



Regulator Relaxes Business Restrictions on WFOE FMCs

By Sandra Lu | Tracy Chen

Recently, the Institutional Supervision Department of the China Securities Regulatory Commission (CSRC) issued a notice titled *“Continuously Optimizing Regulatory Systems and Mechanisms to Steadily Promote the Opening-Up of the Public Fund Industry”* (the “Notice”). According to the Notice, the CSRC has relaxed business restrictions on wholly foreign owned public fund management companies (“WFOE FMCs”) in areas such as QFI investment advisory services, third-pillar pension fund management, and cross-border data transmission.

Review of WFOE FMC Development in China

The Notice first reviewed the development of WFOE FMCs in China, noting that while WFOE FMCs have not been operating in China for long and their market share in the public fund industry remains relatively small, they adhere to stricter compliance and risk control standards and adopt more cautious and stable investment practices. The Notice also pointed out that WFOE FMCs generally focus on pension fund management and cross-border business, which differs from the business development model of domestic public fund management companies in China.

At the same time, the Notice stated that the CSRC will continue to optimize regulatory systems and mechanisms to provide a better business environment and opportunities for WFOE FMCs. Specifically:

1. Supporting WFOE FMCs in Registering FOF Products to Gain Pension Fund Management Experience

On January 15, 2025, the *Fidelity Renyuan Stable Three-Month Holding Period Mixed Fund of Funds (FOF)* was established, raising nearly RMB 870 million. This marks the first FOF product issued by a newly established

WFOE FMC. Its investment scope includes domestic public fund products, as well as overseas investments in QDII funds and Hong Kong-recognized mutual funds.

In China, third-pillar pension funds can primarily invest in Target Date Funds (TDFs), which are a special type of FOF. WFOE FMCs can start by issuing FOF products to prepare their organizational structures, investment research teams, and operational systems, thereby laying the foundation for launching TDFs in the future.

2. Optimizing the Product Review Process for Target Date Funds (TDFs)

According to the current guidelines issued by the CSRC, the regulator encourages fund management companies with at least two years of operation and an average asset management scale of no less than RMB 20 billion (excluding MMFs) over the past three years to launch TDFs.

To better leverage the pension management expertise of WFOE FMCs within their respective groups, the Notice states that if the WFOE FMC's parent group operates a TDF business with assets exceeding RMB 20 billion, the group's public fund management scale can be combined with the WFOE FMC's onshore asset management scale in China. If the combined three-year average asset management scale reaches RMB 20 billion, the WFOE FMC will meet the eligibility criteria for launching a TDF.

3. QFI Investment Advisory Business

Previously, due to the transition between old and new regulations, public fund management companies were temporarily unable to provide

investment advisory services for QFI portfolios. According to the Notice, the CSRC now allows WFOE FMCs to provide investment advisory services for QFIs within their own groups.

However, WFOE FMCs are still not permitted to offer investment advisory services to QFIs outside their groups, nor can they provide advisory services for investment portfolios under Stock Connect that invest in the Chinese market. The provision of these two services will require additional legislative approval from the CSRC. The Notice states that the CSRC will expedite the issuance of regulations related to the full implementation of investment advisory services.

4. Cross-Border Data Transmission

Since the release of the *“General Data List for Cross-Border Data Transfer in the Public Fund Sector of the China (Shanghai) Pilot Free Trade Zone Lin-gang Special Area (Trial)”* on May 16, 2024, WFOE FMCs have gradually gained approval to freely transfer general data included in the list through a registration mechanism.

The Lin-gang general data list includes two major categories of cross-border data transmission: market research and internal management. In addition to allowing the cross-border transfer of industry research and macroeconomic analysis information, the list also includes risk management data, fund asset management scale, and net subscription/redemption data—areas of particular interest to WFOE FMCs. This significantly expands the range of data eligible for cross-border transmission compared to the previous whitelist system submitted to the CSRC during on-site inspections, meeting some of the cross-border data needs of WFOE FMCs.

The CSRC stated in the Notice that the Shanghai Lin-gang data list will be further optimized, and its cross-border data transfer framework will be expanded to other free trade zones. As of the publication date of this article, Morgan Stanley's WFOE FMC is registered in Shenzhen, while Manulife's WFOE FMC is registered in Beijing.

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