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## NAFMII Weekly Newsletter



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## **Market News**

### **I. Bond Market**

#### **The SASAC to Establish Bond Issuance Monitoring System for State-owned Enterprises**

To regulate the conduct of enterprises issuing bonds and to strengthen the management of the use and repayment of the proceeds, the State-owned Assets Supervision and Administration Commission (SASAC) has distributed the Notice on Relevant Affairs Concerning the Building of Bond Issuance Monitoring & Management System for State-owned Enterprises, specifying and arranging the establishment of the bond issuance system for state-owned enterprises and their subsidiaries to realize the dynamic monitoring on bond issuance, and prevent and control debt risks. The notice stipulates that state-owned enterprises should, in accordance with unified requirements, report to the SASAC on bond issued by the enterprises themselves and their subsidiaries including enterprise bonds, listed company corporate bonds (including convertible bonds, convertible bonds under separate trading and convertible corporate bonds), financial bonds of financial companies, medium term notes and short-term commercial papers.

#### **Social Financing Demand Keeps Robust, and Proportion of Direct Financing Has Risen**

On July 15, the central bank published the statistical data on the social financing scale. According to the preliminary statistics, China's social financing scale reached RMB7.76 trillion in the first half of this year, a fall of RMB384.7 billion year on year. In terms of structure, loans in Renminbi represent 53.7% of the social financing scale, a drop of 3.2 percentage points yoy; loans in foreign currencies account for 4.3% ,a rise of 2.0 percentage points yoy ; consignment loans represent 9.1%, a drop of 5.1 percentage points yoy; trust loans account for 1.2%, a decrease of 6.2 percentage points yoy; bank acceptances represent 17.1%, an increase of 0.2 percentage points yoy ; enterprise bonds represent 8.5%, a rise of 0.5 percentage points yoy; and domestic stock financing by non-financing enterprises account for 3.4%, an increase of 0.5 percentage points yoy. The reduced proportion of loans and the increased proportions of enterprise bonds and stock financing reflect the general trend of gradual optimization of the financing structure, while the decreased proportion of trust loans is mainly a result of the strengthening in regulation and supervision. The slight drop of the total social financing scale and the improvement of the financing structure in the half year will help support the steady, rapid economic development this year, and play an active role in inflation control.



## **II Comprehensive Media Intelligence**

### **Actual Foreign Capital Used in H1: USD60.891 Billion**

On July 15, the Ministry of Commerce published the statistical data. In the first half of this year, the actual used foreign capital hit USD60.891 billion nationwide, growing 18.4% year on year, and this figure is USD12.863 billion in June alone, growing 2.83% over a year earlier. According to the statistics, in January to June, China approved the establishment of 13,462 new foreign-funded enterprises, an increase of 8.77% compared to the same period last year, and 2,919 new foreign-funded enterprises in June, a rise of 6.57% year on year. Yao Jian, the spokesperson of the ministry, notes that by industry, the service industry has outpaced agriculture and industry in terms of the growth rate of actual used foreign capital; Asian investments in China have expanded, and American investments in China have dropped considerably; the central and western regions have continued to overtake the eastern regions in terms of growth rate of actual used foreign capital, and taken an increased proportion; and the contracted value and completed values of service outsourcing have grown remarkably.

### **The CBRC Identifies Risks of Financing Guarantee Loans**

In this month, China Banking Regulatory Commission (CBRC), the banking regulator, is now identifying risks of benefits transfer conducted by staff of banking financial institutions on financing guarantee institutions, and requiring local banking regulatory bureaus prevent the risk of business collaboration between banking financial institutions and financing guarantee institutions. At the end of June, the CBRC distributed a document, asking banking financial institutions to perform risk self-identification of business collaboration with financing guarantee institutions.

### **MIIT Maps Out M&A in the Twelfth Five-year Plan**

The national meeting on exchanging experience in enterprise merger and restructuring was recently held. Enterprises participated are required to further enhance the understanding of the enterprise merger and restructuring under the current environment, strengthen communication and exchanges, review and promote good experience and good practices in this regard, study and arrange what to do in the next step, and achieve greater progress in the enterprise merger and restructuring in the Twelfth Five-year Plan. Miao Wei, the Minister, says the ministry will focus on the merger and restructuring of enterprises in automobile, steelmaking, cement, machinery manufacturing, electrolytic aluminum, rare earth, electronic information, pharmaceuticals and other key industries.



## **NAFMII NEWS**

### **NAFMII Holds Warning Talks with Members**

The NAFMII has recently held warning talks with Zhejiang Sanding Weaving Co., Ltd. and its lead underwriter of relevant debt financing instrument, Evergrowing Bank in line with the self-regulatory rules, in a move to consolidate the discipline of the interbank bond market and safeguard legitimate rights and interests of investors. In the talks, NAFMII warned the two institutions about problems in the post-registration management, and asked them to attach great importance to the post-registration management of debt financing instruments, improve relevant information disclosure system and take effective actions to correct concrete problems.

By July 18, 2011, both institutions have submitted their rectifying reports to NAFMII . They say they have realized the seriousness of the problems, spent more time on studying the self-regulatory documents, established and improved the management system and evaluation mechanism and optimized management measures. At the same time, they have made serious commitment to improve the information disclosure as required in future, strictly comply with relevant self-regulatory rules of the interbank bond market, take the initiative to establish the awareness to protect investors' rights and interests and promote the sustainable development of the market, actively perform the information disclosure and other incumbent obligations as an issuer and prevent further similar problems.

### **NAFMII Warns AVIC**

Since 2009, NAFMII has always been closely monitoring the information disclosure performance of issuers and credit enhancement agencies in the duration of debt financing instruments as well as issuers and lead underwriters' execution of the self-regulatory code and conducts, continuously instructed issuers to formulate and improve information disclosure management mechanism, and propelled market participants to truly establish the awareness of market responsibility and effectively enhance the quality of information disclosure.

Recently, NAFMII has held a talk with the Aviation Industry Corporation of China (AVIC), an issuer, warning the company with its problems in the aspect of information disclosure. In the financial information disclosure period ended on April 30, 2011, AVIC has violated the Information Disclosure Rules for Non-financial Enterprises Debt Financing Instruments in the Interbank Bonds Market and failed to deliver relevant commitments in



the prospectus by disclosing the 2010 annual report and the Q1 2011 financial statement on schedule. Moreover, the company also failed to disclose the 2008 annual financial information and the Q1 2009 financial information in the same period of 2009, and failed to perform information disclosure obligation of issuers strictly, which has caused some negative influence in the market. To strengthen the discipline of the interbank bond market and protect legal rights and interests of investors, NAFMII has held a warning talk as a self-regulatory penalty measure with AVIC, clearly noting the problems in the information disclosure by the company and its negative influences, and requiring the corporation strengthen the financial accounting management, increase working efficiency, improve relevant information disclosure systems and take effective measures to correct concrete problems. The corporation has deeply realized the seriousness of the problems, and made the formal commitment to improve information disclosure as required in future, strictly comply with relevant self-regulatory rules of the interbank bond market, take the initiative to establish the awareness to protect investors' rights and interests and promote the sustainable development of the market, actively perform the information disclosure and other incumbent obligations as an issuer and prevent further similar problems arise again in the future.

### **Lead Underwriters Review Subsequent Management of Debt Financing Instruments in 2010**

The lead underwriters have reviewed the subsequent management in the reporting period of 2010 in accordance with the Guide to the Subsequent Management Work of Lead Underwriters of Debt Financing Instruments for Non-financial Enterprises on Interbank Bonds Market (thereafter call the "the Guide") and the Notice on the Submission of Subsequent Management Report (2011). Based on the reports submitted by the lead underwriters, NAFMII has combed and reviewed the subsequent management of the debt financing instruments in the year of 2010.

Overall, the lead underwriters have lifted the level of subsequent management compared to the last reporting period, and made the work more compliant, meticulous and thorough. In building the subsequent management mechanism, the lead underwriters have further combed, integrated and revised the existing subsequent management systems, successively formulated operating rules and emergency management plan, assigned special persons to take charge of subsequent management, and thus guaranteed the quality of subsequent management. In terms of dynamic monitoring, the lead underwriters have maintained continuous supervision of regular and irregular information disclosure conducted by enterprises with bonds outstanding, strengthened the monitoring on the use of raised funds, and assisted 332 enterprises to repay their principal and interest on 465 debt financing instruments. In terms of risk identification, the lead underwriters have obviously enhanced the level and quality of their work in comparison to



the previous period. In the reporting period, the lead underwriters performed regular risk identification at 192 issuers, representing 27.2% of the total surviving issuers of debt financing instruments. In the industry distribution of issuers, a big proportion of the identified enterprises fall into the industries with overcapacity, high energy consumption and strong cyclicity. The top three industries are raw materials, metals and energies. Besides regular risk identification, the lead underwriters have also carried out three special risk identifications with respect to the financial fraud event at Qilu Bank, national security situation changes in some countries in the West Asia and the North Africa as well as the influence of the adjustment of the nuclear safety policy on some issuers. Two lead underwriters have conducted independent risk identification of some surviving enterprises. In term of stress testing, the lead underwriters implemented regular stress testing on 59 issuers in the reporting period. Overall, the lead underwriters have improved the stress testing compared to the prior period to some extent, and be able to comply with the standards of contents, applicability of models, reasonableness of scenarios and clearness of process. In terms of emergency management, the lead underwriters can basically carry out the emergency management in line with the requirements of the codes for the interbank bonds market, and held six meetings of holders in the reporting period.

The work of subsequent management in 2010 shows that with the steady expansion of the interbank bond market, the lead underwriters have continuously accumulated more practical experience in subsequent management, paid more attentions to it, and improved the subsequent management report to a large extent. However, there are still spaces for improvement in the lead underwriters work. In future, lead underwriters should continue to strengthen the awareness of subsequent management, and improve the subsequent management mechanism and working methods to guarantee the effectiveness of subsequent management, tangibly maintain the sound development of the market and protect legal rights and interests of investors.



## 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 (Jul 11th – Jul 17th) reached 48.3 billion Yuan. By July 17th, 2011, 957 enterprises issued debt financing instruments, with the overall volume reaching 4.71795 trillion Yuan; the outstanding balance reached 2.594185 trillion Yuan.

10 MTN were issued in total this week with the amount reaching 13.7 billion Yuan. 12 CPs were issued in total this week with total amount of 24.6 billion Yuan.

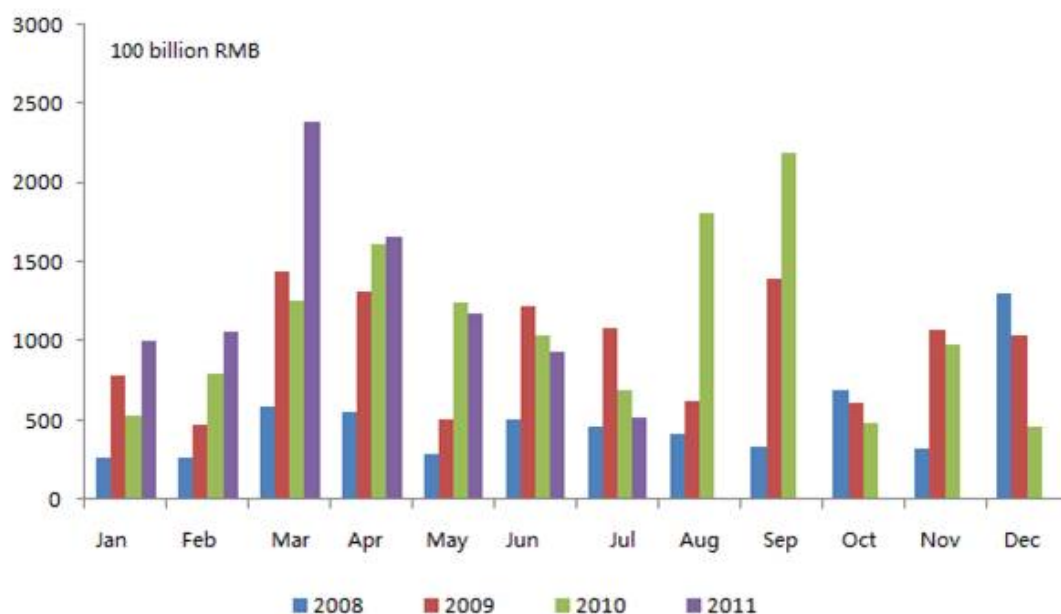
### II. Status of Secondary Market Trading

This week (Jul 11th – Jul 17th), 10 MTNs began to trade on the secondary market. The total volume of spot trading transactions in the inter-bank market was 1.5004 trillion Yuan and the trading volume of the MTN reached 309.6 billion, accounting for 20.6% 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 127.076 billion Yuan, accounting for 8.5% of the total spot bond transactions in the inter-bank market.

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

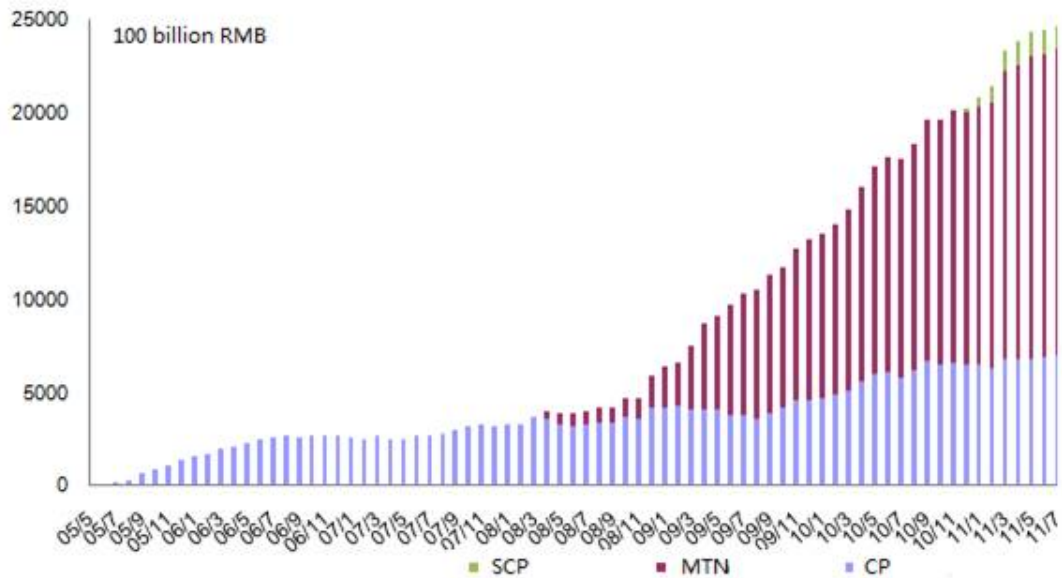
(January 1<sup>st</sup>, 2008 – July 17<sup>th</sup>, 2011)





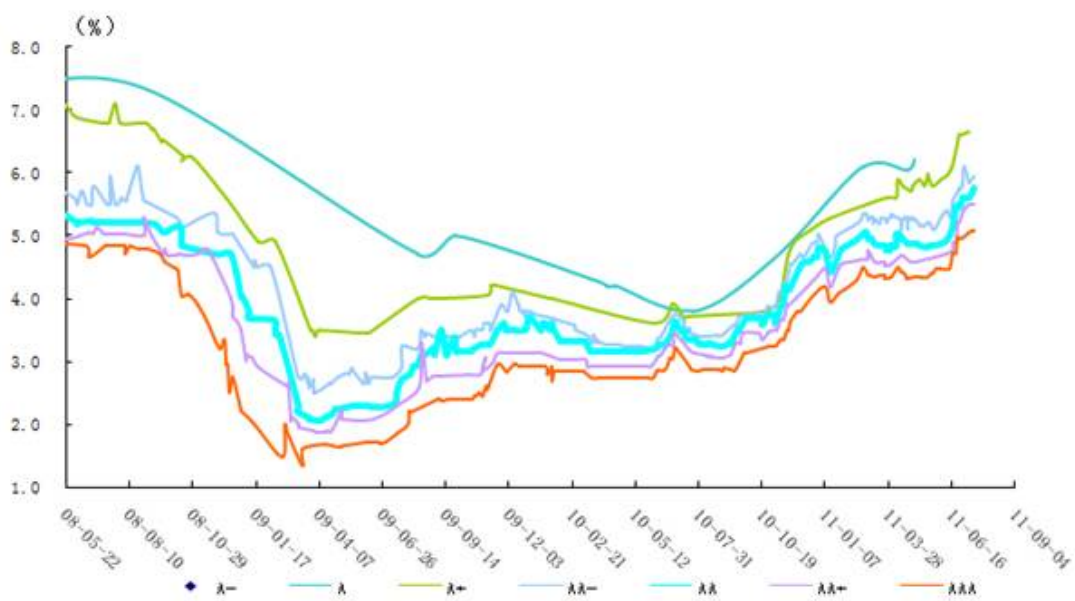
**Figure 2: Outstanding balance of debt financing instruments of non-financial enterprises**

(January 1<sup>st</sup>, 2008 – July 17<sup>th</sup>, 2011)



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

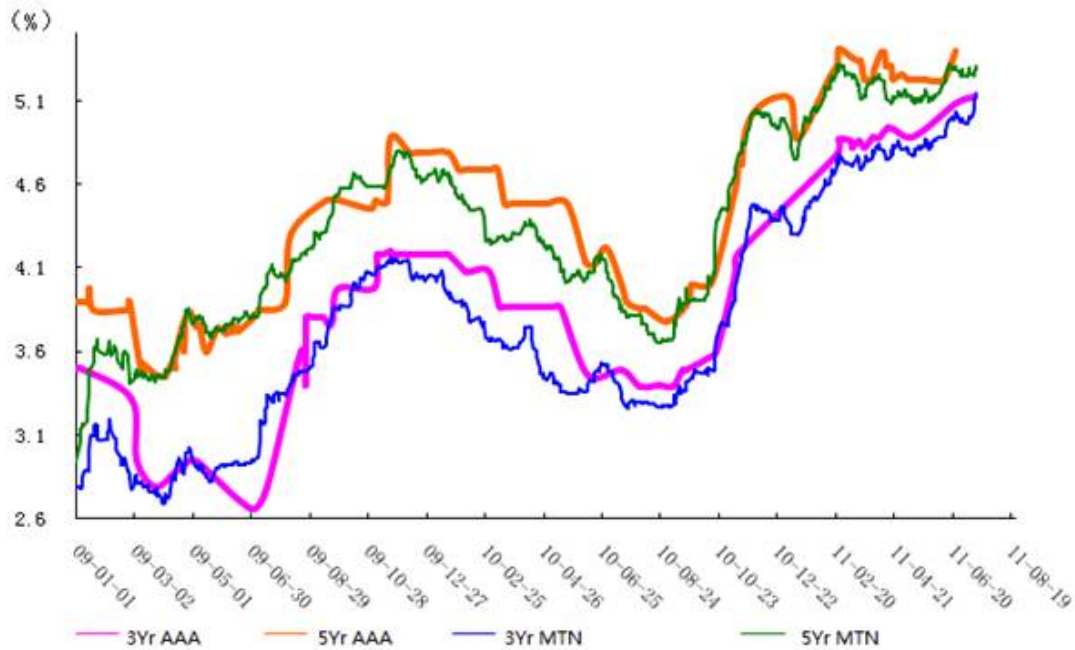
(January 1<sup>st</sup>, 2008 – July 17<sup>th</sup>, 2011)







**Figure 4: Yield curve for AAA-rated MTNs (three-year, five-year)**  
(January 1<sup>st</sup>, 2008 – July 17<sup>th</sup>, 2011)



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