

# **THE REFORM AND DEVELOPMENT OF CHINA'S BOND MARKET**

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## The Development of China's Bond Market

**Before the Asia financial crisis, China's bond market was in its early stage**

- Commenced in 1981 as the resumption of treasury bond issuance.
- In mid and late 1980s, piloted circulation of treasury bonds were practiced with many local bond trading.
- In 1995, bond tradings were centralized in the exchanges
- In June 1997, commercials banks were driven out of exchanges market

**After the Asia financial crisis, China's bond market stepped into a healthy track**

- The Inter-bank and exchange bond market complement each other.
- Bond Market infrastructure strengthened
- Bond issuance has been based on market principle
- Macroeconomic steering has been based on market principle too
- However problems remained

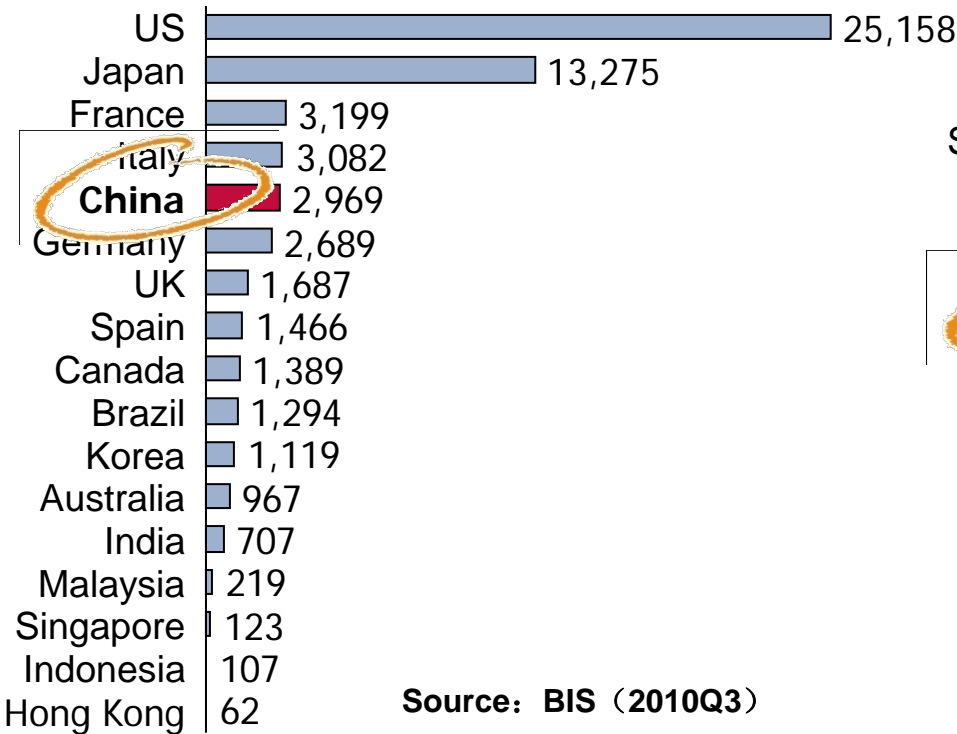
**Since 2004, fast development of bond market has been achieved**

- Lessen administrative approval and improve market-oriented bond issuance system.
- Strengthen market constraints.
- Encourage market self-regulation

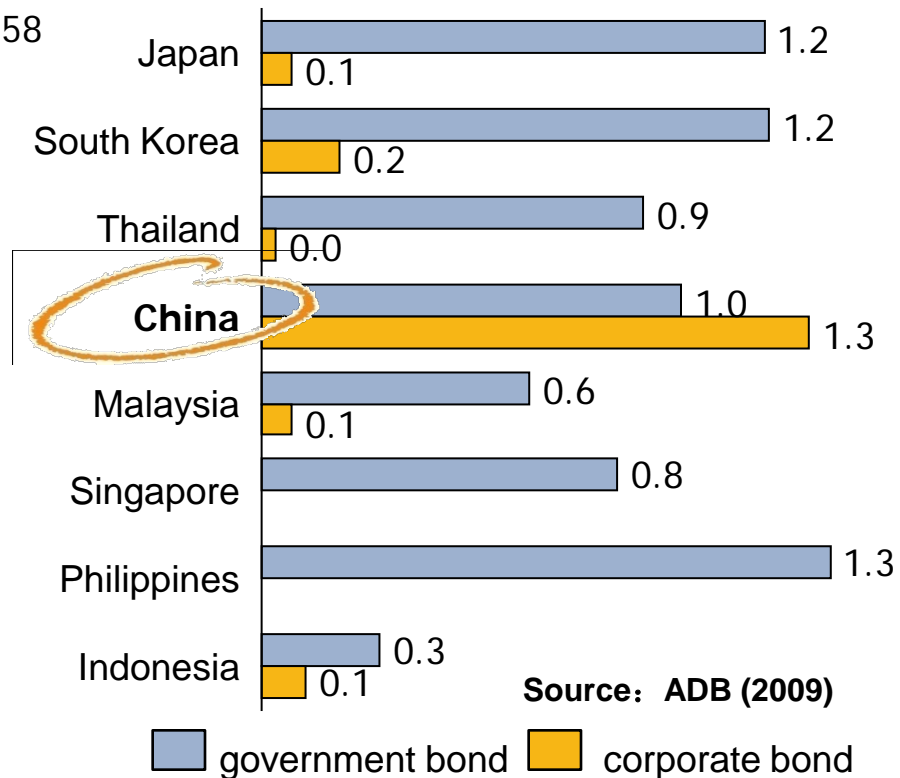


# Fast development of bond market has been achieved Since 2004...

The Scale and Rank of Bond Market by Country and District  
Unit: Billion USD



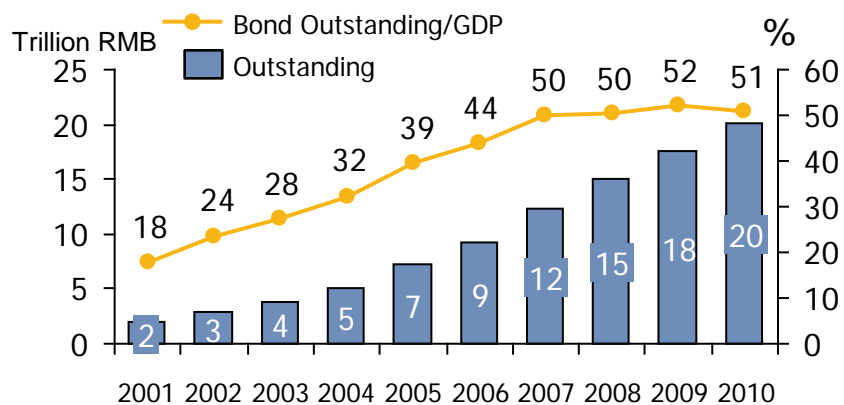
Turnover Ratio of Bond Markets  
in Asian Countries



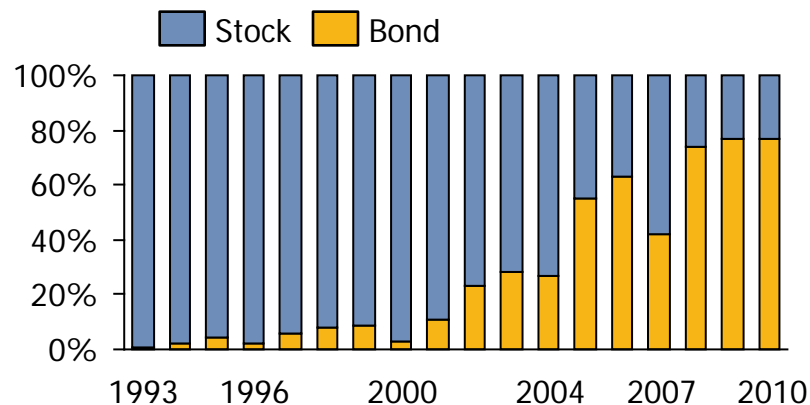


# ...Fast development of bond market has been achieved Since 2004

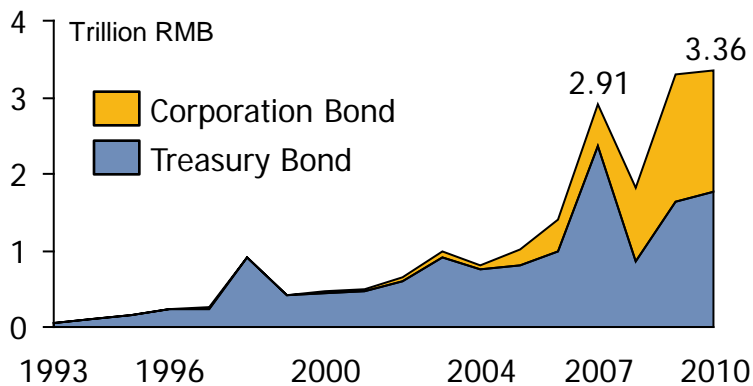
China's Bond Market Outstanding and its proportion to GDP



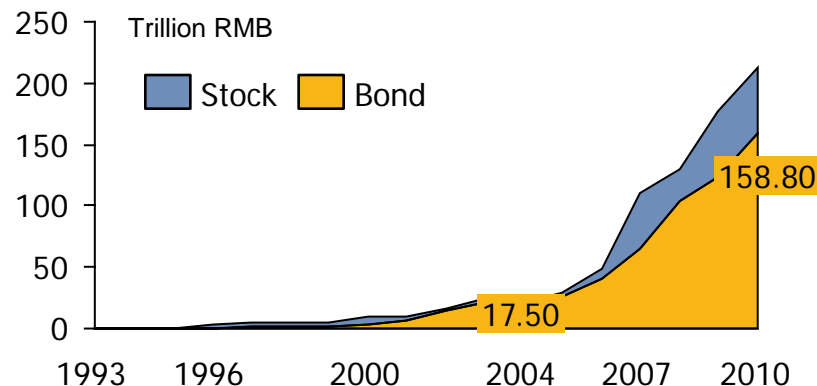
The proportion of direct finance: Bond v.s Stock



Issuance Volume Growth of China's Bond Market



Transaction Volume in bond and stock market



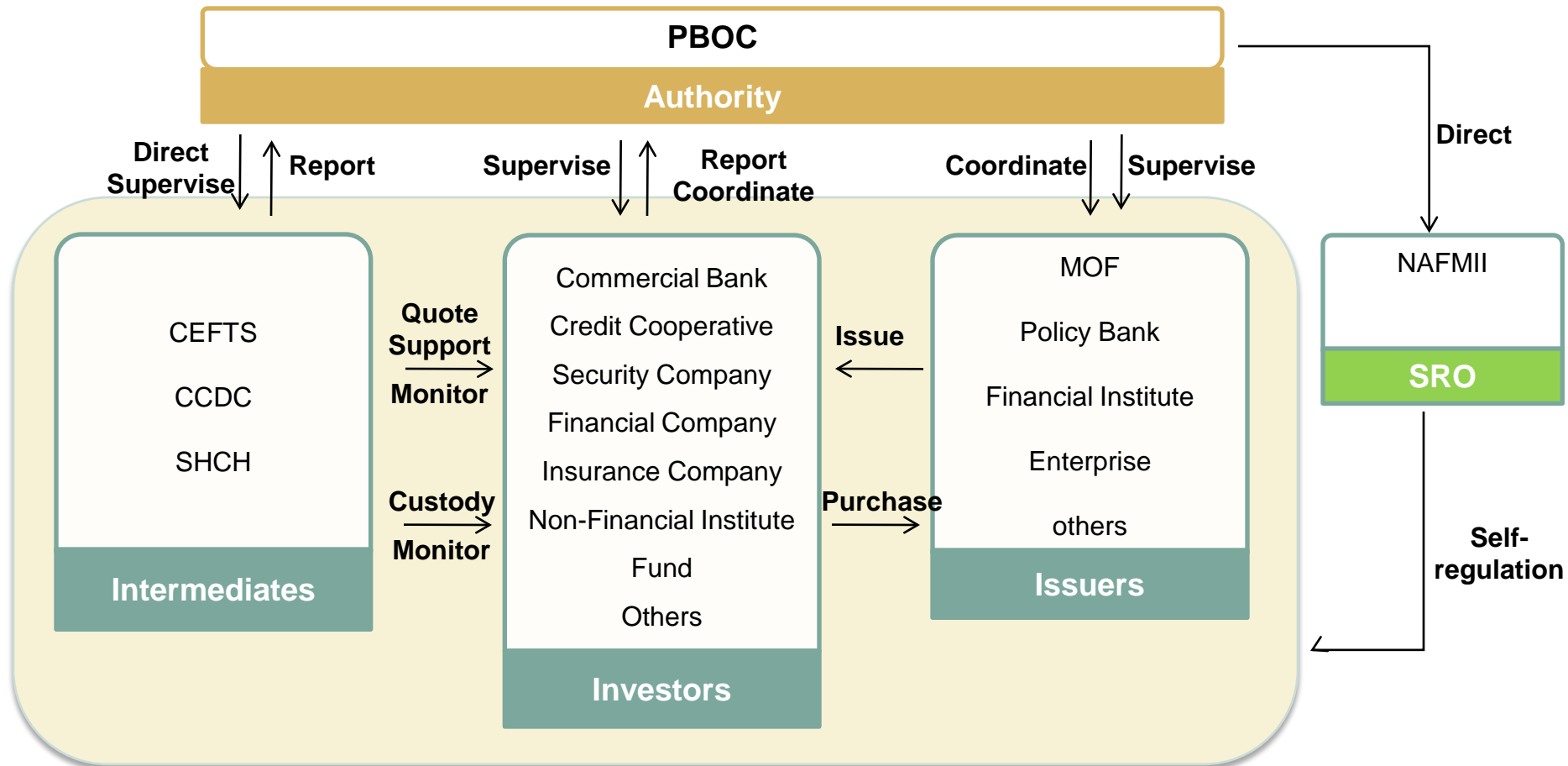


## Basic Framework of China's Bond Market

	<b>INTERBANK MARKET</b>	<b>EXCHANGE MARKET</b>
<b>REGULAR INSTRUMENT</b>	PBOC Cashbond, Collateral Repo, Outright Repo, Forward	CSRC Cashbond, Standardized Bond Repo, Outright Repo
<b>TYPE</b>	Treasury Bond, Central Bank Bill, Policy Bond, Other Financial Bond, Subordinate Bond, Short Term Financing Bill, USD-Denominated Bond, International Development Institute Bond, ABS, MTN and etc	Treasury Bond, Enterprise Bond, Convertible Bond, Corporate Bond
<b>INVESTOR</b>	Financial Institution, Non-Financial Institution, ABF2, Three types of overseas institutions	Financial Institute, Enterprise, Individual, QFII and etc.
<b>TRADING MODE</b>	Quote-driven	Order-driven
<b>CUSTODIAN</b>	CCDC, SHCH	CSDCC



# Regulatory Framework of Interbank Bond Market





# Opening-up of Bond Market

Allow qualified international development institutions to issue RMB bonds in the onshore market

Allow three types of overseas institutions to invest in the Interbank market

Allow domestic financial institutions to issue RMB bonds in Hong Kong

**RMB Bond Issuance by International Development Institutions**

Issuer	Amount ( Billion RMB)	Issuance Date	Term
IFC	1.13	2005.10.14	10Y
	0.87	2006.11.15	7Y
ADB	1	2005.10.14	10Y
	1	2009.12.04	10Y
<b>Total</b>	<b>4</b>	-	-

**HK RMB Bond Issuance by Domestic Institutions**

Year	Issuer	Amount ( Billion RMB)
2009	CDB	3
	BEA (China)	4
	HSBC (China)	3
2010	MOF	6
	CDB	5
	EXIMB	5
	BOC	5
	MOF	8



## Future Direction

Adhere to the Market-Oriented Reform

Deregulation

Target Qualified Institutional Buyers (QIBs)

QIBs are better prepared to invest in bond market for their better capability to identify, to bear and to deal with risk

Focus on Promoting OTC Market

OTC market is more suitable for QIBs

- Large amount for a single trade, various trading needs
- Corporate bonds are very diversified, hard to trade through order-driven system
- Active innovation makes OTC market a better suit





## Future Direction

### Improve Market Infrastructure

- To realize STP between trading and settlement
- To modify standards to ensure local standards converge with international standards
- To enhance transparency of market operation

### Develop Self-Regulatory Organizations (SROs)

- To promote innovation
- To Communicate with market participants, enhancing risk identification and risk sharing mechanism
- To improve policy environment

### Insist on the Opening-up Policy

- To broaden the usage of domestic FX
- To make use of experience from abroad to fasten the development of our market
- To encourage domestic institutions to participate in international competition
- To further complete RMB exchange rate formation mechanism