上海市基金同业公会
Shanghai Asset Management Association

Shanghai Guidebook for Overseas Asset Management Institutions

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Supervised by

Shanghai Municipal Financial Regulatory Bureau

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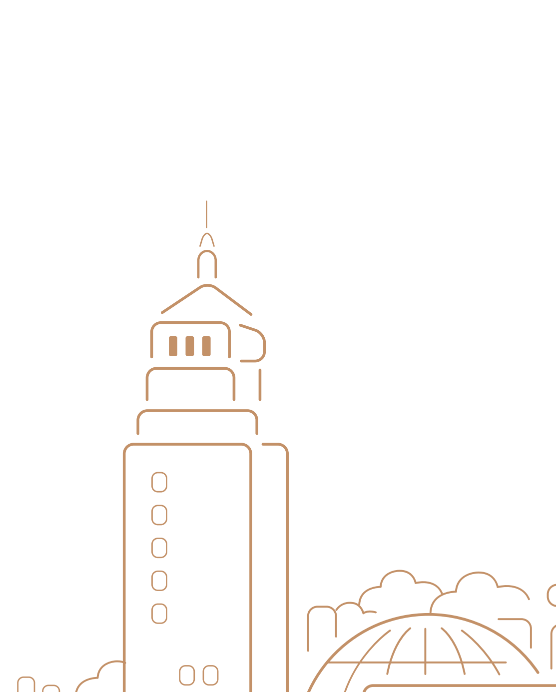
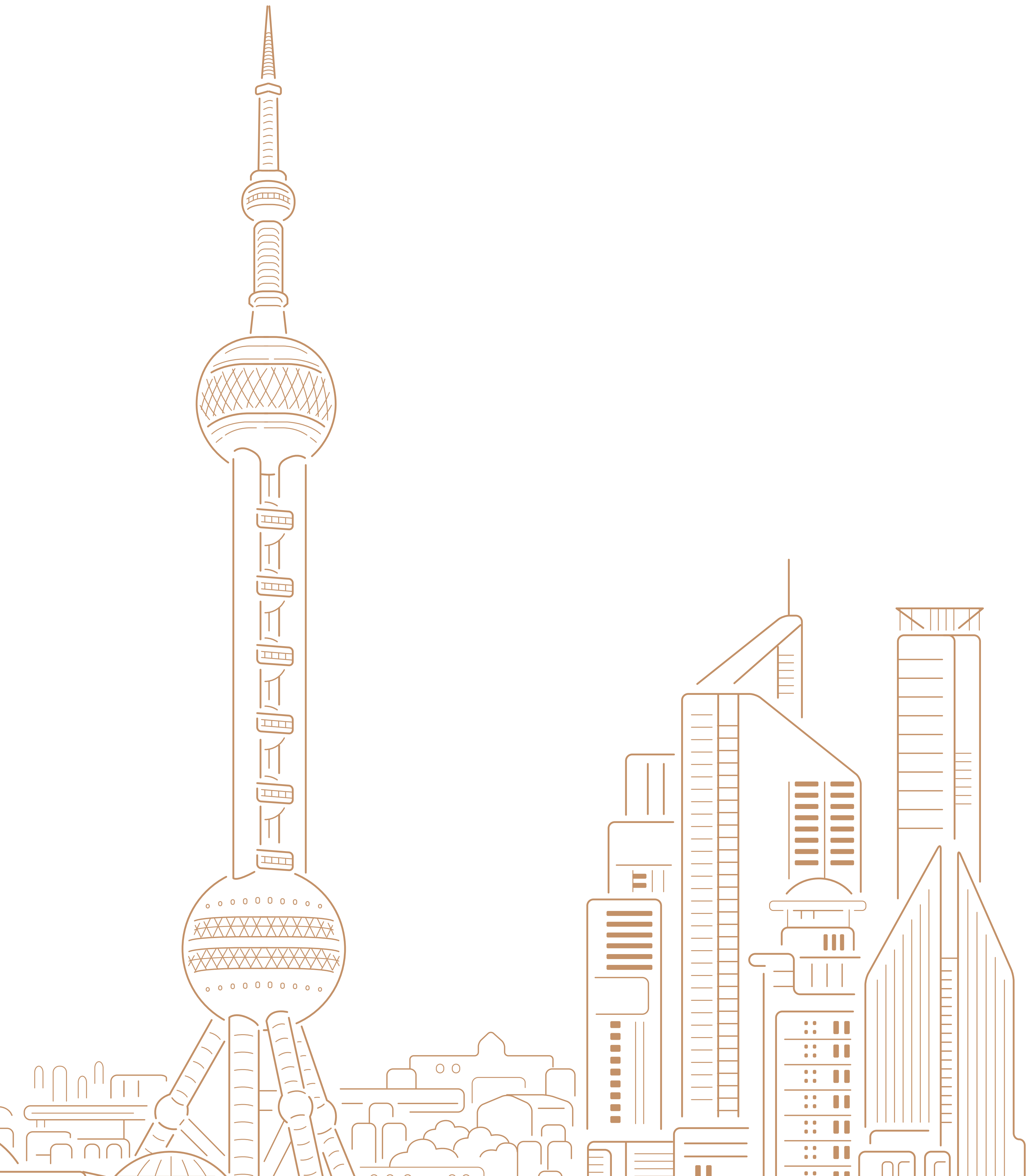




Foreword

Building Consensus and Mutual Trust to Promote the Steady Opening of the Fund Industry

For the past 30 years China's capital market has been fully committed to opening wider to the world. Similarly, despite a complex global economic landscape, China's fund industry has been strengthening international cooperation with an open and inclusive mind, fostering new growth drivers to address emerging development challenges. Promoting reform and development by building a more open market is not only the experience and inspiration from China's reform and opening-up program, but also the foundation for the continuing growth of China's fund industry.

As China accelerates the opening up of its capital market and fund industry, various opening-up measures are being put into effect. China's efforts to actively open its capital market, welcome overseas competitors, improve the multi-tiered capital market system and structure, and admit and cultivate a diverse range of market entities have provided a major boost for creating a stronger market economy and a more modern national governance system and governance capabilities.

We firmly believe that opening-up means not only more open policies for both domestic and overseas

parties, but also a process by which they build mutual understanding, wider consensus, and mutual trust. Therefore, strengthening dialogue with all stakeholders has been a major objective for China's fund industry.

China's fund industry has long been an advocate for international exchange and cooperation. We understand that it is inevitable that different jurisdictions, for their unique political, economic, cultural, and historical background and legal traditions, also differ in their legal and regulatory systems. Accordingly, we are dedicated to international engagement to better understand the unique systems and position of each country's fund industry, and to inform them of the structure, legal framework, history, and achievements of China's fund industry, in order to build consensus and mutual trust to promote the joint, healthy, and harmonious development of the international fund industry.

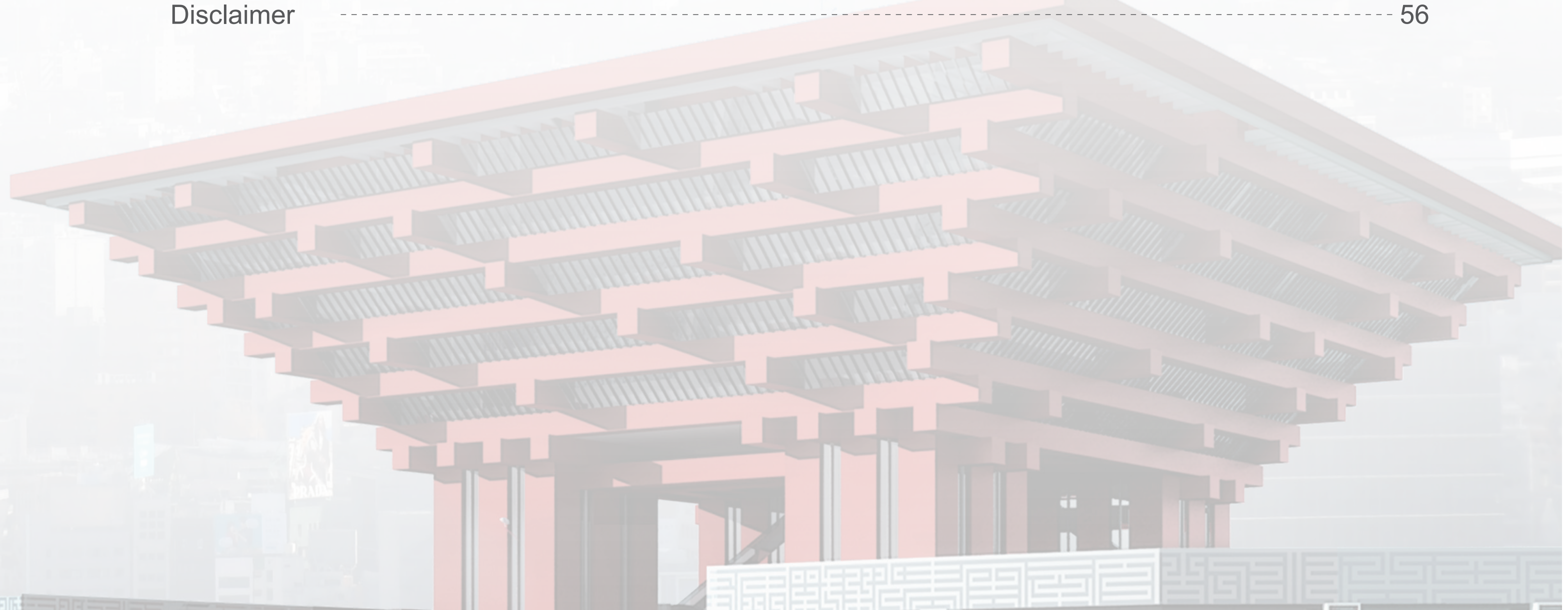
As a vital gateway to the more open China and a vivid example of the country's progress, Shanghai is becoming one of the cities with the highest concentration of global financial institutions, a most complete financial market, and a most friendly business environment. According to the ***14th Five-Year Plan for the Building of Shanghai International Financial Center***, by 2025, Shanghai will establish a world-class financial ecosystem by building "two centers, two hubs, and two magnets", i.e., enhancing its status as a global asset management center and fintech center; establishing and consolidating its position as an international green finance hub and a hub for the cross-border use of RMB; and building and highlighting its role as a magnet for international financial professionals and for financial institutions. February 2020 saw the release of the ***Opinions on Further Expediting the Building of Shanghai into an International Financial Center and Orienting the Financial Sector to Support the Integrated Development of the Yangtze River Delta***, which put forward 30 specific measures to support the pioneering financial policies of the Lin-gang Special Area, accelerate the opening-up of Shanghai's financial industry based on a higher standard, and align the financial sector with the integrated development of the Yangtze River Delta region. These plans have reaffirmed Shanghai's position as a trailblazer of financial reform and opening-up and its leadership role in national financial opening-up efforts. In May 2021, the General Office of Shanghai Municipal People's Government issued the ***Opinions on Accelerating the Development of the Shanghai Global Asset Management Center***, which sets the target for Shanghai to evolve into an important hub for asset management in Asia and one of the leading asset management centers in the world in five years.

As one of the most open cities in China, Shanghai prides itself on its pro-market practices, law-based business environment, and a high concentration of domestic and foreign-invested financial institutions and financial talent. It has made pioneering and milestone progress in investment and trade facilitation and liberalization, as well as in financial opening-up and innovation.

Shanghai is also one of the birthplaces of the Chinese fund industry. It has witnessed just about every significant moment of the industry, including the creation of the first fund companies in China, the first wave of Sino-foreign joint venture fund management companies, and the first closed-end, open-end, index, money market, and Qualified Domestic Institutional Investor ("QDII") funds. Globally renowned asset management firms are being drawn to Shanghai for its institutional innovations, ever-more friendly foreign investment policies, and expanding range of financial services.

We cordially welcome overseas asset management firms to do business in China and in Shanghai in particular, to provide Chinese investors with a richer selection of asset management services and, at the same time, to enjoy a share of the fruits of China's economic growth.

Table of Contents



Chapter 1 Why China

1. Important Role of China in the Global Economy

China has consistently been the top contributor to world economic growth since 2006. Between 2013 and 2020, China averaged an annual growth rate of 7.0%, significantly higher than the world average of 2.9% during the same period.

Since overtaking Japan to become the world's second-largest economy in 2010, China has maintained the second position in the world by gross domestic product (GDP), and is accounting for an increasing proportion of the world economy. According to the International Monetary Fund (IMF), China's GDP in 2020 was USD 14.7 trillion, representing 17% of the world's total, a 5.6 percentage point increase over 2012.

According to the World Investment Report 2021 released by the United Nations Conference on Trade and Development, China has become one of the world's most appealing economies. In 2020, the global foreign direct investment (FDI) dropped significantly to USD 1 trillion from USD 1.5 trillion in 2019, a decline of 35%, due to the COVID-19 pandemic, but capital inflow to China increased, in real terms, by 6% to USD 149 billion[1].

Table 1: Foreign Direct Investment in China

Year	GDP as Percentage of Global Total	FDI Ranking
2018	15.9%	2nd in the world
2019	16.7%	2nd in the world
2020	17.4%	2nd in the world

2. Huge Prospects of Wealth Management Market

From 1952 to 2020, China saw a 253-fold increase in GDP to account for more than 17% of the world economy, and a growth in GDP per capita from RMB 119 to RMB 72,000, indicating a rapid rise in the residents' wealth[2]. In 2020, China had 2.62 million high-net-worth individuals whose personal investable assets exceeded RMB 10 million, and nationwide personal investable assets reached RMB 241 trillion. These assets recorded a compound annual growth rate (CAGR) of 13% from 2018 to 2020[3].

1 Source: World Investment Report 2021
2 Source: Data published by National Development and Reform Commission
3 Source: 2021 China Private Wealth Report jointly released by China Merchants Bank and Bain & Company

With the changing socioeconomic structure and residents' increasing awareness of wealth management, a substantial increase is expected in the proportion of actively managed and net asset value (NAV)-based investments such as publicly offered funds ("public funds") and privately offered funds ("private funds"). According to the ***2021 China Private Wealth Report*** jointly issued by the China Merchants Bank and Bain & Company, the capital market products held by Mainland residents—stocks, public funds, private funds, National Equities Exchange and Quotations (NEEQ)-listed stocks, and bonds—have been growing at a markedly faster pace in recent years. Their CAGR reached 27% between 2018 and 2020, much higher than that of individuals' total investable assets over the same period.

By the end of 2020, the assets under management (AUM) of China's asset management industry amounted to RMB 58.9trillion, up 12.8% year-on-year. The Boston Consulting Group predicts that the industry would grow at a yearly average of 15% between 2018 and 2025, significantly higher than the average of 6% for the rest of the world[4].

3. A More Open Financial Market

3.1 RMB Internationalization and the Integration of China's Capital Market into Global Indices

3.1.1 RMB Internationalization

As the official entry of RMB into the special drawing rights (SDR) currency basket greatly facilitated the cross-border use of RMB, the total amount of cross-border RMB receipts and payments are increasing rapidly, making RMB the fifth largest payment currency in the world.

As of the fourth quarter of 2020, the proportion of RMB assets held by the world's foreign reserve administrators had reached 2.25% after growing for four consecutive quarters[5]. As of June 2021, RMB has taken a 2.46% share in international payments[6].

In early 2021, six government ministries and commissions in China, including the People's Bank of China (PBOC), jointly issued the ***Notice on Further Optimizing the Cross-Border RMB Policy to Support the Stability of Foreign Trade and Foreign Investment*** (Yinfa [2020] No. 330). This Notice aims to streamline the cross-border RMB settlement process and enhance the administration of cross-border RMB investment and financing, and has further relaxed the requirements on payment and receipt under capital accounts.

3.1.2 Integration of China's Capital Market into the Global Index

As the international community increasingly recognizes China' s efforts on legalization, marketization and internationalization in the capital market, China A shares and bonds are being included into mainstream international indexes with continuously increasing weights.

MSCI has announced that, from March 2019 to November 2019, the inclusion factor of all China large-cap A shares in the index would be increased from 5% to 20%, and China mid-cap A shares (including eligible Growth Enterprise Market stocks) would be included in the MSCI index with a 20% inclusion factor.

From April 1, 2019, RMB-denominated China Goverment and policy bank securities are to be included in the Bloomberg Barclays Global Aggregate Index. Full inclusion was achieved in November 2020 at a weight of 6.3%. Indeed, RMB has emerged as the fourth-largest denomination currency—after USD, EUR, and JPY—for bonds.

In September 2019, FTSE Russell raised the inclusion factor for A shares from 5% to 15%.

In September 2019, S&P Dow Jones officially added 1,099 China A shares into its S&P Emerging BMI with an inclusion factor of 25%.

On February 28, 2020, J.P.Morgan Chase & Co. officially included Chinese treasury bonds into its benchmark emerging-market indexes.

4 Source: Boston Consulting Group
5 Source: IMF Report
6 Source: Data from SWIFT

Starting from October 29, 2021, Chinese treasury bonds will be included into the FTSE World Government Bond Index in phases.

3.2 Opening up of the Capital Market

As the demand for Chinese assets keeps rising, China has established numerous mechanisms to make its capital market more accessible to foreign investors.

3.2.1 QFII and RQFII

In 2003, China established the Qualified Foreign Institutional Investor ("QFII") scheme, to make China's capital market accessible to foreign institutional investors.December 2021,RQFII pilot scheme was introduced to allow RMB to invest in mainland.

In September 2019, the State Administration of Foreign Exchange ("SAFE") removed the investment quota for QFII and RQFII.

On September 25, 2020, CSRC, PBOC, and SAFE released the Administrative Measures for Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors. At the same time, CSRC issued supporting rules for its implementation — the Provisions on Issues Related to the Implementation of the Administrative Measures for Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors.

As of July 31, 2021, 628 foreign institutional investors have been granted access to China's capital market.

3.2.2. Stock Connect: Shanghai-Hong Kong and Shenzhen-Hong Kong

On November 17, 2014, the Shanghai-Hong Kong Stock Connect was officially launched. On December 5, 2016, the Shenzhen-Hong Kong Stock Connect was officially launched. With increasingly strengthened connections between the securities infrastructure in the Chinese Mainland and Hong Kong SAR, the turnovers of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect are increasing month over month.

As of March 30, 2021, total turnover of northbound trading under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect was RMB 47.46 trillion with a net inflow of RMB 1.31 trillion; total turnover of southbound trading under the two schemes was HKD 18.09 trillion, with a cumulative net flow of HKD 2.10 trillion into Hong Kong[7].

3.2.3. Bond Connect

On July 2, 2017, the PBOC and the Hong Kong Monetary Authority jointly announced the approval of the Bond Connect scheme between Hong Kong and the Mainland.

Data from Bond Connect Co., Ltd. show that the scheme was well-received by investors in 2020, who concluded 58,518 transactions valued at RMB 4.81 trillion, up 82.8% from 2019 by turnover. By the end of 2020, 2,352 foreign investors (including investment products) had entered China's bond market through Bond Connect, up 46.9% from end-2019. This demonstrates the growing appeal of China's bond market to international investors[8].

On September 24, 2021, southbound trading under the Bond Connect was launched, facilitating the investment of domestic institutional investors in global bonds.

3.2.4. Mutual Recognition of Funds

In 2015, the scheme for Mainland-Hong Kong mutual recognition of funds was launched. By the end of June 2021, 36 northbound funds had been registered under the scheme.

In April 2019, the China-Japan ETF Connect was launched with the initial listing of 4 ETF products on the Shanghai Stock Exchange (SSE).

In 2020, two ETF products from Shenzhen and two from Hong Kong were listed on the Hong Kong Exchanges and Clearing Limited (HKEx) and the Shenzhen Stock Exchange (SZSE) simultaneously.

7/8 Source: China Economic Daily

In May 2021, SSE entered into a memorandum of understanding with the Korea Exchange to facilitate discussions on a possible China-Korea ETF Connect.

In June 2021, one ETF product from Shanghai and another from Hong Kong were listed on HKEx and SSE simultaneously.

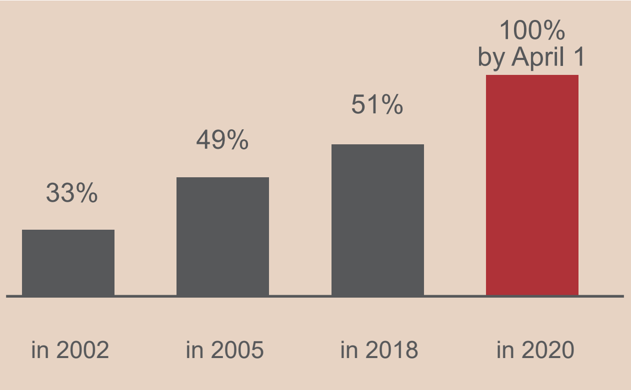
3.3 Opening up Policies for Institutions

3.3.1 Public Fund Management Companies

China has lifted foreign ownership cap for fund management companies as of April 1, 2020.

On June 11, 2021, CSRC granted a license to BlackRock Fund Management, Co. Ltd allowing it to engage in business activities in China through a public fund management company (FMC), marking the establishment of China's first wholly foreign-owned public fund company. Fidelity International received a similar approval on August 5, 2021.

Figure 1: Progression of Foreign Ownership Cap for Fund Companies



3.3.2 Private Securities Fund Managers

On June 30, 2016 at CSRC's approval, the Asset Management Association of China ("AMAC") released the ***Responses to Questions regarding Registration and Filing of Private Funds (No. 10)***, allowing foreign-invested financial institutions to set up wholly foreign-owned private securities fund managers ("WFOE PFMs") in China.

In April 2018, AMAC set up the English licensing examination for fund practitioners for the senior management personnel and investment managers of foreign-invested private funds.

In February 2019, the first wave of qualified foreign-invested private fund managers (PFMs) were approved to offer investment advisory services.

In February 2019, qualified foreign-invested PFMs were granted access to the interbank bond market.

In June 2019, restrictions on foreign-invested PFMs' participation in the Hong Kong Stock Connect were removed.

3.3.3 Private Equity Fund Managers

Thanks to China's increasingly accessible financial market and loosening control on foreign exchange under capital accounts, foreign capital now has much greater flexibility in choosing where and how to invest in China's equity market.

In January 2011, Shanghai officially issued the ***Implementing Measures for the Pilot Program of Foreign-invested Equity Investment Enterprises in Shanghai***, marking the launch of the QFLP (Qualified Foreign Limited Partnership) pilot scheme in the Mainland. This scheme offers a "fast track" for pilot foreign private equities (PEs) to invest in domestic enterprises. Beijing, Tianjin, Chongqing, Shenzhen, Suzhou, and Hainan have since launched their own version of the scheme.

Chapter 2 Overview of Fund Management Services in China

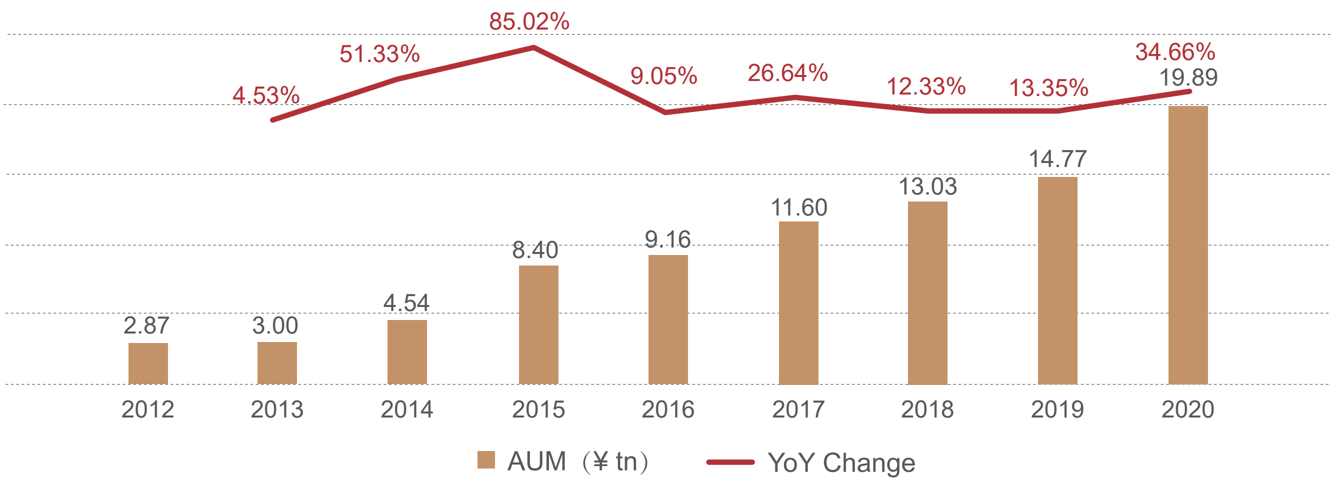
By the end of December 2020, the total AUM of public fund management companies and their subsidiaries, securities companies, futures companies, and PFMs was close to RMB 59 trillion[9], comprising RMB 19.89 trillion of public funds managed by public fund companies, RMB 8.55 trillion of private funds managed by securities companies, RMB 4.67 trillion of private funds managed by fund companies, RMB 3.39 trillion of private funds managed by the subsidiaries of fund companies, RMB 219.7 billion of private funds managed by futures companies, and RMB 16.96 trillion of private funds managed by PFMs (consisting of RMB 3.7 trillion of private securities funds, RMB 11.64 trillion of private equity and venture capital funds, and RMB 1.62 trillion of other private investment funds).

1. Public Fund Management Services

1.1 Rapid Growth of AUM

According to data published by the CSRC, at the end of December 2020 there were 146 companies with public fund licenses, including 132 fund management companies, 12 securities companies or asset management subsidiaries of securities companies, and 2 insurance companies. These public fund management firms were managing 7,913 fund products of various types. Since 2012, the AUM of public funds has achieved high growth for 9 consecutive years, reaching RMB 19.89 trillion by the end of 2020[10].

Figure 1: AUM Growth in Past 9 Years



9 Source: Asset Management Business Statistics (2020 Q4), AMAC
10 Source: AMAC

1.2 Among the World's Top Four Nations by Mutual Fund AUM

By the end of December 2020, China has become the world's fifth largest open-end fund (mutual fund) market by AUM, at 4.45% of the world's total, surpassing Japan and Australia for the first time to take the lead in the Asia-Pacific region[11].

By the end of July 2021, China had climbed to the fourth place worldwide[12].

1.3 Nearly 1,200 Million Fund Investment Accounts

By the end of July 2021, there were 1,190 million active fund accounts[13].

1.4 Pivotal Role of Public Fund Management Companies with Foreign Capital

The asset management industry has always been at the forefront of the opening up of China's financial markets. The Sino-foreign equity joint venture public fund management companies have been operated in China for 18 years, since the inception of the first joint venture public fund management company in 2002. They have been playing a pivotal role in the 22-year public fund development in China.

As of the end of December 2020, 52 out of the 146 companies with public fund license in China were at least partially foreign-funded, accounting for 36% of the total; their combined AUM amounted to RMB 10 trillion, or 50% of the total[14].

2. Private Asset Management Business of Securities and Futures Institutions

By the end of December 2020, the total AUM of securities and futures institutions through private asset management services was RMB 16.8 trillion.

Table 2: AUM of Various Institutions through Private Asset Management Services

December 2019	Number of Products	AUM (¥tn)
Asset management products of securities companies	17,843	8.55
Asset management products of fund companies	6,507	4.67
Asset management products of subsidiaries of fund companies	4,938	3.39
Asset management products of futures companies	1,265	0.22

11 Source: Worldwide Regulated Open-end Fund Data (for funds in 47 jurisdictions worldwide) issued by the Investment Company Institute (ICI)
12/13 Source: The speech of Yi Huiman, CSRC Chairman, at the third AMAC General Assembly on August 30, 2021
14 Source: Choice Data

3. Private Fund Management Services

By the end of December 2020, there were 24,561 PFMs registered with AMAC, managing 96,818 private funds with a total AUM of RMB 16.96 trillion.

Shanghai, Shenzhen, and Beijing are the top three places of registration of PFMs—at 4,648, 4,473 and 4,336 managers respectively—together representing 54.8% of the total number in China. Managers in those three cities are overseeing 27,224, 16,361, and 15,832 products, amounting to 61.37% of the national total; the aggregate AUM of those products were RMB 4.01 trillion, RMB 2.06 trillion, and RMB 3.75 trillion, or 57.90% of the national total.

3.1 Private Securities Funds

As of end-2020, there were 8,908 private securities fund managers in China, managing 53,761 funds with a total AUM of RMB 4.32 trillion, up by RMB 1.87 trillion or 76.33% compared with the end of 2019[15]. Among them, there were 33 WFOE and JV PFMs who were managing 100 products with a total AUM of more than RMB 10 billion.

3.2 Private Equity Funds

As of end-2020, there were 14,986 private equity and venture capital fund managers registered with AMAC, who managed 40,261 products with a total AUM of RMB 11.64 trillion, an increase of RMB 1.90 trillion or 19.51% from the close of 2019.

15 Source: Report on the Development of China's Private Equity Fund Industry (2021)

Chapter 3 Why Shanghai

1.Shanghai Overview[16]

At the end of 2020, Shanghai had 16 districts with a total land area of 6,340.5 square kilometers and a permanent population of 24.8709 million at an average life expectancy of 83.67 years. In 2020, Shanghai's GDP totaled RMB 3.87 trillion, equaling a per capita GDP of RMB 156,000, continuing to lead other provinces, municipalities, and autonomous regions.

Located in eastern China at where the Yangtze River meets the Pacific Ocean, Shanghai, together with the neighboring provinces of Zhejiang, Jiangsu, and Anhui, forms the Yangtze River Delta Region. This is one of the most developed, open, and innovative regions in China. The quickening integration of the region offers vast potential for Shanghai's asset management sector. In 2020, Shanghai, Zhejiang, Jiangsu, and Anhui achieved a total GDP of RMB 24.47 trillion, or 24.09% of the national total. Of the top 10 cities by fiscal revenue, five (Shanghai, Hangzhou, Suzhou, Nanjing, and Ningbo) were from the region. This region also leads in terms of the population's wealth, accounting for 6 of the country's top 10 cities by per-capita disposable income in the first half of 2021. The introduction of the Yangtze River Delta integration strategy has made it much easier for financial institutions to develop and expand their wealth management business from Shanghai to the whole region. According to the ***Implementing Plan for the 14th Five-Year Plan for the Integrated Development of the Yangtze River Delta Region***, by 2025, the region will achieve substantial progress integration, such that 70% of the permanent population will live in urban areas; research and development investment will make up 3% or more of the GDP; and the public spending will reach RMB 21,000 per capita.

2. Complete Financial Market Framework

Shanghai has one of the most complete financial market systems among Chinese cities. It operates stock, bond, currency, foreign exchange, gold, and futures markets and offers a robust platform for the efficient allocation of financial assets especially RMB-denominated assets.

As of December 2020, Shanghai's financial market had an aggregate turnover of RMB 2,274 trillion and provided over RMB 17.6 trillion in direct financing. SSE-listed companies had a total market value of RMB 45.53 trillion; SSE itself ranked first worldwide by proceeds raised from stock offering. The interbank bond market ranked second in the world by the value of bonds under custody; the Shanghai Gold Exchange first by spot gold trading volume; and the Shanghai Futures Exchange first by trading volume in more than ten futures products.

3. An Open Shanghai

Shanghai, bearing the urban spirit of "embracing diversity, pursuing excellence, and staying open-minded and humble", distinguishes itself through its openness, innovation, and tolerance—a vivid reflection of China's development and achievements in the new era.

In terms of the opening-up history, few other Chinese cities are comparable with Shanghai. Shanghai's

16 Source: Shanghai Basic Facts 2021 released by the Shanghai Municipal People's Government

development traces back to the Tang and Song Dynasties, when the city prospered due to maritime trade (through the Maritime Silk Road). The Yuan and Qing Dynasties witnessed the burgeoning of Shanghai, due to national strategic needs, economic interests, and its right geographical surroundings after its port was opened in 1843, immigrants from other provinces of China and other countries jointly contributed to the development and prosperity of the city, and thus Shanghai gradually formed a unique community of shared common interests of Chinese and foreigners. As a rare safe harbor during the turbulent times, a large number of populations, industries, capital, technologies, information, and cultures. In particular, young immigrants with different backgrounds who were not content with their situation poured into Shanghai, which maintained the city's momentum of rapid development.

Backing onto the Yangtze River and facing the Pacific Ocean, Shanghai's open attitude is fundamental to its success. High-quality opening up has always been an essential path to Shanghai's high-quality development. "Embracing diversity" is the most cherished element in Shanghai's urban spirit. Shanghai, as a stage for elites to strive together, excels in its tolerant culture, prosperous and diversified economy, free and harmonious thinking, among many other aspects.

4. Excellent Business Environment

Shanghai is one of the best places in China for financial development and has all the necessary infrastructures for the efficient allocation of global resources. It is the first city in China to establish a financial court, a court for financial arbitration, a financial consumer protection bureau, and a financial dispute resolution center and the first to release a white paper titled the ***Building a Rule-of-Law Environment for the Shanghai International Financial Center***. It is home to the PBOC's Credit Reference Center which has created a national basic database for business and individual credit information. The city boasts 470,000 financial professionals and a wide range of specialized service providers such as accounting firms, law firms, and rating agencies. Shanghai has also been adopting an ever-tougher stance against illegal financial activities. In 2020, Shanghai unveiled the 3.0 version of its business environment improvement plan to fully promote its one-stop government service portal and build a more internationally competitive business environment.

In the World Bank's ***Doing Business 2020*** report, China climbed from the 36th place to the 28th in the ranking for protection of minority investors. As a demonstration city of China, Shanghai has in place sophisticated frameworks for protecting minority investors. Under the supervision of CSRC Shanghai Office, the Shanghai Joint People's Mediation Committee for Securities, Fund, and Futures Disputes provides professional mediation services. The China Securities Investor Services Center, also established in Shanghai, offers yet another safeguard for minority investors Furthermore, in October 2020 the Shanghai Investor Protection Union was founded in Shanghai at the sponsorship of 30 organizations including the CSRC Shanghai Office, Shanghai Municipal Financial Regulatory Bureau, and the Shanghai Financial Court.

5. Full Range of Financial Institutions

Shanghai is one of the Chinese cities boasting the most complete range of financial institutions. They produce strong synergies and provide a solid foundation for the global expansion of Shanghai-based asset management institutions. Over 1,600 licensed financial institutions operated in Shanghai, one-third of which are foreign-funded. More than 70 prominent international asset managers have enrolled in Shanghai's Qualified Foreign Limited Partners (QFLP) pilot scheme and close to 50 domestic asset managers in its Qualified Domestic Limited Partners (QDLP) pilot scheme. As of the fourth quarter of 2020, most of 33 WFOE and JV PFMs registered with AMAC were based in Shanghai. Shanghai has become the first choice for the China-based subsidiaries of foreign-funded financial institutions. In addition, 2,295 equity investment managers are registered in Shanghai; Shanghai-based insurance asset management companies and public funds account for more than 30% of the total AUM of such firms nationwide.

6. Innovations in Financial Reform

Chinese authorities have released numerous policies to support financial reform and innovation in Shanghai. In August 2013, the State Council approved the creation of the China (Shanghai) Pilot Free Trade Zone ("Shanghai FTZ"), which was inaugurated in September 29 to explore financial innovation. This was followed up by the creation of the Lin-gang Special Area with the August 2019 release of the ***General Plan for the Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone*** by the State Council. February 2020 saw the issuance of the ***Opinions on Further Expediting the Building of Shanghai into an International Financial Center and Orienting the Financial Sector to Support the Integrated Development of the Yangtze River Delta***, which contains detailed measures for encouraging pioneering financial reforms in the Lin-gang Special Area. At present, the financial asset investment companies of the Big Five banks of China (ICBC, Bank of China, China Construction Bank, Agricultural Bank of China, and Bank of Communications) have been approved to engage in equity investment other than for debt-for-equity swap in Shanghai; banks' wealth management subsidiaries to set up Shanghai-based subsidiaries specializing in equity investment and direct investment; overseas financial institutions to establish and invest in pension management companies in Shanghai; and insurance asset management companies to establish specialized asset management subsidiaries in Shanghai.

On August 12, 2021, the ***14th Five-Year Plan for the Development of the Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone*** was released. According to the Plan, the Lin-gang Special Area will focus on building the digital economy and shaping itself into an international data hub during the 14th Five-Year Plan period. The Plan has for the first time proposed security evaluation and a public service platform for cross-border data flows to ensure they are secure and controllable, and permits the testing of non-local storage of data of specified domains if those data do not involve state secrets or personal privacy.

7. Cutting-Edge Fintech

Fintech has revolutionized how we work and live. Global networks and cutting-edge technologies such as AI provide the technical foundations for the smarter and more efficient global investment activities of the asset management industry. Shanghai is one of the most important hubs in China for fintech enterprises. State-owned commercial banks including China Construction Bank, Bank of China, and Bank of Communications, and large insurance groups such as Ping'an and China Taiping, have established fintech subsidiaries in Shanghai. Many Shanghai-based fintech companies—Alipay, Wanxiang Blockchain, AntChain, Ant Duo-Chain, and SenseTime, to name a few—are nationwide industry leaders.

8. A Deep Talent Pool

Shanghai has a wealth of higher education resources. As of end-2020, Shanghai boasts 63 colleges and universities with an enrollment of 540,700 students; another 135,600 students have graduated during the year.

In November 2016, the Shanghai Financial Services Office (now the Shanghai Municipal Financial Regulatory Bureau) issued the ***Plan for Talent Development in Shanghai's Financial Sector during the 13th Five-Year Period***. In May 2018, Pudong New Area took the lead in introducing "35 Rules" for Pudong's talent development in the financial sector. The Shanghai Municipal Financial Regulatory Bureau has been consistently providing a favorable environment for local financial talent by organizing campus recruitment events, conducting international talent exchanges and trainings, and selecting and recommending outstanding financial talent each year.

At present , there are 470,000 financial professionals working in Shanghai[17]. In addition to its impressive roster of top universities, Shanghai is also reforming its talent program by introducing a broad range of support services to attract financial institutions and professionals alike.

17 Source: The speech of Shanghai's Deputy Mayor Wu Qing at the "2020 Golden Bull Asset Management Forum" on August 22, 2020

Chapter 4 Overview of the Fund Management Industry in Shanghai

1. Public Fund Management Industry

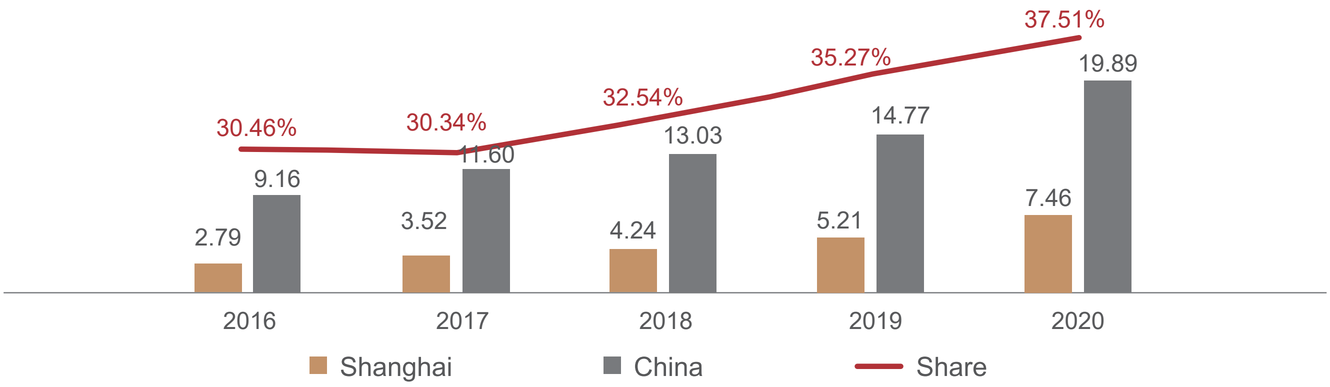
As of the end of June 2021, 71 of the 152 public fund management firms in China were registered in Shangha[18], among which are 24 wholly foreign-owned and joint venture fund companies as Shanghai accounts for over 50% of all joint venture fund companies in China. A total of 32 non-Shanghai-based fund companies have set up branches (offices) or wealth management centers in Shanghai.

As of the end of June 2021, Shanghai-based public fund managers managed 3,196 public fund products with a total AUM of RMB 8.6 trillion. Non-money market funds contributed RMB 5.7 trillion or 66% of this total, higher than the industry average of 60%[19].

Table 3: Public Fund AUM by Region (by office location, as of June 30, 2021)

City	AUM	Public Fund Products
Shanghai	RMB 5.2 trillion	3,196
Beijing	RMB 4.6 trillion	2,211
Shenzhen	RMB 3.5 trillion	1,851
Guangzhou	RMB 1.2 trillion	559

Figure 3: Total AUM of Fund Companies in Shanghai and China over the Past Five Years (¥tn)



18 Of them, 66 are public fund management companies and 5 are securities companies or their asset management subsidiaries that are qualified to manage public funds
19 Source: Data from Wind, prepared by Shanghai Asset Management Association

Figure 4: AUM of Non-Money Market Fund Managed by Fund Companies in Shanghai and China over the Past Five Years (¥tn)

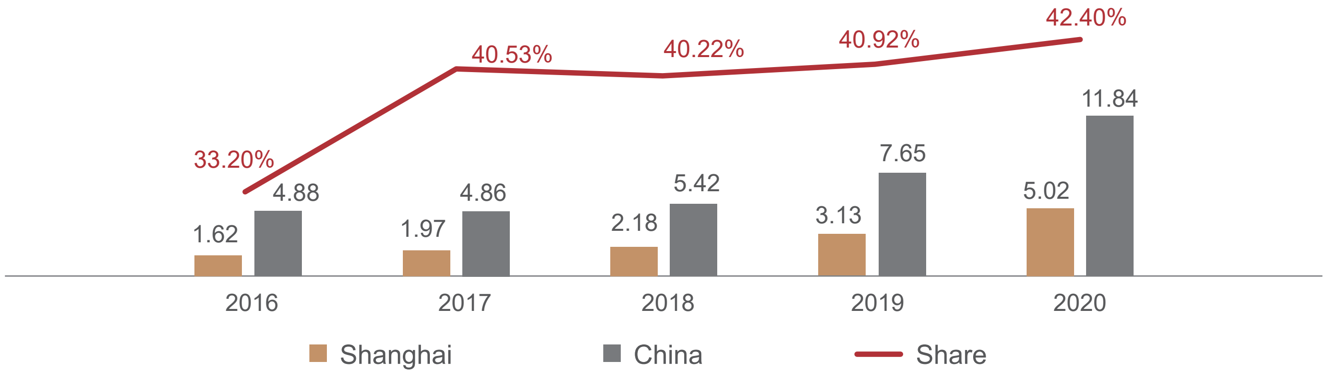
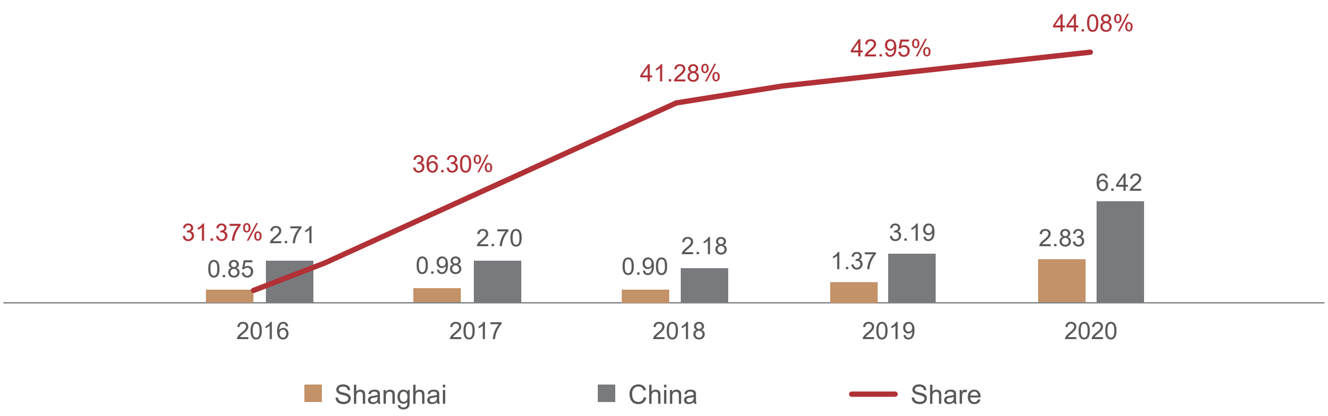


Figure 5: AUM of Equity Funds (Funds with at least 80% equity + Hybrid Funds) Managed by Fund Companies in Shanghai and China over the Past Five Years (¥tn)



2. The Choice of Prominent International Asset Management Firms

As of the end of 2020, the 75 participants of the QFLP pilot scheme (which was launched in 2011) have made a cumulative investment of RMB 39 billion in 431 projects, mostly in the biopharmaceutical, next-generation information technology, and environmental protection sectors[20].

The QDLP pilot scheme was first introduced in Shanghai in 2013. As of December 2020, about 50 globally renowned asset management firms—among them BlackRock, Man Group, Credit Suisse, Abrdn, PIMCO, Oaktree Capital, Prudential, Allianz, and Neuberger Berman—had established their presence in Shanghai and are qualified for the pilot scheme.

In 2016, overseas financial institutions were allowed to set up private securities fund through WFOEs. Wholly foreign-owned private fund managers or WFOE PFMs are entities established in China by foreign asset management firms to provide private securities investment services. As of the end of 2020, most of the 33 WFOE and JV PFMs operating in China were based in Shanghai.

20 Source: Shanghai Municipal Financial Regulatory Bureau

3. Private Fund Management Industry

Shanghai ranks first in China in terms of the number and AUM of PFMs. As of the end of June 2021, there are 4,603 PFMs registered in Shanghai. Together they manage 30,910 funds with a total AUM of RMB 4.28 trillion.

In recent years, Shanghai has shown a strong capacity to incubate promising local private funds, bringing about a rapid growth of Shanghai-based private funds and propelling Shanghai to the top spot in the nation by the number of private funds with an AUM of RMB 10 billion or more. While only one-fourth of the ¥10-billion private securities funds were from Shanghai in 2019, there are 38 or 44% of the 86 private securities funds in the current ¥10-billion club are based in Shanghai.

Table 4: AUM of Private Funds by Region (by place of registration, as of June 30, 2021)

City	Managers	Funds	AUM (¥tn)
Shanghai	4,603	30,910	4.28
Shenzhen	4,403	18,171	2.16
Beijing	4,322	17,607	3.91

4. Shanghai Asset Management Association (SAMA)

Shanghai Asset Management Association ("SAMA") was established on November 18, 2010. It is a non-profit social organization legal person voluntarily sponsored and formed by relevant enterprises in the fund industry in Shanghai. Under the supervision of the Shanghai Securities Regulatory Bureau, SAMA complies with national laws, regulations and policies, protects the legitimate rights and interests of its members and acts as a bridge between the Shanghai fund industry and the government, to promote and facilitate the compliant and healthy development of the fund industry in Shanghai.

SAMA currently has 182 members, encompassing Shanghai-based public fund management companies and their subsidiaries, Shanghai-based private fund companies and fund distribution institutions, and the Shanghai branches of fund companies based outside Shanghai. By the end of August 2021, 9,663 products, with a total AUM of RMB 12.55 trillion, were managed by public fund management companies and their subsidiaries in Shanghai.

SAMA organizes a wide range of specialized trainings and workshops on topical issues. Being rated as a 5A social organization, SAMA is committed to providing a platform for exchange and communication between its members so that they can seek new opportunities and development paths. In 2020, SAMA received Shanghai's honorable mention for the 11th China Charity Award. In 2021, SAMA was awarded as one of the Top Ten Public Service Organizations in the 2021 Shanghai Public Service Award for its efforts in contributing to the development of the Shanghai International Financial Center, implementing numerous innovative investor education programs, and establishing the Healthcare Workers Fund on behalf of the fund industry — the first dedicated fund established by a self-regulatory organization during the pandemic.

Chapter 5 Laws, Regulations, and Regulatory Policies

1. Public Funds

The legal cornerstone of China's public fund industry is the ***Securities Investment Fund Law of the People's Republic of China*** ("Fund Law"), which was promulgated in 2004 and revised twice in 2012 and 2015. The Fund Law, as the fundamental law of China's fund industry, sets a framework for the operation of fund managers and funds. In addition, relevant investment activities are also governed by the Securities Law and other relevant laws and regulations.

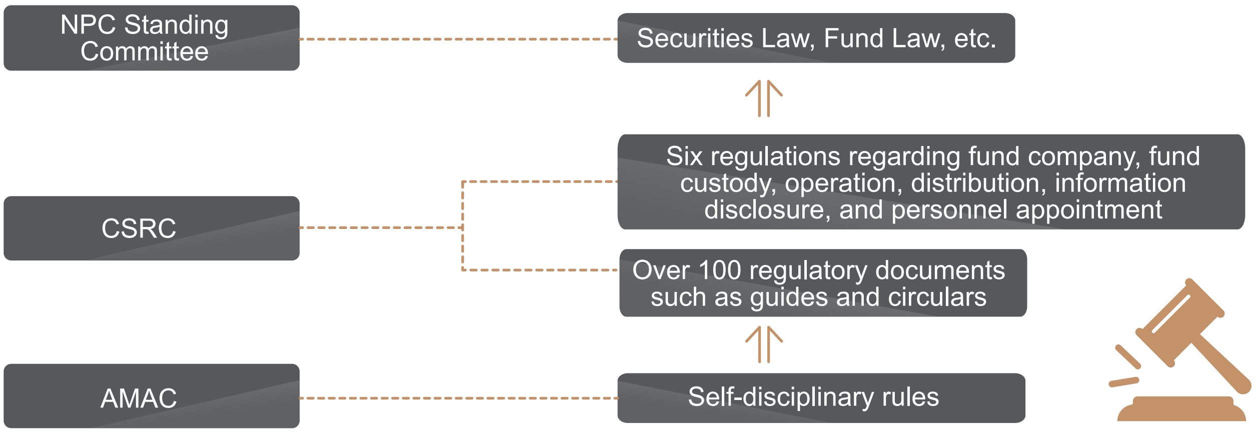
According to the provisions of the Fund Law, CSRC will supervise and manage the activities of securities funds in accordance with the law, and the dispatched institutions thereof will perform their duties in accordance with authorization; AMAC is a self-regulatory organization of the securities fund industry, which is subject to the instruction, supervision and management of CSRC.

As a regulator, CSRC has formulated a number of regulatory provisions within the framework of the Fund Law, the most important of which include:

(1) the ***Administrative Measures on Securities Investment Fund Management Companies***, which regulate the operation of public fund management companies; (2) the ***Administrative Measures on Securities Investment Fund Custody Business***, which regulate fund custody; (3) the ***Administrative Measures on the Operation of Public Securities Investment Funds***, which regulate the investment restrictions and operation of funds; (4) the ***Measures for the Supervision and Administration of Distributors of Publicly Offered Securities Investment Funds, which regulate the sale of securities funds***; (5) the ***Administrative Measures on Information Disclosure of Public Securities Investment Funds***, which regulate the information disclosure of funds; and (6) the ***Administrative Measures on the Appointment of Senior Management Personnel in Securities Investment Fund Industry***, which stipulate the qualifications and code of conduct for senior management personnel of public fund management companies. In addition, CSRC has formulated a large number of regulatory documents to regulate the development of the fund industry. Moreover, since April 2018, the ***Guiding Opinions on Regulating the Asset Management Business of Financial Institutions*** and its supplementary notices have been issued in succession to guide wealth management products in transforming towards being based on net asset value, no guarantee of rigid payment, transparency in and standardization of invested assets, etc. The public fund sector has set a benchmark for the asset management industry through its complete implementation of trust relationships, thorough protection of investors' rights and interests, and standardized and transparent product operation.

As a self-regulatory organization, AMAC formulates self-regulatory rules according to the authorization of law and the instruction of CSRC. The self-regulatory rules provide important guidance on the operation and practice of the fund industry, covering company regulation, practitioner management, fund custody, fund distribution, fund investment, trading, fund information disclosure, fund accounting, taxation and dividends, and information technology. Fund managers are required by law to join AMAC and be bound by its articles of association as AMAC members.

Figure 6 | Legislative Framework for Public-offered Funds



2. Private Asset Management Business of Securities and Futures Institutions

Both the ***Administrative Measures on Private Asset Management of Securities and Futures Institutions and the Administrative Provisions on the Operation of Private Asset Management Schemes of Securities and Futures Institutions***, the two major regulatory documents issued by the CSRC regarding private asset management products, refer to the Fund Law as their superior law. Therefore, the Fund Law is also the fundamental law for private asset management products.

CSRC and AMAC have issued, respectively, as the regulatory body and the self-regulatory organization, a large number of regulatory provisions and self-regulatory rules applicable to private asset management products, covering broad areas such as product fundraising, investment, operation, and compliance for private asset management products.

3. Private Funds

The Fund Law revised in 2012 was promulgated and came into force on June 1, 2013. One of the highlights of this revision is to subject the private securities funds to the Fund Law, which marks the official initiation of PFMs that can independently issue and manage funds. The Fund Law is also the fundamental law for private funds. In addition, relevant investment activities are also governed by the Securities Law and other relevant laws and regulations.

According to the Fund Law, CSRC is the regulator of the fund industry. Within the framework of the Fund Law, CSRC has formulated the Interim Measures on the Regulation of Private Investment Funds and Provisions on Strengthening the Regulation of Privately Offered Investment Funds. In addition, the regulatory documents formulated by CSRC for certain fields (e.g., the Administrative Measures on the Suitability of Securities and Futures Investors) also apply to private investment funds.

According to the provisions of the Fund Law, AMAC is the self-regulatory organization of the fund industry and is subject to the instruction and supervision of CSRC. Similar to the practice in the public fund sector, AMAC, as a self-regulatory organization, formulates or updates self-regulatory rules on private investment funds in accordance with the authorization of law and CSRC and in light of market conditions. However, different from the practice in public fund sector, according to the Fund Law, AMAC is also responsible for the registration of private investment fund managers and filing of private investment funds according to the law. In other words, AMAC's self-regulatory management of private securities funds is more comprehensive. In this regard, AMAC has formulated and issued many self-regulatory rules on fundraising, fund service and information disclosure of private investment funds, including but not limited to the Guidelines on the Internal Control of Private Investment Fund Managers, the Guidelines on Private Investment Fund Contracts, the Administrative Measures on the Offering of Private Investment Funds, the Administrative Measures on the Information Disclosure of Private Investment Funds, the Implementing Guidelines on the Investor Suitability Management of Fundraising Institutions (For Trial Implementation), and the Measures for the Administration of Private Investment Fund Services (For Trial Implementation).

Chapter 6
Fund Types and Legal Framework

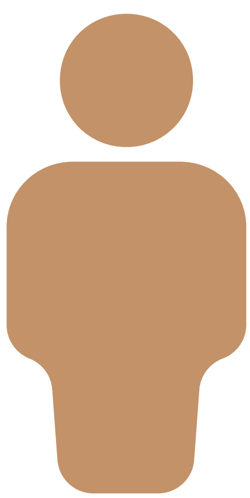
1. Public Funds

At present, all public funds in China are contractual (i.e., unit trust) funds based on the legal relationship of trust, under which the fund manager and the fund custodian jointly act as the trustee, and the fund unitholder is both the principal and the beneficiary.

The dual-trustee legal structure consisting of the fund manager and the fund custodian is unique to Chinese funds and rarely seen in other countries and regions. Under this structure:

1) The functions and powers of the fund manager are as follows:

- A raising funds and handling the issuance and registration of fund units according to the law
- B handling the fund filing procedures
- C separately managing and keeping accounts of different fund assets under management, and investing in securities
- D determining the fund distribution plan according to the fund contracts, and making distribution to fund unitholders in a timely manner
- E carrying out fund accounting and preparing fund financial accounting reports
- F preparing interim and annual fund reports



- G calculating and announcing the net asset value of funds, and determining the subscription and redemption prices of fund units
- H handling information disclosure matters relating to fund assets management activities
- I convening the fund unitholders' meeting in accordance with relevant provisions
- J maintaining records, books, statements, and other relevant materials of fund assets management activities
- K exercising litigation rights or taking other legal actions for the benefit of fund unitholders in the name of fund manager
- L other duties prescribed by the securities regulatory authority under the State Council

2) The functions and powers of the fund custodian are as follows:

- A undertaking safekeeping of fund assets
- B opening fund accounts and securities accounts of fund assets in accordance with relevant provision
- C setting up separate accounts for different fund assets under custody to ensure the integrity and independence of fund properties
- D maintaining records, books, statements, and other relevant materials of fund custody activities
- E handling liquidation and closing matters timely in accordance with the fund contracts and the investment instructions of the fund manager
- F handling information disclosure matters relating to fund custody activities

- G issuing opinions on the fund's financial and accounting reports, interim and annual fund reports
- H reviewing and examining the net asset value of the fund assets and the subscription and redemption prices of fund units calculated by the fund manager
- I convening the fund unitholders' meeting in accordance with relevant provisions
- J supervising the investment operation of fund managers according to relevant regulations
- K and other duties prescribed by the securities regulatory authority under the State Council

3) Each fund unit has equal rights. The fund unitholders exercise their rights through the "unitholders' meeting". The fund unitholders' meeting has the right to replace the manager/custodian, to adjust the remuneration of the manager and the custodian, to change the fund operating model, investment strategy or distribution mechanism, and to decide on the termination and liquidation of the fund.

Public funds must be issued and managed by public fund managers and be under the custody of fund custodians. According to the data released by CSRC, by the end of July 2021, there are 56 fund custodians in total in China[21], among them are 25 securities companies, the China Securities Depository and Clearing Corporation Limited (CSDC), the China International Capital Corporation Limited (CICC), and 29 commercial banks.

Under the Fund Law, the fund manager may appoint a fund service institution to handle the units registration, accounting, valuation, investment adviser and other matters for the fund, and the fund custodian may appoint a fund service institution to handle the accounting, valuation, review and other matters for the fund; however, the liabilities of the fund manager and the fund custodian under the law will not be exempted due to such appointment.

2. Private Asset Management Business of Securities and Futures Institutions

Most of the private asset management products issued by public fund management companies, securities companies, futures companies are contractual products based on a legal trust relationship, under which the manager and the custodian of the private asset management product jointly act as the trustee, and the unitholder is both the principal and the beneficiary. Under this structure:

1) The core functions and powers of the manager upon entrustment are: to undertake investment management, to conduct valuation and accounting as the party responsible for accounting matters, to handle unit registration, to exercise shareholder's rights on behalf of the private asset management product, and to supervise the custodian.

2) The core functions and powers of the custodian

21 Appendix2 List of Securities Investment Fund Custodians

upon entrustment are: to preserve the assets of the private asset management product, to carry out the manager's investment instructions, to conduct compliance review of investment instructions, to handle funds transfers, to review valuation and information disclosure, and to supervise the manager.

Different from public funds, a mandate with sole investor (i.e., a private asset management product that is issued for a specific single investor) may, according to the asset management contract, not engage a custodian for custody.

3) Each unit of the asset management product has equal rights. The unitholders exercise their rights through the "unitholders' meeting". The unitholders' meeting has the right to replace the manager/custodian, to adjust the remuneration of the manager and the custodian, to change the operating model, investment strategy and distribution mechanism, and to decide on the termination and liquidation of the fund.

Slightly different from public funds, private asset management products may or may not set up the unitholders' meeting mechanism. The unitholders of private asset management products without unitholders' meeting mechanism may exercise their rights in accordance with laws, regulations, and relevant asset management contracts.

As with pubic funds, the manager or the custodian of private asset management products may appoint a service institution for the asset management product, provided that the fiduciary duties of the custodian cannot be outsourced, and the liabilities of the manager and the custodian under the law will not be exempted due to such appointment.

3. Private Funds

3.1 Types of Funds

In the Chinese market, private funds can be classified by different sets of criteria. A common classification is by the type of target investment and market, by which private funds are divided into private securities funds and private equity funds. A third type is private asset allocation funds, which permit investment across different asset classes. But this third type is rare and the registration requirements are also higher for both the products and their managers.

By form of organization, private funds can be divided into contractual private funds, corporate private funds, and partnership private funds. By investment approach, private funds can be categorized into direct investment funds, which invest directly in the target companies, and indirect investment funds (or FOFs), which invest in other private funds.

3.2 Legal Structure

The legal structures of private funds vary depending on their form of organization.

1. Contractual funds

All types of private funds can be structured as contractual or unit trust funds. In practice, the contractual structure is commonly seen in private securities funds, but seldom in private equity funds.

Like public funds, contractual private securities funds are all based on the legal relationship of trust, under which the fund manager and the fund custodian jointly act as the trustee, and the fund unitholder is both the principal and beneficiary. Under this structure:

1) The core functions and powers of the fund manager upon entrustment are: to undertake investment management, to conduct valuation and accounting as the party responsible for accounting matters, to handle unit registration, to exercise shareholder's rights on behalf of the fund, and to supervise the fund custodian.

2) The core functions and powers of the fund custodian upon entrustment are: to preserve the fund assets, to carry out the manager's investment instructions, to conduct compliance review of the investment instructions, to handle funds transfers, to review valuation and information disclosure, and to supervise the fund manager.

3) Each fund unit has equal rights. The fund unitholders exercise their rights through the "unitholders' meeting". The fund unitholders' meeting has the right to replace the manager/custodian, to adjust the remuneration of the manager and the custodian, to change the fund operating model, investment strategy or distribution mechanism, and to decide on the termination and liquidation of the fund.

As with public funds, the fund manager and the fund custodian of private securities funds may appoint a service institution for the fund, provided that the fiduciary duties of the custodian cannot outsourced, and the liabilities of the manager and the custodian under the law will not be exempted due to such appointment.

2. Partnership funds

All types of private funds can be structured as partnership funds. Different from the contractual structure, the partnership structure is the usual choice for private equity funds, but less so for private securities funds.

A partnership fund may be managed by its general partner or a manager hired by the general partner. For this latter option, the manager needs to be a related party of the general partner. The responsibilities of the manager include looking for potential investees, conducting due diligence investigations, developing investment strategies, making investment decisions, and performing post-investment management.

The partnership structure has tax advantages as income tax is levied on the taxable income allocated to each partner, not on the income of the partnership fund before that allocation.

3. Corporate funds

The corporate structure is common among private equity funds. Corporate funds are governed by the Company Law of the People's Republic of China in their management structure. This type of fund is rare in practice because corporate income tax applies.

Chapter 7 Application and Approval of Products and Institutions

1. Public Funds

1.1 Establishment of Public Fund Management Companies

Public fund management companies that are established upon approval by CSRC may raise funds and manage public funds. In accordance with the provisions of the Fund Law, the fund assets shall be used for the following investments: (1) listed stocks and bonds; and (2) other securities and derivatives thereof prescribed by CSRC. Please see Section 1.3 of this Chapter for other asset management businesses public fund management companies may conduct. The following conditions shall be met to establish a public fund management company:

1) Shareholders. The Fund Law and CSRC impose relatively complicated requirements on the qualifications of each type of shareholder of public fund management companies. In short, shareholders of public fund management companies can be divided into four types: major shareholder (i.e., the largest shareholder holding 25% or more of equity), non-major shareholder(s) holding 5% or more of equity, shareholder(s) holding less than 5% of equity, and foreign shareholder(s). Furthermore, after a public fund management company is established, in case of any change in shareholders representing 5% or more of equity, including through transfer of 5% or more of equity or subscription of 5% or more of increased registered capital, the qualifications of the new shareholder(s) are also subject to CSRC's prior review and approval.

The requirements on the qualifications of the sole shareholder of a wholly foreign-owned public fund management company, which basically combine the requirements on major shareholder and foreign shareholders, are as follows:

(i) duly incorporated and lawfully existing under the laws of the country or region where it is incorporated;

(ii) the domicile country or region of the shareholder has well-established securities laws and regulatory system, whose securities regulatory authority shall have entered into a memorandum of understanding on the cooperation in securities regulation and maintain effective regulation cooperation with CSRC or such other institutions as recognized by CSRC;

(iii) a financial institution with experience in financial assets management (mainly refers to the experience in the management of public funds, pension funds, charitable funds, endowment funds, etc.) and good performance in financial business operation;

(iv) having a stable financial condition and a good credit standing;

(v) having net assets of not less than the equivalent of RMB 200 million in a convertible currency;

(vi) having sound corporate governance and well-established internal control system;

(vii) not having taken any action that harms the interests of clients, such as misappropriation of client's assets;

(viii) not being subject to any investigation by the regulatory authority or in the process of rectification due to violation of the laws and regulations;

(ix) having good social reputation, not having been subject to any penalty imposed by the regulatory or judicial authority in the last three years, and having no negative record with self-regulatory organizations, commercial banks and other institutions in the last three years.

2) Capital. Public fund management companies must be established in the form of company (instead of partnerships or any other form) with a registered capital of not less than RMB 100 million which shall be actually paid in in cash. Foreign shareholders shall make capital contributions in a convertible currency.

3) Personnel. Public fund management companies are required to have the legal representative, general manager, chief compliance officer, deputy general managers if needed, and other senior management personnel. The number of such senior management personnel, together with the personnel engaging in research, investment, valuation and marketing, shall be not less than 15, and all of them must have obtained the fund practitioner qualification.

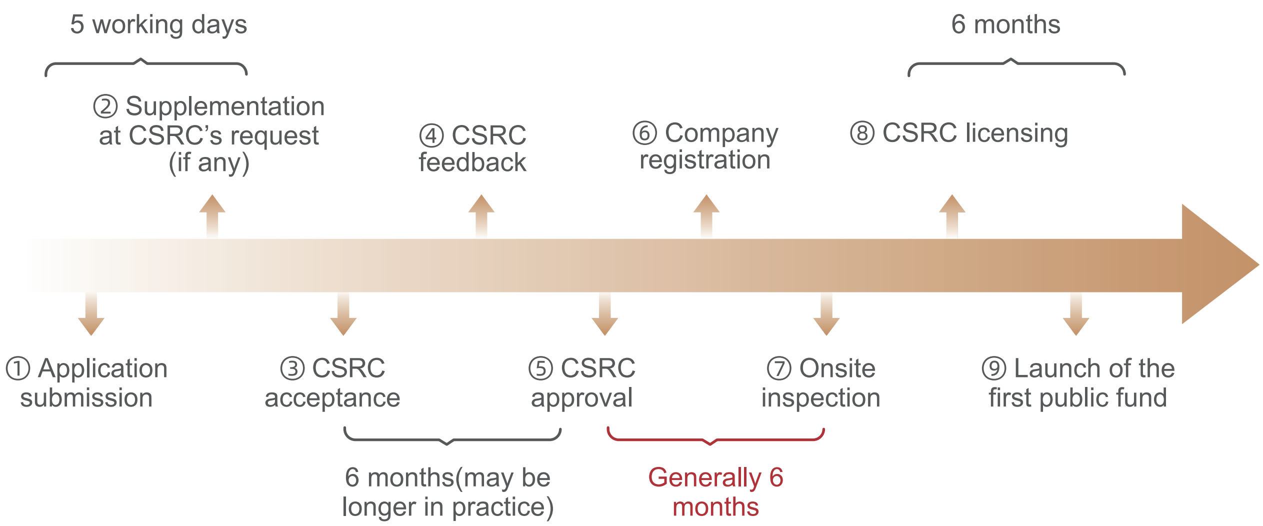
4) Software and hardware facilities. Public fund management companies must have premises and IT systems that are sufficient to support their operation, which generally cover the aspects of investment management, fund distribution, registration, accounting, office automation system (OA), etc.

5) Application procedures. The application procedures consist of two phases – establishment application and on-site inspection.

Currently, a public fund management company is established under the “approval first, preparation later” mode. Under this mode, relevant parties shall first apply to CSRC for establishing the public fund management company, during which period they will go through the steps of acceptance of application, review of shareholders’ qualifications and feedback opinions of CSRC. During the preparation phase, which commences upon CSRC’s approval of the establishment of the public fund management company, the applicant shall complete the work required for carrying out public fund management business, including staffing, technology systems, business premises and facilities. After the preparations have been completed and approved by CSRC upon on-site inspection, CSRC will issue a business permit to the established public fund management company, after which the company may carry out relevant businesses.

Time required for the above procedures varies depending on such factors as the number of shareholders, the complexity of shareholders’ backgrounds, and the work progress of the company’s preparation team. At present, CSRC requires that public fund management companies complete the preparation work within six months after obtaining the approval on establishment.

Figure 7 | Application Procedures for Establishment of Public Fund Management Companies



1.2 Registration of Funds

In accordance with the Fund Law, funds in China are subject to registration. According to the requirements of CSRC, public fund management companies are required to submit the fund contract, custody agreement, prospectus, legal opinion, and other registration application materials.

The fund registration documents include:

1) The fund contract, which is a fundamental legal document entered into by the manager, the custodian, and the fund unitholder. It is a trust contract setting out the rights and obligations of the fund manager, the custodian, and the fund unitholders. The fund contract generally includes provisions of the effectiveness of the fund contract, the investment of the fund, subscription, redemption, valuation, distribution, liquidation, rules of procedure of the unitholders' meeting and other aspects.

2) The custody agreement, which is a bilateral agreement between the manager and the custodian setting forth such matters as mutual supervision, carrying out investment instructions, and clearing and settlement.

3) The prospectus, which is an invitation for offer independently prepared by the manager. It sets out the fund's basic information, distribution channel, and a summary of the fund contract and the custody agreement, through which investors may have a clear view of the elements and purchase method of each fund.

According to relevant laws and regulations, CSRC shall make the decision on whether to approve the registration of the fund within six months after accepting the application, or for public funds to which streamlined procedures may apply, within twenty working days after accepting the application. The fund manager shall make an offering within six months after receiving the document on registration approval.

1.3 Licenses for Public Fund Management Companies

Public fund management companies, upon being duly established, are automatically licensed for public fund management and may concurrently apply for the license for private asset management business. In addition, where the requirements of relevant regulations on net assets, AUM, investment performance and staffing are satisfied, public fund management companies may further apply for the license for QDII, basic pension, enterprise annuity investment management, social security fund investment management, insurance fund entrusted management and other businesses.

1) License for the Private Asset Management Business

At present, except for a few newly-established companies, all public fund management companies have the license for private asset management business. Failing to apply for the license for private asset management business during the phase of establishment application, public fund management company must apply to CSRC separately after establishment.

2) License for QDII

With the QDII license, the public fund management company is entitled to raise funds within the foreign exchange quota granted by the foreign exchange administrative authority and invest in offshore markets. The QDII license is subject to the approval by CSRC.

3) License for Enterprise Annuity Investment Managers

Entrusted by enterprise annuity trustees (e.g., the pension company and enterprise annuity council), an enterprise annuity investment manager is to provide investment management services for enterprise annuity. This license is granted by the Ministry of Human Resources and Social Security of China.

4) License for Social Security Fund Investment Managers

A social security fund investment manager is to manage China’s social security funds pursuant to the contract. This license is granted by the National Council for Social Security Fund (“Social Security Fund Council”). The Social Security Fund Council reviews the qualification of investment managers in a prudent and strict manner.

5) License for Basic Pension Investment Managers

Basic pension, including the pension for enterprise employees, staff of government departments and civic institutions, and urban and rural residents, is the most important part of China’s pension security. In accordance with the ***Announcement on Assessment of Securities Investment Management Institutions for Basic Pension Insurance Funds*** issued by the Social Security Fund Council on October 26, 2016, the basic pension investment manager shall have experience in managing domestic securities investments for national social security funds or managing investments for enterprise annuity funds. Upon review by the expert assessment committee organized by Social Security Fund Council (SSFC), this license is granted by the SSFC.

In 2016, the first batch of 14 public-offered fund management companies obtained this license.

6) License for Entrusted Management of Insurance Funds

License for entrusted management of insurance funds refers to the provision of discretionary investment management services for insurance funds as entrusted by insurance companies or insurance asset management companies. This license is subject to review and is granted by the China Banking and Insurance Regulatory Commission. Since 2012, most public fund management companies have obtained this license.

7) Specialized Subsidiaries of Public Fund Management Companies for Engaging in Specified Businesses

Eligible public fund management companies may establish, upon approval by CSRC, specialized subsidiaries under their control, including subsidiaries engaged in the private asset management business or the sale of financial products. Such a specialized subsidiary must be a limited liability company under the equity control of the public fund management company, hold separate licenses, and be segregated from the parent company in both lines of business and risks.

8) License for the Fund Investment Adviser Business

In October 2019, CSRC started the pilot scheme of fund investment adviser business based on the principle of "pilot scheme before steady expansion". Pilot institutions, including fund companies and their distribution subsidiaries, may engage in fund investment advisory business by accepting the appointment of clients to provide advice on fund investment strategies of investment portfolio and receiving direct or indirect economic benefits in accordance with relevant agreements.

2. Private Asset Management Business of Public Fund Management Companies

2.1 Application for the License for Private Asset Management Business

Public fund management companies may apply for the license for private asset management business during the phase of establishment application, or apply to CSRC separately after establishment. Please see Section 1 of this Chapter for the establishment of public fund management companies.

Public fund management companies shall obtain the approval from CSRC to engage in the private asset management business.

The private asset management products issued and managed by public fund management companies (excluding their subsidiaries) may invest in:

1) bank deposits, inter-bank deposits, and standardized credit assets conforming to relevant requirements, including but not limited to bonds, central bank bills, asset-backed securities, debt financing instruments for non-financial enterprises and other credit assets that are traded on the stock exchange, interbank market or other trading venues established upon approval by the State Council, can be divided into equal shares, and have reasonable fair value and well-established liquidity mechanism;

2) listed companies stocks, depository receipts, and other standardized equity assets recognized by CSRC;

3) futures, options contracts, and other standardized commodity and financial derivative assets that are traded and cleared in a centralized manner in the securities and futures exchange or other trading venues established upon approval by the State Council;

4) public funds and asset management products administered mutatis mutandis to public funds recognized by CSRC;

5) asset management products issued by institutions regulated by the financial regulatory authority under the State Council other than those set out in Paragraph 4);

6) other assets recognized by CSRC.

In order to engage in the private asset management business, a public fund management company shall meet the following conditions:

1) complying with relevant laws, administrative regulations and rules of CSRC in terms of net assets, net capital, and other financial and risk control indicators;

2) having good corporate governance structure and sound internal control, compliance management and risk management policies;

3) having qualified senior management personnel and three or more investment managers;

4) having an investment research department with at least three full-time personnel engaging in investment research;

5) having business premises, security facilities and IT systems that comply with relevant requirements;

6) not having been subject to any administrative penalty or criminal penalty due to material violation of the laws and regulations in the last two years, not having been subject to any administrative supervision measures by the regulatory authority due to material violation of the laws and regulations in the past one year, nor being subject to investigation

by the regulatory authority or competent authority due to suspected material violation of the laws and regulations;

7) other conditions prescribed by CSRC based on the principle of prudent regulation.

2.2 Filing of Private Asset Management Products

Public fund management companies shall, within five working days after the establishment of a private asset management product, submit the asset management contract, list of investors and their subscription amount, capital verification report or asset payment certificate and other materials to AMAC for filing, with a copy to the relevant dispatched institution of CSRC.

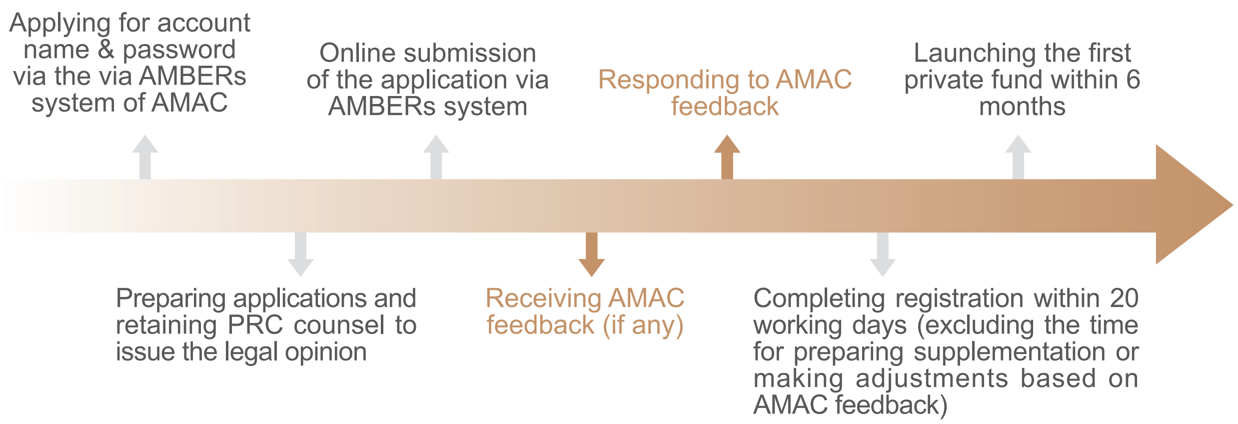
3. Private Funds

Private investment fund managers may offer and manage private investment funds. According to the Fund Law, private securities funds may trade a company limited by shares' public stocks, bonds, and fund units, as well as other securities and derivatives thereof prescribed by the CSRC. Private equity funds may invest in the equity of unlisted enterprises, the non-publicly offered or traded shares (including shares from private placement, block trade, or transfer by agreement) and convertible bonds of listed companies, market-based and legalized debt-to-equity swaps, units of equity funds, and other assets approved by CSRC. In addition, qualified private securities fund managers may provide investment advisory services for asset management products as a third party, see section 4.

3.1 Registration as Private Fund Managers

A duly incorporated company may issue private investment funds only after being registered as a PFM with AMAC. A legal opinion issued by a Chinese law firm is required in applying for registration with AMAC. AMAC will publicize the registration results on its official website after the application is approved upon its review.

Figure 8 | Application Procedures for Registration of PFMs



3.1.1 General Conditions for Fund Manager Registration

In accordance with the Fund Law, the ***Interim Measures on the Regulation of Private Investment Funds, the Measures for the Registration of Private Investment Fund Manager and the Filing***

of Funds (For Trial Implementation) and other laws and regulations, AMAC is in charge of the PFM registration and sets out various requirements for private securities fund manager registration through relevant self-regulatory rules and operational guidelines, which mainly include:

1) Specialization

PFMs should observe the principles of specialization by establishing clear primary businesses and not concurrently engage in any business (e.g., private lending, private financing, finance lease, margin financing, micro wealth management, microloan, P2P/P2B, crowdfunding, factoring, guarantee, real estate development, and trading platform) that may conflict with the businesses of the private funds they manage, any business that conflicts with the buy-side businesses of their investment management activities, nor any other non-financial businesses.

Another example reflecting the principles of specialization is that when applying for registration, a PFM may choose only one registration category such as “private securities fund managers” or “private equity or venture capital fund managers” and only one of the business types associated with such registration category. A PFM may complete filing only for private funds that are consistent with its registered business type. A single PFM may not concurrently manage multiple types of private funds. Application requirements also differ for different registration categories.

To enforce the specialization requirements, PFMs must include the words “private fund”, “private fund management”, or “venture capital” in their name and the words which reflect the features of the private funds they manage, such as “private investment funds management”, “private securities funds management”, “private equity fund management”, or “venture capital fund management” in their business scope.

2) Internal Control

The institution planning to apply for PFM registration shall establish sound internal control mechanism, specify the duties of the internal control function, optimize its internal control measures, enhance the safeguarding measures for carrying out internal control duties, and carry out ongoing evaluation and supervision on internal control.

3) Capital

An applicant shall, based on its operation conditions and business development plan, make sure that it has sufficient capital to guarantee effective operation of the institution. AMAC generally requires that the capital of the applicant shall be sufficient to cover its operational expenses, including reasonable employee remuneration and rent, to ensure its normal operations for a reasonable period after registration approval.

4) Personnel

Senior management personnel of a PFM include the legal representative / representative appointed by the executive partner, general manager, deputy general manager (if any), compliance/risk control officer and other positions, among which the legal representative/ executive partner (appointed representative) and compliance/ risk control officer are must-have senior management personnel.

An applicant should not have less than five employees in total.

Fund practitioners (including the senior management personnel) of PFMs shall have obtained the fund practitioner qualification.

Relevant staff of the applicant who engage in private fund management business shall have professional ethics and competence suitable to the requirements of their positions. Depending on the type of the PFM in question, the requirements on staff’s professional competence and experience also differ. Practitioners shall observe non-compete principle, be dedicated to their duties, exercise due diligence, and refrain from concurrently engaging in any activity that may conflict with the private fund business.

5) Premises

An applicant shall have independent premises necessary to carry out the private fund management business.

3.1.2 Foreign-Invested Private Investment Fund Managers

Compared with other PFMs, foreign-invested managers are subject to certain special requirements for their cross-border and foreign-capital nature. For example, foreign-invested PFMs need to comply with the regulations of China's foreign exchange administrative authority in the use of capital and of the RMB funds exchanged from foreign currencies.

In addition, the foreign shareholder(s) and actual controller of foreign-invested PFMs shall be the financial institution(s) approved or recognized by the financial regulatory authority of the country or region of its domicile, and the securities regulatory authority of the country or region where such foreign shareholder is incorporated shall have entered into a memorandum of understanding on the cooperation in securities regulation with CSRC or other organizations recognized by CSRC. Furthermore, the foreign shareholder(s) and actual controller shall not have been subject to any material penalty by the regulatory authority or judicial authority in the last three years.

When trading securities, futures, or equities in China, foreign-invested PFMs shall make independent investment decisions and shall not issue trading instructions through overseas institutions or overseas systems.

3.2 Filing of Private Funds

PFMs shall apply to AMAC for filing of a private fund within 20 working days after completion of the offering of the private fund. PFMs shall provide documents and information required for registration and filing of private funds and warrant the authenticity, accuracy and completeness of the documents and information provided. If the materials for filing of the private fund are complete and comply with relevant requirements, AMAC will complete the filing procedures for private funds by publicizing basic information of the private fund on AMAC website within 20 working days from receipt of the complete filing materials.

Newly-registered PFMs shall file the first private fund product within 6 months from the completion of the registration procedures.

3.3 Investment Advisory Qualification of Private Securities Fund Managers.

Private securities fund managers that meet all of the following conditions may provide investment advisory services for the wealth management products issued by wealth management subsidiaries of banks or by Sino-foreign joint venture wealth management companies, the private asset management products of securities and futures business organizations (including securities companies, public fund management companies, futures companies, and their respective subsidiaries) and the private securities funds of other private securities fund managers:

1) a member of AMAC that has been registered with AMAC for one year or more without any record of material violation of the laws and regulations; and

2) having not less than 3 investment management personnel with more than 3 years' continuous and traceable performance record in securities and futures investment management and without negative practice record.

4. Cross-Border Investment Pilot Schemes

4.1 QFLP Pilot Scheme

The pilot scheme of Qualified Foreign Limited Partners ("QFLP Pilot Scheme") allows qualified foreign investors to participate in the establishment of domestic equity investment enterprises within the regions implementing the QFLP Pilot Scheme. The QFLP Pilot Scheme was first launched in Shanghai in

2011, providing foreign investors with an opportunity to co-fund private investment funds. Since then, many other regions in China have introduced their own frameworks for the QFLP Pilot Scheme. The Shanghai Municipal People's Government has set up a joint conference for the scheme ("Joint Conference"), led by the Shanghai Municipal Financial Regulatory Bureau, to review and approve applications for participating in the QFLP Pilot Scheme.

If a management enterprise under the QFLP Pilot Scheme is required to apply to AMAC for recognition as a PFM and to complete filing for private funds, it should register with AMAC as a PFM and be subject to the regulations of CSRC and the self-regulatory rules of AMAC. An investment enterprise under the QFLP Pilot Scheme should file with AMAC and be subject to the rules of the national private fund regulatory authority and the self-regulatory rules of AMAC.

To become a management enterprise under the Shanghai QFLP Pilot Scheme, an applicant is required to meet the following conditions:

1.The applicant shall ensure its name meet the requirements of the competent national authorities;

2. The applicant shall have at least one investor, and the business scope of the investor or its affiliates shall be related to equity investment or equity investment management;

3. When applying for establishment as a management enterprise, the applicant shall have at least two senior managers who meet all of the following requirements:

1) having at least five years of experience in equity investment or equity investment management;

2) having served as a senior manager for at least two years;

3) having the experience of engaging in equity investment in the Chinese market or working in a financial institution in China; and

4) having not been involved in any violations oflaws or pending lawsuits regarding economic disputes during the last five years and having a good integrity record.

The term "senior manager" means a manager at or above the level of deputy general manager or equivalent position.

To become an investment enterprise under the Shanghai QFLP Pilot Scheme, an applicant is required to meet the following conditions:

1. The applicant shall ensure its name meet the requirements of the competent national authorities;

2. The applicant shall have a subscribed capital of not be less than USD 15 million and contribution must be in cash. Each partner shall make a capital contribution in its own name, and each limited partner shall make a capital contribution of not less than USD 1 million.

3. The qualified foreign investors of the applicant shall mainly include foreign sovereign funds, pension funds, endowment funds, charitable funds, funds of funds (FOFs), insurance companies, banks, securities companies, and other foreign institutional investors recognized by the Joint Conference, and meet all of the following conditions:

1)having its own assets or AUM meet certain thresholds during the financial year preceding the applicant's application;

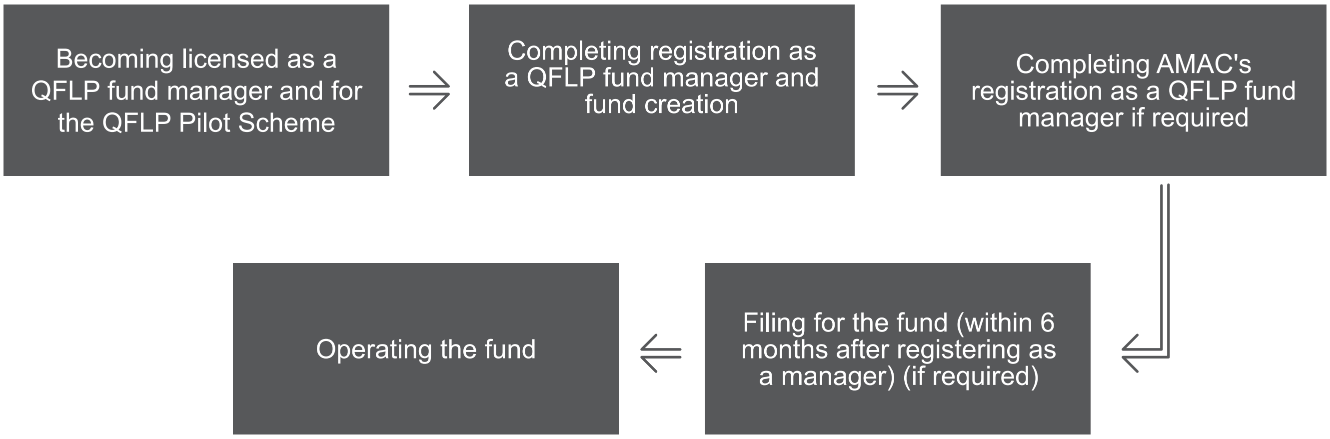
2) possessing a sound governance structure and internal control system and having not been sanctioned by judiciary authorities or relevant regulators during the last two years;

3) itself or its affiliated entities having at least five years of relevant investment experience; and

4) meeting other conditions required by the Joint Conference.

4. The applicant shall appoint a qualified bank in China as its custodian; the custodian shall submit its relevant custody rules to the relevant authorities for filing.

Figure 9 | Specific Procedures for QDLP Operation



4.2 QDLP Pilot Scheme

The QDLP pilot scheme policy, introduced in Shanghai in 2012, allows qualified overseas asset management firms to apply to the relevant authority of Shanghai (i.e., Shanghai Municipal Financial Regulatory Bureau) for recognition as a QDLP pilot scheme participant. Because the fund management firms under the QDLP pilot scheme are PFMs and the funds under the QDLP pilot scheme are private funds, in addition to qualification requirements mandated by the local QDLP pilot scheme, the managers and funds shall also comply with the regulatory rules of the national private fund regulatory authority (i.e., CSRC) and the self-regulatory rules of the national private fund industry association (i.e., AMAC).

Currently, all QDLP funds that have obtained the QDLP pilot qualification mainly adopt the feeder fund structure and directly invest in funds established by overseas asset management firms outside China. Overseas funds, covering public funds, private hedge funds, and private equity funds, are flexible and diversified in type.

Chapter 8 Fund Service Providers

1. Fund Operation Service Providers

Pursuant to the Fund Law, institutions providing the distribution, distribution-related payment, unit registration, valuation, investment advisory, rating, IT system and other fund services for public funds shall be subject to registration or filing in compliance with the requirements of CSRC.

A service provider for private funds is required to apply for the qualification of corresponding type of services by filing with AMAC and is subject to the self-regulatory rules of AMAC in accordance with the Fund Law and relevant self-regulatory rules of AMAC. As of July 2021, 45 private fund operation service providers[23] had registered with AMA, including 28 banks and 17 securities companies.

As of July 2021, 19 institutions are qualified to operate as QFII custodians, all of which are banks.

2. Securities and Futures Brokers

Fund managers may engage in the trading of securities and futures listed on an exchange via brokerage services provided by securities and futures business organizations. To be specific, securities shall be traded via securities companies and futures shall be traded via futures companies.

Securities and futures companies providing brokerage services in China shall obtain the prior approval from CSRC.

As of July 2021, 140 securities companies[23]and 150 futures companies[24] have obtained the approval from CSRC for providing brokerage services.

3. IT System Service Providers

In accordance with Article 44 of the ***Administrative Measures on the Information Technology of Securities and Fund Institutions*** promulgated by CSRC in December 2018, public fund management companies shall select and work with IT service providers within the scope of filing with CSRC. As of 18 June, 2021, 310 institutions have filed with CSRC as information system or technology system service providers.

An IT system service provider which conducts private-fund-related businesses is required to file with AMAC. As of July 2021, four IT system service providers have completed their filing with AMAC[25].

4. Accounting Firms and Law Firms

4.1 Accounting Firms

Pursuant to the updated Securities Law, in March 2020 China has canceled the administrative approval required for accounting firms to provide securities and futures-related services. To provide such services today, an accounting firm is only required to file with Ministry of Finance (MOF) and CSRC. During business operations, fund managers and the funds under their management are required to engage an accounting firm that has filed with MOF and CSRC to carry out capital verification, audit and other activities. In addition, during the operation of the funds, in case of change of valuation methodology or other circumstances that may have material impact

22 Appendix 4 Publicized List of Private Fund Service Institutions: Unit Registration Services
23 Appendix 5 List of Securities Companies
24 Appendix 6 Listed of Futures Companies
25 Appendix 7 Publicized List of Private Fund Service Institutions: IT System Service

on the net asset value of the fund, the fund managers shall promptly seek the professional opinion from an accounting firm. If a side-pocket mechanism is implemented, the fund managers shall also engage an accounting firm as required by applicable regulations to issue a special audit opinion.

4.2 Law Firms

For a public securities fund to be issued, the legal opinion shall be issued by lawyers or a law firm[26]. For private securities funds, private equity and venture capital funds to go through fund manager registration or product filing with AMAC, the legal opinion issued by lawyers or a law firm is also required. In December 2002, the Ministry of Justice and CSRC canceled the administrative approval required for lawyers and law firms to provide securities legal services[27]. Any lawyer or law firm that complies with relevant provisions of the ***Administrative Measures on the Provision of Securities Legal Services by Law Firms***[28] may provide the service of issuing legal opinions to fund managers.

In 2012, AMAC issued the ***Administrative Measures on AMAC Membership***, the self-regulatory rules of the industry. Article 9 of the measures stipulates that associate members include law firms which provide professional legal services for fund business[29].

As of July 2021, a total of 16 law firms serve as the associate members of AMAC[30].

26 Article 51 of the Fund Law: To register a publicly offered fund, a prospective fund manager shall submit the following documents to the securities regulatory authority under the State Council: … (5) a legal opinion issued by a law firm

27/29 Circular on Canceling the Qualification Approval for the Provision of Securities-Related Legal Services by Lawyers and Law Firms, issued by the Ministry of Justice and CSRC on December 23, 2002

28 Article 8 and Article 9 of the Administrative Measures on the Provision of Securities Legal Services by Law Firms

30 Appendix 9 Associate Members of AMAC: Law Firms

Chapter 9 Fund Offering

1. Private Fund's Offering

The sale of public funds primarily relies on the direct sale of public fund management companies supplemented by commercial banks and securities companies. However, independent fund distributors are becoming an increasingly significant player in this area.

As of December 31, 2020, 453 public-fund distributors were approved by CSRC, including 156 commercial banks (including incorporated foreign banks in China), 114 securities companies, 105 independent fund distributors, and 78 other institutions (including insurance companies, insurance brokers, futures companies, and investment consulting firms.)[31].

The proportion of public funds held by institutional investors surged from 29% at the end of 2012 to 51% at the end of 2019. As more and more individual investors take an interest in public funds, the average value of public funds holdings in each individual account has plunged from RMB 25,600 to RMB 8,400 during the same period. However, the average value of public funds holdings in each institutional account has soared from RMB 14.07 million to RMB 27.28 million over the same period.

Figure 10 | Share of Fund Subscription Channels, 2010–2019

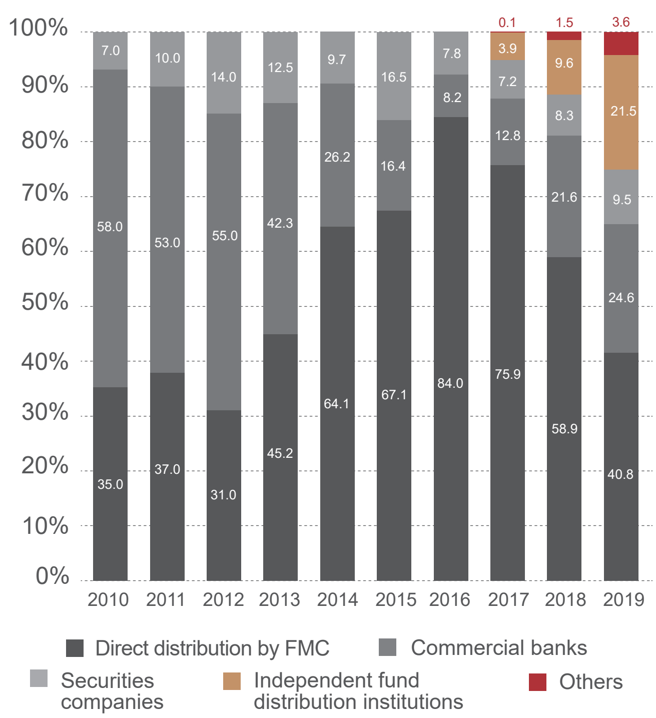
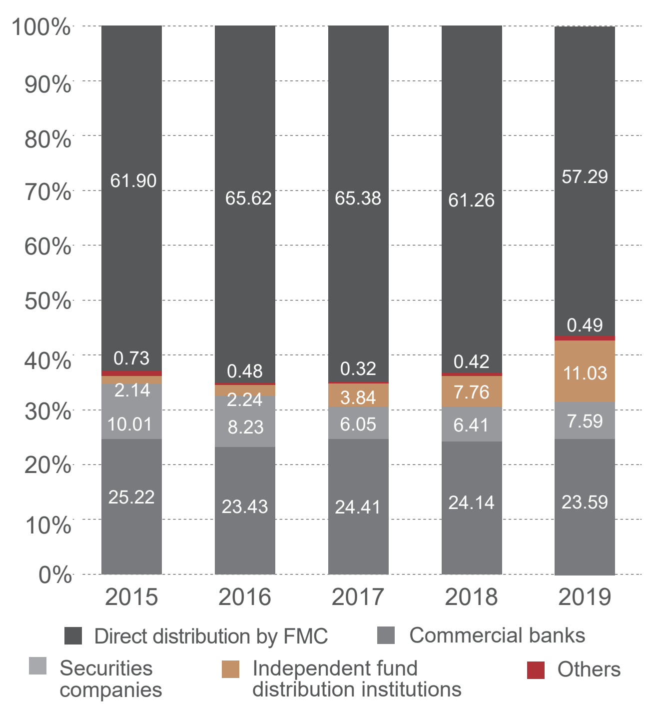


Figure 11 | Breakdown of Net Fund Sales by Distribution Channel, 2015–2019



31 Source: Wind

2. Private Fund's Offering

In accordance with the Administrative Measures on the Offering of Private Investment Funds promulgated in April, 2016, offering of private funds may be carried out either by the PFM itself or by appointed institutions. According to the foregoing Administrative Measures and the Guidelines on the Internal Control of Private Investment Fund Managers, if private investment funds are to be offered through intermediaries, the intermediaries shall be appointed only from the institutions which have been obtained a fund distribution license from CSRC and become an AMAC member.

Funds are offered variously and in accordance with different requirements based on the type of fund in question. Private securities funds are most often offered through intermediaries.

In most cases, private equity funds are directly offered by their managers to qualified investors. During this process, the managers generally send offering materials to target investors, directly engage the qualified investors through roadshows and other means to give presentations, and directly sign subscription documents with these investors. In the market, some private equity funds are offered primarily through middleman services and direct contact with qualified investors and, in rare cases, through specialized fund distributors.

China-based private investment funds pool their capital from a diverse range of contributors, including various enterprises or government entities, asset management products or investment schemes issued by various asset management firms, and individual investors.

As of the end of 2019, of the total capital contribution to private securities funds, 43.43% was made by individual investors[32], 32.62% by various asset management schemes[33], and 23.82% by corporate investors[34];

Of the total capital contribution to private equity funds, 53.52% was made by corporate investors, 31.82% by various asset management schemes, and 11.15% by individual investors.

32 Individual investors include the employees of PFMs who make co-investment
33 Asset management schemes include private funds, trust plans, asset management schemes of securities companies and their subsidiaries, asset management schemes of fund companies and their subsidiaries, asset management schemes of futures companies and their subsidiaries, asset management schemes of insurance companies, and wealth management products of commercial banks
34 Corporate investors include domestically incorporated institutions (such as companies), domestically unincorporated institutions (such as general partnerships), and PFMs that make co-investment

Chapter 10 Tax Policies on Funds

The tax law system in China is under continuous development. In general, enterprises that are incorporated and doing business in China may be subject to corporate income tax (“CIT”), value-added tax (“VAT”), and stamp duty. If the enterprise holds any real estate, it may also be subject to other taxes such as the property tax, land use tax, and land value appreciation tax. Among all these taxes, CIT and VAT are the two major tax categories, and they are imposed on almost all foreign-funded enterprises that engage in the asset management business in China.

1. CIT

1) Scope of Taxation and Tax Rate

Under the CIT legal framework in China, a Chinese tax resident enterprise is subject to CIT at the rate of 25% for its income generated both in and outside China.

Taxable income for calculating CIT mainly refers to the balance derived from an enterprise’s total revenue in each tax year after subtracting various deductions and permitted offsets of losses from the previous year(s). Taxable revenue mainly includes income from sale of goods, provision of services, interest, and investment; various deductions mainly refer to the costs, fees, tax payments and losses actually incurred by an enterprise. In addition, certain types of revenue will be treated as non-taxable revenue or tax-exempt revenue; for example, government appropriations will be treated as non-taxable revenue and interest revenue from treasury bonds will be treated as tax-exempt revenue.

For private funds structured as a partnership, the principle of “allocation before taxation” applies to the partnership’s income from business activities and other income. Specifically, each partner of the partnership is a taxpayer. Natural-person partners are subject to personal income tax on the taxable income allocated to them; partners that are legal persons or other types of organizations are subject to CIT on the taxable income allocated to them.

2) Preferential Tax Treatment

According to relevant tax laws and regulations, CIT is not imposed, for the time being, upon: the revenue obtained by securities funds from the securities market, including the revenue derived from price differences between the purchase and sale of stocks and bonds, revenue from equity dividends and bonuses, and interest and other revenue on bonds; the revenue obtained by securities fund managers from price differences between the purchase and sale of stocks and bonds using funds; and revenue obtained by investors from the distribution of securities funds. The securities funds in this paragraph mainly mean public funds.

3) Reporting Requirements

CIT is calculated based on calendar years. Enterprises shall file tax returns and complete final settlement with the tax authority within 5 months after the end of a calendar year. In addition, enterprises are generally required to prepay CIT on a quarterly basis and file tax returns with the competent tax authority for prepayment within 15 days after the end of each period.

2. VAT

1) Scope of Taxation and Tax Rate

China implemented overall VAT reform starting May 1, 2016. In accordance with relevant regulations, the revenue generated from providing financial and insurance services, including loan services, direct-charge financial services, insurance services and transfers of financial commodities, is subject to VAT. Therefore, foreign-funded enterprises that engage in asset management business are also required to pay VAT on their operating revenue. As funds are an important means of capital formation, the relevant tax system is also being reformed in order to promote the development of funds and the formation of long-term capital.

Under the current VAT system, VAT taxpayers are classified into general taxpayers and small-scale taxpayers. The amount of VAT payable by general taxpayers is calculated as follows:

The amount of VAT payable = sales amount × VAT tax rate − input tax

In the above formula, the VAT tax rate varies based on the type of revenue, and the input tax generally refers to the amount of VAT paid by the taxpayer when purchasing taxable goods, labor and services that are subject to VAT.

The amount of VAT payable by small-scale taxpayers is calculated as follows:

The amount of VAT payable = sales amount × VAT tax rate

In the above formula, the VAT tax rate is 3%.

It should be noted that partnership funds are required to separately file VAT returns and pay VAT on their taxable income according to the method described above because partnerships are independent taxpayers for purposes of VAT. For contractual funds, which are not VAT taxpayers in the traditional sense, their managers are required to pay VAT at a rate of 3% according to the simplified VAT collection method.

Under the current VAT system, taxpayers that engage in asset management business are subject to relatively complicated VAT treatment, which requires separating the business associated with asset management product operations from other businesses for different treatment, as set out in detail below.

For the asset management product operations business of asset management product managers, as mentioned above, the simplified VAT collection method applies at the rate of 3%. The asset management products specified in relevant regulations include public securities funds, private investment funds and other products, and the taxable revenue involved mainly includes revenue from loan services and from transfers of financial commodities.

For other businesses of asset management product managers, if the manager is a general taxpayer, the output tax shall be calculated at the rate of 6% and input tax could be credited. “Other businesses” generally refers to direct-charge financial services, and taxable revenue refers to management fees, advisory service fees, etc.

According to the relevant regulations, VAT for the two types of businesses above should be calculated separately.

2) Preferential Tax Treatment

Under the current VAT system, preferential tax treatment mainly applies to investment-related businesses, and such preferential tax treatment is applicable based on the investment targets. For example, tax-exempt treatment may apply to interest revenue derived from investments in treasury bonds, local government debt, and inter-financial institution transactions. Tax-exempt treatment also applies to revenue from transfers of financial commodities that is obtained by securities funds through the purchase and sale of stocks and bonds. The securities funds referred to in this paragraph mainly mean public funds.

Therefore, for asset management product managers, preferential tax treatment is mainly concentrated in the area of asset management product operations.

3) Reporting Requirements

Under the current VAT system, except in certain industries (such as banking and trust companies), general taxpayers are required to file tax returns on a monthly basis, and small-scale taxpayers are required to file tax returns on a quarterly basis. Taxpayers are generally required to file tax returns with the competent tax authority for VAT payment within 15 days after the end of each tax period.

3. Requirements for Compliance with the Common Reporting Standard

The ***Common Reporting Standard*** (CRS), issued by the Organization for Economic Co-operation and Development (OECD) on July 15, 2014, is the standard that guides participating jurisdictions on the regular exchange of financial account information of tax residents. China, as a participating country, promulgated relevant regulations to officially implement CRS on July 1, 2017. Under CRS, financial institutions perform due diligence and report the tax information of financial accounts.

1) Reporting Entities

The financial institutions that are required to collect and report information under CRS include investment institutions, which specifically refer to institutions that meet one of the following conditions:

(i) an institution with 50% or more of its gross income in the last 3 accounting years, or during its existence if the institution has existed for less than 3 years, generated from financial asset investment and operations for clients;

(ii) an institution with 50% or more of its gross revenue in the last 3 accounting years, or during its existence if the institution has existed for less than 3 years, generated from the investment, reinvestment or purchase and sale of financial assets; and which is subject to the management and investment decision-making of the depository institutions, custodial institutions, specified insurance companies or investment institutions referred to in (i) above; or

(iii) Securities funds, private investment funds and other investment entities that are established for the purpose of investment, reinvestment or purchase and sale of financial assets.

Meanwhile, relevant regulations have also clarified that securities fund management companies, PFMs, and partnerships engaging in private fund management businesses which are established in the People's Republic of China are reporting entities.

2) Financial Accounts

Relevant regulations have also defined the custodial accounts and other accounts falling under the category of financial accounts that are subject to due diligence and information reporting under CRS as follows:

Custodial account: an account that is opened for the business of holding financial assets for the benefit of another person, including purchasing and selling financial assets on behalf of clients, and managing custodial assets for clients upon the client's entrustment.

Other accounts: equity or credit interests of an investment institution, including partnership interests in a private investment fund and beneficiary rights of a trust.

For asset management firms, financial accounts subject to due diligence and information reporting mainly include: (i) accounts for wealth management products, funds, trust plans, Segregated Account/ collective asset management plans and other financial investment products under their management that are not separate legal entities; and (ii) partnership or corporate funds, fund management companies (investment institutions) and other institutions shall perform due diligence and report information on their own equity/interests (financial accounts).

3) Compliance Obligations

Under CRS, asset management firms are mainly under the following obligations:

(i) Registration: asset management firms shall register on the website of the State Taxation Administration timely.

(ii) Due diligence of accounts: asset management firms shall design and implement reasonable due diligence procedures to identify reportable financial accounts, i.e., non-resident financial accounts, including financial accounts held by non-residents or by passive non-financial institutions with non-resident controlling person(s).

(iii) Information collection and reporting: asset management firms shall, as required, collect and report the following: basic information, account number or similar information of individual accounts and institutional accounts; the account balance or net value of each single non-resident account as of the end of the calendar year; the gross interest paid or credited to depository accounts in the calendar year; the gross interest, gross dividends, and other gross revenue generated from the assets under custody that are paid or credited to the custodial accounts in the calendar year; and gross revenue paid or credited to other accounts in the calendar year. Financial institutions shall report the above information as required by May 31 of each year.

(iv) Annual reporting: financial institutions shall assess the implementation of CRS reporting on an annual basis, and submit a written report to the regulatory authorities of relevant industries and the State Taxation Administration by June 30 of the following year.

Any financial institutions that fails to perform relevant obligations under CRS may be subject to punishment by the regulatory authorities, which may include lowering tax credit ratings, winding up for rectification, revoking business permits and disqualifying officers.

In addition, with respect to the Foreign Account Tax Compliance Act (FATCA), China and the US reached a preliminary agreement on June 26, 2014 regarding their intent to enter into the Model 1 IGA for FATCA. However, China has not announced the official implementation of this Act. Therefore, asset management firms within China are not obligated to comply with FATCA compliance. If an asset management firm in China has a US parent company or has business transactions with any US company, the institution may be required to submit information requested under FATCA at the corporate level.

Chapter 11 Other Helpful Information on Doing Business in China

1. Company Establishment

1.1 Name and Establishment Registration

The competent authority for market regulation ("AMR") oversees name and establishment registration for prospective companies.

An overseas institution that intends to establish a foreign-funded enterprise may submit the relevant information and materials via the enterprise name declaration system or at the service window of a local AMR to look up, compare, and screen for potential enterprise names and select one that complies with applicable regulations.

AMR will retain, for two months, the proposed enterprise name successfully submitted via the enterprise name declaration system. If the overseas institution is legally required to seek approval on the business establishment, or if any items in the proposed scope of business has to be approved before business registration, the name will be retained for one year. The overseas institution should complete the procedures for organizing the new enterprise (such as purchasing or leasing office premises and appointing/hiring relevant directors, supervisors and senior management personnel) before the retention period expires and apply to AMR for establishment registration. The new enterprise is duly established upon the issuance of a business license by AMR.

1.2 Shanghai's Supporting Measures

In recent years, in order to mitigate risks and combat against companies that illegally engage in fundraising, asset management and other activities, local AMRs are generally tightening establishment registration for investment companies (i.e., companies with "investment", "investment management" or similar expressions in their name or business scope).

Shanghai provides quality services for overseas institutions with sound qualifications. For example, the Shanghai Municipal Financial Regulatory Bureau, Shanghai Lujiazui Financial City Development Bureau, and other authorities have actively provided many supportive measures for foreign institutions to invest and establish companies in Shanghai.

2. Working in China as Overseas Individuals (including those from Hong Kong SAR, Macau SAR, and Taiwan Region)

2.1 Conditions for Foreigners' Employment in China and Classification Standard for Talent

Foreigners shall meet all the following conditions to work in China:

1) being at least 18 years old and in good health;

2) having professional skills required for his/her work and relevant work experiences;

3) having no criminal record;

4) having a specified employer in China;

5) holding a valid passport or other international

travel certificate that can be used as a substitute for passport;

6) engaging in works that are consistent with demand for economic and social development of China and is a professional urgently needed in China;

7) and other conditions prescribed by laws and regulations.

2.2 Foreign Talent Classification

In accordance with the ***Evaluation Criteria for Foreigners Employed in China (For Trial Implementation)***, foreigners working in China are classified into three categories—Category A, Category B and Category C, which are evaluated and administered according to different criteria. Category A foreigners are entitled to the most convenient and favorable policies. Category A foreigners may be identified using a simple and convenient method, i.e., annual salary: if a foreigner's annual salary is higher than 6 times of the average salary published by the local government for the previous year, such a foreigner will be determined as falling under Category A. Shanghai Municipality's current standard is RMB 600,000 in pre-tax annual salary with at least RMB 120,000 in annual individual income tax levied; this standard is expected to be consistently adjusted and raised in the future.

2.3 Certificates Required for Foreigners' Employment in China: Work Visa, Work Permit and Residence Permit

If an investment company established by an overseas asset management firm in Shanghai intends to hire a foreign employee, it must assist the foreign employee in obtaining a work visa, work permit and employment-type residence permit before such foreign employee can legally reside and work in China. Specific requirements and procedures for obtaining these permits are listed below.

2.4 Work Visa

Foreign talent under Category A, B and C are required to apply for different types of work visa: R Visa (a multiple-entry visa with a validity period of up to 5-10 years) for high-level foreign professionals and urgently needed specialized professionals and Z Visa for Category A, Category B, and Category C foreigners.

2.5 Conditions and Requirements for the Alien Employment Permit and Employment-Type Residence Permit

1) Conditions for Applying for the Alien Employment Permit

Within 15 days after a foreigner enters China with a valid visa, his/her employer shall apply online for the Alien Employment Permit and obtain such permit from the Shanghai Municipal Science and Technology Commission.

Additionally, since April 2017, in contrast to Category B foreigners who are generally subject to an age limit of 60 years old, Category A foreigners are not subject to any age restrictions. Category A foreigners are also not subject to restrictions in terms of educational background and work experience. Category A foreigners who are over 60 years old can still obtain a work permit.

2) Employment-Type Residence Permit

Within 30 days after a foreigner enters China with a work visa, he/she shall apply to the Exit-Entry Administration Bureau of the Shanghai Public Security Bureau for the foreigner residence permit, the validity period of which will be determined based on the validity period of his/her employment permit.

3) Work Permit Is Not Required for Hong Kong SAR, Macau SAR, and Taiwan Region Residents

Starting from July 28, 2018, Hong Kong SAR, Macau SAR, and Taiwan region residents working in the Chinese Mainland are no longer required to obtain a work permit. They may handle various human resources and social security matters using their mainland residence permits for Hong Kong SAR, Macau SAR and Taiwan region residents, the mainland travel permit for Hong Kong SAR and Macau SAR residents, the mainland travel permit for Taiwan region residents, or other valid identity certificates. They may also use the business license, employment contract (engagement contract), salary payment voucher, social insurance payment record or other materials as proof of their employment in the Chinese Mainland.

3. Taxes

In accordance with current Chinese laws and regulations on individual income tax, the tax-resident individuals and non-resident status of individuals will be determined by taking into account the person's domicile, duration of residence in China and other factors. If a foreigner is determined to be a tax resident of China, he/she shall pay individual income tax in China in respect of his/her income generated both in and outside China (subject to certain special treatment as stipulated in the regulations); otherwise, he/she is generally required to pay individual income tax in China in respect of his/her income generated in China. The amount of taxable income is calculated based on the tax-resident individual's income for each tax year after deducting an expense of RMB 60,000, special deductions and special expense deductions. Special deductions mainly refer to social insurance and housing fund contributed by the individual; special expense deductions include expenses for children's education, continuing education, medical treatment for serious diseases, housing loan interest or rent, support for elderly persons, and other expenses.

Between January 1, 2019 and December 31, 2021, foreigners that are determined to be tax residents of China may elect to enjoy either the special expense deductions for individual income tax, or the tax exemptions for housing allowance, language training fees, children's education fees, and other allowances and subsidies as listed below (they could not enjoy both the special expense deductions and the tax exemptions at the same time):

1) Reasonable housing allowance, meal allowance and laundry fee allowance provided to foreign individuals in non-cash form or on an at-cost basis are exempt from individual income tax.

2) Relocation income provided to foreign individuals on an at-cost basis and in relation to taking or leaving office in China is exempt from individual income tax.

3) Domestic and overseas travel allowance provided to foreign individuals based on a reasonable standard is exempt from individual income tax.

4) Fare for trips home provided to foreign individuals is exempt from individual income tax.

5) Allowances for language training and children's education provided to foreign individuals are exempt from individual income tax.

Once made, foreign individuals may not change their selection during the relevant tax year. Starting January 1, 2022, foreign individuals will no longer be entitled to tax exemptions on allowances for housing, language training and children's education, and only the special expense deductions will be available in accordance with relevant regulations.

Chapter 12 Relevant Government Authorities, Institutions and Other Organizations

1. Financial Regulatory Authorities

1.1 CSRC

CSRC is a ministerial-level public institution directly under the supervision of State Council, which oversees and administrates China's securities and futures market, maintains the order of the securities and futures market, and ensures the lawful operation of the securities and futures market according to the relevant laws and regulations and the authorization of the State Council.

CSRC is located in Beijing and has established 36 securities regulatory bureaus in provinces, autonomous regions, municipalities directly under the central government and cities specifically designated in the national social and economic development plan, and the Shanghai Commissioner Office and the Shenzhen Commissioner Office.

Official website:http://www.csrc.gov.cn

1.2 Shanghai Securities Regulatory Bureau

Shanghai Securities Regulatory Bureau ("SSRB") was officially set up as a dispatched office of CSRC in Shanghai. In accordance with relevant laws, regulations and policies, SSRB oversees and administrates securities and futures activities of listed companies, securities and futures business organizations, securities investment advisers, as well as such intermediaries providing securities and futures services as law firms, accounting firms, asset appraisal institutions and credit rating agencies, within its jurisdiction. In addition, SSRB investigates the violation of laws and regulations within its jurisdiction and mediates controversies and disputes arising out of securities and futures business according to the law.

Official website of SSRB: http://www.csrc.gov.cn/pub/shanghai/

1.3 Shanghai Municipal Financial Regulatory Bureau

Shanghai Municipal Financial Regulatory Bureau is in charge of local financial regulation and financial development in Shanghai. The bureau also works under the name Shanghai Financial Work Bureau. The bureau consists of Policy & Regulations Division, Financial Survey & Statistics Division, Financial Stability Division, Local Financial Supervision and Administration Division I, II and III, Financial Development Coordination Division, Financial Market Service Division, Financial Institution Service Division, and Financial Cooperation Division. Its main duties include to facilitate the gathering of financial institutions, to attract financial institutions to develop in Shanghai, and to improve core competitiveness of various categories of financial institutions.

Official website of Shanghai Municipal Financial Regulatory Bureau: jrj.sh.gov.cn

1.4 Shanghai Pudong New Area Financial Work Bureau

The Shanghai Pudong New Area Financial Work

Bureau, previously known as the Shanghai Pudong New Area Financial Service Bureau, is a department of the Pudong New Area People's Government and responsible for building Pudong into a pillar of the Shanghai International Financial Center. It is committed to attracting and empowering financial institutions; building the financial market system and infrastructures; aligning the financial sector with local economic and social development goals; providing better government services to promote the growth of financial institutions and financial talent; and building a law-based, international, and friendly business environment. Since the official expansion of Shanghai FTZ in 2015, the Administrative Committee of Shanghai FTZ has been sharing office premises with the Pudong New Area People's Government, and the Pudong New Area Financial Service Bureau has been newly tasked with promoting financial opening-up and innovation in Shanghai FTZ. For this updated role, it is referred as the "Financial Service Bureau of China (Shanghai) Pilot Free Trade Zone". In February 2019, according to the ***Plan for Institutional Reform of Shanghai Pudong New Area*** approved by the Shanghai Municipal CPC Committee and Shanghai People's Government, the Pudong New Area Financial Service Bureau was renamed as the Pudong New Area Financial Work Bureau.

After years of development, Pudong New Area has gathered 13 financial markets and infrastructures. It has become one of the places with the most complete financial market and the most active trading in the world. It also formed a financial institution system under which emerging financial institutions and financial professional service institutions develop together, and has become one of the places with the most concentrated financial institutions in the world. As of the end of September 2019, Pudong New Area has 1,069 licensed financial institutions in banking, securities, and insurance industries, including 281 banks, 489 securities business organizations and 299 insurers, and 1,688 private equity/venture capital and PFMs that have registered with AMAC. Pudong New Area ranks top in China in the clustering of financial institutions in several segmented sectors. In terms of its proportion in total number of entities in the same sector: 17 foreign banks represent 80% in Shanghai and 42% in China, 21 foreign insurance companies represent 87.5% in Shanghai and 40% in China, 10 shipping insurance operation centers represent 91% in Shanghai and 91% in China, 4 joint-venture securities companies represent 57% in Shanghai and 28% in China, 13 joint-venture public fund management companies represent 81% in Shanghai and 29% in China, 80 foreign asset management companies, 9 of which rank top ten globally in terms of AUM, represent 97% in Shanghai and 95% in China.

Pudong New Area is striving to promote the construction of a financial service system covering the full life cycle of science and technology innovation enterprises by optimizing the service chain for listing and facilitating the listing of enterprises located in Pudong New Area. By the end of September 2019, Pudong New Area has a total of 107 enterprises listed in China, 56 enterprises listed overseas, 152 enterprises listed on the New Over-the-Counter Market, and 178 enterprises listed on the Shanghai Equity Exchange. Since the opening of the STAR Market, 11 enterprises in Pudong have applied to CSRC for listing on the STAR Market, and 6 of them have been successfully listed, representing 75% in Shanghai. In addition, Pudong New Area also sets up the credit enhancement fund for small and micro enterprises, which lowers enterprises' financing costs by providing subsidies for enterprises' guarantee fee, reduces bank loan risks by increasing risk compensation proportion, and encourages banks to launch innovative loan products and to enlarge the size of loans for small and micro enterprises by giving rewards. Small and micro enterprises in Pudong have obtained bank loans of RMB 6.78 billion in aggregate through these efforts.

1.5 Shanghai Huangpu District Financial Service Office

Shanghai Huangpu District Financial Service Office ("Huangpu FSO") was set up in 2009 and consists of Huangpu District Administration Service Center and Huangpu District Financial Development Service Center. After the institutional reform in 2019, Huangpu FSO also works under the name of

Huangpu District Investment Promotion Office. As a department of the district government, Huangpu FSO, based on the overall strategy of building Shanghai into an international financial center and with a focus on the construction of the Bund financial clustering belt, is mainly responsible for: coordinating and promoting regional financial industry development; implementing and promoting the financial supply-side structural reform, and enhancing the development of new finance and improvement of regional financial functions; organizing, instructing, coordinating, administering and serving for the investment facilitation, building economy, headquarters economy and merchants settlement and retaining.

Currently, Huangpu District has attracted 664 licensed financial institutions and 6 of the 14 national-level financial markets in Shanghai. The district has a solid foundation of banking, securities, insurance, and other traditional financial institutions, and has evident advantages in private banking, trust, securities asset management, funds and other sub-sectors featuring asset management and wealth management. As high-quality institutions represented by industry finance and sci-tech finance continue to gather in the district, Huangpu now has a multi-type, comprehensive and integrated clustering of financial institutions. In 2020, the added value of the financial industry in Huangpu District reached RMB 110.69 billion, making up 42.3% of GDP of the district; the financial industry contributed a tax revenue of RMB 17.79 billion, making up 27.8% of total tax revenue of the district. The financial service industry, whose scale and proportion matches the position and role of the “One Economic Belt”, has become a core sector of the district’s high-end service industry system.

Address: 300 East Yan’an Road, Shanghai

1.6 Shanghai Hongkou District Financial Work Bureau

Shanghai Hongkou District Financial Work Bureau (“Hongkou FWB”), previously known as Shanghai Hongkou District Financial Service Bureau, was set up in April 2019. As a department of the Hongkou District People’s Government, Hongkou FWB is mainly responsible for promoting the financial industry development and maintaining a stable financial environment in the district. Hongkou FWB consists of 5 internal divisions, including the Office, the Industry Clustering Division, the Industry Administration Division, the Capital Market Division, and the Financial Stability Division, and has 18 registered staff members at present. Shanghai Hongkou District Financial Service Center, affiliated to Hongkou FWB, is a public institution which now has 18 registered staff members. Hongkou FWB performs its functions to promote financial industrial clustering, improve the service system for financial institutions and talents, strengthen exchange and cooperation in the financial industry, and consistently enhance the North Bund’s construction of wealth management highland and asset management center.

Financial enterprises in Hongkou District are increasing rapidly. The total number of enterprises is increasing at an average annual rate of 45% and the total number of financial enterprises has now reached 1,550, with an AUM of RMB 5 trillion. Financial enterprises in Hongkou include: 16 public-offered fund management companies, making up 1/9 of total number in China; 23 subsidiaries of public-offered fund management companies; almost 70 securities companies, trusts and asset management subsidiaries of insurance companies; around 900 angel funds, VC/PE, and buyout funds; and almost 400 hedge funds and third-party organizations. These entities basically cover all the licensed and new financial business areas that exist in China, and have an apparent trend towards developing a high-end and international financial industry. Meanwhile, Hongkou District actively coordinates with Shanghai FTZ in financial opening up and innovation, promotes the implementation of the FT account expansion policy, actively promotes the restructuring and public offering (listing) of key enterprises, takes the initiative to liaise with SSE on establishing the STAR Market, and drives in-depth integration of finance with science and technology.

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1.7 Shanghai Jing'an District Financial Service Office

Shanghai Jing'an District Financial Service Office ("Jing'an FSO"), a department of Jing'an District Government, consists of the Investment Promotion Division, the Financial Development Division, the Supervision & Administration Division, and the General Office. Jing'an FSO is committed to promoting financial development, maintaining financial stability, and enhancing industry-finance cooperation in the district. As an active contributor to the Shanghai International Financial Center initiative, Jing'an FSO has implemented the "one axis with three belts" program, i.e.,, building a premier financial hub along the West Nanjing Road, a global wealth management center in the Suhe Bay Area, and a demonstration zone for industry-finance cooperation along the Middle Ring Road, in a bid to develop Jing'an District into a magnet for wealth management firms and a pillar for the Shanghai global asset management center.

The financial service sector in Jing'an District—one of its six major sectors—with its complete set of supporting facilities, a large concentration of high-quality institutions, and clear development priorities, plays an important role in regional economic development. In the Jing'an District, securities companies, finance companies and asset management companies are highly concentrated; foreign-invested financial institutions are active market participants; and emerging financial sectors such as digital finance are taking shape, which are characterized by strong core competencies, a wide influence, and a strong global investment capabilities.

Jing'an FSO's will focus more on licensed financial institutions, foreign-invested asset managers, and fintech. It will capture the opportunities brought by the further opening-up of the financial sector; leverage its regional, policy, and service advantages; introduce more talent incentives; and encourage financial institutions to settle locally to jointly open a new chapter for the financial sector in the district.

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1.8 Shanghai Xuhui District Financial Service Office

Shanghai Xuhui District Financial Service Office ("Xuhui FSO") was founded in March 2009. In view of its mandates, Xuhui FSO has formulated a host of measures to support the financial sector and to align it with the real economy. Xuhui FSO has enhanced its services and management of the local financial sector to create a better financial environment and attract financial institutions. It has also taken actions to prevent and combat illegal financial activities and helped coordinate the prevention and resolution of financial risks.

Xuhui District boasts a large lineup of financial institutions: there are over 800 financial institutions (including their branches) in the district, offering a wide range of services covering banking, securities, insurance, futures, asset management, trust, third-party payment, microloans, financing guarantee, finance lease, and pawn services. During the 14th Five-Year Plan period, Xuhui District will specialize in fintech and global asset management and further boost financial openness and innovation, in order to become a new growth engine for the Shanghai International Financial Center initiative.

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2. Self-Regulatory Organizations and Service Institutions

2.1 AMAC

AMAC is a social organization legal person registered with the Ministry of Civil Affairs upon approval by the State Council in accordance with the Fund Law and the ***Regulations on the Registration and Administration of Social Organizations***. AMAC is a self-regulatory organization of the securities fund industry and is subject to the instruction, supervision, and administration of CSRC and the Ministry of Civil Affairs. According to the Fund Law, fund managers and fund custodians are required to join the AMAC and fund service institutions are allowed to join the AMAC.

In order to strengthen the legal system construction of the industry and facilitate access to laws and regulations, AMAC provides fund practitioners and investors with access to the "Applet for search for the laws and regulations of the fund industry". The Applet includes more than 550 laws and regulations relating to the fund industry in six categories (industry comprehensive rules, public funds, private funds, asset management, custodian and distribution, and practitioners) and 24 sub-categories. The Applet can be accessed by scanning the QR code below via WeChat, or by clicking "Search regulations" in the menu bar of AMAC's official WeChat account (CHINAAMAC).

Official website of AMAC: www.amac.org.cn

2.2 SAMA

SAMA is an industry-oriented non-profit social organization legal person voluntarily sponsored and formed by relevant entities of the fund industry in Shanghai. SAMA is registered with Shanghai Administration Bureau of NGOs, reports to SSRB, and is subject to the supervision, administration, and advice of Shanghai Administration Bureau of NGOs and SSRB.

Official website of SAMA: http://www.samacn.org.cn

2.3 Lujiazui Financial City Development Bureau

Lujiazui Financial City Development Bureau is a statutory institution with separate legal personality. It is sponsored and established, upon approval of Shanghai Municipal People's Government, by Pudong New Area People's Government based on relevant decisions of the People's Congress of Pudong New Area. As a public administration service institution, the Authority, through corporate and specialized operation, implements and coordinates public affairs within Lujiazui Financial City (Lujiazui Finance & Trade Zone), and organizes and implements relevant matters on co-governance with the industry. It is mainly responsible for formulating and implementing the development plan of Lujiazui Financial City, promoting economic development and investment, facilitating the clustering of headquarters of different types of institutions, and encouraging the innovation of various markets.

Appendix

1. Opinions on Accelerating the Development of Shanghai into a Global Asset Management Center

Concerning Issuance of the Opinions on Accelerating the Development of Shanghai as a Global Asset Management Center

Hu Fu Ban Gui [2021] No. 6

Following the approval by the Municipal People's Government, the Opinions on Accelerating the Development of Shanghai as a Global Asset Management Center are hereby issued. Please implement the Opinions diligently.

General Office of the Shanghai Municipal People's Government
May 14, 2021

Opinions on Accelerating the Development of Shanghai as a Global Asset Management Center

The Opinions on Accelerating the Development of Shanghai as a Global Asset Management Center (the "Opinions") are formulated in accordance with the requirements of the Shanghai Municipality's 14th Five-Year Plan for Economic and Social Development and Outline of Long-Term Objectives for 2035 with a view to accelerating the development of Shanghai as a global asset management center.

I. Guiding Philosophy

Guided by Xi Jinping Thought on Socialism with Chinese Characteristics for the New Era, and with a view to fully implementing the directives given by General Secretary Xi Jinping in important speeches during his inspection tour of Shanghai and the Celebration of the 30th Anniversary of Pudong's Development and Opening-Up, as well as the requirements of "Three Major Tasks" and "Four Major Functions", (we adopt the following guiding philosophy:) we will seize the opportunities offered by a changing global economic and financial landscape, focus on core factors, increase the degree of opening up, strengthen technology empowerment, and enhance the provision of supporting services. We will build a sound, innovative, and dynamic asset management ecosystem to promote the transformation of direct investment, enhance capital supply efficiency, and support high-quality economic development, thereby strengthening Shanghai's capabilities in global resource allocation and further elevating Shanghai's standing as a leading, influential international financial center.

II. Basic Principles

(I) Uphold coherent top-down planning while focusing on making key breakthroughs. Systematic planning will guide the holistic development of Shanghai's asset management industry and optimize its composition. Key areas and critical links will be prioritized for pioneering development.

(II) Continue to benchmark Shanghai against international standards while highlighting Shanghai's distinctive features. We will draw upon the invaluable experience of developed asset management centers across the globe and in other regions of China, leverage the strengths of Shanghai's development as an international financial center, and drive development through innovation.

(III) Consolidate the foundation and build Shanghai's brand. We will strengthen efforts to cultivate asset management institutions and develop a healthy industry environment underpinned by sound regulations, self-regulatory initiatives, the rules of law, and trustworthiness information schemes. We will strive to build Shanghai's brand as an asset management center and grow its visibility and international influence.

(IV) Stay true to our commitment to let the market play the leading role, while strengthening the government's provision of services. Give fuller play to the market's decisive role in resource allocation by creating a cluster that brings together all constituent elements of the asset management industry. Foster a first-class climate for development by continuously optimizing government services.

III. Development Goals

We will strive to, by 2025, make Shanghai an integrated, open, international asset management center marked by a high concentration of asset management factors, a high degree of internationalization, and a relatively well-developed ecosystem. Shanghai will thereby have established itself as an important asset management hub in Asia, and be on track to becoming one of the top global asset management centers.

Shanghai will become a focal point for institutions and talents through efforts to attract and cultivate a core constituency of over a dozen industry-leading asset management institutions—both domestic and foreign—and over one hundred influential asset management institutions, with a strong pool of professional, international, and innovative asset management talents. Positive interaction between market players and regulatory authorities and strong integration of fintech into asset management will transform Shanghai into an innovation hub for a full range of professional and well-structured products and services spanning a diverse array of categories. Shanghai will position itself as an 'intersection' between markets and capital, leveraging increased openness in its financial markets and asset management industry, making the city a 'central node' for the allocation of cross-border financial resources. A 'new height' will be scaled in the city's business climate and service provision by promoting synergy among market entities, self-regulatory initiatives, financial regulators, and government services, with mutual efforts to strengthen investor education and protection. IV. Key Tasks

(I) Enhancing institutional diversity and building a broader and deeper pool of asset management industry players

1. Build up a cluster of, and cultivate the development of, asset management institutions. We will actively attract bank wealth management, insurance asset management, and financial asset investment institutions as well as their subsidiaries; support securities, fund management, trust, and futures institutions and their subsidiaries in setting up in Shanghai; and attract private banking, family trust, and fund sales institutions and other types of asset managers. We will support qualified foreign institutions to take the lead in setting up wholly owned or joint-venture securities, fund management, and pension management institutions; joint-venture wealth management companies; and investment research, sales operations, and compliance and risk control platforms. We will build up a cluster of private securities investment funds and private equity funds (venture capital funds) in all categories. We will pilot seed fund initiatives to support small and medium-sized asset management institutions, and encourage the establishment of equity transfer acceptance funds. We will strengthen efforts to cultivate asset management institutions and support the listing of qualified fund management and other asset management institutions on multi-tiered capital markets in order to fuel the expansion of their onshore and offshore businesses.

2. Enhance the service capabilities of professional

institutions. We will prioritize the development of service providers offering fund registration, valuation accounting, fund evaluation, currency brokerage, and consultancy and information services. We will attract intermediaries such as accounting and auditing firms, legal service providers, credit rating agencies, and asset appraisers. We will study the establishment of professional custodian institutions. We will encourage professional institutions to build stronger professional capabilities, and encourage self-regulatory organizations within the industry to establish service quality evaluation mechanisms.

3. Enhance the compliance of asset management institutions. We will guide asset management institutions to strengthen their investor-centric service philosophy and build more robust internal control and accountability frameworks. We will encourage asset management institutions to accurately assess risk in their asset management products, strengthen investor suitability management, and formulate sound investment strategies and risk management policies in accordance with prudential principles. We will encourage asset managers to strengthen their investor education programs so as to raise investors' financial literacy and risk awareness; and to make more proactive, truthful, accurate, complete and timely information disclosures.

(II) Driving innovation in asset management products and services to meet diverse investor demand

4. Boost innovation in asset management products. make available a broader array of fixed-income products and expand the issuance of equity products. Building on the success of the homegrown CSI Zhangjiang Innovation Index, we will encourage the launch of exchange-traded fund (ETF) products, capitalizing on the synergy that Shanghai boasts as both an international financial center and a technology innovation hub. We will formulate special policies on a pilot program for real estate investment trusts (REITs) in the infrastructure sector, to position Shanghai as the leading jurisdiction in China for the issuance and trading of infrastructure REITs. We will encourage the establishment of a wider array of commodity fund products so as to increase the influence of Shanghai in the pricing of major commodities. We will step up initiatives to support research and development of manager of managers (MOM) and fund of funds (FOF) products. We will refine service standards for family trust products. We will work to broaden the pool of participating institutions and products in the pilot program for personal tax-deferred commercial pension insurance, and work to foster innovation in pension insurance, pension trust, and other pension-related financial products. We will encourage asset management institutions to put themselves forward as candidates for the Shanghai Financial Innovation Award.

5. Empower greater diversity in asset management models and areas. We will encourage banks, fund management companies, securities companies, and other institutions to apply for investment advisor licenses and to establish investment advisory subsidiaries. We will encourage banks and their wealth management subsidiaries as well as insurance companies to partner with Shanghai-based asset management institutions. We will facilitate participation by asset management institutions in the management of basic pension insurance funds, corporate annuities, and occupational annuities. We will encourage asset management institutions to invest more in Shanghai's new infrastructure, new urbanization, and major construction projects. We will support investment by Shanghai-based subsidiaries of bank wealth management subsidiaries and financial asset investment companies in the equity of major construction projects and unlisted companies in the China Lingang Special Area (Shanghai) Pilot Free Trade Zone and the Yangtze River Delta Region. We will streamline requirements for the incorporation and registration of charitable foundations and encourage asset management institutions to provide high-quality services.

6. Stimulate higher levels of green investment. We will promote the expanded issuance of green bonds, the securitization of green credit assets and receivables under energy efficiency and emission reduction programs, and investment by asset management institutions in green assets. We will promote the development of green equity indices and green bond indices as well as related investment

products, and encourage the launch of green funds and green trusts. We will encourage asset management institutions to make environmental, social, and governance (ESG) information disclosures and to develop more ESG products. We will foster the development of carbon asset managers and specialized investors and motivate them to engage actively in carbon trading. We will encourage asset management institutions to conduct carbon accounting, develop carbon finance products such as carbon funds, carbon trusts, carbon indices, and carbon futures. We will study the creation of climate-related investment and financing products. In these ways, we will build Shanghai into a green finance hub which connects China to the world and supports China's twin objectives of carbon peaking and carbon neutrality.

7. Drive deeper digitalization of the asset management industry. We will promote adoption by asset management institutions of next-generation information and communication technologies (ICT), artificial intelligence (AI), block chain, industrial Internet, 5G, and other digital technologies. We will encourage large asset management institutions to establish fintech subsidiaries and/or R&D centers in Shanghai. We will facilitate participation by asset management institutions in regulatory pilot programs for innovative financial technology applications. We will encourage fintech companies to provide a wide range of lawful and compliant services to asset managers, spanning sales channel, investment research, trading, advisory, compliance and risk control, accounting and valuation, customer service, and other services. We will encourage the development of general-purpose technology products that support the middle and back-office operations of small and medium-sized asset management institutions.

(III) Giving full play to the fundamental role of financial markets and building stronger capacity for the allocation of global resources

8. Enhance asset allocation and risk management functions. We will strengthen the capability of Shanghai's financial markets to allocate global resources with more diversified transaction services and risk-hedging tools. We will further open up the bond market and seek to increase the types and numbers of participating overseas investors. We will promote the development of RMB interest rate and forex derivative markets and work to make available a broader range of RMB interest rate options and other products. On the securities market, we will aim to introduce a wider array of equity, debt, fund, and other products. In the futures market, we will make efforts to optimize the investor mix and work toward the establishment of an on-exchange national commodities warehouse warrant registration center. We will launch more internationally influential derivative products such as futures and options for major commodities, futures and options for China government bonds, and stock market index futures and options. We will further expand the range of products and services available on the gold market, with a view to enhancing Shanghai's standing in international gold markets. We will create a wider range of standardized products for commercial instruments and optimize the functioning of the supply chain receipts platform. We will improve the registration of trust products and delve into the establishment of a national centralized trading platform for trust product beneficiary interests. We will support the development by regional equity markets of platforms for the transfer of equity investment and venture capital investment interests, so as to offer more exit channels for private equity and venture capital funds.

9. Remove obstacles to asset management investment. We will support cooperation between the inter-bank and exchange-based bond markets. We will encourage banks to participate in exchange-based bond investment and encourage more banks, insurance companies, and fund management institutions to participate in China government bond futures trading. We will study the entry of banks into the commodity futures market and promote investment by insurance funds in commodities such as gold and oil through the relevant Shanghai exchanges. We will support participation by asset management products in private offerings and offline subscriptions. We will encourage multinational companies to establish global or regional treasury

centers in Shanghai, which may, upon approval, participate in the inter-bank forex market.

10. Promote international cooperation across financial markets. We will seek to conclude agreements with more countries and regions for securities trading connectivity and mutual recognitions of funds, and will support the development of Chinese depository receipts (CDRs). We will promote the introduction of more energy, chemicals, non-ferrous metals and other commodity futures catering to international investors. We will study the feasibility of participation by qualified foreign investors in the China government bond futures market. We will phase in a custodian bank system to complement the current domestic settlement agent system, thereby making a more diverse range of services available to overseas investors entering the inter-bank bond market. We will encourage our financial market operators to enter into mutual regulatory recognition schemes and business partnerships with their major overseas counterparts.

(IV) Intensifying the opening-up of the asset management industry and driving higher levels of internationalization

11. Promote innovative pilot programs for further market liberalization. We will support the establishment of international financial asset trading platforms. We will facilitate the entry into Shanghai's markets, in accordance with applicable regulations, of onshore and offshore long-term funds such as social security funds, insurance funds, and qualified sovereign wealth funds and pension funds. We will support applications by foreign banks in Shanghai for securities investment fund custodian licenses and lead underwriter licenses for the inter-bank bond market. We will further develop the Bond Connect, Shanghai-Hong Kong Stock Connect, and Shanghai-London Stock Connect initiatives and explore the feasibility of a cross-border wealth management channel for Chinese residents. We will support applications by qualified asset management institutions for qualified domestic institutional investor (QDII) licenses. We will encourage initiatives by Shanghai-based asset management institutions to establish, acquire, and participate in overseas asset management institutions.

12. Further develop the Qualified Foreign Limited Partner (QFLP) and Qualified Domestic Limited Partner (QDLP) pilot programs. We will encourage foreign institutions participating in the QFLP pilot program to manage onshore funds denominated in RMB; and will encourage qualified domestic institutions to participate in the QFLP program. We will encourage investment by QFLP pilot program participants in the equity of domestic non-listed companies, listed companies' private placements and mezzanine funds, distressed assets, private equity, and venture capital funds. We will support applications by renowned overseas asset management institutions and qualified domestic institutions for inclusion in the QDLP pilot program. We will support investment by QDLP pilot program participants in overseas private equity funds, in the equity and debt of non-listed companies, as well as in securities markets, commodity markets, and financial derivatives. We will study the possibility of allowing foreign asset management institutions to use a single entity to conduct QDLP and WFOE PFM operations. We will encourage QFLP and QDLP pilot program participants to establish global or regional management centers in Shanghai for two-way cross-border investment management. We will encourage banks' wealth management business and insurers' asset management businesses to cooperate with QFLP and QDLP pilot program participants.

13. Promote a higher level of opening-up in key areas. We will support the undertaking of offshore securities investment, offshore fund management, and other innovative operations by asset management institutions. We will study pathways for developing offshore RMB transactions. We will study effective avenues for asset management institutions to engage in cross-border treasury management in the China Lingang Special Area (Shanghai) Pilot Free Trade Zone. We will study possibilities for an offshore finance system commensurate with a higher level of opening-up. We will study the establishment of a safety assessment mechanism and category-based regulatory framework for the cross-border flow of the financial data of asset management institutions.

We will support the overseas transmission of relevant data by qualified foreign asset management institutions for the purpose of satisfying group-level management requirements. We will relax restrictions on asset managers' access to overseas financial information and ability to transmit financial information overseas.

(v) Strengthening the introduction and cultivation of high-end talents, and building a deep pool of asset management professionals

14. Make intensive efforts to attract world-class asset management talents. We will actively seek support from the national financial regulators for pilot programs to be launched in Shanghai to facilitate the recognition of professional credentials and the cross-border performance of duties by international asset management professionals. We will support a filing system whereby the overseas working experience of qualified asset management professionals will be recognized as equivalent to domestic working experience in China. This will facilitate the recruitment of high-level professionals from renowned overseas asset management institutions. In line with relevant national and municipal regulations, we will provide facilitation measures to make it easier for asset management professionals in highly sought-after categories to obtain household registrations (hukou), work permits, permanent residence, and access to subsidized housing for imported talents.

15. Increase efforts to cultivate asset management talents in all categories. Asset management talents will be included within the scope of the Shanghai Golden Overseas Talents, Golden Leading Talents, and Golden Young Talents programs. We will give full play to the role of asset managers and self-regulatory industry organizations in delivering professional qualification training. We will strengthen the cultivation of core asset management talent by leveraging the Shanghai professional practice and training base for financial talents. We will enhance industry-university cooperation, encourage universities to offer relevant courses, and study the potential establishment of undergraduate and postgraduate majors in asset management, in order to better cultivate entry-level talent for the asset management industry. We will establish an asset management industry talent database.

(VI) Providing better comprehensive services, and creating a facilitating environment for the asset management industry's development

16. We will build robust rule-of-law and trustworthiness mechanisms for the asset management industry. We will study how to promote connectivity between domestic and international policies and regimes governing various aspects of asset management practice. Asset management institutions may elect to make the law of a foreign jurisdiction the governing law of the contracts they enter into. We will support research by the Shanghai Financial Court for the formulation of trial guidance for foreign asset management cases, and the publication of judgments on typical cases related to foreign financial disputes. We will strengthen the protection of intellectual property rights in the field of asset management. We will give full play to the role of the China Securities Small and Medium Investor Service Center, the Shanghai Financial Arbitration Court, and the Shanghai International Economic and Trade Arbitration Commission in building a diversified dispute resolution mechanism combining mediation, arbitration, and litigation. We will facilitate access by asset management institutions to the credit information system of the People's Bank of China, the China Securities Regulatory Commission's capital market integrity information database, and the municipal big data center's public data open platform. We will encourage asset management institutions and the municipal big data center to look into two-way data sharing in accordance with regulations. We will strengthen the exchange and sharing of relevant data and information in the field of asset management across the administrative and judicial departments.

17. Give more policy support to the asset management industry. We will make qualified asset management institutions and professional service providers eligible to benefit from relevant municipal and district-level policy support schemes, offering support inter alia in respect of incorporation, introduction of foreign talents, and lease or purchase of office space. Qualified asset management

institutions and professional service providers may enjoy tax deductions for R&D expenses and other tax incentives. We will optimize the registration and alteration filing procedures for asset management institutions, and further streamline business start-up and operation requirements.

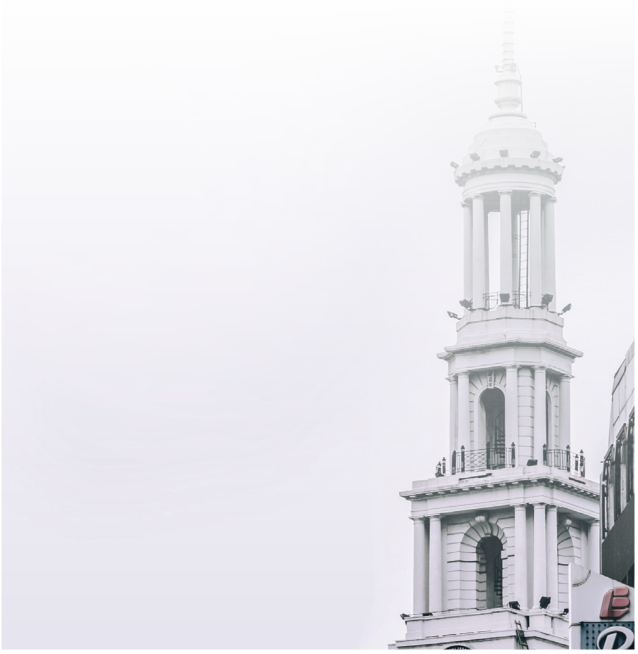
18. Build spatial clusters for the asset management industry. Asset management institutions will be concentrated in “One City, One Belt, and One Zone”: the One City refers to Lujiazui Financial City, which will serve as the core functional zone for Shanghai’s international asset management center. The One Belt refers to the Bund-based financial district extending to the north and south, and beyond. The One Zone refers to a cross-border asset management demonstration zone within the China Lingang Special Area (Shanghai) Pilot Free Trade Zone. We will encourage relevant districts to develop parks, towns, and other spatial vehicles conducive to the growth and development of asset management institutions. A geospatial landscape for the asset management industry will thus coalesce, with each component part featuring distinct characteristics and the system as a whole benefitting from staggered development.

19. Build a strong brand for the asset management industry. We will support the development of self-regulatory organizations for the industry and the establishment of an expert consultation mechanism for building Shanghai into a global asset management center. We will release regular reports on the development of Shanghai as an asset management center and publish guidance for overseas asset management institutions on investing in Shanghai, in both Chinese and English. We will monitor and analyze data including the number, types, and size of asset management institutions in Shanghai, and seek for the creation of a Shanghai Asset Management Industry Development Index. We will organize international forums on asset management and strengthen communication with domestic and overseas asset management centers. We will support financial markets in setting up roadshow centers for financial product launches. We will encourage universities and think tanks to set up asset management research institutes. These efforts will contribute to an enabling environment for the healthy development of the asset management industry.

V. Organizational Support

The mandate of existing working mechanisms for the development of Shanghai as an international financial center will be updated to encompass these plans to build a global asset management center in Shanghai, so as to drive multi-party synergy. The local coordination mechanism (for Shanghai) of the office of the Financial Stability and Development Committee of the State Council will be engaged to enhance regulatory information and policy connectivity. Relevant districts may formulate relevant policies in accordance with their specific conditions.

These Opinions will be implemented as of June 1, 2021.



2. The List of Securities Investment Fund Custodians

http://www.csrc.gov.cn/pub/zjhpublic/G00306205/201509/t20150924_284313.htm

3. Negative List for Foreign Investment Access

http://www.gov.cn/fuwu/zhuanti/wstzfmqd.htm

4. The Publicized List of Private Fund Service Institutions: Transfer Agency

http://fo.amac.org.cn/amac/allNotice.do

5. The List of Securities Companies

http://www.csrc.gov.cn/pub/zjhpublic/G00306205/201509/t20150924_284310.htm?keywords=%E8%AF%81%E5%88%B8%E5%85%AC%E5%8F%B8

6. The List of Futures Companies

http://www.csrc.gov.cn/pub/zjhpublic/G00306224/201705/t20170525_317295.htm?keywords=%E6%9C%9F%E8%B4%A7%E5%85%AC%E5%8F%B8

7. The Publicized List of Private Fund Service Institutions: IT System Service

http://fo.amac.org.cn/amac/allNotice.do

8.The List of Accounting Firms Engaging Securities and Futures Business

http://www.csrc.gov.cn/pub/zjhpublic/G00306213/201910/t20191009_364098.htm?keywords=%E4%BC%9A%E8%AE%A1%E5%B8%88

9. The Associate Members of AMAC: Law Firms

http://gs.amac.org.cn/amac-infodisc/res/pof/member/index.html

Afterword

Shanghai is the largest city in China. With the highest concentration of domestic and foreign-invested financial institutions in the Mainland, Shanghai stands at the forefront of China's financial opening-up, plays a leadership role in financial reform and innovation, and has one of the most business-friendly financial environment in China. Along with the accelerated opening up of the Chinese economy, Shanghai also emerges as one of the cities with the most complete financial market in the world.

To help overseas asset management companies plan their business in China and better understand Shanghai and its asset management sector, we prepared and released the ***Shanghai Guidebook for Overseas Asset Management Institutions*** in 2020, which aims at facilitating overseas asset management firms to know about the necessary preparations and application procedures for engaging in asset management services in Shanghai, as well as the city's business policies and relevant professional service institutions.

The ***2021 Shanghai Guidebook for Overseas Asset Management Institutions*** contains updates and revisions to relevant policies, regulations and data contained in the 2020 version.

Our deep thanks go to Llinks Law Offices, KPMG Advisory (China) Limited, Shanghai Everbright Assets Management Limited, and China International Fund Management Co., Ltd. for their great help in updating and revising this Guidebook.

Due to limited time of preparation, this Guidebook is open for further improvement. Your comments and suggestions are appreciated. We are committed to making this Guidebook ever-more helpful on an ongoing basis.

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