CHINA-AUSTRALIA
FREE TRADE AGREEMENT

Factsheet: Financial Services

The China-Australia Free Trade Agreement (ChAFTA), which entered into force on 20 December 2015, secured a range of unprecedented financial services commitments from China.

These commitments are the most substantial market access commitments China has agreed with any FTA partner (other than in its agreements with Hong Kong and Macau) and create new commercial opportunities for Australian banks, insurers and securities firms. They facilitate deeper participation by Australian financial institutions in China, strengthen financial services trade and investment in both directions and enable future growth in the bilateral economic relationship as a whole.

China agreed to comprehensive treaty-level commitments on financial services, including agreement to provisions on transparency, regulatory decision-making and streamlining of financial services license applications.

A financial services committee has been established under the FTA providing for regular engagement between Chinese and Australian financial regulators on issues of mutual interest, and allowing issues arising in the bilateral financial services relationship to be addressed quickly and efficiently. Both sides have identified a range of areas for further cooperation, including the encouragement of Australian private equity funds investment in China.

ChAFTA also includes a future work program to deliver on-going market access in the financial services sector, which provides for cooperation in emerging areas of commercial interest, as China pushes ahead with further economic reform and liberalisation.

Insurance

- For the first time in an FTA, China committed to allow Australian insurance providers access to China’s sizeable statutory third-party liability motor vehicle insurance market, without form of establishment or equity restrictions.

Banking

- China reduced the waiting period for Australian banks to engage in local currency (RMB) business from 3 years to 1 year. China also removed the two-year profit-making requirement as a precondition for the provision of local currency services.
- Where a branch established in China by an Australian bank already has permission to engage in local currency banking business, other branches established by the same bank are eligible for streamlined approvals to conduct RMB business.
- China removed the minimum RMB100 million working capital requirements for branches of Australian banks operating as subsidiaries in China, facilitating faster growth and new business opportunities.
- Australian bank subsidiaries in China are the only foreign bank subsidiaries to enjoy an FTA commitment guaranteeing their eligibility to engage in credit asset securitisation business provided for under China’s Financial Institution Credit Asset Securitization Pilot Program.
- Importantly, Australian banks are positioned to benefit as financiers of the expansion in trade in goods and services from the wide range of market opportunities made available under ChAFTA.

Fact sheet last update: August 2018
More information on the China-Australia Free Trade Agreement is available at www.dfat.gov.au/fta/chafta

Australian Government

AUSTRALIA OPEN FOR BUSINESS

Securities and futures

- China committed to:
  - Permit Australian financial service providers to establish joint venture futures companies with up to 49 per cent Australian ownership (foreign participation was not previously permitted).
  - Extend national treatment to Australian financial institutions for approved securitisation business.
- Australian securities firms in China benefit from new commitments raising foreign equity limits to 49 per cent (above China's WTO commitment of 33 per cent) for participation in underwriting of domestic 'A' and 'B' shares, as well as H shares (listed in Hong Kong), and guaranteeing the ability to conduct domestic securities funds management business.
- Under ChAFTA's Most Favoured Nation (MFN) commitments, China agreed to confer any future more preferential treatment for securities providers of other countries to Australian providers. This commitment protects Australia's competitive position in this commercially-significant sector into the future.

Funds Management

- China's allocation to Australia of an RMB 50 billion quota for the first time (see section on 'Convertibility of China's renminbi (RMB) currency' below) allows Australian domiciled fund managers to purchase equities and bonds directly from China's mainland securities exchanges in Shanghai and Shenzhen. This is an area of significant potential growth for Australia's funds management industry.
- China guarantees Australian securities brokerage and advisory firms access to provide cross-border securities trading accounts, custody, advice and portfolio management services to Chinese Qualified Domestic Institutional Investors (i.e. Chinese investors allowed to invest offshore).
- The Australian Securities and Investments Commission (ASIC) and the China Securities Regulatory Commission (CSRC) have agreed to strengthen cooperation and improve mutual understanding of Australia's and China's respective regulatory frameworks.

Bilateral taxation arrangements

- Building on the commitment in ChAFTA, on 24 March 2017 Prime Minister Turnbull and Premier Li jointly announced that Australia and China would commence negotiations to update the Australia-China tax treaty in the near future.
  - Tax treaties are an important mechanism to facilitate cross border trade and investment. A key purpose of tax treaties is to eliminate double taxation as well as providing certainty and predictability to business and investors regarding a country's taxation rights. Tax treaties also typically have integrity provisions, such as exchange of tax information, to improve tax compliance.

Convertibility of China's *renminbi* (RMB) currency

- Alongside these new financial services commitments, the respective central banks of China and Australia also signed a Memorandum of Understanding facilitating the establishment of an official *renminbi* (RMB) clearing bank in Sydney. The clearing bank provides a more direct means of facilitating cross-border RMB transactions between Australian and Chinese entities than was previously available, and improves the efficiency of cross-border RMB transactions.
- For the first time, China also granted Australia a RMB 50 billion quota under its RMB Qualified Foreign Institutional Investor (RQFII) program, permitting Australian financial institutions to invest offshore RMB in Chinese onshore financial instruments. This includes the Chinese onshore securities market, an area of significant potential growth for Australia's funds management industry.