

# CRI Research Report on China's Asset Securitization, 2013 - 17

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June 29, 2013:

*China Research and Intelligence Company Limited* [\[1\]](#) (CRI) recently came out with their research report on China's credit asset securitisation and its future prospects in the country.

The report titled "*Research Report on China's Asset Securitisation, 2013-17*" [\[2\]](#) of five chapters describes the state of China's Credit Assets Securitization market, pre and post financial crisis of 2008 and includes:

- Overview of Asset Securitisation
- Business Operation of China Credit Assets Securitization
- Credit Rating of China Credit Assets Securitization
- Risks of Credit Assets Securitization and Preventive Measures, and
- Business Prospects of China Asset Securitization, 2013 - 17

The year 2005 earmarked the beginning of asset securitization in China. As the market gained importance in due course, it became utmost important to provide a proper structure for securitization transactions in China. A joint effort was undertaken by *The People's Bank of China* [\[3\]](#) and *China Banking Regulatory Commission* [\[4\]](#) (CBRC) to provide the first securitization regulations in the country (*see our news [here](#)*) in the year 2005 which issued *Administrative Rules for Pilot Securitization of Credit Assets* [\[5\]](#) and *Measures for the Supervision and Administration of the Pilot Securitization of Credit Assets of Financial Institutions* [\[6\]](#).

Using the structured guidelines provided, asset securitization business boomed in China. Big names such as the *China Development Bank* [\[7\]](#) and *China Construction Bank* [\[8\]](#) carried on credit asset securitization and mortgage securitization. For the first time *non-performing assets* [\[9\]](#) were securitized in China by China Construction Bank.

However the financial crisis of 2008 suspended all securitisation programs in China.

In the year 2012, People's Bank of China declared to resume its securitization pilot programs jointly with CBRC and the Ministry of Finance and issued a notice on "*Matters Concerning Further Expansion of Credit Assets Securitization Pilot*" (*see our news [here](#)*). Even non-banking financial institutions (NBFCs) entered the market. *ICBC Financial Leasing Company Limited* [\[10\]](#) was the first

NBFC leasing enterprise to undertake securitization as a non bank entity in China. The stakeholders felt the need to explore the market to a much greater extent.

At present, to further consolidate its efforts, the *Chinese Securities Regulatory Commission*<sup>[11]</sup> (CSRC), "*Administrative Rules for Asset Securitization Business of Securities Companies*"<sup>[12]</sup> (see our news [here](#)) on February 26, 2013. The draft rules were kept open for public comments. The rules are intended to develop the asset securitization market further by specifying specific forms of the underlying assets which can be securitized. Some of the highlights of the Rules are as follows:<sup>[1]</sup>

- Classification of underlying assets to be securitized.
- Relaxation of market entry norms.
- Simplified review and approval procedures.
- Allowing asset backed securities to be exchanges at the stock exchanges in order to increase liquidity.

As per the latest statistics released by the CSRC the SHSE-SZSE300 Index rose from 2434.60 points to 492.91 points, up1.86% from the closing of its previous week. SSE Composite Index opened at 2170.78 points and closed at 2205.50 points, up1.27% from the closing of its previous week. SZSE Composite Index opened at 908.49 points and closed at 936.58 points, up by 2.63% from the closing its previous week. The average daily turnover of stocks was RMB140.24billion, down by RMB2.62 billion, or 15.74%. The daily turnover of SHSE-SZSE300 Index was RMB5.52 billion, accounting for 39.39% of the total on the SSE and the SZSE <sup>[13]</sup>.

Thus, the scope and horizon of asset securitization in the Chinese market seems to be expanding in a healthy manner. The regulations in place are targeted to increase the efficiency of this tool of structured finance. Relaxed norms will encourage the stakeholders of the sector to participate more in the market. The futures of the proposed rules are yet to be seen.

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<sup>[1]</sup> <http://www.cri-report.com/content/4-about-us>

<sup>[2]</sup> <http://www.cri-report.com/securities/14521-research-report-on-china-s-asset-securitization-2013-2017.html>

<sup>[3]</sup> <http://www.pbc.gov.cn/#>

<sup>[4]</sup> <http://www.cbrc.gov.cn/showyjhjjindex.do>

<sup>[5]</sup> [http://www.pbc.gov.cn/publish/english/964/1957/19573/19573\\_.html](http://www.pbc.gov.cn/publish/english/964/1957/19573/19573_.html)

<sup>[6]</sup> <http://www.asianlii.org/cn/legis/cen/laws/mftsaaotpsocaofi1179/>

<sup>[7]</sup> <http://www.cdb.com.cn/english/>

<sup>[8]</sup> <http://www.ccb.com/en/home/>

<sup>[9]</sup> Section 2(o) of the SARFAESI Act, 2002 defines "**non-performing assets**" as:

**"non-performing asset"** means an asset or account of a borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset,--

*(a) in case such bank or financial institution is administered or regulated by any authority or body established, constituted or appointed by any law for the time being in force, in accordance with the directions or guidelines relating to assets classifications issued by such authority or body;*

*(b) in any other case, in accordance with the directions or guidelines relating to assets classifications issued by the Reserve Bank;*

<sup>[10]</sup> <http://www.icbc.com.cn/ICBC/sy/default.htm>

<sup>[11]</sup> [http://www.csrc.gov.cn/pub/csrc\\_en/](http://www.csrc.gov.cn/pub/csrc_en/)

<sup>[12]</sup> [http://www.csrc.gov.cn/pub/csrc\\_en/newsfacts/release/201303/t20130304\\_221826.htm](http://www.csrc.gov.cn/pub/csrc_en/newsfacts/release/201303/t20130304_221826.htm)

<sup>[13]</sup> Source: CSRC Market Weekly (April 29, 2013 to May 3, 2013)

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<sup>[1]</sup> See our customized page on Chinese Securitization [here](#).

[Reported by: Piyush Sinha]