ARTICLE

RULE FOR PREFERRED STOCK IN CHINA: OVERTHROW OF THE PRINCIPLE OF “EQUAL SHARES, EQUAL RIGHTS”? — FROM A COMPARATIVE PERSPECTIVE

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Abstract The principle of “equal shares, equal rights” was established by the Company Law of 1993 of the People’s Republic of China. At the initial stage only issuance of common stocks was allowed and the issuance of preferred stocks was interpreted as prohibited. The Company Law of 2006 has changed the rigidity of provisions of the Company Law of 1993 and laid down the legal foundation for issuance of preferred stock. The Rule for Administration of the Pilot Project for Preferred Stocks released on March 21, 2014 by the China Securities Regulatory Commission started the issuance of the preferred stocks in the Chinese capital market. The establishment of the legal system for issuance of preferred stock in China is not the symbol of overthrowing the principle of “equal shares, equal rights,” but the expansion and development of the principle of “equal shares, equal rights” in a new era.

Keywords preferred stock, Company Law, equal right, preferred shareholder, institutional investor

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INTRODUCTION

At the initial stage, terms and provisions of the first Chinese Company Law promulgated in 1993 (Company Law of 1993) was characterized by its rigidity, especially for the kind of shares under the principle of “equal shares, equal rights.” The Company Law of 1993 gave short shrift to the preferred stocks and only issuance of common stocks was allowed. In such circumstance, issuance of preferred stock was interpreted as prohibited. The situation has changed. In 2006, the new company law (Company Law of 2006) was promulgated. Yet, preferred stock’s economic salience has increased notably and the Chinese government authorities have realized the importance and the special function of preferred stocks in corporate finance. The necessity of flexibility of Chinese company law and practice of corporate finance instruments provide a historic opportunity for creation of preferred stock in the People’s Republic of China (PRC).

Preferred stock is one of the universal scholarly topics. Attention to the legal aspects of preferred stock in jurisprudence under common law jurisdictions is remarkable. However, preferred stock in China is a relatively new phenomenon, and publications about legal issues of preferred stock are seldom. There are a lot of new problems to be analyzed, of which the principle of “equal shares, equal rights” attracts our particular attention. Part I of this article begins with comments on the benefit and positive results of the launching of preferred stocks in China. Part II focuses on a discussion of legal foundation of preferred stock in China. Part III reviews the special legal status of investors of preferred stocks. Part IV presents an analysis of the question of whether rights of preferred shareholders are defined by either contracts or articles of association. Parts V, VI, and VII respectively discuss the rights of preferred stockholders, including the preference on dividends distribution, the rights of attendance of the shareholders’ meeting and voting rights, as well as redemption and other rights. This article concludes that the establishment of the legal system for issuance of preferred stock in China is not symbolic of overthrowing the principle of “equal shares, equal rights,” but rather the expansion and development of the principle of “equal shares, equal rights” in a new era.

I. THE PILOT PROJECT FOR PREFERRED STOCK IN CHINA TO PROMOTE CORPORATE FINANCE

On March 21, 2014, China Securities Regulatory Commission (CSRC), China’s top securities regulator, had officially released the Rule for Administration of the Pilot Project for Preferred Stocks (the “Rule for Preferred Stocks”). Rule for Preferred Stocks is made on the basis of the regulation promulgated by the State Council of the PRC on Guiding Opinions on the Launch of the Pilot Project for Preferred Stocks on Nov. 30, 2013, for the purpose of providing an alternative instrument on the market for companies needing funds.²

Chinese government authorities successively published several supporting rules. China’s Ministry of Finance promulgated the accounting standards concerning preferred stocks and the specified instructions on disclosure of information with regard to preferred stocks in financial statements of companies issuing preferred stock. The new regulations and rules promulgated by the CSRC, China Banking Regulatory Commission (CBRC), and other relevant Chinese government authorities about preferred stock allow companies meeting some specific requirements and banks³ to issue preferred shares in the Chinese capital market.⁵ According to the pilot project, companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange are allowed to issue preferred stocks to qualified public investors. Blue-chips listing companies are expected to gain support from the first stage of the preferred stock pilot project as they are likely to be among the first batch piloting the new program. Three kinds of listed companies, including SSE 50 Index⁶ constituent stocks, are qualified for issuing preferred stocks via IPO.⁷ Non-listing companies are only allowed to issue preferred stocks via private placement plan.

The pilot project of preferred stocks will benefit at least three types of participants: issuers, investors, and securities underwriters, and will lead to many positive results.

— As for the issuers, issuance of preferred stocks is expected to become a major channel for Chinese listing blue-chips companies, especially for Chinese commercial banks, to replenish capital amid the long-term capital pressure facing the domestic

⁴ Tier 1 capital — includes paid-up share capital, retained earnings, minority interests, and current year profits or losses. See Paulo De Lorenzo Messina, Capital Requirements and the Brazilian Banking System, 8(9) Journal of International Business and Law 365, 732 (1993).
⁶ SSE 50 Index is an index of the 50 constituent A shares listed on the Shanghai Stock Exchange (SSE).
banking industry. Today, from a global perspective, nearly all public preferred stock is issued by financial institutions, insurance companies, or other institutions subject to strict capital adequacy regulation. It is almost the same situation in China. Many Chinese banks and financial institutions saw their capital adequacy ratios decline in 2013. In the first quarter of 2014, the ratios had divergent trends with the Agricultural Bank of China (ABC) and China Construction Bank (CCB) posting a rise in their capital adequacy ratios while the Bank of China (BOC) reported a drop. Although the banks and financial institutions’ capital adequacy ratios generally meet requirements, they will still face capital shortfall in the future. Many banks and financial institutions are likely to enjoy benefits from issuance of preferred stocks. It is estimated that sixteen Chinese banks and financial institutions listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange will have a great amount of capital shortage in the short term. The pilot project will boost direct financing activities of banks and companies either in stock exchanges or via private placement. For these banks and companies seeking funding sources, preferred stock is an available financing instrument by offering them a source of alternative funding. The preferred share, which is a class of stock senior to common stock in a firm’s capital structure, will offer a new financing instrument to raise capital without changing ownership structure of the issuing company. Large-cap companies, such as banks, power stations, and transportation companies will likely be pilot issuers.

As for investors, the pilot project of preferred stock is an alternative to bonds and equities. Preferred stock could be made more attractive to potential investors. Preferred stocks are generally issued at a higher yield than debt. Benefits received by investors of preferred stocks usually exceed their anticipated return. It can generate stable returns with controllable risks for long-term investors, such as insurance companies and pension

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8 In the US and other countries that comply with the Basel Capital Accords, institutions regulated as banks are required to finance a certain amount of their lending (or other asset acquisitions) with instruments junior to senior unsecured debt. See generally Julie Andersen Hill, Bank Capital Regulation by Enforcement: An Empirical Study, 87 Indiana Law Journal 645, 649–656 (2012) (explaining bank capital requirements). Currently, four percent of a bank’s risk-weighted assets must be financed with Tier 1 capital (which consists mostly of common equity), and eight percent must be financed with Tier 1 or Tier 2 capital. Preferred stock counts as Tier 2 capital, whereas ordinary debt does not. Thus, banks interested in maximizing the financial leverage of its common equity have an incentive to issue preferred stock to meet the Tier 2 capital requirements.


10 Industry and Commercial Bank of China (ICBC), Bank of China (BOC), China Construction Bank (CCB) and Agricultural Bank of China (ABC) are big four banks in the People’s Republic of China (PRC).


funds. Preferred stocks are also one of the most favored modes of investment for venture capitalist.\textsuperscript{13}

As for securities underwriters, the pilot project of preferred stocks will expand their business scope and provide them a lot of new business by helping companies issue preferred stocks. Preferred stocks will also generate more brokerage fees or commission for securities underwriters.\textsuperscript{14}

\textbf{II. FROM RIGIDITY TO FLEXIBLE RULE OF COMPANY LAWS WITH RESPECT TO ISSUANCE OF PREFERRED STOCKS}

Rigidity was one of the legal features of the first Company Law of the PRC, promulgated in 1993. The principle of “equal share, equal rights, equal share, equal benefits” was one of the fundamental characteristics of the Company Law of 1993.\textsuperscript{15} Discrimination amongst shareholders of the same class is prohibited by the principle of “equal share, equal rights” of the Company Law of 1993. The principle of “equal share, equal rights” has become the basic principle regarding the exercise and distribution of shareholders’ power.\textsuperscript{16} The principle of “equal share, equal rights” has also been accepted by the Securities Law of the PRC.\textsuperscript{17}

Its provisions on the distribution of profits among shareholders can illustrate the rigidity of the Company Law of 1993. Articles 33 and 177 of the Company Law of 1993 stipulated that profits were only divided pro rata among shareholders on the basis of their shareholdings. This rigid principle of “equal share, equal rights” prevented companies from issuing preferred stock. Under the Company Law of 1993, it was impossible for stockholders to receive a fixed dividend not calculated in terms of their shareholdings.\textsuperscript{18}

In order to change the rigidity of the Company Law of 1993, extensive research, scholars, and government officials have called on the Chinese legislature to amend the two aforementioned provisions of the Company Law of 1993. Considerable legal literature on

\begin{itemize}
  \item \textsuperscript{13} See Bratton fn. 1 at 914–916 (discussing reasons venture capital contracts typically involve preferred stock versus debt or common stock).
  \item \textsuperscript{14} Preferred stock is generally sold from company to companies or institutional investors. But if the issuer engages the underwriters to sells the preferred stock, the issuer will pay commission to underwriters.
  \item \textsuperscript{16} See Arts. 33 and 177 of the Company Law of 1993 of the PRC.
  \item \textsuperscript{17} See also Art. 4 of the Securities Law of the PRC (“The parties involved in the issuing and trading of securities shall have equal legal status.”)
  \item \textsuperscript{18} ZHANG Lin, Corporate Governance of Chinese State-Controlled Listed Companies: A Revisit through the Lens of Venture Capital, 15(1) European Business Organization Law Review 107, 133 (2014).
\end{itemize}
such proposals exists. Unfortunately, these proposals have not been accepted by the Chinese authorities and legislature because decision makers believed that preferred stock with restricted voting rights would depart from the principle of “equal share, equal rights.” Until the enactment of the new company law in 2006, common stock became almost the sole legal instrument used by Chinese companies for raising funds through issuing stock in the capital market or via private placement.

The Company Law of 2006 has softened the principle of “equal share, equal rights.” Under the Company Law of 2006, profit distribution among shareholders is not only based on the proportion of shares held by shareholders; other arrangements made by shareholders in the articles of association of company are also allowed. Such amendment and improvement of the provisions of the company law has provided the legal foundation for the issuance of preferred stock. In China, issuance of a series of preferred stock is now permitted. Such series of preferred stock may have varied terms and provisions based on their purpose in each issuance by each issuer.

The Rule for Preferred Stocks stresses the principle of “equal share, equal rights” and provides that preferred stocks having the same terms and conditions shall have equal rights. For preferred stocks having same terms and conditions and issued in the same time, the condition, the price, the interest rate of coupon dividend yield shall have be identical; the same price shall be paid for each portion of the preferred stocks by every subscriber, whatever institutional investors or individual investors.

At initiate stage, the Company Law of 1993 emphasized on the equality between the shareholders of the same company under the principle of “equal share, equal rights,” and there may only be one kind of share allowed to be issued to any or all shareholders of the same company. However, the provisions of the Rule for Preferred Stocks has extended the principle of “equal share, equal rights” to equality among investors holding the same series of preferred stocks, allowing the shareholders holding different kind of shares to have different rights. Such extension of the principle of “equal share, equal rights” promotes financial innovation in China and will lead to the booming of a novel instrument of funding for both listed and unlisted companies in the stock exchange.

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20 See Arts. 35 and 167 of the Company Law of 2006 of the PRC.

21 See ZHANG, fn. 18.

22 See Art. 7 of the CSRC Rule for Administration of the Pilot Project for Preferred Stocks (the “Rule for Preferred Stocks”).
III. SPECIAL LEGAL STATUS OF THE INVESTOR OF PREFERRED STOCKS

Preferred stocks are the syntheses of debt and equity. It combines some of the features of debt with some of the features of equity. 23 “Financially, preferred stock resembles debt,” 24 and the Generally Accepted Accounting Principles (GAAP) requires some preferred stocks to be treated as debt. However, formally preferred stock is equity, and rules on banking capital looked upon preferred stocks as equity. 25 From the Chinese legal perspective, preferred stocks are considered as shares, of which the regulations and rules are made in the context of company and security laws.

Subscriber of the preferred stocks are mostly institutional investors who are generally treated as outsiders to the company with their rights and obligations exhausted by contract, 26 which we shall discuss in detail below. The preferred stockholders have to “look to specific, bargained-for rights to protect their interests rather than the apparatuses of governance and fiduciary duty.” 27 By contrast, parties who hold common stock of the issuing company are typically treated as insiders of the company, whose legal treatment, as well as obligations and rights, are incorporated in the articles of association of the company. As a result of preferred stock’s hybrid nature, the legal status of investors of preferred stock has long straddled the dividing line between company law and contract law. Investors of the preferred stocks, unlike creditors, may not sue on the contract to recoup either their principal investment or unpaid coupons. Unfortunately, unlike those of a debt contract, the terms and provisions of a preferred stock, defined in the articles of association of the issuing company, can be unilaterally altered by the issuing company. 28 Under the Rule for Preferred Stocks, the investors of preferred stocks are neither creditors nor common shareholders. They are classified as a particular kind of party — preferred stockholders.

IV. ARE RIGHTS OF PREFERRED SHAREHOLDERS DEFINED BY CONTRACTS OR ARTICLES OF ASSOCIATION?

Theoretically, rights of preferred shareholders are primarily contractual in nature. 29 Preferred stock “frequently contain complicated contractual provisions relating to the circumstances of voting, representation on the board of directors, conversion into

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23 See Korsmo, fn. 1 at 1165.
24 See Walther, fn. 9.
27 See Bratton & Wachter, fn. 25 at 1819.
28 See Walther, fn. 9 at 164.
common stock, call protection, redemption exposure, dilution and other such concerns.”30
In the US and other common law jurisdictions, regardless of preference, rights or
dividend rights, along with other contractual rights and protections, are determined by
active bargaining between the investors of preferred stocks and the issuing company.31
These special rights and limitations of preferred stock are formally specified in a contract
known as the certificate of designation,32 which acts as an amendment to a certificate of
incorporation,33 or becomes incorporated into the corporate charter when executed.34 The
rights of preferred stockholders are ruled and governed by the express terms and
provisions of a company’s charter.35 As such, the designated terms are subject to
amendment in the same manner as any other provision of the charter.36 “[T]he terms of
preferred stock are defined by contracts that may have infinite variations on the theme.”37
Therefore, in the US and other common law jurisdictions, contracts become the major
instruments to define the rights of preferred shareholders in case of issuance of preferred
stocks.

However, in China, the Rule for Preferred Stocks provides only the articles of
association as legal documents to define the rights of the preferred shareholders without
referring to the specific contract. The articles of association, similar with corporate
charter in common law jurisdictions, become the major legal document to define the
rights and obligations of preferred stockholders. The company issuing preferred stocks
usually adds contract terms and provisions directly into its articles of association each
time the issuer intends to issue preferred stock and amends the articles of association to
define the rights of preferred stockholders, either financial preferences or a debt-like right
to be paid certain sums on set dates. Such terms and provisions about rights and
obligations of preferred stockholders shall be inserted directly in the articles of

30 Jeffrey N. Gordon, The Mandatory Structure of Corporate Law, 89 Columbia Law Review 1549, 1564
(1989).
31 See, e.g. Jedwab vs MGM Grand Hotels Inc., 509 A.2d 584, 593 (Del. Ch. 1986) (“[P]references and
limitations associated with preferred stock exist only by virtue of an express provision (contractual in nature)
creating such rights or limitations.”)
32 See, e.g. Del. Code Ann. tit. 8, § 151(d) (2011) (“The holders of the preferred…shall be entitled to
such rights upon the dissolution of, or upon any distribution of the assets of, the corporation as shall be stated
in the certificate of incorporation or in the resolution or resolutions providing for the issue of such stock…”).
486 (2008).
34 See Elliot Assocs. vs Avatex, 715 A.2d 843, 843 n.3 (Del. 1998) (“When certificates of designations
become effective, they constitute amendments to the certificate of incorporation so that the rights of preferred
stockholders become part of the certificate of incorporation.”). See also Matulich vs Aegis Comm’ns Grp.,
Inc., 942 A.2d 596, 600 (Del. 2008).
(2002).
associations of the issuing company through board resolution with respect to the amendment of articles of association. These terms and provisions shall also be determined in compliance with the principles and rules of the Guiding Opinions on the Launch of the Pilot Project for Preferred Stocks of the State Council, as well as the Rule for Preferred Stocks of the CSRC.

In comparison with the regulations and rules governing preferred stocks in the US and other common law jurisdictions, the Chinese Rule for Preferred Stocks refers to only part of the preferences, rights, and obligation of preferred stockholders, such as the preference on dividends distribution, attendance of the shareholders’ meeting and voting rights, as well as a redemption clause, etc., and are silent regarding conversion rights.

V. PREFERENCE ON DIVIDENDS DISTRIBUTION

Theoretically, the preference on dividends distribution of preferred stockholders extends to current income, meaning that the shareholders of common stock may not distribute any dividends until the dividends promised to preferred stockholders are paid in full.\(^{38}\) The Chinese Rule for Preferred Stocks provides that preferred stockholders have a right to receive specified dividends and remaining assets of the company before common stockholders may receive any, against the restriction on their rights to participate in the decisions and management of the company.\(^{39}\)

“For most purposes, the rights of the preferred shareholders as against the common shareholders are fixed by the contractual terms agreed upon when the class of preferred stock is created.”\(^ {40}\) Preference on distribution of dividends and remaining assets of the preferred stockholders should be defined in the legal documents for issuance of preferred stock, and in the subscriber contract of preferred stock, made by and between the company issuing the preferred stock and the investors.\(^ {41}\) In cases when preferred stockholders have equal rights as common stockholders to participate in the distribution of the remaining profit after the distribution of the dividends based on the specified dividends rates, the articles of association of the company should mention the proportion and condition for preferred stockholders to participate in distribution of the remaining profit.\(^ {42}\)

In theory, preferred stock dividends can be cumulative or non-cumulative. Article 11 of the Rule for Preferred Stocks of the CSRC distinguishes the dividends of preferred stockholders in China as cumulative or non-cumulative, which was defined by the terms and conditions of each specified, preferred stock issued. Scholars have defined the

\(^{38}\) See Walther, fn. 9 at 167.
\(^{39}\) See Art. 2 of the Rule for Preferred Stocks.
\(^{40}\) See Wood vs Coastal States Gas Corp., 401 A.2d 932, 937 (Del. 1979).
\(^{41}\) See Art. 9 of the Rule for Preferred Stocks.
\(^{42}\) Id.
concepts of cumulative dividends and non-cumulative dividends and such definitions have been universally accepted. Cumulative rights of preferred stockholders to dividends means that if the issuing company misses dividend payments to preferred stockholders, the preferred stockholder has the right to receive back (missed) dividends plus the current dividend before any dividends are paid to common stockholders. By contrast, non-cumulative dividends means that the preferred stockholder loses dividend payments for any year in which no dividends were paid, and that preferred stockholders have no claim on unpaid (or less than fully paid) dividends from prior time periods. If a dividend is non-cumulative, it is not due unless declared. If not declared for a particular period, the issuing company of preferred stocks owes no dividends to the preferred stockholders for that period. The board of directors of the issuing company is unlikely to declare a dividend when not required to. The board of directors of an issuing company could pay dividends to the common stockholder while bypassing the preferred stockholder simply by (1) building up cash reserves by not paying any dividend for many time periods; and (2) paying out that cash in the form of a special dividend to common stockholders after paying preferred stockholders their promised dividend for that single time period. Absent extraordinary facts, a rational financial institution or an individual investor would never subscribe non-cumulative preferred stocks, and hence it will be assumed that all preferred stocks are cumulative in reality.

VI. ATTENDANCE OF THE SHAREHOLDERS’ MEETING AND VOTING RIGHTS

Preferred stock generally includes voting rights of preferred stockholders. Through these voting rights, preferred stockholders are treated similarly to the holders of common stock in that they have some kinds of voting rights in the shareholders’ meeting of the company.

Under the regulations and rules in China, the board of directors may be authorized by the shareholders’ meeting to distribute dividends to preferred stockholders in accordance with the terms and provisions of the articles of association of the issuing company. As stated by a U.S. commentator, “[Preferred stock] probably cannot vote in the election of corporate management but may have some contingent voting rights for certain proposed actions and upon default in dividend payments.” The classic case involved such a share structure in the US, where preferred stockholders gained the ability to vote in board meetings.

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44 Id.
46 Id.
47 See Walther, fn. 9 at 167.
elections if four consecutive dividend payments were missed. However, the Rule for Preferred Stocks in China is more restrictive, and preferred stockholders gained the right to attend the shareholders’ meeting and the ability to vote together with common stockholders if, in three cumulative fiscal years or two consecutive fiscal years, the dividend payments owed to preferred stockholders were missed. Each share of preferred stock has a certain proportion of voting rights determined in the articles of association of the issuing company.

For the preferred stocks of which the dividends may be accumulated to the next accounting year, preferred stockholders shall have their voting rights until all due dividends have been paid by the issuing company. For the preferred stocks of which the dividends may not be cumulated, preferred stockholders shall have their voting rights until all due dividends of the current year have been paid by the issuing company.

In one of the following cases, the company shall notify preferred stockholders about the shareholders’ meeting in accordance with procedure required by the Company Law of 2006 and by the articles of association of the issuing company, in the same manner as notification to common stockholders. Preferred stockholders shall be entitled to attend the shareholders’ meeting and vote separately from common stockholders for the following items, each preferred stock has one voting right except for preferred stocks owned by the company itself:

1. Amendment of the articles of association of the issuing company about items in connection with preferred stocks;
2. Reduction of the registered capital of the issuing company up to more than 10% though one time or cumulatively;
3. Merger, split, or dissolution of the issuing company, or to change the legal form of the issuing company;
4. Issuance of preferred stocks;
5. Other items determined by the articles of association of the issuing company.

The resolution of the above items needs the consent of two thirds of the common stockholders attending the shareholders’ meeting, in addition to the consent of two thirds of the preferred stockholders attending the shareholders’ meeting.

VII. REDEMPTION AND OTHER RIGHTS

Preferred stocks are redeemable. Where redemption is included as a right of the holders of preferred stock, the issuing company should buy back preferred stock from the

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49 See Zahn vs Transamerica Corp., 162 F.2d 36, 39 (3d Cir. 1947).
50 See Art. 11 of the Rule for Preferred Stocks.
51 Id.
52 Id.
53 See Art. 10 of the Rule for Preferred Stocks.
preferred stockholders for a specified price at a specified time at the request of the preferred stockholders.\textsuperscript{54} Under the Rule for Preferred Stocks, redemption of the issuing company includes the redemption of preferred stocks requested by the issuing company, and redemption requested by investors of the preferred stocks. The terms and conditions of the redemption should be mentioned in the articles of association of the issuing company. In cases where the issuing company requests redemption, the owed dividends should be completely settled.\textsuperscript{55}

Theoretically, redemption rights provide preferred stockholders with another check on managers of the company. However, research conducted by U.S. scholars illustrated that in reality redemption rights are rarely executed even when triggered.\textsuperscript{56} In China, as the launching of preferred stocks is in the pilot stage, there is no such circumstance for us to test whether redemption rights would be executed or not.

The Rule for Preferred Stocks of the CSRC also provides that preferred stockholders shall be entitled to read the articles of association, list of shareholders, duplicate of the corporate bond, record of shareholders’ meeting, resolutions of the board of directors, resolutions of the supervisors, and accounting statements and financial reports of the issuing company.\textsuperscript{57}

**CONCLUSION**

This brief observation of several of the key articles and provisions of the Rule for Preferred Stocks of the CSRC show the flexibility and range of preferred stock as an instrument in corporate finance in China.

The traditional principle of “equal shares, equal rights” in China means each and every shareholder of a company have the same rights if they own the same amount of common stocks. The laws and regulations prohibited the company from issuing preferred stock other than common stock.

The enactment of the new Company Law of 2006, especially the promulgation by State Council of the Guiding Opinions on the Launch of the Pilot Project for Preferred Stocks, as well as the release by the CSRC of the Rule for Preferred Stocks, extend the value of the principle of “equal shares, equal rights.” The more enriched meaning of the principle of “equal shares, equal rights” has been illustrated beyond the literal comprehension on the face of the wording. Equality should not to be established for probation of the issuance of preferred stock. It is used for the purpose of creating legal treatment between shareholders of the same group, as mentioned above in Article 7 of the


\textsuperscript{55} See Art. 13 of the Rule for Preferred Stocks.

\textsuperscript{56} See Dent, fn. 54.

\textsuperscript{57} See Art. 12 of the Rule for Preferred Stocks.
Rule for Preferred Stocks of the CSRC.

The establishment of the legal system for issuance of preferred stock in China is not the symbol of overthrowing the principle of “equal shares, equal rights,” but rather the expansion and development of the principle of “equal shares, equal rights” in a new era. The launching of the pilot project for preferred stocks in China in 2014 is the best illustration of the novel interpretation of the principle of “equal shares, equal rights.”