

# **Securities Law of the People's Republic of China**

Decree No. 43 of the President of the People's Republic of China

Passed by the 6th Session of the Standing Committee of the Ninth National People's Congress on 29 December 1998

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## **Chapter I — General Principles**

### [Article 1](#)

This Law is promulgated for the purposes of standardising issuance and trading of securities, protecting the legal rights and interests of the investors, safeguarding social and economic order and public interest and promoting the development of the socialist market economy.

### [Article 2](#)

The provisions of this Law shall apply to the issuance and trading of shares, corporate bonds and other securities determined by the State Council within the People's Republic of China in accordance with the provisions of the law. Where there are no relevant provisions in this Law, the provisions of the *Company Law of the People's Republic of China* and other laws and administrative regulations shall apply.

The provisions of this Law shall apply to the trading of listed treasury bonds and securities investment fund units. Where there are special provisions in other laws and administrative regulations, such provisions shall prevail.

The administrative measures on issuance and trading of securities derivatives shall be formulated by the State Council in accordance with the principle of this Law.

### [Article 3](#)

Issuance and trading of securities shall comply with the principles of transparency, equity and fairness.

### [Article 4](#)

Parties engaging in issuance and trading of securities shall enjoy equal legal status and shall comply with the principles of voluntary participation, compensation and honesty and trustworthiness.

#### [Article 5](#)

Issuance and trading of securities shall comply with the provisions of laws and administrative regulations; fraud, insider trading and manipulation of the securities market shall be prohibited.

#### [Article 6](#)

The securities industry and banking industry, trust industry and insurance industry shall implement industry operations and administration separately; securities companies, banks, trust organisations and insurance organisations shall be established separately, unless otherwise provided by the State.

#### [Article 7](#)

The securities regulatory authorities of the State Council shall implement unified supervision and administration on the securities market nationwide in accordance with the provisions of the law.

The securities regulatory authorities of the State Council may establish representative offices based on the actual needs to perform supervision and administration duties as authorised.

#### [Article 8](#)

Under the prerequisite of unified State supervision and administration on issuance and trading of securities and the securities industry association shall be established in accordance with the provisions of the law to implement self-governance.

#### [Article 9](#)

State audit authorities shall carry out audit and supervision over stock exchanges, securities companies, securities registration and settlement organisations and securities regulatory authorities in accordance with the provisions of the law.

## **Chapter II — Issuance of Securities**

#### [Article 10](#)

Public offering of securities shall satisfy the criteria provided in the laws and administrative regulations and obtain the approval of the securities regulatory authorities of the State Council or authorised department(s) of the State Council in accordance with the provisions of the law. No organisation or individual shall issue securities for public offering without obtaining prior approval in accordance with the provisions of the law.

The following situations shall be deemed as a public offering:

- (1) offering of securities to non-specific targets;
- (2) offering of securities to more than 200 specific targets; and
- (3) other offerings provided by the laws and administrative regulations.

Private offering of securities shall not carry out advertising, open solicitation and disguised publicity campaigns.

#### [Article 11](#)

Issuers applying to make a public share offering or to issue convertible corporate bonds by way of underwriting in accordance with the provisions of the law or to make a public offering of other securities which require a sponsor as provided by the laws and administrative regulations shall appoint a qualified organisation to act as a sponsor.

A sponsor shall comply with business rules and industry norms and the principles of honesty and trustworthiness and due diligence to conduct due diligence review on the application documents and information disclosure of the issuer and supervise the conduct of the issuer.

The qualifications of sponsors and the relevant administrative measures on sponsors shall be provided by the securities regulatory authorities of the State Council.

#### [Article 12](#)

Public offering of shares for the establishment of a company limited by shares shall satisfy the criteria stipulated in the *Company Law of the People's Republic of China* and other requirements provided by the securities regulatory authorities of the State Council; an application for share offering and the following documents shall be submitted to the securities regulatory authorities of the State Council:

- (1) articles of association of the company ;
- (2) founders' agreement;
- (3) name of the founders, shares subscribed by the founders, type of capital contribution and capital verification certificate;
- (4) prospectus;
- (5) name and address of the receiving bank; and
- (6) name of the underwriter and the relevant agreement.

The sponsor's letter for issuance issued by the sponsor shall be submitted if a sponsor is appointed in accordance with the provisions of this Law.

Where the laws and administrative regulations provide that the establishment of a company requires approval, the relevant approval documents shall be submitted.

#### [Article 13](#)

A company proposing to making a public offering of new shares shall satisfy the following requirements:

- (1) it has a proper and well-functioning organisation structure;
- (2) it has made profits in consecutive years and is in good financial standing;
- (3) its financial accounting documents in the past three years do not contain any fraudulent entries and it has not committed a major violation of law; and
- (4) other requirements provided by the securities regulatory authorities of the State Council.

Private offering of new shares by listed companies shall satisfy the criteria stipulated by the securities regulatory authorities of the State Council and the approval of the securities

regulatory authorities of the State Council is required.

[Article 14](#)

A company proposing to make a public share offering shall submit an application for share offering and the following documents to the securities regulatory authorities of the State Council:

- (1) business licence of the company;
- (2) articles of association of the company;
- (3) resolution of a shareholders' general meeting;
- (4) prospectus;
- (5) financial accounting report;
- (6) name and address of the receiving bank; and
- (7) name of the underwriter and the relevant agreement.

The sponsor's letter for issuance issued by the sponsor shall be submitted if a sponsor is appointed in accordance with the provisions of this Law.

[Article 15](#)

Companies shall use the proceeds from their public share offering for the usage purpose set out in the prospectus. Where the proceeds are proposed to be used for a different usage purpose, a resolution of a shareholders' general meeting is required. Where a company uses the proceeds for a different usage purpose arbitrarily and fails to make correction or such act is not ratified by a shareholders' general meeting, it shall be prohibited from making a public offering of new shares.

[Article 16](#)

A public offering of corporate bonds shall satisfy the following requirements:

- (1) the net assets of a company limited by shares shall not be less than RMB30 million; the net assets of a limited liability company shall not be less than RMB60 million;
- (2) the cumulative balance of corporate bonds shall not exceed 40% of the company's net assets;
- (3) the average distributable profits in the past three years are sufficient to pay out interest for one year of the corporate bonds;
- (4) the usage purpose of the proceeds shall comply with State industrial policies;
- (5) the coupon rate of the corporate bonds shall not exceed the coupon rate stipulated by the State Council; and
- (6) other requirements stipulated by the State Council.

The proceeds from a public offering of corporate bonds shall be used for approved purpose(s) only and shall not be used to make up for losses or to pay for non-production expenses.

Listed companies issuing convertible corporate bonds shall, in addition to the requirements stipulated in item (1), satisfy the requirements stipulated in this Law for public offering of shares; and shall obtain the approval of the securities regulatory

authorities of the State Council.

[Article 17](#)

Companies proposing to make a public offering of corporate bonds shall submit the following documents to the authorised department(s) of the State Council or the securities regulatory authorities of the State Council:

- (1) business licence of the company;
- (2) articles of association of the company ;
- (3) method of offering of corporate bonds;
- (4) asset valuation report and capital verification report; and
- (5) other documents required by the authorised department(s) of the State Council or the securities regulatory authorities of the State Council.

The sponsor's letter for issuance issued by the sponsor shall be submitted if a sponsor is appointed in accordance with the provisions of this Law.

[Article 18](#)

Under any of the following circumstances, a company shall not make another public offering of corporate bonds:

- (1) its previous public offering of corporate bonds was not fully subscribed;
- (2) it has defaulted on corporate bonds issued by way of a public offering or other debts or is late in repayment of principal and interest and such default has not been resolved; or
- (3) it has violated the provisions of this Law in changing the usage purpose of the proceeds from a public offering of corporate bonds arbitrarily.

[Article 19](#)

The format and method of submission of application documents for issuance of securities to be submitted by issuers for approval to issue securities shall be stipulated by the approval authorities or department(s) in accordance with the provisions of the law.

[Article 20](#)

Application documents submitted by issuers to the securities regulatory authorities of the State Council or the authorised department(s) of the State Council for issuance of securities shall be true, accurate and complete.

Securities service organisations and their personnel issuing the relevant documents for issuance of securities shall perform the statutory duties strictly and ensure that the documents issued are true, accurate and complete.

[Article 21](#)

Issuers proposing to make an initial public offering of shares shall, upon submission of the application documents, disclose the relevant application documents in accordance with the provisions of the securities regulatory authorities of the State Council.

[Article 22](#)

The securities regulatory authorities of the State Council shall establish an issuance review committee in accordance with the provisions of the law to review applications for issuance

of shares.

The issuance review committee shall comprise professionals of the securities regulatory authorities of the State Council and the relevant external experts; the committee shall vote on applications for issuance of shares and give their review opinion.

Measures on composition of the issuance review committee, tenure of the committee members and work procedures of the committee shall be stipulated by the securities regulatory authorities of the State Council.

#### [Article 23](#)

The securities regulatory authorities of the State Council shall approve applications for issuance of shares based on the statutory requirements. The approval procedures shall be transparent and be subject to supervision in accordance with the provisions of the law.

A personnel who participates in the examination and approval of an application for share issuance shall not be related to the applicant and shall not accept directly or indirectly gift(s) from the applicant or hold shares of the subject application or contact the applicant privately.

The authorised department(s) of the State Council shall approve applications for issuance of corporate bonds with reference to the provisions of the preceding paragraphs.

#### [Article 24](#)

The securities regulatory authorities of the State Council or the authorised department(s) of the State Council shall decide on approval or non-approval of an application in accordance with the statutory requirements and procedures within three months from acceptance of the application documents; the period of time taken by the issuer to submit supplementary materials or make correction to its application documents as instructed shall not be included in the three-month time limit; unsuccessful applicants shall be informed of the reason for non-approval.

#### [Article 25](#)

Where an application for issuance of securities is approved, the issuer shall announce the public offering documents in accordance with the provisions of the laws and administrative regulations prior to the public offering of securities and place such documents at a designated venue for inspection by the public.

Prior to disclosure of information pertaining to the issuance of securities in accordance with the provisions of the law, insiders shall not disclose or divulge such information.

Issuers shall not issue securities prior to announcement of the public offering documents.

#### [Article 26](#)

Upon approval of an application for issuance of securities and before the securities are issued, if the securities regulatory authorities of the State Council or the authorised department(s) of the State Council discover that the application does not satisfy the statutory requirements or procedures, the approval shall be revoked to halt the issuance of securities. Where the securities have been issued but not listed, the issuer shall, upon

revocation of the approval, refund the issue price and interest computed based on bank interest rate for the same period to the securities holders; the sponsor shall bear joint liability with the issuer, unless it can prove that it is not at fault; where the controlling shareholders and the actual controlling party are at fault, they shall bear joint liability with the issuer.

[Article 27](#)

Where there is a change in the business and gains of the issuer after it has issued shares in accordance with the provisions of the law, the issuer shall bear the responsibility; the investment risks arising from such change shall be borne by the investors.

[Article 28](#)

Where the laws and administrative regulations provide that a public offering of securities to non-specific targets by an issuer is to be underwritten by a securities company, the issuer shall enter into an underwriting agreement with the securities company. Underwriting of securities may take the form of best efforts and firm commitment.

Best efforts shall refer to the underwriting method under which a securities company sells the securities on behalf of the issuer and returns all unsold securities to the issuer upon expiry of the underwriting period.

Firm commitment shall refer to the underwriting method under which a securities company purchases all the securities from the issuer based on the agreement or purchases the unsold securities upon the expiry of the underwriting period.

[Article 29](#)

Issuers proposing to make a public offering of securities shall have the right to appoint a securities company of their choice to be the underwriter in accordance with the provisions of the law. Securities companies shall not engage in improper competition to solicit for securities underwriting business.

[Article 30](#)

Securities companies engaging in securities underwriting shall enter into a best efforts agreement or firm commitment agreement with the issuer to set out the following matters:

- (1) name and address of the parties and their legal representative;
- (2) type, quantity, amount and issue price of the securities underwritten on a best efforts or first commitment basis;
- (3) the best efforts underwriting period or firm commitment underwriting period and the date of commencement and expiry;
- (4) date and method of payment for best efforts underwriting or firm commitment underwriting;
- (5) expenses and method of settlement of best efforts underwriting or firm commitment underwriting;
- (6) default liability; and
- (7) other matters stipulated by the securities regulatory authorities of the State Council.

[Article 31](#)

Securities companies engaging in securities underwriting shall verify the veracity, accuracy and completeness of the public offering documents; where the documents are found to contain fraudulent entries, misleading representation or major omission, selling activities shall not be conducted; where the selling activities have commenced, they shall be suspended forthwith and correction measures shall be adopted.

[Article 32](#)

Public offering of securities to non-specific targets which exceed RMB50 million in total par value shall be underwritten by a syndicate of underwriters; the syndicate of underwriters shall comprise the lead underwriter and securities companies participating in the underwriting.

[Article 33](#)

The maximum period for best efforts underwriting or firm commitment underwriting shall not exceed 90 days.

Securities companies shall ensure that the securities underwritten on a best efforts basis or firm commitment basis shall be sold to subscribers first during the best efforts underwriting period or firm commitment underwriting period; securities companies shall not reserve securities underwritten on a best efforts basis for themselves or buy securities purchased and retained under the firm commitment underwriting agreement.

[Article 34](#)

The issue price of shares issued at a premium shall be negotiated and determined by the issuer and the underwriter(s).

[Article 35](#)

Upon expiry of the best efforts underwriting period or firm commitment underwriting period, the issuance shall be deemed as unsuccessful if the shares sold to investors are below 70% of the proposed size of public share offering. The issuer shall refund the issue price and interest computed based on bank interest rate for the same period to the subscribers.

[Article 36](#)

Upon expiry of the best efforts underwriting or firm commitment underwriting period of a public share offering, the issuer shall file the outcome of share issuance with the securities regulatory authorities of the State Council within the stipulated period for records.



## **Chapter III — Trading of Securities**

### *Section 1 — General Provisions*

#### [Article 37](#)

The securities traded by the buyer and seller in a securities transaction shall be securities which are issued and delivered in accordance with the provisions of the law.

Securities which are not issued in accordance with the provisions of the law shall not be traded.

#### [Article 38](#)

Shares, corporate bonds and other securities which are issued in accordance with the provisions of the law shall not be traded within the moratorium on transfer stipulated by the law.

#### [Article 39](#)

Shares, corporate bonds and other securities issued by way of a public offering in accordance with the provisions of the law shall be listed and traded on stock exchanges established in accordance with the provisions of the law or on other securities trading venue approved by the State Council.

#### [Article 40](#)

Trading of securities listed on stock exchanges shall take the form of open centralised trading method or other methods approved by the securities regulatory authorities of the State Council.

#### [Article 41](#)

Securities traded by buyers and sellers may be in script form or other forms stipulated by the securities regulatory authorities of the State Council.

#### [Article 42](#)

Securities trading shall be in the form of spot transaction or other forms stipulated by the State Council.

#### [Article 43](#)

The personnel of stock exchanges, securities companies, securities registration and settlement organisations and the securities regulatory authorities and other personnel prohibited by the laws and administrative regulations from trading in shares shall not buy and sell shares directly or using an alias or hold shares in the name of another person or accept gifts of shares from others during their term of appointment or the statutory period. The aforesaid personnel shall transfer such shares held by him/her in accordance with the provisions of the law prior to taking up an appointment of the aforesaid posts.

#### [Article 44](#)

Stock exchanges, securities companies and securities registration and settlement organisations shall keep information of accounts opened and maintained by their customers confidential in accordance with the provisions of the law.

#### [Article 45](#)

A securities service organisation and its personnel involved in the issuance of an audit report, an asset valuation report or a legal opinion etc for a share issuance shall not buy or sell such shares within the underwriting period of the shares and within six months from the expiry of the underwriting period.

With the exception of the provisions in the preceding paragraph, a securities service organisation and its personnel involved in the issuance of an audit report, an asset valuation report or a legal opinion for a listed company shall not buy or sell the shares of the listed company during the period from its acceptance of the appointment by the listed company to the 6th day after the announcement of the aforesaid document(s).

#### [Article 46](#)

Securities transaction fees shall be reasonable and the fee items, rates and payment method shall be made public.

Fee items and rates of and administrative measures on securities transaction fees shall be standardised and stipulated by the relevant department(s) of the State Council.

#### [Article 47](#)

The gains made by a director, supervisor or senior management personnel of a listed company holding 5% or more of the shares of the listed company from selling shares of the company within six months from the purchase of such shares or buying shares of the company within six months from the sale of such shares shall belong to the company; the board of directors of the company shall collect such gains. However, an underwriter which holds 5% or more of the shares of a listed company from buying the unsold shares in accordance with the underwriting agreement shall not be subject to the six-month moratorium for selling of such shares.

Where the board of directors of the company fails to perform the duties stipulated in the preceding paragraph, the shareholders shall have the right to demand that the board of directors perform the duties within 30 days. Where the board of directors of the company fails to perform the duties within the aforesaid period, the shareholders shall have the right to file a lawsuit directly in their own name with a people's court to protect the interests of the company.

Where the board of directors of the company fails to perform the duties in accordance with the provisions of the first paragraph, the directors who are accountable shall bear joint liability in accordance with the provisions of the law.

### *Section 2 — Listing of Securities*

#### [Article 48](#)

An applicant applying for listing of securities shall submit its application to the stock exchange for examination and approval by the stock exchange in accordance with the provisions of the law and enter into a listing agreement with the stock exchange.

Stock exchanges shall arrange for listing of treasury bonds in accordance with the decision

of the authorised department(s) of the State Council.

[Article 49](#)

An organisation which is qualified to act as a sponsor shall be appointed as a sponsor for listing applications for shares, convertible corporate bonds or other securities which require a sponsor as stipulated by the laws and administrative regulations.

The provisions of Article 11(2) and 11(3) shall apply to sponsors for listing applications.

[Article 50](#)

A company limited by shares applying for a listing of shares shall satisfy the following requirements:

- (1) the shares have been approved by the securities regulatory authorities of the State Council and have been issued by way of a public offering;
- (2) the total share capital of the company is not less than RMB30 million;
- (3) shares issued by way of a public offering amount to 25% or more of the total number of shares of the company; or amount to 10% or more of the total number of shares of the company where the total share capital of the company exceeds RMB400 million; and
- (4) its financial accounting documents in the past three years do not contain any fraudulent entries and it has not committed a major violation of law.

The stock exchanges may stipulate listing requirements which are stricter than the aforesaid provisions and submit such listing requirements to the securities regulatory authorities of the State Council for approval.

[Article 51](#)

The State encourages the listing of shares of companies which comply with the State industrial policies and satisfy listing requirements.

[Article 52](#)

Companies applying for share listing shall submit the following documents to the stock exchange:

- (1) listing report;
- (2) resolution of a shareholders' general meeting on application for share listing;
- (3) articles of association of the company ;
- (4) business licence of the company;
- (5) financial accounting reports of the company for the past three years audited by an accounting firm in accordance with the provisions of the law;
- (6) legal opinion and sponsor's letter for listing;
- (7) the latest prospectus; and
- (8) other documents as stipulated in the listing rules of the stock exchange.

[Article 53](#)

Upon examination and approval by the stock exchange of an application for share listing, the company which has entered into a listing agreement shall announce the relevant documents within the stipulated period and place such documents at a designated venue

for inspection by the public.

[Article 54](#)

The company which has entered into a listing agreement shall, in addition to announcement of the documents stipulated in the preceding article, make announcement of the following matters:

- (1) the date on which the shares are approved for trading on the stock exchange;
- (2) the top ten shareholders of the company and their respective shareholding;
- (3) the actual controlling party of the company; and
- (4) name of the directors, supervisors and senior management personnel and their respective holding of the company's shares and corporate bonds.

[Article 55](#)

Under any of the following circumstances, the stock exchange shall order the listed company to suspend the listing and trading of its shares:

- (1) there are changes in the total share capital and shareholding distribution etc of the company which renders the company to be disqualified from listing;
- (2) the company fails to announce its financial conditions in accordance with the provisions or has made fraudulent entries in its financial accounting reports which may mislead investors;
- (3) the company has committed a major violation of law;
- (4) the company has been making losses for the past three consecutive years; and
- (5) other circumstances as stipulated in the listing rules of the stock exchange.

[Article 56](#)

Under any of the following circumstances, the stock exchange shall delist the listed company:

- (1) there are changes in the total share capital and shareholding distribution etc of the company which renders the company to be disqualified from listing and the company is unable to reinstate its position to satisfy listing requirements within the stipulated period of time;
- (2) the company fails to announce its financial conditions in accordance with the provisions or has made fraudulent entries in its financial accounting reports and refuses to make correction;
- (3) the company has been making losses in the past three consecutive years and fail to turn profitable in the subsequent year thereafter;
- (4) the company is dissolved or declared bankrupt; and
- (5) other circumstances as stipulated in the listing rules of the stock exchange.

[Article 57](#)

A company applying for listing of its corporate bonds shall satisfy the following requirements:

- (1) the term of corporate bonds shall be more than one year;

- (2) the actual issue size of the corporate bonds shall not be less than RMB50 million; and
- (3) the company continues to satisfy the statutory requirements for issuance of corporate bonds at the time of application for listing of corporate bonds.

[Article 58](#)

Companies applying for listing of corporate bonds shall submit the following documents to the stock exchange:

- (1) listing report;
- (2) resolution of the board of directors on application for listing of corporate bonds;
- (3) articles of association of the company ;
- (4) business licence of the company;
- (5) method of offering of corporate bonds;
- (6) actual issue size of corporate bonds; and
- (7) other documents as stipulated in the listing rules of the stock exchange.

The sponsor's letter for listing shall be submitted for an application for listing of convertible corporate bonds.

[Article 59](#)

Upon examination and approval by the stock exchange of an application for listing of corporate bonds, the company which has entered into a listing agreement shall announce the listing documents and relevant documents within the stipulated period and place the application documents at a designated venue for inspection by the public.

[Article 60](#)

Under any of the following circumstances, the stock exchange shall suspend the trading of the listed corporate bonds:

- (1) the company has committed a major violation of law;
- (2) the company has experienced a major change which renders it to be unable to satisfy the listing requirements for corporate bonds;
- (3) the proceeds from the offering of the corporate bonds were not used for the approved usage purpose(s);
- (4) the obligations from the offering of the corporate bonds have not been performed accordingly; and
- (5) the company has been making losses in the past two consecutive years.

[Article 61](#)

In the event of serious consequences resulting from an event set out in item (1) or item (4) of the preceding article or where the company fails to eliminate the circumstances set out in item (2), item (3) or item (5) within the stipulated period, the stock exchange shall delist the corporate bonds.

In the event that the company is dissolved or declared bankrupt, the stock exchange shall delist the corporate bonds.

[Article 62](#)

Companies which object to the decision of a stock exchange on non-approval of listing, suspension of trading or delisting may apply to the review organisation established by the stock exchange for a review.

*Section 3 — Continuing Information Disclosure*

[Article 63](#)

Information disclosure by issuers and listed companies made in accordance with the provisions of the law shall be true, accurate and complete and shall not contain false information, misleading representation or major omission.

[Article 64](#)

Upon approval of public offering of shares by the securities regulatory authorities of the State Council in accordance with the provisions of the law or upon approval of public offering of corporate bonds by the authorised department(s) of the State Council in accordance with the provisions of the law, the prospectus for share listing or the method of offering of corporate bonds shall be announced. The financial accounting report shall also be announced for a public offering of new shares or corporate bonds made in accordance with the provisions of the law.

[Article 65](#)

Listed companies shall submit interim reports which contain the following information to the securities regulatory authorities of the State Council and the stock exchange within two months from the end of the first half-year of each accounting year and announce such reports:

- (1) the financial accounting report and business report of the company;
- (2) major lawsuit(s) involving the company;
- (3) changes in existing shares and corporate bonds;
- (4) important matters submitted to a shareholders' general meeting for consideration; and
- (5) other matters stipulated by the securities regulatory authorities of the State Council.

[Article 66](#)

Listed companies shall submit annual reports which contain the following information to the securities regulatory authorities of the State Council and the stock exchange within four months from the end of each accounting year and announce such reports:

- (1) company profile;
- (2) financial accounting report and business report of the company;
- (3) profile of the directors, supervisors and senior management personnel and their shareholdings;
- (4) information on existing shares and corporate bonds, including the top ten shareholders of the company and their respective shareholding;
- (5) the actual controlling party of the company; and

(6) other matters stipulated by the securities regulatory authorities of the State Council.

[Article 67](#)

Upon the occurrence of a significant event which may have a relatively large impact on the share trading prices of a listed company and which the investors are not aware of, the listed company shall submit an ad hoc report to the securities regulatory authorities of the State Council and the stock exchange on the relevant information of such significant event and make an announcement to explain the cause, current situation and possible legal consequences.

The following circumstances shall be deemed as a significant event described in the preceding paragraph:

- (1) a significant change in the business direction and scope of operations of the company;
- (2) decision on major investment and major asset acquisition of the company;
- (3) conclusion of an important contract by the company which may have significant influence on the assets, liabilities, rights and interests and business outcome of the company;
- (4) the company runs into major debts or defaults on major debts;
- (5) the company incurs serious losses or damages;
- (6) there is a significant change in the external conditions for production and business operations of the company;
- (7) there is a change of director or manager or one-third and above of the number of supervisors;
- (8) relatively significant changes to the shareholding of shareholders who hold 5% or more of the shares of the company or to the controlling stake of the actual controlling party;
- (9) decision on reduction in capital, merger, division, dissolution and application for bankruptcy;
- (10) the company is involved in a major lawsuit or a resolution of a shareholders' general meeting or the board of directors is rescinded or declared null and void in accordance with the provisions of the law;
- (11) the company is alleged to have committed a criminal offence and is under investigation by the judicial authorities or a director, supervisor or senior management personnel of the company is alleged to have committed a criminal offence and is subject to mandatory measures; and
- (12) other matters stipulated by the securities regulatory authorities of the State Council.

[Article 68](#)

The directors and senior management personnel of a listed company shall make written endorsement on the regular reports of the company.

The board of supervisors of a listed company shall review the company's regular reports prepared by the board of directors and issue review opinion in writing.

The directors, supervisors and senior management personnel of a listed company shall ensure the veracity, accuracy and completeness of information disclosure by the listed company.

[Article 69](#)

Where the prospectus for share listing, method of offering of corporate bonds, financial accounting report, listing report, annual report, interim report, ad hoc report and other information disclosure made by an issuer or a listed company contains fraudulent information, misleading representation or major omission which causes the investors to suffer losses in securities transactions, the issuer or listed company shall bear compensation liability; the directors, supervisors, senior management personnel of the issuer or the listed company, other personnel who are directly accountable and the sponsor and underwriter(s) shall bear joint liability for compensation with the issuer or the listed company, unless they can prove that they are not at fault; where the controlling shareholder(s) or actual controlling party of the issuer or the listed company is/are at fault, they shall bear joint liability with the issuer or the listed company.

[Article 70](#)

Information disclosure required by the provisions of the law shall be published on the media designated by the securities regulatory authorities of the State Council and placed at the address of the company and the stock exchange for inspection by the public.

[Article 71](#)

The securities regulatory authorities of the State Council shall monitor the annual reports, half-year reports, ad hoc reports and announcements of listed companies, issue or placement of new shares by listed companies, and the conduct of the controlling shareholders and persons responsible for information disclosure of listed companies.

The securities regulatory authorities, stock exchanges, sponsors, underwriters and their personnel shall not divulge the contents of the announcements which are required to be made by them in accordance with the provisions of the laws and administrative regulations.

[Article 72](#)

Decisions by a stock exchange to suspend or delist securities shall be announced promptly and filed with the securities regulatory authorities of the State Council for records.

#### *Section 4 — Prohibited Trading Behaviour*

[Article 73](#)

Insider trading and securities trading by persons who obtain insider information illegally shall be prohibited.

[Article 74](#)

Insiders shall include:

- (1) the directors, supervisors and senior management personnel of an issuer;
- (2) shareholders who hold 5% or more of the shares of the company, the directors,



supervisors, senior management personnel of the company, the actual controlling party of the company and its directors, supervisors and, senior management personnel;

(3) companies controlled by the issuer and the directors, supervisors and senior management personnel of such companies;

(4) persons who have access to the relevant insider information in the course of their work;

(5) personnel of the securities regulatory authorities and other personnel who have statutory duties to carry out administration of issuance and trading of securities;

(6) personnel of the sponsors, underwriter(s), stock exchanges, securities registration and settlement organisations and securities services organisations; and

(7) other persons stipulated by the securities regulatory authorities of the State Council.

#### [Article 75](#)

Insider information shall refer to information relating to the business operations and financial status or price-sensitive information which is yet to be announced.

The following information shall be classified as insider information:

(1) information relating to significant matters set out in Article 67(2);

(2) information on dividend distribution plan or plan for capital increase of the company;

(3) information on significant changes in equity structure of the company;

(4) information on significant changes in debt guarantee of the company;

(5) information on the pledging, disposal or scrapping of more than 30% of the main business assets of the company;

(6) information on the compensation liability for serious damages caused by a director, supervisor or senior management personnel;

(7) information on the relevant scheme for acquisition of the listed company; and

(8) other important information deemed by the securities regulatory authorities of the State Council to have significant impact on securities trading prices.

#### [Article 76](#)

Insiders and persons who obtain insider information illegally shall not buy or sell securities of the company before the insider information is made public or divulge such information or procure others to buy or sell such securities.

Where the acquisition of shares of a listed company by natural persons, legal persons or other organisations holding 5% or more of the shares of the company solely or jointly with others through an agreement or other arrangements is provided otherwise in this Law, such provisions shall prevail.

Where an act of insider trading causes the investors to suffer losses, the doer shall bear compensation liability in accordance with the provisions of the law.

#### [Article 77](#)

Manipulation of the securities market in the following manners shall be prohibited:

(1) optimise advantages of funding, shareholding or access to information to make joint or

successive transactions independently or through conspiracy so as to manipulate securities trading prices or securities trading volume;

(2) conspire with others to carry out mutual trading of securities at an agreed time, price and method to influence securities trading prices or securities trading volume;

(3) carrying out securities trading between accounts controlled by the same person to influence securities trading prices or securities trading volume; and

(4) manipulation of the securities market through other means.

Where the manipulation of the securities market causes the investors to suffer losses, the doer shall bear compensation liability in accordance with the provisions of the law.

#### [Article 78](#)

State officials, media personnel and the relevant personnel shall be prohibited from fabricating or distributing fraudulent information to disrupt the order of the securities market.

Stock exchanges, securities companies, securities registration and settlement organisations, securities services organisations and their personnel as well as the securities industry association, securities regulatory authorities and their personnel shall be prohibited from making fraudulent representation or misleading information in securities trading.

All media shall distribute information relating to the securities market in a truthful and objective manner and shall be prohibited from distributing misleading information.

#### [Article 79](#)

Securities companies and their personnel shall not engage in the following activities which are harmful to the interests of their clients:

(1) carry out securities trading against the orders of clients;

(2) failure to provide written confirmation of transaction within the stipulated period;

(3) misappropriate securities bought or sold on behalf of a client or funds in a client's account;

(4) buy or sell securities arbitrarily without a client's authorisation or buy or sell securities under the pretext of a client's name;

(5) induce a client to carry out unnecessary securities transactions so as to earn commission;

(6) use the media or other means to provide or distribute information which misleads the investors; and

(7) acting against the true intention of the clients and commit other acts which are harmful to the interests of the clients.

Where a client suffers damages as a result of such fraud, the doer shall bear compensation liability in accordance with the provisions of the law.

#### [Article 80](#)

Legal persons shall be prohibited from illegal use of others' accounts to carry out securities trading; legal persons shall be prohibited from lending their own account or

others' accounts.

[Article 81](#)

Widening of financing channels for listing shall be conducted in accordance with the provisions of the law and illegal capital inflow into the stock market shall be prohibited.

[Article 82](#)

Misappropriation of public funds for buying and selling of securities shall be prohibited.

[Article 83](#)

State-owned enterprises and State-controlled enterprises shall comply with the relevant State provisions on buying and selling of listed shares.

[Article 84](#)

Stock exchanges, securities companies, securities registration and settlement organisations, securities service organisations and their personnel shall report prohibited trading behaviour to the securities regulatory authorities promptly.

## **Chapter IV — Acquisition of Listed Companies**

[Article 85](#)

Investors may acquire listed companies through acquisition offers or by way of negotiated acquisition or via other legitimate means.

[Article 86](#)

Where an investor has attained a 5% shareholding in a listed company through securities trading on a stock exchange or holds 5% of the shares of a listed company as a joint shareholder through an agreement or other arrangements, the investor shall submit a written report to the securities regulatory authorities of the State Council and stock exchange within three days, notify the listed company and make an announcement; the investor shall not buy or sell the shares of the listed company within the aforesaid period.

Where an investor has attained a 5% shareholding in a listed company through securities trading on a stock exchange or holds 5% of the issued share capital of a listed company as a joint shareholder through an agreement or other arrangements, the investor shall make a report and announcement in accordance with the aforesaid provisions each time for a change of 5% in shareholding. The investor shall not buy shares of the listed company during the reporting period and within two days after making the report and announcement.

[Article 87](#)

The written report and announcement made in accordance with the provisions of the preceding article shall include the following contents:

- (1) name and address of the shareholder;
- (2) description and quantity of the shares held; and
- (3) the date on which the shareholding or change in shareholding reaches the statutory

ratio.

[Article 88](#)

Where an investor which has attained a 30% shareholding in a listed company through securities trading on a stock exchange or holds 30% of the issued share capital of a listed company as a joint shareholder through an agreement or other arrangements continues to acquire shares in the listed company, the investor shall make an offer to all shareholders of the listed company in accordance with the provisions of the law for a complete or partial acquisition of shares of the listed company.

An offer for partial acquisition of a listed company shall state that in the event that the number of shares undertaken to be sold by the shareholders of the company exceeds the proposed number of shares to be acquired, the offeror shall make an acquisition based on the ratio.

[Article 89](#)

An offeror who makes an acquisition offer in accordance with the provisions of the preceding article shall submit an acquisition report which states the following information to the securities regulatory authorities of the State Council in advance:

- (1) name and address of the offeror;
- (2) decision of the offeror on the acquisition;
- (3) name of the target listed company;
- (4) purpose of acquisition;
- (5) description of the shares to be acquired and the proposed number of shares to be acquired;
- (6) offer period and offer price;
- (7) the amount of funds required for the acquisition and funding assurance; and
- (8) the percentage of shareholding in the issued share capital of the target company at the time of submission of the acquisition report.

The offeror shall submit the acquisition report to the stock exchange simultaneously.

[Article 90](#)

The offeror shall announce the acquisition offer within 15 days from submission of the acquisition report in accordance with the provisions of the preceding article. If the securities regulatory authorities of the State Council discover during the aforesaid period that the acquisition report does not comply with the provisions of the laws and administrative regulations, it shall inform the offeror promptly and the offeror shall not announce the acquisition offer.

The offer period for an acquisition offer shall not be less than 30 days and shall not exceed 60 days.

[Article 91](#)

The offeror shall not retract the acquisition offer during the period of undertaking specified in the acquisition offer. Where a change to the acquisition offer is necessary, the

offeror shall submit a report to the securities regulatory authorities of the State Council and the stock exchange to obtain prior approval and make an announcement upon obtaining the approval.

[Article 92](#)

The terms of an acquisition offer shall apply to all shareholders of the target company.

[Article 93](#)

In the event of an acquisition offer, the offeror shall not sell the shares of the target company or purchase the shares of the target company during the period of acquisition in forms other than those stipulated in the offer or under terms better than the offer terms.

[Article 94](#)

In the event of a negotiated acquisition, the offeror may carry out share transfers with shareholders of the target company by way of agreements in accordance with the provisions of laws and administrative regulations.

In the event of a negotiated acquisition of a listed company, the offeror shall submit a written report on the acquisition agreement within three days from conclusion of the agreement to the securities regulatory authorities of the State Council and the stock exchange and make an announcement.

The acquisition agreement shall not be performed prior to the announcement being made.

[Article 95](#)

The parties to an acquisition agreement may appoint a securities registration and settlement organisation to take custody of the shares under the agreement and deposit the funds with a designated bank.

[Article 96](#)

In the event of a negotiated acquisition where the offeror who has acquired a 30% shareholding in a listed company or holds 30% of the issued share capital of a listed company as a joint shareholder through an agreement or other arrangements continues to acquire the shares, the offeror shall make an offer to all the shareholders of the listed company for a complete or partial acquisition of the shares of the listed company; unless the securities regulatory authorities of the State Council has waived the requirement for making such an offer.

The offeror shall comply with the provisions of Articles 89 to 93 in making an acquisition offer in accordance with the provisions of the preceding article.

[Article 97](#)

If the shareholding structure of the acquired company no longer satisfies listing requirements following the expiry of the acquisition period, the shares shall be delisted by the stock exchange in accordance with the provisions of the law; the other shareholders who hold shares of the acquired company shall have the right to sell their shares to the offeror under the terms of the acquisition offer and the offeror shall acquire such shares.

An acquired company which does not satisfy the requirements for a company limited by

shares following the completion of an acquisition shall complete change of enterprise form formalities in accordance with the provisions of the law.

[Article 98](#)

The shares of a listed company acquired by an offeror shall be subject to a 12-month moratorium on transfer upon completion of the acquisition.

[Article 99](#)

In the event that the offeror is merged with the acquired company following the completion of the acquisition, the original shares of the dissolved company shall be changed by the offeror in accordance with the provisions of the law.

[Article 100](#)

An offeror shall submit an acquisition report to the securities regulatory authorities of the State Council and the stock exchange within 15 days from completion of the acquisition and make an announcement.

[Article 101](#)

Acquisition of shares of a listed company held by State-authorized investment organisations shall be approved by the relevant authorities in accordance with the provisions of the State Council.

The securities regulatory authorities of the State Council shall formulate the specific measures on acquisition of listed companies in accordance with the principle of this Law.

## **Chapter V — Stock Exchanges**

[Article 102](#)

Stock exchanges are self-governing legal persons which provide the venue and facilities for centralised trading of securities and responsible for organising and supervising securities trading.

Establishment and dissolution of a stock exchange shall be determined by the State Council.

[Article 103](#)

A set of articles of association shall be formulated for the establishment of a stock exchange.

Formulation and revision of the articles of association of a stock exchange shall require the approval of the securities regulatory authorities of the State Council.

[Article 104](#)

The wordings “stock exchange” shall be included in the name of a stock exchange. No other organisation or individual may use the name of a stock exchange or a name which is similar to the name of a stock exchange.

[Article 105](#)

Stock exchanges may allocate their income and expenses and the funds shall be used to

ensure normal operations of the venue and facilities for securities trading and improvement to the venue and facilities.

The assets of a stock exchange which implements a membership system shall belong to the members and the members shall enjoy the rights and interests thereto; the assets shall not be distributed to the members while the stock exchange is in operation.

[Article 106](#)

A stock exchange shall establish a council.

[Article 107](#)

A stock exchange shall appoint a general manager; the securities regulatory authorities of the State Council shall be responsible for the appointment or dismissal of the general manager of a stock exchange.

[Article 108](#)

The following persons or the persons stated in Article 147 of the *Company Law of the People's Republic of China* shall not be appointed as the person-in-charge of a stock exchange:

- (1) the person-in-charge of a stock exchange or securities registration and settlement organisation or a director, supervisor or senior management personnel of a securities company who was dismissed for having committed an illegal conduct or disciplinary violation and a period of five years has not lapsed since the date of dismissal; and
- (2) a lawyer, certified public accountant or professional personnel of an investment consultancy organisation, financial consultancy organisation, credit rating organisation or capital verification organisation who has his/her professional qualifications revoked for having committed an illegal act or disciplinary violation and a period of five years has not lapsed since the date of revocation of qualifications.

[Article 109](#)

Personnel of a stock exchange, securities registration and settlement organisation, securities service organisation or securities company who were dismissed for having committed an illegal act or disciplinary violation and personnel of State departments who were dismissed shall not be employed by stock exchanges.

[Article 110](#)

Only the members of a stock exchange can participate in centralised trading on the stock exchange.

[Article 111](#)

A securities trading entrustment agreement shall be concluded between an investor and a securities company; the investor shall open a securities trading account with the securities company and instruct the securities company to buy and sell securities on its behalf through telephone instructions or other means.

[Article 112](#)

Securities companies shall submit a declaration of securities transaction based on the order

of an investor and in accordance with the securities trading rules, participate in centralised trading on the stock exchange and assume the corresponding liability for settlement and delivery based on the trading outcome. The securities registration and settlement organisations shall carry out settlement and delivery of securities and funds with the securities companies based on the trading outcome and in accordance with the settlement and delivery rules, and handle registration and transfer formalities for the clients of the securities companies.

[Article 113](#)

Stock exchanges shall ensure secured and equitable centralised trading, announce real time market information for securities trading, and formulate and publish a market chart for each market day.

No organisation or individual shall publish real time securities trading information without the consent of the stock exchange.

[Article 114](#)

Where the occurrence of a sudden event affects the normal conduct of securities trading, the stock exchange may take measures to suspend trading for technical failure; in the event of a force majeure event or as a bid to safeguard the normal order of securities trading, the stock exchange may decide to suspend the market temporarily.

A stock exchange which decides on a suspension of trading for technical failure or a temporary suspension of the market shall report to the securities regulatory authorities of the State Council promptly.

[Article 115](#)

Stock exchanges shall monitor securities trading at all times and submit reports on irregular trading behaviour in accordance with the requirements of the securities regulatory authorities of the State Council.

Stock exchanges shall supervise prompt and accurate information disclosure by listed companies and the relevant persons liable for making information disclosure in accordance with the provisions of the law.

Stock exchanges may, based on the actual need, impose restrictions on trading by securities accounts which display significant irregularity in trading and file records with the securities regulatory authorities of the State Council accordingly.

[Article 116](#)

Stock exchanges shall contribute a certain percentage of the trading fees and membership dues collected to establish a risk fund. The risk fund shall be managed by the council of the stock exchange.

The specific ratio for contribution to the risk fund and its usage shall be formulated jointly by the securities regulatory authorities of the State Council and the finance administration authorities of the State Council.



[Article 117](#)

Stock exchanges shall deposit the risk fund into a designated bank account and shall not use the risk fund arbitrarily.

[Article 118](#)

Stock exchanges shall formulate listing rules, trading rules, membership rules and other relevant rules in accordance with the provisions of securities laws and administrative regulations and submit the rules to the securities regulatory authorities of the State Council for approval.

[Article 119](#)

The person-in-charge and other personnel of a stock exchange shall withdraw from handling a securities transaction in which he/she or any of his/her family members is an interested party.

[Article 120](#)

The trading outcome of a securities transaction carried out in accordance with the trading rules promulgated in accordance with the provisions of the law shall not be varied. The civil liability of the parties to an illegal transaction shall not be waived; gains on illegal transactions shall be dealt with pursuant to the relevant provisions.

[Article 121](#)

Stock exchange personnel engaging in securities trading in violation of the relevant trading rules of the stock exchange shall be subject to disciplinary action issued by the stock exchange; where the case is serious, the qualifications of the personnel shall be revoked and they shall be prohibited from securities trading.

## **Chapter VI — Securities Companies**

[Article 122](#)

Establishment of securities companies shall be subject to examination and approval by the securities regulatory authorities of the State Council. No organisation or individual shall engage in securities business without obtaining approval of the securities regulatory authorities of the State Council.

[Article 123](#)

Securities companies referred to in this Law shall mean limited liability companies or companies limited by shares established in accordance with the provisions of the *Company Law of the People's Republic of China* and this Law to engage in securities business.

[Article 124](#)

Establishment of securities companies shall satisfy the following requirements:

(1) the articles of association of the company shall comply with the provisions of laws and administrative regulations;

- (2) the principal shareholder(s) shall be profitable in consecutive periods and reputable, has/have not committed any major violation in the past three years and has/have net assets of not less than RMB200 million;
- (3) the registered capital of the company shall comply with the provisions of this Law;
- (4) the directors, supervisors and senior management personnel shall be qualified for their appointment and the employees shall possess qualifications to work in the securities industry;
- (5) the company has a comprehensive risk management and internal control system;
- (6) the company has qualified business premises and operational facilities; and
- (7) the application satisfies other requirements stipulated by the laws and administrative regulations and the securities regulatory authorities of the State Council.

[Article 125](#)

Subject to approval of the securities regulatory authorities of the State Council, a securities company may engage in all or some of the following businesses:

- (1) securities brokerage;
- (2) securities investment consultancy;
- (3) financial consultancy relating to securities trading and securities investment activities;
- (4) securities underwriting and sponsoring;
- (5) self-operated securities business;
- (6) securities asset management; and
- (7) other securities businesses.

[Article 126](#)

The wordings “securities limited liability company” or “securities company limited by shares” shall be included in the name of a securities company.

[Article 127](#)

The registered capital of securities companies engaging in businesses set out in Article 125(1) to (3) shall not be less than RMB50 million; the registered capital of securities companies engaging in businesses set out in Article 125(4) to (7) shall not be less than RMB100 million; the registered capital of securities companies engaging in two or more businesses set out in Article 125(4) to (7) shall not be less than RMB500 million; the registered capital of securities companies shall be fully paid-up.

The securities regulatory authorities of the State Council may adjust the minimum amount of registered capital based on the principle of prudential supervision and the risk extent of the business, provided that the adjusted amount shall not be lower than the relevant amount provided in the preceding paragraph.

[Article 128](#)

The securities regulatory authorities of the State Council shall conduct an examination and make a decision on approval or non-approval based on the principle of prudential supervision and in accordance with the statutory requirements and procedures within six

months from acceptance of an application for incorporation of a securities company and notify the applicant; unsuccessful applicants shall be informed of the reason for non-approval.

Upon approval of an application for incorporation of a securities company, the applicant shall complete incorporation registration with the company registration authorities and obtain a business licence within the stipulated period.

A securities company shall apply for a securities business permit with the securities regulatory authorities of the State Council within 15 days from obtaining the business licence. The securities company shall not engage in securities businesses before obtaining a securities business permit.

[Article 129](#)

Approval of the securities regulatory authorities of the State Council is required for the incorporation of a securities company, acquisition or revocation of a branch, change in the scope of business or registered capital, change in the shareholders or actual controlling party who/which holds 5% or more of the shares, amendment to major clauses in the articles of association of the company, merger, division, change in company structure, closure, dissolution and bankruptcy.

Approval of the securities regulatory authorities of the State Council is required for the establishment or acquisition of overseas securities firms or equity participation in overseas securities firms.

[Article 130](#)

The securities regulatory authorities of the State Council shall stipulate risk control indexes such as the net assets, ratio of net assets to liabilities, ratio of net capital to net assets, ratio of net capital to scale of self-operated business, underwriting and asset management etc, ratio of liabilities to net asset and ratio of current assets to current liabilities of securities companies.

Securities companies shall not provide financing or guarantee for their shareholders or related parties of the shareholders.

[Article 131](#)

The directors, supervisors and senior management personnel of securities companies shall be honest, practise good conduct, be familiar with the provisions of securities laws and administrative regulations, possess business management abilities to perform their duties and shall obtain the relevant qualifications stipulated by the securities regulatory authorities of the State Council before taking up the post.

The following persons or persons stated in Article 147 of the *Company Law of the People's Republic of China* shall not be appointed as a director, supervisor or senior management personnel of a securities company:

(1) the person-in-charge of a stock exchange or securities registration and settlement organisation or a director, supervisor or senior management personnel of a securities

company who was dismissed for having committed an illegal conduct or disciplinary violation and a period of five years has not lapsed since the date of dismissal; and

(2) a lawyer, certified public accountant or professional personnel of an investment consultancy organisation, financial consultancy organisation, credit rating organisation or capital verification organisation who has his/her professional qualifications revoked for having committed an illegal act or disciplinary violation and a period of five years has not lapsed since the date of revocation of qualifications.

[Article 132](#)

Personnel of a stock exchange, securities registration and settlement organisation, securities service organisation or securities company who were dismissed for having committed an illegal act or disciplinary violation and personnel and personnel of State departments who were dismissed shall not be employed by stock exchanges.

[Article 133](#)

Personnel of State authorities and other personnel prohibited by the laws and administrative regulations to hold concurrent position in a company shall not hold concurrent position in a securities company.

[Article 134](#)

A securities investors protection fund shall be established by the State. The securities investors protection fund shall comprise funds contributed by the securities companies and other funds raised in accordance with the provisions of the law. The specific measures on fund raising, management and usage of the securities investors protection fund shall be formulated by the State Council.

[Article 135](#)

Securities companies shall contribute a certain percentage of their post-tax profits to a trading risk reserve which will be used for recovery of securities trading losses; the specific measures on contribution shall be formulated by the securities regulatory authorities of the State Council.

[Article 136](#)

Securities companies shall establish a proper internal control system and adopt effective separation measures to prevent conflict of interests between the company and its clients and conflict of interests between the clients.

Securities companies shall separate their securities brokerage business, securities underwriting business, securities self-operated business and securities asset management business; mixed operations shall not be allowed.

[Article 137](#)

The self-operated business of a securities company shall be conducted in its own name and shall not be conducted in the name of others or in the name of an individual.

The self-operated business of a securities company shall use its own funds and funds raised in accordance with the provisions of the law.

Securities companies shall not sublet their self-operated account.

[Article 138](#)

Securities companies shall have the rights to operate independently in accordance with the provisions of the law and their legitimate operations shall not be interfered with.

[Article 139](#)

The trading settlement funds of the clients of a securities company shall be deposited with a commercial bank and in individual accounts opened in the name of the respective clients. The specific measures and implementation procedures shall be formulated by the State Council.

Securities companies shall not embezzle the trading settlement funds and securities of their clients. No organisation or individual shall misappropriate the trading settlement funds and securities of their clients. Where a securities company is bankrupt or under liquidation, the trading settlement funds and securities of their clients shall not be classified under bankruptcy assets or liquidation assets. The trading settlement funds and securities of a client shall not be sealed up, frozen, deducted or enforced, unless for the client's own debts or under other circumstances provided by the laws.

[Article 140](#)

Securities companies engaging in brokerage business shall provide a standardised letter of entrustment for securities trading for use by the principals. Entrustment records shall be kept for other forms of entrustment.

Securities companies shall keep records of securities trading entrustment by their clients for the stipulated period, regardless if the deal is completed.

[Article 141](#)

A securities company being entrusted to trade securities shall trade on behalf of the client in accordance with the trading rules and based on the description, buy or sell quantity, price offering method and price range etc set out in the letter of entrustment and shall keep proper records of trading. Upon completion of a deal, a trading slip shall be delivered to the client.

The reconciliation statement which confirms a transaction and the trading outcome for each transaction shall be made truthfully and verified by an examination personnel who has not handled the transaction to ensure consistency between the book value balance of the securities and actual holding of the securities.

[Article 142](#)

Securities companies providing financing and securities lending services for their clients in securities transactions shall comply with the provisions of the State Council and obtain the approval of the securities regulatory authorities of the State Council.

[Article 143](#)

Securities companies engaging in brokerage business shall not accept discretionary orders of the clients to decide on securities trading, select the types of securities or decide on

buying or selling quantity or buying or selling price.

[Article 144](#)

Securities companies shall not give undertaking in any form to the clients in respect of the gains on securities trading or compensation of securities trading losses.

[Article 145](#)

A securities company and its personnel shall not accept entrustment for securities trading in private without going through the business premises of the securities company established in accordance with the provisions of the law.

[Article 146](#)

Where the personnel of a securities company violates the trading rules when executing the instructions of the securities company or abuse their official powers in a securities transaction, the securities company shall assume all liabilities.

[Article 147](#)

Securities companies shall keep all information on account opening, entrustment records, trading records, internal management and business operations properly. Such records shall not be concealed, forged, tampered with or destroyed. The aforesaid information shall be kept for a period of not less than 20 years.

[Article 148](#)

Securities companies shall submit their business and financial information and materials to the securities regulatory authorities of the State Council in accordance with the provisions. The securities regulatory authorities of the State Council shall have the right to demand that a securities company and its shareholders and actual controlling party to provide the relevant information and materials within a stipulated period.

Securities companies and their shareholders and actual controlling party shall submit true, accurate and complete information and materials to the securities regulatory authorities of the State Council.

[Article 149](#)

The securities regulatory authorities of the State Council may, where it deems necessary, appoint an accounting firm and an asset valuation organisation to conduct an audit of the financial status and internal control status or valuation of the assets of a securities company. The specific measures shall be formulated jointly by the securities regulatory authorities of the State Council and the relevant authorities.

[Article 150](#)

Where the net assets or any other risk control indexes of a securities company do not comply with the provisions, the securities regulatory authorities of the State Council shall order the securities company to make correction within a stipulated period; where correction is not made within the stipulated period or the non-compliance has a serious impact on the steady operations of the securities company or the rights and interests of the clients, the securities regulatory authorities of the State Council may adopt the following

measures based on the circumstances:

- (1) impose restrictions on the business activities; order suspension of some of the businesses and suspend the approval for new businesses;
- (2) suspend approval for establishment or acquisition of new business branches;
- (3) impose restriction on distribution of bonus shares and impose restriction on payment of remuneration and provision of incentives to the directors, supervisors and senior management personnel;
- (4) impose restriction on transfer of assets or creation of other rights on the assets;
- (5) order that the directors, supervisors and senior management personnel be changed or impose restrictions on their rights;
- (6) order that the controlling shareholders transfer their shareholding or impose restriction on exercise of shareholder's rights; and
- (7) revocation of the relevant business permit(s).

Upon restructuring of a securities company, the securities company shall submit a report to the securities regulatory authorities of the State Council. The securities regulatory authorities of the State Council shall remove the relevant measure(s) stipulated in the preceding paragraph within three days from acceptance and examination if the securities company complies with the relevant risk control index(es).

[Article 151](#)

A shareholder of a securities company who made false capital contribution or withdrew capital contribution shall be ordered by the securities regulatory authorities of the State Council to make correction and may be ordered to transfer his/her shareholding in the securities company.

Prior to correction of the illegal act or transfer of shareholding by the aforesaid shareholder, the securities regulatory authorities of the State Council may impose restriction on his/her shareholder's rights.

[Article 152](#)

Where a director, supervisor or senior management personnel of a securities company fails to perform due diligence and causes the securities company to commit a major violation or be exposed to significant risks, the securities regulatory authorities of the State Council may revoke his/her qualifications and order the company to remove the director, supervisor or senior management personnel.

[Article 153](#)

Where a securities company engages in illegal operations or is exposed to significant risks which brought a serious impact on the order of the securities market or harm to the rights and interests of the investors, the securities regulatory authorities of the State Council may order the securities company to suspend operations for restructuring and appoint a receiver for the securities company or order dissolution of the securities company or take other control measures.

[Article 154](#)

During the period in which the operations of a securities company is suspended for restructuring or the period in which the securities company is placed under receivership or being liquidated in accordance with the provisions of the law or when a securities company is subject to significant risks, the securities regulatory authorities of the State Council may take the following measures on the directors, supervisors and senior management personnel and other personnel who are directly accountable:

- (1) inform the outbound Customs to stop such persons from leaving China; and
- (2) apply to the judicial authorities to prohibit removal or transfer of assets or disposal of the assets in other means or creation of other rights on the assets.

## **Chapter VII — Securities Registration and Settlement Organisations**

[Article 155](#)

Securities registration and settlement organisations shall be non-profit-orientated legal persons providing centralised registration, custody and settlement services for securities trading.

Establishment of securities registration and settlement organisations shall be subject to the approval of the securities regulatory authorities of the State Council.

[Article 156](#)

Establishment of a securities registration and settlement organisation shall satisfy the following requirements:

- (1) the organisation's own funds shall not be less than RMB200 million;
- (2) the organisation has the premises and facilities necessary for securities registration, custody and settlement services;
- (3) the principal management personnel and employees shall possess the qualifications to work in the securities industry; and
- (4) other requirements stipulated by the securities regulatory authorities of the State Council.

The wordings "securities registration and settlement" shall be included in the name of a securities registration and settlement organisation.

[Article 157](#)

Securities registration and settlement organisations shall perform the following duties:

- (1) establishment of securities accounts and settlement accounts;
- (2) custody and transfer of securities;
- (3) registration in the register of securities holders;
- (4) settlement and delivery of listed securities traded;
- (5) allotment of securities rights and interests of securities upon entrustment by the issuer;
- (6) handling queries related to the aforesaid businesses; and



(7) other businesses approved by the securities regulatory authorities of the State Council.  
[Article 158](#)

A unified operational method shall be adopted for securities registration and settlement nationwide.

Securities registration and settlement organisations shall formulate their articles of association and business rules in accordance with the provisions of the law and submit them to the securities regulatory authorities of the State Council for approval.

[Article 159](#)

All listed securities held by securities holders shall be held in custody by securities registration and settlement organisations.

Securities registration and settlement organisations shall not misappropriate the securities of their clients.

[Article 160](#)

Securities registration and settlement organisations shall provide the register of securities holders and the relevant information to the securities issuer.

Securities registration and settlement organisations shall confirm the fact of securities holding by the securities holder based on the outcome of securities registration and settlement and provide registration information of the securities holder.

Securities registration and settlement organisations shall ensure that the records in the register of securities holders and register of transfers are true, accurate and complete and the records shall not be concealed, forged, tampered with or destroyed.

[Article 161](#)

Securities registration and settlement organisations shall adopt the following measures to ensure normal conduct of business:

- (1) implement the requisite service facilities and comprehensive data security measures;
- (2) implement proper business, financial and security management systems; and
- (3) implement a proper risk management system.

[Article 162](#)

Securities registration and settlement organisations shall keep the original certificates and the relevant documents and information on registration, custody and settlement properly for a period of not less than 20 years.

[Article 163](#)

Securities registration and settlement organisations shall set up a settlement risk fund which shall be used to make advance payment or make up for the losses of the securities registration and settlement organisation arising from a default on delivery, technical fault, operational malfunction or a force majeure event.

Securities registration and settlement organisations shall contribute a certain percentage of their business income and gains to the securities settlement risk fund; settlement participants may contribute a certain percentage based on the securities trading volume.

The measures on fund raising and management of the securities settlement risk fund shall be formulated jointly by the securities regulatory authorities of the State Council and the finance administration authorities of the State Council.

[Article 164](#)

The securities settlement risk fund shall be deposited into a designated bank account and shall be administered individually.

Upon making compensation using the risk fund, the securities registration and settlement organisation shall seek recourse from the persons liable.

[Article 165](#)

Dissolution of a securities registration and settlement organisation shall be subject to the approval of the securities regulatory authorities of the State Council.

[Article 166](#)

Investors who commission a securities company to carry out securities trading shall apply for the opening of a securities account. The securities registration and settlement organisations shall open securities accounts in the name of the respective investors in accordance with the provisions.

Investors applying for the opening of a securities account shall produce legal proof of Chinese citizenship or Chinese legal person qualifications, unless otherwise stipulated by the State.

[Article 167](#)

Securities registration and settlement organisations providing net settlement services for securities transactions shall require the settlement participants to deliver the securities and funds in full based on the principle of delivery versus payment, and provide delivery guarantee.

Prior to completion of delivery, the securities, funds and collateral used for delivery shall not be applied.

Where a settlement participant fails to perform delivery obligations on time, the securities registration and settlement organisation shall have the right to deal with the aforesaid property in accordance with the business rules.

[Article 168](#)

Settlement funds and securities collected by the securities registration and settlement organisations in accordance with the business rules shall be deposited in designated settlement and delivery accounts and shall only be used for settlement and delivery for completed securities transactions in accordance with the business rules; and shall not be enforced.

## **Chapter VIII — Securities Services Organisations**

### [Article 169](#)

Investment consultancy organisations, financial consultancy organisations, credit rating organisations, asset valuation organisations and accounting firms providing securities services shall be subject to approval by the securities regulatory authorities of the State Council and the relevant authorities.

The measures on examination and approval and administration of investment consultancy organisations, financial consultancy organisations, credit rating organisations, asset valuation organisations and accounting firms providing securities services shall be formulated jointly by the securities regulatory authorities of the State Council and the relevant authorities.

### [Article 170](#)

The personnel of investment consultancy organisations, financial consultancy organisations and credit rating organisations providing securities services shall have professional knowledge of the securities industry and working experience in the securities industry or securities services industry of two years and above. The standards and administrative measures on accreditation of securities qualification shall be formulated by the securities regulatory authorities of the State Council.

### [Article 171](#)

Investment consultancy organisations and their personnel providing securities services shall not:

- (1) carry out securities investment for the principals;
- (2) agree on sharing of investment gains or losses with the principals;
- (3) buy or sell shares of listed companies which use the services of the investment consultancy organisation;
- (4) use media or other means to provide or disseminate fraudulent information or information which is misleading to the investors; and
- (5) engage in other activities prohibited by laws and administrative regulations.

Where any of the aforesaid acts causes the investors to suffer losses, compensation liability shall be pursued in accordance with the provisions of the law.

### [Article 172](#)

Investment consultancy organisations and credit rating organisations providing securities services shall collect service fees in accordance with the standards or fee collection measures stipulated by the relevant authorities of the State Council.

### [Article 173](#)

Securities service organisations issuing audit reports, asset valuation reports, financial consultancy reports, credit rating reports or legal opinions for issuance, listing and trading of securities etc shall practice care and diligence to check and verify the veracity, accuracy

and completeness of the contents of the documents they relied on. Where the document issued by a securities service organisation contains fraudulent information, misleading representation or major omission and causes others to suffer losses, the securities service organisation shall bear joint liability with the issuer or the listed company, unless it can prove that it is not at fault.

## **Chapter IX — Securities Industry Association**

### [Article 174](#)

The securities industry association is a self-governing organisation of the securities industry and is a social body legal person.

Securities companies shall join the securities industry association.

The authority of the securities industry association shall be the members' congress comprising all members.

### [Article 175](#)

The articles of association of the securities industry association shall be formulated by the members' congress and filed with the securities regulatory authorities of the State Council for records.

### [Article 176](#)

The securities industry association shall perform the following duties:

- (1) educate and organise the members to comply with the provisions of laws and administrative regulations;
- (2) safeguard the legal rights and interests of the members in accordance with the provisions of the law, provide feedback to the securities regulatory authorities on proposals and requests of the members;
- (3) collect and collate securities information and provide services to the members;
- (4) formulate membership rules, organise vocational training for employees of the members and facilitate business exchange among the members;
- (5) mediate disputes between members and between members and their clients which arise in the course of securities businesses;
- (6) organise members to conduct research on development, operation and related areas of the securities industry;
- (7) supervise and inspect the conduct of members and issue disciplinary action in the event of violation of the provisions of laws, administrative regulations or the articles of association of the securities industry association; and
- (8) other duties provided in the articles of association of the securities industry association.

### [Article 177](#)

The securities industry association shall establish a council. Members of the council shall

be elected in accordance with the provisions of the articles of association.

## **Chapter X — Securities Regulatory Authorities**

### [Article 178](#)

The securities regulatory authorities of the State Council shall carry out supervision and administration of the securities market in accordance with the provisions of the law and safeguard the order of the securities market to ensure legitimate operations.

### [Article 179](#)

The securities regulatory authorities of the State Council shall perform the following duties in the course of supervision and administration of the securities market:

- (1) formulate the relevant rules and regulations on supervision and administration of the securities market in accordance with the provisions of the law and exercise examination and approval rights in accordance with the provisions of the law;
- (2) carry out supervision and administration in accordance with the provisions of the law on issuance, listing, trading, registration, custody and settlement of securities;
- (3) carry out supervision and administration in accordance with the provisions of the law on the securities businesses of issuers, listed companies, securities companies, securities investment fund management companies, securities service organisations, stock exchanges and securities registration and settlement organisations;
- (4) formulate the qualification standards and code of ethics in accordance with the provisions of the law for personnel working in the securities industry and supervise the implementation;
- (5) supervise and inspect the issuance and listing of securities and information disclosure in accordance with the provisions of the law;
- (6) provide guidance and supervision on the activities of the securities industry association in accordance with the provisions of the law;
- (7) investigate and deal with violations of the laws and administrative regulations on supervision and administration of the securities market; and
- (8) other duties stipulated by the laws and administrative regulations.

The securities regulatory authorities of the State Council may establish cooperative supervision and administration mechanism with the securities regulatory authorities of other countries or regions and implement cross-border supervision and administration.

### [Article 180](#)

The securities regulatory authorities of the State Council shall perform their duties in accordance with the provisions of the law and shall have the right to adopt the following measures:

- (1) conduct onsite inspection of issuers, listed companies, securities companies, securities investment fund management companies, securities service organisations, stock exchanges

and securities registration and settlement organisations;

(2) enter the premises where the alleged violation took place to investigate and collect evidence;

(3) question the party(ies) concerned and organisation(s) and individual(s) related to the investigation matter and require them to provide relevant information on the investigation matter;

(4) inspect and make copies of information related to the investigation matter such as property right registration and correspondence records;

(5) inspect and make copies of securities trading records, transfer registration records, financial accounting information and the relevant documents and materials of the party(ies) concerned and organisation(s) and individual(s) related to the investigation matter; and may seal up documents and materials which could be removed, concealed or destroyed;

(6) investigate the fund accounts, securities accounts and bank accounts of the party(ies) concerned and organisation(s) and individual(s) related to the investigation matter; where there is evidence that the illegal funds or securities involved in the investigation matter have been or could be removed or concealed or there is sign of concealment, forgery or destruction of important evidence, such illegal funds or securities or important evidence may be frozen or sealed up with the approval by the person-in-charge of the securities regulatory authorities of the State Council;

(7) during the investigation of significant illegal acts such as manipulation of the securities market or insider trading etc, the securities transactions of the party(ies) concerned may be restricted with the approval of the person-in-charge of the securities regulatory authorities of the State Council; however the restriction period shall not exceed 15 market days; where the case is complicated, the restriction period may be extended by 15 market days.

[Article 181](#)

The securities regulatory authorities of the State Council shall carry out supervision, inspection or investigation in accordance with the provisions of the law. The number of supervision, inspection and investigation personnel on each assignment shall not be less than two persons; the personnel shall show proof of identification and the notice of supervision, inspection or investigation. Where there are less than two personnel on an assignment or where the personnel do not show proof of identification, the organisation which is subject to inspection or investigation shall have the right to refuse inspection or investigation.

[Article 182](#)

The personnel of the securities regulatory authorities of the State Council shall be loyal to their duties, law-abiding, fair and honest and shall not use their official powers to seek improper gains or disclose the commercial secrets of any organisation or individual.

[Article 183](#)

When the securities regulatory authorities of the State Council are performing their duties

in accordance with the provisions of the law, the organisations and individuals subject to inspection or investigation shall cooperate and provide the relevant documents and information truthfully and shall not refuse or hinder the inspection or investigation or conceal any information.

[Article 184](#)

The rules and regulations formulated by the securities regulatory authorities of the State Council in accordance with the provisions of the law and the supervision and administration working procedures shall be made public.

The punishment decision made by the securities regulatory authorities of the State Council on an illegal securities transaction based on the outcome of investigation shall be made public.

[Article 185](#)

The securities regulatory authorities of the State Council and other financial supervision and administration authorities shall establish an information sharing mechanism.

When the securities regulatory authorities of the State Council carry out supervision, inspection or investigation in accordance with the provisions of the law, the relevant departments shall cooperate.

[Article 186](#)

When the securities regulatory authorities of the State Council discover that an illegal securities transaction may involve a criminal offence, the case shall be referred to the judicial authorities for handling.

[Article 187](#)

The personnel of the securities regulatory authorities of the State Council shall not hold a position in an organisation under supervision.

## **Chapter XI — Legal Liability**

[Article 188](#)

Issuers making a public offering of securities arbitrarily or in disguise without obtaining prior approval of the statutory authorities shall be ordered to halt the public offering and return the funds raised with interest based on bank interest rate for the corresponding period; a fine ranging from 1% to 5% of the amount of the illegally raised funds shall be imposed. Companies which make a public offering of securities arbitrarily or in disguise shall be closed down by the relevant supervision and administration authorities and the local people's government of county level and above. The person-in-charge and other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging from RMB30,000 to RMB300,000.

[Article 189](#)

Issuers which do not satisfy issuance requirements but use fraudulent means to obtain the

approval for issuance shall be subject to a fine ranging from RMB300,000 to RMB600,000 if the securities are yet to be issued; where the securities have been issued, a fine ranging from 1% to 5% of the amount of illegally raised funds shall be imposed. The person-in-charge and other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging from RMB30,000 to RMB300,000.

The controlling shareholders and actual controlling party of the aforesaid issuers who instructed the aforesaid violations shall be punished in accordance with the provisions of the preceding paragraph.

[Article 190](#)

Securities companies engaging in underwriting or buying and selling of their clients' securities which were issued by way of a public offering of securities without prior approval shall be ordered to stop underwriting or buying and selling of such securities; the illegal income shall be confiscated and a fine ranging from one to five times of the amount of illegal income shall be imposed; where there is no illegal income or the amount of illegal income is below RMB300,000, a fine ranging from RMB300,000 to RMB600,000 shall be imposed. Where the act causes the investors to suffer losses, the securities company shall bear joint liability with the issuer. The person-in-charge and other personnel who are directly accountable shall be issued a warning, have their professional qualifications or employment qualifications for the securities industry revoked and be subject to a fine ranging from RMB30,000 to RMB300,000.

[Article 191](#)

Securities companies engaging in underwriting which commits any of the following acts shall be ordered to make correction and be issued a warning; the illegal income shall be confiscated and a fine ranging from RMB300,000 to RMB600,000 may be imposed; where the case is serious, the relevant business operations shall be suspended or the relevant business permit(s) shall be revoked. Where the act causes other securities underwriters or investors to suffer losses, the securities company shall bear compensation liability in accordance with the provisions of the law. The person-in-charge and other personnel who are directly accountable shall be issued a warning and may be subject to a fine ranging from RMB30,000 to RMB300,000; where the case is serious, their professional qualifications or employment qualifications for the securities industry shall be revoked.

- (1) conduct fraudulent or misleading advertisements or other promotional activities;
- (2) use improper means to compete for underwriting business; and
- (3) commit other acts which violate the provisions on securities underwriting business.

[Article 192](#)

Sponsors which issue a sponsor's letter which contains fraudulent information, misleading representation or major omission or fails to perform other statutory duties shall be ordered to make correction and be issued a warning; the business revenue shall be confiscated and



a fine ranging from one to five times of the business income; where the case is serious, the relevant business operations shall be suspended or the relevant business permit(s) shall be revoked. The person-in-charge and other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging from RMB30,000 to RMB300,000; where the case is serious; their professional qualifications or employment qualifications for the securities industry shall be revoked.

[Article 193](#)

Issuers, listed companies or other persons liable for making information disclosure which/who fail to make information disclosure in accordance with the provisions or made information disclosure which contains fraudulent information, misleading representation or major omission shall be ordered to make correction and be subject to a warning and a fine ranging from RMB300,000 to RMB600,000. The person-in-charge and other personnel who are directly accountable shall be subject to a warning and a fine ranging from RMB30,000 to RMB300,000.

Issuers, listed companies or other persons liable for making information disclosure which/who fail to submit the relevant report in accordance with the provisions or submit a report which contains fraudulent information, misleading representation or major omission shall be ordered to make correction and be subject to a warning and a fine ranging from RMB300,000 to RMB600,000. The person-in-charge and other personnel who are directly accountable shall be subject to a warning and a fine ranging from RMB30,000 to RMB300,000.

The controlling shareholders and actual controlling party of the aforesaid issuers, listed companies or persons liable for making information disclosure who instructed the aforesaid violations shall be punished in accordance with the provisions of the preceding paragraphs.

[Article 194](#)

Issuers and listed companies which change the usage purpose of the funds raised in a public offering of securities arbitrarily shall be ordered to make correction. The person-in-charge and other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging from RMB30,000 to RMB300,000.

The controlling shareholders and actual controlling party of the aforesaid issuers and listed companies who instructed the aforesaid violations shall be issued a warning and be subject to a fine ranging from RMB300,000 to RMB600,000. The person-in-charge and other personnel who are directly accountable shall be punished in accordance with the provisions of the preceding paragraph.

[Article 195](#)

Directors, supervisors, senior management personnel of a listed company and shareholders holding 5% or more of the shares of a listed company who buy and sell the company's shares in violation of the provisions of Article 47 shall be issued a warning and may be

subject to a fine ranging from RMB30,000 to RMB100,000.

[Article 196](#)

Securities trading premises which are established illegally shall be closed down by a people's government of county level and above; the illegal income shall be confiscated and a fine ranging from one to five times of the amount of illegal income shall be imposed; where there is no illegal income or the amount of illegal income is below RMB100,000, a fine ranging from RMB100,000 to RMB500,000 shall be imposed. The person-in-charge and other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging from RMB30,000 to RMB300,000.

[Article 197](#)

Securities companies established without prior approval or illegal securities operations shall be closed down by the securities regulatory authorities; the illegal income shall be confiscated and a fine ranging from one to five times of the amount of illegal income shall be imposed; where there is no illegal income or the amount of illegal income is below RMB300,000, a fine ranging from RMB300,000 to RMB600,000 shall be imposed. The person-in-charge and other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging from RMB30,000 to RMB300,000.

[Article 198](#)

Parties which violate the provisions of this Law in employing unqualified persons to engage in securities businesses shall be ordered by the securities regulatory authorities to make correction and be issued a warning and may be subject to a fine ranging from RMB100,000 to RMB300,000. The person-in-charge and other personnel who are directly accountable shall be issued a warning and may be subject to a fine ranging from RMB30,000 to RMB100,000.

[Article 199](#)

Persons prohibited by laws and administrative regulations from carrying out trading of shares who hold or buy and sell shares directly or in the name of others shall be ordered to dispose of the shares held illegally; the illegal income shall be confiscated and a fine of not more than the equivalent value of the shares shall be imposed; where the person is a civil servant, administrative punishment shall be imposed in accordance with the provisions of the law.

[Article 200](#)

The employees of stock exchanges, securities companies, securities registration and settlement organisations, securities service organisations or the personnel of securities industry association who deliberately provide fraudulent information or conceal, forge, tamper with or destroy trading records to induce investors to buy and sell securities shall have their employment qualifications for the securities industry revoked and be subject to a fine ranging from RMB30,000 to RMB100,000; where the person is a civil servant, administrative punishment shall be imposed in accordance with the provisions of the law.

[Article 201](#)

Securities service organisations and their personnel issuing audit reports, asset valuation reports or legal opinions for issuance, listing and trading of shares which/who buy and sell shares in violation of the provisions of Article 45 shall be ordered to dispose of the shares held illegally; the illegal income shall be confiscated and a fine of not more than the equivalent value of the shares shall be imposed.

[Article 202](#)

Insiders or persons who obtain insider information illegally guilty of trading in the securities or divulge the information or procure others to trade in the securities prior to such price-sensitive information being made public shall be ordered to dispose of the securities held illegally; the illegal income shall be confiscated and a fine ranging from one to five times of the amount of illegal income shall be imposed; where there is no illegal income or the amount of illegal income is below RMB30,000, a fine ranging from RMB30,000 to RMB600,000 shall be imposed. The person-in-charge of the organisation which engages in insider trading and other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging from RMB30,000 to RMB300,000. Personnel of securities regulatory authorities who engage in insider trading shall be subject to severe punishment.

[Article 203](#)

Parties who manipulate securities market in violation of the provisions of this Law shall be ordered to dispose of the illegally held securities; the illegal income shall be confiscated and a fine ranging from one to five times of the amount of illegal income shall be imposed; where there is no illegal income or the amount of illegal income is below RMB300,000, a fine ranging from RMB300,000 to RMB3 million shall be imposed. The person-in-charge organisations which manipulate securities market and other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging from RMB100,000 to RMB600,000.

[Article 204](#)

Persons who buy and sell securities within the restriction period in violation of the provisions of law shall be ordered to make correction and be issued a warning; a fine of not more than the equivalent value of the illegally traded securities shall be imposed. The person-in-charge and other personnel who are directly accountable shall be subject to a fine ranging from RMB30,000 to RMB300,000.

[Article 205](#)

The illegal income of securities companies which buy and sell securities for their clients or provide financing or securities lending services to their clients shall be confiscated; the relevant business operations or relevant business permit(s) shall be revoked and a fine of not more than the equivalent value of the illegal financing and securities lending shall be imposed. The person-in-charge and other personnel who are directly accountable shall be

issued a warning, have their professional qualifications or employment qualifications for the securities industry revoked and be subject to a fine ranging from RMB30,000 to RMB300,000.

[Article 206](#)

Persons who disrupt the order of the securities market in violation of the provisions of Article 78(1) and (3) shall be ordered by the securities regulatory authorities to make correction and the illegal income shall be confiscated; a fine ranging from one to five times of the amount of illegal income shall be imposed; where there is no illegal income or the amount of illegal income is below RMB30,000, a fine ranging from RMB30,000 to RMB200,000 shall be imposed.

[Article 207](#)

Persons who make fraudulent representation or provide misleading information in securities transactions in violation of the provisions of Article 78(2) shall be ordered to make correction and a fine ranging from RMB30,000 to RMB200,000 shall be imposed; where the person is a civil servant, administrative punishment shall be imposed in accordance with the provisions of the law.

[Article 208](#)

Legal persons who open accounts in the name of others or use the accounts of others to buy and sell securities in violation of the provisions of this Law shall be ordered to make correction and the illegal income shall be confiscated; a fine ranging from one to five times of the amount of illegal income shall be imposed; where there is no illegal income or the amount of illegal income is below RMB30,000, a fine ranging from RMB30,000 to RMB300,000 shall be imposed. The person-in-charge or other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging from RMB30,000 to RMB100,000.

Securities companies which provide their accounts or the securities trading accounts of others shall be subject to punishment in accordance with the provisions of the aforesaid paragraph; in addition, the person-in-charge and other personnel who are directly accountable shall have their professional qualifications or employment qualifications for the securities industry revoked.

[Article 209](#)

Securities companies which engage in self-operated securities business in the name of others or in the name of individuals in violation of the provisions of this Law shall be ordered to make correction; the illegal income shall be confiscated and a fine ranging from one to five times of the amount of illegal income shall be imposed; where there is no illegal income or the amount of illegal income is below RMB300,000, a fine ranging from RMB300,000 to RMB600,000 shall be imposed; where the case is serious, the self-operated securities business permit may be suspended or revoked. The person-in-charge and other personnel who are directly accountable shall be issued a

warning, have their professional qualifications or employment qualifications for the securities industry revoked and be subject to a fine ranging from RMB30,000 to RMB100,000.

[Article 210](#)

Securities companies which buy and sell securities or handle transactions against a client's order or handle non-transaction matters against the real intention of a client shall be ordered to make correction and be subject to a fine ranging from RMB10,000 to RMB100,000. Where the client suffers losses thereto, the securities company shall bear compensation liability in accordance with the provisions of the law.

[Article 211](#)

Securities companies, securities registration and settlement organisations which misappropriate clients' funds or securities or buy and sell securities for clients without authorisation of the clients shall be ordered to make correction; the illegal income shall be confiscated and a fine ranging from one to five times of the amount of illegal income shall be imposed; where there is no illegal income or the amount of illegal income is below RMB100,000, a fine ranging from RMB100,000 to RMB600,000 shall be imposed; where the case is serious, the securities company shall be closed down or the relevant business permit(s) shall be revoked. The person-in-charge and other personnel who are directly accountable shall be issued a warning, have their professional qualifications or employment qualifications for the securities industry revoked and be subject to a fine ranging from RMB30,000 to RMB300,000.

[Article 212](#)

Securities companies engaging in brokerage business which accept discretionary orders of clients to buy and sell securities or undertake gains on securities trading or compensation of losses on securities trading shall be ordered to make correction; the illegal income shall be confiscated and a fine ranging from RMB50,000 to RMB200,000 shall be imposed; the relevant business permit(s) may be suspended or revoked. The person-in-charge and other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging from RMB30,000 to RMB100,000; and may have their professional qualifications or employment qualifications for the securities industry revoked.

[Article 213](#)

Acquirors who fail to make public announcement for acquisition of a listed company or to make an acquisition offer or to submit an acquisition report in accordance with the provisions of the Law or acquirors who make arbitrary changes to an acquisition offer shall be ordered to make correction and be subject to a fine ranging from RMB100,000 to RMB300,000; prior to the correction, the securities company shall not exercise voting rights on those shares acquired by the securities company solely or jointly with others through an agreement or other arrangement. The person-in-charge and other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging

from RMB30,000 to RMB300,000.

[Article 214](#)

Acquirors or the controlling shareholders of an acquiror who use the acquisition of a listed company to infringe upon the legal rights and interests of the target company and its shareholders shall be ordered to make correction and be issued a warning; where the case is serious, a fine ranging from RMB100,000 to RMB600,000 shall be imposed. Where the target company and its shareholders suffer losses, compensation liability shall be pursued in accordance with the provisions of the law. The person-in-charge and other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging from RMB30,000 to RMB300,000.

[Article 215](#)

Securities companies and their personnel which/who accept orders from clients in private to buy and sell securities in violation of the provisions of this Law shall be ordered to make correction and be issued a warning; the illegal income shall be confiscated and a fine ranging from one to five times of the amount of illegal income shall be imposed; where there is no illegal income or the amount of illegal income is below RMB100,000, a fine ranging from RMB100,000 to RMB300,000 shall be imposed.

[Article 216](#)

Securities companies which violate the provisions to engage in trading of non-listed securities without approval shall be ordered to make correction; the illegal income shall be confiscated and a fine ranging from one to five times of the amount of illegal income shall be imposed.

[Article 217](#)

Securities companies which do not commence operation within three months after incorporation without a proper reason or suspend operations arbitrarily for more than three months consecutively after commencement of operations shall be revoked by the company registration authorities.

[Article 218](#)

Securities companies which establish or acquire or revoke a branch without authorisation or in the event of merger, division, closure, dissolution, bankruptcy or the establishment or acquisition of or equity participation in overseas securities organisations in violation of the provisions of Article 129 shall be ordered to make correction; the illegal income shall be confiscated and a fine ranging from one to five times of the amount of illegal income shall be imposed; where there is no illegal income or the amount of illegal income is below RMB100,000, a fine ranging from RMB100,000 to RMB600,000 shall be imposed. The person-in-charge and other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging from RMB30,000 to RMB100,000.

Securities companies which violate the provisions of Article 129 in making arbitrary changes to the relevant matters shall be ordered to make correction and be subject to a fine

ranging from RMB100,000 to RMB300,000. The person-in-charge and other personnel who are directly accountable shall be issued a warning and be subject to a fine of not more than RMB50,000.

[Article 219](#)

Securities companies which violate the provisions of this Law in engaging in securities operations beyond the approved scope of business shall be ordered to make correction; the illegal income shall be confiscated and a fine ranging from one to five times of the amount of illegal income shall be imposed; where there is no illegal income or the amount of illegal income is below RMB300,000, a fine ranging from RMB300,000 to RMB600,000 shall be imposed. Where the case is serious, the securities company shall be closed down; the person-in-charge and other personnel who are directly accountable shall be issued a warning, have their professional qualifications or employment qualifications for the securities industry and be subject to a fine ranging from RMB30,000 to RMB100,000.

[Article 220](#)

Securities companies which do not separate their securities brokerage business, securities underwriting business, securities self-operated business, securities asset management business in accordance with the provisions of the law shall be ordered to make correction; the illegal income shall be confiscated and a fine ranging from RMB300,000 to RMB600,000 shall be imposed; where the case is serious, the relevant business permit(s) shall be revoked. The person-in-charge and other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging from RMB30,000 to RMB100,000; where the case is serious, their professional qualifications or employment qualifications for the securities industry shall be revoked.

[Article 221](#)

Persons who submit fraudulent certification or adopt other fraudulent means to conceal important fact so as to obtain a securities business permit or securities companies which commit a significant violation of the law in securities transactions and become disqualified, the securities regulatory authorities shall revoke the securities business permit.

[Article 222](#)

Securities companies or their shareholders and actual controlling party which/who violate the provisions and refuse to submit or provide business management information and materials to the securities regulatory authorities or securities companies or their shareholders and actual controlling party which/who submit or provide business management information which contains fraudulent information, misleading representation or major omission shall be ordered to make correction, be issued a warning and be subject to a fine ranging from RMB30,000 to RMB300,000; the relevant business permit(s) of the securities companies may be suspended or revoked. The person-in-charge and other personnel who are directly accountable shall be issued a warning and be subject



to a fine of not more than RMB30,000; their professional qualifications or employment qualifications for the securities industry may be revoked.

Securities companies which provide financing or guarantee to their shareholders or the related parties of the shareholders shall be ordered to make correction and be issued a warning; a fine ranging from RMB100,000 to RMB300,000 shall be imposed. The person-in-charge and other personnel who are directly accountable shall be subject to a fine ranging from RMB30,000 to RMB100,000. Where the shareholder is at fault, the securities regulatory authorities of the State Council may, prior to the correction, restrict his/her shareholder's rights; where the shareholder refuses to make correction, he/she shall be ordered to transfer his/her shareholding in the securities company.

[Article 223](#)

Securities service organisations which do not practise care and diligence and issue documents containing fraudulent records, misleading representation or major omission shall be ordered to make correction; the business income shall be confiscated; the securities service business permit shall be suspended or revoked and a fine ranging from one to five times of the amount of business income shall be imposed. The person-in-charge and other personnel who are directly accountable shall be issued a warning, have their professional qualifications or employment qualifications for the securities industry revoked and be subject to a fine ranging from RMB30,000 to RMB100,000.

[Article 224](#)

Persons who underwrite corporate bonds in violation of the provisions of this Law shall be punished by the authorised department of the State Council in accordance with the relevant provisions of this Law.

[Article 225](#)

Listed companies, securities companies, stock exchanges, securities registration and settlement organisations and securities service organisations which do not keep the relevant documents and materials in accordance with the relevant provisions shall be ordered to make correction and be subject to a fine ranging from RMB30,000 to RMB300,000; persons who conceal, forge, tamper with or destroy the relevant documents and materials shall be issued a warning and be subject to a fine ranging from RMB300,000 to RMB600,000.

[Article 226](#)

Securities registration and settlement organisations established without the approval of the securities regulatory authorities of the State Council shall be closed down by the securities regulatory authorities; the illegal income shall be confiscated and a fine ranging from one to five times of the amount of illegal income shall be imposed.

Investment consultancy organisations, financial consultancy organisations, credit rating organisations, asset valuation organisations and accounting firms which engage in



securities service businesses without obtaining prior approval shall be ordered to make correction; the illegal income shall be confiscated and a fine ranging from one to five times of the amount of illegal income shall be imposed.

Securities registration and settlement organisations and securities service organisations which violate the provisions of this Law or the business rules formulated in accordance with the provisions of the law shall be ordered by the securities regulatory authorities to make correction; the illegal income shall be confiscated and a fine ranging from one to five times of the amount of illegal income shall be imposed; where there is no illegal income or the amount of illegal income is below RMB100,000, a fine ranging from RMB100,000 to RMB300,000 shall be imposed; where the case is serious, the securities registration and settlement organisation or securities service organisation shall be closed down or the securities services business permit(s) shall be revoked.

[Article 227](#)

Under any of the following circumstances, the person-in-charge of the securities regulatory authorities of the State Council or the authorised department of the State Council and other personnel who are directly accountable shall be subject to administrative punishment in accordance with the provisions of the law:

- (1) approval of applications for issuance of securities and establishment of securities companies which do not comply with the provisions of this Law;
- (2) violation of the provisions of law when adopting measures such as onsite inspection, investigation and collection of evidence, questioning, freezing or sealing up as stipulated in Article 180;
- (3) violation of the provisions in imposing administrative punishment on the relevant organisations and personnel; and
- (4) other violations of the provisions of law when performing their duties.

[Article 228](#)

Where the personnel of the securities regulatory authorities and members of the issuance review committee fail to perform the duties stipulated in this Law or abuse their official powers or neglect their duties or use their official position to seek improper gains or divulge the commercial secrets of the relevant organisations and individuals, legal liability shall be pursued in accordance with the provisions of the law.

[Article 229](#)

A stock exchange which grants approval to listing applications which do not satisfy the requirements stipulated in this Law shall be issued a warning; the business income shall be confiscated and a fine ranging from one to five times of the amount of business income shall be imposed. The person-in-charge and other personnel who are directly accountable shall be issued a warning and be subject to a fine ranging from RMB30,000 to RMB300,000.

[Article 230](#)

Persons who refuse or hinder the supervision, inspection and investigation of the securities regulatory authorities and its personnel but did not use violence or threat shall be punished in accordance with the provisions on public security administration.

[Article 231](#)

Where a violation of the provisions of this Law constitutes a criminal offence, criminal liability shall be pursued in accordance with the provisions of the law.

[Article 232](#)

Persons who violate the provisions of this Law shall bear civil compensation liability and pay fines and penalties; where the assets are insufficient, civil compensation shall take priority.

[Article 233](#)

In the event of serious violation of the provisions of laws, administrative regulations or the relevant provisions of the securities regulatory authorities of the State Council, the securities regulatory authorities of the State Council may impose a ban on entry into the securities market on the personnel who are accountable.

The aforesaid ban on entry into the securities market shall mean that the personnel shall not work in the securities industry or act as a director, supervisor or senior management personnel of a listed company for a certain period or permanently.

[Article 234](#)

All fines collected and illegal income confiscated in accordance with this Law shall be turned over to the State treasury.

[Article 235](#)

Parties concerned who disagree with a punishment decision of the securities regulatory authorities or the department(s) authorised by the State Council may apply for an administrative review or file a lawsuit directly with a people's court in accordance with the provisions of the law.

## **Chapter XII — Supplementary Provisions**

[Article 236](#)

Securities approved for listing on the stock exchanges prior to the implementation of this Law shall continue to be traded in accordance with the provisions of the law.

Securities business organisations approved to be established in accordance with the provisions of the administrative regulations and the provisions of the financial administrative authorities of the State Council prior to the implementation of this Law which do not comply certain requirements stipulated in this Law shall meet the requirements stipulated in this Law within a stipulated period. The specific implementation measures shall be formulated by the State Council separately.

[Article\\_237](#)

Issuers applying for approval for a public offering of shares and corporate bonds shall pay examination and approval fees in accordance with the provisions.

[Article\\_238](#)

Domestic enterprises issuing securities overseas directly or indirectly or listing their securities overseas shall obtain the approval of the securities regulatory authorities of the State Council in accordance with the provisions of the State Council.

[Article\\_239](#)

The specific measures on subscription or trading of shares of domestic companies using foreign currencies shall be formulated by the State Council separately.

[Article\\_240](#)

This Law shall be effective 1 January 2006.