

Luncheon Talk at Hong Kong Investment Funds Association

The Chinese Debt Market Development and The Chinese Credit Rating Agencies

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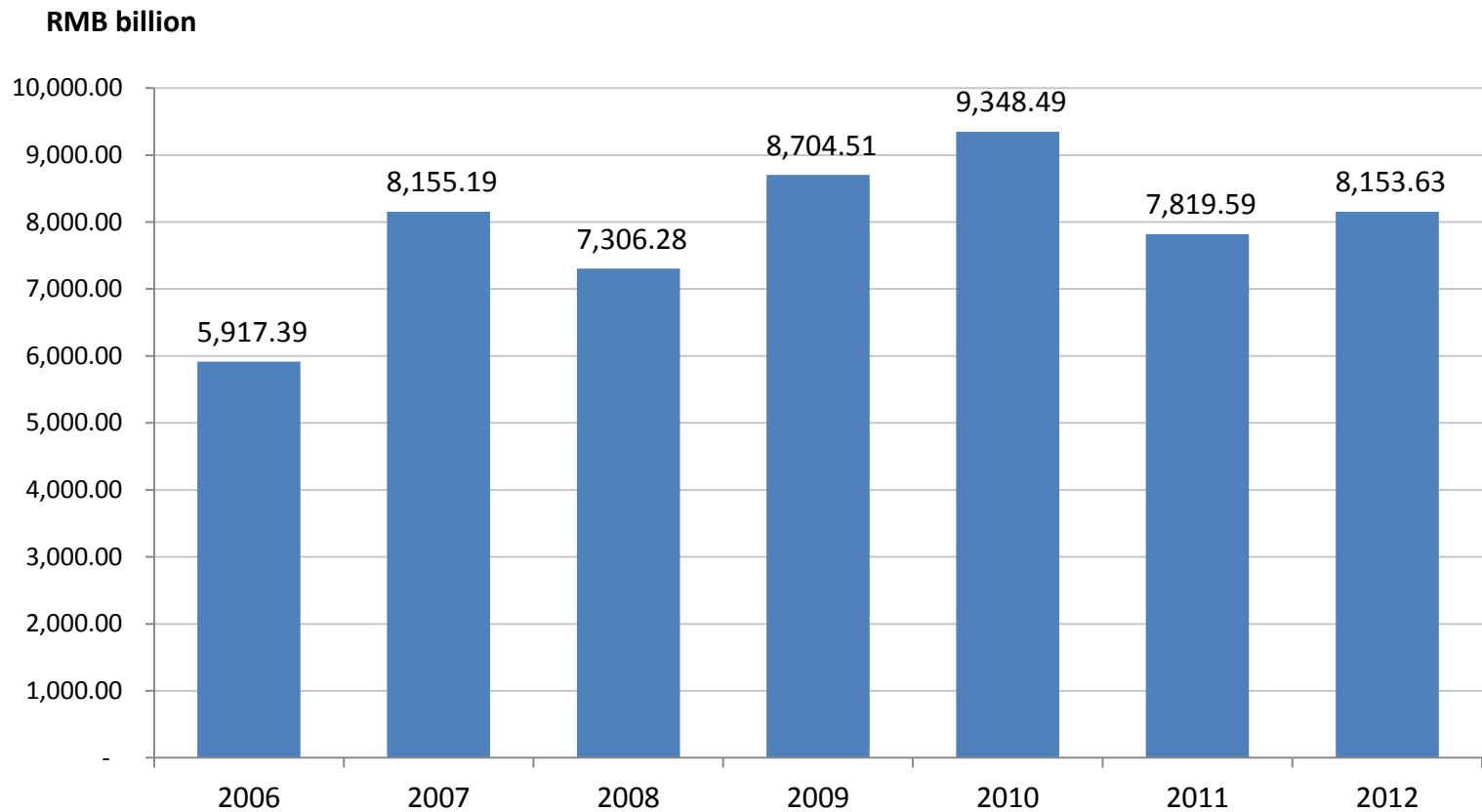
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3 April 2013

The Chinese debt market development

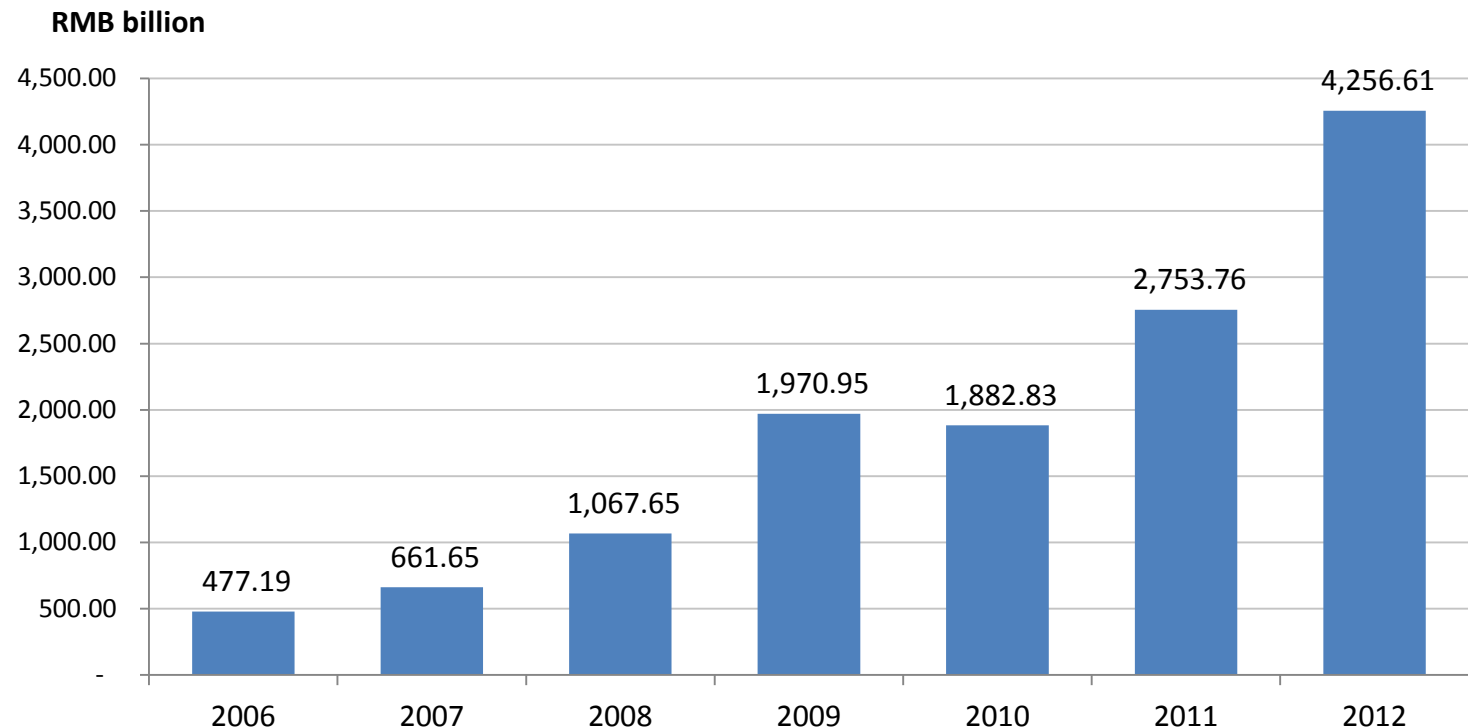
- All new issues since 2006



Data source: Gildata & CCX research

The Chinese debt market development

- New issues since 2006 (excluding government debt, local government debt and policy bank debt)



Data source: Gildata & CCX research

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2012 new issue amount

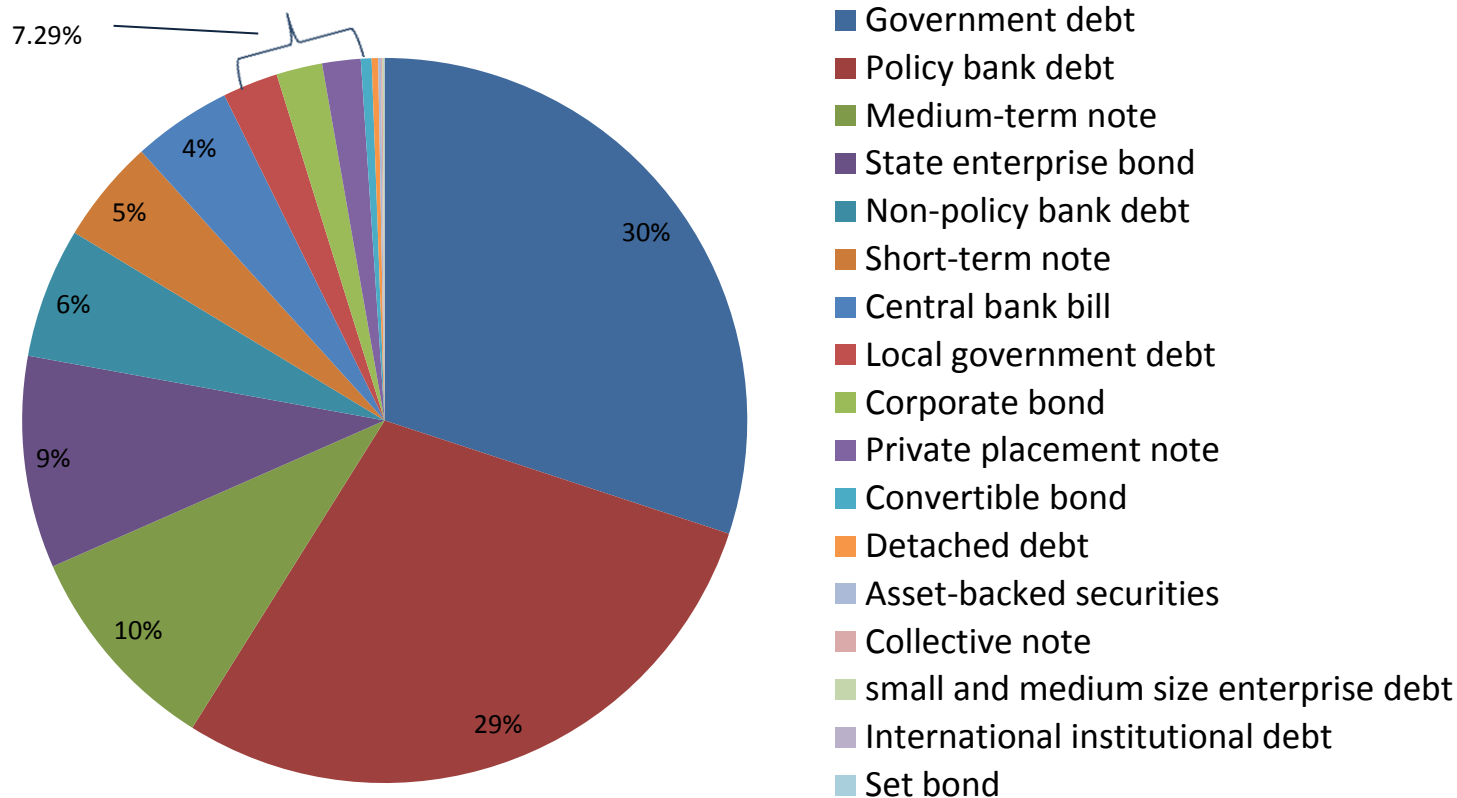
(unit: RMB billion)

• Government debt	1,523
• Local government debt	250
• Policy bank debt	2,125
• Non-policy bank debt	450
• Corporate Bond	251
• Convertible bond	16
• Enterprise debt	798
• Short term paper	1,475
• Medium term note	844
• Asset-backed securities	25
• Collective note	10
• Set Bond	1
• Small and medium size enterprise debt	15
• Private placement note	370
Total issued amount:	8,154

Source: Gildata & CCX research

Chinese debt outstanding amount 2012

- Total outstanding amount: RMB 26,255.26 billion
- Breakdown by product:



The Chinese debt market places

- Inter-bank market
- Over-the-counter market
- Stock exchange

Debt Regulators

- People's Bank of China (PBOC) through National Association of Financial Market Institutional Investors (NAFMII)
- National Development and Reform Commission (NDRC)
- Chinese Securities Regulatory Commission (CSRC)

Important milestones in the course of Chinese debt market development (1)

- 1992 October: PBOC approved the formation of the first credit rating agency, China Chengxin
- 2005 May: PBOC permitted short-term paper issuance in the inter-bank market
- 2007 August: CSRC permitted corporate bond issuance on the stock exchanges
- 2007 September: NAFMII was founded

Important milestones in the course of Chinese debt market development (2)

- 2008 April: NAFMII permitted non financial corporate debt issued and traded in the inter-bank market
- 2008 April: NAFMII permitted medium term note issued and traded in the inter-bank market
- 2010 August: NAFMII founded China Credit Rating Company Limited, introducing the investor-pay model, hence establishing the dual rating system

The Chinese credit rating agencies

The five major nation-wide credit rating agencies:

- China Chengxin
- Lianhe
- Dagong
- Brilliance Rating
- Penyuan

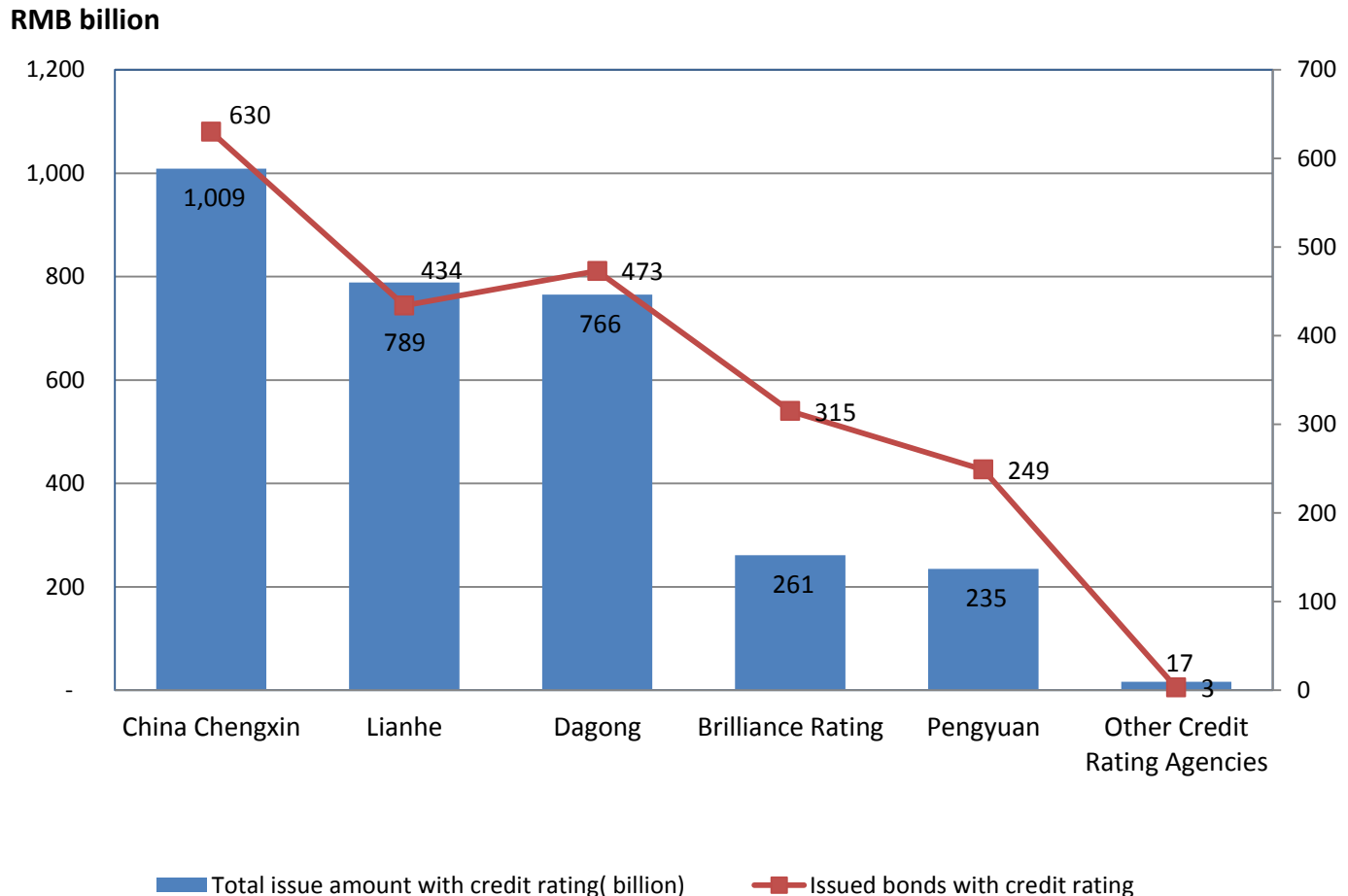
Including the district and city credit rating agencies, the number goes up to 200

Rated debt products

- Government debt
- Policy bank debt
- Medium-term note
- State enterprise bond
- Non-policy bank debt
- Short-term note
- Central bank bill
- Local government debt
- Corporate bond
- Private placement note
- Convertible bond
- Detached debt
- Asset-backed securities
- Collective note
- Small and medium size enterprise debt
- International institutional debt
- Set bond

Market share of the credit rating agencies

- Credit rating market share in 2012



Data source: Chinamoney.com.cn, China bond.com.cn and CCX Research

Discussions on credit rating approaches

- Issuer-pay model versus investor-pay model
- Single rating versus dual rating
- Nationalism versus internationalism
- Private own versus disguised state own

Going out

- Following the steps of internationalization of the Chinese currency (RMB), the Chinese credit rating agencies go to establish operating offices in Hong Kong to provide credit rating service in the international market
- China Chengxin and Pengyuan received the Type 10 License (Providing Credit Rating Services) from Hong Kong Securities and Futures Commission in June 2012 and August 2012, respectively
- Dagong announced in October 2012 its plan to form a joint venture with Egan Jones (USA) and RusRating (Russia) in Hong Kong

Issues of Chinese credit rating agencies

- International acceptability takes time to achieve
- Nationalistic mentality deters internationalization process
- Independency remains in doubt unless and until no state interest in credit rating agency
- Creditability can be improved if the artificial “no default” of debt disappears
- Multi-regulators on credit rating agencies be centralized at one regulator

Conclusion

- The Chinese domestic debt market is a huge and fast growing market, a golden platform for issuer, investor, credit rating agency and financial intermediaries
- Issues and discussions around credit rating service reveals that the Chinese debt market is still growing in its early stage, hence the Chinese financial infrastructures have to be further constructed
- The Chinese old saying, " no half step move, no hope to reach a destiny of one thousand miles away". The Chinese credit rating agencies have moved one step out in Hong Kong.