency) has become increasingly clear: e-CNY will exist as a specific form of the Chinese yuan (CNY) and co-exist with physical CNY in the long term. Currently, the e-CNY system had undergone design, development, function research and development, and joint testing. There have been pilot tests and checks undertaken and application scenarios expanded on the security and controllability. The big state-owned commercial banks have participated in the development and promotion of e-CNY, and have launched various types of application, such as e-CNY exchange business and offline payments.

As of October 22, 2021, 140 million personal e-CNY wallets and 10 million e-CNY corporate wallets had been "opened" in China, with 150 million cumulative transactions registering a total of nearly RMB62 billion transacted. In addition, 1.5 million merchants have supported e-CNY wallets, used for food and beverages, transportation, shopping, and government services. e-CNY is therefore well on its way to becoming mainstream legal tender.

However it is worth noting that as e-CNY has not yet been fully implemented, it lacks a "record tracing" mechanism and the general public is still not well informed about how the digital currency works. There have been cases of fraud and money laundering using e-CNY in Fujian, Guizhou, Jiangsu, Henan, and Hubei. The legislation and enforcement with respect to the prevention of risks relating to e-CNY is expected to be gradually established and developed in 2022.

08 Regulators strengthened the application of regulatory technology practice, continuing to expand the "regulatory sandbox" process, and closing the loop for "entering and exiting the sandbox"

In the *Fintech Development Plan (2019-2021)*, the PBOC aimed to establish a sound process for innovation, have flexible regulation, and set out boundaries of compliant fintech innovation. The "14th Five-Year Plan" stated the goal was to "strengthen the use of regulatory technology and financial innovation risk assessment, and to explore the establishment of innovative products correction and suspension mechanism". The Financial Stability Committee also stressed at its meeting on April 8 that it should make full use of modern information technology to improve the regulation technology and enhance the efficiency and coverage of regulation.

To implement the *Fintech Development Plan (2019-2021)*, the PBOC first launched a regulatory pilot program for fintech innovation

in Beijing. As of the third quarter of 2021, more than a dozen provinces and cities had launched pilot programs, and more than 100 applications had been publicized. Currently, the main applicant institutions for such programs are financial institutions (with banks as the most important participants) or technology companies. Payment institutions and credit investigation institutions are also involved in the pilot programs.

In terms of application areas, sectors such as credit, operation management, and payments are the main focal points of the fintech innovation regulation. On September 28, 2021, the Beijing Financial Technology Innovation Supervision Working Group and the Shenzhen Financial Technology Innovation Supervision Working Group announced that the testing of several innovative applications of fintech innovation regulatory tools had been completed within their respective jurisdictions. What this means is that the first batch of innovative applications have "exited the sandbox" thereby closing for the first time the loop for fintech innovation exploration. This was an important milestone to strengthen fintech regulation and explore how fintech innovation should and be regulated in practice.



2022 Regulatory Outlook

01 The 14th Five-year Development Plan will coordinate the stable development of fintech and strengthen prudential regulation

By the end of 2021, the fintech-related regulatory rules neared completion and the implementation of the *Fintech Development Plan (2019-2021)* issued by the PBOC was all but complete. On January 29, 2021, the FinTech Committee of the PBOC confirmed that it will issue a plan for the new stage of fintech development to accelerate the digital transformation of finance. The supervision over fintech will be oriented towards supporting the real economy, encouraging digital transformation, and improving the level of regulatory technology and transparency, so as to witness an era of prudence with full-risk covered. The supervision over the risks of existing licensed financial institutions will be strengthened. This will include the supervision over financial institutions in respect of the risk incurred by business cooperation arrangements between financial institutions and third parties (such as internet deposits, internet loans, and credit investigations). Meanwhile, the financial business of fintech companies will be regulated in accordance with the principle of “incorporating all financial activities into the regulation framework”.

We expect that in 2022 the *Interim Measures for the Protection of Personal Financial Information (Data)*, the *Anti-Monopoly Law (Draft Amendment)*, the *Regulations on Non-bank Payment Institutions (Consultation draft)* and other relevant laws and regulations will be promulgated.

The regulators will continue to look at the best ways of regulating the sector, as between “function-based” regulation and “conduct-based” regulation. They will aim to discourage illegal acts by imposing administrative penalties. They will also improve their supervision and law enforcement capabilities and strengthen the protection of financial consumers' rights and interests.

02 Data compliance and protection of consumer rights and interests continue to be the regulatory focus, and further promotion of cross-border data transfer is to be expected

In 2021, there was increasingly stringent supervision over data compliance. Tighter controls have an impact on the management of data by financial institutions, especially those with cross-border business or operation. We expect that in 2022 the *Measures for the Security Assessment of Data Outbound Transfer*, the *Network Data Security Management Regulations* and supporting rules, and special regulations and related supporting rules for personal information protection in the financial sector, such as the *Financial Data Security - Data Security Assessment Specification (Consultation draft)*, and the *Interim Measures for the Protection of Personal Financial Information (Data)* included in the 2021 regulation-making plan of the PBOC, will be promulgated.

We also hope that in 2022, financial regulatory authorities and data security management authorities (such as the CAC) will work together to effectively supervise the IT system and data protection of financial institutions or that in financial activities and provide more nuanced guidance for the routine activities of financial institutions.

While supervision is strengthened, there are also in place a number of pilot projects to see the best ways of promoting the cross-border flow of data. In April 2021, the Hainan Free Trade Port's exclusive international internet data channel was officially opened. In July, Shanghai formally included the construction of an international data port in Shanghai Pilot Free Trade Zone Lingang Special Area in its 14th Five-Year Plan, in order to explore the cross-border circulation of global data under the conditions of ensured data security and data control. We believe that in 2022, there will be developments in the establishments of the supporting infrastructure and industrial systems for the security of national cross-border data transfer.

In 2021, there was better supervision (both from legislation and enforcement perspectives) of consumer protection in the fintech area. For example, the *Network Data Security Management Regulations (Consultation draft)* and the *Guidelines for the Implementation of Main Responsibilities by Internet Platforms (Consultation draft)* require internet platform operators to disclose platform rules, privacy policies, and their algorithmic strategy disclosure systems, to protect consumers' right of consent for personal information processing activities, and to prevent potential data security risks in algorithm services such as “precision

marketing". The *Internet Information Service Algorithm Recommendation Management Regulations* specifies user rights protection obligations for the algorithm recommendation service provider. The MIIT regularly circulated notices of criticism on the illegal collection of personal information by financial apps in 2021.

In order to comply with the regulatory requirements, the internet platforms are expected to establish and improve their business rules, privacy policies and algorithm disclosure systems to be more reader-friendly and intelligible for better protection of consumer rights and interests in 2022.

03 The framework of internet business of financial institutions continues to be adjusted, and innovation of online credit card business proceeds

In 2021, the regulatory authorities issued a series of new rules to strengthen the supervision over internet products such as internet deposits, loans and insurance, with the aim of prohibiting commercial banks from conducting time deposits business and "time-demand optional deposit business" on non-self-operated platforms. They also looked to regulate the cooperation between banks and third-party agencies when jointly issuing internet loans, and restricting the qualifications of insurance institutions to conduct online insurance. After these regulations were introduced, several platforms removed their non-compliant internet deposit products, and insurance institutions stopped selling personal insurance through the internet. All of this means there will be big changes in the sale of internet financial products in 2022. Financial institutions will follow the online business regulations to actively develop new business models.

The *Notice on Further Promoting the Standardized and Healthy Development of Credit Card Business (Consultation draft)* issued by the CBIRC on December 16, 2021 introduced more regulations covering co-branded entities and cooperation between banks and their cooperating agencies regarding the issuance of co-branded credit cards. It also proposed "to explore and develop innovation models such as online credit card business via pilot projects". Though several banks have already launched online credit card businesses, some of them failed to meet compliance requirements for the management and control of such businesses with the rights and interests of their customers

being infringed. In this Notice, the CBIRC puts forward regulatory requirements for credit card business operation and management, card issuance, credit management, credit card installment, interest and fees collection, and information disclosure. It also encourages qualified commercial banks to adopt innovative models such as online credit card business and new technologies to optimize functions of credit card service and relevant products, to participate in online credit card innovation activities and to provide consumers with more convenient, safe and diversified financial services.

We expect that in 2022, the regulatory authorities are likely to formulate special rules for controlling the online credit card business by taking into account of the experience in supervising over financial institutions' internet business and the characteristics of online business.

04 Steady and sustainable development of the e-CNY with supporting laws and regulations to be promulgated

The *Law on People's Bank of China (Consultation draft)* issued by the PBOC on October 23, 2020 stipulated that the RMB will have both physical and digital forms, and the legal status of e-CNY will be confirmed. In 2021, several public talks by the regulatory authorities, especially the issuance of the *White Paper of the Progress of Research & Development of E-CNY in China* by the PBOC on July 16, have indicated that the regulatory framework for e-CNY is already under consideration.

We expect that in 2022 the revised *Law on People's Bank of China* will be promulgated and implemented, and separate regulations on and supervisory measures for e-CNY will also be introduced in due course, accompanying with the continuous optimization of the underlying technology of e-CNY.

In 2021, the e-CNY became a reality. Based on the disclosed local 14th Five-Year Plans and fintech construction plans, we expect that in 2022 the regulator will continue to accelerate the promotion of the pilots for e-CNY, to expand domestic retail application scenarios, and to improve the technical design of e-CNY. It is also expected that the underlying technology will be developed to ensure privacy and anti-counterfeiting functions.

In April 2021, Everbright Wealth Management Co. issued an e-CNY wealth management product and it is expected there will be more e-CNY-based financial products launched in due course. However, correspondingly, new types of illegal and criminal activities such as fraudulent use of e-CNY have sprung up, which need to be tackled. We expect that the regulators will gradually establish and improve the e-CNY record tracing mechanism and pay close attention to the illegal and criminal activities through e-CNY, such as money laundering, tax evasion, gambling and fraud. We can also expect the promotion and propaganda of laws and regulations in terms of e-CNY so as to achieve the effectiveness of e-CNY in its security, convenience and inclusiveness.

companies to submit the application. Furthermore, the *Guiding Opinions on Promoting the New Development Pattern of Financial Services* jointly issued by the CBIRC Shenzhen Branch and other two authorities on November 5 emphasized "strengthening the supervision over the financial activities of internet platforms, prudently supporting the development of fintech companies, and strictly preventing disguised financial activities in the name of technology services". Following the principle of prudential regulation that requires financial businesses to be conducted with licenses, existing internet companies, who are engaged in financial businesses and in the process of adjusting their operations to comply with new regulations, may apply to become financial holding companies in 2022.

05 Supporting rules for financial holding companies will be implemented, and the internet platforms conducting financial businesses may be transformed into financial holding companies

Following the release of the *Decision of the State Council on Implementation of Administration of Admission of Financial Holding Companies* and the *Tentative Measures for Supervision and Administration of Financial Holding Companies* in 2020, supporting rules for financial holding companies have been gradually introduced. In March 2021, the PBOC issued the *Interim Provisions on the Administration of Recordation for the Office-Holding of Directors, Supervisors, and Senior Executives of Financial Holding Companies* as one of the supporting regulations. With these improvements, in 2021, the PBOC has accepted applications for establishing financial holding companies from CITIC Corporation Limited, China Everbright Group and Beijing Financial Holding Group, though further approval information has yet to be disclosed. We expect that in 2022, the supporting regulatory systems for financial holding companies, such as rules on consolidated management, capital management and related transaction management, may be released.

The internet platforms, which are expanding their business into the financial sector, are also required by the regulators to apply to become financial holding companies if they meet the threshold. In April 2021, the regulators talked with 13 internet platforms, proposing requirements including "to strengthen the supervision over key areas such as shareholder qualifications, equity structure, capital, risk isolation, and related transactions". The regulators also required companies meeting the requirements for establishing financial holding

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