

Announcement of China Securities Regulatory Commission  
(No.30 [2008])

The Provisions for the Trial Implementation of the Compliance Management of Securities Companies are hereby promulgated, and shall come into force on August 1, 2008.

July 14, 2008

Provisions for the Trial Implementation of the Compliance Management of Securities Companies

Article 1 For the purpose of urging securities companies to strengthen their internal compliance management, improve their self-disciplinary capability and realize sustainable and legal development, these Provisions are formulated in accordance with the Securities Law and the Regulation on the Supervision and Administration of Securities Companies.

Article 2 Securities companies established in the People's Republic of China shall exercise compliance management in accordance with these Provisions.

The term "compliance management" as mentioned in these Provisions refers to a securities company's formulation and execution of compliance management rules, setting up compliance management mechanisms, cultivating a compliance culture and preventing compliance risks.

The term "compliance" as used in these Provisions means that the operation, management and practicing behaviors of a securities company and the staff thereof are in compliance with the laws, regulations, rules, other normative documents, industrial norms, self-disciplinary rules, the internal regulations and bylaws of the company, and the professional ethics and code of conduct that are generally accepted and observed by the industry (hereinafter collectively referred to as "laws, regulations and norms").

The term "compliance risks" as used in these Provisions refers to the risks of a securities company to be sanctioned, imposed supervisory measures, or suffer from property or reputation losses because of violation of the laws, regulations or norms in the operation, management or practicing behaviors of the company or its staff.

Article 3 The compliance management of a securities company shall cover all businesses, departments, branch institutions and the staff of the company, and shall exist in all links including decision-making, execution, supervision and feedback.

Article 4 A securities company shall build up the philosophy of operating in full compliance, practice in compliance by all staff, and in particular, compliance by the top management, shall advocate and facilitate the building of the compliance culture, and cultivate the compliance awareness of all staff.

Article 5 A securities company shall work out a basic compliance management system and put it into effect after it is deliberated and adopted by the board of directors. The basic system shall include the objectives and basic principles of compliance management, the institutions for compliance management and the duties thereof, and the measures for reporting and handling compliance violations and the sanctions therefor.

Article 6 The board of directors, board of supervisors and senior managers of a securities company shall perform their compliance management-related duties in accordance with laws, regulations and the bylaws of the company, and bear the responsibility for the efficiency of compliance management.

The person-in-charge of any department or branch institution of the securities company shall underline the supervision of compliance in the practice of the workers of his department or branch institution, and shall take charge of the efficiency of the compliance management work of his department or branch institution.

Any worker of the securities company shall be familiar with the laws, regulations and norms related to his practice, take initiative in identifying and controlling the compliance risks in his practice, and be responsible for the compliance of his conduct.

Article 7 When necessary, a securities company may have a related internal institution or department to evaluate the compliance management efficiency of the company or entrust an external professional agency to do the evaluation as to solve the problems existing in compliance management in a timely manner. A comprehensive evaluation on compliance management efficiency shall be conducted at least once every year.

Article 8 A securities company shall have a compliance director, who shall take charge of the compliance work of the company and shall examine, supervise and inspect the compliance of the operation, management and practice of the company and the staff thereof. The director may not concurrently hold any other position or take charge of any other department that conflicts with his compliance management duties.

A securities company shall specify the status and duties of the compliance director, and the conditions and procedures for his appointment and removal.

Article 9 One shall satisfy the following conditions to hold the position of compliance director general:

1. qualified to be a senior manager in a securities company;
2. good knowledge of the securities business, the securities laws, regulations and norms, and having the expertise and skills required by the compliance work; and
3. having worked in the securities industry for five years or more, and having passed the relevant professional examination or having more than eight years work experience in the legal industry; or having worked at a professional regulatory post of a securities regulatory organ for eight years or more.

The “professional examination” as mentioned above refers to the competence examination for the compliance managers of securities companies, the national judicial examination and the bar examination.

Article 10 To hire a person as a compliance director, a securities company shall submit the resume of the candidate and the relevant evidentiary materials to the securities regulatory bureau of the place of domicile of the company, and the person may not assume the position until the said securities regulatory bureau so approves.

To remove a person from the office of compliance director, a securities company shall have legitimate reasons to do so and shall, within three workdays after removing him from office, report the removal and the reasons therefor to the securities regulatory bureau of the place of domicile of the company in written form.

Article 11 Where the compliance director fails to perform his duties or the office is vacant, the securities company shall appoint a senior manager to perform the duties of the compliance director, and submit a written report on the appointment to the securities regulatory bureau of the place of domicile of the company within three workdays after appointment.

The person performing duties on behalf of the compliance director shall not take charge of any department that conflicts with the compliance management duties, and he may act on behalf of the compliance director for at most six months.

Once the compliance director’s position becomes vacant, the company shall hire a person who satisfies the requirements as prescribed in Article 9 of these Provisions to assume the office within six months.

Article 12 The compliance director of a securities company shall make compliance examinations on the internal management system, big decisions, new products and new business schemes of the company and issue written compliance examination opinions.

Where the securities regulatory organ requires examining the compliance state of the application materials or a

report submitted by the company, the compliance director shall make a compliance examination and state express opinions on the application materials or report.

Article 13 The compliance director of a securities company shall take effective measures to supervise the compliance of the operation, management and practice of the company and the staff thereof, and shall make regular or irregular examinations in accordance with the requirements of the securities regulatory organ or the articles of the company.

The compliance director shall ensure the implementation of the anti-money laundering system and the information firewall system of the company, provide compliance advice and trainings for the senior managers, departments and branch institutions of the company, and handle the complaints and reports about misconducts or compliance violations of the company and the staff thereof.

Article 14 The compliance director shall, once finding that the company has any misconduct, compliance violation or potential compliance risk, report to the corresponding internal institution as specified in the bylaws of the company, the securities regulatory bureau of the place of domicile of the company, and report to the competent self-disciplinary organization if breach of any of the industrial norms or the self-disciplinary rules is found.

For any misconduct, compliance violation or potential compliance risk, the compliance director shall tell the relevant institution or department of the company to stop it and how to deal with it, and urge the institution or department to correct. The company shall report the rectification results to the securities regulatory bureau of the place of domicile of the company, and send a copy of the report to the relevant self-disciplinary organization where necessary.

Article 15 Where any law, regulation or norm changes, the compliance director shall inform the board of directors or senior managers of the company about the change and urge the relevant department to evaluate the impact of the change on the company's compliance management so as to make corresponding amendments or adjustments to the management system and workflow.

Article 16 The compliance director shall keep in touch with the securities regulatory organ and the relevant self-disciplinary organization, and cooperate with them.

The compliance director shall handle the issues whose investigation is required by the securities regulatory organ or the self-disciplinary organization in a timely manner, cooperate with the securities regulatory organ or the self-disciplinary organization when the latter is inspecting or investigating the company, and follow up and evaluate the implementation of the regulatory opinions and requirements.

Where the compliance director believes that any law, regulation or norm is not clear enough to make a right judgment on where the operation, management and practice of the company and the staff thereof are in compliance with regulation, he may consult the securities regulatory organ or the self-disciplinary organization, which shall give a reply in a timely manner.

Article 17 The compliance director shall archive for future reference the compliance examination opinions issued, the compliance advices given, the documents signed by him, the working papers of compliance examination and other documents and materials concerned in his performance of duties, and keep records of his performance of duties.

Article 18 A securities company shall guarantee the independency of the compliance director and ensure that the compliance director is able to sufficiently exercise the right to know and the right to investigate which are necessary for performing his duties.

The compliance director has the right to attend as an official delegate or a non-voting delegate any meeting

related to his performance of duties, look up the documents or materials and ask the relevant personnel of the company to make an explanation on a certain issue.

None of the shareholders, directors and senior managers of the securities company may violate the prescribed duties and procedures by directly giving instructions to the compliance director or interfering with his work. All directors, supervisors, senior managers, departments and branch institutions of the securities company shall provide support and assist the compliance director to do his work, and may not restrict or impede the compliance director from performing his duties under any excuse.

Article 19 A securities company shall provide necessary manpower, materials, financial resources and technical support for the compliance director to perform his duties.

A securities company shall, according to its scope of business, scale of business and organization structure, set up a compliance department or appoint a relevant department (hereinafter referred to as compliance department) to assist the compliance director, equip the compliance department with sufficient compliance managers with the expertise and skills required for performing compliance duties.

The compliance director may hire professional agencies or persons from outside to assist him doing his work whenever he thinks it necessary.

Article 20 The compliance department shall be responsible to the compliance director, and discharge the compliance management duties in accordance with the clauses of the company and the arrangements made by the compliance director. Other duties put on the shoulders of the compliance department may not conflict with its compliance management duties.

A securities company shall clarify the division of duties between the compliance department and other internal control departments, and set up a work mechanism for the coordination and interaction among internal control departments.

Article 21 A securities company shall set up a compliance violation reporting system and ensure that each staff member normally exercise the right to report misconducts and compliance violations.

Where any department, branch institution or staff member finds any misconduct, compliance violation or potential compliance risk, it/he shall take initiatives to report to the compliance director in a timely manner.

Article 22 A securities company shall bring the efficiency of compliance management and the compliance of practice into the performance evaluation of its senior managers, departments, branch institutions and the staff thereof.

A securities company shall evaluate the performance of the compliance director and managers and determine their wages based on the evaluation results. If the compliance director or a compliance manager is proved to be competent at his job, his wage shall not be lower than the average wage of the managers at the same level.

Article 23 A securities company shall file a mid-term compliance report with the securities regulatory bureau of the place of domicile of the company before August 31 each year, and file an annual compliance report of the last year before April 30 each year. Such a compliance report shall have been adopted by the board of directors and cover the following contents:

1. the basic information about the company's compliance management;
2. information about the performance of duties by the compliance director;
3. whether any misconduct, compliance violation or compliance risk has been found out and whether it has been rectified;
4. information about the efficiency evaluation and rectification of the compliance management; and
5. other contents as specified by the securities regulatory organ.

The directors and senior managers shall sign confirmative opinions on the said compliance report to undertake the authenticity, accuracy and integrity of the contents of the report, and state their opinions and reasons if they have any objection against the contents of the report.

Article 24 The CSRC shall evaluate the efficiency of the compliance management of securities companies and take the evaluation results as an important basis for exercising classified supervision over them.

Article 25 Where a securities company has found, upon its own initiative, any misconduct or compliance violation by efficient compliance management, has properly handled it, imposed sanctions upon those who are liable, perfected the internal control system and workflow, and reported them to the securities regulatory bureau of the place of domicile of the company in a timely manner, it shall be exempted from responsibility or given a lighter punishment.

For a misconduct or a compliance violation of a securities company, if the compliance director has performed his duties of stopping and reporting the violation in accordance with the relevant provisions, he shall be exempted from responsibility.

Article 26 If any securities company fails to efficiently make compliance management, fails to have a good internal control system or commits any misconduct or compliance violation, the securities regulatory organ shall take supervisory measures against the company and the liable directors, senior managers and other persons thereof or subject them to legal liabilities.

If the misconduct or compliance violation is committed with the support or connivance of the compliance director, or the director fails to stop or report it as required without legitimate reasons, the securities regulatory organ shall take supervisory measures against him or bring him to justice.

Article 27 These Provisions shall come into force on August 1, 2008.