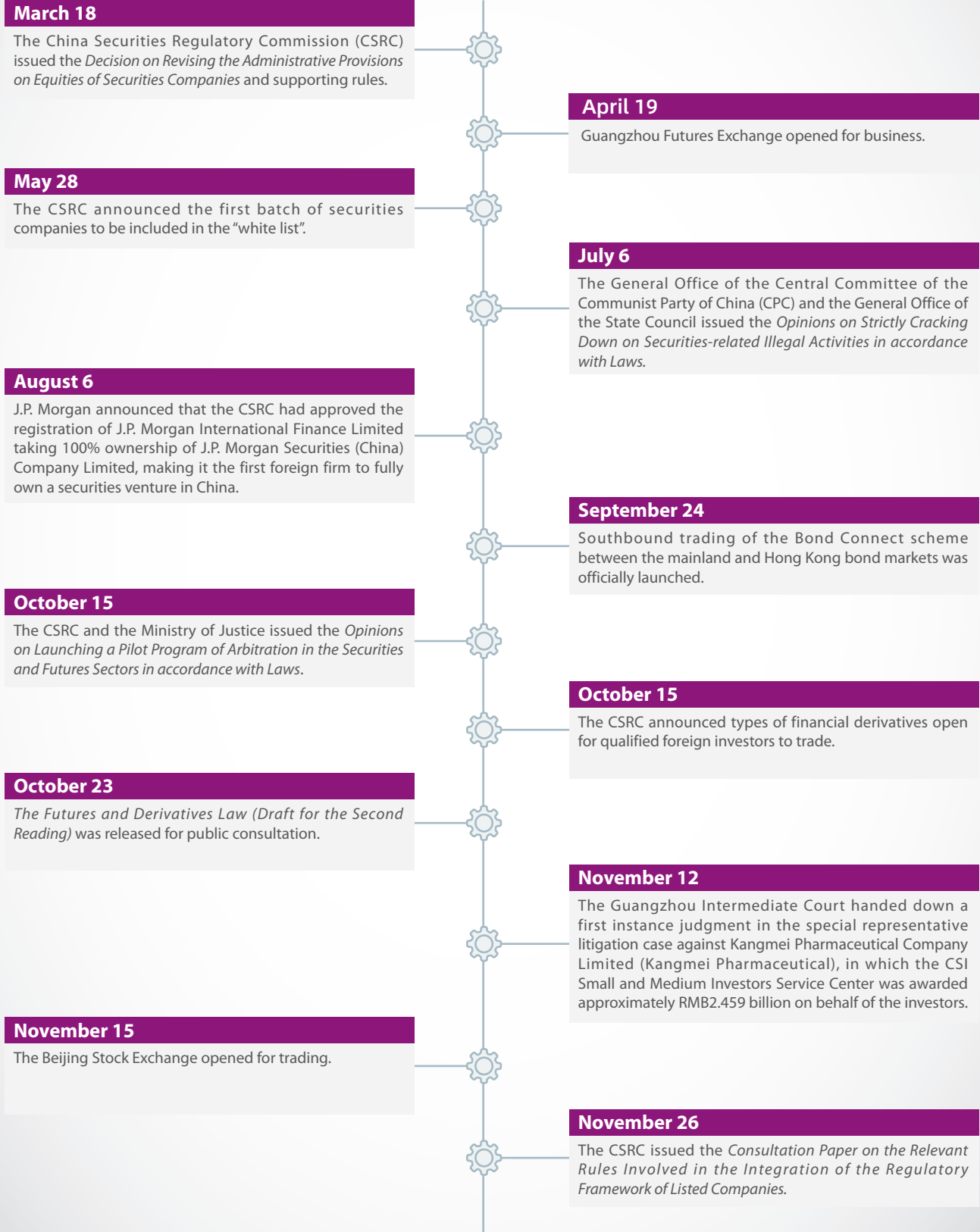


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# PRC Financial Regulation: Annual Report (2022) Securities and Futures

## 2021 Key Dates



## 2021 Regulatory Observations

### 01 Regulators continue comprehensive sector reforms, notably the creation of multi-level capital markets with high levels of integration

As indicated in the 14th Five-Year Plan, the government has set as one of its main priorities the creation of multi-level capital markets. Reforms included establishing a sound process for delisting shares and putting in place the administrative infrastructure of the National Equities Exchange and Quotations (NEEQ, 新三板). Institutional investors are being encouraged to make use of capital markets and direct finance is another avenue of finance that regulators are keen to expand. In short, the process of reforming capital markets continues.

In February 2021, the CSRC approved the merger of the main board and the Small and Medium-sized Enterprise Board (SME board) of the Shenzhen Stock Exchange to create one single homogeneous board. To ensure the stability of the market, the overall arrangement of the merger involved the unification of business rules and regulations on the operation of the two boards, and keeping the same:

- (i) issuance and listing conditions;
- (ii) criteria for investors;
- (iii) trading mechanisms; and
- (iv) stock codes and abbreviations.

In September 2021, the Beijing Stock Exchange was established, forming a pattern of synergized, complementary, and interconnected development with the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the regional equity markets. The Beijing Stock Exchange was positioned to serve innovative small and medium-sized enterprises, taking in the NEEQ Select Tier as a whole, and maintaining the tiered structure consisting of the NEEQ Basic Tier, the Innovative Tier (of the NEEQ), and the Beijing Stock Exchange.

At the same time, the Beijing Stock Exchange simultaneously piloted registration-based IPOs and stimulated extra market trading by implementing less restrictive limits on price fluctuation and lowering investment thresholds. Eligible companies listed on the Beijing Stock Exchange can apply for transfer to the STAR Market of the Shanghai Stock Exchange or the ChiNext Market of the Shenzhen Stock Exchange, thanks to the connection between the Beijing Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange at institutional level.

With the completion of the merger of the main board and SME board of the Shenzhen Stock Exchange and the establishment of the Beijing Stock Exchange, China has formed a multi-level capital market comprising the regional equity trading markets, the NEEQ, the Beijing Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Functions of these markets such as financing and trading are enhanced layer by layer to meet the needs of different types of financing entities and investors, and to keep the capital markets on course of serving the real economy. As these different levels are simultaneously optimized, we can expect to see greater efficiencies in China's capital markets.

### 02 Focused effort on legislation for futures and derivatives markets is put in place, with aims to both strengthen the supervision of and further develop China's capital market

As an important component of the overall capital markets, there were significant developments in the futures and derivatives markets in China in 2021 covering the legal framework, products and market operation.

The Standing Committee of the National People's Congress conducted two readings on the draft futures market legislation in April and October 2021, and the second reading draft further highlighted the advanced legislative concepts including:

- (i) changing the proposed name of "Futures Law" (in the first reading draft) to "Futures and Derivatives Law", adding relevant definitions for futures trading and derivatives trading, further elevating the legal status of the derivatives market, clarifying the legal enforceability of netting arrangements meeting certain conditions in the case of the debtor's bankruptcy (thereby clarifying the critical concept which has long hindered the development of the Over-The-Counter (OTC) derivatives market); and
- (ii) removing filing requirements for futures service agencies, emphasizing and strengthening the monitoring and control of the futures market, and strengthening regulation while fully "delegating power, streamlining administration and optimizing government services".

Meanwhile, regulators enacted and promulgated applicable regulations for futures companies and their subsidiaries, including:

(i) the "*Interim Measures for the Administration of Subsidiaries of Futures Companies (Consultation draft)*", to further regulate the business operation, internal governance and risk management systems of futures firms, guide the industry to focus on its main business and improve its ability to serve the real economy;

(ii) in December 2021, the People's Bank of China (PBOC), the China Banking and Insurance Regulatory Commission (CBIRC), the CSRC and the State Administration of Foreign Exchange (SAFE) jointly issued the *Guiding Opinions on Promoting the Standardized Development of Derivatives Business (Consultation Draft)* for public consultation, which collected and integrated of the existing regulatory rules and aimed to promote the healthy development of derivatives business rules.

With the coming better legal framework, the conditions were right for a successful futures market. There have been more futures and options products introduced to the market (totaling more than 90 as of the end of November 2021). Qualified foreign institutional investors were allowed to trade commodity futures, commodity options and stock index options.

After a suspension of issuing futures license of 20 years, new futures companies were once again permitted to be established and open for business. The first of these was Shandong Gangxin Futures, which opened in July.

China Commodity Indices Co., Ltd, jointly established by major futures exchanges, opened in Xiong'an New District, Hebei to provide specialized data information technology services in relation to commodity indices. The Guangzhou Futures Exchange was opened in April, marking another plank in the development of China's futures market.

The steady development of the market was reinforced by regulatory enforcement, covering administrative enforcements, annual classification ratings of futures companies, promulgation of *Opinions on Strictly Cracking Down on Securities-related Illegal Activities in accordance with Laws*, and enforcement actions against securities and futures institutions found to have been in breach of regulations.

## 03 Registration-based system is further improved, with focus on information disclosure

The implementation of the new IPO process based on registration (differ from the previous approval mechanism) in the STAR Market and the ChiNext Market has made the system of reviewing IPOs much more efficient. This has reduced the period for reviewing and then registering IPOs to about 5 months (in approval mechanism, the timeline is unpredictable and varies from 1 to 3 years). The Central Economic Work Conference, held from 8 to 10 December 2021 in Beijing, proposed to fully implement the registration-based IPO system, signaling a new era of registration for all securities issuance in China.

In order to ensure that the registration system works properly in the interests of creating healthy and balanced capital markets, as well as the focus on IPOs, regulators have also looked at improving regular information disclosure, cracked down on illegal acts, and improved the methods for delisting. In other words, they have made sure that all aspects associated with listing shares work efficiently to support the process of registration.

A core regulatory concern has always been information disclosure. In March, the CSRC issued the amended *Administrative Measures on Information Disclosure by Listed Companies* to improve the basic principles and requirements for regular information disclosure by listed companies. In October, in order to address issues arising in connection with prospectuses (such as insufficient relevance and weak investment decision-making), the CSRC sought public opinion on the *Guiding Opinions on Improving the Quality of Information Disclosure in Prospectuses under the Registration-based System (Consultation Draft)*. The aim is to improve the quality of information disclosure in prospectuses.

Another area of concern for regulators has been securities-related illegal activities by listed companies and intermediary agencies. The policy of "zero tolerance" involving transgressors has helped raise the quality of listed companies, while imposing greater responsibilities on issuers and intermediaries. Registration and delisting go hand in hand to promote efficient, reliable and balanced capital markets which consists of high quality listed companies.

A-share delisting is proceeding apace, and around 15 companies delisted in the first half of 2021, making such a process normal. In



November, the Shanghai Stock Exchange and the Shenzhen Stock Exchange issued new delisting regulations, including the *Shanghai Stock Exchange Self-Regulatory Guidelines for Listed Companies No. 2-Financial Delisting Indicators: Operating Revenue Deduction* and the *Information Disclosure Business Guidelines for Listed Companies on the Science and Technology Innovation Board No. 9-Financial Delisting Indicators: Operating Revenue Deduction* issued by the Shanghai Stock Exchange. The regulations were oriented towards cracking down on shell companies and achieving “delisting all that should be delisted”. In terms of financial indicators, the rules made clear that “business income irrelevant to the main business and revenue without commercial substance” should be deducted from the calculation of operating revenue, which would effectively prevent listed companies from selling their assets or obtaining governmental subsidies at the end of the year or in other ways to maintain listed company status.

## 04 Regulations on the business of securities companies continue to be refined, with particular focus on corporate governance

In 2021, with the development of registration based system reform, there were further measures introduced to raise the standards by which securities companies in the investment banking business field operate.

(i) In February, the CSRC issued the revised *Administrative Measures on Issuance and Trading of Corporate Bonds* to clarify lead underwriters' due diligence responsibilities for bond issuance and internal accountability;

(ii) The *Guiding Opinions on Urging Securities Companies Carrying out Investment Banking Business to Fulfill Duties under the Registration-based IPO System* issued in July pointed out that the responsibilities of investment banks should be clearly assigned and the policy of “responsibilities upon filing” should be adopted;

(iii) To urge the investment banks to duly perform their duties, the *Provisions on Supervision of IPO and Pre-Listing Tutoring* and the *Opinions on Strengthening Regulation on Incorruptibility in Investment Banking Business of Intermediaries under the Registration-based System (Consultation draft)* issued in September detailed the requirements for pre-listing tutoring/counseling, and provided strict rules on tutoring/counseling procedures;

(iv) In November, the CSRC issued the consultation draft amendments of the *Guidelines for Working Papers on Sponsor Business for Securities Issuance and Listing* and *Due Diligence Guidelines for Sponsors*, which were intended to further clarify the standards for the sponsors and to promote the high-quality development of the investment banking business of securities companies. In response to this, the stock exchanges and the Securities Association of China (SAC) also revised and issued rules related to securities issuance and underwriting in 2021. Other business rules of securities companies are also being gradually rolled out. For example, the SAC issued the *Guidelines on Return Swap Business of Securities Companies* in December to provide more detailed regulations for return swap business.

The corporate governance of securities companies has also been the subject of regulation. In August 2021, the CSRC launched a targeted enforcement program aimed at securities, futures and funds industries with the goal of developing the internal policies and procedures, improving administrative regulation, establishing effective corporate governance and gradually bringing about the market-driven mutual monitoring system. In the past, companies in these sectors have put their own market performance ahead of risk management, and regulators are determined to strengthen supervision by following the principle of “substance over form”.

In addition, regulators have imposed more stringent and detailed requirements on securities companies when it comes to risk management. In October, the SAC issued the *Guidelines for Reputational Risk Management of Securities Companies*, a special regulation based on the 2016 *Regulations on the Comprehensive Risk Management of Securities Companies*. These guidelines were timely with the prevalence of Internet-related business and the need for securities businesses to be more mindful of the dangers of reputational risk. The *Guidelines on Return Swap Business of Securities Companies* issued in December required securities companies to include swap businesses into their risk control management and to manage all types of risks. At the same time, the CSRC carried out some special inspections on the risk management covering various businesses of some securities companies and announced that they would conduct on-site inspections on securities companies to ensure “full coverage” risk management.

## 05 Representative litigations in securities disputes became more common, and alternative dispute resolution mechanisms for securities and futures disputes developed

Courts in all regions and at all levels adopted a number of new measures for the settlement of securities disputes, following the guidance as set out for investor mediation and litigation system provided in the *Securities Law*.

Representative litigation is now increasingly used. There is a distinction between "ordinary" representative litigation, which requires investors to actively express intention to participate, and "special" representative litigation, where all affected are joined into the litigation without having to give express intention but they must actively withdraw if they don't want to participate in the litigation. This latter category is considered more conducive to protect the interests of investors.

The concept of representative litigation is a useful method for adjudicating on securities disputes. Special representative litigation is similar to the "class action" in the United States and other jurisdictions. The CSRC has said that it will promote special representative litigation more widely, which may serve to deter those from breaching securities laws and regulations.

(i) Representative was used for the first time in March 2020 by the Hangzhou Intermediate Court in the Wuyang bond fraudulent issuance case;

(ii) In July 2020, the Supreme People's Court adopted the *Provisions on Several Issues regarding Representative Litigation in Securities Disputes*, formally implementing securities representative litigation, which came into operation fully in 2021;

(iii) On May 11, 2021, the Shanghai Financial Court awarded a total of RMB123 million to 315 investors in the Feilo Acoustics case (the first example of ordinary representative litigation since the practice was formally launched);

(iv) On November 12, 2021, the Guangzhou Intermediate Court issued a judgment against Kangmei Pharmaceuticals, awarding investors RMB2.5 billion for losses they had sustained because of the false statements made by Kangmei. Additionally, those held responsible for the liabilities were held jointly and severally liable.

Other dispute resolution mechanisms are available to investors looking to protect their interests. On October 15, 2021, the CSRC issued the *Opinions on Launching a Pilot Program of Arbitration in the Securities and Futures Sectors in accordance with Laws* to add arbitration as another way of adjudicating on securities disputes. In November, China's first securities arbitration center was launched in Shenzhen.

The expansion of new dispute resolution mechanisms was supported by securities and futures enforcement activities.

(i) In November, the State Council issued the *Implementing Measures for the System of Commitment by the Accused to Securities and Futures-related Administrative Enforcement*, which established an "administrative reconciliation" system with commitment by the defendant at its core; and

(ii) The Ministry of Justice and the CSRC drafted the *Implementing Rules for the System of Commitments by the Accused to Securities and Futures-related Administrative Enforcement (Consultation draft)* drawing together the experience of the administrative reconciliation pilot.

## 06 Crackdown on securities-related violations

The authorities stepped up their enforcement against those in breach of China's securities laws and regulations in 2021. With the implementation of the amended *Securities Law*, the availability of administrative regulations and clearer criminal prosecution standards, there was greater scope to crack down on transgressors.

In July 2021, the *Opinions on Strictly Cracking down on Securities-related Illegal Activities in accordance with Laws* (Opinions) issued by the General Office of the CPC Central Committee and the General Office of the State Council integrated all the aforementioned regulations. This was the first time the General Office of the CPC Central Committee and the General Office of the State Council had issued a paper relating to securities violations, demonstrating the authorities' "zero tolerance" approach to those in breach of laws. The Opinions provided some 27 measures to improve the efficiency and intensity of cracking down on securities-related activities. Although the Opinions covered all aspects

of the securities and futures markets, the main focus of regulators has been on illegal activities of listed companies and investors. In particular, the Opinions proposed an arrangement in which the Securities Crimes Investigation Bureau of the Ministry of Public Security was based in the CSRC and "a working mechanism for stationing procurators in the CSRC" which will build up a smooth link between the administrative penalties imposed by the CSRC and criminal liability pursued by the procurators. By linking criminal enforcement agencies with securities regulators, the aim is to strengthen enforcement against securities-related violations and crimes.

In 2021, more than half the penalties imposed for breaching securities regulations were levied on investment banking and brokerage businesses. The penalties were severe. For example, Haitong Securities and Haitong Asset Management were required to suspend part of their businesses for up to 12 months for governance failures and lack of risk controls in their investment advisory business. Those individuals found to have been responsible were banned from holding professional positions for two years. In the Kangmei case, the former chairman of the board and general manager Ma Xingtian and five other directly responsible people, as well as certified public accountants, were held to be jointly and severally liable; and 13 others, including the independent directors, were also held to be partly responsible for the breaches. These were high-profile punishments, which received much public attention. The regulatory authorities have also been more proactive when it comes to law enforcement. For example, the CSRC preemptively reviewed the auditing practices of Shenzhen Tangtang Certified Public Accountants and the annual reports of several companies whose accounts had been audited by Shenzhen Tangtang. Many problems were discovered.

In the judicial branch, the court's reliance on the preceding administrative procedure was abolished to give the courts greater freedom to reach their own judgments and not to be bound by pre-decision of the CSRC. For example, in the Baoqianli case, although the Northeast Securities and BDO Shu Lun Pan Certified Public Accountants did not receive administrative penalties for breaches, the court still found them liable for failure "to diligently perform their duties" and shall undertake the responsibility of compensation.

## 07 Markets further opened up to international investors, and closer international cooperation established with other countries' regulators

The securities market continued to open up through 2021, as regulators worked to establish a well-functioning market and market access was increased.

More foreign securities companies set up or expanded China-based businesses. JPM Securities became the first wholly foreign-owned securities company in the PRC, followed by Goldman Sachs (China) Securities. BNP Paribas, Warburg Pincus, Sumitomo Mitsui and Citigroup all submitted applications for the establishment of foreign-invested securities companies. CSRC accepted the application by Standard Chartered Securities to set up a securities business. Daiwa Securities and DBS Securities had commenced their business operation with approval from the CSRC.

Regarding cross-border investment and trading, in August, the Hong Kong Securities and Futures Commission announced the launch of A-share-related stock index futures to further attract overseas long-term funds to invest in A-shares. In September, the Southbound Bond Connect was officially launched, marking the two-way opening-up of the Bond Connect. In October, QFI was allowed to invest in commodity futures and other financial derivatives products. In November, international copper, as a futures products launched in China, became a benchmark for trade pricing under several cross-border trade transactions, and FTSE Russell officially included China government bonds in the FTSE World Government Bond Index (WGBI). All these changes helped to make China's securities and futures markets more competitive internationally.

In terms of international regulatory cooperation, in January 2021, the International Organization of Securities Commissions (IOSCO) approved the documents to be used to file complaints by public investors, proposed by the CSRC and commented on by regulatory agencies from 14 countries, including the United Kingdom, the United States and France. This was the first time that China had taken the lead in the formulation of international documents in the field of investor protection. In addition, in 2021, the CSRC strengthened its communication with the offshore regulatory agencies (such as the US Securities and Exchange Commission) on the issue of Chinese companies' listing in the US. Progress was made on issues such as information disclosure and audit supervision, which will help eliminate the regulatory barriers to Chinese companies' outward expansion.

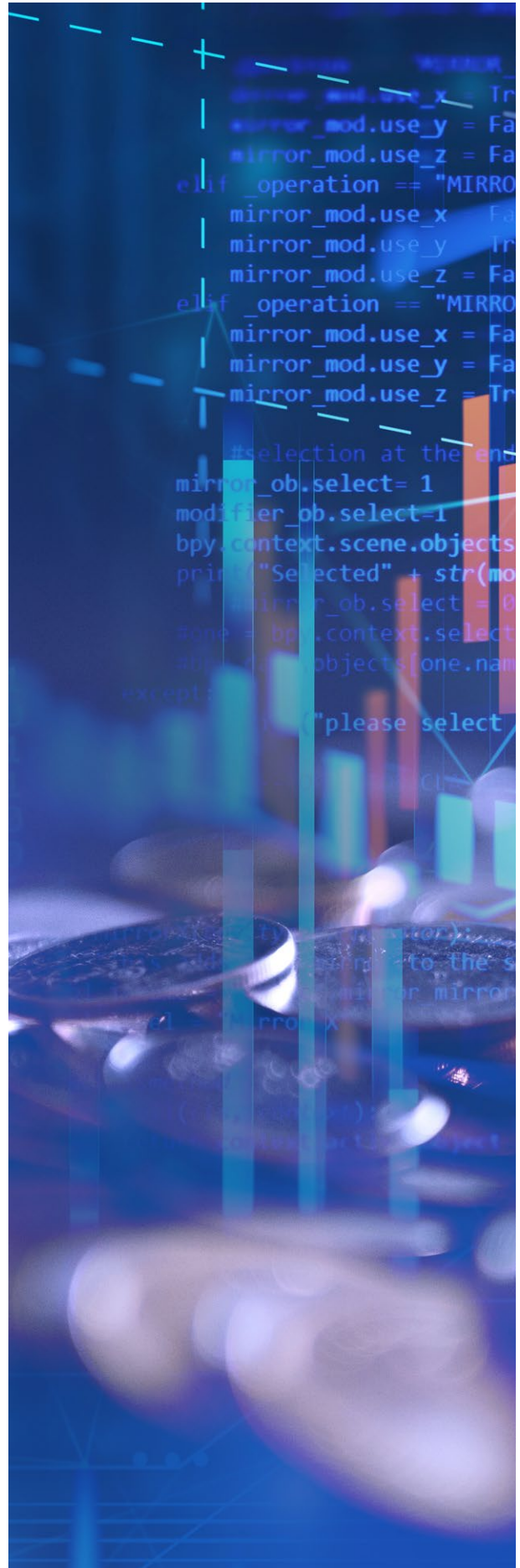
## 08 Regulators tighten controls over unlicensed securities business in the digital environment, and correct data compliance problems in cross-border securities business

As the world experiences digital transformation, the boundaries between activities of licensed and unlicensed institutions and between countries have become increasingly blurred. This is particularly the case in the securities sector, drawing the attention of regulators. In 2021, regulators have sought to encourage securities companies to take advantage of new technology while, at the same time, imposing controls to stamp out unlicensed businesses and ensure data compliance.

In 2021, a particular challenge for regulators was dealing with the new practice of securities companies to use third-party online platforms to carry out securities business, involving live webcasts and customer solicitation activities in cooperation with key opinion leaders in financial sector. Consumers were offered links to securities companies via the websites of unlicensed financial advisers to open accounts. Online comments and investor recommendations were also seen as being disguised and therefore unlicensed investment advisory services. The CSRC responded to stop such unauthorized activity. In early November, the Department of Securities and Funds Regulation of CSRC issued a notice which stated clearly that the social media influencers' receipt of account opening rewards were against the regulations and forbade the securities companies from setting up these online links. Securities companies were also told they must act to stop unlicensed persons from making market comments.

Another issue requiring regulators' attention was the ability of offshore securities companies engaging with domestic investors through the Internet. The regulators emphasized that the financial licenses could only operate within national boundaries. Any business conducted onshore by institutions only holding offshore licenses would be considered illegal financial activities.

Along with the issuance of *Data Security Law* and *Personal Information Protection Law*, regulators also addressed the issue of compliance of the data transmission in cross-border business operations, particularly concerning personal data protection.





## 2022 Regulatory Outlook

### 01 Registration-based system for securities issuance may be fully implemented, and clear rules (i.e. "traffic light" system) for the capital market activities will be established

Since the announcement of the establishment, and the piloting of, the "registration-based" IPO system on the STAR Market of the Shanghai Stock Exchange in November 2018, the changes have been seen to work well.

(i) In June 2019, the STAR Market and the pilot registration-based IPO system were officially launched;

(ii) In August 2020, the first batch of companies were listed under the registration-based system on the ChiNext Market;

(iii) In September 2021, the Beijing Stock Exchange completed business registration and implemented the registration-based IPO system; and

(iv) In April 2021, the main board and the SME board of the Shenzhen Stock Exchange were merged, leaving only the main board of the Shanghai and Shenzhen Stock Exchanges not yet using the registration-based system for IPOs.

The registration-based system will be extended to all stock issuances. Such intention has been included in the 14th Five-Year Plan, and the 2021 Report on the Work of the Government specified that the reform of the registration-based system should be steadily promoted to create "multi-level" capital markets.

The Central Economic Work Conference, held in December 2021 to assign the main tasks for 2022, required full implementation of the registration-based system for stock issuance. The CSRC said that the next steps would be to adopt registration as the basis for all capital markets transactions, improving the quality of listed companies, improving the process of delisting, and putting more obligations on the part of intermediaries.

As the Central Economic Work Conference sounded the clarion call for the comprehensive registration-based system reform, and the CSRC also expressed its high emphasis on this reform, we expect that the registration-based system for stock issuance will be adopted by the main boards in 2022.

The establishment of the so-called "traffic light" system (clear positive and negative authorizations) on the capital markets was repeatedly mentioned in 2021, and was finally affirmed at the Central Economic Work Conference in December and repeated by the CSRC. "Red light" means that regulators will not allow the relevant capital market activities or of certain players such as after detecting failings in anti-competitive behavior or insider trading, which might lead to the "disorderly expansion of capital". "Green light" means the regulators signal that certain activities will be allowed and encouraged so as to guide the development and flow of capital and stimulate the vitality of market players.

We expect in 2022 there will be closer coordination between the financial regulatory authorities and other relevant authorities and clearer rules on the establishment of "traffic lights" will be issued. For example, investment may be supported in fields such as science and technology innovation, manufacturing, and to small and medium-sized enterprises. Against that, monopolistic platforms and entities who conduct cutthroat competition may be prohibited from launching IPOs. The "traffic light" rules, together with the registration-based IPO system, will lay the foundation for future capital market regulation.

### 02 Violators will be more strictly punished as individuals' liability is reviewed

In 2021, the regulators had a number of ways at their disposal to impose sanctions on those acting illegally or criminally in the capital markets. The courts also played a part, as representative litigation (in which multiple claims could be heard at the same time) helped accelerate claims by those seeking redress against illegal activity and the courts increased the fines imposed on those breaching laws (as was seen in the Kangmei Pharmaceutical case). Based on these developments, we expect that there will continue to be tough administrative penalties imposed in 2022. With the development of fintech, the regulators will also adopt more novel and regular monitoring methods in daily work. Courts across the country will gradually implement representative litigation to tighten the criminal consequences of securities violations.

In the coming year, we can expect to see enforcement by the regulators and the courts working closely together, to ensure a consistent approach to liability. There is likely to be more judicial interpretation of the criminal law as it applies to securities-related crimes in relation to *Amendment (XI) to the Criminal Law*. The cooperation between public security agencies and financial regulators will likely lead to more criminal offences being punished. Punishments for illegal activity will also be spelt out in new regulations for listed companies and related to the NEEQ.

The Kangmei Pharmaceuticals case exposed “failings” in China’s independent director system. On the one hand, independent directors were not able to access internal information to enable them to make informed decisions and to participate properly in the company’s daily operation and management; on the other hand, prior to the promulgation of the new *Securities Law*, it was not clear what their fiduciary duties were. These problems were not fully resolved in the Kangmei Pharmaceuticals case. We can expect to see further clarification about the extent of independent directors’ duties and liabilities, and development of directors’ liability insurance, in the coming year.

offers development opportunities for small and medium-sized securities companies.

(iii) Furthermore, the securities companies will continue to make efforts in the custody business in sub-fields, especially serving as custodian for passive index funds.

The amended *Securities Law* (which took effect in 2020) also indicated regulation of market making businesses would follow at some point. It may be that in 2022 those in that line of business will need to have an independent license of market making to operate. If this were to happen, there will certainly be securities companies which focus their efforts on developing market making business in the stock and bond markets, which will further increase market liquidity.

The *Company Law* may undergo further amendments in 2022, and the clauses on corporate governance and equity structure will be further developed. Securities companies and other financial institutions may seek further possibilities in corporate governance and equity structure design.

## 03 Securities companies will divide up their businesses into different areas

In 2022, regulators will continue to encourage securities companies to compete on different tracks to increase specialization in different business areas, with supporting measures being rolled out.

(i) The *Over-the-Counter Business Development Report* published by the SAC showed a huge increase in OTC financial derivatives business in 2020, in which securities companies played a vital role. In 2021, a number of securities companies announced the contribution of OTC derivatives to their proprietary business and said they would transform their proprietary business. The general expectation is that securities companies will grow their derivatives business. Many of the top securities companies already have strong derivatives businesses in place, complementing investment and research capabilities, capital strength and risk pricing capabilities.

(ii) The establishment and opening of the Beijing Stock Exchange

## 04 Green businesses and those helping to achieve carbon neutrality will be given greater access to finance

Developing a green economy and achieving carbon neutrality are key planks in China’s 14th Five Year Plan. In 2021, a number of policies and measures were introduced to support the achievement of carbon peaking and carbon neutrality goals in both finance and taxation areas. For example, the General Office of the CPC Central Committee and the General Office of the State Council jointly proposed expanding the range of financing channels available to enterprises engaged in ecological protection and green development, establishing a green stock index, and encouraging qualified non-financial enterprises and institutions to issue green bonds.

The PBOC, the National Development and Reform Commission and the CSRC issued the *Catalogue of Projects Supported by Green Bonds (2021)*, detailing rules related to green bonds. The vice chairman of

the CSRC, Fang Xinghai, disclosed that the CSRC had been studying and formulating policies and measures supporting the achievement of carbon peaking and carbon neutrality goals by: 1) increasing financing support for green and low-carbon enterprises; 2) requiring listed companies to disclose appropriate environmental information; 3) encouraging leading market participants to develop the concept of green investment; and 4) actively participating in the work related to sustainable finance of the International Organization of Securities Commissions (IOSCO).

We expect that in 2022, more enterprises will issue green bonds, and the green bond market will continue to expand; there will be more index investment products constructed based on listed companies in green industries, to guide the green investment concept of the whole market; the CSRC will step up information disclosure requirements related to carbon emissions and environmental protection of listed companies; and financing instruments based on environmental rights such as water-taking rights, emission rights and carbon emission rights will also be launched in due course.

Currently, the nation-wide carbon trading market is not active and participants are limited. In 2022, when conditions are right, institutional investors, including securities companies, may be allowed to participate in trading of the nation-wide carbon market.

## 05 Regulations covering overseas listings may come into force, and cross-border regulation will be strengthened

In July 2021, the General Office of the CPC Central Committee and the General Office of the State Council clearly required in the Opinions to strengthen the regulate for China concepts stocks, to take practical measures to deal with the risks and emergencies of China concepts stocks, and to put appropriate regulations in place. In December, the CSRC sought public opinion on the *Administrative Provisions of the State Council on the Overseas Issuance and Listing of Securities by Domestic Enterprises* (Administrative Provisions) and the *Administrative Measures for the Filing of Overseas Issuance and Listing of Domestic Enterprises* (Filing Measures), which proposed the regulation of indirect overseas issuance and listing (in red chips and via VIE structures) by domestic enterprises. Domestic enterprises issuing securities and listing overseas

have to file with the CSRC and comply with laws and regulations on foreign investment, network security, and data security, and so on. Those forbidden from listing overseas include those expressly prohibited from financing by listing under laws and regulations, endangering State security, being involved in major ownership disputes, or being involved in illegal and criminal activities. If a securities company fails to strictly perform its duties or fails to urge the enterprise to comply with relevant regulations, it may be subject to warning or being fined by up to RMB5 million. The Filing Measures further clarified the requirements on the scope of application for filing, filing applicants and filing procedures, and provided that overseas securities company engaging in the sponsoring business of overseas issuance and listing of domestic enterprises or acting as the lead underwriter shall follow filing procedures with the CSRC, and submit annual reports on its engagement in such business to the CSRC.

We expect that the regulatory rules for overseas listing will be formally implemented in 2022. The direct overseas issuance and listing (H shares, and so on) of domestic enterprises and indirect overseas issuance and listing (red chips and via VIEs) of domestic enterprises will be subject to uniform regulatory requirements, and relevant “full floating” rules (i.e. all stocks of the listed companies will be publicly tradable) may be issued.

With the amendment of the *Company Law*, it will become possible to set up a weighted voting rights structure (WVR) in such overseas listed domestic enterprises. There will be more stringent requirements on data security, cross-border data flow, and state secrets management of overseas listed enterprises. In addition, regulation of overseas securities companies engaging in the sponsoring business of overseas issuance and listing of domestic enterprises will also be significantly strengthened.

There will be more cross-border law enforcement cooperation, as the CSRC works with regulatory departments in other jurisdictions to crack down on illegal acts such as corporate financial fraud and to protect the rights and interests of investors.

There may be more regulations covering cross-border securities activities in 2022. The CSRC may also formally issue the *Several Provisions on the Stock Connect Schemes between Mainland China and Hong Kong Stock Markets*, which prohibits mainland citizens from purchasing A-share shares through the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect.

We hope that the regulatory authorities of China and the United States agree on audit supervision as they continue to negotiate.

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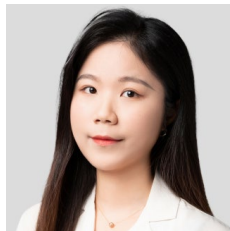
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