The Second International Roundtable on Securities Markets in China

Draft Agenda

Shanghai, China
6-7 June 2002
The Second International Roundtable on Securities Markets in China

6-7 June 2002
The St. Regis, Shanghai, China

Co-Chaired by
Mr. Wang Jianxi, Deputy Secretary General, CSRC
and
Mr. William Witherell, Director, Directorate for Financial, Fiscal and Enterprise Affairs, OECD

AGENDA

Day 1
Thursday, 6 June 2002

8.30 - 9.00 Participants Registration

9.00 - 9.30 Opening Session

Opening remarks:
• Mr. Zhou Xiaochuan, Chairman, CSRC (to be confirmed)
• Mr. Geng Liang, Chairman, Shanghai Stock Exchange
• Mr. Nobuyuki Sugimoto, Consul General, Consulate-General of Japan, Shanghai
• Mr. Seiichi Kondo, Deputy Secretary General, OECD

9.30 - 10.15 Session 1: Overview of Development of Chinese Securities Markets

Presentations:
• China’s entry to WTO and its implication for the development of Chinese securities markets -OECD study-
  Mr. John Thompson, Financial Counsellor, OECD

• Global market trend and its impact on Chinese securities markets
  Mr. Pu Yonghao, Senior Economist, Greater China, Strategy and Economics Department, Nomura International (Hong Kong) Ltd.

• Prospects for Chinese securities industry after China’s entry to WTO
  Mr. James Liu, Vice President, Shanghai Stock Exchange

10.15 - 10.45 General Discussion

10.45 - 11.00 Coffee break
11.00 - 12.00  **Session 2: Building A Domestic Institutional Investor Base**

**Part A: The Role of Institutional Investors for Developments of Securities Market**

**Presentations:**
- **Investment strategy of insurance company in China**
  Ms. Gao Yan, Director, Fund Management Division, Accounting Department, CIRC

- **Developing institutional investors in China: An overview**
  Mr. Yongbeom Kim, Senior Financial Economist, World Bank

- **The role of institutional investors for the sound development of securities markets and better corporate governance**
  Mr. James P. Rooney, President & CEO, Market Force, Inc.

- **Investment strategy of insurance company or pension fund**
  Mr. MW Chiu, BNP Paribas (to be confirmed)

12.00 - 12.30  **General Discussion**

12.30 - 14.00  Lunch hosted by the OECD

14.00 - 15.00  **Session 2: Building A Domestic Institutional Investor Base (continued)**

**Part B: Regulations on Institutional Investors**

**Presentations:**
- **Prospects of Chinese institutional investors and challenges to regulators**
  Mr. Qi Bin, Deputy Director-General, Fund Supervision Department, CSRC

- **Regulations on Institutional Investors -OECD experience**
  Mr. Stephen Lumpkin, Principal Administrator, OECD

- **Regulations on Institutional Investors -Asian experience**
  Prof. DoSoung Choi, Non-standing Commissioner, Securities and Futures Commission, Korea

- **Governance of Institutional Investors -OECD experience**
  Mr. John Thompson, Financial Counsellor, OECD

15.00 - 15.30  **General Discussion**

15.30 - 16.00  **Coffee break**
16.00 - 17.30  Session 3: Effective Enforcement of Regulations

Presentations:
- *China’s strategy to enhance effectiveness of enforcement*
  Mr. Wang Chao, Deputy Director-General, Enforcement Bureau, CSRC

- *Challenges to effective enforcement of regulation in China*
  Ms. Shamshad Akhtar, Director, Finance and Industry Division, Asian Development Bank

- *Effective enforcement - US experience -*
  Prof. James Cox, Brainerd Currie Professor of Law, Duke University

- *Effective enforcement - Japanese experience -*
  Mr. Katsunori Mikuniya, Deputy Director-General, Planning and Coordination Bureau, Financial Services Agency, Japan

- *Effective enforcement - Australian experience -*
  Mr. Alan Cameron, Former Chairman of Australian Securities and Investments Commission

- *The role of exchanges in securing effective enforcement of regulation*
  Ms. Karen K. Y. Lee, Executive Vice President, Head - Listing, Regulation and Risk Management, Hong Kong Exchange and Clearing Ltd.

17.30 - 18.00  General Discussion

18.00   Conclusion of Day 1 Program

18.30   Reception hosted by the CSRC
Day 2
Friday, 7 June 2002

9.00 - 9.45 Session 4: Bond Market Development

Part A: Government Bond Market

Presentations:
- Challenges to the Chinese government bond market
  Mr. Liu Shian, Assistant President, Shanghai Stock Exchange

- Key policy issues in developing government bond markets
  Mr. Hans Blommestein, Secretary to the OECD Working Party on Public Debt Management, OECD

- The implication of government bond market development for the financial sector reform in China
  Prof. Ghon Rhee, Professor of International Finance and Banking, College of Business Administration, University of Hawaii

9.45 – 10.15 General Discussion

10.15 – 10.45 Coffee break

10.45 – 12.00 Session 4: Bond Market Development (continued)

Part B: Corporate Bond Market and Securitised Products

Presentations:
- Corporate bond market in China -current situation and prospects-
  Mr. Wang Kaiguo, Haitong Securities Cooperation Ltd.

- Experience on corporate bond markets development and its regulation from developed countries
  Mr. Simon Jin, Executive Director, Head of Fixed Income Business, China, UBS Warburg

- The role of corporate bond in a bank dominating corporate financing market
  Prof. Changyong Rhee, Associate Professor, Department of Economics, Seoul National University

- Legal framework, regulation and other necessary infrastructure including rating agencies
  Ms. Karin Finkleston, Country Manager for China and Mongolia, International Finance Corporation

- Prospects for securitised products (ABS, MBS)
  Mr. Stephen Lumpkin, Principal Administrator, OECD
12.00 – 12.30  General Discussion

12.30 – 14.00  Lunch hosted by the CSRC

14.00 – 15.00  **Session 5: Financial Futures Markets**

**Presentations**
- *China’s strategy to create financial futures markets and challenges to regulators*
  *Mr. Yang Maijun*, General Director, Futures Supervision Department, CSRC

- *The futures markets in China*
  *Mr. Jiang Yang*, General Director, Shanghai Futures Exchange

- *Development of the futures markets after China’s accession to WTO*
  *Mr. Tian Yuan*, Chairman of China Futures Association

- *Proper indexes formation*
  *Dr. Sheldon Gao*, Senior Director, Global Research, Dow Jones Indexes

15.00 - 15.20  Coffee break

15.20 - 16.35  **Presentations (continued)**

- *The role of financial futures markets and proper regulation*
  *Dr. Paula Tosini*, Executive Vice President and Director, Institute for Financial Markets

- *Lessons from US experience*
  *Mr. Richard Shilts*, Acting Director, Division of Economic Analysis, Commodity Futures Trading Commission

- *Lessons from Australian experience*
  *Mr. Alan Cameron*, Former Chairman of Australian Securities and Investments Commission

- *Lessons from Japanese experience*
  *Mr. Tetsuo Yamada*, Director, Research and Development, Sigma Base Capital

- *Development of financial futures markets in Asia -the experience of SGX-
  *Mr. Swee Tian Ang*, President, Singapore Exchange Limited

16.35 - 17.05  General Discussion
17.15 - 18.00 **Concluding Session**

a. Summary of discussion
   **Mr. Masaaki Kaizuka**, Principal Administrator, OECD

b. Future work

c. Concluding remarks
   **Co-Chairmen**

18.00 **Conclusion of Day 2 Program**
The Second International Roundtable on Securities Markets in China
The St. Regis, Shanghai, 6-7 June 2002

Notes to the agenda and issues for discussion

The Second International Roundtable on Securities Markets in China, co-hosted by the China Securities Regulatory Commission and the OECD, will take place in Shanghai on 6-7 June 2002. The discussion will focus on various issues concerning the development of capital markets, including 1) Building a Domestic Institutional Investor Base, 2) Effective Enforcement of Regulations, 3) Bond Market Development and 4) Financial Futures Markets, which are challenges to the Chinese regulatory authority in the face of the acceleration of financial sector liberalisation associated with China’s entry into the WTO.

The meeting will start on June 6 at 9:00 and finish on June 7 at 18:00.

In each session, speakers will make a presentation of about 15 minutes, followed by 30 minutes of general discussion. In the last session, the OECD secretariat will summarise the two-day discussion and the future work of the International Roundtable will also be discussed.

Session 1: Overview of Development of Chinese Securities Markets

This session will review recent development in the securities market, financial service provides and regulations as well as long term structural issues in China. The OECD has just completed a comprehensive study on the implication of trade and investment liberalisation on various sector of the Chinese economy (e.g. labour markets, finance, agriculture, trade). The study includes a chapter on the capital market and another on financial supervision. The presentation of the OECD study will summarise the findings and recommendations of the report while touching upon the commitments by China under the agreement of the WTO in the field of securities markets or more broadly in the financial services sector and its implication for the development of the Chinese markets and regulations. Recent trends in international capital markets and their implication for China will be also discussed, since the Chinese capital market will inevitably be integrated in the global market gradually.

Issues for discussion

- What were the most important areas for reform identified in the OECD study of the Chinese capital market and how do these compare with other recommendations for reform? How do the Chinese authorities and Chinese experts see the priorities for reform?

- What are the implications of the commitments by China under the WTO agreement regarding its financial services sector? Given the acceleration of the liberalisation after the WTO entry, what are the most challenging tasks for the regulators? In what area can further steps beyond the agreement be expected or be recommended? Does the opening of the market entail any systemic risk?

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1 In October 2000, the OECD and the CSRC co-organized the first International Roundtable on Securities Market in China. It was appreciated as a very successful event by many of the participants. The record of the first meeting can be found in the OECD website with the following address.
http://www1.oecd.org/daf/financial-affairs/non-members/recentevents.htm#ChinaSecMarkets
• China’s domestic securities firms are still quite small in comparison with their foreign counterparts while their main sources of income are brokerage and underwriting services, rather than more sophisticated products offered by securities firms in advanced markets. How should foreign participation in the market be accommodated to introduce competitions into the market and broaden the array of financial products and services? How will domestic securities firms adapt to the more competitive markets?

• How will the global trend of financial markets influence the Chinese market? What are foreseeable impacts of the global financial market development on the reform process in the Chinese securities market?

Session 2: Building A Domestic Institutional Investor Base

China’s securities markets are dominated by individual investors. Most individual investors lack sophisticated investment technique or strategies and are very speculative in their investment behavior. The lack of a core of traditional long-term investors could be a destabilizing factor in the market in the sense that there could be periods of illiquidity. To provide a more stable base of support for the market, the development of an institutional investor sector is one of the top priorities for securities market reform in China. There are a number of authorized closed-end investment funds and open-ended funds were recently authorized. Other forms of institutional investment, such as insurance companies and pension funds are still not significant market players. This session will discuss what is the expected role of institutional investors and how a sound domestic institutional investor base and proper regulatory framework can be established.

Issues for discussion

• What is the role of institutional investors in the development of sound securities markets? Under what conditions do institutional investors contribute to enhanced corporate governance of listed companies?

• Does the current situation of securities market in China, which characterised by a lack of institutional investors, have implications for the soundness of the securities market? What are the most significant recent developments related to institutional investors in China? Are the newly introduced open-ended funds functioning well?

• What are the prospects for insurance companies and pension funds as potential institutional investors? How do the roles of insurance companies or pension funds, which tend to have long-term investment strategies, different from those of other categories of institutional investors?

• How do regulatory regimes or frameworks for institutional investors differ from country to country? Is there any optimal regime or framework? What would be the best model for the regulation of institutional investors in China? How can the current grey funds be properly regulated? How can the relevant regulatory authorities cooperate and coordinate their regulations on institutional investors?

• What lessons regarding the governance of institutional investors can be drawn from the experience of OECD countries? How can the issue of governance of institutional investors be properly addressed in China?

Session 3: Effective Enforcement of Regulations
The International Organisation of Securities Commission’s (IOSCO’s) Objectives and Principles of Securities Regulation clearly state that “the regulator should have comprehensive enforcement power.” However, in China, it has been pointed out that even where needed laws and regulations are in effect, the regulatory authorities lack power to enforce those laws and regulations effectively, which is one of the most serious shortcomings of the system of securities regulation. Clearly, supervisory authorities should be given broad enforcement powers to effectively and efficiently perform their duty. The authorities need to acquire the necessary expertise to enhance their practical capability for effective enforcement of the regulations. They also need sufficient political support to act independently, since many companies have established a connection with local governments and ministries. This session will review the current situation of enforcement powers and scope of the relevant supervisory authorities and discuss how effective enforcement of regulations can be secured.

Issues for discussion

- What is the current situation concerning enforcement of laws and regulations in China? Do the regulators lack necessary independence to carry out their tasks? Does basic legislation still need to be enacted? Are existing regulations adequate? How can the challenges of ensuring regulations, human and financial resources be addressed?

- In order to ensure effective enforcement of regulations in securities markets, stock exchanges, professional associations and other self-regulatory organisations (SROs) typically play an important role in well-advanced markets. What is the proper division of responsibilities between the regulatory authorities and the stock exchanges? How can the authorities and the exchanges cooperate or coordinate their actions for the better enforcement of regulations? How does China measure up to international practice and what must China do to narrow the gap? How can international practice be adapted to the particular conditions in the Chinese market? What role can other SROs including industry associations play in China?

- Shareholders’ monitoring and activism can be expected to play a role in effective oversight of the corporate sector. What are the current situation and prospects in China? How can shareholders’ education be improved? An effective judicial system is also a key ingredient for the effective enforcement of regulation and shareholders’ activism. What are the most important priorities in enabling the judicial system to provide better enforcement? What other preconditions must be met to enable shareholders to monitor companies effectively?

Session 4: Bond Market Development

Compared with the rapid progress and growth of its equity market, bond market development in China has lagged behind. China’s bond market is dominated by government and quasi-government issues. The government bond market is still suffering from low liquidity, limited diversification of products and lack of an efficient yield curve. The corporate bond market is in its infancy since bank finance has dominated the corporate finance market. Rating agencies have not been functioning well partly due to insufficient disclosure of information. Securitised products such as asset-backed securities (ABS) or mortgage-backed securities (MBS) have not yet come into existence in China, although they may have great potential. Likewise, there may be potential to develop a mortgage bond market. This session will review the current situation of bond markets identifying obstacles for their sound development and discuss the future prospects and challenges in the process of building functioning bond markets.

Issues for discussion
- Taking into account expected growing issuance of government bond for deficit financing purposes reflecting the government’s macroeconomic policy, what have been the main areas of progress in modernising the government bond market and what challenges remain? How can an efficient yield curve be structured in the Chinese market?

- How have OECD countries established and maintained a liquid government bond market? How can Chinese authorities increase the liquidity of the government bond market? What are the responsibilities of the various government agencies in the bond market? How can the related authorities cooperate and coordinate their activities to ensure a well functioning bond market in China? What are the prospects for local government bonds or financial bonds? How can they contribute to the overall bond market development?

- What are the necessary conditions for development of a well functioning corporate bond market? What particular problems are encountered in China where bank finance has traditionally played the dominant role in corporate finance? Are the responsibilities of the various parties (i.e. enterprises, central and local governments and banks) sufficiently clear? How can the role of rating agencies be clarified and strengthened in China?

- What are the prospects for securitised products including ABS or MBS? What are the prospects for mortgage bonds? What are the necessary conditions for the sound development of those products?

**Session 5: Financial Futures Markets**

Many observers of the securities market in China believe that there is a need for an effective financial futures market. Financial futures markets facilitate the sound development of securities markets through activating trading and by reallocating risk among market participants. By offering possibilities to transfer risk, futures markets will contribute to strengthening the risk management capability of the players in cash markets as well. Many exchanges in the US, Singapore and Hong Kong are studying China’s stock index futures. This session will review the role of financial futures markets and their impact on related spot markets. Discussion will cover the importance of proper regulation that prevent fraudulent activities and excessive fluctuations of in cash and futures markets.

**Issues for discussion**

- What is the role of financial futures in securities market development? Under what conditions financial futures stabilise and/or destabilise the cash market? How can the authorities lessen the risk that futures trading will destabilise the market? How should stock market index be constructed to reflect the overall market situation accurately? What impacts would introduction of stock index futures to Chinese market have on other markets in Asia? What lessons were learned from China’s experience with bond market futures?

- What are the prospect for the development of an OTC derivatives market? Is there some possibility that trading in derivatives on Chinese securities will migrate offshore?

- Financial futures should enhance the risk management capability of market participants. However, they can also introduce new risks into the market and these risks might be enlarged by highly leveraged products. How should and could the risk management of market players be ensured? What

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2 There used to be futures market for government bonds but it was abolished since a lot of fraudulent activities had been conducted in the market.
is an appropriate way to protect investors while ensuring a sound development of financial futures markets?