

Investment in China

Market access and establishment of
fund companies in the PR China

in cooperation with



Foreword

China's capital market has opened in an astonishing way over the last years. While both the stock and bond markets in China have been largely shielded from the outside world for years since their opening in 1990, more and more access routes for foreign investment have been created. As a result, the capital market, which was already very large at the time, has grown significantly once again and now also offers good conditions for foreign fund companies to set up operations.

Further barriers have been removed on 1 January 2020 when the new "foreign investment" legislation came into force and the largely equal treatment of Chinese and foreign investors is now formally guaranteed.¹ Furthermore, the protection of foreign investors' intellectual property rights is explicitly mentioned.² Investment quotas were removed and entry requirements lowered for QFII/RQFII in 2020.

Together with the Securities Investment Fund Law, there is legal certainty in the fund sector, which should dispel reservations about political arbitrariness and unequal treatment in the long term.

The primary reason for this development is the aim of the Chinese Communist Party (CCP) to maintain political stability in the country with the help of economic growth and increasing prosperity. It is likely to see the opening of the capital markets as a sensible step towards further international competitiveness and the development of China as a technology hub.

Despite all the positive signals, investment and market entry in any market is not risk-free. Only with a good strategy and knowledge of the local situation will it be possible to actually profit from market entry. Finally, the various market access schemes and the legal situation when setting up a Chinese branch office are part of the basic knowledge that anyone venturing into China should have.

1. China's capital market

Market data

China's stock market had a market capitalization of USD 17.9 trillion as of March 2025, making the People's Republic the second-largest stock market in the world. USD 11.8 trillion was accounted for by domestic market shares and USD 5.0 trillion by shares listed in Hong Kong. The remaining USD 1.1 trillion is attributed to shares of Chinese companies listed in the USA. The free-float share of total market capitalization was 42 %, compared with 36 % for A-shares.³

Equity and bond types

A-shares: domestic shares traded in Shanghai and Shenzhen in RMB.

B shares: domestic shares traded in Shanghai in US dollars and in Shenzhen in HK dollars.

H-shares: domestic shares traded in Hong Kong in Hong Kong dollars.

Red chip stocks: shares of PRC companies registered outside the PRC in Hong Kong.

Dim sum bonds: Bonds issued outside China and denominated in RMB.

Panda bonds: Bonds of foreign issuers quoted in RMB in China.

According to the People's Bank of China (PBoC), the volume of China's onshore bond market amounted to RMB 166.5 trillion (equivalent to USD 23.5 trillion). at the end of August 2025.⁴

The number of fund management companies in China totalled 148 in March 2025. 51 of these were China-foreign joint ventures, while the remaining 97 were exclusively Chinese. The public offering funds of these companies amounted to RMB 13.5 trillion (equivalent to USD 2 trillion) at that time. China's total AuM was worth the equivalent of USD 20.6 trillion at the end of 2024.⁵

Influence of foreign investors

The history of foreign investment in China only began in 2002, more than a decade after the establishment of the capital market. At that time, it was still far from being comparable to Western standards in terms of size and efficiency and was therefore not of particular interest to Western financial companies. In the 23 years that followed, however, both the stock and bond markets experienced unprecedented growth, which inevitably brought them more and more into the international spotlight. What was particularly remarkable about this development was that inflows from abroad played virtually no role. The market has grown largely through investment by domestic private investors, who have ploughed newly accumulated wealth into various assets under government encouragement and in hopes of rapid returns. To this day, only a small proportion of the capital markets are owned by foreign participants. For example, at the end of 2024, foreign participation in the on-shore bond market more broadly was only 2.3 %, with somewhat higher levels (≈ 7 %) in certain government-bond segments as of September 2025.⁶ Foreign holdings of Chinese government bonds were

about 5.9 % of the total in recent years. The imbalance is even clearer in equities: foreign-held Chinese stocks – as of early 2025 – amount to roughly 5 % of listed market value.⁷ Nonetheless, significant inflows from international investors are likely in the medium term, as the government continues to promote further opening of markets and facilitate access for foreign capital to help offset capital outflows and improve global integration.

Inclusion in global indices

The inclusion of A-shares in globally significant indices has substantially enhanced the attractiveness of Chinese equities for international investors. For instance, the MSCI Emerging Markets Index now reflects China at approximately 28 % of total weight (as of early to mid-2025)⁸ Within the methodology of the MSCI China Index, large-cap and mid-cap A-shares are now represented at 20 % of their free-float-adjusted market capitalisation⁹. The recent increase in China's overall weight to approximately 28 – 30 % in the MSCI Emerging Markets Index indicates that the inclusion of A-shares has had a significant impact on the representation and global visibility of Chinese equities.¹⁰

Chinese bonds were also included in the FTSE World Government Bond Index, the JP Morgan Emerging Markets Diversified Bond Index and the FTSE Russell Index. Since September 2019, the S&P Dow Jones Global Benchmark Index has also included all stocks in the S&P China A BMI Index that participate in Stock Connect Northbound Trading.

All of these measures have focused international attention on the Chinese capital market, but the inclusion of bonds traded on the China Interbank Bond Market (CIBM) in the Bloomberg Barclays Global Aggregate Index in March 2019 in particular has led to a sharp increase in net inflows from abroad. The inclusion of bonds traded on the People's Bank of China-supervised interbank market (CIBM) into the Bloomberg Barclays Global Aggregate Index in March 2019 significantly heightened international attention on China's on-shore bond market. As of 2025, foreign holdings of Chinese on-shore bonds in the interbank market are around US \$552 billion, equivalent to roughly 2.3% of that market.¹¹

2. Market access programs

Over the years, several market entry schemes or market entry programs have emerged that differ in terms of complexity, requirements and scope of access and are therefore differently suited to different investment strategies. Since 2019, many of the investment channels described below have been progressively liberalized,

with continued easing measures introduced in the following years. Nevertheless, these access channels still exist and mean that the Chinese capital market is not freely accessible from abroad. And since a complete opening does not seem conceivable in the short term, schemes such as "QFI", "CIBM Direct" and "Stock

Supervisory authorities

AMAC (Asset Management Association of China, 中国证券投资基金业协会): Founded as a self-regulatory authority for the investment fund industry on 6 June 2012.

CBIRC (China Banking and Insurance Regulatory Commission, 中国银行保险监督管理委员会): The CBIRC was created in April 2018 through the merger of the China Banking Regulatory Commission (CBRC) and the China Insurance Regulatory Commission (CIRC). Its task is to supervise the establishment and ongoing business activities of banking and insurance institutions. The CBIRC was officially dissolved on 18 May 2023 with certain regulatory functions now being exercised by the National Financial Regulatory Administration of China. It is important to note that the dissolution of the CBIRC does not automatically invalidate the departmental rules and regulations it issued. A significant number of these rules, promulgated prior to its dissolution, remain in full force and effect. The NFRA's official website is accessible at:

www.nfra.gov.cn/en/view/pages/index/index.html

CSRC (China Securities Regulatory Commission, 中国证券监督管理委员会): Chinese securities and stock exchange regulator. The two stock exchanges on the Chinese mainland, the SSE and the Shenzhen Stock Exchange (the "SZSE"), are under the supervision of the CSRC. It is also responsible for the licensing of fund companies. There are currently three main board stock exchanges in China: the Shanghai Stock Exchange (SSE), the Shenzhen Stock Exchange (SZSE), and the Beijing Stock Exchange (BSE).

PBOC (People's Bank of China, 中国人民银行): Chinese central bank responsible for setting monetary policy and regulating financial institutions in mainland China.

SAFE (State Administration of Foreign Exchange, 国家外汇管理局): Is in charge of drafting rules and regulations for foreign exchange market activities and managing the state's foreign exchange reserves.

Connect” will continue to be used for the majority of foreign investment into China in the coming years.

QFI

For years, the “**Qualified Foreign Investor**” (QFI, pronounced Kiufi) license was the only way to invest in both the Chinese equity and bond market. The QFI mechanism is a qualification accreditation system for foreign professional investment institutions to invest in China. Qualified Foreign Institutional Investors (“QFIIs”) and RMB Qualified Foreign Institutional Investors (“RQFIIs”) are collectively referred to as QFIs according to the “Administrative Measures for Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors” issued on 25 September 2020. The “Provisional Measures on Administration of Domestic Securities Investments of Qualified Foreign Institutional Investors” law¹² was signed by the CSRC and the Chinese central bank PBoC on 5 November 2002 and has been revised several times since then.

The following regulations apply: According to Article 2 of the regulations, a QFI license is issued by the China Securities Regulatory Commission (CSRC). The State Administration of Foreign Exchange (SAFE) is responsible for monitoring compliance with regulatory requirements and setting the quota. A license can only be issued to companies in countries that have signed a corresponding Memorandum of Understanding (MoU) with China. Germany has done so. Article 8 specifies the documents to be submitted to the CSRC and SAFE for the granting of a license and Article 18 states that QFIs are entitled to invest in exchange-traded A-shares and government and corporate bonds. Through QFI, there are no restrictions on eligible A-shares, so to date QFI is the only access route to all stocks listed in Shanghai (SSE) and Shenzhen (SZSE). Since 2013, QFIs have also been able to invest in exchange-traded bonds¹³, interbank bonds, A-shares, commodity futures & options, financial futures & options, investment fund, mutual funds, private equities, ETFs, warrants and IPOs.¹⁴

QFIs are permitted to conduct equity, bond, and futures trading across a broad range of exchanges in China, including the Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE), Beijing Stock Exchange (BSE), Shanghai Futures Exchange (SHFE), China Financial Futures Exchange (CFFEX), Zhengzhou Commodity Exchange (ZCE), Dalian Commodity Exchange (DCE), and the Shanghai International Energy Exchange (INE). In addition, shares purchased via a broker must be resold via the same broker. QFIs must submit an audit report to the local tax office and a tax payment certificate stamped by the local tax office to the remitting bank before their proceeds can be exported out of China. QFIs are allowed to invest without

quota limitations. Funds may be remitted in RMB or foreign currency. The outbound currency composition should be RMB or remain consistent with that of the original inward remittance.

Foreign net inflows into Chinese securities (both bonds and equities) totalled about USD 33 billion in the first five months of 2025.¹⁵

Currency

CNY is the official, international ISO currency code and the term for the renminbi used in mainland China. The currency paid and traded in the People's Republic is not available abroad, is not freely convertible and is subject to strict capital controls.

CNH is the technical market designation for the renminbi, which is always traded outside mainland China (offshore). However, CNH is not a currency code registered with the International Organization for Standardization (ISO) and can therefore not be used without restriction in payment transactions with the People's Republic of China.

“Mutual Market Access Schemes”

So-called “Mutual Market Access Schemes” have enabled foreign companies to invest in China without quotas or licenses for the past five years. The best known abroad are the “Connect Schemes”, “Stock Connect” and “Bond Connect”. However, “CIBM-Direct” as a direct link to the Chinese interbank bond market and “Mutual Recognition of Funds” (MRF) as an important link between Hong Kong and the PRC are also important. The “QDII”, “QDLP” and “QDIE” licenses also play an important role in raising capital.

Stock Connect

On 10 April 2014, the Securities and Futures Commission (SFC) and the China Securities Regulatory Commission (CSRC) issued a joint announcement approving the establishment of Shanghai Stock Connect. The aim was to establish a joint stock market between mainland China and Hong Kong. Under the Shanghai Stock Connect, the Hong Kong and Shanghai stock exchanges established a technical infrastructure that enabled investors in one market to trade shares listed on the other market. “Shanghai Stock Connect” was successfully launched on 17 November 2014, followed by “Shenzhen Stock Connect” on 5 December 2016.

From March 2023 onwards, the scope of eligible stocks under the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect programs was expanded to include RMB-denominated stock counters and REITs under Southbound Trading, thereby enriching the range of investable assets.

Shanghai Stock Connect was developed by the Hong Kong Exchange (HKEx), the Shanghai Stock Exchange (SSE) and the China Securities Depository and Clearing Corporation Limited (ChinaClear) and only covers secondary market trading. Primary market activities such as initial public offerings are not possible. In order to use Stock Connect, investors must open an account with a Chinese "Exchange Participant". In addition to its function as a custodian, in some cases this can also have the function of an autonomously investing "sub-manager".

Delivery of the shares and settlement of the funds take place at different times. All A shares will be settled on the trading day (T) with cash settlement on T+1. "Hong Kong Securities Clearing Company" (HKSCC) and "ChinaClear" are responsible for the clearing, settlement and provision of custodian, nominee and other related services.¹⁶ ChinaClear is the only authorized central securities depository in the PRC and is under the direct supervision of the CSRC.

Stock Connect typically works in such a way that in the first step, an offshore investor instructs a broker in Hong Kong to buy A-shares. In the second step, this broker instructs the Hong Kong Exchange Participant to execute the trade on the Shanghai Stock Exchange, whereupon a subsidiary of Exchange Participant in Shanghai executes the instructed trade on the SSE. Clearing of Stock Connect shares will take place at 6pm (Shanghai local time) on the trading day. The shares will then be held in an onshore omnibus account in the name of HKSCC. Payment will be made by 12 noon (Shanghai time) on the following day. HKSCC will settle the payment with ChinaClear at 4pm (Shanghai time) on the day after the trading day.¹⁷

As of end-February 2025, about 2,700 stocks are eligible for Northbound trading under Stock Connect (covering A-shares listed on both the Shanghai Stock Exchange and the Shenzhen Stock Exchange).¹⁸ With the exception of ChiNext Stocks of the Shenzhen Stock Exchange (SZSE), which are currently only allowed to be traded by institutional professional investors, all investors from Hong Kong and abroad are allowed to purchase the securities approved for Shanghai and Shenzhen Connect. There are only regulations regarding Chinese institutional investors, who must have a total balance of at least 500,000 RMB (approx. USD 71,000) in their securities and cash accounts to be admitted to export or "southbound" trading in SEHK securities.

Originally, there was a daily quota of RMB 13 billion for northbound and RMB 10.5 billion for southbound trade. This quota was increased to RMB 52 billion northbound and RMB 42 billion southbound for both Shanghai Connect and Shenzhen Connect from 1 May 2018.¹⁹ Northbound trading here refers to the trading of shares listed on the mainland by foreign investors via the Hong Kong Stock Exchange. Southbound trading refers to investors from mainland China investing in foreign capital markets from the Shanghai and Shenzhen stock exchanges via the Hong Kong Stock Exchange.

In 2018, foreign companies invested USD 44.7 billion in Chinese securities via Northbound, almost USD 15 billion more than in 2017.²⁰ Among the various types of SSE- or SZSE-listed securities, only A-shares are included in "Shanghai" and "Shenzhen Stock Connect". Other product types such as B-shares, Exchange Traded Funds ("ETFs") and bonds are not allowed to be traded. The Hong Kong Stock Exchange monitors the use of Northbound trading in real time and the Northbound daily quota balance is updated on the HKEx website every minute. Any unused daily quota will not be carried forward to the next day's daily quota.²¹

The A-share market is one of the largest equity markets in the world with a market capitalization of around USD 7.7 trillion.²² However, the proportion of foreign investors is less than 5 %.²³

CIBM-Direct

The history of CIBM-Direct began in July 2015 with an announcement by the Chinese central bank "PBoC".²⁴ From then on, it allowed foreign central banks, monetary authorities, international financial organizations and sovereign wealth funds to invest in the Chinese Interbank Bond Market (CIBM) without approval requirements and quota restrictions. Investments were possible via an onshore settlement agent approved by the PBoC.

An announcement in February 2016 expanded the number of foreign institutions allowed to participate in CIBM-Direct.²⁵ It also became possible for commercial banks, securities companies, insurance companies and fund management companies to invest in spot bonds and participate in bond loans, bond futures, interest rate swaps, forward rate agreements and bond repos without special approval or quotas.

Overseas sovereign or commercial institutional investors may, through the settlement agent or custodian bank model, file with the Shanghai Head Office of the People's Bank of China, and thereafter directly open bond and cash accounts in the interbank bond market

to conduct cash bond trading and derivatives transactions. Overseas investors who wish to use "CIBM Direct" must appoint a local "Bond Settlement Agent" (BSA), which is usually the local custodian, or a company affiliated with a local custodian. The BSA submits a two-page form containing general information and the settlement agreement signed by the onshore settlement agent and its client.²⁶ The PBoC confirms the submission within a maximum of 20 calendar days. The settlement agent manages the account opening on behalf of its clients at the China Foreign Exchange Trade System (CFETS), the China Central Depository & Clearing (CCDC) and the Shanghai Clearing House (SCH) respectively.

By August 2025, 1,167 foreign investors had invested in the CIBM.607 investors through CIBM-Direct and 831 investors through Bond Connect.²⁷

Most important indices in China and Hong Kong:

CSI 300: Index of the 300 largest and most traded Chinese A-shares.

SSE 180 Index (Shanghai Stock Exchange 180 Index): Contains the values of 180 shares of Chinese companies on the Shanghai Stock Exchange, selected according to certain criteria.

SSE 380 Index (Shanghai Stock Exchange 380 Index): Consists of 380 mid-capitalization stocks that are not already listed in the SSE 180 Index.

SZSE Component Index (Shenzhen Stock Exchange Component Index): Is the most important stock index in Shenzhen and consists of 500 stocks.

Hang Seng Index: Leading index in Hong Kong
Hang Seng China AH Premium Index: calculates average premiums and discounts between A and H shares.

Bond Connect

Although Bond Connect was introduced later than CIBM-Direct, it is no less successful. It enables foreign investors to channel funds into the Chinese bond market via Hong Kong and came about through a joint venture between the China Foreign Exchange Trade System (CFETS) and the Hong Kong Stock Exchange (HKEx). The CFETS is directly affiliated to the PBoC.

Northbound trading via Bond Connect began on 3 July 2017, with the possibility of southbound trading planned for a later date.²⁸

As with CIBM-Direct, most foreign institutions also have access to Bond Connect. Foreign central banks, monetary authorities, international financial organizations, sovereign wealth funds, commercial banks, securities companies, insurance companies and fund management companies have been permitted to invest via Bond Connect. And just as with CIBM-Direct, only pre-registration with the Chinese central bank is required to use the program. There are no special approval requirements and/or quota restrictions.

A Bond Connect participant has to set up an "onshore" Central Moneymarket Unit (CMU) omnibus account with China Central Depository & Clearing (CCDC) or Shanghai Clearing House (SCH) and an "offshore" CMU investment account in Hong Kong with a custodian.²⁹ The use is quite straightforward. The international investor trades Chinese bonds held by the CMU in Hong Kong with a nominee structure. Bond Connect participants must appoint a CMU custodian, which must be a member of the CMU under the Hong Kong Monetary Authority (HKMA). Each CMU Custodian may only appoint an FX Settlement Bank, usually the CMU member itself, or an affiliate of the CMU member. Irrespective of whether FIIs invest through QFI, CIBM Direct or Bond Connect, they must use the same FX settlement bank for their deposits and withdrawals. The shares are legally owned by the nominee company, but the investor is the beneficial owner of the shares.³⁰

Investments are possible in both onshore and offshore renminbi. In contrast to CIBM-Direct, however, Bond Connect only allows you to use cash bonds for your investment; other onshore hedging instruments are not permitted. Trading is carried out via recognized trading platforms (e. g. Bloomberg or Tradeweb).

In comparison between CIBM Direct and Bond Connect, the biggest advantage of CIBM Direct is that Foreign Institutional Investors (FIIs) have access to more onshore hedging instruments (e. g. interest rate swaps and repos with foreign central banks and RMB participation and clearing banks), while Bond Connect investors only have access to FX hedging instruments.³¹ In addition, CIBM-Direct is not dependent on the 47 authorized onshore dealers and can use both offshore and onshore renminbi for transactions. The money is transferred from an offshore RMB account to a so-called "onshore CNY special account", which in turn pays into a "delivery versus payment" account of either SHCH or CCDC.³²

HSBC and MEAG accessed the Chinese bond market from Germany for the first time in October 2019 via

Bond Connect. It was the first time that a German investor acquired bonds via the program. The settlement of the trading transaction and the associated FOREX business was facilitated via the HSBC Group's global network.³³

Bond Connect has been well received internationally, which is reflected in its strong growth. By 2025, there are a total of 831 approved investors. The trading volume also increased, with trades worth RMB 7.2 trillion in August 2025.³⁴

With the inclusion of Chinese fixed income bonds in the Bloomberg-Barclays Global Bond Index on 1 April 2019, Bond Connect is expected to attract even more foreign participants in the future.

Negative list:

The shortening of the so-called negative list in November 2024, which lists the sectors in which foreign companies are not permitted to operate, is making it possible for more and more sectors to attract foreign companies. The list has now been reduced from the original 70 to 29 prohibited sectors. The negative list is drawn up by National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOC) and provides for four different categories of activity into which a foreign investment project can fall: explicitly desired, restricted, prohibited and permitted (any type of industry that is not listed in one of the other categories). Companies investing in expressly encouraged sectors will receive tax benefits for their involvement in China, while those in restricted sectors will be subject to different requirements for setting up a business. The prohibited sector is closed to foreign entrepreneurs from the outset. The restricted sector includes, for example, the investment rare earths, radioactive minerals, as well as the exploration, mining and mineral processing of tungsten.

Real estate:

In China, all land is generally owned by the state. However, Chinese and foreigners can lease the land from the government for a period of between 40 and 70 years, depending on the purpose and location of the property.

Mutual Recognition of Funds (MRF)

"Mutual Recognition of Funds" (MRF) is an initiative launched by the Hong Kong Securities and Futures Commission (SFC). The first MRF agreement was concluded with the People's Republic of China in 2015 and enabled Hong Kong fund products to be traded on the Chinese market. Since then, Hong Kong has entered into similar agreements with Switzerland, France, the UK and Luxembourg to give its fund managers access to a larger number of potential investors.

The "MRF" program gives foreign fund companies based in Hong Kong the advantage of having better distribution channels in the People's Republic of China and thus being able to sell fund products there more easily.

QDII

Access channels are needed from abroad, too. Chinese investors also have to use such channels if they want to invest in other markets from China. To do so, they need the rank of "**Qualified Domestic Institutional Investor**" (QDII). As the name suggests, QDII is very similar to the QFII scheme, but works in the opposite way. It is a program that offers domestic investors limited opportunities to access foreign markets at a stage where the country's currency is not freely convertible and where capital cannot be freely exchanged between China and other countries.

Since its launch in 2006 the QDII program has been the most important channel for domestic financial institutions to invest in foreign capital markets. The QDII program mainly allows them to invest in offshore securities, which are subject to strict restrictions. For example, the QDII rules expressly prohibit banks, securities dealers and investment funds from investing in offshore hedge funds.³⁵

As of the 2025 interim report, the total number of QDII funds (with currencies and share classes consolidated) reached 307, and their total scale amounted to approximately RMB 678.3 billion, hitting a new all-time high. Due to the limited issuance of foreign exchange quotas, the growth rate of the scale has slowed down, with a quarter-on-quarter increase of 11 % compared with the 2024 annual report. Among them, the scales of funds invested in Hong Kong stocks and U.S. stocks are relatively large, reaching RMB 304.3 billion and RMB 227.2 billion respectively, accounting for 78 % of the total scale combined.³⁶

QDLP

Given the fact that the QDII program only applies to certain financial institutions and severely restricts the scope of investment, some highly developed regions such as Shanghai have already started to look for new ways to offer more extensive investment opportunities. The Shanghai Municipal Financial Service Office (SFO) implemented a pilot program called “**Qualified Domestic Limited Partners**” (QDLP) in 2013, which granted quotas worth a total of USD 60 billion³⁷ to over 15 asset managers, including UBS Asset Management, BlackRock, Oaktree Capital, Citadel, OZ Management and Man Group, until 2024. This license was not granted between the end of 2015 and the beginning of 2018 but has since made a comeback.

In addition to Shanghai, the program also applies to Tianjin. QDLP offers asset management institutions based in both cities the opportunity to invest in various forms of foreign fund products from China. An institution must register with the SFO, which in turn decides on the approval of a quota together with the SAFE. In addition, the foreign asset manager must have established an onshore legal personality.³⁸

QDIE

The “**Qualified Domestic Investment Enterprise**” (QDIE) program allows qualified fund management companies and financial institutions (QDIE managers) from Shenzhen to set up and manage onshore investment vehicles (QDIE funds) for overseas investment. Only qualified domestic investors who meet the eligibility requirements of the QDIE measures may invest in a QDIE fund.³⁹

The associated regulations, the “Interim Measures on the Pilot Program of Overseas Investment by Qualified Domestic Investors” (QDIE Measures), were adopted by the government in Shenzhen on 8 December 2014. The program works in a similar way to the QDLP program in Shanghai and has the same objective: to enable domestic or foreign fund companies operating in the country to acquire capital abroad. However, the requirements for QDIE are slightly different to those for QDLP, for example the minimum size of the onshore fund in Shenzhen is only the equivalent of around USD 5 million (Shanghai/Tianjin USD 15 million) and the minimum subscription per qualified investor is around USD 300,000 (Shanghai/Tianjin USD 800,000).⁴⁰

3. Establishment of a fund company in the PR China

There are basically three types of companies that are available to foreign investors for market entry in China. The Representative Office (RO), the Wholly Foreign

Owned Enterprise (WFOE) and the Joint Venture (JV). All three forms are subject to different regulations and vary in terms of time and cost. Only the establishment of a “JV” or a “Fund Management Company-Joint Venture” (FMC-JV) and a “WFOE” or a “Private Fund Manager-WFOE” (PFM-WFOE) are suitable for active business activities (launch and distribution of fund products).

Representative Office

A “Representative Office” (RO) only makes sense for those companies for which the step of setting up a fund company in China is still too big, e. g. because they have not yet been able to gain enough experience regarding Chinese business culture and structure. Setting up a representative office enables foreign investors to get to know the Chinese market and establish contacts.

The legal basis for the establishment of ROs is regulated in the “Decree of the State Council of the People's Republic of China No. 584”⁴¹ dated 1 March 2011. The State Administration for Industry and Commerce (SAIC) is responsible for the approval and registration of ROs.

The activities of an RO are severely restricted. For example, it may not issue its own invoices or generate sales. Likewise, it may not provide any services to be invoiced and may not import or export products. Possible activities may include market research, product marketing and customer support and advice.

A rep office is not an independent legal entity, but a permanent establishment of the parent company. It is therefore not a foreign direct investment.⁴²

Joint Venture (JV)

What is a JV?

A joint venture is a limited liability company established by one or more foreign investors, individual(s) or company(ies) together with a Chinese company. The non-Chinese party must hold at least 25 % of the shares for a company to be called a joint venture.⁴³ Setting up a joint venture with a local partner is often time-consuming but can quickly provide local know-how and networks and is essential in industries with licensing restrictions.

Organizational matters

Joint ventures are subject to new organizational requirements with the introduction of the Foreign Investment Law from 1 January 2020. It amends the existing

legislation regarding to the shareholding ratio, the organizational structure and the regulations on the internal management of the JV.

The Board of Directors/Executive Director now reports directly to the shareholder. A general manager is responsible for the operational business. The shareholder must also appoint at least one person to the Supervisory Board (Supervisor) in order to ensure financial and management control. A legal representative is also appointed to act as a supervisor. According to Chinese company law, this role is reserved for either the managing director or the chairman of the board of directors.⁴⁴ From 1 January 2020, new joint ventures may only be established with the new board structure. Existing ones will then have five years to adapt their board structure and set up a shareholders' meeting.

Foundation

It usually takes 4 to 6 months to set up a JV. Foreign investors usually use consulting companies for this, as they already have long-standing relationships with the local authorities and have procedural know-how. All applications must be submitted in Chinese and can also be written in a foreign language (usually English).

These applications are submitted to the local Chamber of Commerce ("Administration for Industry and Commerce", AIC) and must include a letter of intent and a Memorandum of Understanding, which must be drawn up and signed by all partners. The Chinese name of the JV and two Chinese-language name alternatives are also part of the application. In addition, a JV contract and articles of association must be submitted and signed by all partners. Pre-approval from the National Development and Reform Commission (NDRC) may also be required, in which the JV must indicate where it intends to acquire land or other fixed assets and in which part(s) of the country the JV's capital will mainly flow.⁴⁵

After receiving approval, the company must apply for and register a business license with the AIC.

Foreign shareholding

Until 2018, the Chinese company involved had to be the majority JV shareholder in all sectors, i. e. hold at least 51 % of the shares. Since then, however, it has been possible for foreign companies from the financial sector, among others, to hold 51 % of the shares in a joint venture and thus the majority.⁴⁶

After originally stipulating that a foreign investor in a JV could only increase its stake to 100 % after 3 years of operation or 2021 at the earliest, the directive has now changed. In October 2019, the China Securities Regulatory Commission (CSRC) announced that there

would no longer be a shareholding limit for foreign companies from April 2020.⁴⁷ This also applies to newly established JVs.

Social credit system for companies:

Following the gradual introduction of the "Social Credit System" (SCS) for Chinese citizens, it is soon to become mandatory for domestic and foreign companies. Key figures such as compliance with environmental and legal standards as well as regular and complete reporting are likely to be included in the rating, and there will be a total of 300 criteria for the calculation. A negative rating can lead to an increase in tax rates, disadvantages with regard to orders and the withdrawal of business licenses. In the future, it could become a factor that should not be underestimated when business in the People's Republic of China.

Fund Management Company-Joint Venture (FMC-JV)

Law and supervision

The Securities Investment Law⁴⁸ is the basic legislation for securities funds, including open-ended and closed-ended funds. Within the regulatory framework established by the Securities Funds Law, the China Securities Regulatory Commission (CSRC) has issued a series of regulations on the operation and management of funds and fund managers. This regulatory framework sets out the offering and marketing, registration, trading, day-to-day management, custody, valuation and accounting, taxation, profit distribution and disclosure of information in relation to securities funds. The China Banking and Insurance Regulatory Commission (CBIRC) has issued additional regulations on the regulation of insurance and asset management companies active in the field of fund management.

Chinese fund management companies (FMCs) are established in the legal form of a limited liability company (LLC, comparable to a limited liability company). Since 2013, the China Securities Regulatory Commission (CSRC) has been the supervisory authority for the fund industry in the PRC; FMCs must apply for a license from the CSRC. In addition, the CSRC commissions the Asset Management Association of China (AMAC) to register private fund managers.

Fund managers must submit regular and emergency reports on their operations and funds to the AMAC, provide regular and emergency fund reports to investors, file tax information in an AMAC online backup system, file financial accounts of foreigners with the tax authorities and, if their fund products are established as a limited liability company (LLC) or limited liability partnership (LLP), submit a short annual report to the AIC.⁴⁹

FMCs may also operate individual asset management for up to 200 investors. It is possible for them to apply for a "Private Fund Manager" (PFM) license, but a separate legal entity must be registered for this.⁵⁰

Fund products

FMCs are authorized to invest in the following products: listed stocks and bonds, bonds traded on the CIBM, financial derivatives permitted by the CSRC (e. g. stock index futures), mutual funds and other securities and their derivatives permitted by the CSRC.⁵¹ An FMC is also permitted to apply for the QDII license.⁵²

Open-ended and closed-ended funds launched by FMCs are categorized into fixed income products, equity products, commodity or derivative financial products and hybrid products depending on the type of investment. In the case of a bond fund, the proportion of bonds must be at least 80 %. The same applies to equity funds, where the proportion of investments in equities must be at least 80 %. For commodity or derivative financial products, at least 80 % must be invested in commodities or financial derivatives. In the case of hybrid products, none of the three types of assets (bonds, equities and commodities or financial derivatives) may account for more than 80 % of the investments.⁵³

Management and custodian bank fees are incurred at fund level. The FMC must also pay distribution fees. In recent years, management fees averaged 1.5 % of fund assets for equity funds, 0.34 % for bond funds and 1.33 % for balanced funds.⁵⁴

Fund issue

In order to launch a mutual fund, the FMC must submit the following documents to the CSRC:⁵⁵ An application, a fund contract, a draft fund custody agreement, a draft prospectus, a legal opinion from a law firm and other documents required by the securities regulatory authority of the State Council.

According to Article 53 of the Securities Investment Law, the fund contract of a mutual fund must contain 17 points. The fund prospectus must contain 9 items of information (Art. 54 SIL).

Fund distribution

FMCs are not subject to any restrictions on the means of distribution of their mutual funds. They can reach retail and institutional investors through newspaper, radio, television, internet and other public media channels, blogs, SMS, WeChat messages or emails, among others.

Online fund trading has become increasingly popular. While most Chinese still chose the traditional sales channel via banks in 2016 (60 % of sales), in a survey conducted in April 2019⁵⁶ more than two thirds of investors said they bought funds via mobile apps. This was an increase on the previous year's survey, when 41 % of investors said they used mobile apps to buy funds. Among the most popular investments sold on mobile apps are money market funds, which account for 60 % of the total Chinese fund market.

Online fund trading can be roughly divided into two categories: Online platforms provided directly by major fund companies and third-party online platforms. The latter category became particularly popular through the partnership between Yu'E Bao (an e-commerce platform founded by the Alibaba Group as part of Alipay) and Tianhong Asset Management in 2013.⁵⁷ In 2018, the resulting "Tianhong Yu' E Bao Money Market Fund" was the world's largest money market fund with assets of USD 251 billion. The value of the fund has since shrunk to USD 111 billion in June 2025, as Yu'E Bao has restricted the number of daily investments and excluded certain investors.

These partnerships have the advantage of having a large user base and highly developed digital platforms. However, the online platforms also have a lot of competition. For example, Eastmoney, the owner of Tiantian Fund Sales (China's largest online fund trading platform), has received approval from the CSRC to establish an investment company (FMC).

In general, Chinese private investors tend to favour investments with short maturities and are said to have a hunting mentality. The main reason for this is the young age of the Chinese asset management sector. As it is only around two decades old, it has not yet gone through several market cycles, which is why Chinese investors normally have little experience with long-term fund investments. As time goes on, it is assumed that private investors in China will adopt more sustainable investment strategies.

Foreign participation

Since 2002, foreign investment managers have been able to hold a minority stake in an FMC joint venture that is active in the mutual fund management business. This was limited to 33 % until 2005; since then, a 49 % stake has been permitted. After that, it was gradually relaxed to 100 %⁵⁸. However, most joint venture fund companies still maintain a 49 % foreign ownership structure.

By investing in an FMC as part of a joint venture, there is also the opportunity to participate in the Chinese retail market. At the end of 2023, 42 foreign asset managers had shares in an FMC JV.⁵⁹

Since 2008, minority participation has also been permitted for FMCs that are only active in individual asset management. Since then, foreign investment managers have been able to participate in individual asset management for institutional investors in China and sell them private funds.⁶⁰

WFOE

What is a WFOE?

A **Wholly-Foreign-Owned-Enterprise (WFOE)** is in most cases a Limited Liability Company (LLC), comparable to a German GmbH. Its shares are held 100 % by one or more foreign investors. They have legal capacity and the liability of the shareholders is limited to the amount of the respective capital contributions.

The establishment of a "WFOE" (Wholly Foreign Owned Enterprise) allows foreign entrepreneurs to own 100 % of their Chinese subsidiary. Approval is subject to many requirements and can take up to 90 days.

PFM-WFOE

Law and supervision

With the publication of the AMAC "Questions and Answers regarding Private Fund Registration and Recordation (X)" dated 30 June 2016⁶¹, WFOEs are entitled to become "Private Fund Managers" (PFM) and sell fund products to high-net-worth individuals. Unlike fund management companies (FMCs), they are not permitted to offer individual asset management. The regulatory authorities currently only intend to allow foreign managers who hold a PFM (Private Fund Management) license to convert their business into an FMC (Public Fund Management Company) to give them access to the Chinese fund retail market (volume approx. USD 2 billion).⁶²

Private fund managers must register with the AMAC and, unlike FMCs, do not require a license from the CSRC. They are allowed to sell fixed income, equity and multi-asset fund products to "qualified investors".⁶³ "Qualified investors" are those who invest at least RMB 1 million (approx. USD 141,000) in a single privately-raised fund and, if they are a company, have net assets of at least RMB 10 million as of the end of the latest financial year or, if they are an individual, have at least 2 years of investment experience and satisfy at least one of the following conditions: family financial net worth of no less than RMB 3 million, family financial assets of no less than RMB 5 million, or an average annual personal income reaching a minimum of RMB 400,000 in each of the last three years.⁶⁴

To register a PFM WFOE, the overseas shareholders or officers of the PFM WFOE must meet the following eligibility requirements: (a) They must be a financial institution licensed by a financial regulatory authority in their home country. (b) The securities regulatory authority in their home country must have entered into a memorandum of understanding to cooperate with the CSRC or other institutions recognized by the CSRC in the field of securities supervision; (c) They must not have been subject to any material sanction by any regulatory authority or court in the past three years. (d) The use of capital funds and the RMB proceeds from their conversion shall comply with the relevant provisions of the State Administration of Foreign Exchange: (e) When engaging in securities and futures trading within China, investment decisions shall be made independently, and trading instructions shall not be placed through overseas institutions or overseas systems, unless otherwise provided by the China Securities Regulatory Commission.⁶⁵

Unless otherwise provided by relevant regulations, the initial paid-in capital raised by a private fund shall meet the following requirements: (a) For a private securities fund, the amount shall be not less than RMB 10 million; (b) For a private equity fund, the amount shall be not less than RMB 10 million. However, for a venture capital fund, the initial paid-in capital at the time of filing shall be not less than RMB 5 million, provided that the fund contract shall stipulate that the paid-in capital meeting the minimum initial fundraising requirement mentioned above shall be completed within 6 months after filing; (c) For a private fund investing in a single target, the amount shall be not less than RMB 20 million.⁶⁶

In 2023, 58 foreign companies had a PFM license. Together, they have launched over 100 fund products containing USD 1,400 million in assets.⁶⁷

Fund products

Management and custodian bank fees are incurred at fund level. The PFM-WFOE must also pay distribution fees or remunerate the distributor accordingly. In recent years, management fees averaged 1.5 % of fund assets for equity funds, 0.34 % for bond funds and 1.33 % for balanced funds.⁶⁸

The private funds launched by PFM WFOEs typically have the legal form of an LLP (Limited Liability Partnership). An LLP does not have its own legal personality. However, private funds can also be an LLC (Limited Liability Company), "joint-stock limited company" or "contractual fund". LLCs and joint-stock limited companies have their own legal personality, but are not often used for private funds for reasons of tax and administrative efficiency. A contractual/security fund has no legal personality and is managed by managers through fund agreements or similar arrangements.⁶⁹ A private fund in the form of a limited liability partnership or limited liability company may not have more than 50 investors, while no more than 200 investors may invest in a private contractual/security fund.

In addition to the CSRC and AMAC, private funds are also subject to supervision and management by the tax authorities. Funds established as LLCs or LLPs are also subject to supervision by the AIC (responsible for the registration of legal entities).

A private fund established in the PRC must be managed by a local private equity or securities manager. Unless otherwise specified in the fund contract, the fund will also appoint a custodian bank, such as an AMAC member bank, to hold cash and assets of the private fund.⁷⁰ Such custodians are banks and custodians in the legal form of an "LLC" (有限公司). AMAC has 37 member banks that can assume the role of custodian bank.

Fund issue

PFM-WFOs are permitted to set up private equity, private securities and venture capital funds. These may be both open-ended and closed-ended. As with FMC fund products, the proportion of bonds in a bond fund must be at least 80 %. The same applies to equity funds, where the proportion of investments in equities must be at least 80 %. Commodity or derivative financial products must have at least 80 % invested in commodities or financial derivatives. In the case of mixed funds, none of the three types of assets (bonds, equities and commodities or financial derivatives) may account for more than 80 % of the investments.⁷¹

Unlike a public fund, a private fund does not have to prepare a fund prospectus. However, a fund contract is required, which according to Article 93 of the Securities Investment Law must contain the following information, among other things:

- Rights and obligations of unit holders, the fund management company and the fund custodian,
- Functioning of the fund
- Type and amount of the capital contribution to the fund and the payment deadline
- Investment scope, the investment strategies and the investment limits of the fund
- Principles and implementation modalities for the distribution of income
- Expenses to be borne by the fund
- Content of fund information to be transmitted and method of provision
- Modalities for the subscription, redemption or transfer of fund units
- Modalities for amending, cancelling and terminating the fund contract
- Liquidation method for fund assets
- other matters agreed by the parties.

Fund distribution

PFM WFOEs may only sell their funds directly to qualified institutional and private investors. This is usually done via banks and securities companies. However, they can also sell their funds via a distributor with a fund distribution license. They can also reach qualified investors online as long as such offers are not publicly available.⁷² They are explicitly prohibited from using the following distribution channels to sell their fund products: Newspapers, radio, television, internet and other public media channels, blogs, SMS, WeChat messages or emails.⁷³

Other permitted business areas

PFM WFOEs are authorized to provide investment advisory services for private wealth management products (WMPs) offered by wealth management banks (WMBs), private AMPs offered by securities and futures providers and private funds issued by other PFMs. However, they may only do so if they meet the following requirements:

- You have been registered with AMAC as a private securities fund manager for at least one year
- You have at least three investment management employees, each of whom has at least three years of experience in securities or futures management and does not have a negative balance sheet.
- You are a member of AMAC and have not committed any serious violations of laws and regulations.⁷⁴

PFM WFOEs can also have a QDLP WFOE as a subsidiary, which allows foreign fund managers to expand their product offering to include offshore investments for domestic Chinese investors if they receive a QDLP quota.⁷⁵ It is then possible for them to raise the necessary seed money for funds abroad.

4. Taxes and reporting

Taxes

In principle, corporation tax is levied at a rate of 25 %. There is a double taxation agreement between Germany and the PR of China. A new version was signed on 28 March 2014 and has been in force since 1 January 2017.⁷⁶

Private investors do not pay value-added tax or corporation tax on dividends and capital gains. Institutional investors, on the other hand, pay 25 % corporation tax and 6 % VAT on top. Both institutional and private investors pay 3 % VAT on fund management activities.⁷⁷

Private funds established in the PRC are subject to different tax treatments in terms of income and profits due to their legal form. Private funds established as companies pay income tax, while those established as partnerships or contractual funds are not subject to income tax obligations at fund level.

Non-PRC resident companies are subject to a 10 % withholding tax on income from PRC private funds if the income is not linked to a permanent establishment in the PRC. Otherwise, a tax rate of 25 % may apply to taxable income for non-resident enterprises (in some cases, tax incentive policies and exemptions apply). For non-resident investors of private funds organized as LLPs, taxation remains unclear and local tax authorities may apply different withholding tax rates in practice.⁷⁸

Non-residents are only subject to income tax on their PRC income. Private funds in the PRC are mostly organized as LLPs ("Tax Flow-Through Entity"). Non-residents in LLP private funds are taxed on distributions at similar rates to residents.

Given that there is currently still uncertainty regarding the tax treatment of private fund vehicles, particularly in the form of LLPs, obtaining tax confirmation for these funds from the local tax authorities could be helpful in removing this uncertainty.⁷⁹

Reporting

According to the "Interim Regulations for the Publicity of Corporate Information", the State Administration of Taxation (SAT) requires companies to submit an annual CIT Reconciliation Report for the previous fiscal year to the relevant Administration of Industry and Commerce (AIC) within five months of the end of the previous year so that the AIC can determine whether all tax liabilities have been met and whether the company must pay additional taxes or can apply for a tax refund.

In addition to annual reporting to the AIC, foreign companies in China are also required to submit an annual report to the Ministry of Commerce (MOFCOM), the Ministry of Finance (MOF), the SAT, the State Administration of Foreign Exchange (SAFE) and the National Bureau of Statistics. The report can be submitted online via the "Annual Combinative Reporting System" and is thus transmitted to all government agencies simultaneously.⁸⁰

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