

The Chinese corporate credit bond market -

Broad prospects for development

Dear Mr. Martin Scheck, Mr. Spencer Lake, Distinguished Guests,
Ladies and Gentlemen,

Good Morning!

I am very pleased to attend this meeting. This is the first time that Shanghai Clearing House participates in ICMA conference. We hope to enhance our understanding of and cooperation with the international market through influential industrial associations, such as ICMA, and this meeting.

The meeting has arranged a special session for China's bond market, which indicates that under the background of RMB internationalization and capital account liberalization, international financial institutions are increasingly interested in the China's market. Just now, the Deputy Secretary-General of NAFMII, Ms. Liu Jianhong has delivered a very excellent presentation of China's bond market from the perspective of a self-discipline organization. Now, I would like to share with you some understanding of the China's corporate credit bond market. I think that there is broad space for the development of China's corporate credit bond market.

Over the past 10 years, China's corporate credit bond market has experienced rapid growth. In 2004, the outstanding balance of corporate credit bonds was 115.3 billion Yuan, accounting for only 1.91% of the outstanding balance of 6.03 trillion Yuan in the bond market that year. 10 years later, the outstanding balance of corporate credit bonds is 11 trillion Yuan, accounting for 30% of the total outstanding balance of 35.58 trillion Yuan in the bond market. It is 96 times as it was 10 years ago. At present, China's corporate credit bond market ranked the second in the world, measured by the outstanding balance.

The rapid growth of China's corporate credit bond market mainly benefits from the rapid growth of economy, the changes of social financing structure and the market-oriented reforms. These factors will continue to support the development of China's corporate credit bond market over the next 10 years.

First of all, the rapid growth of China's economy supports the expansion of the bond market. Over the past 10 years, China's GDP has increased from 13.65 trillion Yuan to 63.65 trillion Yuan with an average annual growth rate of 10%, directly leading to the demand for debt financing, and becoming the main supportive force for the rapid development of the bond market. At present, China's economy

has taken the "new normal" path, whose key features are steady growth, restructuring, reform promotion and risk prevention, and the expected GDP growth rate will remain around 7% in this stage. The aforementioned growth still ranks ahead from a global perspective, and will continue to support the expansion of China's bond market. As of the percentage that the bond market accounts in GDP, it is only 55% in China, while in the developed economies it has commonly surpassed 100%, some of which even reached exceeded 200%. Therefore, China's bond market still has significant prospects for improvement, and the corporate credit bonds will be the dominant component in the development of China's bond market in the next stage.

Secondly, the transition of social financing structure effectively promotes the development of the corporate credit bonds. Over the past 10 years, China's social financing structure has changed gradually, and the proportion of direct financing increased from 4% in 2004 to 18% in 2014. Specifically, the proportion for corporate credit bond financing increased from 1.6% to 14.5%. It is observed that the pace of current transition of indirect financing to direct financing is gradually accelerating. The proportion of direct financing in the entire financing structure in developed economies can reach up to 40-50%, and the proportion of corporate credit bonds

in the entire financing structure can surpass 25%. Apparently, in the upcoming decade, the function of China's corporate credit bond market to meet the social financing demand will be further enhanced and widely expanded.

Thirdly, the streamlining the administration, decentralizing the power, as well as the market-oriented reform have promoted the development of corporate credit bond market. Since 2004, People's Bank of China and securities regulator have been making efforts to streamline the administration, and push forward market-oriented reform. By promoting the innovation of bond products, establishing the market-based restriction mechanisms for credit rating, credit enhancement, and credit disclosure, and improving the construction of bond market infrastructures, China's corporate credit bond market has realized leap-forward development. At present, with the goal of "allowing the market to play a material role in resource allocation", the new Chinese government is trying to greatly promote the market-oriented reform and simplify administrative approval, and therefore corporate credit bond market is facing new opportunity of rapid development. Initial statistics show that, since this year, China's relevant authorities have issued around ten policies or documents on corporate credit bond, and the content of those policies or documents is mainly on relaxing the constraints for

issuers and investors, developing institutional investors, optimizing the mechanisms of issuance, trading and clearing, expanding bond market opening up. I believe that these measures will effectively improve the demand and supply of corporate credit bond market and enhance the scale of the market.

Besides, some new elements will effectively support the development of corporate credit bond market.

“One Belt And One Road” and “Entrepreneurship and Innovation for Everyone” strategies of China are in the progress. The capital market is very active and the financing demand has greatly increased. China’s stock market has expanded by 125% since last August. The volume of IPOs and refinancing of Shanghai and Shenzhen stock exchanges has reached 391.6 billion Yuan, which rose by 303% compared to last year, ranking the first in the world. Equity financing effectively increases the equity capital scale, decreases the leverage ratio, and provides room for expanding the scale of corporate credit bond market in the next stage. Besides, the implementing and deepening of “One Belt And One Road” and “Entrepreneurship and Innovation for Everyone” development strategies will definitely bring massive financing demand for corporate credit bond.

Financial reform and capital market opening up will promote the development of corporate credit bond. RMB interest rate liberalization is speeding up, and the deposit insurance system has been established since May 2015 after years of discussion. On May 10, 2015, the PBOC adjusted financial institutions deposits interest rate cap to 1.5 times of the benchmark interest rate, indicating that the market-based reform of interest rates is close to the end. The internationalization of RMB and the capital market opening up received extensive attention from the world. According to SWIFT, RMB has become the world's fifth largest settlement currency. In November 2014, the Shanghai-Hong Kong Stock Connect program has been launched, and in the next phase the Shenzhen-Hong Kong Stock Connect program is expected to be implemented. These series of reform and open up measures which have been or about to be implemented, including the international cooperation of Shanghai Stock Exchange(SSE), China Financial Futures Exchange(CFFEX) and Deutsche Borse, the acceleration of construction of the cross-border RMB clearing system (CIPS), the establishment of the international financial market trading platform in China (Shanghai) free trade zone, and the interconnection and interworking of financial infrastructures in China and abroad, very clearly show that China's capital market is facing a new opportunity of development,

and China's corporate credit bond market will possibly become a global financial asset allocation platform.

It can be observed that in the developed economies, the overseas investors can hold up to about one third of the entire corporate credit bonds. In 2014, by contrast, all kinds of foreign institutional investors in China held less than \$100 billion (600 billion RMB yuan) of bonds, accounting for only 1.67% of the total market volume, and the corporate credit bond holdings by overseas investors did not exceed \$14 billion (85 billion RMB yuan). These figures, reflect that on the one hand international investors are not familiar with China's corporate credit bond market, and on the other hand China's corporate credit bond market will have huge growth potential in the future.

Shanghai Clearing House is China's CSD of corporate credit bonds, and the CCP of OTC bonds, interest rate, foreign exchange and commodity transactions designated by the central bank of China. In 2014, Shanghai Clearing House provided registration and custody services for newly issued corporate credit bonds with total face value of 4.18 trillion Yuan, which accounted for 77% of total face value of corporate credit bonds issued that year. By the year end of 2014, bonds with face value of 4.77 trillion Yuan were on deposit at

Shanghai Clearing House, with year-on-year growth of 43%. Shanghai Clearing House also provides central counterparty clearing services for spot and repo bonds, interest rate swaps, FX spot, forward and swaps, as well as commodity derivatives. In 2014, transactions with notional principal of 44 trillion Yuan were centrally cleared, with year-on-year growth of 93%. The registration, custody, central counterparty clearing, collateral management, corporate credit bond index and valuation services provided by Shanghai Clearing House effectively support the expansion of corporate credit bonds and enhance market liquidity. Therefore Shanghai Clearing House is becoming the asset and liability management and risk management platform for corporate credit bond issuers and investors both at home and abroad.

In the future, Shanghai Clearing House will take full advantage of favorable conditions for the opening up of China's capital market. First, we will make full use of Shanghai Free Trade Zone policy and infrastructures, through the free trade zone separate accounting unit and a free trade account, to introduce more foreign issuers and investors of corporate credit bonds, and support the cross-border transactions for RMB bond assets. Second, we will continue to promote the central counterparty clearing for corporate credit bonds, both spot and repo transactions. We are also trying to use more

high-grade corporate bonds as collaterals and to cooperate with our international counterparts to launch cross-border collateral management services. Meanwhile we are trying to develop Corporate Credit bond Index Fund or bond ETF with other financial institutions, in order to expand the use of corporate bond indices and enhance the liquidity of credit corporate bonds in both onshore and offshore RMB markets. Third, we will provide CCP clearing for more OTC products, including interest rate, foreign exchange, credit and commodity products. We are trying to expand the range of cleared products, maturity and participants, to ensure that the issuers and investors could use more derivatives to manage and mitigate risks, and to further promote the sound development of China's bond market.

The history of credit is much earlier than that of the industrial and banking industry, and even the coin industry. The history of economic development, is also the history of the credit history. I believe, with the steady growth of China's economy and the integration of international financial market, there will be a very broad space for the development of China's corporate credit bond market. Shanghai Clearing House hopes to enhance communication and cooperation with international issuers and investors, and

international financial institutions and infrastructures, to complement each other's strength and promote mutual development.

Thank you!