

Announcement of China Securities Regulatory Commission

(No. 42 [2008])

The Interim Provisions on the Examination and Approval of the Business Scope of Securities Companies are hereby promulgated and shall come into force on December 1, 2008.

October 30, 2008

Interim Provisions on the Examination and Approval of the Business Scope of Securities Companies

Article 1 For the purpose of clarifying the relevant matters on the examination and approval of the business scope of securities companies, these Provisions are formulated according to the Securities Law and the Regulation on the Supervision and Administration of Securities Companies.

Article 2 A securities company shall engage in the securities business and other businesses within the scope approved by the CSRC, and shall not operate beyond the scope.

Article 3 In case a securities company provides securities investment advisory service to its securities brokerage business client but has failed to conclude a separate contract with the such client or separately charge for such service, and the commission it charged for the securities brokerage business does not exceed the prescribed upper limit, it does not have to obtain the qualification for securities investment advisory business, but shall implement the rules for the securities investment advisory business by analogy.

Article 4 In case a securities company conducts cash management, invests its own funds in purchasing the securities of low risk and high fluidity as approved by the CSRC, including treasury bonds publicly offered, investment-grade corporate bonds, monetary market funds and central bank bills, and in the portfolio asset management plans or special asset management plans established by the securities company upon the approval of the CSRC, and the investment scale of which do not exceed 80% of its net capital, or engages in the purchase and sale of securities due to the performance of its underwriting obligation, it does not have to obtain the securities self-operating business qualification, but shall implement the rules for the

securities self-operated business by analogy.

Article 5 Upon the approval of the CSRC, a securities company may engage in the businesses not clearly prescribed in the Securities Law, the Regulation on the Supervision and Administration of Securities Companies, and other regulations and regulatory documents of the CSRC (hereinafter referred to as the “innovative businesses”).

The operation of innovative businesses by a securities company shall not violate the existing laws, administrative regulations and provisions of the CSRC, the risks of which can be calculated, controlled and endured, shall relate closely to the current securities businesses, and contribute to the full use of the present business outlets, customer resources, business expertise, or management experiences of the company, and to optimizing customer services and improving the profit model of the company.

To operate the innovative businesses, a securities company shall establish an internal assessment and examination mechanism, conduct full assessment and study on the compliance, feasibility, and possible risks of the innovative businesses, formulate rules for business management, and clarify the operating procedures, risk control measures and measures for protecting the legitimate rights and interests of customers.

Article 6 The securities companies controlled by a same entity or individual or by each other may not operate the same business, unless the related companies have taken effective measures to make a clear distinction between the business areas or targeted customer group, with the exception of those in which they do not compete with each other.

Article 7 When a securities company is established, the CSRC shall approve its business scope according to the statutory conditions. The approved business scope of a newly established company shall not include more than 4 kinds, unless it is otherwise prescribed by the CSRC.

The modification of business scope by a securities company shall be subject to the approval of the CSRC. The business scope modification includes the addition of a business type and removal of a business type. A securities company shall not apply for adding more than 2 kinds of business each time.

Article 8 To add a new business type, a securities company shall comply with the following requirements of prudence:

1. After the addition of the new business type, the registered capital of the company shall comply with Article 127 of the Securities Law;
2. It shall have a sound governance structure and effective internal control mechanism, which are able to effectively control the current risks and the risks of the business type to be added;
3. All of its risk control indicators for the latest one year shall continuously comply with the provisions and its net capital shall meet the provisions after addition of the new business type;
4. It shall have no record of any punishment resulting from severe violation of any law or regulation during the latest two years, have not been imposed any major regulatory measures during the latest one year, and have not been investigated by any relevant organ or industrial self-disciplinary organization due to major violation of any law or regulation;
5. It shall have senior managers to be responsible for the new type of business and an appropriate number of staff to be engaged in the said business;
6. The information system shall operate safely and stably, and have been free from any major accident for the latest one year; and the information system related to the new type of business shall comply with the provisions;
7. It shall have obtained a permit for operating the securities business and have operated continuously for 1 year; if it applies for adding a further new type of business, the application shall be made 6 months later than the date when the previous application was approved;
8. The current business operation and management shall be good; and

9. Any other requirements of any law, administrative regulation or the CSRC.

In case the new business to be added by a securities company is an innovative business, it shall comply with Article 5 (2) of these Provisions. If a subsidiary of a securities company, which operates the securities business, applies for adding any new business type, it shall comply with Article 7 of the Provisions for Trial Implementation on Establishing Subsidiary Companies by Securities Companies.

Article 9 To apply for adding a new business type, a securities company shall submit the following materials to the CSRC:

1. An application form;
2. The resolution on modification of business scope made by the shareholders' assembly;
3. The texts of business management rules and risk control rules relating to the new businesses to be added;
4. A statement on the compliance operation of the company during the latest 2 years;
5. A statement on the safe and stable operation of the information system;
6. A statement on the operation and management of the current businesses of the company; and
7. Any other materials required by the CSRC.

In case the new business to be added by the securities company is an innovative business, the securities company shall submit a business implementation plan, a feasibility study report, a compliance examination report on the business implementation plan issued by the compliance

director of the company and a letter of legal advice. If it is a business that has been approved for operation by the securities companies controlled by a same entity or individual or by each other, the company shall submit a business division plan, an agreement on implementing the business division as concluded by the relevant companies, the resolution on implementing the business division as made by the shareholders' assembly of the relevant companies and a letter of legal advice.

In case a subsidiary of a securities company operating the securities business applies for adding any new type of business, it shall submit the other materials prescribed by Article 8 of the Provisions for Trial Implementation on Establishing Subsidiary Companies by Securities Companies.

Article 10 The CSRC shall conduct examination on the application for adding new types of business filed by a securities company in accordance with the principle of prudent supervision, and shall make a decision of approval or disapproval within 45 workdays from accepting the application.

For the addition of an innovative business, the CSRC may organize relevant experts to carry out an assessment, and approve several securities companies to carry out pilot implementation at first; and may, in light of the situation of pilot implementation, decide to expand the pilot scope gradually, and normally push forward the implementation after the formulation of relevant business rules or stop the approval of new applications.

Article 11 A securities company shall, after the application for adding a new business type is approved, apply to the company registration authority for modification registration, and submit a photocopy of the duplicate of business license, and the name roll, resumes, and a photocopy of the qualification certificates of the senior managers to be responsible for the new business and the practicing staff, as well as the other materials to the CSRC within 15 workdays from the date of modification registration, and shall apply for renewing the permit for operating the securities business.

After receiving the application, the CSRC shall inform the dispatched office at the locality of the securities company to conduct an on-site inspection. The dispatched office shall carry out an inspection on the relevant business facilities, information system and business site of the securities company within 15 workdays from receiving the notice and issue an inspection report.

In case the securities company is found to fully meet the prescribed conditions through examination and inspection, the CSRC shall renew its permit for operating the securities business.

Article 12 A securities company shall neither operate the new business to be added nor conduct such marketing activities as promotion and customer contact relating to the new business until it has obtained renewal of the permit for operating the securities business.

In case a securities company is approved to add the business of providing service to customers such as securities brokerage, securities asset management, financing and securities raising, etc., it shall, after obtaining renewal of the permit for operating the securities business, take effective measures to conduct educational activities for investors, including legal dissemination, knowledge popularization and risk disclosure, etc. related to such business.

Article 13 To apply for removing a business type, a securities company shall submit an application form, the resolution on modification of business scope made by the shareholders' assembly, and a settlement plan for the business applied for removal to the CSRC. If the business applied for removal involves the general public, the company shall submit a plan for smoothing out the matters related to customers and the commitments in written form.

The securities company shall, after its application for removing a business type is approved, settle the business according to law, apply to the company registration authority for modification registration, and submit an application to the CSRC for renewing the permit for operating the securities business together with the required materials, including a photocopy of the duplicate of the business license within 15 workdays from the date of modification registration.

Article 14 A securities company shall file the application materials, which shall be submitted to the CSRC according to these Provisions, to the dispatched office of the CSRC at its locality for archival purposes within 5 workdays from the CSRC acceptance of the application.

In case the dispatched office of the CSRC challenges anything under application or any of application materials submitted by the securities company, it shall put it forward to the CSRC within 10 workdays from receiving the application materials filed for archival purpose by the securities company.

Article 15 The relevant existing provisions shall be followed in the examination and approval of the financial consultancy business in the merger, acquisition and reorganization of listed companies, the securities recommendation business, the consigned sale of securities investment funds, and the business of providing reference services to futures companies, and shall not be governed by these Provisions.

A securities company shall, after being approved for adding any new business or removing any existing business, handle the formalities for registration modification at the administrative department of industry and commerce, and apply to the CSRC for renewing the permit for operating the securities business.

Article 16 The permits for operating the securities business (hereinafter referred to as the "original permit") issued to securities companies by the CSRC according to the pre-amendment Securities Law of 2005 shall continue to be effective, the securities company may operate the business according to the corresponding relationship between the business type recorded in the original permit and the business prescribed in Article 125 of the Securities Law. Please see the Table of Business Types of Securities Companies for the corresponding relationship between the business type recorded in the original permit and the business prescribed in Article 125 of the Securities Law.

In case a securities company applies for renewing its permit for operating the securities business due to expiration of the original permit or alteration of any recorded items, the CSRC shall make adjustment on the business type recorded in the original permit according to the aforesaid corresponding relationship.

Article 17 A security company shall file a photocopy of the duplicate of the permit for operating the securities business to the dispatched office of the CSRC at its locality for archival purposes within 10 working days as of obtaining renewal of its permit for operating the securities business.

Article 18 The CSRC and its detached offices shall conduct supervision and administration to the business activities of securities companies. In case a securities company conducts business in violation of any law or regulation, and the risk control index fails to comply with the provisions, or any other statutory circumstance occurs, the CSRC and its detached offices may, in view of the actual condition, take such measures as limiting its business activities, suspending some or all of its businesses, and canceling its business permit according to law.

Article 19 These Provisions shall come into force on December 1, 2008. The Several Opinions on Further Strengthening the Supervision of Securities Companies (No.14 [1999] of the CSRC) as promulgated by the CSRC on March 16, 1999 shall be abolished simultaneously.

Annex:

Table of the Business Types of Securities Companies