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## NAFMII Weekly Newsletter



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## **Market News**

### **I. Bond Market**

#### **Renminbi Bonds Issued by the Mainland Enterprises in Hong Kong Increased to RMB50 Billion**

Driven by the continuous development of Renminbi market, Hong Kong will bring full play to its broad range of advantages like low operating cost, pricing benchmark, low market risk and talent foundation, and further consolidate its role as the offshore market center, noted Zhou Xiaochuan, Governor of the People's Bank of China at a forum on the Twelfth Five-year Plan and the mainland-Hong Kong economic, trade and financial cooperation and development in Hong Kong on August 17.

Work can be done in several aspects to "support Hong Kong in growing into the Renminbi offshore center, and further consolidate and enhance Hong Kong's position as an international financial center", an objective set by Vice Premier Li Keqiang, continued Governor Zhou. One of the measures is to further expand the size of Renminbi bonds issued in Hong Kong by the institutions from the mainland, and the central bank has initially decided to expand the number to RMB50 billion this year, revealed Zhou. The cake will be evenly split to financial institutions and non-financial enterprises. Meanwhile, Governor Zhou stressed the broadening of Renminbi recovery channels by, for example, allowing investing the domestic bonds market in the form of Renminbi Foreign Qualified Institutional Investors (R-QFII).

#### **Renminbi Government Bonds Successfully Issued with Low Coupon Rate in Hong Kong**

On August 17, the Renminbi bonds worth RMB15 billion (roughly USD2.4 billion) oriented to institutional investors completed the issuance on the bonds bidding platform of the Central Money Markets Unit (CMU). The bonds include a 3-year government bond with a face value of RMB6 billion and a coupon rate of 0.60%; a 5-year government bond with a face value of RMB5 billion and a coupon rate of 1.40%; a 7-year government bond with a face value of RMB3 billion and a coupon rate of 1.94%, and a 10-year government bond with a face value of RMB1 billion and a coupon rate of 2.36%. The total subscribed amount is RMB69.4 billion, roughly 4.6 times the issued amount.

On August 18, the Ministry of Finance announced the issue of a 2-year government bonds with a face value of RMB5 billion and a fixed annual rate of 1.60% to individual investors in Hong Kong until August 31. The coupon rate on the bond is obviously lower than the prior bonds with the same term, and represents a new low since 2009.



## II. Comprehensive Media Intelligence

### **CBRC Plans to Publish the “Severest” New Capital Standard**

To enhance the effectiveness of bank monitoring, China Banking Regulatory Commission (CBRC), the banking regulator, published a news release on August 15, saying the commission has drafted the Capital Management Procedure for Commercial Banks (Exposure Draft), and will invite public comments from August 15 to September 20. The Procedure will be promulgated in the fourth quarter after the public comments finishing.

The Procedure mainly has two highlights. First, expand the minimum capital requirement for commercial banks from “the capital adequacy ratio is not lower than 8%, and the core capital adequacy ratio is not lower than 4%” to four levels. In future, the CBRC will divide banks into four categories in terms of four different levels, such as “satisfy the minimum capital requirement, but fail to satisfy all the regulatory requirements”. If a bank fails to meet the minimum capital requirement, the failure will be directly seen as a “serious violation and major risk event”. Second, the Procedure will shake up the risk weights of different asset categories of banks, and break down the weights in an overall manner. For example, the CBRC will specify two different risk weights 45% and 60% for the loan for the first house and the loan for the second house respectively.

### **The State Council Allows to Broaden Investment Channels of Basic Pension Insurance Fund Moderately**

On August 17, Premier Wen Jiabao of the State Council presided over the executive meeting of the State Council. The meeting discussed and adopted the China Twelfth Five-year Plan for Development of Aging, made arrangement for the social insurance fund well. In the Twelfth Five-year Plan, China will experience a peak of the aged population growth, the senior citizens aged above 60 will grow from 178 million to 221 million, the proportion of the aged population will rise from 13.3% to 16%, the aging process of population will speed up, and the demand for social pension security and pension service will surge in the future. The attendees made the decision to further strengthen the management of social insurance fund. First, improve the budget management of the fund. Second, complete the financial accounting system of the fund, and include all the insurances included by the social insurance law. Third, accelerate the IT construction and drive the scientific and lean management of the fund. Fourth, further expand the coverage, moderately lift the security level, and control the fund balance to a reasonable scale.



### **Enlarged Pilot of Credit Asset Securitization Approved to Support SME Financing**

The State Council has approved the continuity of extending the pilot of the credit asset securitization, and the People's Bank of China, the central bank, is now actively studying the plan to implement the enlarged pilot of securitization of SME credit assets with relevant authorities, said Wu Xianting, Deputy Director of the Financial Markets Department of the central bank, on August 18.

Earlier this May, Liu Shiyu, Vice president of the central bank, disclosed the implementation of asset securitization should not be restricted to simple pilot and enlarged pilot, but must accelerate development with key areas. The credit asset securitization can not only mitigate the capital adequacy pressure on banks, but also help convert bank loans into direct financing, and appropriately adjust the proportion between direct financing and indirect financing to some extent.



## **NAFMII NEWS**

### **2nd NAFMII Member Congress Successfully Held in Beijing**

On August 16, 2011, the 2nd Member Congress of National Association of Financial Market Institutional Investors (NAFMII) was held in Beijing. Together with representatives from 152 members, Liu Shiyu, Deputy Governor of the People's Bank of China (PBOC), attended the meeting and delivered an important speech. The congress was chaired by Shi Wenchao, Secretary-General and Executive Vice President of NAFMII.

Three reports were passed at the congress: including Work Report of 1st NAFMII Council, Work Report of 1st NAFMII Supervisory and NAFMII Financial Report, and multiple proposals were examined and adopted, including the Proposal on Revision and Improvement of NAFMII Membership Fee Standard. The 2nd Council and Supervisory were selected at the Congress. 91 NAFMII members including ICBC and ABC as well as 4 persons including Xie Duo were selected to be members of the 2nd Council, while 12 NAFMII members including Bank of Communications were selected to form the 2nd Supervisory. The 2nd Council held its first meeting, at which Xiang Junbo, Chairman of ABC, was selected as NAFMII President, 10 persons including ICBC President Yang Kaisheng were selected as NAFMII Vice President, Shi Wenchao as Secretary-General and Executive Vice President, and 57 members including ICBC and ABC as well as 3 persons including Xie Duo as members of the 3rd Executive Council. The 2nd Supervisory also held its 1st meeting, selecting Niu Ximing, President of Bank of Communications, as NAFMII Chief Supervisor.

The Congress made a comprehensive review of NAFMII's work since it was founded, summarized experience over the past 4 years, and clearly defined the goals and tasks for the near future. Since NAFMII was founded in 2007, it has been diligently implementing a series of state policies on developing the financial market and expanding direct financing. Under the leadership of PBOC and Ministry of Civil Affairs, NAFMII, by closely relying on market members, has made great efforts to promote financial market reform and innovation, solidly drive self-discipline, and effectively provide member services, resulting in greater development of the interbank market. With continuous emergence of innovative products, improvement of infrastructures, perfection of the market system and optimization of the regulatory mechanism, China's interbank market has been continuously expanded in scale and capacity and seen enhancement in overall strength. By the end of July 2011, non-financial enterprises debt-financing instruments accumulated issuance volume reach RMB4774.6 billion, and outstanding volume amounted to RMB2594.7 billion, 34.3 times and 18.6 times respectively as much as in the end of 2005. According to BIS data, by the end of 2010, the total outstanding volume of bond issued



by non-financial enterprises reached USD522.1 billion in China, ranking 3rd in the world after America and Japan. From 2005 to 2010, the Compound Annual Growth Rate in China's debt capital market reached 81%, which was the fastest in the world. Interbank market has become an important investment and capital management channel for both financial organizations and non-financial enterprises. It is also becoming an effective platform for Chinese government macro economic and financial control and fiscal and monetary policies implementation, contributing a lot to accelerating the interest rates marketization, addressing international financial crisis and maintaining financial stability. Faced with both opportunities and challenges in the new developing period, NAFMII will fully exert its function as a self-discipline organization, actively promote innovation of market mechanism and products, strengthen market self-discipline, improve service to members and the society, intensify NAFMII's own development, boost sustained, healthy and fast development of interbank market, and strive to realize the long-term goal of new-type self-discipline organization for China's OTC market.

### **NAFMII held the Non-Financial Enterprise Debt Financing Instruments Lead Underwriters Business Forum**

In the morning of August 11, 2011, National Association of Financial Market Institutional Investors (NAFMII) held the Non-Financial Corporate Debt Financing Instruments Lead Underwriters Business Forum in Beijing. Heads of relevant business departments of 24 lead underwriters attended the meeting. Participants had in-depth discussions on how to promote healthy development of the debt capital market in areas such as improving registration and issuing mechanism, enhancing post-registration supervision and management and standardizing market operation orders.

At the meeting, NAFMII reported the overall development of the debt capital market and recent work in fields such as registration and issuance, post-registration management and market innovation. The participating organizations carried out in-depth discussions on issues like how to further maintain the smoothness of market operation, improve service quality of intermediary agencies and enhance lead underwriter team building in accordance with the new trends of market development.

Secretary-General Shi Wenchao attended and addressed the meeting. He pointed out that NAFMII would continue to join hands with market members to proactively implement the spirits of policies on national macro-control and transformation of economic development modes, and actively improve the registration working mechanism, enhancing market self-regulatory norms and regulate market business behaviors in line with the ever changing economic and financial situations, so as to the promote sustainable and healthy development of the debt capital market.



## Weekly Monitoring Report on Debt Financing Instruments

### I. Overview of the Issuance of Debt Financing

The total debt financing instruments of non-financial enterprises (CPs, MTNs, SMECN) issued this week (Aug 1<sup>st</sup> – Aug 7<sup>th</sup>) reached 17.1 billion Yuan. By Aug 7<sup>th</sup>, 2011, 966 enterprises issued debt financing instruments, with the overall volume reaching 4.7917 trillion Yuan; the outstanding balance reached 2.593735 trillion Yuan.

3 MTN were issued in total this week with the amount reaching 10 billion Yuan. 5 CPs were issued in total this week with total amount of 7.1 billion Yuan.

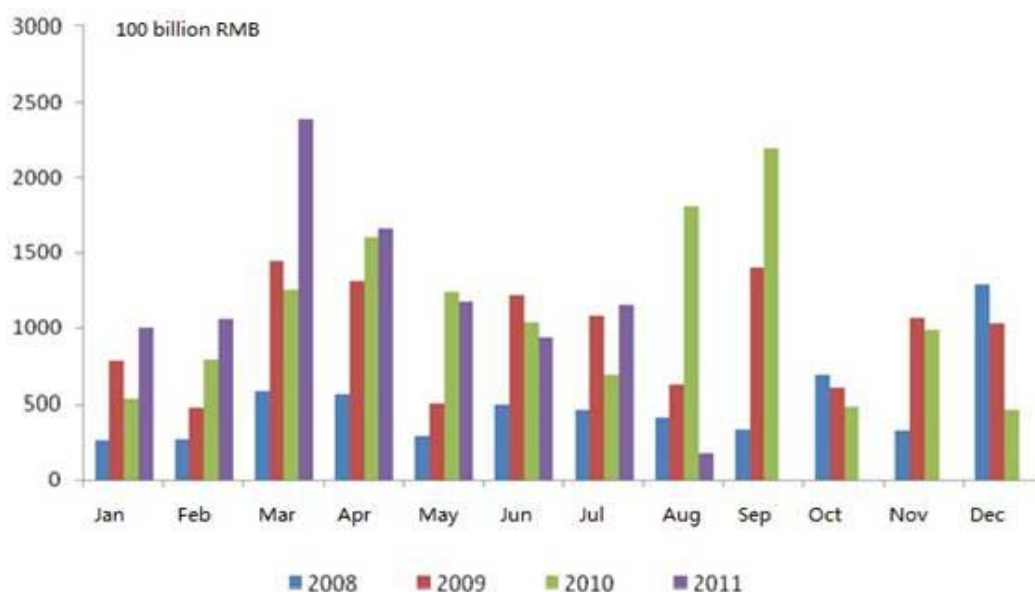
### II. Status of Secondary Market Trading

This week (Aug 1<sup>st</sup> – Aug 7<sup>th</sup>), 3 MTNs began to trade on the secondary market. The total volume of spot trading transactions in the inter-bank market was 1.4203 trillion Yuan and the trading volume of the MTN reached 248.9 billion, accounting for 17.5% of the total spot bond transactions in the inter-bank market.

Meanwhile, 6 CPs began to trade on the secondary market this week. The trading volume of the CP on the secondary market was 86.4 billion Yuan, accounting for 6.08% of the total spot bond transactions in the inter-bank market.

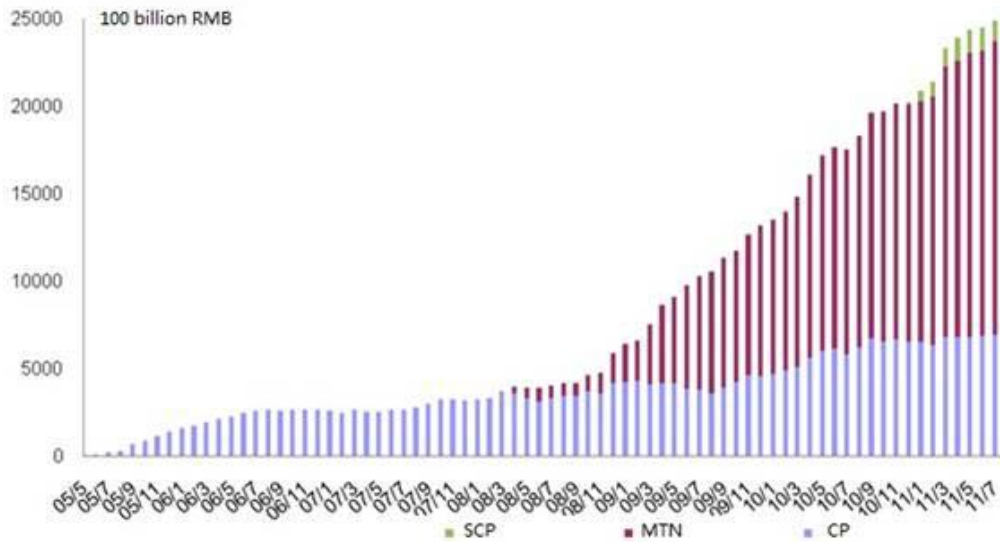
**Figure 1: Monthly issuance status of debt financing instruments of non-financial enterprises**

(January 1<sup>st</sup>, 2008 – Aug 7<sup>th</sup>, 2011)



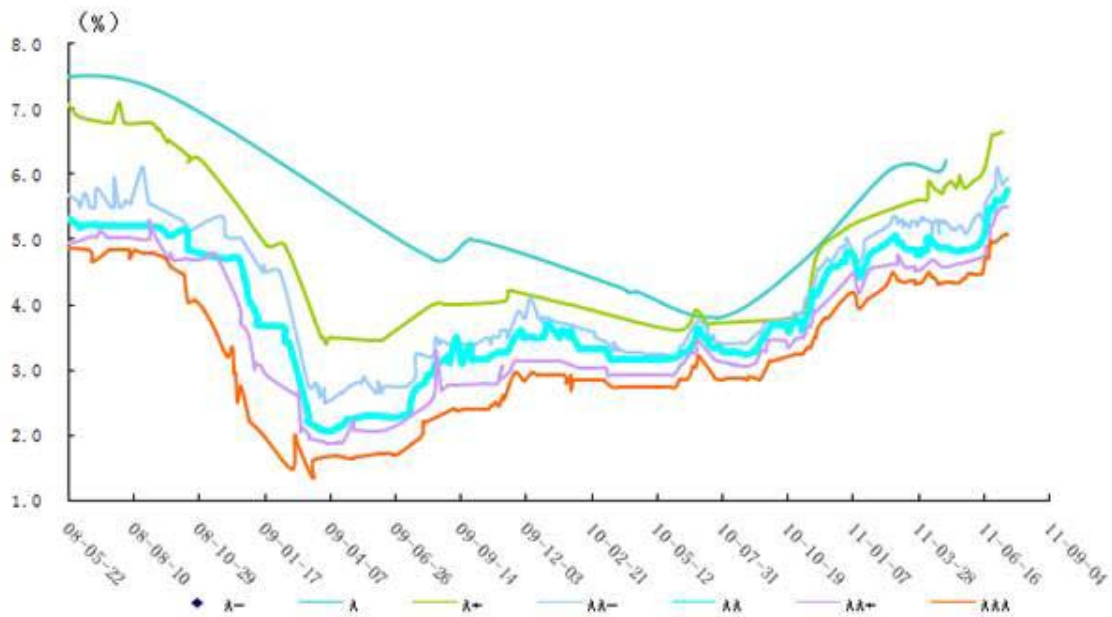
**Figure 2: Outstanding balance of debt financing instruments of non-financial enterprises**

(January 1<sup>st</sup>, 2008 –Aug 7<sup>th</sup>, 2011)



**Figure 3: Yield curve for one-year CPs**

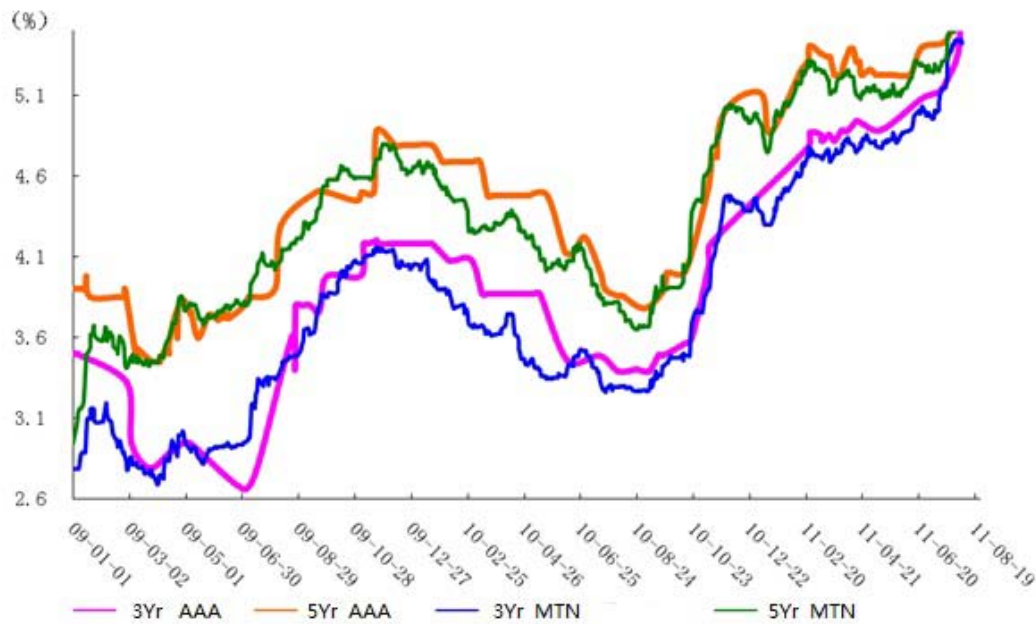
(January 1<sup>st</sup>, 2008 –Aug 7<sup>th</sup>, 2011)







**Figure 4: Yield curve for AAA-rated MTNs (three-year, five-year)**  
(January 1<sup>st</sup>, 2008 –Aug 7<sup>th</sup>, 2011)



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