

# Legal Commentary

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## A Brighter Future: Registration-based Share Offering Reform

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On February 1, 2023, the China Securities Regulatory Commission (“**CSRC**”) started soliciting public feedback on the draft Administrative Measures for the Registration of Initial Public Offerings (“**Draft Administrative Measures**”) and other major rules of the registration-based share offering scheme. On the same day, the Shanghai Stock Exchange (“**SSE**”), the Shenzhen Stock Exchange (“**SZSE**”), the Beijing Stock Exchange (“**BSE**”), the National Equities Exchange and Quotations (“**NEEQ**”), the China Securities Depository and Clearing Co., Ltd and the China Securities Finance Corporation Limited all published relevant papers for public consultation ([click here to download the foregoing draft rules and papers](#)). This marks the official launch of the across-the-board registration-based share offering reform in China’s capital market after the pilot programs on SSE’s STAR Market, SZSE’s ChiNext and BSE in 2019, 2020 and 2021 respectively.

This article serves as a cover letter to introduce several highlights of the reform. We will follow it with serial articles to further discuss the draft rules in detail.

### Across-the-board reform

The across-the-board registration-based reform spans across various sectors of the SSE, SZSE, BSE and NEEQ, and strings through the offering of all kinds of shares or share-based securities. The reform involves multiple aspects such as IPO, secondary financing, material assets reorganization, trading regime, the mechanisms for margin trading and securities lending, underwriting and ongoing supervision, etc.

### More complete multi-level capital market system

Through the reform, the multi-level capital market system, with staggered development, complementary functions and organic links will be more complete.

- The Main Boards of the SSE and SZSE advertise “big and blue chip” and focus on supporting high quality enterprises with mature business models, stable performance, large scale and wide-range recognition.
- SSE STAR Market highlights “deep tech” and prioritizes companies that have core technologies, outstanding innovative capabilities, stable business models, and strong growth potential, and enjoy

high market recognition and good corporate image, which are also in line with national strategies and rely mainly on core technologies for production and operation.

- SZSE ChiNext Market mainly services the growth-oriented innovative startups, and supports the integration of traditional industries with new technologies, new industries, new economy and new modes.
- BSE and NEEQ mainly services innovation-oriented small and medium-sized enterprises.

## **Unified registration system**

Based on the earlier pilot programs of STAR Market and ChiNext, the reform unifies and complements the procedures and conditions of the registration-based system, forming a unified system among the CSRC and stock exchanges with regard to IPOs, follow-on offerings and other relevant securities offering. The stock exchanges will be mainly responsible to conduct comprehensive review of whether the issuer meets the conditions of share offering and listing and disclosure requirements by inquiries and other means, and the CSRC decides whether to grant the registration after the stock exchanges' review.

## **Significantly-optimized main board listing criteria**

The Draft Administrative Measures will scrap requirements of no accumulated loss and upper limit of intangible assets in the existing Main Board listing criteria, which will align with basic requirements of STAR Market and ChiNext Market. In terms of continuity of actual control, management and major business, the Main Board will still impose stricter requirements (3 years rather than 2 years) than STAR Market and ChiNext. We will provide a comparative analysis of the offering criteria and listing conditions among various sectors in coming articles.

## **Transitional arrangements**

For steady proceeding of the reform and orderly transition of approval matters, the CSRC, SSE, SZSE and the NEEQ have all issued notices on the arrangements for the transition period from February 1, 2023 to and after the date of official enactment of relevant major rules. Such transitional arrangements are market friendly. For example, during the transition period, the application for and review of Main Board IPOs, follow-on offerings, mergers and acquisitions and reorganizations will be conducted as usual; besides, existing listing applicants for the Main Board before February 1, 2023 not satisfying the revised financial criteria provided by the draft rules could still be subject to the relevant criteria under the original approval system even after the implementation of the reform.

## **Conclusion**

Four years in the pilot program of registration-based share offering scheme on the STAR Market, the disclosure-centered and market-orientated concept has taken root in China. The official launch of the across-the-board registration-based reform will open door to a standardized, transparent, open, dynamic and resilient capital market and envisage a brighter future for China's economic development.

## ***Important Announcement***

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