

CHINA'S SECURITIES MARKET

I. OVERVIEW

Since the establishments of Shanghai and Shenzhen Stock Exchanges in 1990, China's securities market has been advancing step by step, with gradually improved market proficiency and growing market functions. The securities market has become an important component of economy in China.

By the end of June 2003, totally 1,250 companies had been listed in Shanghai and Shenzhen Stock Exchanges, including 111 B shares issuers. The total share capital amounted to 611 billion shares with a market capitalization of RMB 4162.953 billion yuan (roughly equivalent to 300 billion pounds), of which the tradable market capitalization reached RMB 1345.438 billion yuan. The total raised capital amounted to 704.487 billion yuan. Meanwhile, 81 H shares, which were issued by Chinese companies in Hong Kong or other overseas stock exchanges, raised about US\$21.121 billion in total. In addition, 71 red-chips, which were issued in Hong Kong by Chinese offerors with oversea-registered companies, raised about US\$44.02 billion.

Market intermediaries are growing constantly as well. By the end of May 2003, there were 131 securities companies with over 2,900 branches. Their total assets summed up to RMB 570 billion yuan. The 21 fund management companies were running 75 securities investment funds with a total scale of RMB 129.286 billion yuan. The total assets of 189 futures brokerage companies amounted to RMB 19.06 billion yuan. The essential assortments in the securities market such as stocks, securities funds, bonds and commodity futures have by and large taken shape and the product innovation is now advancing step by step.

After over a decade's development, China's securities market has established a multi-level legal framework with the *Company Law*, *Securities Law* and *the Provisional Rules on Futures Trading* as its core supplemented by administrative rules, regulation and other enforceable regulations.

The steady growth of China's securities market facilitates the establishment of modern corporate system and strongly supports China's economic growth. The corporate governance of listed companies has been improved to larger extent, while the market entry and de-listing mechanism has been improved. Meanwhile, the mergers & acquisitions in the capital market speed up the consolidation between capital and technology, optimize the allocation of financial resources, and accelerate the adjustment of economic structure. Besides, the internal control of intermediaries such as securities companies and self-regulatory bodies has reached a reasonable level.

II. FULFILLING CHINA'S SECURITIES SERVICES UNDERTAKINGS UPON WTO ACCESSION

Ever since its accession into WTO in December 2001, China has been actively fulfilling its undertakings on securities services sector and promulgated a series of implementing rules and regulations:

1. *The Measures on the Administration of Stock Exchanges (Revised Version)* was promulgated in December 2001. Thereafter, Shanghai and Shenzhen Stock Exchanges in July 2002 respectively issued their *Provisional Rules on the Administration of Overseas Special Members*, which granted special membership to China-based representative offices of foreign securities firms. By the end of June 2003, Shanghai and Shenzhen Stock Exchanges respectively had 3 special members.

2. Shenzhen and Shanghai Stock Exchanges also issued rules on B share trading seats for overseas institutions in June and July 2002 respectively, which allowed overseas institutions to directly trade B shares (skipping Chinese brokerage houses). By the end of June 2003, Shanghai and Shenzhen Stock Exchanges respectively had 41 and 20 authorized overseas institutions trading B shares directly.

3. On the 1st of June in 2002, the CSRC promulgated *the Rules on Establishing Securities Companies with Foreign Shareholdings* and *the Rules on Establishing Fund Management Companies with Foreign Shareholdings*, which came into force one month later on the 1st of July in the same year. In accordance with these *Rules*, two securities firms with foreign shareholdings up to 33% had been licensed, namely China Euro Securities Limited and Changjiang BNP Paribas Peregrine Securities Co. Ltd. Meanwhile, 6 fund managers with foreign shareholdings had been licensed as well, including China Merchants Fund Co. Ltd. and Fortune SGAM Fund Management Co. Ltd.

4. Given the non-convertibility of Chinese currency under capital account, Qualified Foreign Institutional Investors (QFII) since December 2002 are given access to China's securities market as a kind of transitional measure to attract foreign portfolio investment and to open up China's capital market to a certain extent.

III. SUPERVISION PRIORITIES FOR A PERIOD AHEAD

As an emerging market in a transitional economy, securities market in China has large room for improvements. In order to push forward reforms, opening up and steady developments of the capital market, at present and for a period ahead, emphasis should be put on the following aspects:

First, to consolidate the market infrastructure buildup and to perfect the legal system for capital market. We will cooperate actively and closely with the legislative bodies to accelerate the formulation and revision of related laws and regulations; at the same time, learn from international experience to improve the operational rules for capital market and the codes of conducts for market participants so as to build up a clear, complete and multi-level system of professional conducts.

Second, to earnestly cultivate a culture of fiduciary duty. We, together with other government bodies, will nurture a culture of fiduciary duty, facilitate the concepts of mutual trusts in securities and future markets and try to establish an effective mechanism by encouraging faithfulness, protecting legal interests and penalizing the conducts of faithlessness.

Third, to improve the qualities and standard operations of listed companies. By perfecting laws and regulations and in line with the transformation of government functions, we will urge listed companies to set up a corporate governance structure with the check and balance of rights as core and to disclose information in a truthful, accurate, complete, timely and effective manner. Through restructuring and delisting mechanism, we will strengthen supervision over the controlling shareholders and real controllers of listed companies, and facilitate the survival of the fittest in order to ensure our listed companies attractable to foreign investors.

Fourth, to improve the corporate governance, internal compliance and code of conducts of market intermediaries. We will open up the financing channel for securities intermediaries, effectively prevent and defuse financial risks and improve the overall quality and competitiveness of securities companies.

Fifth, to improve and perfect the functions of securities market. We will vigorously nurture institutional investors, link up the connection channel between currency market and the securities market, improve the stratum and products structures in order to meet the different needs of market participants and enhance capacities of the securities market in resource allocations.

Sixth, to intensify efforts on investor education and improve measures on investor protection. The active participation of investors is fundamental to the effective functioning of the securities market and investor confidence is built on the explicit and transparent supervision framework and high-quality market. So we will gradually perfect our investor protection scheme.

Finally, to enhance cooperation with overseas securities regulators. The development of the rationalization, collectivization and globalization of world economy may exacerbate

the spread of securities market risks globally apart from facilitating the issuing and trading of securities and dispersing risk. Therefore, China Securities Regulatory Commission will earnestly strengthen its cooperation with overseas counterparts. We would like to exchange market regulatory experiences with foreign financial regulators such as HM Treasury and FSA and provide assistance to each other so as to defuse financial risks.

Table 1-1 Summary of China's Securities and Futures Markets (1992-2002)¹

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total shares issued (100 million shares)	68.87	387.73	684.54	848.42	1219.54	1942.67	2526.79	3088.95	3791.71	5218.01	5875.45
Tradable shares (100 million shares)	21.18	107.88	226.04	301.46	429.85	671.44	861.94	1079.65	1354.26	1813.17	2036.90
Total capital raised (RMB 100 million yuan)	94.09	375.47	326.78	150.32	425.08	1293.82	841.52	944.56	2103.08	1252.34	961.75
Total stock market cap. (RMB 100 million yuan)	1048.13	3531.01	3690.61	3474.28	9842.38	17529.24	19505.64	26471.17	48090.94	43522.20	38329.12
Market cap. of tradable shares (RMB 100 million yuan)		861.62	968.89	938.22	2867.03	5204.42	5745.59	8213.97	16087.52	14463.17	12484.55
Total stock trading volume (100 million shares)	37.95	234.22	2013.34	705.47	2533.14	2560.79	2154.11	2932.39	4758.40	3152.29	3016.19
Total stock turnover (RMB 100 million yuan)	681.25	3667.02	8127.63	4036.47	21332.16	30721.84	23544.25	31319.60	60826.65	38305.18	27990.46
Number of listed companies-A, B shares	53	183	291	324	530	745	851	949	1088	1160	1224
Number of stock investment accounts (10,000)	216.65	777.66	1058.98	1242.47	2307.23	3333.33	3911.13	4481.19	5801.14	6650.42	6881.76
T-bonds Issued (RMB 100 million yuan)	460.78	381.31	1137.55	1510.86	1847.77	2411.79	3808.77	4015.00	4657.00	4884.00	5934.30
Corporate bonds Issued (RMB 100 million yuan)	683.71	235.84	161.75	300.80	268.92	255.23	147.89	158.2	83	147	325
Bonds trading volume (1 million lots)				1006.61	1742.97	1617.32	2031.61	1707.16	1979.79	2047.07	3292.52
Bonds turnover (RMB 100 million yuan)				18039.35	16476.89	21661.78	18284.12	19119.16	20417.76	33249.53	
T-bond spot turnover (RMB 100 million yuan)	7.1276	61.02	468.37	775.20	5029.24	3582.75	6059.95	5300.87	4157.49	4815.59	8708.68
T-bond repurchase turnover (RMB 100 million yuan)	0.00	0.42	75.78	1248.52	13008.64	12876.06	15540.84	12890.53	14733.68	15487.63	24419.64
Futures trading volume (1 million lots)		8.91	121.11	636.12	342.57	158.76	104.46	73.64	54.61	120.46	139.43
Futures turnover (RMB 100 million yuan)		5521.99	31601.41	100565	84119.16	61170.66	36967.24	22343.01	16082.29	30144.98	39490.28
Number of securities investment funds							6	22	34	51	71
Total units of securities investment funds (100 million)							120	510	562	804.23	1318.85
Turnover of closed-ended funds (RMB 100 million yuan)							555.33	1623.12	2465.79	2561.88	1166.58

¹ All data in this brochure are sourced from *China Securities and Futures Statistical Yearbook (2003)*. Blanks in the charts represent that data are not available or existing. For the data related to shares, both A shares and B shares are covered.

