

2017

Practices of Investor Protection



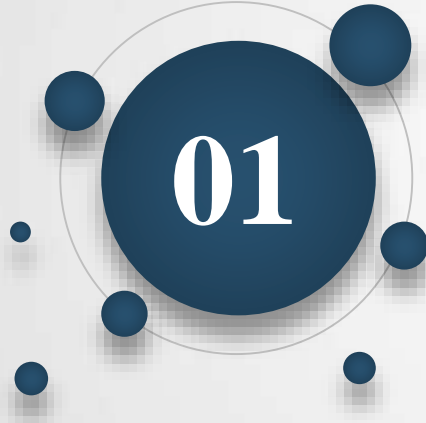
中国证券投资者保护基金有限责任公司
CHINA SECURITIES INVESTOR PROTECTION FUND CORPORATION LIMITED

October 2017 Moscow



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Founding Background and Main Responsibilities of SIPF & Raising, Management and Operation of Investor Protection Fund

PART ONE



01 Founding Background

- ◆ In 2003-2004, it was frequently observed that securities companies misappropriated investor transaction settlement fund. The risk of securities companies broke out intensively and their survival and development faced serious challenges.
- ◆ In June 2005, the State Council approved the issuance of “Measures for the Administration of Securities Investor Protection Fund” by China Securities Regulatory Commission (CSRC), Ministry of Finance and People's Bank of China, and agreed to establish SIPF.
- ◆ In August 2005, SIPF was incorporated.

Main Responsibilities

1. Raise, manage and operate Securities Investor Protection Fund
2. Monitor the risk of securities companies and participate in risk disposal of securities companies
3. Repay creditors in accordance with relevant national policies and regulations in case of deregistration, closure, bankruptcy of securities companies and in the event that they are subject to compulsory supervision such as administrative takeover and trusteeship management of the CSRC
4. Organize or participate in the liquidation of securities companies that have been deregistered, closed or bankrupted
5. Manage and dispose of the assets to be repaid, and protect the rights and interests of funds
6. Proposing recommendations on risk supervision and disposal to CSRC upon significant risks in the management and operation of securities companies that may jeopardize the interests of investors and the security of securities market; establishing corrective mechanisms with relevant authorities to the potential risks in the operation of securities companies
7. Other responsibilities approved by the State Council



1

20% of the transaction brokerage fees of Shanghai Stock Exchange and Shenzhen Stock Exchange after their risk funds have reached prescribed upper limits



2

0.5-5% of the revenue of all securities companies registered in China



3

Interest income of the frozen funds for subscription of stocks and convertible bonds, etc.



4

Recovery pursued from responsible parties by law and compensation income from the bankruptcy liquidation of securities companies



5

Donations from domestic and foreign organizations, organizations and individuals



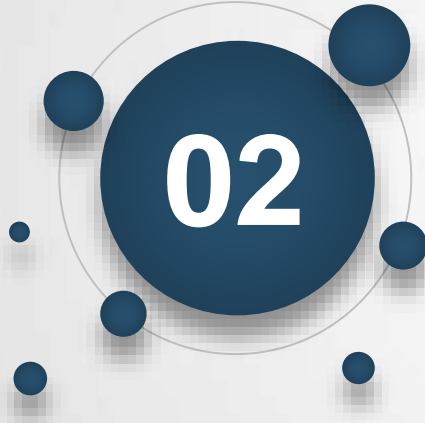
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Other legitimate income



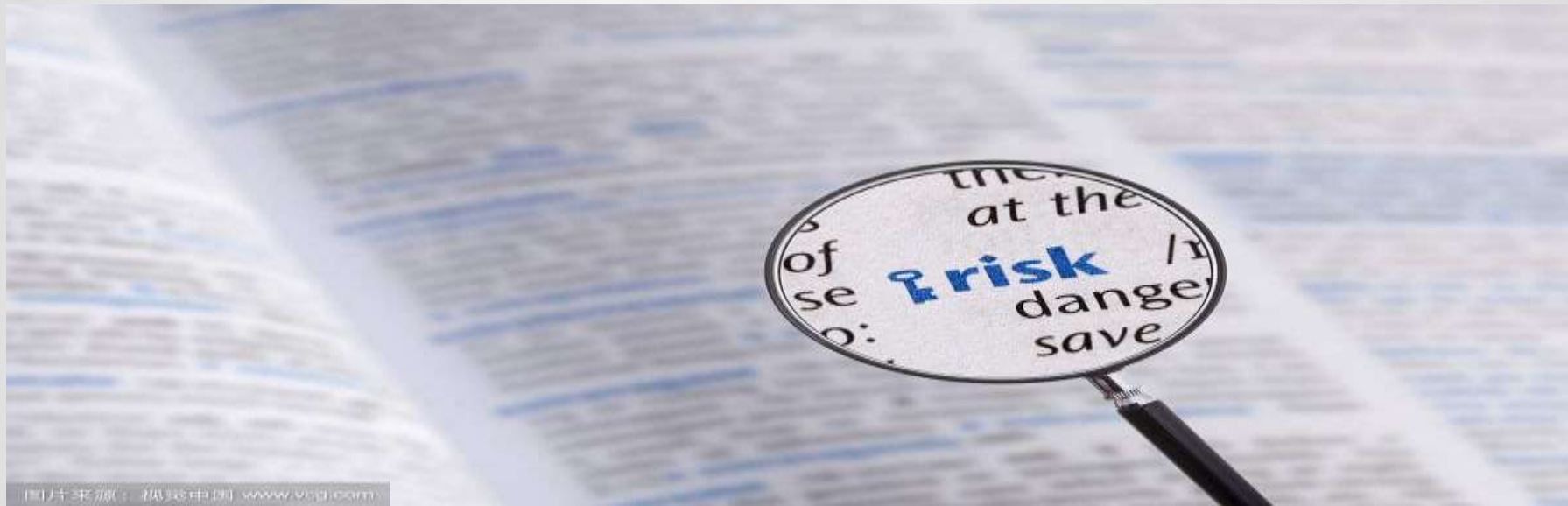
- Repay creditors in accordance with relevant national policies and regulations in case of deregistration, closure, bankruptcy of securities companies and in the event that they are subject to compulsory supervision such as administrative takeover and trusteeship management of the CSRC
- Other Uses Approved by the State Council





Practices of Investor Protection :
Monitoring of Investor Transaction Settlement
Fund's Safety and Securities Companies' Risks

PART TWO



Risk outbreak - heavy social and economic costs

We explore and take advantage of risk monitoring, not only to handle and compensate for the risk after its occurrence, but also to discover potential risks and make plans early in order to better safeguard the interests of investors.



Monitoring of Investor Transaction Settlement Fund's Safety

Background Location

Upon preliminary completion of risk disposal and comprehensive management of securities companies, CSRC authorized SIPF to establish the monitoring system of investor transaction settlement fund in September 2009 in order to further improve the safety of investor transaction settlement fund. The monitoring system was put into operation on March 30, 2012.

A basic auxiliary supervisory system under the long-term mechanism for protecting the legitimate rights and interests of investors

An effective practice of SIPF to fulfill the risk monitoring function of securities companies



Work Content

The monitoring system incorporates the investor transaction settlement funds related with general brokerage business, securities margin trading business, option business and OTC business through standardized data interfaces, and checks the data of securities companies against the data of China Securities Depository and Clearing Corporation Limited as well as the banks on a daily basis to realize the overall monitoring of investor transaction settlement fund.

Working Mechanism

**Third-party multidimensional monitoring and investors' autonomic supervision framework**

- ▶ Establish intelligent multidimensional monitoring points to precisely locate the security issues of investor transaction settlement fund
- ▶ Take advantage of big data to establish the query platform of investor fund, giving full play to investors' autonomic supervision on fund safety

**Intelligent work platform**

- ▶ Establish a multilateral working interactive platform to process the monitoring information of investor transaction settlement fund with CSRC's provincial bureaus, securities companies and depository banks, further improving the work efficiency of information feedback, screening and handling.

**Early warning information sharing mechanism**

- ▶ Push early warning information to CSRC
- ▶ Conduct case notification and training of typical problems in securities companies

Work Effectiveness



- ▶ Securities companies' awareness of the investor fund's safety and compliance management has improved significantly
- ▶ No serious risks of investor fund's safety have occurred
- ▶ "Money Bags" of investors have been well secured
- ▶ The system has played a positive role in maintaining the confidence of investors on securities companies and securities industry



Monitoring of Securities Companies' Risks

Working Background

- ▶ The latest exploration and practice of SIPF in recent years.
- ▶ Extension on the basis of monitoring of investor funds' safety, i.e. monitoring of comprehensive risks of securities companies extended from monitoring of compliance risks of securities companies' misappropriation of investor transaction settlement fund.

Working Orientation

Measure for the Administration of Securities Investor Protection Fund

Article 7 The responsibilities of SIPF include:

- 1.....
2. Monitoring the risk of securities companies and participating in the risk disposal of securities companies
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6. Proposing recommendations on risk supervision and disposal to CSRC upon significant risks in the management and operation of securities companies that may jeopardize the interests of investors and the security of securities market; establishing corrective mechanisms with relevant authorities to the potential risks in the operation of securities companies
- 7.....

Maintain financial security, and prevent and control financial risks

We should attach greater importance to taking the initiative to prevent and eliminate systemic financial risks scientifically through early identification, warning, discover and treatment, in which risks of key areas shall be prevented, and the financial security line of defense and risk response mechanisms shall be improved as the focus.

The monitoring shall be comprehensive, strict and in line with the law

International trends

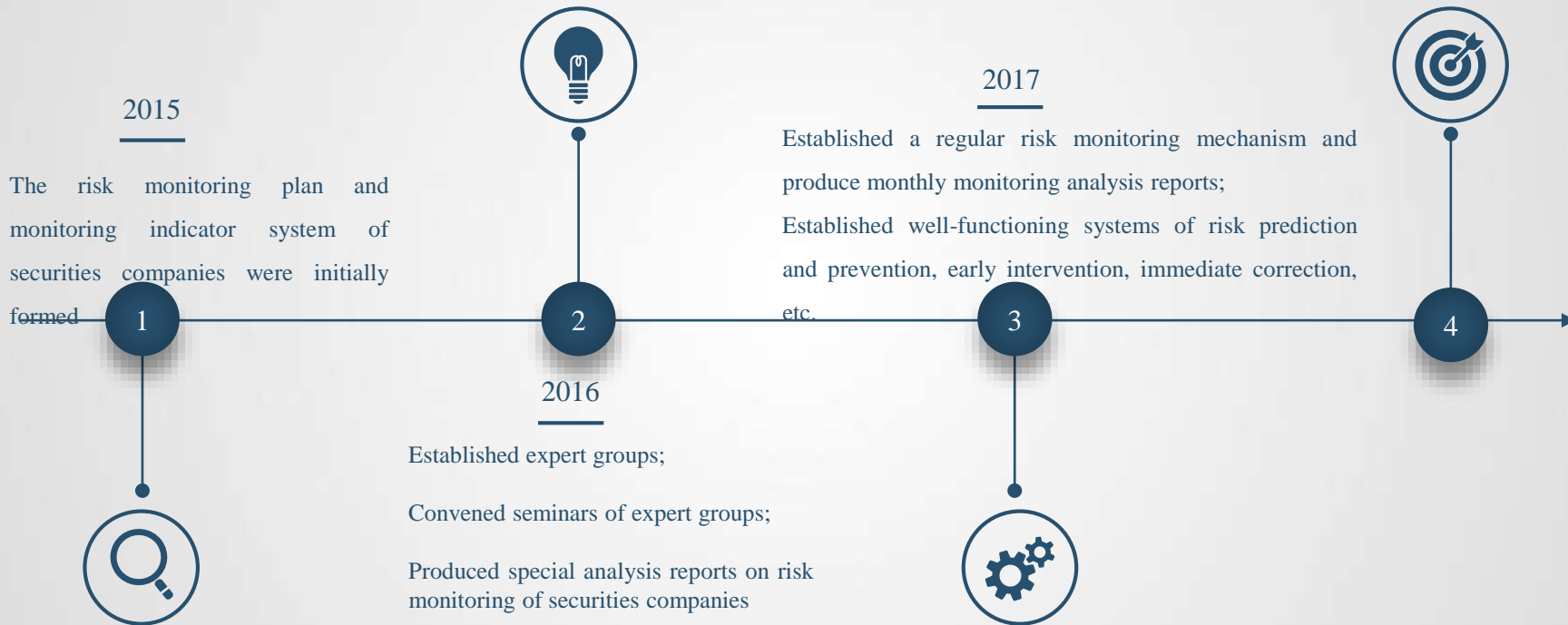
Establish mechanisms of risk prediction and prevention, early intervention and immediate correction to protect the interests of investors and reduce the social costs of risk handling as much as possible.

Domestic practice

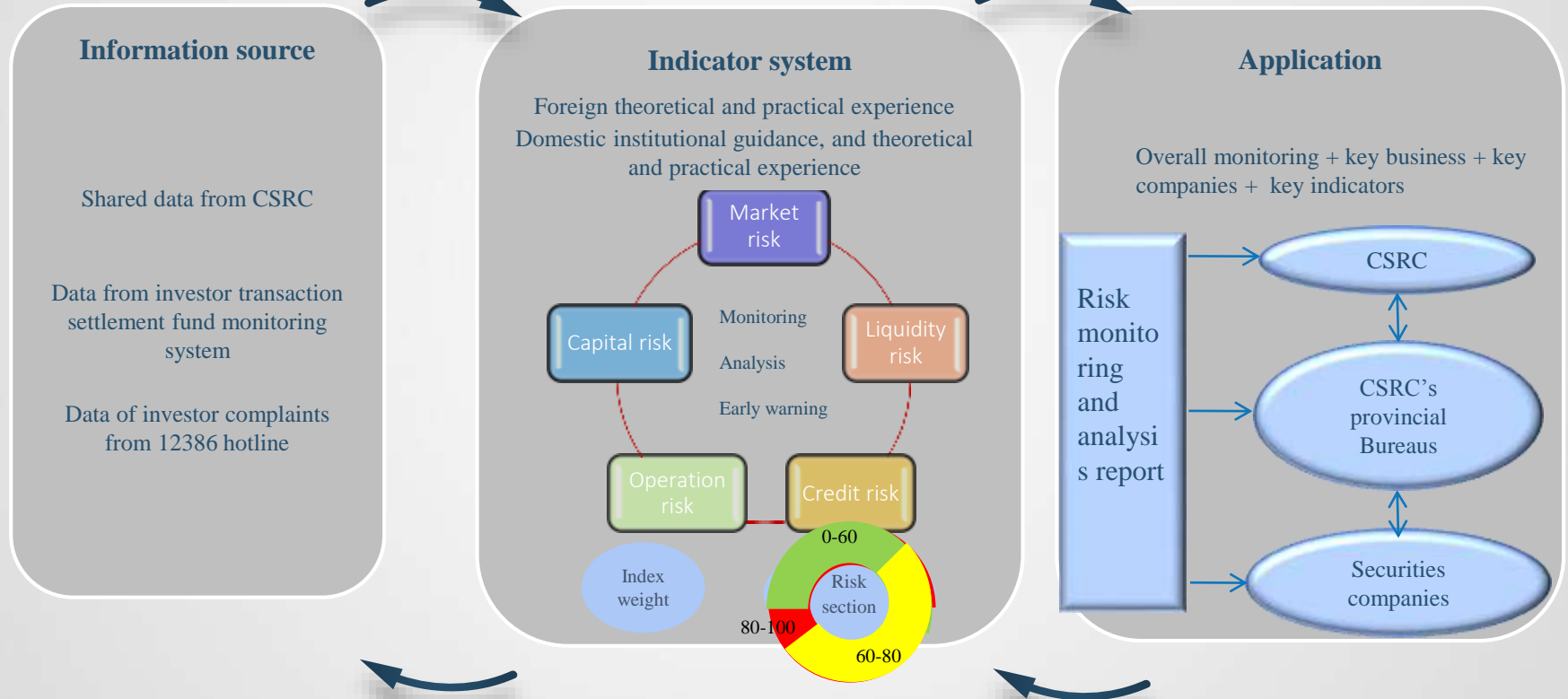
CSRC has made clear requirements on the improvement of risk early warning and prevention mechanism, and the strengthening of risk prediction and coping ability.

Positioning: Actively explore the construction of a comprehensive and preventive risk monitoring and early warning mechanism of securities companies from the independent perspective of a third party.

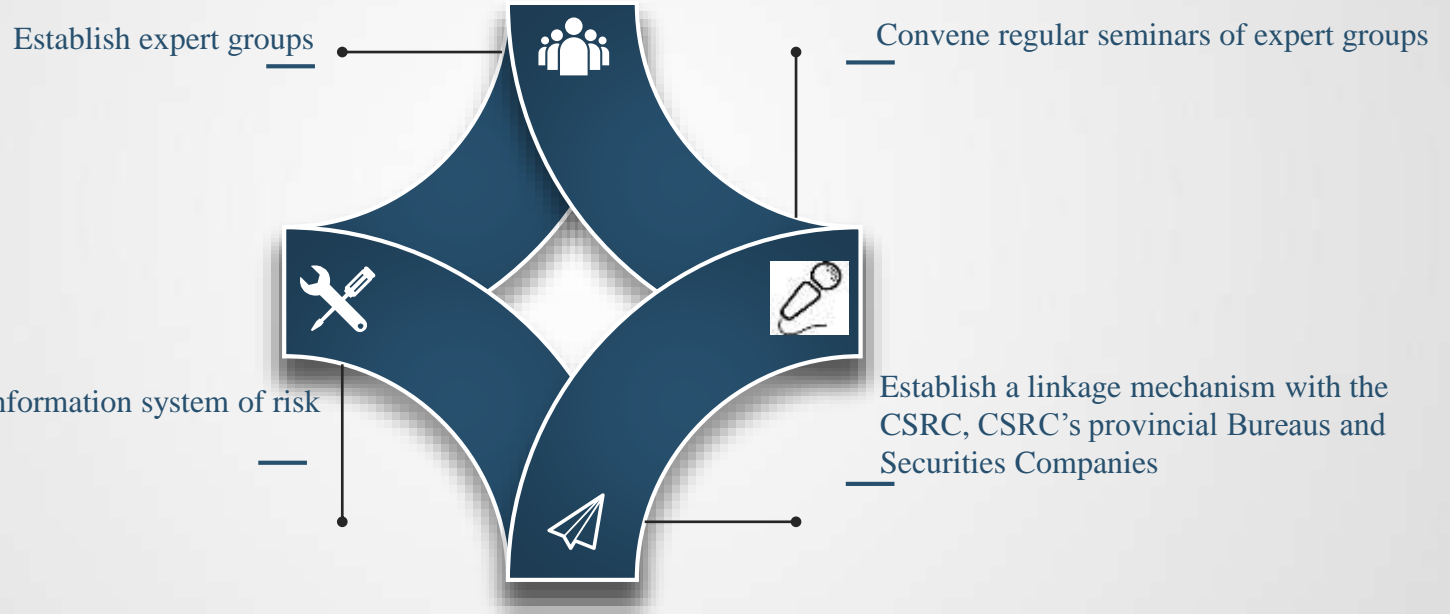
Working Situation - History



Business System



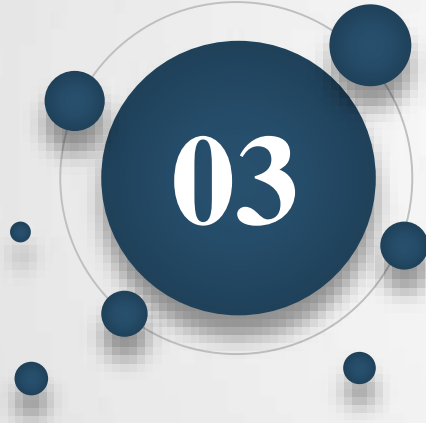
Working Mechanism



Work Effectiveness



- ▶ We have realized risk quantification and multidimensional monitoring, promoting the transparency of risks
- ▶ The reports have been produced on a regular basis, demonstrating the function of the risk “recognizer” and “predictor” .
- ▶ We have explored effective channels of investor’s interest protection by switching from post-event “risk disposal” to pre-event “risk concern”



Practices of Investor Protection: Investor Survey

PART THREE



Scope of Survey Respondents



- Individual investors (more than 5000)
- Investors of general institutions (more than 700)
- The branch managers of securities companies (more than 400)
- Fund managers (more than 200)

Survey varieties

- Investor confidence survey: In order to understand investor's confidence on the stock market tendency, we have produced monthly investor confidence indexes based on the survey results and disclose them to the public

The survey includes eight dimensions: domestic economic fundamentals, domestic economic policies, international economic and financial environment, and stock valuations, LCOI, LCRI, LCDI and BII.



As of September 2017, we have produced more than 100 sessions of indexes.

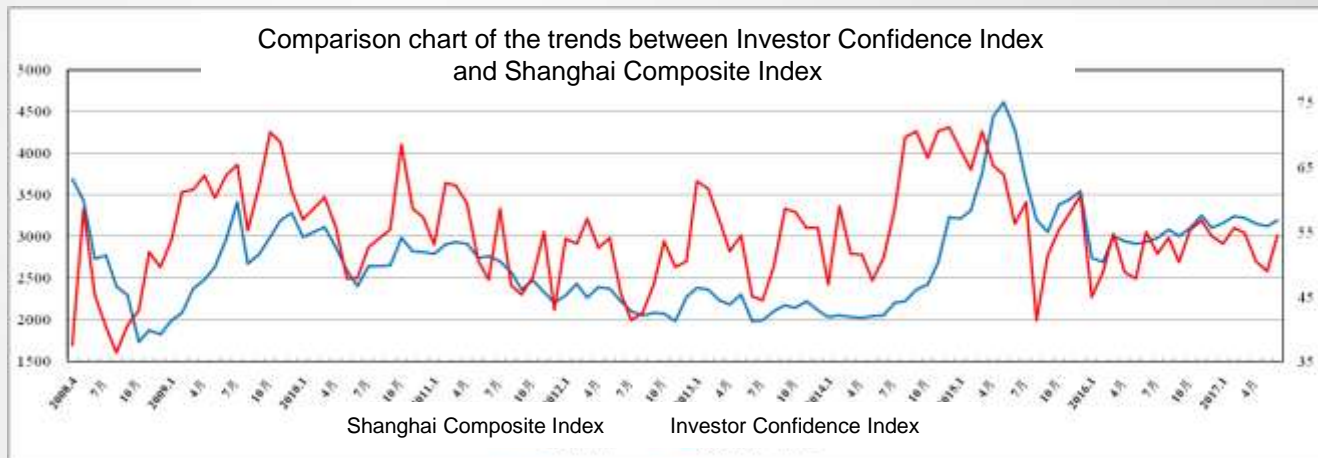
At present, the investor confidence index has become an important indicator of the emotion changes of Chinese investors.

- Hot market issue survey: It facilitates a quick understanding of investors' attitudes and opinions on the hot issues of securities market for the month. The results will be for the reference of CSRC.
- Specific survey: It is a in-depth survey on certain subject that is held 2-4 times a year. The results will be for the reference of CSRC, part of which are open to the public.

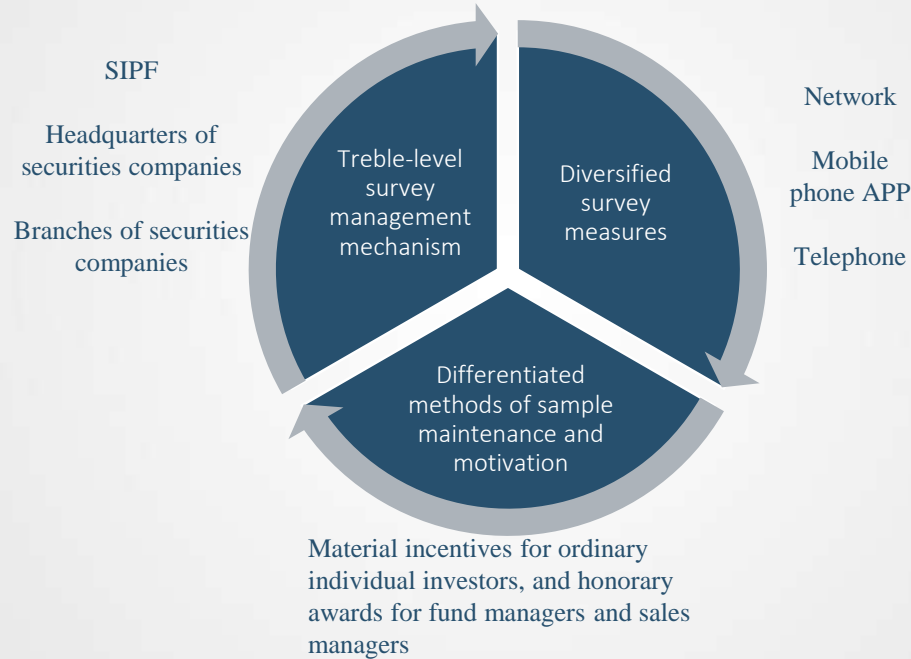
Special Report on Investor Confidence Survey and Investor Confidence Index chart

Monthly Report on Investor Confidence Survey
 (Volume 6 of 2017 Overall Volume 111)

China Securities Investor Protection Fund Corporation Limited
 July 4 2017




Working Mechanism



More than 90% of survey recovery rate and efficient survey implementation process

Work Effectiveness



Characteristics
Survey brands

- ▶ We have conducted more than 160 surveys in the past decade. Nearly 200 survey reports have been generated
- ▶ The mechanism has provided an important reference indicator to reflect investor sentiment
- ▶ Those reports have provided important reference within CSRC to understand the demands of investors, formulate monitoring policies and carry out investor protection
- ▶ They have also filled the blanks of securities industry, the survey results have been adopted and reported extensively



Practices of Investor Protection: Fund Management

PART FOUR

Three categories of funds under management at present

State-established investor protection fund

◆ According to relevant national policies and regulations, in cases of deregistration, close and bankruptcy of securities companies, we have compensated for their investors' claims with investor protection fund, obtained corresponding rights of compensation and participated in the liquidation of the securities companies by law.

Administrative reconciliation payment

- ◆ The administrative counterparts shall propose reconciliation to CSRC and pay administrative reconciliation compensation during the investigation and enforcement of their alleged violations against law by CSRC, and SIPF is responsible for the formulation and implementation of the administrative reconciliation compensation plans, and the compensation for investors.
- ◆ The pilot work started from 2015, and there have been no specific cases up to now.



Compensation funds established with proactive capital contribution from subjects of illegal responsibility

- ◆ The investors who have suffered losses due to false statements of listed companies shall be compensated.
- ◆ Completed events: Special fund for compensation of investors' interests due to false statements of Wanfu Biotechnology
Special fund for compensation of investors' interests due to false statements of H Under progress: Special fund for advance compensation due to false statements of Xintai Electric
(effects: Percentage of compensated people 95%.
Percentage of compensation amount 99%)
- ◆ Working process: (1) Establish special compensation fund formally
(2) Contact qualified investors
(3) Investors receive compensation and commitment letter of reconciliation signed on the Internet
(4) Investors make declaration for acknowledgment of compensation amount
(5) Pay compensation funds
- ◆ CSRC established an advance payment system for sponsor institutions, which was implemented in January 2016.



New Progress: New Characteristics of the Management of the Special Fund for Advance Compensation due to False Statements of Xintai Electric

Firstly, the compensation for the losses of delisting and new share subscription was added to the compensation scheme.

- If the investors held the shares until delisting, their compensation amount would be calculated according to the delisting price.
- For the investors who subscribed new shares of Xintai Electric in their initial public offering, they would be compensated according to the subscription price, and they would transfer their stock holdings of Xintai Electric to the contributor.

Secondly, the deduction of the loss amount of securities market risks was added to the compensation scheme.

- The loss arising from securities market risks was deducted from the loss of investment variation compensated at this time
- Calculation indexes were halved and the minimum adjustment factor was raised to 60%, which protected the rights of qualified investors

2017

Thank you!

