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PBC Officials Answer Press Questions on Adjusting the Transitional Period of the *Guiding Opinions* on Regulating Asset Management Business



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In order to thoroughly implement the decisions and arrangements of the CPC Central Committee and the State Council on coordinating the efforts in pandemic containment and economic and social development, upon the approval of the State Council, the People's Bank of China (PBC), jointly with the National Development and Reform Commission (NDRC), the Ministry of Finance (MOF), the China Banking and Insurance Regulatory Commission (CBIRC), the China Securities Regulatory Commission (CSRC) and the State Administration of Foreign Exchange (SAFE), while fully taking into account the actual impacts of the pandemic since the beginning of this year, and remaining committed to the policy framework and regulatory requirements of the new regulatory guidance on asset management business, decided upon deliberation to extend the transitional period of the *Guiding Opinions on Regulating the Asset Management Business of Financial Institutions* (Yinfa No. 106 [2018], hereinafter referred to as the *Guiding Opinions*) to the end of 2021. Meanwhile, efforts are also made to establish and improve incentive and restraint mechanisms, and flesh out supporting policy arrangements, so as to promote the well-regulated development of the asset management industry in a steady and orderly manner. PBC officials answered questions from the press on relevant concerns.

I. What is the purpose of an extended transitional period of the Guiding Opinions on regulating asset management business?

Since the beginning of this year, the COVID-19 pandemic has dealt a heavy blow to the global economy, which led to mounting difficulties in the production and operation of some enterprises. Therefore, reasonably extending the transitional period of the *Guiding Opinions* on regulating asset management business is a specific measure based on the normalization of pandemic containment and aimed at “ensuring stability on the six fronts” (employment, financial sector, foreign trade, foreign investment, domestic investment and expectations) and “ensuring security in the six areas” (the employment of residents, the basic livelihood of the people, the support for market entities, the security of food and energy, the stability of the supply chain and industrial chain, and the smooth functioning of grassroots administration). First, it will facilitate the steady and orderly rectification of existing asset management business. The pandemic has hit the asset management business on both capital side and asset side. With regard to the asset side, in particular, some industries and enterprises, faced with increased operational difficulties, need to adjust their original repayment arrangements of some investment projects. An appropriately extended transitional period can cushion the impacts of the pandemic on the asset management business and help ease rectification pressure on financial institutions. Second, the extension will create a favorable environment for financial institutions to develop compliant asset management products. With a reasonably extended transitional period, asset management institutions can enjoy a better environment and conditions to further improve their capacity in product investment, development and innovation, and to enhance investor education and long-term capital cultivation. This can also encourage asset management products to increase holding of various eligible assets.

II. What are the major considerations underpinning the one-year extension of the transitional period?

First, we need to strike a balance between stabilizing growth and preventing risks. With a one-year extension in place, more outstanding assets with relatively long terms will mature naturally, which helps relieve financial institutions' pressure of disposing massive outstanding assets in a short period of time. Second, the transitional period should not be excessively extended. The transitional period was originally designed to ensure the smooth transformation of the asset management business and achieve a steady transition from old products to new ones. The one-year extension will encourage financial institutions to pursue moderately high goals and promote their rectification and transformation as early as possible while offsetting the impacts of the pandemic. Third, the adjustment is made to maximize the effects of relevant policies. With the one-year extension of the transitional period, it is conducive to better coordination between the rectification of existing businesses and the development of innovative businesses, driving regulated rectification of existing assets with the transformation and upgrading of asset management business.

III. What are the major policy arrangements for the one-year extension of the transitional period?

In order to steadily advance regulated rectification of asset management business, the PBC, the CBIRC, the CSRC and the SAFE, together with relevant authorities, rolled out policy arrangements featuring "the extension of transitional period as appropriate and differential handling of special cases." The arrangements mainly include the following aspects. First, the transitional period of the new regulatory guidance on asset management business will be extended until end-2021, during which the financial institutions are allowed to adjust their rectification plans at their own discretion while specifying outstanding assets reported at end-2019. Second, for those financial institutions failing to complete rectifications before end-2021, they shall be handled as special cases after they explain the reasons and obtain the approval of financial regulators. These institutions shall list out detailed disposal plans for implementation, which will be subject to month-by-month monitoring and differential regulatory

measures. Third, supporting measures for the disposal of outstanding assets should be improved. Financial institutions are encouraged to achieve orderly disposal of outstanding assets by various means, such as switching to new products, conducting market-based transfer, changing contract or bringing assets back onto the balance sheet. Quasi-credit assets in line with the criteria of credit can be included on the balance sheet, and such inclusion should be given more regulatory tolerance. As for those defaulted assets, when they are back onto the balance sheet, they can be disposed of by means of write-off and bulk transfer. It is encouraged to dispose of equity assets through market-based transfer or other means. Cautious steps should be taken to dispose of outstanding stocks invested by banks' wealth management products, avoiding a simple sell-off for rectification. The environment for banks to issue capital replenishment tools should be optimized, so as to further enhance the capital strength of financial institutions. Measures shall also be taken to promote the financial market, improve its capacity in supplying new products, and guide the asset management sector to provide long-term stable funding support for the capital market.

IV. How to ensure steady and orderly rectifications during the transition period?

First, financial institutions are required to shoulder primary responsibilities. Financial institutions should specify outstanding assets to be rectified, adjust rectification plans at their own discretion, keep records of rectified assets, conduct list-based management and monitor the implementation of the plans on a quarterly basis during the transitional period. Second, an incentive and restraint mechanism should be established and improved. For financial institutions completing rectifications before end-2020 or ahead of schedule even though the rectification has been extended until end-2021, incentives should be given in terms of regulatory rating, macroprudential assessment (MPA), issuance of capital replenishment tools and development of innovative businesses. In contrast, for financial institutions failing to complete rectifications as scheduled before end-2021, in addition to punitive actions in terms of regulatory rating, MPA and development of innovative businesses, other measures can

be imposed accordingly, such as inquiries by regulatory authorities, regulatory notifications, issuance of regulatory letters, suspension of businesses, and increased premium of deposit insurance. Where individual institutions resort to deceitful behaviors or implement requirements selectively, the regulators will impose regulatory penalties on them. Third, regulatory coordination should be enhanced to step up the implementation of policies. The PBC will work with relevant authorities to establish a liaison and coordination mechanism for the rectification of the asset management business, intensify policy coordination and foster a favorable policy environment for rectification.

V. Does the extension indicate any change in the direction of the asset management business reform?

Based on the principle of seeking truth from facts, the policy arrangement of extending the transition period is made in light of a mix of factors, including the impacts of the pandemic, macro environment, market situations and financing of the real economy. It is in line with the original intention and bottom line of the new regulatory guidance on asset management business, namely to rectify financial irregularities and achieve well-regulated and sound development. The policy neither entails any change in or adjustment to the regulatory standards on the asset management business, nor does it indicate any change in the direction of the asset management reform. The arrangement not only contributes to consolidating the previous risk mitigation efforts, and transforming and upgrading the asset management business, but also helps cushion the impact of the pandemic, stabilize financing supply to the real economy and enable stronger financial support for the real economy.

In the next step, financial regulators will urge the financial institutions to effectively work on rectifications during the transitional period, and push forward the continued sound development of the asset management business.

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