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Issuance Mechanism Reform and Its Impact on the Capital Market

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- Background of Issuance Mechanism Reform
- Main Points of Issuance Mechanism Reform
- Impact of Issuance Mechanism Reform on the Market
- Conclusion

I Background of Issuance Mechanism Reform

- 1992-2000: the examination system was adopted for the stock issuance on China's capital market.

Major features: the system was characterized by the management of issuance size, the governmental recommendation, the issuance pricing modes defined by regulatory authorities, the weak roles of crucial market participants (such as the securities companies), the imperfect regulatory rules and the participation of administrative authorities.

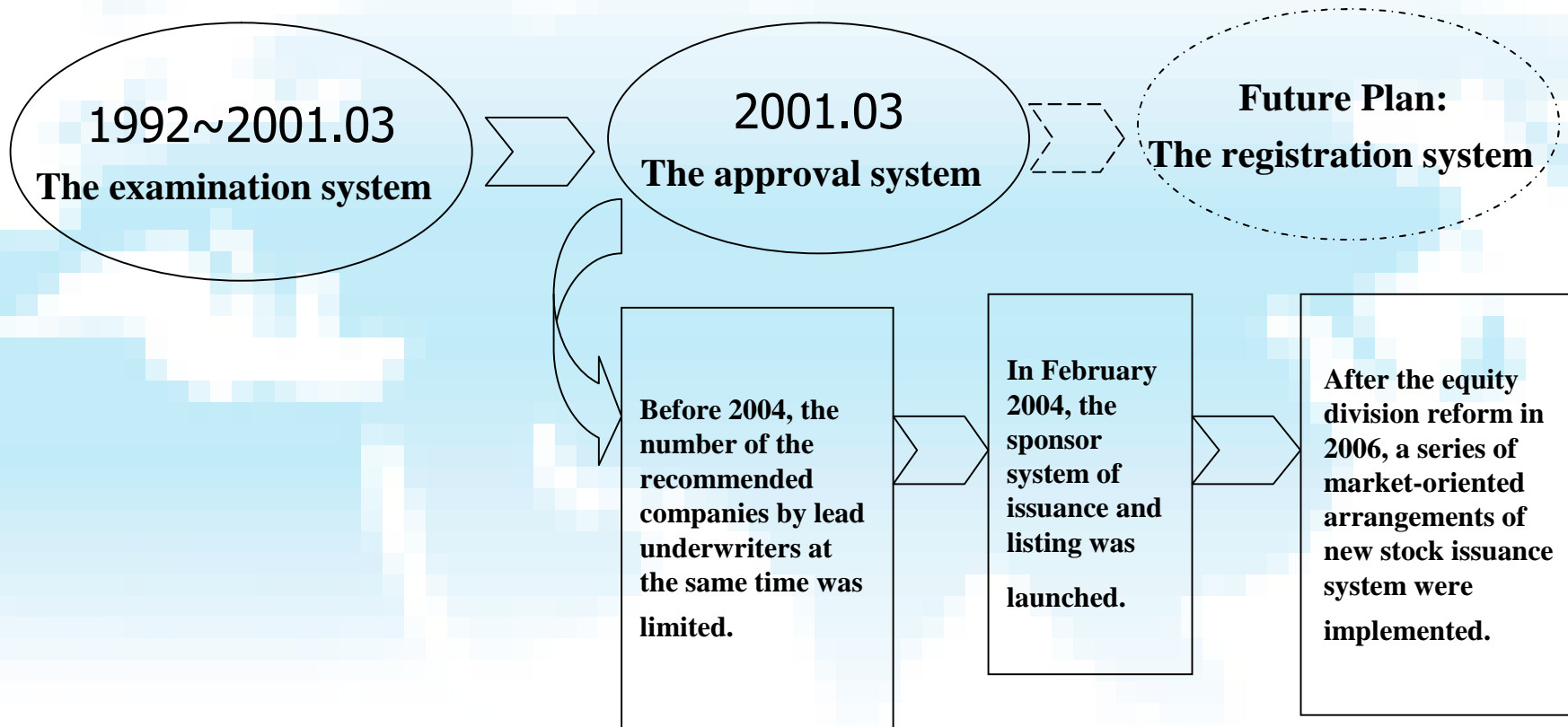
I Background of Issuance Mechanism Reform (Continued)

- In 2001, the approval system was adopted for the stock issuance according to the “Securities Law”.

Major features: securities companies made recommendations for enterprises' issuance and listing and acted as their sponsors. The standardized and transparent approval system attached crucial importance to the mandatory information disclosure. Besides, the regulatory rules were completed on the whole, with the market-oriented issuance pricing.

I Background of Issuance Mechanism Reform (Continued)

- Process of Issuance Mechanism Reform



II Main Points of Issuance Mechanism Reform

- To establish and perfect the sponsor system

In December 2003, the CSRC issued the “Interim Measures for Sponsor System of Securities Issuance and Listing”, stipulating that companies’ IPOs and the refinancing of listed companies should be recommended by sponsors (securities companies) and the sponsors should continue to fulfill continuous supervision after the listing of new stocks. In May 2006, the CSRC issued the “Rules on Due Diligence of Sponsors”, defining the methods and contents of due diligence.

II Main Points of Issuance Mechanism Reform (Continued)

- To enhance transparency of the issuance examination system

In September 1999, the Public Offering Review Committee (the Committee) was founded to examine whether companies have the ripe conditions to issue stocks for listing. The member list and examination agenda are secret, with the examination conducted by secret ballot.

In December 2003, the CSRC issued the “Interim Measures for Public Offering Review Committee”, adding full-time members and publicizing related meeting time and the lists of participant members and companies, with the examination conducted by open ballot (If five out of seven participants agree, an approval is made).

II Main Points of Issuance Mechanism Reform (Continued)

- To perfect the approval system of issuance and listing

After the equity division reform, the “Administration Measures for IPO & Listing of Stocks”, the “Administration Measures on Securities Issuance by Listed Companies” and its supporting rules were issued in 2006, defining the conditions for IPO and further emphasizing the corporate governance and actual operation of issuers. Besides, many kinds of refinancing modes were promoted for listed companies, with the multi-level conditions for different financing modes.

II Main Points of Issuance Mechanism Reform (Continued)

- To establish the preliminary market-oriented pricing mechanism

At the end of 2004, the CSRC issued the “Notice of Several Issues concerning Trial Price Inquiry System for IPOs” to cancel the price approval system and define that the new stock should be priced by accumulative bidding price inquiry to the six types of qualified institutional investors (such as fund). Now there are about 250 institutional investors qualified for the price inquiry.

In September 2006, the CSRC issued the “Measures for Administration of Securities Issuance and Underwriting” to perfect the price inquiry system. In addition, the mechanisms of market-value-oriented additional stock issuance and share allotment failure of listed companies were introduced.

III Impact of Issuance Mechanism Reform on the Market

- The market-oriented issuance mechanism reform has achieved inspiring results: each market participant looks to his own work and takes his own responsibility. And, the market control as well as the market transparency and efficiency have been improved.
- The resource allocation of market has functioned.

The new issuance mechanism encourages enterprises to go for listing. Since 2005, the market has witnessed the soaring number of new listed companies and their financing amount. In 2007, 115 companies issued new stocks on the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE), with the IPO financing amount of RMB454 billion (as the highest one in the world markets).

III Impact of Issuance Mechanism Reform on the Markets (Continued)

The listing conditions of large-scale enterprises, created by the issuance mechanism reform, have enabled a large number of financial and infrastructural companies to issue stocks for listing. The companies' financing needs have been met, and the structure of listed companies has been vigorously improved as well, thus laying a foundation for the long-term sound development of the securities market.

It has become more convenient for the financing of medium and small enterprises. The new issuance mechanism has also created a direct financing channel for medium and small non-state-owned companies to meet their capital needs. Since 2005, more than 270 medium and small enterprises have been listed on the SZSE.

III Impact of Issuance Mechanism Reform on the Markets (Continued)

- The market culling mechanism has played an important role in improving the quality of listed companies.

Due to the new issuance mechanism, the corporate governance and independence, the quality of information disclosure and the market efficiency have been remarkably improved, with much less horizontal competitions and connected transactions.

III Impact of Issuance Mechanism Reform on the Markets (Continued)

- Having realized the price discovery function.

Thanks to the price inquiry system, the priced value is much closer to the actual stock value and the estimated market value in the new stock issuance, and the prices of the new stocks no longer fall below their issuance prices after listing. We have protected the interests of investors and lifted their confidence.

The price inquiry system has realized the difference pricing, considerably promoting the enterprises with new economic modes (such as banks, insurance companies, IT companies, etc.) to issue stocks for listing.

III Impact of Issuance Mechanism Reform on the Markets (Continued)

- Having promoted the product and technology innovation and provided diversified investment and financing channels.

In the large-cap stock IPO, the strategic allotment has been extensively applied. Besides, the “Green Shoe” has been initiated, and the “A+H” issuance mode has become perfect as well.

There have been diversified and flexible refinancing modes for listed companies. On the basis of share allotment and public additional share issuance, such new financing modes as the targeted additional share issuance and warrants have been added to the financing by equity; the financing by creditor’s right has grown very fast, and the convertible bonds, the convertible bonds of detachable trading and corporate bonds are popular with the listed companies and the investors.

III Impact of Issuance Mechanism Reform on the Markets (Continued)

- The practicing quality of securities companies has been improved.

The internal resource integration in the securities companies has been accelerated, with their core competence and practicing quality greatly enhanced. In addition, their capabilities of research, underwriting organization, marketing and pricing have been remarkably improved.

The market structure has been optimized by market competition, and the excellent securities companies have gradually grasped the market share and the core resources. Moreover, the preliminary market competition order has formed in the investment banking industry .

IV Conclusion

The China's capital market is an emerging and transitional one, so the issuance mechanism reform has a long way to go. We will adhere to the market-oriented reform and boost the market-oriented regulation over the securities issuance for a sound capital market.

Thanks!

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