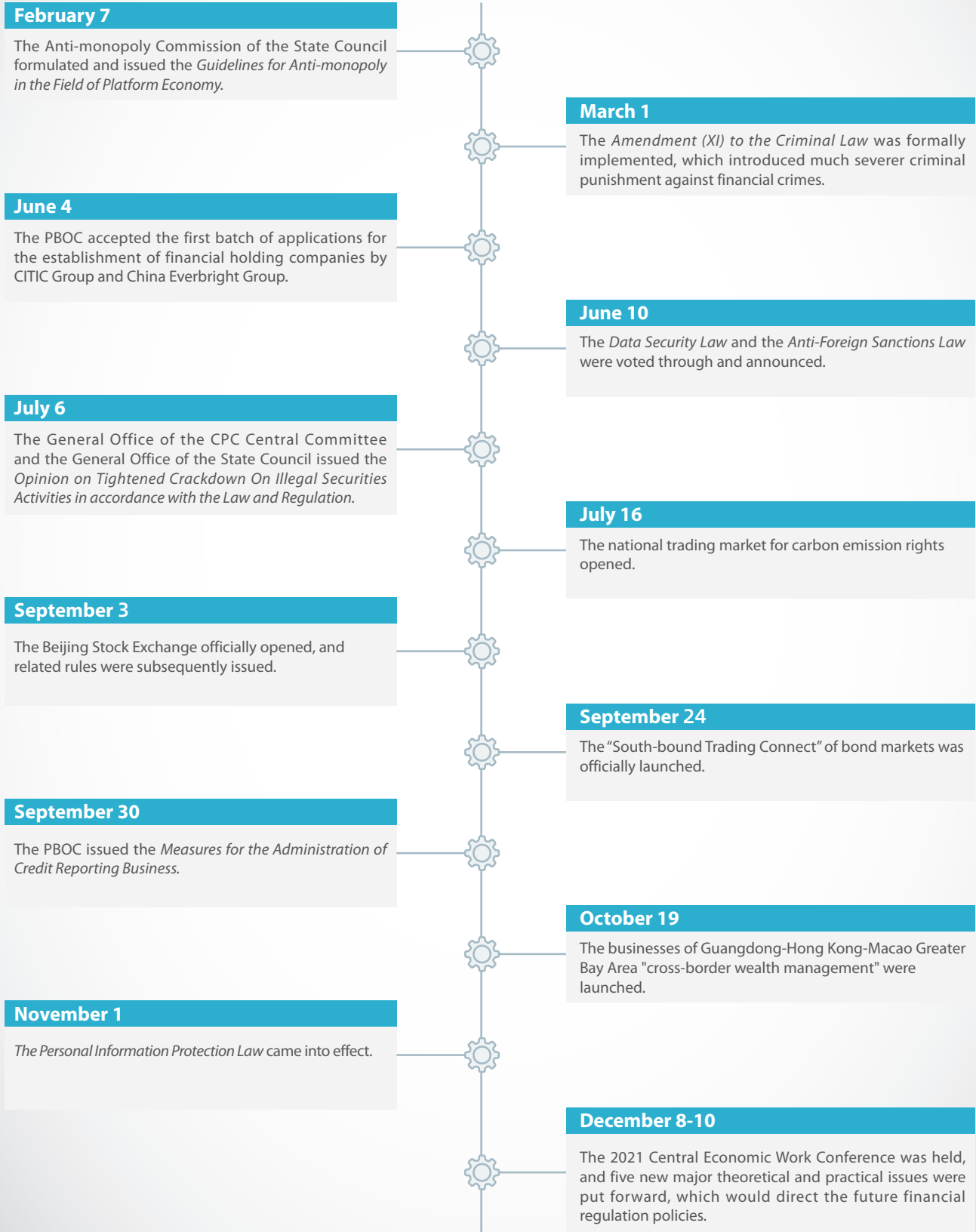


2021 Key Dates



2021 Regulatory Observations

01 “Economic Development” served as the main theme and financial regulation focused more on the real economy

Having the financial sector focus more on financing the “real economy” (as opposed to the “fictitious economy”) and improving the institutional arrangements to provide medium and long-term funding to the real economy were set out as one of the long-term development objectives for the PRC economy in the 14th Five-year Plan for National Economic and Social Development and the Outline for Perspective Goals in 2035 (《十四五规划和 2035 年远景目标纲要》). This served as the principal guide for regulators in 2021.

In the 2021 Government Work Report (《2021 年政府工作报告》), the State Council pointed out that we needed to give more prominence to the real economy, and the relationship between economic recovery and risk prevention needed to be well managed. The specific measures promulgated in 2021 echoed the above policy:

- continuing to strictly control the real estate sector (to avoid the real economy's fund resources being squeezed by the real estate sector),
- guaranteeing sufficient supply and stable prices of bulk commodities
- reducing transaction fees charged by payment agencies and banks
- increasing credit loans and first-time loans
- promoting the pay-as-you-go lending model
- developing new models for providing supply chain financial services
- deferring repayment of loans granted to micro, small and medium-sized enterprises, and increasing credit loans to micro, small and medium-sized enterprises

These policies underlined the approach taken by decision-makers and regulators to give more support to the real economy and that the financial system should be geared more towards benefitting the real economy.

In terms of the groups who will benefit from the changing policy and regulatory focus, in addition to the traditional “inclusive finance” entities (small and micro enterprises and individual businesses), “green development entities” and agricultural entities

in line with the concept of “green finance” and “rural finance”, manufacturing enterprises, science and technology innovation enterprises, and small and medium-sized enterprises equipped with special and sophisticated techniques to produce unique and novel products (专精特新) have all received policy support in 2021. Among them, small and medium-sized enterprises that apply special and sophisticated techniques to produce unique and novel products have enjoyed special treatment after they were granted with a strategic position to break the global technical foreclosure. We anticipate there will be more policies in favor such enterprises.

02 Stringent regulation maintained and heightened law enforcement remained

There are increasingly stringent regulations applying to the financial sector, a process that began a few years ago and showed no sign of easing in 2021.

In terms of legislation, the *Administrative Penalties Law* (《行政处罚法》) revised in July 2021 extended the time period for punishing illegal acts “involving financial security and causing harmful consequences” to five years (the general time period for administrative penalties is two years), reflecting the trend that regulatory actions against illegal financial conduct are gradually being strengthened. New regulations such as the *Measures for Administrative Penalties against Illegal Activities relating to Securities and Futures* (《证券期货违法行为行政处罚办法》) have been issued to provide support for law enforcement by financial regulators.

In terms of law enforcement, regulators are imposing heavier fines for transgressions. In the first nine months of 2021, CBIRC and its branches levied administrative fines of RMB1.9 billion (compared with RMB 2.3 billion for the whole of 2020). In May, the CBIRC imposed a total fine of RMB366 million on five major banks (including state-owned banks, foreign banks and joint-stock banks). Eleven trust companies were fined in total RMB45 million in 2021, an indication that the authorities are addressing failings in the trust sector.

The capital markets (which are mainly governed by CSRC) have

also been subject to more stringent regulation. At the start of 2021, the CSRC noted that there were quite a few problems in PRC's capital markets, such as the increasing frequency of financial fraud, market manipulation, insider trading and lack of due diligence by intermediaries. Zero tolerance was shown to a number of financial institutions for violating laws and regulations, including Since LeTV, Brilliance Bonds, and Yongmei Bonds.

The CSRC expanded its scope of regulation and has started to regulate overseas listings of Chinese companies and the use of (Variable-Interest Entity) VIE structures. The delisting of Kangdexin and the verdict rendered against Kangmei Pharmaceutical for its accounting fraud and false disclosure are further indications that the CSRC is taking a tough line on securities-related violations.

Over the past year, we have seen a greater focus on data protection and consumer protection. Because of the nature of the business conducted by financial services companies, both data protection and consumer protection are key concerns because of the volumes of data processed. Regulators have come down hard on those found to have been in breach of data protection and consumer protection laws. For example, the Ministry of Industry and Information Technology (MIIT) has repeatedly issued reprimands on mobile APPs for "illegal collection of personal information", and a number of banks and internet financial institutions (e.g., WeChat, PPDai, WeLab) have been publicly criticized.

At the start of 2021, the PBOC set out a number of further measures that it proposed to introduce to boost data and consumer protection for the benefit of financial service consumers. These concerned financial advertisements and a better system for reporting complaints. Among the transgressions reported by the CBIRC in 2021 are illegal tied sales (where consumers were forced to buy linked financial products), excessive charges, standard form contracts, non-compliance in providing joint loans, and inadequate management of collections.

There has been closer cooperation between administrative authorities and criminal judicial authorities in securities-related activities in law enforcement. In September 2021, the CSRC, according to the *Opinions on Strictly Cracking Down on Securities-related Illegal Activities* (《关于依法从严打击证券违法活动的意见》) issued by the General Office of the Central Committee of the CPC and the General Office of the State Council, took the lead in establishing a coordination working group for cracking down on illegal activities

in the capital markets, consisting of the Ministry of Public Security, the Supreme Court and the Supreme Procuratorate. Subsequently, the Supreme Procuratorate set up a procuratorial office branch in the CSRC, and the CSRC, together with public security authorities and procuratorial authorities, investigated 19 major cases in 2021, including several major cases involving market manipulation (including Nanling Minbao, KTK Group and Haozhi Industrial).

03 Governance of local financial institutions strengthened and new structure emerged between central and local financial regulations

In 2021, the central government introduced differentiated financial regulations from one locality to another, significantly strengthened the regulation of local financial markets and institutions, and further delineated the responsibilities of local regulators.

The central government lent greater encouragement and support towards local financial activities and financial innovation. As a result, many policies favorable to local financial institutions (including quasi-financial institutions) were introduced:

- the innovation policies in Hainan and Guangdong-Hong Kong-Macao Greater Bay Area effectively broadened the policy frameworks for local pilot financial activities;
- the Standing Committee of the National People's Congress made an exceptional delegation for the Shanghai Municipal People's Congress to independently formulate regulations specifically for Pudong New Area, positioning Pudong New Area as a quasi-Special Economic Zone;
- Hainan, Chongqing, Guangdong (outside Shenzhen) and Jiangsu were all approved to carry out Qualified Domestic Limited Partners ("QDLP") business and were each approved with an overseas investment quota of US\$5 billion;
- Qingdao was once again approved with an overseas investment quota of US\$3 billion
- Shenzhen Qualified Domestic Investment Enterprise (QDIE) pilot system was updated and restarted;
- Guangdong-Hong Kong-Macao Greater Bay Area "Cross-Border Wealth Management Connect" had its first batch of businesses;
- Shanghai was approved to pilot a regional equity market for transfer of interest in private equity funds and venture funds.

At the same time, local licensed financial institutions became subject to greater regulation. While granting more flexible disposal tools, greater responsibilities were put on local regulatory authorities.

Firstly, local governments are responsible for dealing with, and disposing of, financial risk. At the meeting of the Political Bureau of the Central Committee on July 30, the implementation of "the fiscal and financial risks disposal mechanism under the responsibility of local governmental leaders" was specifically introduced. The special local government bonds specifically for capital replenishment of small and medium-sized banks is a good example. Many provincial governments have injected capital into small and medium-sized banks by virtue of issuing such bonds (for example, Henan Province invested RMB 25.7 billion into 18 rural credit cooperatives and 22 rural commercial banks). As of September 2021, the RMB 200 billion quota of special local government bonds provided by the Ministry of Finance had been nearly exhausted.

Secondly, the principle of "one institution, one policy" and "one place, one policy" was put forward to encourage the merger and restructuring of small and medium-sized financial institutions. The CBIRC issued the *Notice on Further Promoting the Reform and Restructuring of Township and Village Banks to Resolve Risks* (《关于进一步推动村镇银行化解风险改革重组有关事项的通知》) at the beginning of 2021. On April 8, the Financial Stability Board called on well-performing institutions to merge with risky institutions. Examples of this include Sichuan Bank, Shanxi Bank and Liaoshen Bank.

The corporate governance of local financial institutions was another area to which regulators paid attention and was the subject of a meeting held on April 8 by the Financial Stability Board. At that meeting, there was a discussion about the financial weaknesses of a number of financial institutions, poor internal governance and a need to enforce regulations against leaders of such institutions who had been in breach of the law - the regulations obviously focused on the major violations of laws and regulations caused by insider control that were common in local financial institutions. We understand that further reform of local small and medium-sized financial institutions has been put on the agenda. In addition, the meeting of the Financial Stability Board decreed that it was necessary to "support and guide local financial institutions to focus on their main business, establish their business based on local conditions, return to their roots, and serve local small and micro-sized businesses".

With the increasingly strict enforcement of policy governing the financial services sector, small and medium banks have been required to support local businesses and been restricted from conducting business outside their localities, including accepting deposits from those outside their area. In this connection, the *Regulations on Local Financial Supervision and Administration* (《地方金融监督管理条例》), were also published at the end of the year to invite public comment.

04 Targeted regulation on FinTech applied while applicable measures adopted to promote and regulate the sector

Financial technology (FinTech) businesses have seen a twin-tracked approach in 2021. On the one hand, the authorities have clamped down on financial activities using internet platforms, while on the other hand, they have been encouraging licensed institutions which were traditionally trusted by the regulators to continue with innovation.

As was the case in 2020, regulators continued to operate on the basis that the "the essential attribute of FinTech is finance" and that "the conduct of financial business must be licensed". They continued to rein in internet companies attempting to break into the financial sector under the banner of FinTech. The 2021 government work meeting called for "strengthening the regulation on financial holding companies and FinTech to ensure financial innovation to be carried out under the premise of prudent regulation". The meeting further required Internet companies to operate FinTech with necessary financial licenses (including the licenses of financial holding company or licenses of credit rating).

Those internet companies carrying out financial technology business have been required by the regulations to comply with regulations governing data security, anti-monopoly, protection of financial consumers' rights and interests, and clarification of the boundaries between different financial products on the Internet platform. Other controls were placed on specific FinTech products, for example:

- the STAR Market in April explicitly restricted FinTech companies from listing;
- prohibitions from carrying out cryptocurrency-related business; and
- cutting off the direct information connection (信息断直连) between internet platforms and financial institutions proposed in mid-2021

In 2021, there were a number of regulations introduced to cover distribution of financial products on Internet platforms (including deposit loans, wealth management products and insurance):

- Internet deposits: the regulators issued *the Notice on Regulating the Relevant Matters of Commercial Banks' Personal Deposit Business* (《关于规范商业银行通过互联网开展个人存款业务有关事项的通知》) through the Internet on January 13 2011, putting an end to the practice by commercial banks of soliciting deposits through third-party Internet channels;
- Internet loans: the *Interim Measures for the Administration of Internet Loans of Commercial Banks* (《商业银行互联网贷款管理暂行办法》) promulgated at the end of 2020 and the *Notice on Further Standardizing Internet Loan Business of Commercial Banks* (《关于进一步规范商业银行互联网贷款业务的通知》) promulgated on February 19 prohibited locally incorporated banks from conducting Internet loan business "beyond the place of registration";
- Wealth management products of banks: *The Interim Measures for Sales Management of Wealth Management Companies' Wealth Management Products* (《理财公司理财产品销售管理暂行办法》), officially released on May 27 limited the institutions qualified to distribute wealth management products to wealth management subsidiaries of banks and banks. Neither Internet platforms nor third-party distribution institutions were allowed to distribute wealth management products. Although the CBIRC also proposed to extend the scope of qualified distributors of wealth management products to cover other financial institutions on an informal basis, it is expected that such institutions will only include professional financial institutions such as securities companies.
- Internet insurance business; the *Measures for the Supervision of Internet Insurance Business* (《互联网保险业务监管办法》) came into effect in February, abolishing the "client diverting cooperation mode between insurance institutions and third-party network platforms in the previous rules, and instead requiring the Internet insurance product distribution and service platforms to be the self-operated platforms of the insurance companies themselves.

At the same time, the regulators have been keen to promote FinTech innovation by traditional financial institutions (such as banks), in several ways.

First, there was good progress in the use of "regulatory sandboxes". More than 90% of the innovative applications of nearly 120 PBOC regulated sandboxes announced as of November 2021 were initiated by banks or jointly by banks and third parties; all seven participants in the "out-of-

box" projects announced as of November 2021 were banks. As regulators encouraged the use of regulatory sandboxes in respect of innovations in the capital markets, again securities companies and fund management companies are the primary applicants.

Second, the CBIRC at its annual work meeting in January also encouraged large banks to pass on their FinTech knowledge to small and medium-sized banks so as to reduce the dependence of small and medium-sized banks on Internet companies engaged in FinTech.

Third, in addition to relying on licensed institutions such as large banks to carry out FinTech business, the regulators have also been active in helping to develop FinTech. For example, the digital currency research institute of the PBOC has set up a number of FinTech subsidiaries all over the country. In addition to its continued promotion of research and development of digital currency and electronic payments, it will be worth watching whether the PBOC will leverage its FinTech subsidiaries in various localities for regulation.

05

Regulators remained determined to dissolve risks while facing increasing challenges

In 2020, there were a number of high-profile restructurings or disposals of financial institutions, such as Jinzhou Bank and Baoshang Bank, as the authorities endeavored to remove high-risk institutions. This process continued in 2021 as regulators continued to eliminate risk from the system. A number of actions were taken:

- certain institutions such as Dajia Insurance were constantly soliciting strategic investors;
- risk dissolution in respect of a few trust companies, including Sichuan Trust, was closely planned or implemented;
- the 1-year takeover period of the nine members of the Tomorrow Group (which was taken over in July 2020 by CBIRC and CSRC) was prolonged after the asset audits and capital verification was completed;
- certain large private enterprises at risk of default on repaying debts had their situations resolved;
- the remediation of financial exchanges was delayed due to the impact of COVID-19, but restarted in December 2021.

As mentioned in the 2020 PBOC Work Conference, the focus of regulators is now shifting to prevention, control and management of financial risk on a regular basis. As a result, some certain areas thought to be of high risk continued to be closely monitored.

First, regulators addressed a number of activities that were considered to be high-risk. These included reducing the number of shadow banks, targeting “irregularities” in the trust sector, stepping up the disposal of non-performing assets, and cooperating with local governments to resolve hidden debt risks;

Second, in order to prevent the spread of risks from large enterprises (such as HNA and Evergrande) spreading to the financial sector, financial regulators have also been closely involved in helping debt-ridden enterprises to manage their debts;

Third, regulators aimed to improve financial institutions’ ability to handle risks by themselves. Regulators stepped up their supervision of “systemically important” financial institutions to ensure they manage risks properly and enhance their capability to resolve risks by themselves, while also putting in place a frame on banks and insurers formulating their resolution and recovery plans;

Fourth, regulators were remorseless in targeting internet finance and illegal fundraising. The primary target of the *Regulations on the Prevention and Disposal of Illegal Fundraising* (《防范和处置非法集资条例》) issued in 2021 was illegal fundraising in the guise of “internet finance” or “financial technology”. Other activities such as P2P, blockchain, cryptocurrencies, mutual insurance, crowdfunding and pension finance were also included in the risk prevention targets, and regulators adopted the approach of preventing or addressing stage problem areas at an early stage in respect of illegal fund-raising.

06 More reforms introduced to the capital markets, and remarkable developments for derivatives occurred

In 2021, regulators made a number of significant changes to the way in which capital markets operate with a view to making them operate more efficiently. This was additional to the continued enforcement against securities violations. There have been moves to simplify administrative procedures, fill in regulatory gaps, and promote market-oriented reforms in the regulatory regimes and law enforcement. A “white list” of quality securities companies was introduced, regulations on listing companies were consolidated, and administration on equity management of securities companies was relaxed to some extent, reflecting the regulators’ determination to “simplify administration, delegate power, improve regulation and upgrade services”.

The gaps in regulation were being filled in. The draft of *Futures and Derivatives Law* (《期货和衍生品法(草案)》) went through a second review, the draft of Interim Regulations on the Administration of Private Equity Investment Funds was nearly ready to start the review process, the credit rating system was substantially restructured and there will be new regulations covering overseas listings by companies with VIE structures.

The CSRC demonstrated its determination to reform its securities regulation. The scope of pilot projects covering fund investment advisory businesses was widened, 10 securities companies were approved to carry out lead underwriting services for the issue of corporate credit bonds in the interbank market, new delisting rules were frequently put into practice, and the first Securities Arbitration Center was established in Shenzhen – all these actions help to shape a more market-oriented capital market.

Meanwhile, *the Measures for the Implementation of the Rules for the Undertakings Made by the Parties to Securities and Futures Administrative Law Enforcement* (《证券期货行政执法当事人承诺制度实施办法》) and the detailed implementation rules came into effect. The tenor of these rules is to encourage compliance rather than penalizing those in breach, pointing to the direction of market-oriented law enforcement and civil law enforcement.

Added to the various reforming measures, special attention should be given to the following developments in the derivatives regime:

- the draft of *Futures and Derivatives Law* (《期货和衍生品法(草案)》) underwent second review;
- in October, three new types of financial derivatives transactions were open to QFIs;
- in November, support was given to the concept of close-out netting in applicable regulations with the aim of promoting China as a applicable jurisdiction to the close-out netting in the international market;
- in December, the consultation draft of *Guiding Opinions on Promoting the Standardized Development of Derivatives Business* (《关于促进衍生品业务规范发展的指导意见》的征求意见稿) was published to seek public comment, with the goal of unifying regulatory requirements for OTC derivatives.

It is therefore quite likely that the above rules will provide a foundation for financial institutions to participate in derivatives transactions and promote the development of the OTC derivatives market.

In response to the problems that emerged in the wake of previous reforms designed to boost the market, the CSRC revisited details of some of the previous reform measures. In 2021 March, the Chairman of CSRC publicly pointed out the market and intermediary agencies were “unprepared” for the “registration-based IPO”, and emphasized that the quality of companies listing should not be compromised by the implementation of the registration-based IPO regime. The authorities subsequently slowed down the process of promoting the registration-based IPO regime. The CSRC took remedial actions against the previous fast-paced reform by imposing on the STAR market more stringent qualifications for “Sci-tech” and “innovative” issuers, promulgating new information disclosure rules, and prolonging the lock-up period for new shareholders who invest within certain period before IPO. The CSRC stated again that smooth reforms to IPO registration require solid and careful political, ideological, professional and technical preparations.

07 Regulatory regime for new financial areas such as Green Finance and Rural Finance were further established and launched

As an important part of the 14th Five-Year Plan, new financial concepts such as carbon neutrality, green finance, rural revitalization and common prosperity were gradually landed in 2021, becoming more and more systematic.

The blueprint for green finance and rural finance was depicted in the *Guiding Opinions on Accelerating the Establishment of a Sound Economic System with Green, Low-carbon and Circular Development* (《关于加快建立健全绿色低碳循环发展经济体系的指导意见》) promulgated on 2 February and the *Opinions on Comprehensively Promoting Rural Revitalization and Accelerating Agricultural and Rural Modernization* (《关于全面推进乡村振兴加快农业农村现代化的意见》) promulgated on 21 February. The Government Work Report published on 5 March stated that the beneficiaries of government’s benefit concessions should include green development, small and micro enterprises, individual businesses and new agricultural operators. The *Law on the Promotion of Revitalization of Rural Areas* (《乡村振兴促进法》) promulgated in April directly defined the responsibility framework of financial institutions in rural finance from legal level. The Financial Stability Committee meeting held on 21 May emphasized the direction of “deepening the reform of financial institutions” and encouraging financial institutions to “return to the origin, adhere to their positioning, and follow a green approach in investment and financing”. Meanwhile, a series of new regulations on rural revitalization bills (inheriting poverty alleviation bills) and carbon neutrality debt products were issued in 2021.

The above new financial concepts have been gradually transformed from abstract policies into specific implementing rules. Take “carbon neutrality” as an example, traditional green financial products mainly include green credit products, with few capital market products or tools for green finance. In 2021, green bonds, green funds and carbon futures boomed, highlighting the gradual introduction and improvement of green finance in the capital market system. And more regulatory initiatives are expected to follow (such as opening a convenient channel for green enterprises to get prioritized listing guidance, guiding the reduction of green stock fees, and so on.). The concept of “common prosperity” subtly influencing the asset management/wealth management industry is also worth noting. This concept originated in the 1990s as a national

policy, and was reintroduced in 2021 in encouraging developments of financial products tailored to household wealth management needs and emphasizing the importance of financial products involving individuals.

According to the 2022 PBOC Work Conference held on 27 December 2021, financial support for the "four key areas - small and micro enterprises, science and innovation, green economy and rural economy" will still be increased in 2022. We anticipate that the directions of the above policies will become increasingly clear in 2022 and beyond, prompting the regulatory authorities to introduce more specific regulations to achieve policy alignment. As the opening year for the 14th Five-Year Plan, 2021 is undoubtedly a starting point for relevant regulatory efforts.

08

A preliminary anti-foreign sanctions legal framework was in place, new fields of financial compliance emerged

Following the promulgation of the *Provisions on the Unreliable Entity List* (《不可靠实体清单规定》), the *Export Control Law* (《出口管制法》) and other relevant laws and regulations in the second half of 2020, the *Rules on Blocking Unjustified Extra-territorial Application of Foreign Legislation and Measures* (《阻断外国法律与措施不当域外适用办法》) (the "**Blocking Rules**") and the *Anti-foreign Sanctions Law* (《反外国制裁法》) came into force in 2021, which together constitute the preliminary framework of China's anti-foreign sanctions laws and regulations.

On the whole, China's anti-foreign sanctions laws and regulations are "countermeasures"-oriented, the starting point of which is to oppose "hegemonism and power politics", especially to take countermeasures against the abuse of sanctions and long-arm jurisdiction by other countries, rather than taking initiatives to impose long-arm jurisdiction over various cross-border transactions. Despite that, there is still much to be clarified, the overall framework is in place as can be seen from the laws and regulations that have been promulgated so far. For financial institutions (especially those operating in a multinational jurisdiction), U.S. and European sanctions-related laws,, including sanctions lists established

by the U.S. Department of Treasury's Office of Foreign Assets Control ("**OFAC**") (SDN, CSL, etc.) have long been recognized as an important compliance guideline for conducting cross-border businesses, while with the introduction of the *Anti-foreign Sanctions Law*, the **Blocking Rules** and the *Provisions on the Unreliable Entity List*, financial institutions now have to consider both the PRC and overseas sanctions-related legislation, and may even face a dilemma in certain situations.

The existing anti-sanctions laws and regulations are, to a certain extent, more declarative than for intended for actual implementation, so there still exists uncertainty in the specific application by financial institutions in practice. For example, the issues that are subject to further detailed provisions include but are not limited to the detailed procedures for issuing or revoking relevant countermeasures or injunction, the reconciliation between the sanctioned persons listed by the Ministry of Foreign Affairs and the AML, anti-terrorism and anti-tax evasion lists maintained by the PBOC, and the specific scope of the affiliates of sanctioned persons (e.g. "organizations actually controlled by, or established and operated by, any individual or organization on the counter checklist") that are subject to restriction measures.

2022 Regulatory Outlook

01 Construction of financial rule of law will be strengthened, and financial regulatory policies will seek progress while keeping stable

The 2021 Central Economic Work Conference called for strengthening the construction of financial rule of law and set the tone of "seeking progress while keeping stable", which means that the financial regulatory policies in 2022 will maintain full continuity on each major policy, but will also be improved and adjusted on the micro level.

Financial risk disposal will progress in an orderly way, and shift to "organically combining risk disposal and reform and development". From the legislative perspective, in 2022, the *Financial Stability Law* (《金融稳定法》) is expected to be issued, the measures for identification and assessment of systemically important insurance and securities institutions and additional regulations applicable to such institutions are expected to be released, and the formulation of regulations related to the market-oriented bankruptcy or reorganization of financial institutions will also be initiated. From the perspective of law enforcement, systems such as major financial risk accountability and financial risk notification will be further implemented and play a more important role, conforming to the position of "compacting the responsibilities of local authorities, financial regulatory authorities, industry authorities and other parties, and compacting the self-rescue responsibility of enterprises" of the 2021 Central Economic Work Conference.

It is also worth mentioning that, according to the 2021 Central Economic Work Conference, from the regulatory perspective, risk disposal is no longer just a passive crisis response, instead, regulators are seeking to "combine risk disposal with deepening reform and promoting high-quality development". Sole risk prevention will gradually give way to promoting risk disposal through reform, so as to achieve "fundamentally prevent and resolve various risks with high-quality development" (from Vice Premier Liu He, *Must Achieve High-Quality Development* (《必须实现高质量发展》), in November).

In respect of financial institutions system reform, after the intensive rectification of corporate governance of banking, insurance and securities institutions in the past two years, the focus in 2022 will be summarizing the previous experience, solidifying relevant rules, and solving problems relating to diversified incentives for employees. At the same time, one of the cores of reforming financial institutions regulated by the CBIRC lies in the continuous application

of traditional policies to some small or new financial institutions which previously were not covered, such as establishing risk isolation mechanism between wealth management subsidiaries and parent companies, improving quantitative regulatory requirements for non-banking financial institutions, and continuously improving micro-governance of local small and medium-sized financial institutions. In addition, the related systems of traditional large financial institutions will also usher in innovation. In addition to the *Financial Stability Law* to be promulgated as mentioned above, the revised drafts of the *Commercial Bank Law* (《商业银行法》), the *Law of the People's Bank of China* (《中国人民银行法》) and the *Anti-Money Laundering Law* (《反洗钱法》), which have been specified in the legislative plan of the National People's Congress in 2021, have sought public opinions and been effectively reviewed in 2021, and are highly expected to come into effect in 2022. And the revised draft of the *Insurance Law* (《保险法》) is expected to be published for public comments. The promulgation of several "fundamental laws" in the financial industry is expected to change the fundamental regime governing the financial industry, and 2022 is expected to be a new "year of rule of law in financial regulation".

In 2022, the opening-up of the financial industry will be more focused on "institutionalization" and "high level". As far as "institutionalization" is concerned, the existing market access for individual foreign institutions, commodities and other elements has reached a considerable magnitude. On this basis, it will undoubtedly become a new direction to "institutionalize" the opening-up which would primarily involve conforming with the international high-standard market rules and systems. As far as "high level" is concerned, considering the saturation of the market by foreign institutions, "high-quality introduction" will be to actively introduce high-quality foreign institutions with professional advantages to operate in China. And the CSRC has repeatedly mentioned that it will strictly regulate "fake foreign investments". In terms of cross-border regulatory cooperation, Sino-US audit regulation cooperation is expected to make substantial progress.

With RMB internationalization (through international monetary cooperation and the development of offshore RMB market) and deepening of interconnection between the mainland and Hong Kong markets and other relevant matters progressing smoothly, 2022 will see the start of strict regulation of cross-border financial services.

02 Cracking down on Illegal Financial Activities under "Administrative and Criminal Cooperation"

This current crackdown on illegal financial activities has been fully implemented with the parameters of the current regulatory system, and continuous legislative improvements and judicial safeguards have provided systemic protection and new "weapons" for cracking down on illegal financial activities. It is expected that in 2022, the legislative, law enforcement and judicial systems will continue to go hand in hand to crack down on relevant financial illegal activities including illegal activities related to securities and futures.

In terms of legislation, the reconciliation and integration of *the Administrative Penalty Law* (《行政处罚法》) into the existing financial regulatory measures will be an important agenda for financial regulation legislation. However, this should not prevent financial regulators from invoking the provisions of the Administrative Penalty Law to enforce financial irregularities on a wider scale than before.

In terms of law enforcement, after the promulgation of *the Amendment (XI) to the Criminal Law* (刑法十一修正案), the CBIRC and the CSRC have also publicly stated that they will cooperate with the implementation of *the Amendment (XI) to the Criminal Law* and strengthen the coordination of law enforcement and justice. In light of the focus on the imposition of criminal liability in *the Opinions on Strictly Cracking Down On Illegal Securities Activities in accordance with the Law and the Regulation* (《关于依法从严打击证券违法活动的意见》) on *the Prevention and Treatment of Illegal Fund-raising* (《防范和处置非法集资条例》), it is expected that the enforcement efforts to impose criminal penalties on illegal financial activities constituting crimes will be further strengthened, and more joint enforcement actions are on the way. In terms of specific law enforcement, the 2021 Central Economic Work Conference proposed for the first time to "set a 'traffic light' for the capital". On this basis, the CSRC further proposed to "strictly supervise the financing and M&A activities in specific sensitive areas, and work with relevant parties to establish and perfect the institutional mechanism to prevent disorderly expansion of capital". We believe in 2022 the CSRC will take this as the general principle of having a targeted and strengthening supervision over the capital markets. In addition to traditional capital markets illegal activities such as fraudulent issuance, false statement and market manipulation, we understand that the regulatory authorities will also crack down on illegal activities in specific areas such as M&A, debt evasion in the bond

market, financial fraud, illegal private equity, cross-border financial services and virtual currencies.

In terms of judicial system, issues such as the liability of intermediaries in the capital market are still controversial (for example, there is a view that the criteria applied in the Kangmei case and the previous Wuyang case are not consistent). In 2022, more precedents will surface in the judicial practice of investors' litigation related to securities related illegal activities, making it a more mature and foreseeable judicial system.

03 Continuous Promotion of Governance over Financial Institutions

High-quality, scientific and modern corporate governance is the basis for financial institutions to control risks. Since 2020, regulatory authorities have issued a large number of policy documents on corporate governance and other matters, including corporate governance guidelines for banking and insurance institutions, regulation of behaviors of major shareholders, management of related-party transactions, remuneration kickback, performance evaluation of directors and supervisors, etc. (some of which are still draft for comment). The CBIRC has released four batches of lists of shareholders who have seriously violated laws and regulations in 2021, and completed the regulatory assessment of corporate governance of banking and insurance institutions for 2021 in November. The CSRC launched a special campaign to improve governance of securities, futures and fund management institutions in August.

The year 2022 will be the completion year of *the Three-year Action Plan for Improving Corporate Governance in Banking and Insurance Sectors (2020-2022)* (《健全银行业保险业公司治理三年行动方案(2020-2022年)》). The CBIRC disclosed on December 2 that although initial achievements have been made in the corporate governance of banking and insurance institutions, the situation is still complex and severe, and some typical corporate governance problems such as major shareholder manipulation and insider control still exist in some institutions. The CSRC also pointed out that important rules governing the equity management, internal control and senior management of

the CSRC regulated institutions, such as fund companies and futures companies, are expected to be released or will be further modified. Therefore, we believe that the year 2022 is still in the strong regulatory cycle, and continuous improvement in the laws and regulations and further rectification activities for the relevant industries such as self-examinations by institutions and on-site inspections by the regulatory authorities are likely to occur in 2022.

In the "new stage" of enhancing governance of financial institutions, the regulatory emphasis on the governance of financial institutions will be different. The CBIRC and the CSRC will further require institutions to strengthen the organic integration of the Party's leadership and corporate governance. The follow-up micro-governance of financial institutions is likely to focus on close supervision and high-pressure supervision of local financial institutions, and adopt more specific and targeted measures such as restricting the behaviors of "top officers". In addition, the diversified employee incentive mechanisms of financial institutions will have a progress in 2022, however, against the political background of emphasizing the goal of "common prosperity" (共同富裕) and "reasonably adjusting excessively high income", the compensation system and incentive mechanism of financial institutions may face stronger regulatory pressure. We believe the "unreasonable assessment mechanism", guaranteed stable income, excessive incentive and other problems may be subject to strict inspection and regulation.

04 More Refined Regulations for Financial Consumer Protection

Financial consumer protection has become an increasing focus of financial regulation in recent years. *The Financial Stability Report (2021)* (《金融稳定报告(2021)》) points out that protecting the legitimate rights and interests of financial consumers is an objective requirement in the era of Fintech, and the importance of financial consumer protection has become increasingly prominent in the internet wave. In addition, financial consumer protection inspections have been frequent in recent years and often accompanied by penalties along with a public criticism, making it a clear regulatory focus. Against this backdrop, it is expected to witness a considerable development with more refined regulations for financial consumer protection in 2022.

From the legislative perspective, the *CBIRC Notice on Promulgation of the Measures for Regulatory Evaluation of Protection of Consumer Rights and Interests by Banking or Insurance Institutions* (《中国银保监会关于印发银行保险机构消费者权益保护监管评价办法的通知》) issued in July 2021 replaced the previous version, further clarified the specific evaluation system for annual supervisory inspections, and provided more operational guidance for financial institutions to deal with supervision and make corresponding rectification. It is expected that more guidance will be issued in 2022. In August 2021, Liu Guiping, deputy governor of the People's Bank of China, stated in a related meeting that "We should link with the State Administration of Market Supervision and strengthen special legislation to promote financial consumer protection... which should be supported by superordinate laws", signaling that high-level integrated regulations for financial consumer protection may be forthcoming. In addition, as the financial consumer protection field continues to be subdivided, it is possible that the financial consumer protection will be jointly promoted by the general provisions of the People's Bank of China and the detailed rules of other regulatory authorities. Moreover, *The Measures for the Protection of Consumer Rights and Interests by Banking or Insurance Institutions* (《银行保险机构消费者权益保护管理办法》), which was originally listed in the legislative plan of the CBIRC in 2021 (which means it should have come out in 2021), is expected to come out in 2022.

In terms of financial products, in 2022, the regulatory system and compliance review of financial products will further focus on products that are "closely related to the average people". In October 2021, the

CBIRC stated in a press conference of the State Information Office that the next step in the financial product structure would be to "continue to support commercial insurance institutions to meet the people's multi-level and personalized health protection needs through diversified product services." Further, in December 2021 when the pilot of pension financial products was conducted, the regulator stressed the need to properly design the products and protect investors, as well as to continually clean up financial products with the disguised name of "pension" but did not actually serve the purpose. The above regulatory direction is also in line with the grand mission of "Inclusive Finance" and "Common Prosperity", and should continue to be implemented in 2022.

05 Increasingly tightening regulation of Financial Data and Data Regulatory Framework becoming further matured

With the promulgation and implementation of *the Data Security Law* (《数据安全法》) and *the Personal Information Protection Law* (《个人信息保护法》) in 2021, data compliance regulation is becoming increasingly stringent.

At the general law level, *The Measures for the Security Assessment of Outbound Data* (《数据出境安全评估办法》) and *Network Data Security Management Regulation* (《网络数据安全条例》) are expected to be issued in 2022. Detailed regulations of financial data protection such as *the Financial Data Security-Data Security Assessment Regulation* (《金融数据安全 数据安全评估规范》), which has been under consultation for a long time, and *the Pilot Measures for Personal Financial Information (Data) Protection* (《个人金融信息(数据)保护试行办法》), which is included in the legislative work plan of the People's Bank of China in 2021, are also expected to come out. At the same time, we believe that financial regulatory authorities and data security management authorities will form an efficient and coordinated working mechanism on data protection in financial activities and give clearer guidance to financial institutions on their daily activities related to data.

As for cross-border data transmission, with the promulgation of regulations related to data exporting, the circumstances of cross-border data transmission that should be subject to security assessment will soon be clarified and the relevant provisions

will be further refined. For financial institutions, especially those large financial institutions with cross-border business or foreign financial institutions requiring support from their parent companies, the progressively stricter legal requirements may overturn the past practice of relatively lenient data cross-border regulation and prompt them to re-structure their customary group data governance framework. In fact, several foreign financial institutions have already been required to provide more details in 2021 about the arrangements for cross-border integrated deployment of systems and cross-border data transmission, in their applications for financial licenses.

While strengthening the supervision and management of data, local pilot programs to promote cross-border data transmission are getting underway, such as the opening of a dedicated international Internet data channel in Hainan Free Trade Port in 2021, and the announcement of Shanghai's plan to build an international data port. We believe that in 2022, there will be a breakthrough in the supporting infrastructure and industrial system for the safe cross-border transmission of data, and China will continue to explore the global transmission of data under the premise of ensuring data security and controllability with some pilot programs to be extended to financial institutions.

In addition, as the digital economy industry continues to develop and mature, local legislation in some regions has started to provide top-level design guidelines for "Data Elementization", "Data Assetization", "Data Rights Confirmation" and "Data Trading" in 2021, and data trading models have been explored in the data exchanges established in Beijing and Shanghai. To meet the practical needs of data application, it is expected that national and local laws and regulations along with the supporting systems for data ownership identification and data trading will be gradually issued in 2022. With the development of above legislation as well as further promotion and application of digital currency, it is expected that financial services and financial products related to data assets such as data asset pledged financing, data asset insurance, data asset security and data asset-backed securities will come into being.

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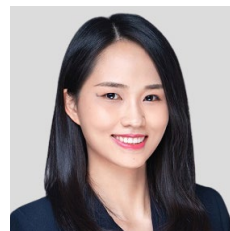
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