CECCA

中欧商事合作协会

China-Europe

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# *CECCA NEWSLETTER*
## *Special Finance Issue*

### *PREFACE*



*The Chinese financial market today is increasingly influential in the world economy. After the global economic crisis in 2008, we are experiencing a special era of the economic transition of international financial market with new opportunities and great challenges as well. Therefore, success in both business and academic research should always belong to those who are standing at the cutting edge of our time.*

*Special Finance Issue of CECCA NEWSLETTER aims to provide our readers with the most updated and cutting edge information of Chinese financial markets including the latest development of financial policies, regulations and significant dynamics of the market-oriented reform of China.*

*We propose to publish this special finance issue of CECCA NEWSLETTER. Each issue consists of three sections including*

*1)* ***Legal Update*** *which provides the most updated information and news of Chinese legislation and regulation in relation to Chinese financial markets;*

*2)* ***Special Report*** *which makes an effort to provide in-depth analysis on specific topics of Chinese financial markets or financial law, through which our readers may have an opportunity to understand Chinese finance more comprehensively;*

*3)* ***Market Bulletin*** *which particularly focuses on macro-economic aspects of both Chinese and international financial markets in a timely and concise manner to help you keep up with the rapid development of the world economy.*

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## 1 *Legal Update*

*The first legislation of cyber security of China came into force on 1st June*



Internet economy is changing the lifestyle of Chinese people and also reshaping the structure of Chinese economy. The rapidly developing industry of e-commerce and fintech in China during the recent decade has offered much more opportunities for innovation and employment for Chinese people than ever before, however, online economy also exposes people's privacy to the online world. As a response to this, The Law of Cybersecurity of the P.R.C ('Cybersecurity Law') was enacted in November 2016 which has come into force in 1st June 2017.

This new legislation aims to construct better and comprehensive security for both the public and private interests. Briefly, the Cyber security Law mainly focuses on the following three domains: first, state security which particularly

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emphasises the prohibition and punishments on illegal information including pornographic information, anti-socialism information and other sorts of illegal online information; second, security of cyber techniques which stipulates the detailed provisions of prohibitions on illegal internet techniques including but not limited to the spread of internet virus, designing illegal and harmful computer programs, any threat to the infrastructure of internet system of the state or any local areas in the territory of China and so forth; thirdly, the Chinese government's regulatory role and responsibilities in supervising the online conducts are clarified that the corresponding departments of the Chinese government will be entitled legal rights and powers to timely supervise the operation of the online infrastructure and the utilization of online information across the country.

With the rapid expand of e-commerce market, the abuse of private information utilisation in China has been increasingly serious and has caused social problems which may threat everyone in the society. The Law of Cyber security of P.R.C is the first official legislative documents on regulating the use of private information and protecting the online privacy. The Chinese criminal law also increases its punishment on such illegal utilisation of private information of people. For example, more than 100 million pieces of private online information were abused for illegal dealings in Xi'an, the provincial capital of Shanxi province of northwest China in 2016.[2] According to the newly revised Criminal Law of China, such a crime may be condemned to imprisonment for up to three years and be imposed fine as well. Although the legal system of cyber security has

Led by Chinese e-commerce tycoons, such as Alibaba and Tencent, the e-commercial market and various internet social media has been profoundly changing the way of thinking and living: online social life, e-banking and e-payment has almost filled up people's daily life. However, more opportunity,

[2] See detailed report at http://news.cctv.com/2017/01/11/ARTIZc0kSklZyJvUUCeNkkZh170111.shtml, accessed 20 July 2017.

been increasingly concerned by the society and Chinese authorities, the effectiveness in practice is still uncertain, we will continuously pay attention to this emerging area of Chinese legal practice.

## 2 *Special Report*

*The Fifth National Conference of Financial Reform: Towards a Functional and Collective Financial Regulatory System*

The Chinese economy is definitely experiencing a special turning-point that the focal point of economic policy is being transferred from financial speculation and real estate investment to the development and supporting of real economy. Against such a background, the function of financial market of China needs to be re-considered seriously. The Fifth National Conference of Financial Reform was held on 14-15th July 2017 in Beijing, during which a series of noteworthy reform proposals were decided and announced. The annual rate of GDP growth of the Chinese economy was continuously going down during the recent decade (from 14.2% in 2007 to 6.7%)[3], as a result of imbalanced structure of economy. As a response to this, the Chinese authorities have highly recognised that the financial speculation and infrastructure investment should be controlled strictly, otherwise the systematic risk in financial system of China would be overly high.

The state-directed economy of China seemly avoids systemic risk successfully. However, it never means that such a disaster is far away from China, if the regulation fails to catch up market development!

[3] Statistical Year Books issued by National Bureau of Statistics of China (2007-2016).

The new reform proposal of financial system of China particularly focuses on the transformation of Chinese financial regulatory regime from a separated and industrial regulatory model to a collective and functional regulatory institution. Currently, the financial regulatory bodies mainly comprise The People's Bank of China (PBOC), China Securities Regulatory Committee (CSRC), China Banking Regulatory Committee (CBRC), China Insurance Regulatory Committee (CIRC) and State Administration of Foreign Exchange (SAFE), basically each regulator is responsible for its own area independently. Ever since the financial collapse in 2008, however, the uncontrolled financial innovation has led to fatal market failure globally. Similarly, Chinese financial market was and is experiencing the same problem: overly used securitisation instruments in banking industry, high leverage rate of enterprises' financing activities[4], distorted pricing mechanism of secondary market of Chinese stock exchanges, etc. Hence, a collective regulatory regime that is uniformly led by the State Council is recommended as a proper way of improving the effectiveness of financial regulation. The so-called 'Central Committee of Financial Stability' has been proposed to be established by the State Council, the core task of which is to make overall plans for financial regulation of China and improve the efficiency of each regulatory bodies.




In a practical sense, the above overall guidance for the financial reform may exert important impacts on the following domains of the Chinese financial markets: at the first place, the strict control of loan markets of China is at an overwhelmed position, which will raise the market of direct investment in Chinese enterprises within an expected short future. Venture capital and acquisition markets currently is enjoying a new golden era since the Law of

[4] By the end of 2015, the official statistic of the average rate of leverage of Chinese domestic enterprises is as high as 127.8%, which was calculated by Chinese Academy of Social Sciences.

Securities Investment Fund Law was revised in late 2012, if the debt market is strictly constrained by the government, it can be imagined that the capital from private equity and venture capital investment funds will be much more desired than before. By contrast, hedge funds and most financial derivatives (especially credit default swaps (CDSs)) will face a much stricter regulatory environment than ever before, since most of them are commonly regarded as threats to financial stability.

### *3 Market Bulletin*

§ The latest State National Bureau announced that the GDP growth rate of China is 6.9 %, which means that the official plan of economic development of this year has been achieved more than a half.

§ China Securities Regulatory Committee (CSRC) announced that the rate of approval of IPO application is 84% during June, lower than before. CSRC explained that the approval of listing will be stricter for protecting public investors and avoiding overheated economy.



§ The Annual Conference on China Debt Market 2017 was held on 21th July. It was widely agreed by the conference participants that the Public-Private-Partnership (PPP) which is currently one of the hottest topic in Chinese economy, should open to the insurance companies, as the long-term investment of and governmental participation in PPP projects will to some degree better control the risk. Currently, the high-risk investment by the Chinese insurance companies has led to some negative influence, therefore how to regulate and direct the investment

activities of insurance companies will be another important issue of Chinese commercial law.

- On 22 July, Shanghai Stock Exchange (SHSE) announced that an independent department for approving and supervising the securitization of PPP projects will be established for the purpose of encouraging more securities corporations, asset management companies and investment banks to support PPP project. Currently, the securitization in Chinese market is mainly organized in the form of special purpose trusts (SPTs), therefore the trust investment corporations are the major participants of securitization market. The development trend of securitization will be in a multi-level market which involves different sub-area of financial markets.

*We will do our best to help you follow the dynamics of our time. Any feedback and comments on CECCA NEWSLETTER – Special Finance Issue from our readers are always welcomed, please email: CONTACT@CECCA.ORG.UK , or visit* www.cecca.org.uk *to leave your comments.*

*The content of this newsletter is provided for general guidance only, and is based on our understanding of the topics discussed.*