

Provisions for the Administration of Equity

Ownership in Securities Companies

[CSRC Decree No. 156]

With the approved of the 7th CSRC Chairman's Office Meeting of 2018, the *Provisions for the Administration of Equity Ownership in Securities Companies* [CSRC Decree No. 156] is hereby officially released and shall come into force immediately.

Chairman of the China Securities Regulatory Commission

YI Huiman

July 5 2019

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Chapter I General Provisions

Article 1 For the purpose to enhance the administration of equity ownership in securities companies, safeguard the legitimate rights and interests of shareholders, clients and other stakeholders of securities companies, and promote the sustainable and sound development of securities companies, the *Provisions for the Administration of Equity Ownership in Securities Companies* (hereinafter referred to as this *Provisions*) is formulated in accordance laws and administrative regulations such as the *Company Law of the People's Republic of China*, *Securities Law of the People's Republic of China*, and *Provisions on the Supervision and Administration of Securities Companies*.

Article 2 This *Provisions* is applicable to securities companies incorporated in the People's Republic of China in accordance with the law.

Article 3 The administration of equity ownership in securities companies shall follow the principle of differentiating by shareholder category, upholding qualification excellence, delineating rights and obligations, facilitating orderly change of ownership, and promoting fairness and transparency.

Article 4 Shareholders of securities companies shall observe relevant laws and regulations, rules of the China Securities Regulatory Commission (CSRC), as well as the company's articles of associations, and make long-term investment commitment, exercise shareholders' rights, and fulfill shareholders' obligations according to law.

Securities companies shall enhance management on equity-related affairs, improve corporate governance structure, and strengthen the systems for risk management and internal control.

The CSRC and its regional offices shall conduct see-through and category-based regulation on equity ownership of securities companies in accordance with the law and the principle of prudential regulation.

Article 5 Based on the shareholding proportion and influence on the company's operation and management, shareholders of a securities company are hereby classified into the following 4 categories:

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(1) Controlling shareholders, referring to shareholders with more than 50% of a securities company's equity, or shareholders with less than 50% of the company's equity but possesses voting rights that have a material influence on the resolutions by the company's shareholders meetings.

(2) Major shareholders, referring to shareholders with more than 25% of a securities company's equity, or the largest shareholder with more than 5% of the company's equity;

(3) Shareholders with more than 5% of a securities company's equity; and

(4) Shareholders with less than 5% of a securities company's equity.

Article 6 When reviewing the incorporation of a securities company, the CSRC shall verify its registered capital and equity structure in accordance with the law.

The company shall report to the CSRC for approval in accordance with the law on the following matters: increasing registered capital that constitutes a material change to the equity structure, decreasing registered capital, changing shareholders with more than 5% equity ownership or the *de facto* controller, .

If the change of registered capital or equity ownership is not prescribed for in the preceding paragraph, the company shall file such change to CSRC's regional office for record within 5 business days after having registered with companies registration authority. Changes of equity ownership through stock exchanges or the National Equities Exchange and Quotations (NEEQ) are not governed by the present paragraph.

Chapter II Shareholder Qualifications and Criteria

Article 7 Shareholders with less than 5% of a securities company's equity shall meet the following criteria:

(1) The shareholder itself and entities under its control shall have good reputation and sound credit standings and, have no records of major violation of laws and regulations or material bad credit in the latest 3 years. The completion of criminal penalties sentenced for intentional offenses, if any, shall have been served for no less than 3 years. The shareholder itself and entities under its control are not subject to ongoing investigation or under rectification due to major violation of laws and regulations;

(2) Not under circumstances that could impede the shareholder's exercise of rights and fulfillment of obligations, such as protracted absence of actual business operations, suspension of business, bankruptcy liquidation, defective corporate governance, and dysfunctional internal control; not being bound by guarantee or involved in litigation,

arbitration or other material obligations that could adversely affect the company as a going concern;

(3) Having a clear equity structure at each level leading to the ultimate beneficial owner. In principle, wealth management products are not allowed as shareholders in the equity structure unless otherwise recognized by the CSRC;

(4) The shareholder itself and entities under its control are not subject to public mistrust or skepticism for alleged dishonest or non-compliant conduct, nor is the social impact of which yet to be eliminated. If the shareholder and entities under its control were held liable or accountable for the operational failure of their invested enterprises, such liability or accountability shall have been discharged for no less than 3 years; and

(5) Other conditions set by the CSRC in accordance with the principle of prudential regulation.

Acquisitions of less than 5% equity ownership through stock exchanges or the NEEQ are not governed by the present article.

Article 8 A shareholder with more than 5% of a securities company's equity shall meet the following criteria:

- (1) The criteria prescribed in Article 7 of this *Provisions*;
- (2) Having net assets of no less than 50% of paid-in capital;
- (3) Having contingent liabilities of no more than 50% of net assets;
- (4) Having no delinquencies on debts coming to maturity; and
- (5) Having net assets of no less than RMB 50 million.

Article 9 A major shareholder of a securities company shall meet the following criteria:

- (1) The criteria prescribed in Article 8 of this *Provisions*;
- (2) Having net assets of no less than RMB 200 million, with sound financial position, sustained profitability, moderate debt to asset ratio and leverage, and the ability to commit new capital commensurate with the securities company's business development;

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(3) Having sound corporate governance, management competence, and effective risk control;

(4) Having experiences in the financial sector commensurate with the securities company's scope of business, and the ability to support and improve the company's comprehensive competitiveness; and

(5) Having made proper and effective contingency plans to address potential risks that may disrupt normal course of business in the securities company.

Article 10 A controlling shareholder of a securities company shall meet the following criteria:

(1) The criteria prescribed in Article 9 of this *Provisions*;

(2) The acquisition of the securities company's equity is in line with the shareholder's long-term strategy and in the interest of its main business;

(3) Having a concrete and feasible plan to improve the securities company's governance structure and promote its long-term development; and

(4) Having a clear self-disciplinary mechanism to maintain the independence of the operation and management of the securities company, and to prevent risk transmission and illegal practice of tunneling.

Article 11 If the businesses undertaken by the securities company involve significant use of leverage and subject to overlapping risks across multiple sectors, the major shareholder(s) and the controlling shareholder(s) shall meet the following additional criteria:

(1) Having positive net profit for the latest 3 consecutive years without outstanding losses.

(2) Having high-level long-term credit standing for the latest 3 consecutive years, and industry-leading performances in indicators such as business scale, revenue, profit, and market share in the latest 3 consecutive years;

The controlling shareholder(s) shall also meet the following criteria:

(1) Having a total asset of no less than RMB 50 billion and net assets of no less than RMB 20 billion; and

(2) Having a strong and outstanding core business line, which produces positive net profit for the latest 5 consecutive years.

The present article is not applicable to special situations recognized by the CSRC, such as merger of securities companies or the securities company is currently placed under conservatorship or receivership in the event of material risks.

Article 12 Equity held by related parties or persons acting in concert in a securities company shall be calculated in aggregate as the basis to determine shareholder category. The shareholder with the largest equity ownership or the dominant shareholder in the group shall meet the criteria of the new shareholder category determined on the aggregate basis..

If an existing shareholder of a securities company is regrouped into a different category due to changes in the company's equity structure, the shareholder shall meet the criteria prescribed in the most current shareholder category.

Article 13 The *de facto* controller with more than 5% of a securities company's equity shall meet the criteria as prescribed in Article 8 (1) to (4) of this *Provisions*. The *de facto* controller of a securities company shall also meet the criteria as prescribed in Article 9 (5), Article 10 (3) and (4) of this *Provisions*.

Article 14 A limited partnership acquiring equity of a securities company shall also meet the following criteria:

(1) Equity ownership by a single limited partnership in a securities company shall not reach 5%, unless otherwise recognized by the CSRC. Where two or more limited partnerships have the same managing partner or the same largest limited partner, or have other associations including persons acting in concert, their equity ownership in the securities company shall be calculated in aggregate; or

(2) A general partner acting as a managing partner of a limited partnership shall meet the criteria as prescribed in Article 7 of this *Provisions*.

Article 15 A corporate fund, which acquires equity of a securities company and entrusts a fund manager to manage the aforementioned equity holding, shall be an industrial investment fund under the *de facto* control of the government and registered with relevant state authorities while meeting the criteria as prescribed in Article 14 of this *Provisions*.

Article 16 A non-financial enterprise acquiring equity of a securities company shall also meet the following criteria:

(1) Complying with relevant state guidance regarding strengthening regulation of non-financial enterprises investing in financial institutions; and

(2) In principle, equity ownership by one non-financial enterprise in a securities company shall be no more than 50% .

Chapter III Requirements for Equity Ownership Management

Article 17 The board of directors (BOD) office of a securities company is the administrative body which undertakes work related to the company's equity ownership management.

In a securities company, the BOD chair is the first person responsible for the company's equity ownership management, while the BOD secretary shall assist the chair and bear direct responsibility in equity-related affairs .

Article 18 Where a securities company changes its registered capital or equity ownership, the company shall formulate a work plan and a set of criteria for the selection of shareholders. The securities company and the equity transferor shall inform the potential bidder(s) in advance of the shareholder criteria, mandatory procedures, and the company's state of business and potential risks.

The securities company and the equity transferor shall exercise due diligence on the potential bidder(s) and agree on follow-up measures to be taken if the potential bidder(s) do not qualify. Where a potential bidder is found ineligible, no agreement shall be entered into. If an agreement contains matters contingent on CSRC's approval, the securities company and the equity transferor shall agree that the agreement will not take effect unless such an approval is granted.

Article 19 A securities company shall reach *ex ante* consensus with relevant parties on the measures to be taken in the event where a party violates laws and regulations or reneges on its commitments during the process of changing registered capital or equity ownership. The securities company shall install an accountability system to pursue the liability of the responsible person and cooperate with regulatory authorities in any ensuing investigations..

Article 20 The securities company shall make arrangements to forestall risks that may arise during the change of registered capital or equity ownership, so as to ensure that the normal operations of the company and the interests of the clients are not impaired.

Prior to being approved by the CSRC, provided that such an approval is statutorily required for the proposed change, the shareholders of the securities company shall continue to independently exercise their voting rights proportional to their shareholdings. In addition, the equity transferor shall not recommend related persons of the transferee as members to the board of directors, the board of supervisors, or senior management of the securities company, nor shall the transferor transfer its voting right in any disguised form.

Article 21 Shareholders of a securities company shall have adequate understanding of their rights and obligations as a shareholder, and stay current of the company's operational performance and potential risks, etc.. The shareholders shall form reasonable investment expectations and have a genuine intention of capital contribution with due internal decision-making procedures fulfilled.

Article 22 Shareholders of a securities company shall fulfill their capital contribution obligations in strict accordance with laws, regulations, and the CSRC's rules.

Shareholders of a securities company shall use their proprietary funds to acquire equity of the securities company. The funds shall come from legal sources. Non-proprietary funds such as entrusted funds are prohibited for such equity acquisition unless otherwise prescribed by laws and regulations.

Article 23 Shareholders of a securities company shall truthfully, accurately, and thoroughly disclose their ownership structure up to the *de facto* controller and the ultimate beneficial owner, as well as associations with other shareholders or persons acting in concert. Shareholders shall not apply concealment or misrepresentation with the intention to circumvent shareholder qualification review or regulation of shareholders of a securities company.

Article 24 A shareholder of a securities company and the shareholder's own controlling shareholder and *de facto* controller can acquire equity in no more than 2 securities companies, of which they can hold controlling equity in no more than 1 securities company. However, the following controlling or non-controlling shareholding situations are not included in the tally of total number of securities company invested or controlled:

- (1) Directly holding and indirectly controlling less than 5% of the securities company's equity;
- (2) Acquiring equity of a securities company through the securities company it already controls;
- (3) A securities company controlling another securities company;
- (4) Interim arrangements made for the transition period of mergers, acquisitions, and reorganizations of securities companies;
- (5) Holding equity of a securities company under the authorization of the State Council; or
- (6) Other situations as recognized by the CSRC.

Article 25 A securities company shall maintain a stable equity structure. Shareholders' holding period shall be in compliance with laws, administrative regulations, and the relevant CSRC rules.

The *de facto* controller of a shareholder of a securities company shall comply with the same lock-up period prescribed for the shareholders of the securities company, unless otherwise approved by the CSRC according to law.

Article 26 Shareholders of a securities company shall not pledge their shareholdings during the lock-up period. After the lock-up period, a shareholder can pledge no more than 50% of its own holding in the securities company.

When pledging its own holding in the securities company, the shareholder shall not impair the interests of other shareholders or the securities company, shall not maliciously circumvent the requirements of the lock-up period, shall not make such agreements that would allow the pledgee or other third party to exercise voting right and other shareholders' rights, and shall not transfer in any disguised form the right of control over the securities company's shares.

Article 27 A securities company shall strengthen review of shareholders' qualifications, verify and stay current on the information of the shareholders and their controlling shareholders, *de facto* controllers, associate parties, persons acting in concert, and ultimate beneficial owners, assess the influence of each shareholder on the operation and management of the securities company, report or disclose relevant information in a timely, accurate, and complete manner according to law, and fulfill due approval process when necessary.

Article 28 A securities company shall incorporate the regulatory requirements on equity ownership management in its articles of association, including such requirements on the rights and obligations of shareholders, lock-up period, and responsible persons in charge of equity ownership management. The followings shall also be provided for in the articles of association:

(1) Major shareholders and controlling shareholders shall inject capital into the securities company when necessary;

(2) A shareholder who has not obtained the approval from or has not made due filings with the appropriate regulatory authority, or has not completed mandatory rectification process, is forbidden to exercise such rights of requesting a shareholders meeting, voting, nomination, making a proposal, and disposing of its shareholding;

(3) A shareholder who has made false statements, abused its rights as a shareholder, or infringed on the interests of the securities company, is forbidden to exercise such

rights of requesting a shareholders meeting, voting, nomination, making a proposal, and disposing of its shareholding; and

(4) Disciplinary measures that will be imposed on shareholders, the securities companies, responsible persons in charge of equity ownership management, and other personnel accountable in the case of violations or misconduct related to equity ownership management, including violations of laws, administrative regulations, or regulatory requirements.

Article 29 A securities company shall enhance its oversight of related party transactions and the ability to accurately identify related parties, and ensure strict compliance with the approval and information disclosure requirements for related party transactions, so as to prevent damages to the legitimate rights and interests of the company and its clients. In addition, the company shall promptly report related party transactions to the CSRC and its regional offices.

A securities company shall, in accordance with the see-through regulatory principle, regard its shareholders and their controlling shareholders, *de facto* controllers, related parties, persons acting in concert, and ultimate beneficial owners as its own related parties in managing corporate affairs.

Article 30 Shareholders of a securities company and their *de facto* controllers shall not commit the following conduct:

- (1) Making fraudulent capital contribution or underfunded capital contribution, withdrawing capital or withdrawing capital in any disguised form;
- (2) Illegally intervening in the operation and management of the securities company against laws, administrative regulations, and the company's articles of association;
- (3) Abusing their rights or influence and harming the legitimate rights and interests of the securities company, other shareholders, or clients, such as embezzling or misappropriating the assets of the securities company or its clients to their own advantage;
- (4) Illegally asking the securities company to provide financing or guarantee for themselves or their related parties, or coercing, instructing, assisting, or accepting the financing or guarantee from the securities company that are backed by the assets of the securities company's brokerage clients or asset management clients;
- (5) Conducting improper related party transactions with the securities company and exploiting their influence on the operation and management of the securities company to obtain illegitimate benefits;

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(6) Without due approval, entrusting others or being entrusted to hold or manage the equity of a securities company, accepting or transferring the right of control over the securities company's equity in any disguised form; or

(7) Other misconducts forbidden by the CSRC.

The securities company and its directors, supervisors, and senior management shall not knowingly collaborate with shareholders of the securities company and their controllers in the above misconducts.

If a securities company discovers any of the above misconducts by its shareholders and their *de facto* controllers, it shall take immediate measures to prevent any further worsening and report to the regional office of the CSRC within 2 business days.

Chapter IV Penalties

Article 31 If a securities company arbitrarily impose changes to equity-related matters without fulfilling due statutory procedures, the CSRC or its regional offices shall enforce Article 218 of the *Securities Law*.

Article 32 If any entity or individual holds or has *de facto* control over more than 5% of the equity of a securities company without prior approval, the CSRC or its regional offices shall enforce Article 71 of the *Provisions on the Supervision and Administration of Securities Companies*.

If any entity or individual arbitrarily entrusts another party or accepts the entrust of another party to hold or manage equity of a securities company, or acquires, transfers or has *de facto* control over the equity of a securities company without prior approval, the CSRC or its regional offices shall enforce Article 86 of the *Provisions on the Supervision and Administration of Securities Companies*.

Article 33 If a shareholder of a securities company makes fraudulent capital contribution or underfunded capital contribution, withdrawing capital or withdrawing capital in any disguised form, the CSRC or its regional offices shall enforce Article 151 of the *Securities Law*.

Article 34 In the process of administrative licensing, if the relevant subject conceals the realities or provides fraudulent materials, the CSRC or its regional offices shall enforce Article 78 of the *Administrative Licensing Law*.

Where the relevant subject has managed to obtain an administrative approval for matters related to equity ownership of securities companies through improper means such as concealment or misrepresentation, the CSRC or its regional offices shall enforce Articles 69 and 79 of the *Administrative Licensing Law*.

Article 35 If a securities company or its shareholders or *de facto* controllers violate the regulations and fail to report relevant matters as required, or the information submitted contains misrepresentation, misleading statements, or major omissions, the CSRC or its regional offices shall enforce Article 222 of the *Securities Law*.

Article 36 If a securities company provides unregulated financing or guarantee to its shareholders or their related parties, the CSRC or its regional offices shall order for corrections and enforce Article 222 of the *Securities Law*.

If the shareholders of a securities company and their *de facto* controllers coerce, instruct, or assist the securities company to make, or accept financing or guarantee backed by the assets of the company's brokerage clients or asset management clients, the CSRC or its regional offices shall enforce Article 86 of the *Provisions on the Supervision and Administration of Securities Companies*.

Article 37 If a securities company, its shareholders and shareholders' *de facto* controllers, or other relevant entities violate this *Provisions*, which causes deficiencies in governance structure and internal control, disorder in operation and management, and violations of laws and regulations, the CSRC or its regional offices shall enforce Article 70 of the *Provisions on the Supervision and Administration of Securities Companies*. If such violation leads to the company's breaches of risk control thresholds which may seriously endanger the soundness of the company's operation and infringe on the legitimate rights and interests of its clients, the CSRC or its regional offices shall enforce Article 150 of the *Securities Law*. If such violation drives the company's operation against the law or incurs material risks, the CSRC or its regional offices shall enforce Article 153 of the *Securities Law*.

If the directors, supervisors, and senior management of a securities company violate this *Provisions* which leads to major violation of laws and regulations by the company or incurs substantial risks, the CSRC or its regional offices shall enforce with Article 152 of the *Securities Law*.

Article 38 If a securities company, its shareholders, the shareholders' *de facto* controller, or other relevant entity violates this *Provisions*, while no applicable punishment or penalties are provided for in the *Securities Law*, the *Provisions on the Supervision and Administration of Securities Companies*, or other laws and administrative regulations, the CSRC or its regional offices may take regulatory measures, such as rectification orders, regulatory talks, warning letters, mandatory public disclosure and regular reports, etc.. For directly responsible directors, supervisors, senior executives, and other relevant personnel, applicable regulatory measures include rectification orders, regulatory talks, warning letters, mandatory training, and disqualification, etc. Depending on the severity of the case, warnings

and fines of up to RMB 30,000 may be imposed on relevant subjects. Cases involving criminal offenses will be transferred to judicial authorities in accordance with law.

Article 39 The CSRC and its regional offices shall, in accordance with the regulation on integrity supervision of the CSRC, keep record of dishonest behaviors committed by securities companies, their directors, supervisors, senior executives, shareholders and shareholders' *de facto* controllers, intermediaries, and other relevant institutions or personnel in the Capital Market Integrity Archive Database, and share the information with competent authorities or government agencies through the national sharing platform for credit standing information .

Article 40 If a securities company fails to comply with this *Provisions* in equity ownership management, the CSRC may adjust the regulatory rating of the company.

Chapter V Supplementary Provisions

Article 41 The term “more than”, “no less than”, and “no more than” as used in this *Provisions* shall include the threshold number itself, and “less than” shall not include the threshold number itself.

Article 42 A major change to the equity structure of a securities company when increasing registered capital refers to increasing registered capital alongside with addition of new shareholders or major shareholders with more than 5% holdings of the securities company's equity, or changes to the securities company's largest shareholder, controlling shareholder, or the *de facto* controller.

A change of shareholders with more than 5% of the securities company's equity refers to addition of new shareholders or major shareholders with more than 5% holdings of the securities company's equity, or changes to the securities company's largest shareholder, controlling shareholder, or the *de facto* controller.

A change of the *de facto* controller with more than 5% of the securities company's equity refers to addition of new *de facto* controller of more than 5% of the company's equity, or a change of the securities company's *de facto* controller.

Article 43 If the State has otherwise provided for the administrative transfer of state-owned equity of a securities company, relevant requirements shall prevail.

If the equity acquisition of a securities company pertains to cross-sectoral financial operation, state-owned assets, or the responsibilities of other financial regulatory authorities, relevant State provisions on the above-mentioned situations shall be observed.

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The shareholders of a foreign-invested securities company shall also comply with relevant provisions of the CSRC regarding the administration of foreign-invested securities companies.

Article 44 If an investor acquires up to 5% of a securities company's equity through a stock exchange, it shall make due disclosure in accordance with laws and regulations and apply to the CSRC for approval. The investor shall not continue to increase its shareholding in the company prior to being approved. If the application is rejected by the CSRC, the investor shall make due shareholding corrections. If the equity has been held for up to 6 months at the time of rejection, corrections shall be made within 50 trading days (not including trading suspension) as of the date of the rejection. If the equity has been held for less than 6 months at the time of rejection, earliest corrections shall be made after the holding requirement is satisfied.

If an investor acquires more than 5% of a securities company's equity through the NEEQ, the first paragraph of this article shall apply.

If an investor transfers equity of a securities company through a stock exchange or the NEEQ and the shareholding change does not require a regulatory approval or filing, the requirements specified in Articles 18 and 19 can be waived.

Article 45 This *Provisions* shall take effect on the day of official release. This *Provisions* shall prevail in the event of any discrepancy or inconsistency between this *Provisions* and previous CSRC rules concerning the administration of equity ownership in securities companies.