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China to allow bank wealth-management funds to be invested in stocks

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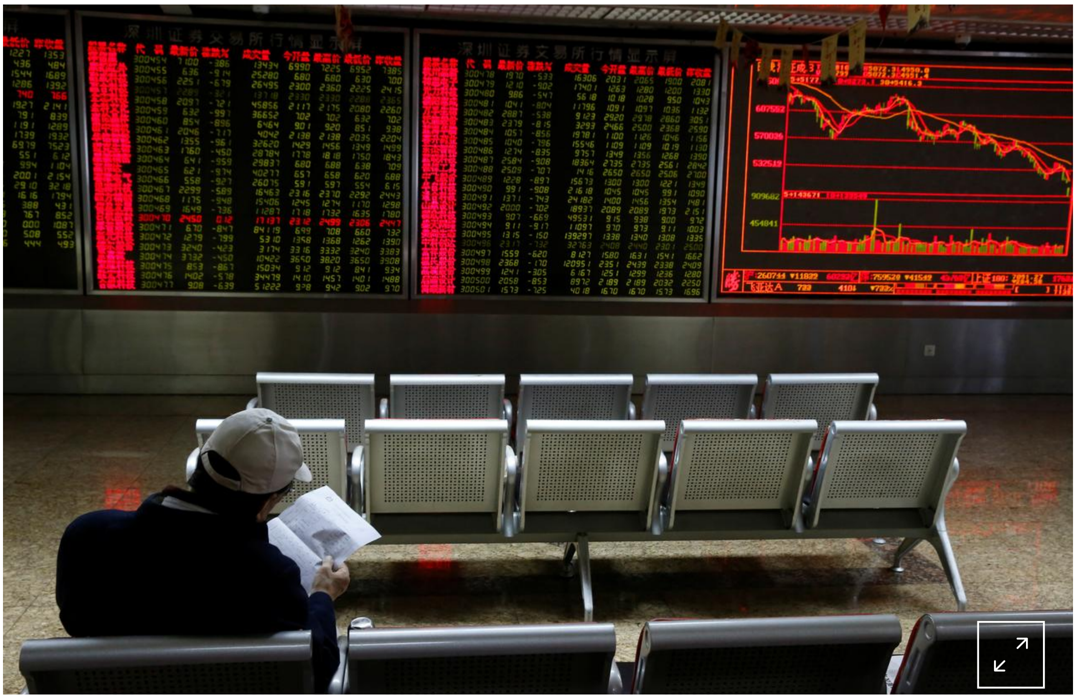
BEIJING/SHANGHAI (Reuters) - China's banking regulator said on Friday it plans to start letting funds from products publicly sold by banks' wealth management subsidiaries be directly invested in shares.



earlier this year on risk hammered many financial institutions handling funds from wealth management products (WMPs).

The CBIRC announced the policy change in draft rules that allow banks to set up wealth management subsidiaries to strengthen risk management. The regulator is seeking feedback on the draft, which does not specify what percentage of such WMP funds can be invested in shares.

Li Qilin, chief economist at Lianxun Securities in Beijing, estimates the at most 20 percent of WMP funds could be invested in stocks, adding that some other constraints may limit the potential amount.

“Bank WMPs target investors with low risk tolerance and many of those products lean towards cash management,” said Li. “It’s unlikely to see massively investment in high-risk, high-volatility equity assets that can trigger large fluctuations of fund values.”

The outstanding amount of bank WMPs stood at 29.54 trillion yuan ($4.26 trillion) at end-2017, according to official data.

Wealth management entities launched by China's banks will be asked to set aside a risk reserve fund, according to the draft rules.

The minimum registered capital for bank wealth management subsidiaries is 1 billion yuan, while the minimum investment requirement for investors in products sold by such entities has been scrapped.

Many of China's lenders have launched wealth management subsidiaries as Beijing ratcheted up its tightening of the way funds from WMPs could be invested.

Bank wealth management subsidiary investments in non-standard debt assets, typically referring to shadow loans, cannot exceed 35 percent of WMP products' net capital, the draft rules said.

The regulations encourage commercial banks to attract investment from foreign financial institutions in their wealth management subsidiaries.

Some of the rules "are kind of loosening control", said one person in the wealth management department of a large state-owned lender.

"Everything seems to be about boosting market confidence at this moment," she said.

($1 = 6.9347 Chinese yuan)

Reporting by Shu Zhang in Beijing and Engen Tham in Shanghai; Editing by Richard Borsuk

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