

Supporting SMEs through Long-term Market-based Financing

date:2014-4-29

Speech by Song Liping, President & CEO of Shenzhen Stock Exchange at the IOSCO Growth and Emerging Market Committee Annual Meeting and Conference 2014

Thank you. It is an honor to be here. I would like to thank our hosts for their wonderful hospitality.

It is very important and timely to talk about the role of intermediaries in facilitating long-term financing through the capital market. In the wake of the 2008-2009 financial crisis, Western banks have been deleveraging to reduce risk exposure. In fact, deleveraging is a global trend. In China, high debt ratio has increased corporate and bank risk. Some listed companies are reporting debt/asset ratios above 60%. Some companies in traditional sectors are seeing their debt/asset ratio exceed 80%. It therefore has become important and urgent for Chinese companies to deleverage. This process allows the capital market to play an irreplaceable role in channeling funds to the real economy and mitigating risk concentrated in banks. As a result, market-based, long-term financing is as critical to sustainable economic development in China as it is in other economies.

The capital market offers a platform for fund-raising and risk management. The Shenzhen Stock Exchange attempts to facilitate long-term financing through its multi-tiered capital market. I will now briefly talk about the multi-tiered capital market's role in supporting growth in the real economy through long-term, market-based financing, the development of financial intermediary services and success stories in product innovation.

First of all, the Shenzhen Stock Exchange's multi-tiered capital market, consists of the main board, the SME Board and ChiNext Market, offers a capital platform for blue-chips, SMEs and innovative start-ups.

With the launch of the SME Board and ChiNext Market, emerging Chinese companies have been given the opportunity to raise funds from the capital market for the first time.

About 15.4 million small or medium-sized enterprises are registered in China. They form the most dynamic sector of the Chinese economy and are responsible for 60% of the nation's GDP, 70% of exports, 70% of patents for technological inventions and 80% of urban employment, which is increasingly vital to China's economic health.

More than 7 million fresh graduates hit the job market every year and 10 million rural residents move to cities each year, making SMEs cornerstones for the nation's economic growth and social well-being.

The SME Board was created in 2004, after China enacted the Law on SME Promotion. The ChiNext Market was launched in 2009, in response to the global financial crisis. So far, the SME Board and ChiNext Market have raised 157 billion USD for 1,098 SMEs or innovative start-ups.

Second, the Shenzhen Stock Exchange offers a financial supply chain for innovation. Thanks to the capital market, companies are able to capitalize new technologies, patents, trademarks and other intangible assets. The capital market's pricing mechanism galvanizes venture capital investment. There currently are 6,000 venture capital firms in China, with 170 billion USD available for investment. More than 300 listed companies on the SZSE are backed by venture capital. The capital market completes the circle of innovation by linking industrial demands with investment funds. Certified hi-tech companies account for 93% and 74% of all issuers on the ChiNext Market and the SME Board, respectively.

Third, the Shenzhen Stock Exchange supports green industries. The SZSE gives priority to serving environmental, alternative energy and new materials companies. The exchange has published its "Social Responsibility Guidelines," urging listed companies to dedicate resources and efforts to environmental protection. The exchange also compiles an "Environmental Index" to commend high-performing issuers. More than 50 issuers have been commended as green companies. The exchange also has established a special fund to restore deserts in Inner Mongolia. That project has attracted wide participation by financial institutions and corporations.

Fourth, the multi-tiered capital market supports the agricultural industry. Shenzhen Stock Exchange has signed a cooperative pact with Yangling Modern Agricultural Pilot Zone, China's flagship hi-tech agricultural park in western China, to foster agricultural issuers. The exchange already has listed 53 issuers in agriculture, husbandry, fish farming, food processing and logistics. The capital market facilitates the transition of agricultural businesses into high value-added, modern enterprises.

Fifth, the Shenzhen Stock Exchange has expanded its reach to cover unlisted companies. Given China's huge geographic expanse, we understand the limitations of the exchange platform and, as a result, have reached out to over-the-counter markets in different regions. We partner with local equity or asset transfer markets to build local capital platforms. With concentrated information, corporate equity and investors, these local capital platforms reduce market friction, enhance corporate visibility and facilitate trading. Furthermore, local capital platforms facilitate long-term financing for small and micro-sized firms, which contributes to economic growth and job creation in the region.

Sixth, Shenzhen Stock Exchange serves market intermediaries. As the Chinese capital market has a short history of just 24 years, intermediary services still have a lot to be desired. The exchange offers a suite of live and

televised training programs and discussion seminars to enhance intermediaries' professional knowledge and qualifications. The exchange also facilitates the sharing of knowledge among financial intermediaries.

Seventh, Shenzhen Stock Exchange helps intermediaries by offering M&A advisory services. For example, China's pharmaceutical industry is heavily fragmented, with more than 6,000 firms competing against each other. Consolidation in the industry helps larger firms achieve economies of scale with heavy investment in R&D. Financial intermediary services can be very helpful in promoting M&A in the industry.

Eighth, Shenzhen Stock Exchange, as an SRO, supervises and incentivizes financial intermediaries that offer high standards of service. With proper oversight, intermediaries offer front-line supervision and guidance to listed companies and investors. The exchange often works with financial intermediaries to assess new products, services and supervisory rules to reduce transaction costs and facilitate capital market activities. The exchange also offers incentives for intermediaries to develop services in western China. The exchange offers subsidies for financial intermediaries to advise companies in western China, as well.

Ninth, intermediaries are essential for product innovation. Intermediaries, however, are inadequately equipped for product innovation in China due to the short history of the capital market. For example, during the process of ABS development, Shenzhen Stock Exchange offered free consulting and guidance for intermediaries to help them develop proper project planning, oversight, credit rating, distribution, liquidity and risk management. With that hands-on experience, intermediaries were up and running -- and so was the ABS market.

In summary, the exchange serves as a platform for interaction among issuers, investors and financial intermediaries. The exchange also works to maintain the fairness and integrity of the market. The financial intermediaries that connect investors and issuers play a central role in facilitating market-based, long-term investment.