



中国证券监督管理委员会
CHINA SECURITIES REGULATORY COMMISSION

China's Capital Markets: Review and Expectation

Mr. SHANG Fulin, Chairman, CSRC
London School of Economics
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I. Stages of Development : Major Milestones

I. Stages of development: major milestones



- 1979: Implementation of China's reform and opening-up policy
- 1981: Trading of treasury bonds started
- 1984: Public offering of stocks introduced by enterprises in Beijing and Shanghai
- 1986: Public trading of stocks appeared in Shanghai
- 1990: Stock exchanges in Shenzhen and Shanghai opened
- 1992: B-shares issued for foreign investors on domestic market
- 1992: The CSRC established

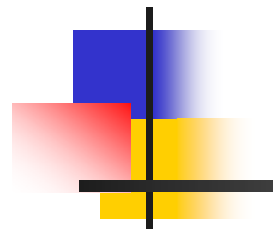
I. Stages of development: major milestones (cont'd)



- 1993: First H-share company (shares listed on overseas markets by the domestically-registered Chinese companies)
- 1993: *Interim Rules on Stocks Issuance and Trading* promulgated
- 1993: *Company Law* promulgated
- 1998: *Securities Law* promulgated
- 1998: Standardized securities investment funds introduced (Pilot program)
- 2002: *Code of Corporate Governance for Listed Companies* promulgated
- 2002: Qualified foreign institutional investor (QFII) program introduced

I. Stages of development: major milestones (cont'd)

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- 2004: *Guidelines on Promoting Reform, Opening Up and Steady Developments of Capital Markets* issued by the State Council
 - 2004: Small & Medium Enterprises Board launched in Shenzhen Stock Exchange
 - 2005: Share-structure reform for listed companies started
 - 2005: Amendments to *Securities Law* and *Company Law*
 - 2006: Increased interaction between domestic markets and overseas markets: simultaneous dual listings of ICBC in Shanghai and Hong Kong, nearly US\$20bn fund raising created the world's largest IPO in the history



II. Progress Achieved



1. Increasing market size

- At the beginning of the market in 1990, there were 10 listed companies
- By the end of Oct. 2006, there were:
 - A-share companies: 1,383
 - B-share companies: 109
 - H-share companies: 136
- Market capitalization in local A share market reached US\$ 777bn, ranked No.1 among emerging markets



2. Improving fund-raising functions

- Total funds raised from 1991 to the end of Oct. 2006:
RMB1.5 trillion:
 - A-share market: 705.3 billion RMB
 - B-share market: 38.0 billion RMB
 - Overseas markets: US\$ 89.1 billion



3. Growing market intermediaries

- Securities brokerage firms: 108
- Fund management companies: 57
- Futures brokerage firms: 183
- Securities investment consultancy entities: 108



4. More diversified instruments

- Securities products available on the stock exchanges: 1,900 (incl. stocks, funds, bonds, warrants)

5. Burgeoning population of investors



- Accounts opened with CSDCC: 76.5 million (incl. 380,000 accounts opened by institutional investors)



6. Improving legal framework

- China has established a legal framework for the capital market at four levels as follows:
 - Laws: *Securities Law, Company Law, Securities Investment Fund Law*
 - Administrative Decrees: *Interim Rules on Administration of Stock Issuance and Trading*
 - Rules & Regulations by government authorities: *Measures on Administration of QFIIs' Investment in Domestic Securities Markets*
 - Rules & Regulations (By SROs): *Rules on Stock Listing*



III. Major Reform Measures & Initiatives



1. The *Guidelines* for the reforms

- In 2004, China's State Council issued "*The guidelines on Promoting Reform, Opening Up and Steady Developments of Capital Markets*" (the *Guidelines*)
- *The Guidelines* sets forth the tasks, objectives, guiding principles for developing the capital markets in the years to come. It also puts forward the policies and measures to support market growth.
- In order to optimize market functions, CSRC has made great efforts to build up market infrastructure, to deepen reform, to facilitate innovation and to prevent risks. As a result, remarkable progress or preliminary success have been achieved.



2. Reform the segmented share-structure in listed companies

- Overhang of non-tradable shares (NTS) —a bottle neck
- Negative impacts on market soundness and growth include the following:
 - constraints the standardization and development of the capital markets;
 - Creates negative impact proper functioning of pricing and M&A mechanisms in the market;
 - hampers the fundamental reform of the management of State-owned assets;
 - Shadows market expectation and stability.

2. Reform the segmented share-structures in listed companies (Cont'd)

- Abortive attempts in 1999 and 2001: market panicked
- NTS reform initiated on April 29, 2005, this is a major reform of fundamental systems, aimed for sound and sustainable development of the capital markets
- Progress achieved so far: majority of the A-share companies have either completed the NTS reform or embarked on necessary reform procedures:
 - 89%: (1,199 out of 1344 A-share companies);
 - 94%: (market cap involved / total market capitalization);
 - 93%: (stock equity involved/aggregated stock equity of 1344 A-share companies)

3. Better qualities of listed companies



- Enhance the overall qualities of listed companies:
 - Encourage IPOs and ways of refinancing;
 - Upgrade corporate governance and strengthen information disclosure;
 - Facilitate M & A , emphasize market exit mechanism and “survival of the fittest”;
 - Urge listed companies to pay back overdue debts, dissolve illegal guarantee contracts, prevent from and properly handle risks.



4. Consolidate securities industry

- Loss-making securities industry: deformed baby of transitional economy with inborn defects, and market slump accelerated exposure of risks
- A thorough overhaul of the brokerage industry launched in 2004:
 - Identify risks in securities firms: “cooked books” etc.
 - Implement fundamental reform measures: solutions to liquidity problems(84 brokerages), etc.
 - Crackdown violations and set up new industry standards: (29 brokerages)



4. Consolidate securities industry (cont'd)

- Draw up risk disposal programs: segregated accounts for clients' funds; risk prevention and early-warning systems
- Establish China Securities Investor Protection Fund
- Promote innovations by securities firms: 18 brokerages fall into the category of “innovative companies ”:
 - 52% (net assets);
 - 45% (brokerage business);
 - 87% (underwriting business);
 - 51% (net profits).

5. Nurture More Institutional Investors

- Diversification of investors composition:
 - Securities investment funds grow steadily.
 - 57 fund management companies, RMB545.6bn, 30% of domestic market capitalization;
 - QFII Pilot program is expanding, 52 QFIIs, US\$ 8.245 billion (investment quota);
 - Other types of institutional investors are flourishing in a coordinated way, e.g. social securities fund, insurance fund, corporate annuity fund.



6. Improve securities legislations

- Amendments to the *Securities Law* and the *Company Law* (Oct. 2005) . Both effective on Jan. 1, 2006
- The revision of the two Laws:
 - provides more effective legal protection to capital market reform and development in the next stage;
 - creates more room for innovation in China's securities market;
 - highlights protection of shareholders' rights and interests, esp. those of the minority shareholders.



7. Promote market Innovations

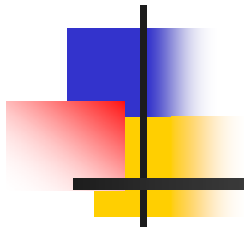
- Opened the SME Board on Shenzhen Stock Exchange
 - number of listed companies: 76
 - Market cap.:125 billion RMB
- Developed the functions of the share transfer
- System for the non-listed joint-stock companies
- Accelerated product and business innovations:
 - ETF, warrants etc.
 - expansion of securitization pilot program
 - inauguration of China Financial Futures Exchange



Positive results

- Increases investment value of securities
- Boosted investor confidence into the market
- Spurred trading volume and fund-raising
- Lifted benchmark stock index in Shanghai Stock Exchange from 1100 points to 1800 points

IV. Liberalization of securities market





1. A brief history

- Chinese government attaches great importance to the opening up of the securities services industry.
 - 1992, B-share offering launched;
 - 1993, 1st H-share offering on Hong Kong market;
 - 1995, 1st JV securities firm approved;
 - 2001, A-share offering by JVs.



1. A brief history (cont'd)

China has fully honored its commitments of opening the securities sector made at accession to WTO on 11th Dec. 2001.

- Foreign securities institutions may engage directly (without Chinese intermediary) in B-Share business;
- Representative offices in China of foreign securities institutions may become members of all Chinese stock exchanges;
- Upon accession, foreign service providers will be permitted to establish joint ventures with foreign investment up to 33% to conduct demotic fund management business. Within three years, foreign investment shall be increased to 49%;
- Within three years after accession, foreign securities institutions will be permitted to establish joint ventures with foreign minority ownership not exceeding 1/3, to engage in underwriting A shares and in underwriting and trading of B and H shares as well as government and corporate debts, launching of funds.



1. A brief history (cont'd)

- China has also taken other opening-up initiatives over WTO commitments in recent years:
 - Encouraged domestic enterprise to access the international capital markets;
 - Introduced QFII program in 2002;
 - Promulgated *Rules on Transfer of State-owned Shares and Legal Person Shares to Foreign Investors* in Nov. 2002;
 - Concluded CEPA with HK SAR and Macao SAR
 - Dec. 2005, 1st JV futures brokerage
 - Mar. 2006, 3 domestic futures brokerages opened
 - brokerage business subsidiaries in HK



1. A brief history (cont'd)

- This year, China accelerated opening up speed:
 - *Administrative Measures* allowed foreign investors to become strategic investors in listed companies which have completed NTS reforms (Feb.)
 - QDII program launched (Mar.)
 - *Measures on Administration of QFIIs' Investment in Domestic Securities Markets* relaxed the requirements for QFIIs and shortened funds lock-up period (Aug.)



2. Fruits

- Honoring of WTO commitments:
 - Special members of Exchanges: 4 in SSE and 4 in SZSE
 - Foreign institutions directly engaged in B-share trading: 39 in SSE and 19 in SZSE
 - JV fund management companies: 23, funds under their management: 96
 - JV securities firms: 8 (3 established before Dec. 2001)



2. Fruits (cont'd)

- Fruits of the other initiatives taken in the opening-up process:
 - overseas listings: 136 companies (registered domestically) raised a total fund of US\$ 89.1 billion; among them, 5 listed in London
 - red-chip companies (registered and listed overseas): 83 companies
- Active roles played by foreign investment banks, accounting firms and law firms in facilitating overseas listing



2. Fruits (cont'd)

- QFII program

- 52 QFII licenses with US\$ 8.245 billion investment quota
- 5 foreign investment banks approved to be QFII custodians

- QDII program

- 1st Qualified Domestic Institutional Investor (QDII); US\$ 12 billion investment quota



2. Fruits (cont'd)

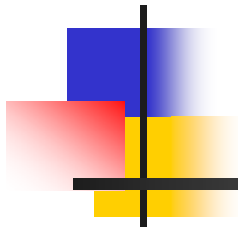
- International regulatory cooperation
 - 33 bilateral MOUs with regulators from 30 jurisdictions
 - Elected IOSCO Executive Committee Member for a consecutive 5 terms (1998-2008)



3. Principles followed

- Firstly, a positive, stable and step-by-step approach
- Secondly, ready to learn from others and absorb others' applicable experience
- Thirdly, fair competition for mutual benefits

V. Expectation of Future Development



1. Improved conditions for further development



- The improving external environment provides good support for market growth.
 - Economic structural adjustments & development model;
 - Progress on related reforms: modern corporate governance, commercial banks, social security system etc.;
 - More listing resources;
 - Investments needs from institutions investors.

1. Improved conditions for further development (cont'd)



- As the reform progresses further, positive changes are taking place in local securities market after several years' consecutive fall. The stock indexes have risen steadily and the trading volumes have increased significantly.
- While investors' confidence gradually recovered, the market value is also upgraded. Market-driven merger and acquisitions have become hot spots. The capital market has become increasingly linked to the macro-economic trends .

1. Improved conditions for further development (cont'd)



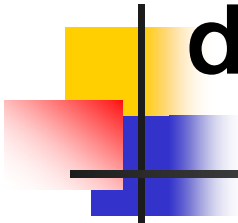
- Compared with other markets in the world, China's capital market has great potentials for further growth. A-share market capitalization accounts 25% of GDP, much lower than sophisticated markets, lower than the average of emerging markets (67%).

2. Main policies for further development



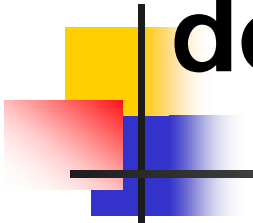
- More work need to be done in order to maintain sound and sustainable development of the capital markets.
- Continued efforts to enhance market infrastructures
 - to enhance supervision on majority shareholders and beneficial shareholders;
 - to upgrade trading systems and trading information disclosure systems;
 - to improve M & A regulations;
 - to strengthen supervision on the conducts of securities intermediaries.

2. Main policies for further development (cont'd)



- Build up sound market operational mechanism
 - To foster market-driven operational mechanism;
 - To remove certain barriers to good market functioning;
 - To enhance market stabilization.
- Improve market functions
 - To make the market more appealing to investors;
 - To enlarge the percentage of direct financing;
 - To build a multi-tier market structure;
 - To introduce more and diversified products;
 - To further develop the bonds market, OTC market and financial derivatives market.

2. Main policies for further development (cont'd)



- Enhance market efficiency
 - To improve services;
 - To strengthen self-readjustment function of the market;
 - To relax requirements on products innovations;
 - To support intermediaries to enlarge service scopes;
 - To expand the dimensions of the market.

2. Main policies for further development (Cont'd)



- Open-up wider to the outside world
 - To expand size of QFIIs and QDIIs;
 - To introduce international rating agencies into the domestic markets;
 - To speed up market-driven issuance of corporate bonds;
 - To encourage large SOEs to access both domestic and international markets;
 - To further enhance international regulatory cooperation;
 - To improve securities regulations.



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Thank You