Panel 3: Bond Markets – Should Their Transparency be Enhanced?

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China’s corporate bond market

- Issuance has grown tremendously in the past decade
- In relation to the total amount of bank loan growth (2-4 trillion yuan), this is still a very small fraction
- The government is focusing on building capital market access, promoting financial disintermediation to reduce the financial risks embedded in the banking system
China’s corporate bond market

Basic Facts

♦ 190 billion yuan outstanding, 150 billion new issues expected in 2006
♦ With new regulations in place soon, the size of this market can grow exponentially
♦ Long maturity (10-30y), some with floating coupons
♦ Majority of issuers are well-known state-owned enterprises (SOEs), mostly unlisted, bonds issued with bank guarantee
♦ Lifers are the main buyers, banks have recently been allowed to buy in the inter-bank market
♦ Disclosure of issuers’ financial information improving
♦ Need more analysis of credit risk
♦ Pricing efficiency is improving as liquidity increases
♦ Demand for transparency is increasing, particularly from institutional investors as well as issuers and regulators
Introduction to current set-up

♦ Primary Market
  – Mostly SOE issuers
  – NDRC’s quota is annually revised
  – Price is decided prior to distribution with approval from relevant regulators
  – Hard underwriting, mainly sold to the wholesale market
Introduction to current set-up

- **Secondary Market**
  - PBOC set rules for OTC market, CSRC for exchange markets
  - Banks are excluded from exchange markets, financial institutions are main participants of OTC market
Primary market transparency

♦ Improve legal framework

♦ Clarification of regulations
  – Simplification of application and registration

♦ Documentation and full disclosure

♦ Rating agency and better analysis of credit risk

♦ Promote ‘best practice’ underwriting
  – Protection of interests of issuers and investors
  – Ability to price different credit quality bonds
Secondary market transparency

- Exchange market is highly transparent (both pre and post trade)
- OTC market has better liquidity that is essential for institutional investors
- To further develop the OTC market, the function of market makers needs to be enhanced
  - Formation of dealers’ market
  - Dealer-investor transparency is commercially driven
- Proper dissemination of transaction information is very important for price formation and increased effort to analyse credit risk will help improve pre transaction transparency
- Market transparency will help market efficiency but it is better achieved through market mechanism
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