



Overview of NAFMII



*National Association of Financial Market Institutional Investors
September 2010*

Contents



- About NAFMII
- NAFMII and the Inter-bank Market
- Future Perspectives

About NAFMII



About NAFMII



NAFMII is:

A Self-regulatory Organization

formed by market

participants from the inter-bank bond market, inter-bank bills market, inter-bank lending market, inter-bank gold coin market, inter-bank foreign exchange market and inter-bank derivatives market

**under the direct
supervision of PBOC**

NAFMII's Positioning



- NAFMII explores a new and effective way for financial market management
- The special positioning of NAFMII enable it to:
 - ✓ Better understand and implement government regulatory policies
 - ✓ Fully involve market players to promote the development of financial market

Mission of NAFMII



Self-discipline



**Promote
Innovation**



**Provide
Service to
Market
Participants**

NAFMII's International Cooperation

Spain



EU



France



Germany



UK



Italy



Belgium

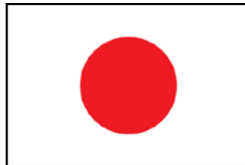
- Widely built relationship
- Constructive & Cooperative Relationship
- Globalization of Inter-bank Market



Netherland



Luxembourg



Japan



Korea



Malaysia



USA



Canada

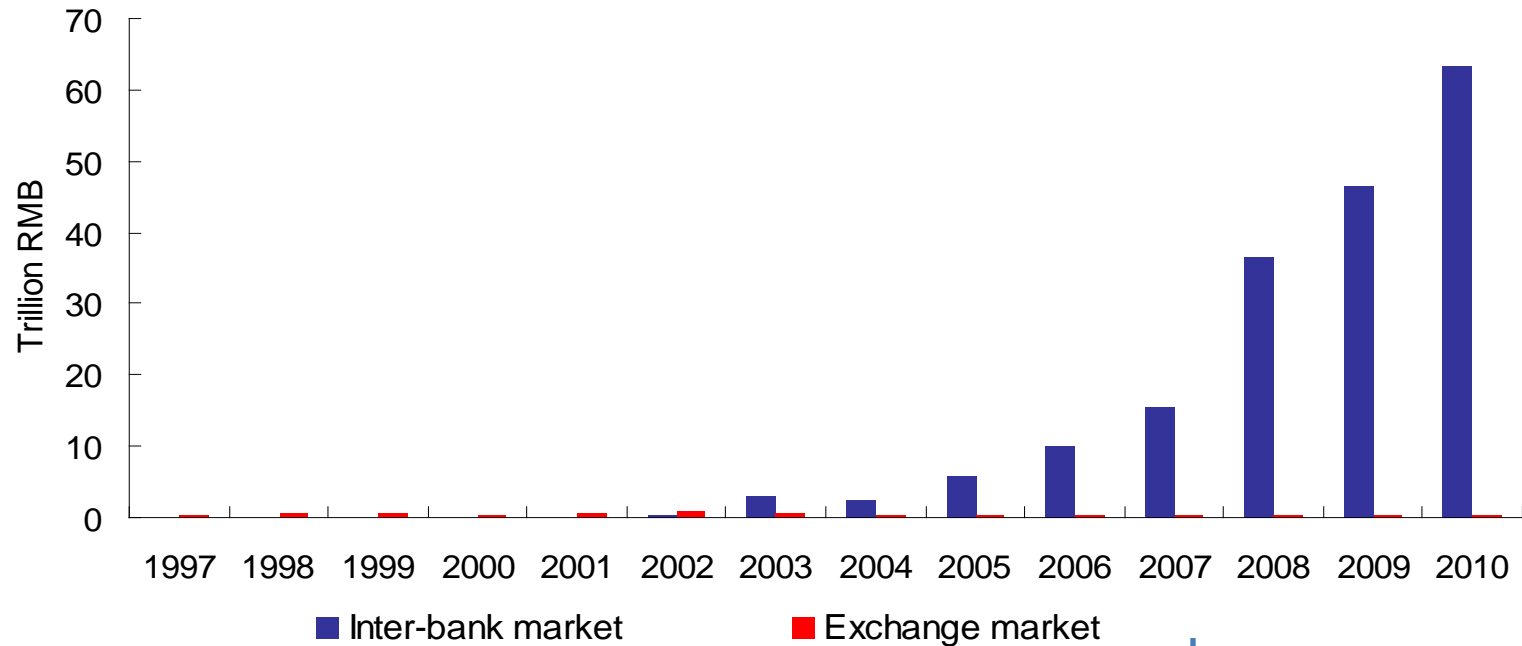
NAFMII and Inter-bank Market



NAFMII Is Making Differences



Inter-bank Bond Market Spot Trading Volume



NAFMII was established in September 2007

Major Breakthrough



Registration mechanism

- Adopting registration mechanism which offers debt issuers a higher degree of efficiency and flexibility in terms of approval process, use of the proceeds and allocating the best issuance window within a certain period of time

New Products

- The launch of Medium Term Notes (MTN), MTN with embedded options, MTN in US Dollar, and collective notes for SEMs
- The launch of CRM (credit risk mitigation) products in November, 2010
- The launch of SCP (super & short-term commercial paper)

Rules and Guidelines

- Primary inter-bank market: Rules on the Registration of Debt Financing Instrument, Commercial Paper Guidelines, Medium Term Note Guidelines, Due Diligence Guideline etc.
- Secondary inter-bank market: NAFMII Master Agreement (2009 version), Self-Discipline Guidelines for Intermediaries, Self-Discipline Guidelines for Market-Makers, Information Disclosure Rules etc.

Service

- Establishing effective communication mechanism between members , providing training courses in financial derivative products, underwriting businesses, and NAFMII Master Agreement etc.
- Up until April, 2011, 1827 market participants joined NAFMII's membership, which includes bank financial institutions, non-bank financial institutions, enterprises, legal and financial consultancy intermediary organizations, other institutions and individuals .

Major Breakthrough - Market Data

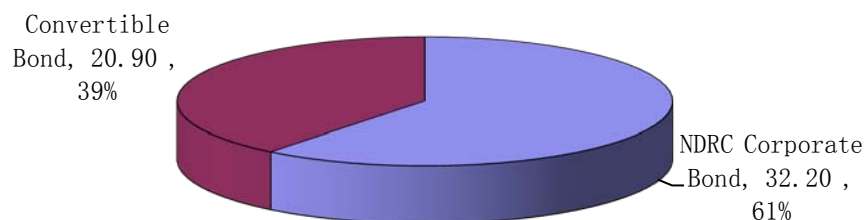


Issuance Amount of Non-financial Enterprise Debt Financing Vehicles (2004-2010)

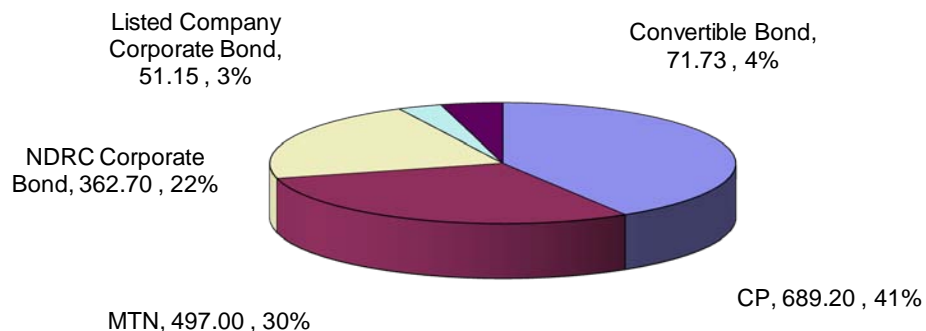
(Units: RMB billions, %)

	CP		MTN		NDRC Corporate Bond		Listed Company Corporate Bond		Convertible Bond		Total	
	amount	change	amount	change	amount	change	amount	change	amount	change	amount	change
2004	--	--	--	--	32.20	--	--	--	20.90	--	53.10	--
2005	145.30	--	--	--	65.40	103.11	--	--	0.00	--	210.70	296.80
2006	291.95	100.93	--	--	101.50	55.20	--	--	4.00	--	397.45	88.63
2007	334.91	14.71	--	--	170.94	68.41	11.20	--	10.65	166.25	527.70	32.77
2008	433.85	29.54	173.70	--	236.69	38.46	28.80	157.14	7.72	-27.51	880.76	66.91
2009	461.20	6.30	691.20	297.93	425.23	79.66	73.49	155.17	46.61	503.76	1697.73	92.76
2010	689.20	49.44	497.00	-28.10	362.70	-14.70	51.15	-30.40	71.73	53.89	1671.78	-1.53

Year 2004



Year 2010



Breakthrough – Market Data (Continued)

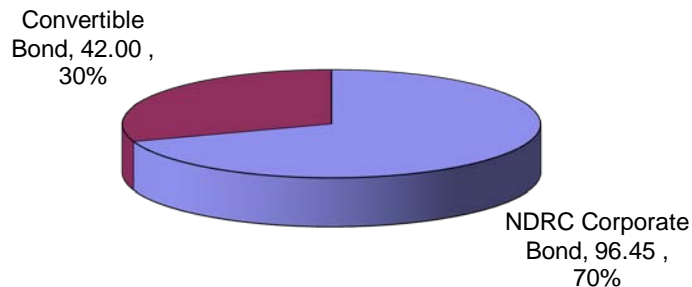


Outstanding Balance of Non-financial Enterprise Debt Financing Vehicles (2004-2010)

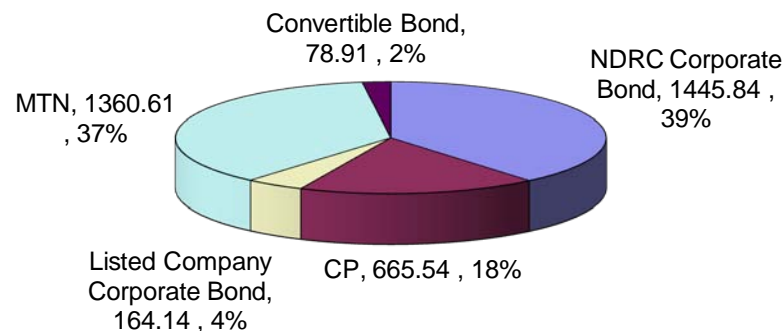
Units: RMB billions, %)

	NDRC Corporate Bond		CP		Listed Company Corporate Bond		MTN		Convertible Bond		Total	
	amount	change	amount	change	amount	change	amount	change	amount	change	amount	change
2004	96.45		0.00		0.00		0.00		42.00		1872.58	
2005	161.65	67.60	138.05		0.00		0.00		39.27	-6.50	2419.91	29.23
2006	283.95	75.66	257.56	86.57	0.00		0.00		34.90	-11.14	2980.30	23.16
2007	445.05	56.74	319.61	24.09	5.20		0.00		25.48	-26.99	3897.42	30.77
2008	682.55	53.36	419.31	31.19	40.00	669.23	167.20		24.70	-3.06	5439.15	39.56
2009	1091.98	59.99	449.61	7.22	103.84	159.60	864.97	417.32	13.48	-45.42	7479.50	37.51
2010	1445.84	32.41	665.54	48.03	164.14	58.07	1360.61	57.30	78.91	485.31	9535.39	27.49

Year 2004



Year 2004



Market Data (Summary)



PRODUCTS

- **NAFMII Master Agreement:**
 - By mid April, 2011, 100 institutions signed 1102 NAFMII Master Agreements (88 Japanese companies)
- **CRM**
 - CRMA: by Q1, 2011, 11 institutions entered into 23 deals with total nominal amount nearly 2 billion CNY
 - CRMW: 9 CRMWs with nominal amount of 740 million CNY
- **SCP**
 - By the end of March, 2011, 5 institutions registered for 270 billion CNY SCP quota in total, of which 106 billion CNY SCPs has been issued in 14 series, accounting for nearly 40% of registration quota.

MEMBERSHIP

- Until April, 2011, 1827 market participants joined NAFMII's membership
- **Japanese member:**
 - Mizuho Corporate Bank Ltd
 - Bank of Tokyo-Mitsubishi UFJ
 - Sumitomo Mitsui Banking Corporation
- **Korean members:**
 - Wooribank

Key Factors to NAFMII's Achievement



1

Developing inter-bank bond market and broadening institutional investor base as the primary goal

2

Market innovation + Risk management

3

Market-oriented approach

Future Perspectives



Challenges



Market Size and Liquidity

- Market size is relatively small; liquidity is relatively low in the bond market; channels for direct debt financing is yet to be broadened

Benchmark Interest Rate

- Current benchmark interest rate has failed to be an efficient and effective indicator of bond yield

Derivative Market

- Lack of derivative instruments to diversify risks

Participants Base

- Issuer base and investor base are limited

Credit Environment

- Credit rating industry is still in the initial stage of development

Regulatory Framework

- Existing laws and regulations need to be further adapted to market development

1

Innovation

2

Development

3

Standardization

4

Cooperation

Outlook - Measures



Market-driven Mechanism

- Promote credit evaluation system
- Enhance information disclosure mechanism
- build a market-based risk-sharing system

Market Innovation

- Product innovation: research into municipal bonds, high-yield bonds, asset-backed and mortgage-backed securities, REITs, and credit derivatives, and launch them in due course
- Mechanism innovation: formulating rules facilitating the overall market development

Enlarge Institutional Investor Base

- Broaden institutional investors base by introducing various types of investors with different risk preference and investing pattern into the bond market, so as to provide more liquidity
- Increase sophistication of institutional investors by offering training programs and improving corporate governance

Thank You!