

Order No.4 [2020] of the People's Bank of China

The *Trial Measures on Regulation of Financial Holding Companies* was deliberated and adopted at the fifth executive meeting of the People's Bank of China (PBC) in 2020 on July 23, 2020. Upon the approval of the CPC Central Committee and the State Council, *the Measures* is hereby promulgated and shall come into effect on November 1, 2020.

PBC Governor Yi Gang
September 11, 2020

Trial Measures on Regulation of Financial Holding Companies

Chapter I General Provisions

Article 1 In order to regulate the conducts of financial holding companies (hereinafter referred to as FHCs), enhance the regulation of the establishment of FHCs by non-financial companies, and guard against systemic financial risks, *the Measures* is hereby formulated in accordance with laws including the *Law of the People's Republic of China on the People's Bank of China*, the *Company Law of the People's Republic of China*, the *Law of the People's Republic of China on Commercial Banks*, the *Securities Law of the People's Republic of China*, the *Law of the People's Republic of China on Securities Investment Funds*, the *Insurance Law of the People's Republic of China*, the *Law of the People's Republic of China on Banking Regulation and Supervision*, and the *Trust Law of the People's Republic of China*, administrative regulations and the *Decision of the State Council on Implementing the Access Management of Financial Holding Companies* (Guofa No. 12 [2020]).

Article 2 The term "FHC" mentioned in *the Measures* refers to limited liability companies or joint stock limited companies which are legitimately established with controlling interest in or actual control of two or more financial institutions of different types, and engaged solely in equity investment and management without conducting any commercial businesses.

The Measures applies to FHCs whose controlling shareholders or actual controllers are domestic non-financial companies, natural persons or authorized legal persons. For financial groups formed by financial institutions through cross-sector investment as controlling shareholders, the regulation policies and standards shall be established based on *the Measures*, and specific rules shall be formulated separately.

The term "financial institutions" mentioned in *the Measures* includes the following types:

- (1) commercial banks (excluding village banks) and financial leasing companies;
- (2) trust companies;
- (3) financial asset management companies;
- (4) securities companies, public fund management companies, and futures companies;
- (5) life insurance companies, property insurance companies, reinsurance companies, and insurance asset management companies; and
- (6) other institutions recognized by financial regulators under the State Council.

The term “financial institutions controlled by FHCs” mentioned in *the Measures* refers to domestic or overseas financial institutions whose controlling shareholders or actual controllers are FHCs. A controlling interest or actual control are collectively referred to as de facto control in *the Measures*. Financial holding groups refer to consortiums of incorporated companies which are formed collectively by FHCs and the institutions they controlled.

Article 3 Where an investor directly or indirectly gains more than half of the voting shares in an investee, it has de facto control of the investee. In the calculation of voting shares, the potential voting shares held directly or indirectly by the investor, including convertible instruments, exercisable stock warrants, and exercisable options shall be taken into account.

Where an investor does not directly or indirectly gain more than half of the voting shares in an investee, it is deemed to have de facto control of the investee under any of the following circumstances:

- (1) where the investor in effect holds more than half of the voting shares in the investee through agreements or other arrangements with other investors;
- (2) where the investor shall have the power to actually dominate the actions of the investee according to the laws, regulations or agreements;
- (3) where the investor is entitled to appoint and dismiss more than half of the members of the investee’s board of directors or other similar governing bodies;
- (4) where the investor has more than half of the voting rights in the investee’s board of directors or other similar governing bodies; or
- (5) other circumstances in which de facto control is realized, including circumstances where control is realized as specified in *Accounting Standards for Enterprises No.33 – Consolidated Financial Statements*.

Where there are two or more investors entitled to independently dominate the investee’s activities, such as decision-making, operation and management, in various aspects, the one able to dominate activities which have the most significant impacts on the investee’s returns is deemed to have de facto control of the investee.

In applying for the establishment of an FHC, the investor shall specify its ownership structure layer by layer in writing, down to its ultimate actual controllers and beneficial owners, and the relationship with other shareholders or relationship of persons acting in concert.

Article 4 The People’s Bank of China (hereinafter referred to as PBC) shall exercise the regulation of FHCs according to the law, and examine and approve the establishment, change, termination, and business scope of FHCs.

The financial regulators under the State Council shall, according to the law and the division of responsibility for financial regulation, exercise the regulation of financial institutions controlled by FHCs.

The Ministry of Finance shall be responsible for establishing the accounting systems of FHCs and organizing the implementation.

An inter-agency mechanism for the regulation of FHCs shall be established. The PBC, the banking and insurance regulatory authorities under the State Council, the securities regulatory authorities under the State Council, and the national departments of foreign exchanges shall strengthen regulatory cooperation and information sharing with regard to FHCs and the financial institutions controlled by them. The PBC, the banking and insurance regulatory authorities under the State Council, the securities regulatory authorities under the State Council, and the national departments of foreign exchanges, shall strengthen information and data sharing in respect of FHCs with the national departments of development and reform, departments of finance, and departments of state-owned assets supervision and administration.

Article 5 In line with the principle of prioritizing substance over form, the PBC shall work together with relevant departments to perform all-round, continued and look-through regulation of capital, behaviors and risks of financial holding groups, so as to prevent the cross-sector and cross-market contagion of financial risks.

Chapter II Establishment and Licensing

Article 6 Where a non-financial company, natural person or authorized legal person has de facto control of two or more financial institutions of different types, an FHC shall be established where one of the following circumstances applies:

- (1) there are commercial banks among the financial institutions under de facto control and the total assets of the financial institutions are not less than RMB500 billion, or while the total assets of the financial institutions are less than RMB500 billion, the total assets of financial institutions other than the commercial banks are not less than RMB100 billion, or the total client assets are not less than RMB500 billion;
- (2) there are no commercial banks among the financial institutions under de facto control and the total assets of the financial institutions are not less than RMB100 billion, or the total client assets are not less than RMB500 billion; or
- (3) the scales of the total assets of or the total client assets managed by the financial institutions under de facto control do not reach the criteria provided in Paragraphs (1) and (2) of this Article, but the PBC deems it necessary to establish an FHC in accordance with the macroprudential regulatory requirements.

For conglomerates which meet the conditions provided in the preceding paragraph, if their financial assets account for no less than 85 percent of their total consolidated assets, they may apply for the establishment of FHCs, and the FHCs and institutions controlled by them collectively constitute financial holding groups; otherwise, in accordance with equivalent conditions specified in *the Measures* for the establishment of FHCs, the parent companies of the conglomerates may apply to become FHCs, and the conglomerates will be recognized as financial holding groups. In this case, they shall ensure that their financial assets continuously account for not less than 85 percent of their total consolidated assets.

Article 7 For those applying for the establishment of FHCs, they shall meet the following conditions, in addition to the conditions provided in the *Company Law of the People's Republic of China*:

- (1) the paid-in registered capital shall be not less than RMB5 billion and account for not less than 50 percent of the total registered capital of the financial institutions directly controlled by them;
- (2) the shareholders and actual controllers of the FHCs to be established comply with relevant laws, administrative regulations, the decisions of the State Council, and provisions in *the Measures*;
- (3) they have board directors, supervisors and senior executives who meet relevant qualification requirements;
- (4) they have a sound organizational structure and effective risk management and internal control systems; and
- (5) they are capable of continuously replenishing the capital of the financial institutions controlled by them.

The establishment of FHCs shall also meet other prudential requirements.

Article 8 Non-financial companies or natural persons owning less than five percent equity in FHCs and having no significant impact on the operation or management of FHCs shall meet the following conditions:

- (1) non-financial companies shall be legitimately established with a clear share structure and sound corporate governance;
- (2) non-financial companies and natural persons shall have no record of major violations of laws and regulations or of major bad credit in the last three years; they are not under investigation or in the rectification process of suspected major violations of laws and regulations; more than three years have elapsed since they bore substantial responsibility, if any, for the failure of companies they invest; and more than five years have elapsed since the completion of their criminal penalties sentenced for intentional offenses, if any; and
- (3) non-financial companies are not under circumstances that could impede their exercise of rights and fulfillment of obligations as shareholders, such as protracted absence of actual business operations, suspension of business, bankruptcy liquidation, absence of governance structure, and dysfunctional internal control; they are not involved in guarantees, litigations, arbitrations or other significant incidents that could severely affect their continued business operations.

Shareholders acquiring less than five percent shares in FHCs through stock exchanges or the National Equities Exchange and Quotations (NEEQ) are not governed by the foregoing provisions of this Article.

Financial products may hold shares in a listed FHC, but financial products controlled

by a single investor, issuer or manager and its actual controllers, related parties and persons acting in concert altogether shall not hold more than five percent shares in an FHC.

Article 9 Where a non-financial company or natural person applies for the establishment of or makes equity investment in an FHC and thus becomes its principal shareholder, controlling shareholder or actual controller, it/he shall meet the following conditions, in addition to the provisions specified in Article 8 of *the Measures*:

- (1) the non-financial company or natural person shall have a good credit record and social reputation;
- (2) the non-financial company shall have a clear core business, strong capital strength and an upright motive in investing in financial institutions and have made reasonable business plans for investing in the financial sector, and refrain from expanding into the financial sector irrationally or affecting the development of its core business;
- (3) the non-financial company shall have well-regulated corporate governance, a clear share and organizational structure, transparent structures of shareholders and beneficial ownership, accredited management competence, and effective risk management and internal control mechanisms;
- (4) the non-financial company shall have sound financial conditions. Where it seeks to become a principal shareholder, it shall be profitable in the last two accounting years. Where it seeks to become a controlling shareholder or actual controller, it shall be profitable in the last three accounting years, with its net assets accounting for 40 percent of the total assets after year-end distribution (based on the financial statements of its parent company) and its outstanding equity investment accounting for no more than 40 percent of its net assets (based on the consolidated financial statements); and
- (5) the natural person holding no less than five percent shares of an FHC shall have the knowledge, experience and ability needed to exercise the rights and perform the obligations as a shareholder of the financial institution.

The principal shareholders, controlling shareholders and actual controllers of an FHC shall not hold the shares of an FHC by issuing, managing or controlling financial products in some other way.

Where the shareholders or actual controllers of an FHC are authorized legal persons, their qualification requirements shall be stipulated separately.

Article 10 Non-financial companies, natural persons and authorized legal persons shall not become the principal shareholders, controlling shareholders or actual controllers of an FHC under any of the following circumstances:

- (1) where they have any dispute over the ownership of equity;
- (2) where they once entrusted others or were entrusted by others to hold shares of an

FHC or financial institution;

(3) where they once injected capital into financial institutions through fraudulent means or by repeated utilization of the same funds, or made any false commitment or provided any false material when investing in an FHC or financial institution;

(4) where they once invested in an FHC or financial institution and bore substantial responsibility for the failure or any major violation of regulations of the FHC or financial institution; or

(5) where they once invested in an FHC or financial institution and refused to cooperate with the PBC, or the banking and insurance regulatory authorities under the State Council, the securities regulatory authorities under the State Council and the state administration of foreign exchange on regulation.

Article 11 The controlling shareholders or actual controllers of FHCs shall not have any of the following circumstances:

(1) where they evade the regulation of FHCs through special purpose vehicles (SPVs) or by entrusting others to hold shares;

(2) where they have many related parties and complicated and opaque equity ties or face any dispute over the ownership of equity, or are maliciously engaged in related party transactions or maliciously utilize related party relationships;

(3) where they are engaged in unfair competition by abusing their market monopoly or technical superiority;

(4) where they manipulate the market and disrupt the order of the financial market;

(5) where they transfer the shares they hold in the FHCs within five years; and/or

(6) other circumstances which may have a material adverse impact on the operation and management of FHCs.

Article 12 The shareholders of an FHC shall invest in the FHC with legitimate self-owned funds, and make sure that the funds they invest in the FHC are from authentic and reliable sources.

The shareholders of an FHC shall not invest in the FHC with non-self-owned funds such as entrusted funds and borrowed funds, or investment funds, or entrust others or accept entrustment of others to hold the shares of an FHC, unless otherwise stipulated by laws and administrative rules.

The FHC shall invest in the financial institutions controlled by it with legitimate self-owned funds, and shall not be engaged in fraudulent funding or repeated utilization of the same funds, or withdraw injected funds from such financial institutions.

The PBC shall implement look-through regulation on the capital compliance of FHCs by both verifying the sources of funds which are used to invest in and control FHCs and, together with other financial regulators under the State Council, verifying the

sources of funds which are used by FHCs to invest in and control financial institutions.

Article 13 The FHC shall be established upon the approval of the PBC and regulated as a financial institution.

For an institution that has met the conditions provided in Article 6 before the implementation of *the Measures* and is scheduled to apply for the establishment of an FHC, an application shall be filed with the PBC within 12 months after *the Measures* takes effect.

After *the Measures* takes effect, if an applicant plans to have controlling stake in or de facto control of two or more financial institutions of different types, and the conditions for the establishment of an FHC stipulated in Article 6 of *the Measures* are met, an application shall be filed with the PBC.

An applicant shall submit the following documents and materials when applying for the establishment of an FHC:

- (1) draft *Articles of Association*;
- (2) qualifications of board directors and senior executives to be appointed;
- (3) capital verification documents issued by statutory capital verification agencies;
- (4) the register of shareholders and their capital contributions and shareholdings;
- (5) certificates of credit information and other documents of shareholders owning more than five percent of the registered capital;
- (6) business principles and plans;
- (7) documents concerning business premises, safety precautions, and other business-related facilities; and
- (8) other matters which require special explanations and a statement on the authenticity of application materials.

The PBC shall make a decision in writing on the approval or disapproval of an application within six months after accepting it; reasons shall be provided in the case of disapproval.

The implementation rules for the licensing of establishment shall be formulated by the PBC separately.

After approving an application, the PBC shall grant a license of FHC. The FHC concerned shall, with the license, register with the market regulators and obtain its Business License. No institution shall be registered as an FHC without the approval of the PBC.

The FHC shall include the phrase of “financial holding” in Chinese characters (“金融

控股”) in its name. Without a license of FHC, no institution shall be engaged in any FHC business stipulated in Article 6 of *the Measures*, or use phrases like “financial holding” or “financial group” in Chinese characters (“金融控股” or “金融集团”) in their names.

Article 14 Where an application is filed for the establishment of an FHC or the parent company of a conglomerate files an application for shifting to an FHC, the initiator or controlling shareholder shall issue an explanation or a letter of commitment on the following matters:

- (1) the purpose of investing in and establishing the FHC;
- (2) the authentic sources of capital of the FHC, and the authentic sources of funds used by the FHC to invest in and control financial institutions;
- (3) the organizational structure and management model of the FHC;
- (4) the controlling shareholders, actual controllers, beneficiaries, persons acting in concert and related parties of the FHC;
- (5) the shareholders of the FHC are not related when the FHC is established;
- (6) there is no inappropriate related party transaction between the FHC and related parties and among related parties;
- (7) capital replenishment will be made to the FHC, if necessary;
- (8) the FHC will replenish the capital of the financial institutions controlled by it in a timely manner, if necessary;
- (9) the initiator or controlling shareholder pledges to respect the provisions of the *Measures*.

Where any of the aforesaid matters changes, a new explanation or letter of commitment shall be issued.

Article 15 Under any of the following circumstances, an FHC shall obtain the approval of the PBC:

- (1) the alteration of its name, domicile and registered capital;
- (2) the modification of its *Articles of Association*;
- (3) the change of its principal shareholders and actual controllers with shares exceeding more than five percent in the FHC;
- (4) investing in and thereby controlling other financial institutions;
- (5) increasing or reducing the shares held or the ratio of contributions to the financial institutions it controls, thereby leading to the alteration or loss of its de facto control;
- (6) the separation, merger, termination or dissolution of the FHC.

The PBC shall decide on approval or disapproval of the application for any of the aforesaid matters within three months since the acceptance of the application.

Where an FHC terminates its business activities according to the law, the license of FHC shall be canceled.

Article 16 Apart from conducting equity management of the financial institutions under their control, FHCs may, upon the approval of the PBC, provide liquidity support for such financial institutions. FHCs shall strictly regulate the use of the funds, and shall not provide financing support for their principal shareholders, controlling

shareholders or actual controllers.

FHCs shall, in the course of conducting cross-border investment and financing, respect relevant national provisions on the administration of cross-border investment and financing and of foreign exchange.

Article 17 FHCs may invest in the institutions that have been recognized by the department of financial management under the State Council as related to financial business, except that, in principle, the book value of the total investment shall not exceed 15 percent of the net assets of the FHCs concerned, unless otherwise provided for by the State.

Chapter III Corporate Governance and Synergy Effect

Article 18 The ownership structure of FHCs shall be simple, clear and transparent with identifiable actual controllers and ultimate beneficiaries, and reasonable corporate levels, which are compatible with their own capital scales, business management capabilities and risk control levels. Conglomerates with unqualified ownership structure established before the *Measures* takes effect shall streamline their organizational structure and simplify corporate levels within the transition period as approved by the departments of financial management under the State Council. For any FHC established after the implementation of the *Measures*, the corporate levels of the FHC, and the financial institutions it controls shall not exceed three levels in principle. In the case of any change in its ownership structure or corporate levels, an explanation for the change shall be submitted to the PBC. Where any matter is subject to approval, the aforesaid FHC shall file an application for approval according to the law.

The financial institutions controlled by FHCs shall not hold shares in their parent companies, or hold shares in each other. Such financial institutions shall not become the principal shareholders of other types of financial institutions, except when the FHCs control financial institutions of the same type as themselves, or the financial institutions are considered as the extension of their business and recognized by the departments of financial management under the State Council. Where such financial institutions have become the principal shareholders of other types of financial institutions before the *Measures* comes into force, they shall be encouraged to transfer their shares to the FHCs. Where a conglomerate is recognized as a financial holding group, the financial institutions and non-financial institutions within the group shall not hold shares in each other, unless otherwise provided for by the State.

For any conglomerate established prior to the implementation of the *Measures* with an ownership structure incompatible with Paragraphs (1) and (2) of this Article, it shall, in the course of filing an application for the establishment of an FHC, submit to the PBC a shareholding rectification plan, which shall clearly state the shares involved and the schedule for the rectification. The plan shall be implemented after it is approved by the PBC in concert with the banking and insurance regulatory authorities under the State Council and the securities regulatory authorities under the State Council. The plan shall be recognized by the department of financial management under the State Council upon completion.

In the course of implementing the shareholding rectification plan approved by the

PBC in concert with the banking and insurance regulatory authorities under the State Council and the securities regulatory authorities under the State Council, if the asset evaluation and appreciation involved in the internal equity integration, allocation and transfer of the conglomerate complies with taxation policies, the aforesaid conglomerate may enjoy corresponding preferential tax incentives. Where the takeover of equity resulting from reform involves the registration alteration of any securities registration and settlement institution, the transfer fees shall be waived. Where the qualifications of shareholders need to be re-verified because an FHC has become the shareholder of a financial institution, the department of financial management under the State Council shall apply the qualifications of shareholders compatible with FHCs, and exempt newly-established FHCs of the requirement for continuous profitability, in accordance with the regulatory procedures.

Article 19 An investor and its/his related parties and persons acting in concert shall hold shares in no more than two FHCs as principal shareholders and in no more than one FHC as controlling shareholders and actual controllers.

Investors which hold shares in FHCs as authorized by the State Council and those participating in the risk disposal of FHCs as recognized by the PBC shall not be subject to the preceding paragraph of this Article.

Article 20 FHCs shall improve their corporate governance structure, participate in the corporate governance of the institutions they control according to the law and promote the secure and stable operation of such institutions.

FHCs shall not abuse their de facto control, or interfere in the normal, independent operation of the institutions they control, thereby undermining the legitimate rights and interests of such institutions and their stakeholders. Where any loss arises in the institutions from the abuse of de facto control or inappropriate interference by an FHC, it shall be held accountable for the loss.

Article 21 The qualifications of board directors, supervisors and senior executives of FHCs shall be stipulated by the PBC. The alteration of the aforesaid personnel shall meet the qualifications and be filed with the PBC.

In principle, senior executives of FHCs can serve concurrently as board directors or supervisors at the institutions they control, but they shall not serve concurrently as senior executives at such institutions. The senior executives of one institution controlled by an FHC shall not hold a post in another institution controlled by the FHC.

Article 22 Where business collaboration is conducted between an FHC and the institutions it controls or between the institutions it controls in sharing client information, sales teams, IT systems, background operating systems, business premises and other resources, they shall not undermine the rights and interests of their clients and shall specify the entities responsible for the resultant risks according to the law, so as to prevent the ambiguous division of risk liability, risk contagion and conflicts of interests.

Article 23 FHCs and the institutions they control shall, in the course of sharing client

information within the groups, ensure that the act complies with the laws and regulations and the risks are under control, and obtain permission or consent of the clients concerned in writing to prevent any misuse of client information.

The institutions controlled by FHCs shall, in the course of providing comprehensive financial services, respect the right to know and the right of choice of their clients.

Chapter IV Consolidated Management and Risk Management

Article 24 FHCs shall conduct all-round and ongoing management of the corporate governance, capital and leverage ratio of their controlled institutions covered by consolidated management to effectively identify, measure, monitor and control overall risks of the financial holding group. A conglomerate that is recognized as a financial holding group shall perform consolidated management of its institutions engaged in financial activities.

Article 25 If an institution in which FHCs do not hold controlling interests falls into any of the following categories, it shall be subject to consolidated management:

- (1) investee institutions featuring business homogeneity, whose businesses and risks in aggregate can impact significantly the financial conditions and risk levels of the FHC although their total assets account for a small share of the FHC's consolidated assets;
- (2) investee institutions whose risks and losses, including but not limited to liquidity risks, legal compliance risks and reputational risks, can exert significant impact on the FHC;
- (3) other investee institutions established via overseas and domestic institutions controlled by an FHC or via overseas and domestic shell companies and other complex shareholding designs, with proof that the FHC has de facto control of them or has major influence on their business management.

Subject to the PBC's approval, an institution controlled by an FHC may not be included in consolidated management if the institution, with its shares held by the FHC only for a short period, causes no major risks to the FHC, including the institutions over 50 percent of whose equity capital is to be sold or liquidated within an accounting year.

Consolidated management shall be conducted based on such rules as the *Accounting Standards for Enterprises* and those for capital supervision. Specifics shall be set out by the PBC in collaboration with relevant agencies.

Article 26 The capital of an FHC, the financial institutions it controls and the group as a whole shall match their asset scales and risk levels. Their capital adequacy shall be calculated on a consolidated basis and in constant compliance with the regulations of the PBC as well as the banking and insurance regulatory authorities and the securities regulatory authorities under the State Council. Specific measures shall be formulated by the PBC.

Article 27 FHCs shall establish a capital replenishment mechanism and replenish capital in a timely way when there is capital inadequacy in the financial institutions

they control.

FHCs may issue qualified capital instruments according to the law to maintain overall capital adequacy of the financial holding group.

Article 28 FHCs shall strictly control debt risks and keep their debt scale and debt maturity structure reasonable and appropriate.

FHCs shall strengthen the management of assets and liabilities, strictly control such conduct as mortgaging or pledging assets, carry out asset appraisal on a regular basis, gradually achieve dynamic assessment and set aside provisions for asset impairment in line with the relevant rules in the *Accounting Standards for Enterprises*.

Article 29 FHCs shall establish a comprehensive risk management system in line with their organizational structure, business scale, complexity and influence.

The comprehensive risk management system shall cover the FHC-controlled institutions which are engaged in financial activities and have been established with the local government's approval or subject to the supervision of the local government according to the law.

FHCs shall establish and improve the mechanisms for reputational risk monitoring, assessment and emergency response, strengthen brand management, and reduce the impact of reputational risk incidents on the soundness of the group as a whole.

Article 30 FHCs shall require the financial institutions they control to establish a comprehensive risk management system within a set period of time and urge them to use a combination of qualitative and quantitative methods to identify, measure, assess, monitor, report, control or mitigate the various risks they bear.

The various risks include credit risks, market risks, liquidity risks, operational risks, reputational risks, strategic risks, IT risks and other risks.

Article 31 FHCs shall establish a financial holding group risk preference system that meets the needs of serving the real economy, define the level of risks the group is ready and able to bear in pursuing its strategic objectives, and set risk management goals as well as tolerance limits and risk limits for different risk types.

FHCs shall integrate risk management requirements into the group's management procedures and IT systems, and allocate different types of risk indicators and risk limits to FHC-controlled financial institutions based on their respective development strategies and risk preferences, establish a mechanism for the resolution of risks exceeding the limits, and monitor the implementation of risk management regulations in a timely manner.

Article 32 FHCs shall control risk concentration and large risk exposures of the group on the basis of consolidated management. To address large risk exposures, FHCs shall put in place management policies and internal control systems, conduct real-time monitoring, set up a pre-warning system, and roll out risk diversification measures in line with risk limits.

Risk concentration and large risk exposures of the group refer to concentrated risk exposures of asset portfolios, after the consolidation of financial statements in the group, to a trading counterparty, or a group of related counterparties, industries or geographical areas, or specific categories of products, which exceed a certain percentage of the group's capital.

Article 33 FHCs shall coordinate within the group the granting of credit to the same enterprises (including conglomerates) to enhance the group's credit risk prevention and control.

FHCs shall act proactively to have a grasp of their financing to the same enterprises. Regarding enterprises with a large outstanding balance of financing, the FHC shall lead the formation of an internal information sharing and joint credit granting mechanism within the group to coordinate information collection by the institutions it controls, identify implicitly related enterprises and actual controllers, and join efforts to set risk pre-warning lines for corporate financing.

FHCs shall require the financial institutions they control to report on a regular basis the lines of credit extended to them by other financial institutions and the uses of the credit.

Article 34 An FHC shall establish sound group-level risk isolation mechanism, which includes risk isolation systems among the FHC and the institutions it control and those among such institutions, and reinforce "firewalls" for legal persons, human resources, information, finance and related party transactions, so as to realize reasonable isolation of behaviors including concurrent posts in different institutions within a group, business ties, information sharing, as well as the sharing of sales teams, IT systems, supporting operating systems, business facilities and business premises, so as to effectively prevent and control risks, and protect the legitimate rights and interests of clients.

Article 35 Internal transactions within a group including those among an FHC and the financial institutions it control, those among such financial institutions, and those among such financial institutions and other institutions within the group shall comply with the laws, administrative regulations and relevant rules of the PBC, as well as the banking and insurance regulatory authorities under the State Council and the securities regulatory authorities under the State Council, while proceeding with accounting in accordance with the *Accounting Standards for Enterprises*. Laws, administrative regulations and the rules of the Ministry of Finance on finance and accounting shall prevail, in respect of the definitions of terms including "related parties" and "related party transactions".

In the event that an FHC carries out a related party transaction with a related party other than the financial institutions it controls, it shall comply with the market principles and shall not violate the principle of fair competition and antitrust rules.

FHCs shall strengthen the management of related party transactions. FHCs, the financial institutions they control and other related parties shall not, via various means, conceal related party transactions and the actual capital flows, or, via related party transactions, seek illegitimate benefits, compromise the consumer rights and interests of their investors or clients, circumvent regulatory provisions or engage in illegal practices.

The shareholders of FHCs shall comply with the laws, administrative regulations, and relevant rules of the PBC, and shall not engage in illegal related party transactions with the FHCs, or exploit their impacts on the operation and management of the FHCs to seek illegitimate benefits.

Article 36 FHCs and the institutions they control shall not engage in the following related party transactions:

- (1) exploit its de facto control to infringe the legitimate rights and interests of other shareholders and clients;
- (2) carry out regulatory arbitrage through internal transactions;
- (3) conduct internal transactions indirectly through third parties and thereby undermine the stability of the FHC;
- (4) the financial institutions (except for finance companies) controlled by the FHC provide financing for the FHC, or provide unsecured financing to the shareholders of the FHC or other non-financial institutions as related parties;
- (5) the amount of financing or security provided by the financial institutions (except for finance companies) controlled by the FHC for other related parties of the FHC exceeds 10 percent of the net capital of the financial institutions, or exceeds 20 percent of the net capital of the FHC's related parties that receive the financing or the security, except as otherwise provided by the banking and insurance regulatory authorities under the State Council or the securities regulatory authorities under the State Council;
- (6) the financial institutions (except for finance companies) and non-financial institutions controlled by the FHC accept the FHC's equity as pledge;
- (7) the outstanding amount of security provided by the FHC for institutions outside the financial holding group exceeds 10 percent of the FHC's net assets; and
- (8) other behaviors prohibited by the PBC.

Article 37 FHCs shall, in accordance with laws, administrative regulations, and the requirements of the PBC, disclose authentic, accurate, and complete information in a timely manner, and be held accountable for false records, misleading statements, and significant omissions in information disclosure according to laws.

Chapter V Supervision and Regulation

Article 38 The PBC shall, in concert with relevant departments, formulate the implementation rules for the supervision and regulation of FHCs and their business

activities in accordance with laws, administrative regulations, the decisions of the State Council, and *the Measures*.

Article 39 The PBC shall, in accordance with laws, administrative regulations, the decisions of the State Council, and *the Measures*, perform consolidated management of FHCs, and, on the basis of consolidation, monitor, evaluate, forestall and defuse the group-level risks of FHCs related to capital adequacy, related party transactions, liquidity and reputation by means of reporting systems, on-site inspection, inquiries by regulators, risk assessment and early warning to maintain a stable financial system. Where an FHC meets the ratification standards of systemically important financial institutions (SIFIs), the regulatory rules for SIFIs shall be respected.

Article 40 The PBC shall perform examination and review of the principal shareholders and controlling shareholders of FHCs and exercise look-through regulation over their real ownership structure and actual controllers.

Article 41 The PBC shall exercise look-through regulation over the funds used to buy shares by the principal shareholders and controlling shareholders of FHCs, and strictly scrutinize the source, nature and flow of such funds.

Article 42 The PBC shall, for the purpose of fulfilling duties, establish a unified regulatory information platform and statistics system for FHCs. It is entitled to request FHCs to submit balance sheets, income statements, and other financial statements, statistical data, materials of operation and management, and audit reports prepared by certified public accountants as required. Specific requirements for the submission shall be separately formulated by the PBC.

The PBC and relevant departments shall establish information sharing mechanisms under which the PBC provides the regulatory information of FHCs and other departments provide the information of FHCs within their respective areas. All parties involved shall ensure that such information is used to perform their duties and shall meet confidential requirements. The PBC may ask the banking and insurance regulatory authorities under the State Council and the securities regulatory authorities under the State Council to provide the regulatory information of the institutions controlled by FHCs in respect of risk conditions, inspection reports, regulatory rating, and so forth. Where the information obtained by the PBC cannot meet the needs of regulation over FHCs, the PBC may request the institutions controlled by FHCs to submit relevant information to the PBC directly.

Article 43 The PBC may, for the purpose of fulfilling duties, carry out on-site inspection of FHCs, make inquiries to their staff, look up and copy relevant documents and materials, and examine electronic data systems, etc.

In order to facilitate the sound and stable operation of FHCs, the PBC may suggest

that the banking and insurance regulatory authorities under the State Council, the securities regulatory authorities under the State Council, and the national departments of foreign exchanges perform on-site inspection of the financial institutions controlled by FHCs, and the PBC may engage in on-site inspection with the aforesaid authorities upon approval of the State Council when necessary. The banking and insurance regulatory authorities under the State Council, the securities regulatory authorities under the State Council, and the state administration of foreign exchange may suggest that the PBC conduct on-site inspection of FHCs if necessary.

Article 44 The PBC may, for the purpose of fulfilling duties, make regulatory inquiries to the board directors, supervisors and senior executives of FHCs and request them to explain major issues related to the business activities and risk management of the FHCs.

Article 45 The PBC shall, in concert with relevant departments, establish and improve risk assessment systems for financial holding groups, and employ a mix of policy instruments including macroprudential policies, ratings of financial institutions, as well as anti-money laundering and counter-terrorist financing (AML/CTF) monitoring to assess the operation and management, and risk conditions of financial holding groups. The PBC may make dynamic adjustments to the regulatory requirements for FHCs based on the results of risk assessment, and adopt risk alert, early correction, and risk resolution based on the particularities of different circumstances.

Article 46 Where a financial institution controlled by an FHC violates the rules for prudent business operation and its financial conditions significantly deteriorate, which gravely endangers its own stable operation, and undermines the legitimate rights and interests of its clients, the FHC concerned is obliged to help it resume normal operation. Where the FHC concerned fails to perform the aforesaid obligations, in concert with the banking and insurance regulatory authorities under the State Council and the securities regulatory authorities under the State Council, the PBC is entitled to request it to adopt proper bail-in measures including capital injection and transfer of equity, etc. In the course of carrying out bail-in measures, the FHC concerned shall put risk isolation in place to prevent risk contagion and spread.

Article 47 FHCs shall develop qualified plans for risk disposal beforehand and submit them to the PBC.

In the event that an FHC violates *the Measures* and relevant provisions, or descends into poor business operation and thereby triggers significant risks to the financial institutions it controls and the financial holding group, the PBC may request for rectification within a specified time limit. Where the risks thus incurred may threaten financial stability, severely disrupt the financial order, and endanger public interests, the PBC may request the said FHC to:

- (1) restrict business activities;
- (2) restrict dividends to its shareholders and limit remunerations and other incomes of board directors, supervisors and senior executives;
- (3) replenish capital within a specified time limit;
- (4) adjust the board directors, supervisors and senior executives who shall be held accountable, or limit their rights; and/or
- (5) transfer its shares in the financial institutions it controls.

Under the circumstance prescribed in Paragraph (2) of this Article, the PBC may request the shareholders of the said FHC to transfer their shares or limit the rights of its shareholders. If necessary, the PBC may propose to the anti-monopoly department under the State Council to initiate an anti-monopoly investigation and decide on the settlement of the incident according to the law.

Article 48 Where an FHC is unable to sustain normal operation, and may severely disrupt the financial order and harm public interests if not withdrawing from the market, the said FHC shall withdraw from the market according to the law.

Article 49 For the purpose of maintaining financial stability, the PBC has the right to request FHCs to develop and submit a general recovery and disposal plan for financial holding groups, and report to the PBC for the record.

Article 50 Where an FHC shall be established as prescribed in Article 6 of *the Measures*, but the license of FHCs has not be obtained yet, the PBC shall, in concert with the banking and insurance regulatory authorities under the State Council and the securities regulatory authorities under the State Council, instruct it to make corrections. If it fails to correct within the time limit, the PBC may, in concert with the banking and insurance regulatory authorities under the State Council and the securities regulatory authorities under the State Council:

- (1) request it to transfer part of its shares in financial institutions to such an extent as to forfeit the substantial right to control;
- (2) request it to transfer all of its shares in financial institutions; and/or
- (3) take other corrective measures.

For the duration of an FHC established upon approval, if it does not meet the conditions for the establishment of an FHC anymore, the PBC may impose the corrective measures set forth in the preceding paragraph of this Article on the said FHC.

Chapter VI Legal Liability

Article 51 Where the initiator, controlling shareholder, or practical controller of an FHC violates the provisions of *the Measures* under any of the following

circumstances, the PBC shall instruct it/him to make corrections within a prescribed time limit, confiscate the illegal gains therefrom, and impose a fine that is one to five times the amount of the illegal gains therefrom. In the absence of illegal gains, or where the illegal gains are less than RMB500,000, a fine that is more than RMB500,000 but less than RMB5 million shall be imposed. Under severe circumstances, the administrative licensing shall be revoked according to the *Administrative Licensing Law of the People's Republic of China*. If the violation is suspected of constituting a crime, the offender shall be transferred to relevant organs and prosecuted for criminal liability according to the law:

- (1) where the offender provides a false letter of commitment;
- (2) where the offender fraudulently or repeatedly utilizes the same funds in capital injections, or uses entrusted funds, borrowed funds or other non-self-owned funds to make capital injections;
- (3) where the offender entrusts others or accepts entrustment of others to hold the shares in an FHC illegally;
- (4) where the offender provides false materials on important facts or withholds such materials; or
- (5) other circumstances in violation of *the Measures*.

Article 52 Where an FHC violates the provisions of *the Measures* under any of the following circumstances, the PBC shall instruct it to make rectification within a prescribed time limit, confiscate the illegal gains therefrom, and impose a fine that is one to ten times the amount of the illegal gains therefrom on the said FHC. In the absence of illegal gains, or where the illegal gains are less than RMB1 million, a fine that is more than RMB1 million but less than RMB10 million shall be imposed. For board directors, senior executives and other personnel who shall be held directly accountable for the said violation, a fine that is one to ten times as many as the illegal gains therefrom shall be imposed. In the absence of illegal gains, or where the illegal gains are less than RMB100,000, a fine that is more than RMB100,000 but less than RMB1 million shall be imposed. Where the violation is suspected of constituting a crime, the offender shall be transferred to relevant organs and prosecuted for criminal liability according to the law:

- (1) where the offender fraudulently or repeatedly utilizes the same funds in capital injections, or uses entrusted funds, borrowed funds or other non-self-owned funds to make capital injections;
- (2) where the offender carries out illegal related party transactions;
- (3) where the offender interferes in the operation of the financial institutions it controls and thereby triggers significant risks or significant potential risks;
- (4) where the offender provides false financial statements, statements, statistical data, and materials of operation with important facts, or withhold such materials;
- (5) where the offender refuses to accept or obstructs the on-site inspection performed by the PBC; or

(6) other circumstances in violation of *the Measures*.

Chapter VII Supplementary Provisions

Article 53 The principal shareholder of an FHC mentioned in *the Measures* refers to the shareholder who holds or controls more than five percent of the total shares or voting rights in the FHC, or holds sway over the operation and management of the FHC with less than five percent of the total shares.

The controlling shareholder of an FHC mentioned in *the Measures* refers to the shareholder whose capital contribution accounts for more than 50 percent of the FHC's total capital, or who holds more than 50 percent of the FHC's total equity, as well as who holds sway over the decisions of the general meetings of shareholders and shareholder meetings or practically controls the activities of the FHC with the voting rights acquired through his/her capital contribution or shares, even though his/her capital contribution or shares account for less than 50 percent.

The practical controller mentioned in *the Measures* refers to the person who can actually control the behaviors of a company through investment relations, agreements, or other arrangements.

Article 54 If an institution that meets the conditions for the establishment of an FHC was established prior to the implementation of *the Measures* fails to meet the regulatory requirements as provided for under *the Measures*, with the consent of the financial regulatory department under the State Council, it may make rectification within a specified time limit, and the said financial regulatory department under the State Council shall perform an acceptance inspection of the results thereof.

Article 55 The PBC reserves the right to interpret *the Measures*.

Article 56 *The Measures* shall come into force on November 1, 2020.