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

Charlie Ye

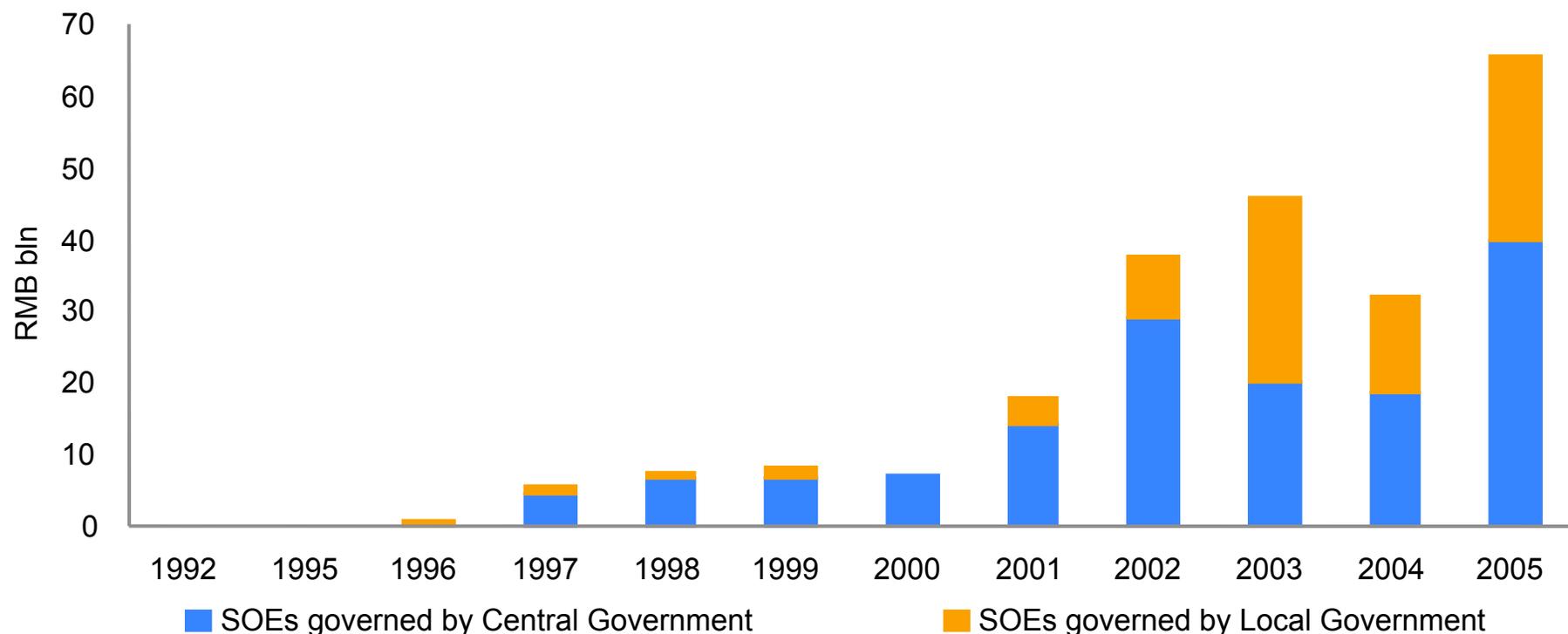
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Bond Market Transparency: China's Corporate Bond Market

Charlie Ye, Managing Director

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

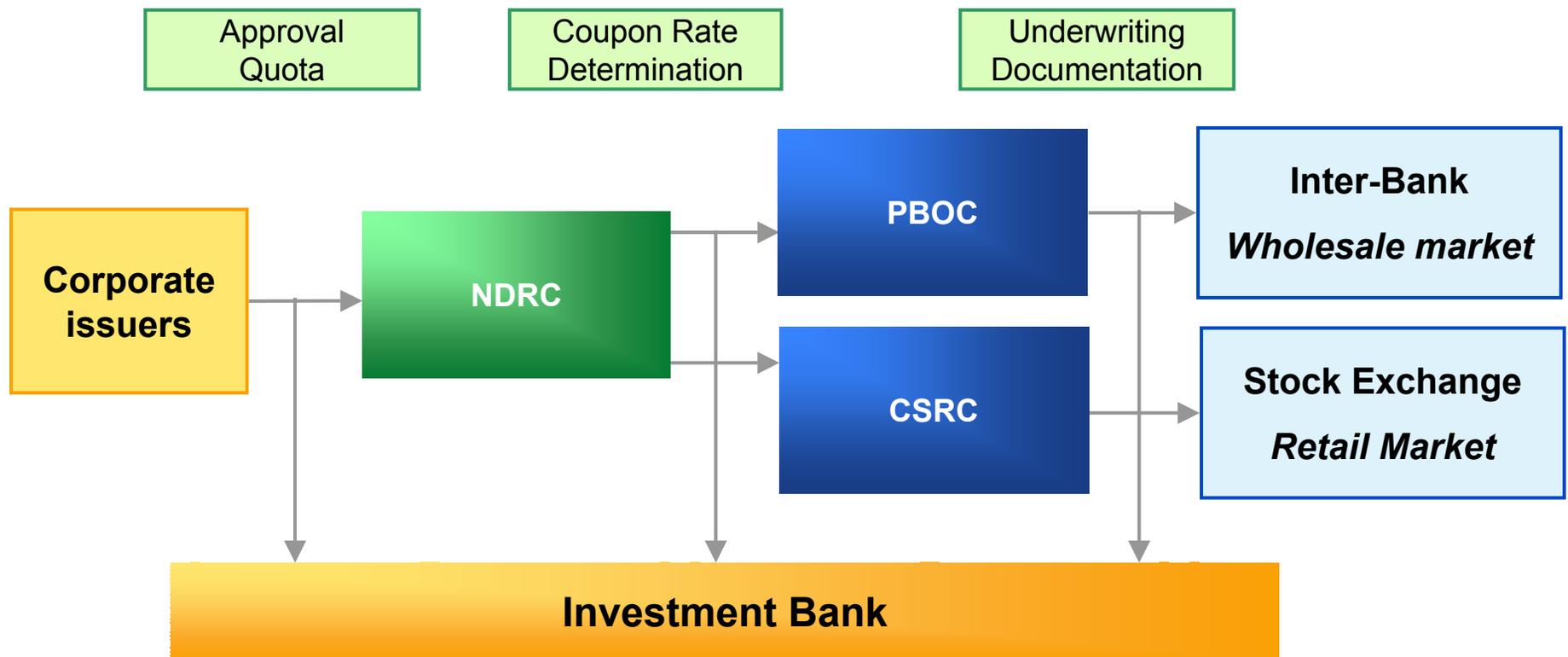
Basic Facts

- ◆ 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

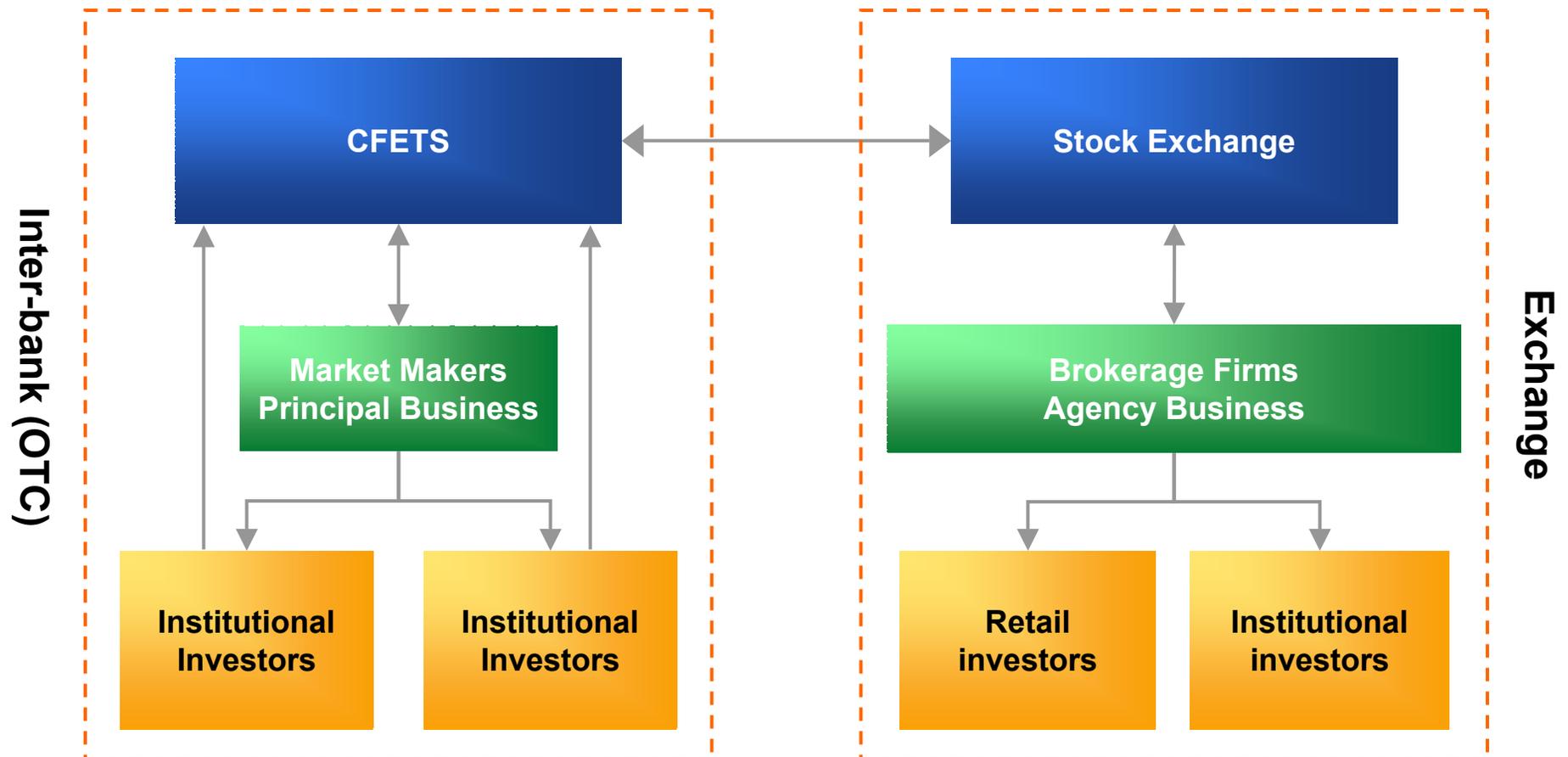
- Mostly SOE issuers
- NDRC's quota is annually revised
- Price is decided prior to distribution with approval from relevant regulators
- Hard underwriting, mainly sold to the wholesale market



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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