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MARKETS | FINANCE

China's President Xi Jinping Personally Scuttled Jack Ma's Ant IPO

Senior government leaders were furious about wealthy entrepreneur's criticisms of regulators; rebuke was the culmination of years of tense relations

By [Jing Yang](#) and [Lingling Wei](#)

Nov. 12, 2020 12:56 pm ET



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Chinese President Xi Jinping personally made the decision to halt the initial public offering of Ant Group, which would have been the world's biggest, after controlling shareholder Jack Ma infuriated government leaders, according to Chinese officials with knowledge of the matter.

The rebuke was the culmination of years of tense relations between China's most celebrated entrepreneur and a government uneasy about his influence and the rapid growth of the digital-payments behemoth he controlled.

Mr. Xi, for his part, has displayed a diminishing tolerance for big private businesses that have amassed capital and influence—and are perceived to have challenged both his rule and the stability craved by factions in the country's newly assertive Communist Party.

In a speech on Oct. 24, days before the financial-technology giant was set to go public, Mr. Ma cited Mr. Xi's words in what top government officials saw as an effort to burnish his own image and tarnish that of regulators, these people said.

At the event in Shanghai, Mr. Ma, the country's richest man, quoted Mr. Xi saying, "Success does not have to come from me." As a result, the tech executive said, he wanted to help solve China's financial problems through innovation. Mr. Ma bluntly criticized the government's increasingly tight financial regulation for holding back technology development, part of a long-running battle between Ant and its overseers.

Mr. Xi, who read government reports about the speech, and other senior leaders were furious, according to the officials familiar with the

decision-making. Mr. Xi ordered Chinese regulators to investigate and all but shut down Ant's initial public offering, the officials said, setting in motion a series of events that led to the deal's suspension on Nov. 3. Investors around the world already had committed to paying more than \$34 billion for Ant's shares. It isn't clear whether it was Mr. Xi or another government official who first suggested the shutdown.

Ant declined to comment, and Mr. Ma couldn't be reached. The Information Office of the State Council, China's cabinet, didn't respond to questions.

Since Mr. Xi rose to power in late 2012, the government has taken action against some of the country's highest-profile private conglomerates. Dalian Wanda Group's Wang Jianlin, once China's richest man, and Wu Xiaohui of Anbang Insurance Group, are among the prominent entrepreneurs who faced government crackdowns.



Mr. Xi, center, is showing a diminishing tolerance for big private businesses that have amassed capital and influence.

PHOTO: NOEL CELIS/AGENCE FRANCE-PRESSE/GETTY IMAGES

“Xi doesn't care about if you made any of those rich lists or not,” said a senior Chinese official. “What he cares about is what you do after you get rich, and whether you're aligning your interests with the state's interests.”

Chinese regulators have long wanted to rein in Ant, according to the Chinese officials with knowledge of the decision-making. The company owns a mobile payments and lifestyle app, called Alipay, that has disrupted China's financial system. Alipay is used by roughly 70% of China's population, has made loans to more than 20 million small businesses and close to half a billion individuals, operates the country's largest mutual fund and sells scores of other financial products.

Ant largely focused on serving people and companies that traditional banks long ignored, and it has emerged as an important cog in Chinese finance. It has long been spared from the tough regulations and capital requirements that commercial banks have been subject to.

Big Bucks

The rise of China's two largest internet and technology companies has turned their founders into the country's wealthiest individuals.

China's top five richest people

NAME	WEALTH	COMPANY	KEY BUSINESS SECTOR
Jack Ma & family	\$98.8 billion	Alibaba	E-commerce, fintech
Pony Ma	57.4	Tencent	Internet services
Zhong Shanshan	53.7	YST	Drinks, pharmaceuticals
Wang Wei	35.3	SF	Express delivery
Hui Ka Yan	34.6	Evergrande	Real estate, investments

Source: Hurun China Rich List 2020

Regulators earlier met with strong resistance to efforts to rein in Ant from the company's financial backers, reflecting the support Mr. Ma has had from individuals in China's top political and business echelons, according to a person familiar with the matter. Ant's shareholders include Boyu Capital, a private-equity fund whose partners include Alvin Jiang, the grandson of former Chinese leader Jiang Zemin. China's national pension fund, China Development Bank and [China International Capital Corp.](#), the country's top investment bank, all have large unrealized profits on their investments in Ant.

Mr. Xi sought to tighten financial regulations overall after the [2015 stock-market crash in China](#) that tested the party's firm hold on the economy. He also came to appreciate the benefits of having firms like Mr. Ma's, whose payment app and lending operations changed the way the Chinese spend money, provided a reliable source of funding for small businesses, and made [Alibaba Group Holding Ltd.](#) [BABA 4.17%▲](#), the e-commerce giant which Mr. Ma co-founded and used to run, the pride of China.



Mr. Ma, then Alibaba's executive chairman, celebrated the company's 2014 IPO at the New York Stock Exchange.

PHOTO: ANDREW BURTON/GETTY IMAGES

"It has always been a very complicated relationship between Ant and

the government,” said Cornell University professor Eswar Prasad, a former head of the International Monetary Fund’s China division. He said the company is no longer seen as too big and influential to be reined in by government agencies. Mr. Ma’s speech in October “was a trigger for the government to act,” he said.

Over the past decade, Mr. Ma, 56 years old, has come to epitomize the success of China’s internet and technology stalwarts. A former English teacher who loves martial-arts novels and Tai-chi, he founded e-commerce company Alibaba in his apartment in 1999, and its 2014 listing in New York held the record for the world’s largest IPO until last year.

Before his retirement from Alibaba last year, Mr. Ma often sang and performed at annual company galas. He celebrated his last day at the company by performing in a rock band wearing braided hair extensions and a leather jacket with spikes, in a Hangzhou stadium packed with 40,000 Alibaba and Ant employees.



Mr. Ma celebrated his last day at Alibaba by performing in a rock band before 40,000 Alibaba and Ant employees.

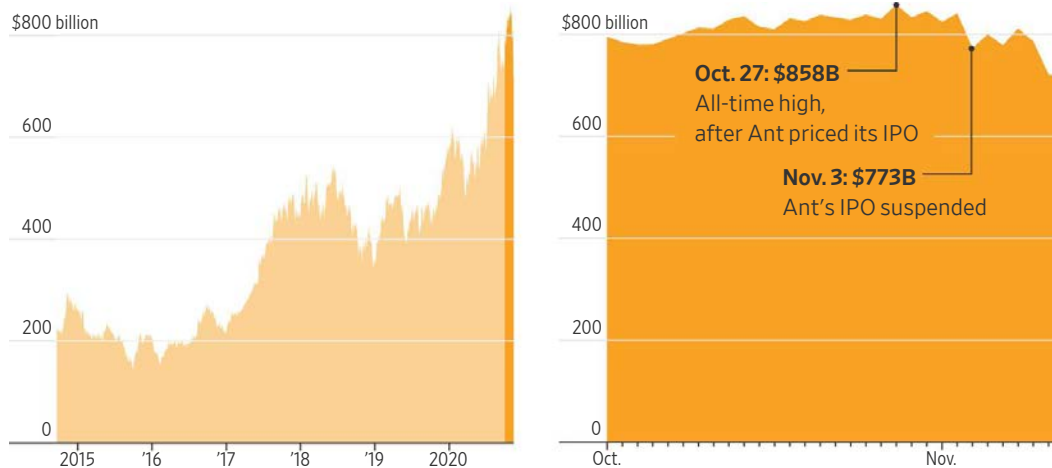
PHOTO: AGENCE FRANCE-PRESSE/GETTY IMAGES

Alibaba this year solidified its position as China’s most valuable listed company after more than quadrupling its market capitalization in barely six years. Ant’s listing, had it gone ahead, would have valued the company at more than \$300 billion and made it worth more than most of China’s and America’s largest banks.

Tech Titan

Shares in Alibaba Group have surged in the years since the e-commerce giant went public, cementing its place as one of the world's most valuable companies. Alibaba currently owns a third of Ant Group.

Alibaba's market capitalization*



*U.S.-listed shares
Source: Refinitiv

Ant's roots trace back to 2004, when Alipay was started as an escrow service to facilitate payment transactions on Taobao, Alibaba's online marketplace. Mr. Ma split off Alipay from Alibaba in 2011, a move that sparked an outcry from some of Alibaba's big foreign investors and later resulted in a settlement with them.

Mr. Ma controls 50.5% of Ant's voting rights, but he hasn't ever held an executive or managerial position in the six-year-old company.

In 2008, when he was Alibaba's CEO, Mr. Ma had lamented at a public forum that traditional banks in China were ignoring businesses that badly needed funding. "If the banks don't change, we will change the banks," he said, explaining that he envisioned "a more comprehensive lending system that served the needs of small businesses."

In 2013, as Alibaba's chairman, he again took aim at traditional Chinese lenders, saying at a public forum in Shanghai that the country didn't lack banks or innovative institutions, but a financial institution that could power China's economic growth in the next decade. "The financial industry needs disrupters" and outsiders to bring about changes, he said.

Around that time, Alipay created an online money-market mutual fund designed to help individuals earn investment returns on spare electronic cash sitting in their Alipay wallets. It was an instant success. Some people moved money out of their bank accounts into the new fund to earn higher returns, drawing complaints from some lenders that Alipay was siphoning their deposits.

In 2014, Alipay, along with Alibaba's other financial businesses, were folded into Ant Financial Services Group, the company now known as Ant Group.



Ant's mobile payments and lifestyle app, called Alipay, has deeply penetrated China's financial system.

PHOTO: ALEX PLAVEVSKI/EPA/SHUTTERSTOCK

For years, Mr. Ma largely managed to navigate Mr. Xi's two seemingly contradictory goals: encouraging financial innovation and open markets to drive growth while keeping a rein on market forces to maintain control.

Ant's big money-market fund became the world's largest of its kind, with more than \$250 billion under management by 2017. China's securities regulator became concerned about the systemic risk the fund could create, and pressured it to shrink and lower its returns. Ant changed its strategy, letting rival money managers sell similar funds on Alipay to investors needing places to park their money, and its main fund shrank.

In 2017, China's leadership revamped the country's fragmented regulatory regime, which had often involved various regulators acting in isolation. It named Liu He, Mr. Xi's top economic czar, head of a superregulator of sorts called the Financial Stability and Development Committee. One of its goals was to better coordinate actions by China's various regulatory agencies.

Ant raised three rounds of private capital. By mid-2018, it was the world's most valuable startup, worth \$150 billion, based on the prices private investors had paid.

This year, deteriorating relations between the U.S. and China gave Mr. Ma an opportunity to win points with the ruling party. With Washington threatening to delist Chinese companies from U.S. stock markets, Beijing was eager to build up its own exchanges. Its securities regulators saw having a company such as Ant listed in both Shanghai and Hong Kong as a big endorsement of China's markets.



Inside the headquarters of Ant Group in Hangzhou, China.

PHOTO: ALY SONG/REUTERS

Ant changed its name in the summer, dropping the words “Financial Services.” Shortly after, it announced plans to go public, right around the first anniversary of China’s Nasdaq-style Science & Technology Innovation Board, better known as the STAR Market. After Ant filed listing documents in Hong Kong and Shanghai, the stock exchanges and Chinese securities regulators moved quickly to green-light its IPO.

But trouble was brewing with banking regulators, who were growing concerned about the risk banks were taking on by lending to Ant’s customers online. Since the summer, a spate of government regulations, guidelines and notices were rolled out to contain potential risks from the growth of digital finance and microlending.

The world’s biggest stock sale proved extremely popular with large and small investors. Privately, however, some Ant employees were worried about potential regulatory changes that could hurt the company’s growth prospects, according to people familiar with the matter.

SHARE YOUR THOUGHTS

Do you think Jack Ma will be able to repair relations with China’s regulators and resurrect Ant’s IPO? Join the conversation below.

On Oct. 24, Mr. Ma took the stage at a financial forum in Shanghai attended by top regulators, politicians and bankers. He said Ant’s IPO was “a miracle,” being such a large deal taking place away from New York. Attendees included

China’s Vice President Wang Qishan, central bank governor Yi Gang and some senior state-bank executives.

During his 21-minute speech, he criticized Beijing’s campaign to control financial risks. “There is no systemic risk in China’s financial system,” he said. “Chinese finance has no system.”

He also took aim at the regulators, saying they “have only focused on

risks and overlooked development.” He accused big Chinese banks of harboring a “pawnshop mentality.” That, Mr. Ma said, has “hurt a lot of entrepreneurs.”

His remarks went viral on Chinese social media, where some users applauded Mr. Ma for daring to speak out. In Beijing, though, senior officials were angry, and officials long calling for tighter financial regulation spoke up.



Mr. Ma's remarks at an Oct. 24 financial forum in Shanghai went viral on Chinese social media.

PHOTO: ORIENTAL IMAGE/REUTERS

After Mr. Xi decided that Ant's IPO needed to be halted, financial regulators led by Mr. Liu, the leader's economic czar, convened on Oct. 31 and mapped out an action plan to take Mr. Ma to task, according to the government officials familiar with the decision-making.

At a meeting of the Financial Stability and Development Committee headed by Mr. Liu, the group decided to “put all kinds of financial activities under regulation and treating the same businesses in the same way,” according to a government statement.

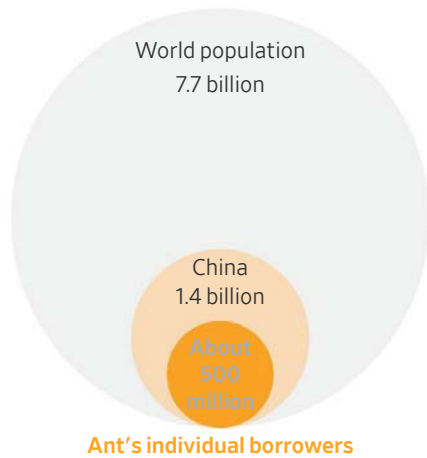
The decision was aimed squarely at Ant, the government officials said, and cleared the way for the pro-stability members of the group to dust off draft regulations they had been working on for a long time.

Among them was one regulating online microlending. With Mr. Xi's blessing, the central bank and the banking regulator made the draft rule even tougher than previously conceived, according to the Chinese officials familiar with the decision-making. The new rule had a requirement that didn't exist in previous drafts: Firms such as Ant would need to fund at least 30% of each loan it makes in conjunction with banks.

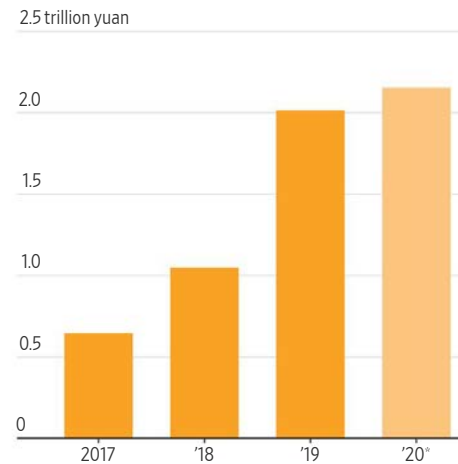
Just Borrow and Spend

Ant's Alipay platform has facilitated loans to numerous individuals in China. Its activities have recently drawn scrutiny from financial regulators, in part because banks fund many of the loans.

Number of borrowers



Credit balance



Note: 1 trillion yuan=\$151 billion *As of June

Sources: United Nations (world population); National Bureau of Statistics of China (China population); Ant Group

The draft rules were published on Nov. 2, the same day Mr. Ma and a couple of his executives at Ant were summoned to a rare joint meeting with the central bank and the regulatory agencies overseeing banking, insurance and securities.

The next day, the Shanghai Stock Exchange suspended the Ant IPO, citing the meeting and changes in the regulatory environment. The China Securities Regulatory Commission, which previously signed off on the listings, now says it was a “responsible move” to protect investors and markets, as the regulation, once implemented, would severely limit Ant’s business scope and profitability.

Ant could try again to go public. Market participants believe it will reorganize its business units, rethink its business model and inform investors of additional risks. All this likely will mean that Ant’s lofty valuation will be cut when it tries to list again, and the company may not be able to raise as much money as it aimed for this round, analysts say.

Mr. Ma hasn’t made any public comments since the offering collapsed.



Ant Group headquarters in Hangzhou.

PHOTO: ALEX PLAVEVSKI/EPA/SHUTTERSTOCK

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Appeared in the November 13, 2020, print edition as 'China's President Personally Scuttled Record Ant IPO.'

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