



## China Revestment Services (CRS)

Managing Foreign Equity for China

Harmonious foreign compliance with China equity law



David Huer  
Shàobīng Dàwèi  
哨兵 大衛

Summary - 3.0 pages

### BILLABLE SERVICES OPPORTUNITY

In Spring 2015, the Government of the People's Republic of China (GPRC) clarified the Corporation Law, ruling that only Chinese citizens have the right to own controlling stakes in domestic companies. This effectively shuts the door on the V.I.E. offshore contracts method<sup>1</sup> used to create direct foreign equity rights.

Hundreds of domestic companies have foreign investors or foreign parents and are in retroactive violation, waiting for GPRC to move forward with application of the clarified law. Thousands of foreign investors are in a precarious position, and may have to exit stocks at a loss. The clarified law reportedly influenced manoeuvrings to affect Yahoo's stake 15% stake (¥197 billion, £20.6 billion) in Alibaba. The 6-month blackout period imposed during China's July 2015 stock meltdown exacerbated the risk: foreign investors were locked-in like everyone else; may be forced out of their positions at a loss; and this will hurt efforts to attract foreign investment because minority stakes are always subject to majority player decisions. If GPRC ever wants to open more than the 1% of the market open to foreigners now, will foreigners take the risk?

### BRINGING CONTROLLING FOREIGN EQUITY HOLDERS INTO COMPLIANCE

**There is a way to lawfully obey the clarified rule while not exiting controlling positions.** The strategy was not to be a stock broker. Instead, create a trusted foreign equity compliance clearinghouse, and competitive trading information service; a "neutral zone" for investors and Chinese companies looking to trade China domestic stocks in a legal system trusted by all parties, including V.I.E. entities returning to compliance.

**In many countries, corporations are legal "persons". The method here is to register foreigner investors as Taiwanese corporations<sup>2</sup> so that they, like all Corporations, will be defined in law as Chinese "persons".** This strategy creates the means to unexpectedly profit by exploiting the ambiguous relationship between Taiwan and PRC to lower the risk of investing in China by foreign investors. The method simultaneously promotes goodwill and rapprochement between the States-parties, and is profitable for the States-parties and the designated compliance brokering entity.

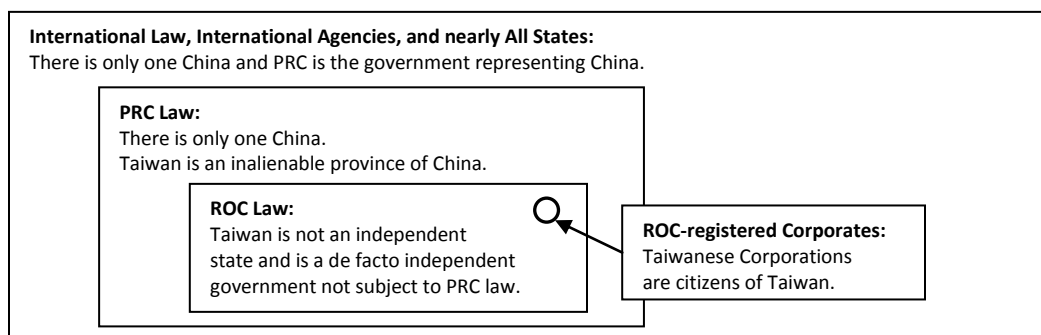


Fig.1. Taiwan's legal status enables use of a novel method to comply with GPRC's Corporation Law

<sup>1</sup> <http://www.chinalawblog.com/2015/01/china-vies-are-dead-done-over-stick-a-fork-in-them.html>

<sup>2</sup> An alternative is to create the mechanism in another State where the Taiwan mechanism can be emulated.

## STRATEGY

The strategy here proposes that GPRC, the Government of the Republic of China (GROC) and HM Government of the United Kingdom (HMGUK or UK) work together to manage all foreign equity compliance using a joint venture company. For purposes of discussion, the company is named *China Revestment Services (CRS)*.

As the designated compliance broker, CRS will operate a "compliance rating service" that is headquartered in a "Renminbi Qualified Foreign Institutional Invester Trading State (RTS)" that offers a transparent, well-defined third-party legal system that is, by definition, of lower risk for foreign investors than the legally sound, but politically less harmonious Taiwanese environment. The company will represent foreign investors and corporate registrants to Taiwanese authorities and/or register foreign investors as investors in Taiwanese holding companies, and certify that Taiwan-registered foreign entities, by virtue of Taiwanese registration, are compliant with the PRC Corporation law: See Fig.2. (below) and Appendix 2.0. ("*Brokering Funnel*")

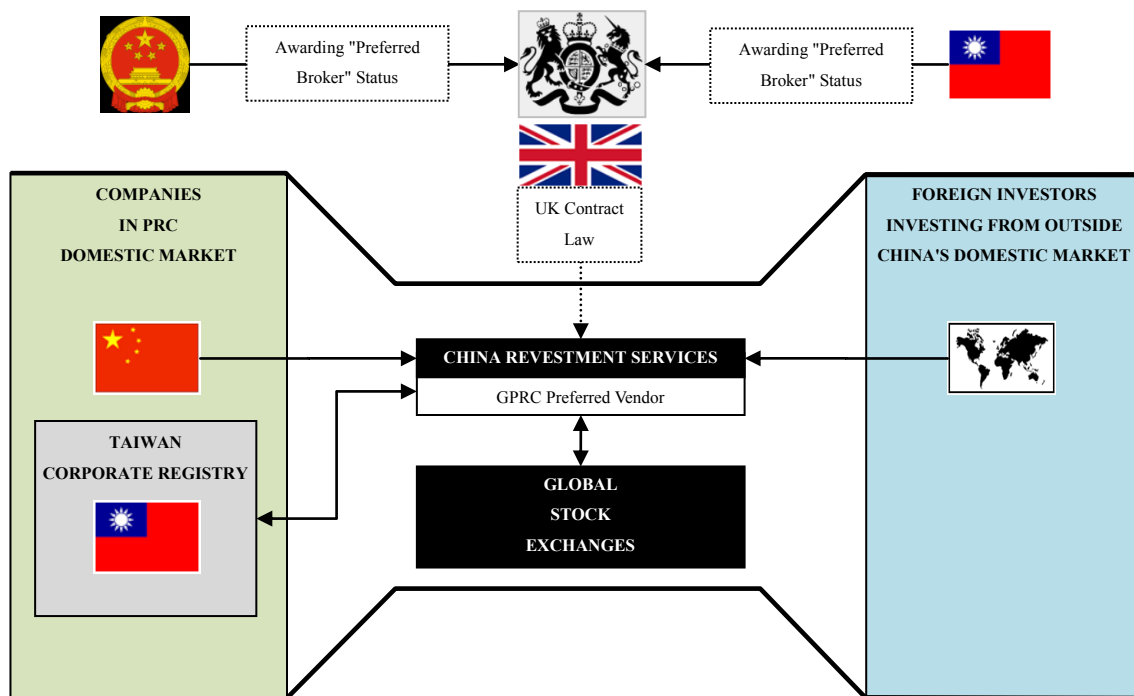


Fig.2. CRS Compliance Brokering Funnel

The immediate impact is that companies like Yahoo and Alibaba do not have to exit an embrace by restructuring the impact of associated risks, but the larger opportunity is to apply the method to a compliance engine that:

- a) Converts all (now unlawful) foreign deals back to lawful compliance;
- b) Converts all future equity flows to approved status

With proper arrangements and approvals, the broker will obtain exclusive right to manage ownership compliance for all domestic/offshore trades to/from China; and manage legal/accounting aspects of all compliance retrenchments whether directly, or via commission from contractors - which, given the number and complexity of the deals, may be a prudent strategy to help all companies expeditiously come into compliance.

- **Immediate Impact:**

- China's Domestic Ownership Law is respected;
- Simultaneously, foreign investors do not have to exit a controlling position to comply;
- GPRC obtains implicit recognition of the supremacy of Chinese law for Taiwanese registrants;

- Foreign investors obtain implicit recognition of stock position rights; and these are managed through compliance agency operating in Renminbi Qualified Foreign Institutional Investor Trading State (RTS).
- **The Bigger Picture:**
  - The method affects stock price for every foreign investor and domestic Chinese company;
  - GPRC obtains method to grow foreign investment beyond the allowable 1% without loss of control;
  - Further cooperation enable the States-Party to embrace an even brighter future;
  - The mutual trade and investment exchanges take the bilateral relationship to a new level;
- **Revenue Stream:**
  - CRS earns compliance revenue on all foreign equity trades flowing in/out of China's domestic market;
  - With preferred status, CRS grows new revenue by growing the portal as the "Bloomberg of China".
- **Policy Impact**
  - PRC's legal framework respected as the foundation of *the foreign compliance system*;
  - UK's legal framework respected as the foundation of *the operating system validating compliance*.
  - The States-Parties may wish to extend the impact and reach of the relationship to other States by selecting compliance operations' hubs for each territory. Each State and the city that is selected within each State should have limited association with competing trading bloc exchanges:
    - **Method A: Commonwealth of Nations (CoN) partners:**  
Many CoN States have a shared legal system derived from British common law.
      - Europe: UK (London, Leeds, Edinburgh, etc)
      - North America: Canada (Vancouver, Ottawa)
      - Central & South America: Cayman Islands (George Town)
      - Africa: Ghana (Accra, Kumasi)
      - Central Asia: Sri Lanka (Colombo)
      - Australasia & Pacific: New Zealand (Auckland, Wellington)
      - Russia, Middle East & North Central Asia: Republic of Cyprus (Nicosia)

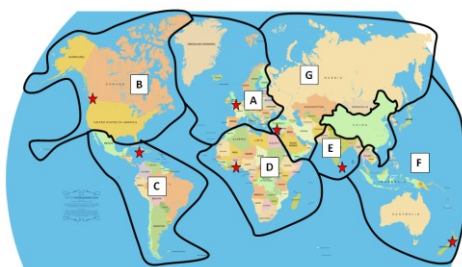
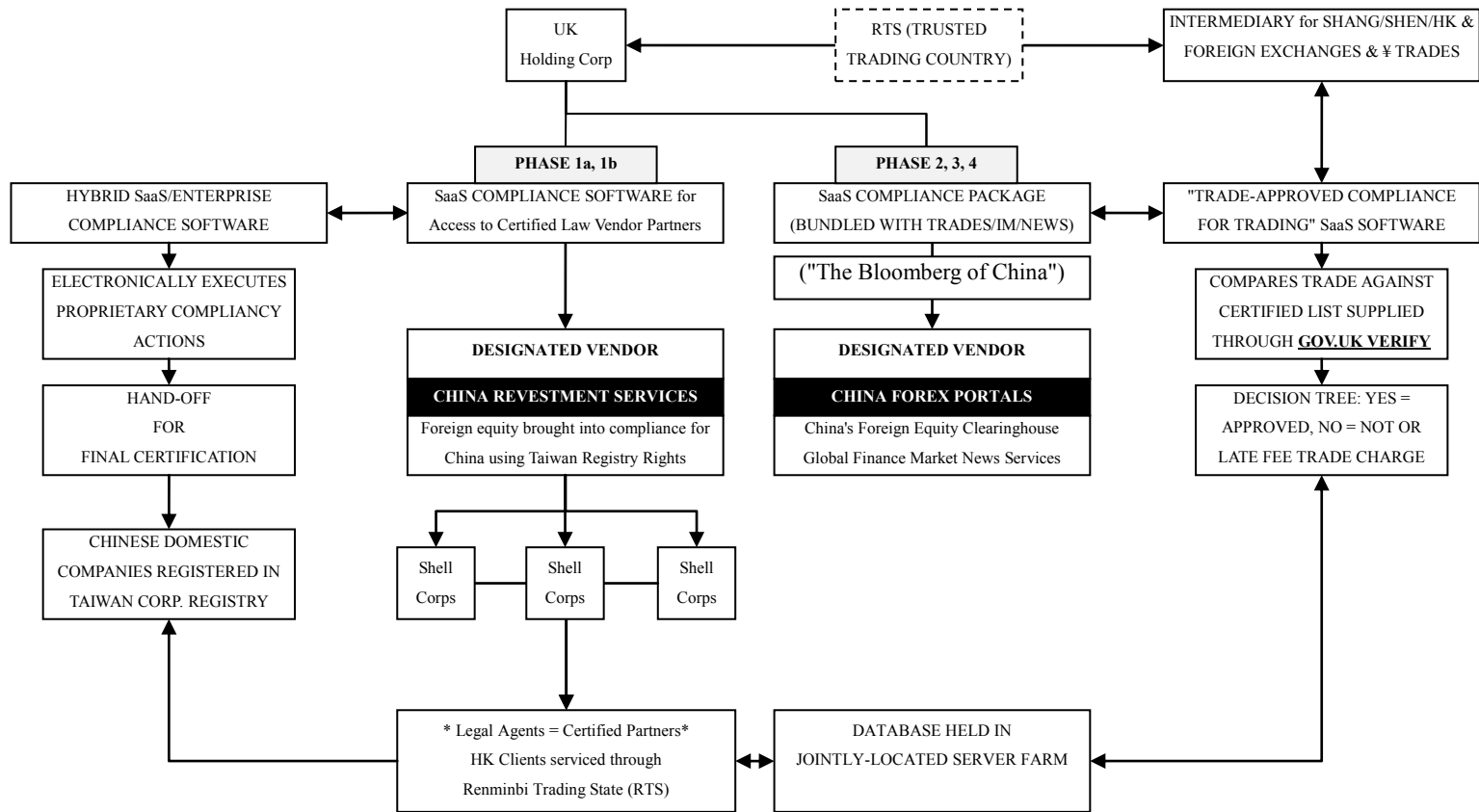


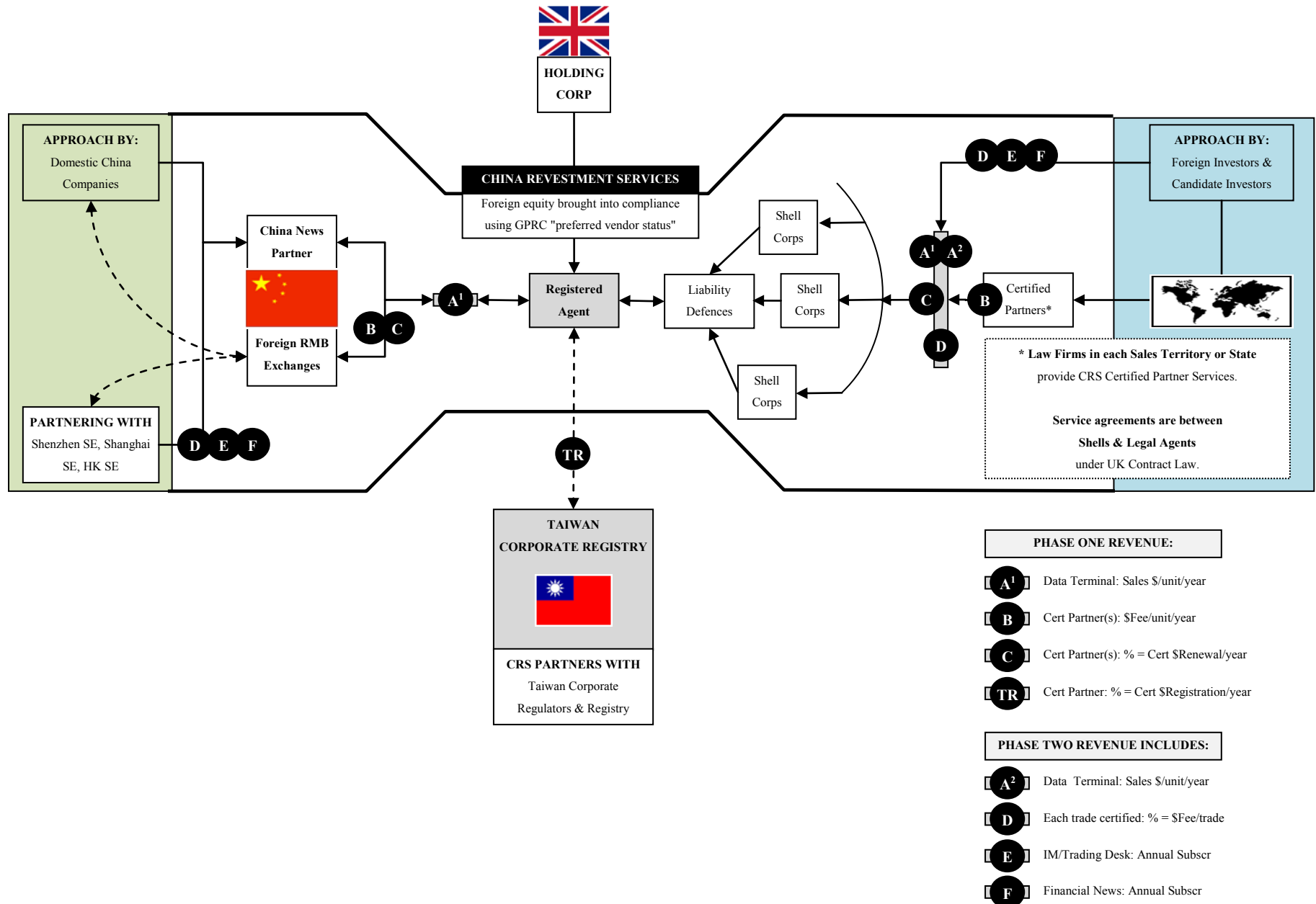
Fig.3.  
Service Territories (Example)

- **Method B: Countries in each continental or sub-continental territory:**
  - Selected by CRS as an internal operating decision;
- **Method C: Countries in each continental or sub-continental territory:**
  - Jointly selected by PRC and UK as a States-Party joint venture;
- **Method D: Cities in each continental or sub-continental territory:**
  - Selected by open-competition similar to the Olympics' Host City bidding process;
  - Awarding a 10-year+ contract to manage territorial operations;
- **Method E: Combined methods (A + B, C, or D):**
  - Select initial cities for first round of contracts;
  - Select succeeding cities using open-competition similar to the Olympics' Host City bidding process;
  - Invite cities to bid for competition rights using standards such as improving their city, culture, economy, society;
  - Require cities to demonstrate that their candidate city will be worthy of representing the CRS/PRC/UK brand.

**Appendix 1.0 - VENTURE STRUCTURE**



Appendix 2.0 - BROKERING FUNNEL



Appendix 3.0 - REVENUE SOURCES

