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PENbrief

RMB Funds: New Rule Permits Investment by Insurance Companies

In our recent *KirklandPEN*, we discussed opportunities for non-Chinese private equity sponsors seeking to enter China by raising funds denominated in Renminbi ("RMB"), noting that limited sources of Chinese institutional capital present a significant challenge to fundraising in China by private equity sponsors. New developments in the regulation of Chinese insurance companies (discussed below) may help alleviate that challenge.

To date, sources of Chinese capital have included the National Social Security Fund (China's national pension fund) and various State-Owned Enterprises, which are heavily regulated, so thatan investment from such an entity can subject a fund to complex regulatory issues.

On September 5, 2010, the China Insurance Regulatory Commission (CIRC) issued detailed implementation rules permitting Chinese insurance companies to invest in RMB funds. According to CIRC's website, a Chinese insurer can now invest up to 5% of its total assets in private equity and related financial products (including RMB funds) and 10% in real estate. Given the estimated US$569 billion of assets under management by Chinese insurance companies, this could significantly increase the potential sources of Chinese capital for RMB fund sponsors. This development will likely impact the market over time, as Chinese insurance companies develop relevant policies, procedures and infrastructure before launching investment programs.

The recently issued rules apply only to investment by Chinese insurance companies in an "onshore" fund (organized in China). Rules relating to investment in an "offshore" fund (not organized in China) are pending. Until such rules are issued, a Chinese insurance company seeking to invest in an offshore fund will require approval from CIRC on a case-by-case basis.

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