

nine major areas, including overall requirements, stock market, bond market, private equity, futures market, the competitiveness of the securities and futures sector, capital market openness, financial risks and market regulation. The policy is also referred as the "New National Nine Rules", in contrast to the earlier "National Nine Rules" issued in 2004. Under the nine broad guidelines, details on the directions and goals of reforms for thirty-three areas are specified, signaling the unprecedented resolution of Chinese government to push forward the comprehensive capital market reforms. It is government's aim to establish multi-layer capital markets, enlarge corporate and household investment channel, encourage efficient capital allocation as well as promote the economic restructuring. From macroeconomic perspective, we highlight the below reforms:

Further opening up China's capital markets

Following the recent announcement of Shanghai-Hong Kong Stock Connect Scheme on Apr 10, the Guideline again emphasizes on opening up the capital markets, with an aim to facilitate the cross-border investment and financing activities. Both inward and outward investment quotas under QFII and QDII programs will be increased. The shareholding limits for foreign capital in listcos will be relaxed. Domestic capital market will be steadily opened up for the direct investment of foreign individuals, and the domestic individuals investing in foreign capital market will be orderly pushed forward. Moreover, Xiao Gang, chairman of CSRC said this March that the potential QFII expansion is huge, and he mentioned that CSRC has been working on the QFII tax policy with other government agencies, as part of the effort to help facilitate QFII expansion this year.

We believed that this proposal will help inject more liquidity into China A share market, as well as expedite China's progresses in capital account liberalization in a boarder sense, including a) further relaxing the foreign investment management like holding period and remittance; b) implementing and expanding the Stock Connect scheme (see our Apr 11 note "A leap in China's efforts to liberalize capital accounts"); c) establishing capital account convertibility in SHFTZ and developing a domestic RMB offshore market; d) permitting cross-border RMB remittances by individuals and broadening channels for offshore banks to borrow/lend RMB in domestic market.

Promoting direct-financing

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