K&L GATES HUB

FOREIGN ADVISERS TO GAIN A NEW INDIRECT ROUTE TO CHINESE PRIVATE PENSION FUND MONEY

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Investment Management Alert

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A combination of recent regulatory developments in the People's Republic of China ("PRC") has opened up the prospect that foreign advisers may now have a reliable route to accessing indirectly a potentially huge pool of PRC private pension plan money without necessarily having to be based onshore in the PRC.

If fully implemented, this would be a major step forward, as, until recently, the only way for foreign fund houses to develop distribution channels to PRC retail investors involved the establishment of an onshore PRC presence and the development of the capability and distribution channels to deal directly with PRC retail investors.

Overview

The PRC government has been focusing on revamping its pensions system and has introduced new programs and incentives to address problems created by the PRC's aging population. Partly as a result of these efforts, pension contributions from PRC retail investors are anticipated to increase substantially every year to RMB11.4 trillion (US$1.72 trillion) by 2025.[1]

Specifically, the PRC Ministry of Human Resources and Social Security, the government body that oversees the PRC's pension program, has been working with its Ministry of Finance to grow the so-called third pillar[2] of the PRC's pension system (i.e., voluntary individual pension products). It has been seeking to encourage and increase voluntary pension contributions by PRC retail investors. This is being done through the use of incentives such as the introduction of tax deductions and tax-advantageous pension savings accounts.

On February 21, 2018, the China State Securities Regulatory Commission ("CSRC") issued rules after consultation to establish a framework for an innovative type of pension fund known as a pension target fund (养老目标证券投资基金) ("Pension FOF"), the Trial Guidelines for Pension FOF ("Trial Guidelines"). According to the administrative licensing record on the CSRC website, the CSRC granted approval to register to the first batch of Pension FOFs on August 3, 2018, and stated that the relevant Pension FOFs shall start fund raising activity within six months from the delivery date of the approval to register.

Pension FOFs are a type of fund of funds (i.e., funds that invest in funds managed by other fund managers rather than directly into stocks and bonds, etc.) tailored to PRC retail investors' retirement needs. Importantly, they are, according to the Trial Guidelines, which took effect on its date of issue, permitted to invest in funds ("Recognized HK Funds") that are approved for sale on the mainland through the formerly languishing China-Hong Kong Mutual Recognition of Funds scheme.

With careful structuring to navigate the requirements for onshore substance in Hong Kong, our understanding is that this could effectively include funds established by a non-PRC foreign fund manager. It may even be possible to use Hong Kong's mutual funds recognition schemes with other jurisdictions, such as the United Kingdom or Luxembourg. This development has therefore opened up the prospect that foreign advisers will have a reliable route to accessing indirectly a potentially huge pool of PRC private pension plan money without necessarily leaving their home jurisdiction.

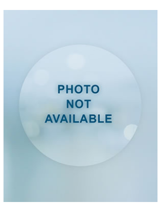
We would also like to draw your attention to another related development described in our recent alert, *CSRC Issues Update Indicating PRC Funds May Invest in Hong Kong Funds*, to the effect that Recognized HK Funds are now eligible investments for PRC fund of funds more generally.

Notes:

[1] KPMG, *China Pensions Landscape: The Year in Review and What's Ahead (2019)*, https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2019/03/china-pensions-landscape.pdf.

[2] Using nomenclature originally introduced and described by the World Bank in 1994.

KEY CONTACTS



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