

China - CSRC renews restrictions on A share sale.

Overview

On 7 January 2016, the China Securities Regulatory Commission issued new **rules** (available in Chinese only) which replace the **rules** issued during the market turbulence of July 2015 restricting sale of shares in A-share listed companies by their controlling shareholders or shareholders with 5% stakes or greater ("substantial shareholders"), directors, supervisors and senior management.

The new rules place a cap on the percentage of shares that can be sold by a substantial shareholder through a stock exchange within any three-month period at 1 per cent. of the listed company's total issued shares. The seller must also disclose any share reduction plan 15 trading days in advance of the first sale. The plan is required to contain details of the number and source of the shares sold and the reasons for and timing, method and price range of the disposal.

Provisions relating to Share Pledges

The new rules expressly provide that the on-exchange disposal of a substantial shareholder's stake in a listed company as a result of the enforcement of a pledge is subject to the same restrictions. In addition, substantial shareholders are also required to inform listed companies of any pledges granted over their shares, and an announcement must then be made. The stock exchanges will specify the content requirements for such announcements.

Exceptions to the Restrictions

The restrictions do not apply to:

- (i) sales by substantial shareholders of shares they have acquired on the secondary market; and
- (ii) sales by private agreement. However, if the private sale results in the seller ceasing to be a substantial shareholder, both parties must comply with the above restrictions for a period of six months following the sale.

General Prohibition on Sale in Certain Circumstances and Penalties

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Whilst the focus of the specific restrictions is on substantial shareholders, a blanket ban on share sales applies to substantial shareholders and directors, supervisors and senior management faced with allegations or investigations of securities or futures crimes or violations of the rules of the stock exchanges, and may be imposed by the CSRC in other circumstances. The rules emphasise that any share reductions by such persons must be made in compliance with all applicable laws and regulations, and that appropriate penalties and punishment including, in serious cases, restrictions on sales of shares for six or twelve months and exclusion from the securities market will be applied for any breaches.

The new rules take effect on 9 January 2016.

References

[Notice on Issues of Shareholding Increase by Listed Companies' Substantial Shareholders, Directors, Supervisors and Senior Managers 《关于上市公司大股东及董事、监事、高级管理人员增持本公司股票相关事项的通知》](#) 8 July 2015

[Several Provisions in respect of Sale of Shares by Substantial Shareholders, Directors, Supervisors and Senior Management of Listed Companies 《上市公司大股东、董监高减持股份的若干规定》](#) 7 January 2016

Contacts

For further information
please contact:

Jian Fang

Partner

(+86) 2128911858

jian.fang@linklaters.com

Annabella Fu van Bijnen

Partner

(+85) 229015232

annabella.fu@linklaters.com

Eric Liu

Senior Consultant

(+86) 1065350670

eric.liu@linklaters.com

Author: Jian Fang, Betty Yap, Annabella Fu van Bijnen, Eric Liu

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Linklaters LLP

One Silk Street

London EC2Y 8HQ

Telephone (+44) 20 7456 2000

Facsimile (+44) 20 7456 2222

Linklaters.com