



Dynamics of Financial Markets China

Henry Li

April 14, 2017
Shanghai

Introduction

1. Capital markets at high growth
2. Structural challenges
3. Impacting elements
4. Capital
5. Regulation
6. Information
7. Technology
8. Transition to new growth engine

Capital markets at high growth

Major driver of economic growth and greater global influence

- Political and international influence
- Capital markets continue evolving
- The Belt Road Initiative
- RMB inclusion in the SDR basket
- Asian Infrastructure Investment Bank

Market dynamics

- RMB capital markets growth & internationalization (CSA, SH/SZ/HK Connect, largest IPO markets)
- Inbound, outbound, and domestic investment growth (SIF)
- Infrastructure upgrading

- Full currency convertibility
- Greater deepening of domestic capital markets
- Fast growing cross border investment
- Demand for infrastructure development
- Expansion in product offerings
- Deregulation

Structural challenges

Capital markets

- Unbalanced development of stock and bond markets
- Bond market, especially corporate bonds are lagging
- Lack of transparency of pricing and liquidity across asset classes

Securities sector

- Asset management offerings focused on high-risk equity/hybrid assets
- Lack of sophistication, limited differentiation
- Limited participation of insurance and pension funds (regulation lags)

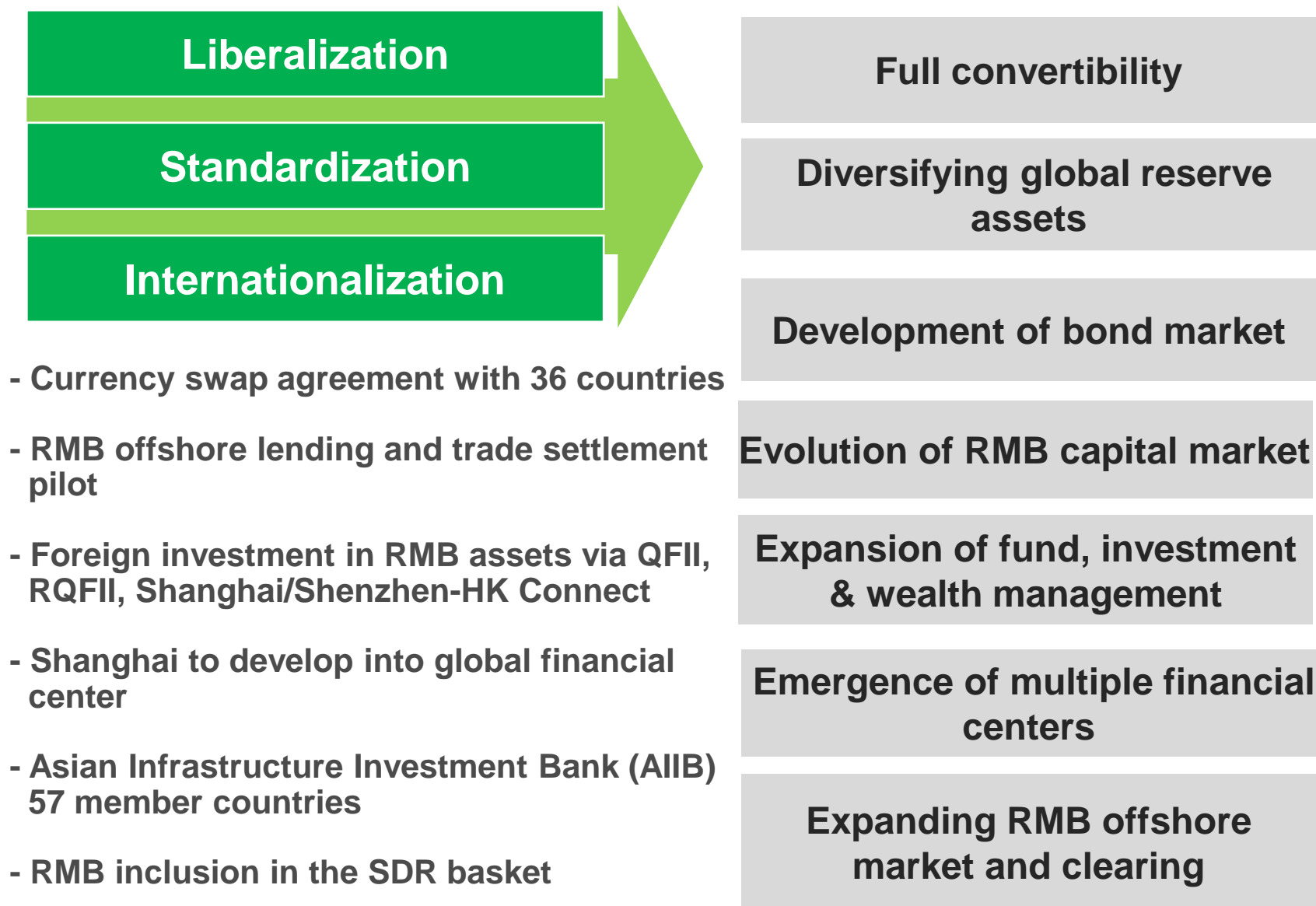
Market efficiency and governance

- Slow pace in domestic futures, options & derivatives market
- Bond turnover low compared to issuance
- Lack of sound governance in many listed companies
- High transaction costs

Impacting elements

- Regulation
- Capital
- Information
- People
- Central vs local policy
- Legal framework
- Law enforcement
- Accounting
- Tax
- Infrastructure
- ...

Capital: highly policy driven but liberalization is accelerating



Regulatory challenges

Key Challenges

- Control of information
- Restrictions on investment and capital flow
- Restrictions on Internet
- Multiple licenses
- Policy change

Approach

- Respect
- Understand regulatory agenda
- Communicate
- Educate
- Lobby for deregulation

Regulatory Authority

State Council Information Office (SCIO)

People's Bank of China (PBoC)

State Admin. Of Foreign Exchange (SAFE)

China Securities Regulatory Commission (CSRC)

China Banking Regulatory Commission (CBRC)

China Insurance Regulatory Commission (CIRC)

Ministry of Industry and Information Technology (MIIT)

Governance

Information

Monetary policy,
foreign exchanges,
bonds, gold

Securities

Banking

Insurance

Telecom, Internet

Information: a critical issue

Restrictions

- **Content control**
- **Firewall**
- **Internet delivery**

Impacts

- **Weakens competitiveness of market players**
- **Decreases transparency**
- **Decreases market efficiency**
- **Weakens status of financial center**

Technology: changing the landscape

Finance technology

Big data / Cloud

Digital / Online / Mobile / AI / VR

- Number of IF platforms dropped from 2595 as of 12/2015 to 2281 as of 7/2016 under regulatory pressure and industry reshuffle
- Supply chain finance, consumer finance, crowdfunding, P2P, e-bank, e-finance, e-fund, e-insurance, e-pay
- Fragmented regulation lags behind market
- Systematic risk
- Governance and risk control
- Fraud
- Data protection

Increases market efficiency and transparency

Enhances operational excellence

Advances risk management methodologies and tools

Improves cost / income ratio

Improves customer service and experience

Promotes inclusive finance esp. for micro businesses and low income individuals

Develops innovative business models and product offerings

3 boxes: transition to new growth engine

Box 1

Existing business

- Dominant and stagnant;
- Challenges of competitors, new technology, and new business model

Box 2

Innovation

- Try something new, selectively forget something;
- Forget-try-learn-try process, allow mistakes and loss;
- Supported and subsidized by existing business segments

Box 3

New growth engine

- Increasing or major revenue contributor;
- New technology, new business