Stock Markets

Part I

Suggested Readings

- William Allen and Han Shen: “Assessing China’s Top-Down Securities Markets”
- Allen, Qian, Shan, Zhu: “The best performing economy with the worst performing market”
- Kang, Shi, Brown: “Chinese Corporate Governance – history and institutional framework”

Structure of Lecture

- An overview of the Chinese stock market
  - Size: absolute and relative
  - Distinctive features: valuation, trading, performance
- Institutional Details
  - History of development
  - Main stock markets
  - Multiple tiers
  - Share classes
  - CSRC
  - IPO & Exit
  - Dividend payout
  - Recent reforms and limitations

- An overview of the Chinese stock market
  - Size: absolute and relative
  - Distinctive features: valuation, trading, performance

Chinese stock market in a global context

	Market Capitalization (in USD millions)		
	Exchange	2014	2015
		December	January
1	NYSE	19 351 417.2	19 222 875.6
2	Nasdaq - US	6 979 172.0	6 830 968.0
3	London Stock Exchange		6 187 000.0
4	Japan Exchange Group	4 377 994.4	4 485 449.8
5	**Shanghai Stock Exchange**	3 932 527.7	3 986 011.9
6	***Hong Kong Exchanges and Clearing***	3 233 030.6	3 324 641.4
7	Euronext	3 319 062.2	3 320 992.0
8	**Shenzhen Stock Exchange**	2 072 420.0	2 284 728.1
9	TMX Group (Canada)	2 093 696.8	1 938 630.3
10	Deutsche Boerse	1 738 539.1	1 761 712.8

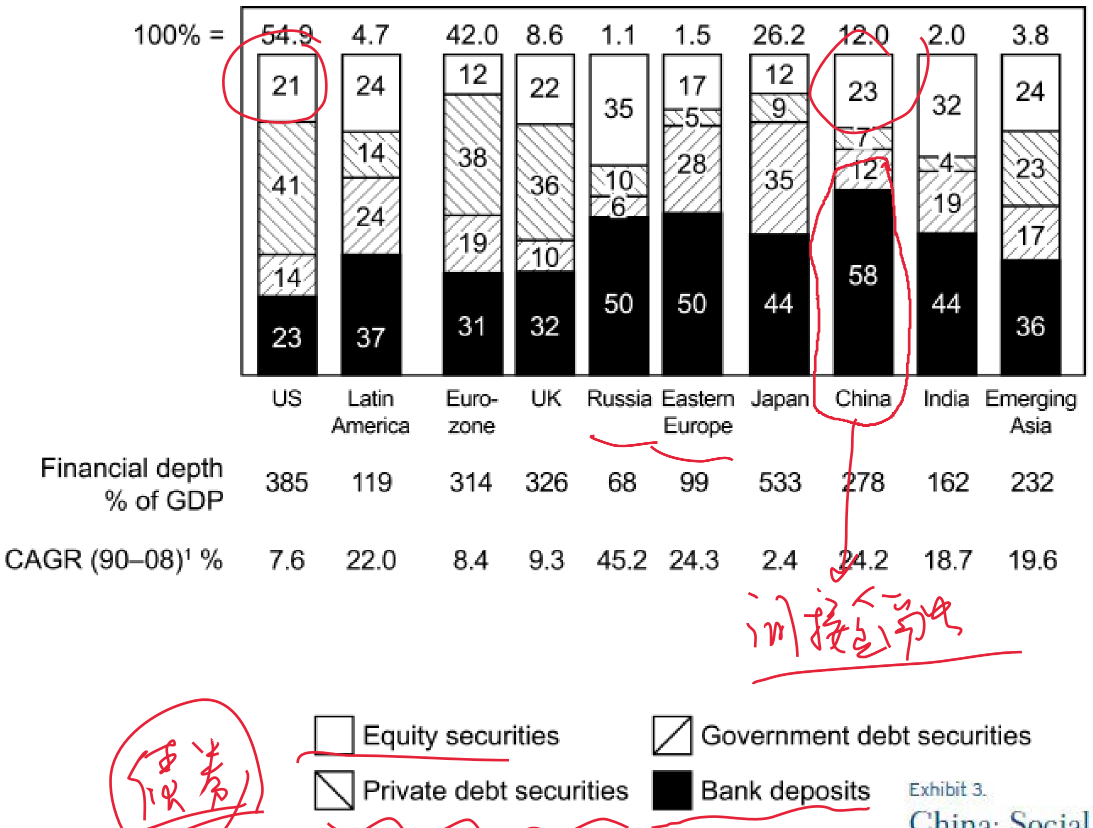
Source: World Federation of Exchanges

2000 → 3800

3500 → 5100 →

3500

- In terms of absolute size: SSE and SZSE are now among the biggest exchanges
- And they are growing quickly in recent years.
- If HK is included, China has the second largest stock market in the world.
- Caveat: most shares were not tradable until recently (more on this later)



间接金融

债券

Fig. 3.1 Financial assets by region, 2008 ($ trillion, %)

Source: McKinsey Global Institute Global Financial Stock database.

Note: Some numbers do not sum due to rounding.

[1]Compound annual growth rate using 2008 exchange rates.

NB:

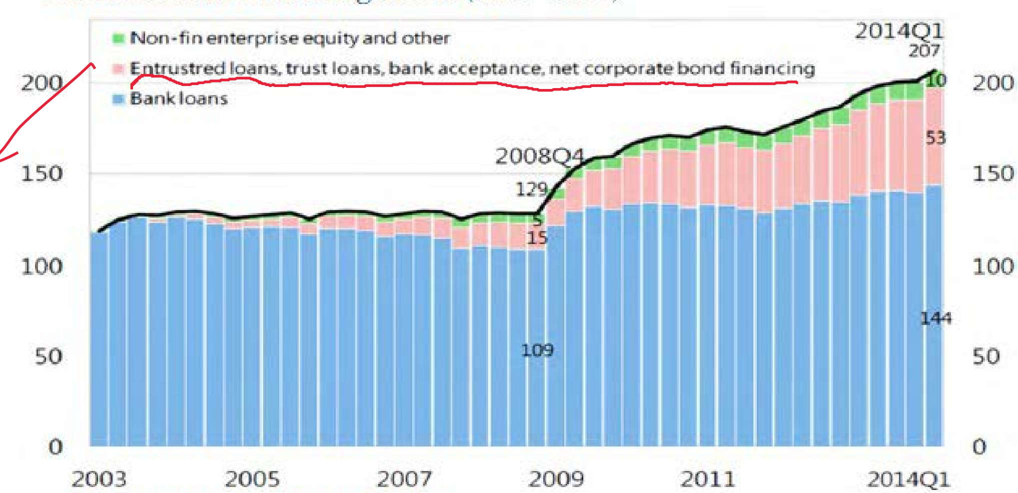
- China's figure most likely exaggerates the importance of capital markets due to thinly traded market.
- Financials are also a big part.
- Despite the large absolute size, the Chinese stock market is still small compared to the banking sector

流量

影子银行

Exhibit 3.

China: Social Financing Stock (in % GDP)

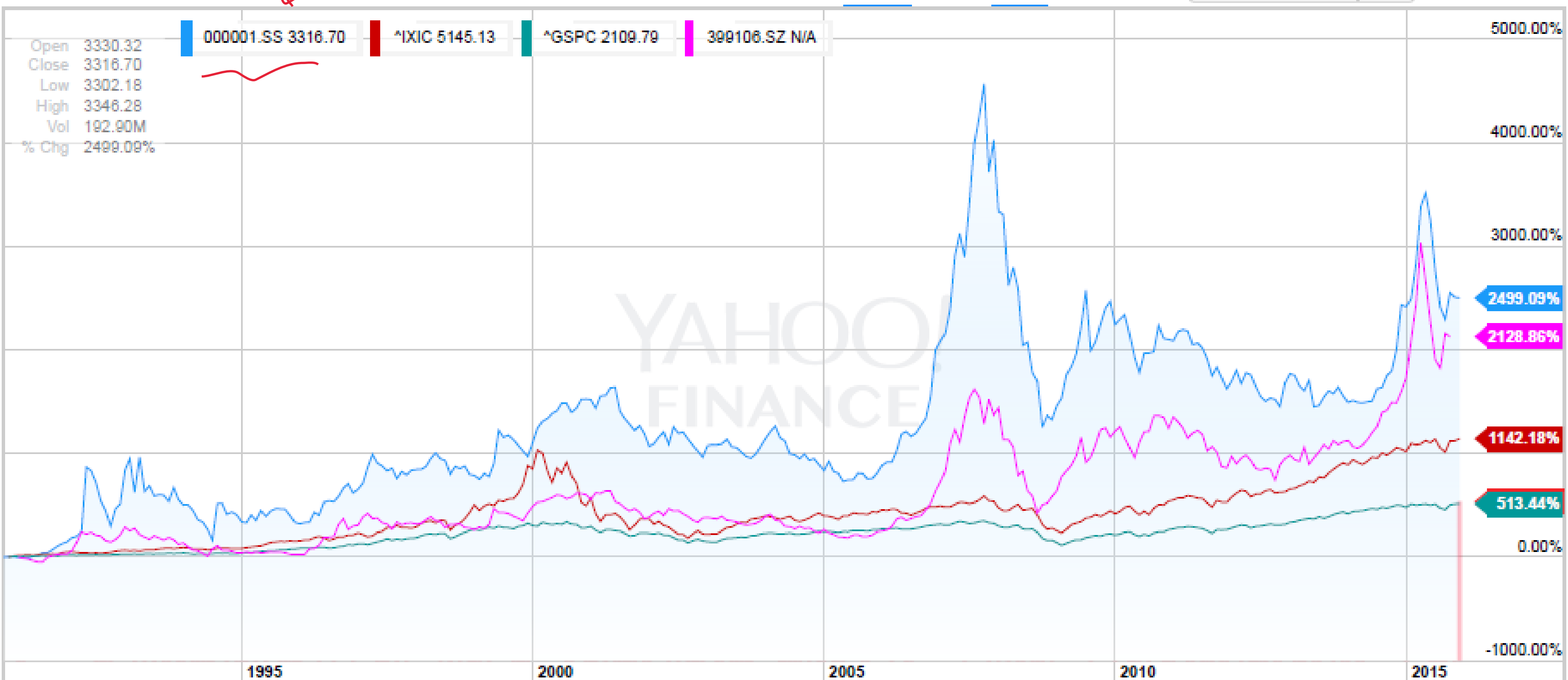


Note: in percent of 4Q rolling sum of quarterly GDP

Source: International Monetary Fund

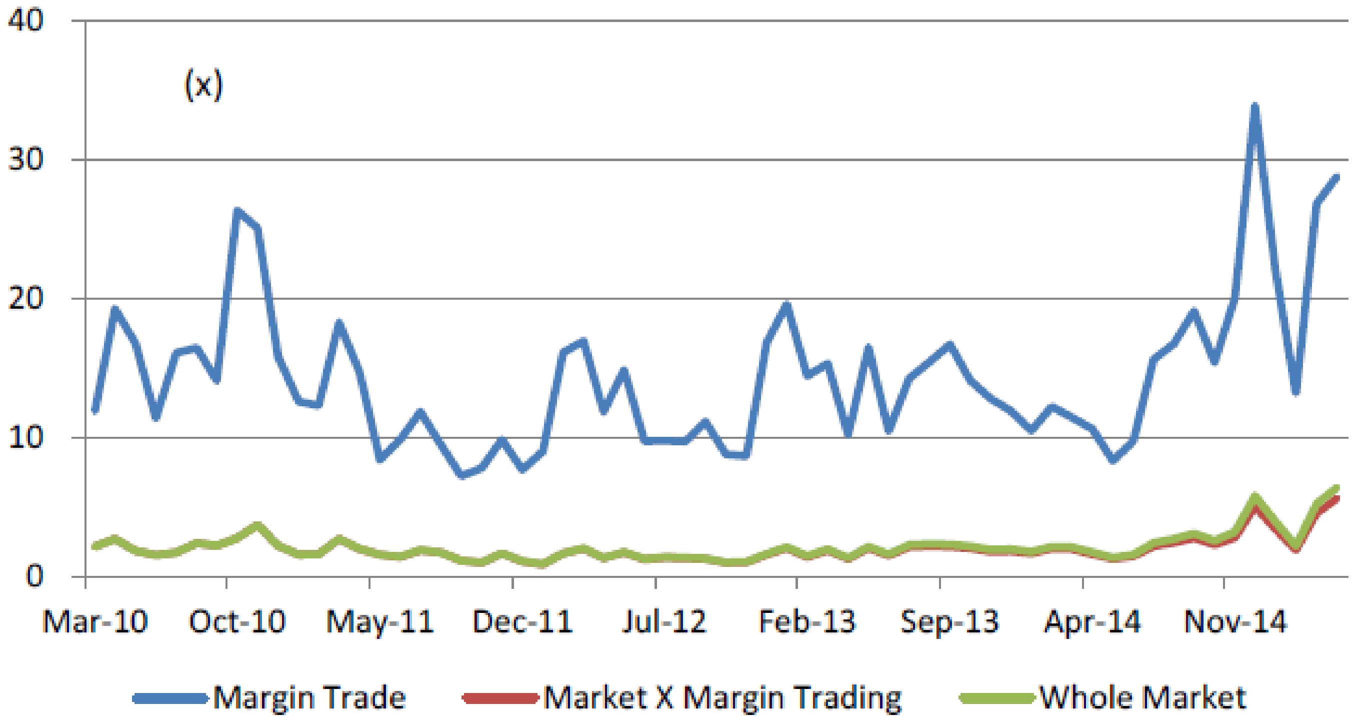
Data Source: CEIC; and IMF staff calculations

Sharpe Ratio 低，波动大



Speculative trading behavior

Figure 17: **Turnover ratio related to margin trading is much higher than overall market**



Source: WIND

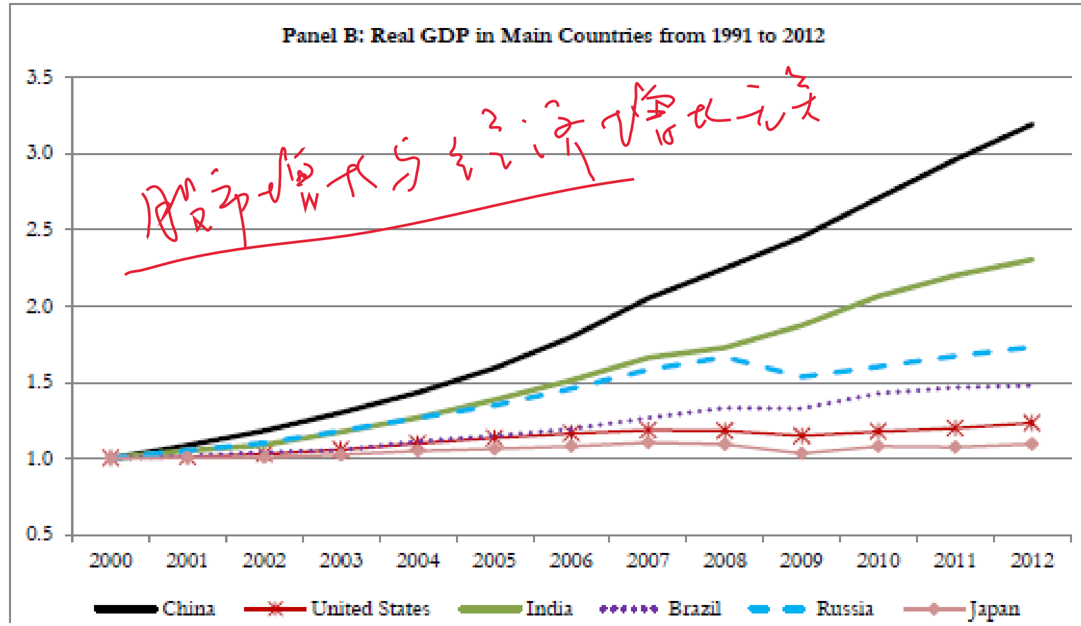
Rank	Stock exchange	Total market cap (US$ million)	Concentration (%)	Turnover velocity (%)	
1	NYSE Euronext (US)	13,394,081.8	57.0	130.2	
2	NASDAQ OMX	3,889,369.9	71.9	340.4	
3	Tokyo SE Group	3,827,774.2	60.1	109.6	
4	London SE Group	3,613,064.0	82.3	76.1	
5	NYSE Euronext (Europe)	2,930,072.4	68.9	76.5	
6	Shanghai SE	2,716,470.2	55.8	178.5	纽交所
7	Hong Kong Exchanges	2,711,316.2	69.4	62.2	
8	TSX Group	2,170,432.7	79.5	74.1	
9	Bombay SE	1,631,829.5	87.7	18.1	
10	National Stock Exchange India	1,596,625.3	69.6	57.3	
11	BM&FBOVESPA	1,545,565.7	64.2	64.7	
12	Australian Securities Exchange	1,454,490.6	79.4	82.3	
13	Deutsche Börse	1,429,719.1	78.4	119.3	
14	Shenzhen SE	1,311,370.1	31.2	344.3	NASDAQ
15	SIX Swiss Exchange	1,229,356.5	65.6	73.5	
16	BME Spanish Exchanges	1,171,625.0	n/a	117.2	
17	Korea Exchange	1,091,911.5	75.7	176.3	
18	NASDAQ OMX Nordic Exchange	1,042,153.7	69.7	79.7	
19	MICEX	949,148.9	64.3	52.8	
20	Johannesburg SE	925,007.2	35.0	33.3	

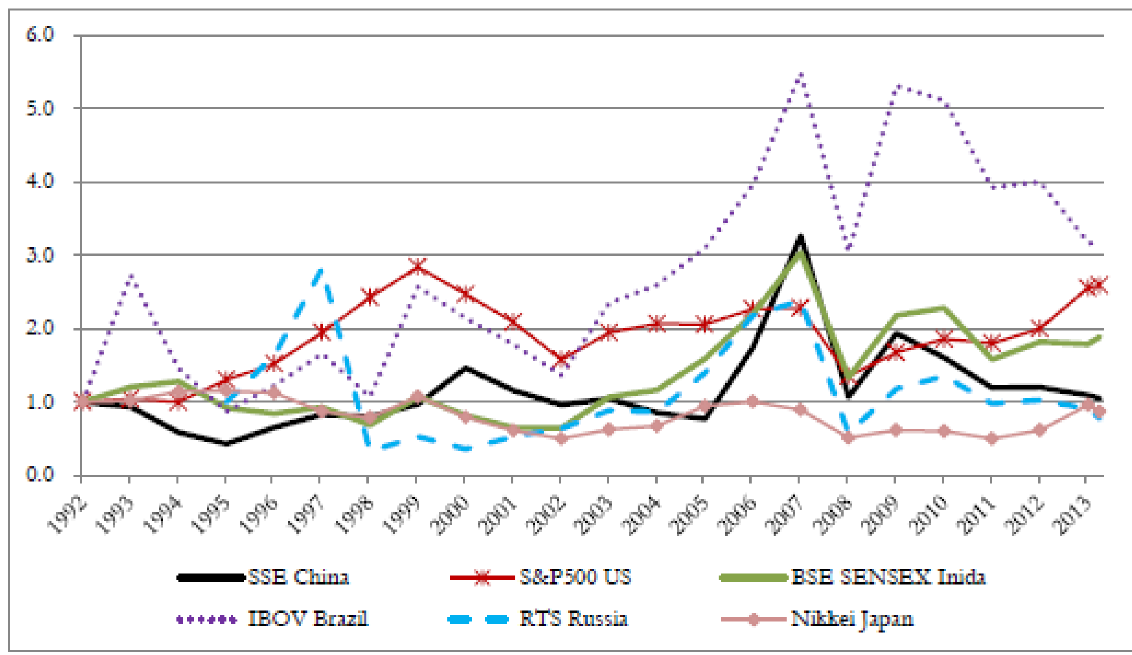
Notes: All figures are from http//:www.world-exchanges.org, the website of the international organization of stock exchanges. Concentration is the fraction of total turnover of an exchange within a year coming from the turnover of the companies with the largest market cap (top 5 percent). Turnover velocity is the total turnover of domestic stocks for the year expressed as a percentage of the total market capitalization.

The best performing economy with the worst performing market

Allen, Qian, Shan, Zhu (2014):

- The Chinese economy has performed extraordinary well in the past thirty years.
- The Chinese stock market has been developing quickly (as seen before)
- The performance of the Chinese equity market has been disappointing





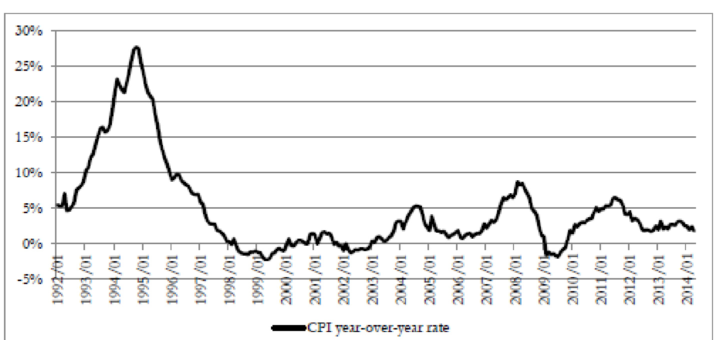


Table 3.2 **Market capitalization of newly listed shares (US$ in millions)**

	2004	2005	2006	2007	2008	2009
Shanghai SE	14,438	3,140	223,322	1,576,732	92,118	99,924
Shenzhen SE	8,536	1,634	23,691	74,655	38,769	71,450
Hongkong SE	37,347	98,292	102,941	155,199	28,767	95,235
NYSE	118,944	135,719	192,412	244,515	207,612	64,810
LSE	52,468	322,269	131,137	144,674	77,560	24,437
Tokyo SE	87,832	110,399	81,982	35,969	40,106	18,062

Source: World Federation of Exchanges.

市场集中度

Table 3.3 **Market concentration, percentages of total market capitization represented by largest ten firms**

	2004 (%)	2005 (%)	2006 (%)	2007 (%)	2008 (%)	2009 (%)
NYSE	19.6	16.4	16.1	19.3	20.1	15.7
London SE	40.2	40.9	37.1	38.2	46.3	41.3
Shanghai SE	29.0	32.6	56.6	51.6	49.0	41.2
Tokyo SE	18.1	18.1	20.1	18.5	18.3	17.6

Source: World Federal of Exchanges.

State Dominance

- In terms of market cap, about two thirds of the listed firms in China’s domestic stock market are SOEs.
- In terms of market cap, roughly 60% of the firms listed in HK consist of mainland China firms, about half of which are “red chip” companies.
- In the earlier years of the stock markets, only SOEs were allowed to list.
- Top management of SOEs are typically appointed by government authorities, at least partially.

Investor Base Comparison: US vs. China

图 6　美国股票市场投资者结构

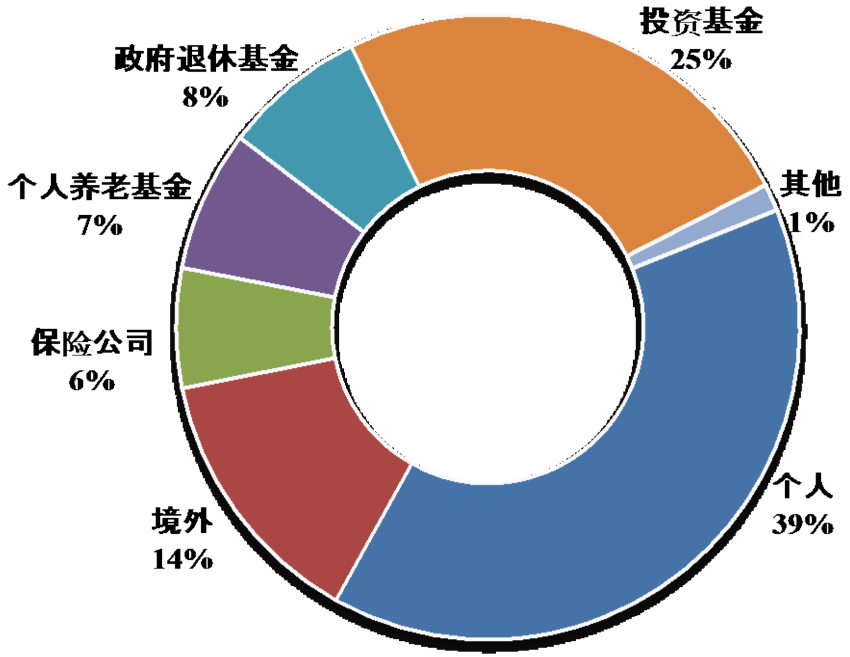
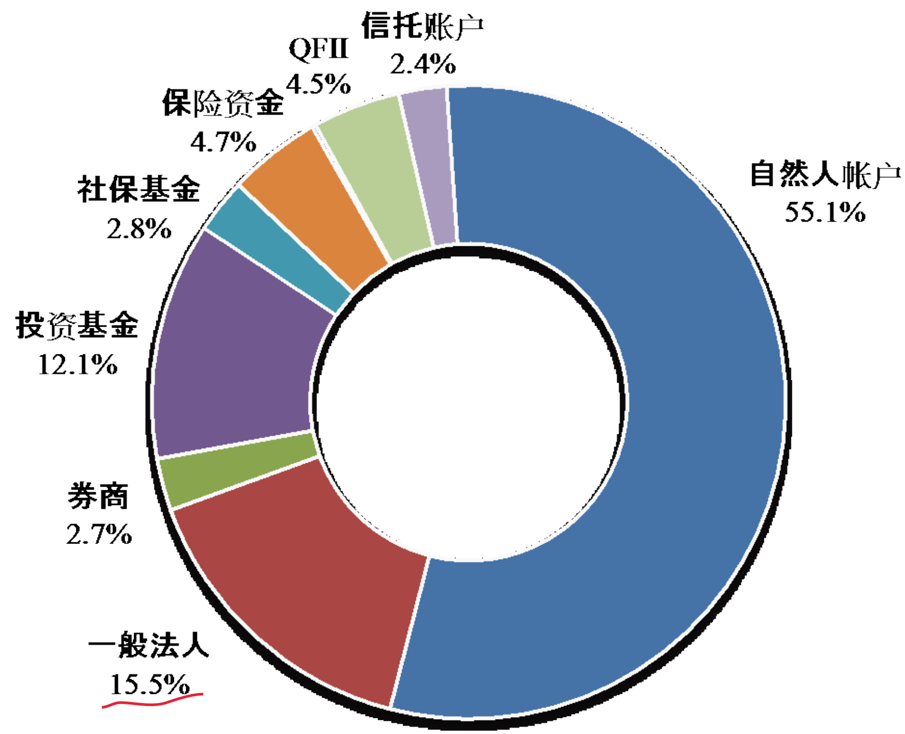


图 7　上海股票市场投资者结构



上市企业互相持有

Quick Summary

Distinctive features of China's stock market:

- High State ownership (2/3) + concentrated market
- Very volatile valuation
- High turnover (especially given the thin market)
- Poor performance, especially compared to the economic growth (Allen et al. 2014)

股价高=好的投资机会

Tobin's q

The two roles of equity markets are generally failed in China:

- Price as signal to direct resources allocation: price is not informative in China
- Stock market as a disciplinary tool: a firm's stock market performance has little impact on the running of the firm (due to poor corporate governance)

股东同意

So how do we make sense of all these? What factors have driven these features?

炒概念(互联网, 云计算…)

中国股市与公司治理无关

(特斯拉 解雇员工, 股价↑3%)

- Institutional Details
  - History of development
  - Main stock markets
  - Multiple tiers
  - Share classes
  - CSRC
  - IPO & Exit
  - Dividend payout
  - Recent reforms and limitations

Historical Developments

- During the pre-reform era, almost all enterprises were BOTH owned AND managed directly by the State. There was no separation between the State and the enterprises.

- In 1984, the decision of the **Central Committee on Economic Structural Reform** transformed firms into economic entities that could make their own decisions, hence granting autonomy to companies.

- In August 1984, shanghai Municipal Government approved the first provincial-level regulation on securities; During the latter half of the 1980s, more and more SOEs followed the path of securitization. Securities such as company shares were traded OTC.

- Following the reforms in 1979, the profitability of the SOEs declined significantly and most of them were losing money in early 1990s.
  - Mis-aligned incentives: management contract system at the time was mis-aligned so that managers were incentivized to focus on short-term revenue rather than long-term productivity or efficiency.
  - Social responsibilities of the SOEs (e.g. housing, education, social security) heavily burdened the firms.
- As a result, many SOEs were deeply in debt and, by 1994, close to half of the SOEs had zero to negative equity (Gan 2008).

- **Creation of the SHSE and SZSE**: the establishment of the SHSE and SZSE in early 1990s was believed to help with the funding needs of the troubled SOE sector. Indeed, during the early stages of China's stock market, only the SOEs were allowed to list.

- In 1993, **the Third Plenum of the Fourteenth Chinese Communist Party Congress** approved the development of diversified forms of ownership through privatization, increasing private ownership in former SOEs, so-called "corporatization of SOEs".

Multi-tier Capital Market

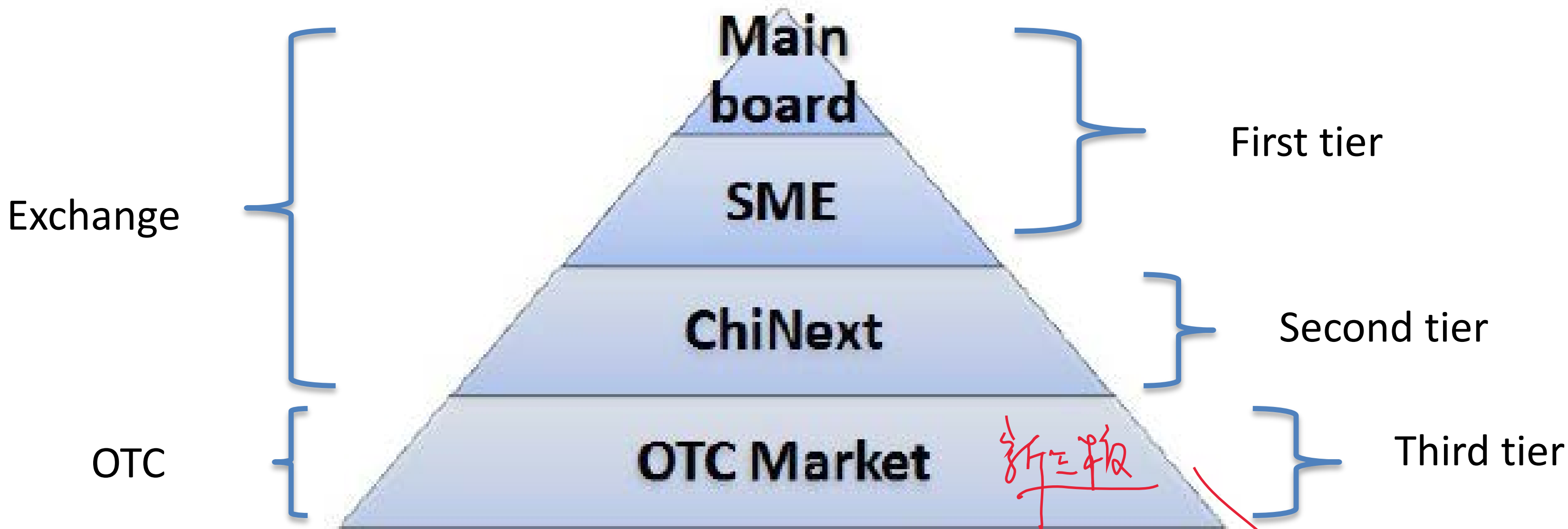


Table 1： Number of listed companies

Location	Category	Shanghai	Shenzhen	Total
Mainland	Main Board	954	484	1438
	B shares	54	54	108
	SME Board	–	701	701
	Chi-Next	–	355	355
Hong Kong	H shares	176		
	Red Chips	108		

中国证券交易中心

* As of December 31, 2012

Source: Shanghai Stock Exchange

Table 2.11 Types of common stock issued in China

Tradable?		Definition
No (Private block transfer possible)	State-owned shares[a] (G shares after recent reform and tradable)	Shares that are controlled by the central government during the process when firms are converted into a limited liability corporation but before listing. These shares are either managed and represented by the Bureau of National Assets Management or held by other state-owned companies, both of which also appoint firms' board members. After reforms announced in 2005 and implemented in 2006–2007, state shares became G shares and are tradable.
	Entrepreneur's shares	Shares reserved for firms' founders during the same process described above; different from shares that founders can purchase and sell in the markets.
	Foreign owners	Shares owned by foreign industrial investors during the same process.
	Legal entity holders	Shares sold to legal identities (such as other companies, listed or nonlisted) during the same process.
	Employee shares	Shares sold to firm's employees during the same process.
Yes (Newly issued shares)	A shares	Shares issued by Chinese companies that are listed and traded in the Shanghai or Shenzhen Stock Exchange; most of these shares are sold to and held by Chinese (citizen) investors.
	B shares	Shares issued by Chinese companies that are listed and traded in the Shanghai or Shenzhen Stock Exchange; these shares are sold to and held by foreign investors; starting in 2001 Chinese investors can also trade these shares.
	H shares	Shares issued by selected Chinese companies listed and traded in the Hong Kong Stock Exchange; these shares can only be traded on the HK Exchange but can be held by anyone.

非流通股

[illegible]

Shanghai Stock Exchange (SSE)

- Founded on Nov 26th, 1990
- Directly governed by the CSRC
- Listing of large, leading and high-quality enterprises, analogous to the NYSE
  - Strict listing conditions
- Securities products:
  - Stocks: A share and B share (main board)
  - Bonds
    - Treasury bonds (T-bonds)
    - Local government bonds
    - Enterprise bonds
    - Corporate bonds
    - Private placed SME bonds
  - Other
    - Securities investment funds (including ETFs)
    - Warrants

上市要求较高

SSE Market Statistics

	2013	2012	2011	2010
Listed Securities (as at year end)				
No. of listed companies	953	954	931	894
No. of listed securities	2786	2098	1691	1500
No. of listed stocks	997	998	975	938
No. of new listings	1	26	39	26
Share capital issued (100 million shares)	25751.69	24617.62	23466.65	21939.51
Tradable shares (100 million shares)	23731.13	19521.34	17993.80	16031.30
Total market capitalization (RMB100 million)	151165.27	158698.44	148376.22	179007.24
Market capitalization of tradable shares (RMB100 million)	136526.38	134294.45	122851.36	142337.44
Total capital raised (RMB100 million)				
A Shares (RMB)	2515.72	2890.31	3199.69	5532.14
B Shares (US dollar)	0	0	0	0
Transactions				
Number of trading days	238	243	244	242
Annual turnover value (RMB100 million)	865098.34	547535.23	454651.56	398395.73
Stock	230266.03	164545.01	237560.45	304312.01
Fund	8989.48	3171.36	2901.41	4771.71
T-bonds	625839.41	379818.85	210714.87	74914.43
Warrants	0	0	3474.82	14397.58
Others	3.42	0	0	0
Ratios				
Average P/E ratio	10.99	12.30	13.40	21.61
Turnover rate 1 (market capitalization)(%)	105.56	78.57	93.72	135.40
Turnover rate 2 (free-float capitalization)(%)	123.60	101.60	124.80	198.47

* Growing Tradable share (Caveat: in practice many tradable shares are not traded)
* Inactive B share
* Relative activity composition of Stocks, Bonds, Funds, and others

Source: Shanghai Stock Exchange

Shenzhen Stock Exchange

- Established on Dec 1^{st}, 1990
- Self-regulated legal entity under the supervision of CSRC.
- Aims to develop China's multi-tiered capital market system:
  - Main board:
  - SME board: launched in May 2004 to provide direct financing platform to SMEs "with well-defined core business, growth potential and hi-tech contents"
  - ChiNext Market: inaugurated the in Oct 2009 to promote the development of innovative enterprises and other growing start-ups
- Traded security products:
  - Equities
    - A share
    - B share
  - Funds: closed-end funds, listed open-end funds, ETFs
  - Bonds
  - Others
    - Indices
    - Fixed income products (e.g. SME collective bonds and asset-backed securities)
    - Warrants
    - Repo

Shenzhen Stock Exchange
Market Composition

	Whole Market	Main Board	SME	ChiNext
# Listed Companies	1729	478	767	484
		(A share: 467, B share: 50)		
Market Value (in mil RMB)	19,809,020.27	6,688,750	8,579,843	4,540,426
Market Value - tradable shares (in mil RMB)	14,209,237.50	5,530,005	5,967,837	2,711,393
Average P/E	45.00	27.46	56.67	94.45
As of 2015-10-29				

- SME board is the biggest part of SZSE
- High P/E ratio

Table 1. China's Equities Markets (as of July 8 2015)

	Shanghai Stock Exchange	Shenzhen Stock Exchange*	ChiNext
Launch Date	1990	1990	2009
Number of firms	1057	1619	485
Current market capitalization	$4.5 trillion	$3 trillion	$700 billion
Median market capitalization	$1.2 billion	$1 billion	$930 million
Float ratio	34%	45%	48%
Price to earnings ratio	18	46	75
Median P/E ratio	40	61	75
Largest sectors	Financial (46%), Industrials (19%), Energy (14%), Materials	IT (19%), Industrials (18%), Consumer discretionary	IT (45%), Industrials (21%), Healthcare

Source: Bloomberg, author's calculations.
*SZSE information includes SZSE main board, SME board, and ChiNext.

美国证监会：保护投资者利益（信息披露、内幕交易）

中国---：执行国家政策

CSRC

证监会

（批准IPO）

- China Securities Regulatory Commission, or CSRC, is the governing authority over the securities and futures markets in China. Directly under the State Council.

- Dual Mandate:
  - to implement State policy (primary obligation)
  - to protect investors

- CSRC differs from the SEC in that it serves to both monitor market activities and to develop the markets. In particular, it assumes the power to control access to the securities markets by all potential issuers of shares, both in IPOs and secondary issuance: a merits based discretionary judgment.

- CSRC serves the State interests by controlling the IPO process
  - Access to IPO
  - IPO pricing

CSRC is the gatekeeper of IPO

- 审批制 (before 2000): a $\boxed{\text{quota}}$ based IPO process
  - an administrative approval process, authorities set quota (and/or) targets, and decide whether a certain firm meets the listing requirements;
  - IPO quotas are allocated entirely by the CSRC to the local authorities, who then recommend firms for IPO according to their corresponding target quota for their region.
  - The CSRC then gives the final approval.
- 核准制 (from 2001 until present): $\boxed{\text{no official quota}}$ or targets but still controlled by the CSRC
  - IPO applications are recommended by the Public Offering Review Committee (or the PORC), which comprises of a minority of CSRC officials and a majority of outside experts in law, accountancy, and financial markets.
  - The CSRC and the securities firms share the responsibility of deciding whether the quality of a certain firm meets the listing requirements, but the CSRC retains the deciding power on the IPO decision.
  - The number of new listings and the number of shares to be issued during any period is subject to macro-level policy considerations.
- 注册制 (not implemented): a registration based IPO (developed markets)
  - IPO applications are "registered" and market driven, authorities do not decide on whether a certain firm's quality meet the listing requirements (which is left for the securities firms to decide), but are only responsible for verifying the accuracy and validity of the information published by the firms.

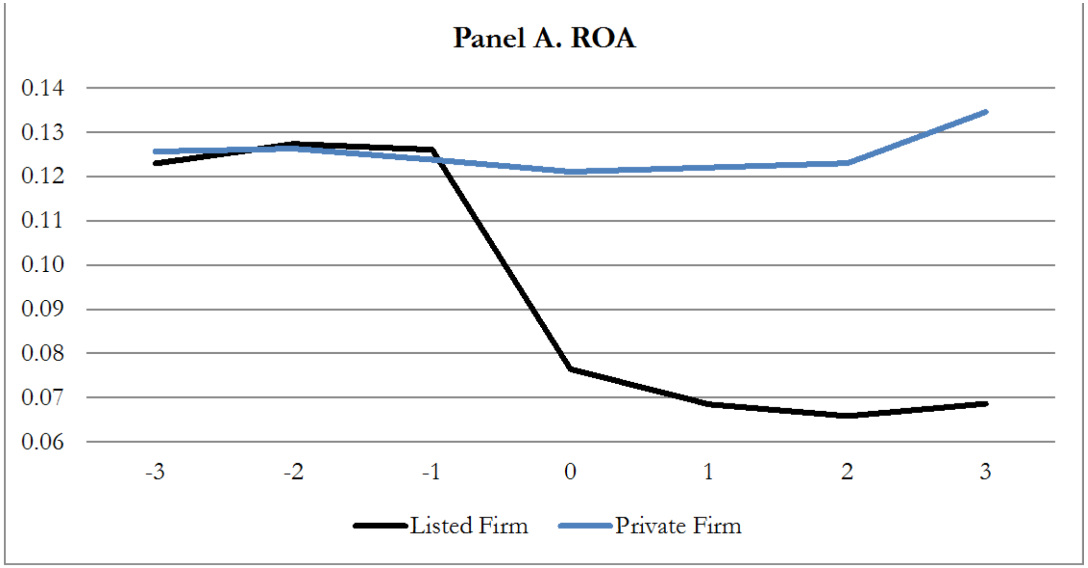
- In addition to controlling access to IPO, the CSRC also controls IPO Pricing:
  - The CSRC once set bounds on IPO offering prices, typically following a mechanical formula, based on the past three year earnings and performance of the firm, ignoring firms different types and industries.
  - More politically connected firms often received a higher P/E valuation - Francis, Hasan, and Sun (2009)
  - This situation has improved in recent years with CSRC accepting more input from the institutional investors.

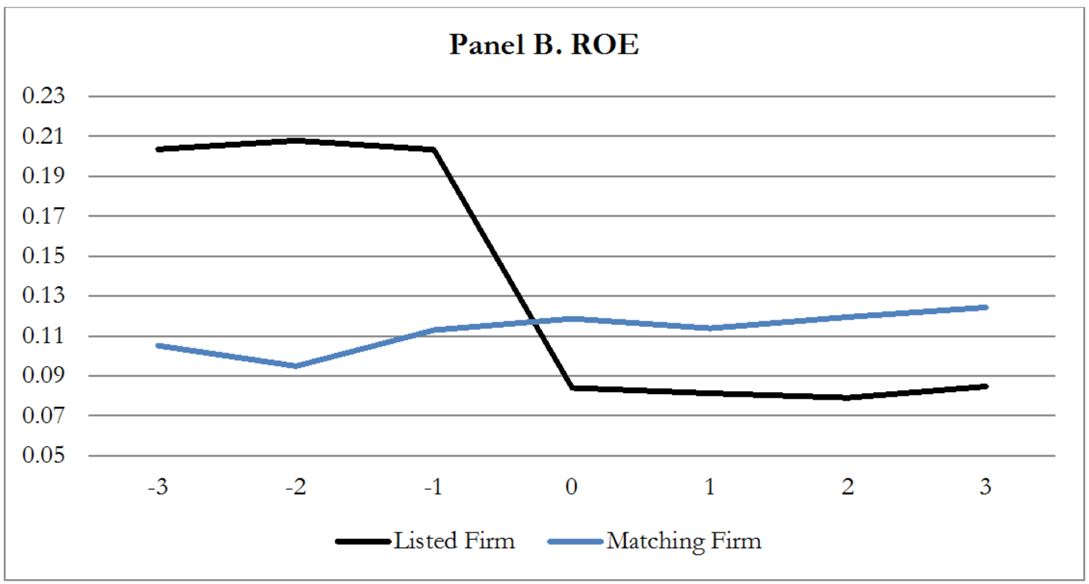
Issues and Implications

- SOE favoritism: the SOEs received undeniably favorable treatment during the IPO process, some of which are inefficient. This is due to:
  - Singular/or too strict criteria that overly emphasize on past performance, which few private firms could meet.
  - To protect the SOEs
- As a result, not the most efficient firms got the IPO: **good firms can't get in.**
- Moreover, due to the strict criteria, many highly productive (but lack of past history) firms are under-served: small and private, growth-oriented firms.
- Similarly, it's also hard for underperforming firms to exit:
  the exit criteria also based on past earnings, which were easily susceptible to fraud and fabrication: **bad firms don't get out** (and continue to eat up resources)
- IPO process is typically lengthy and not timely enough for firm's financing needs:
  - The time from approval until listing often exceeds the official guidance

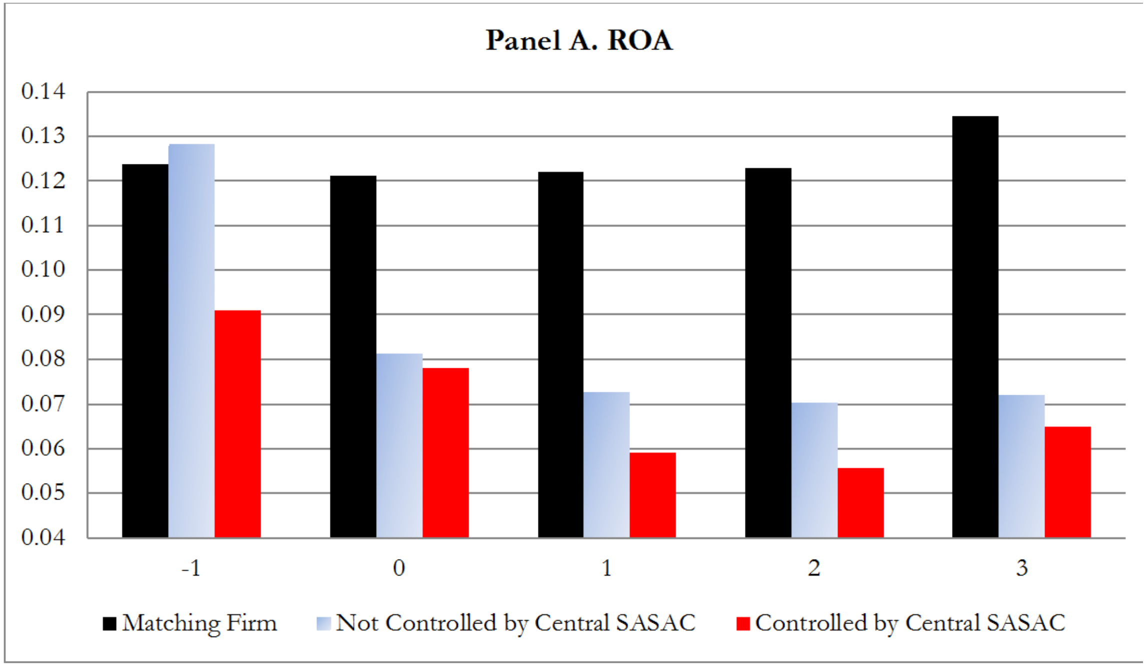
IPO & Exit: China v.s. ROW

Can this explain the poor performance?

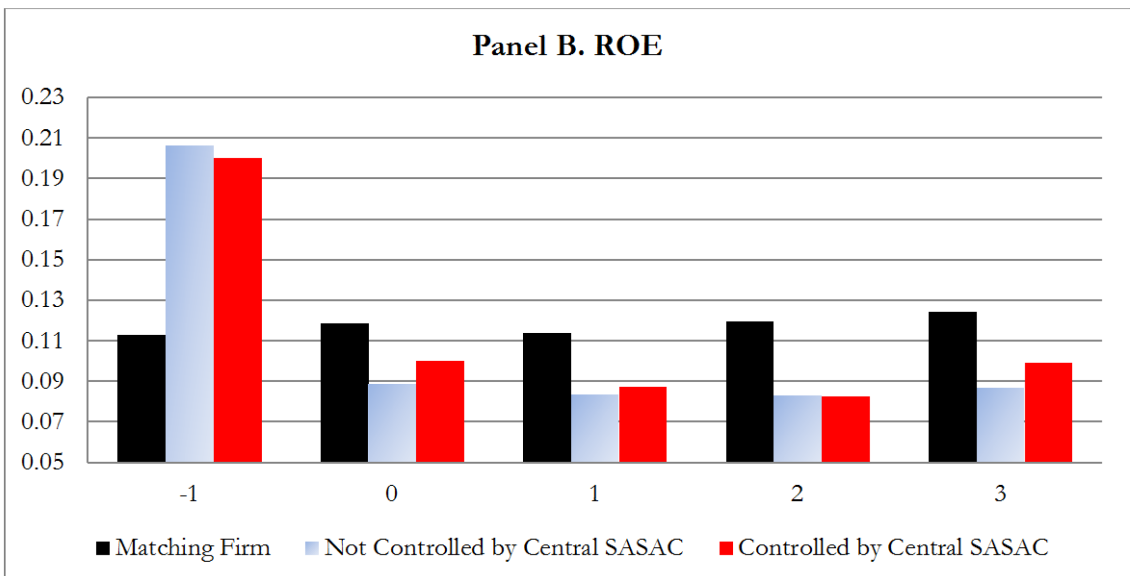




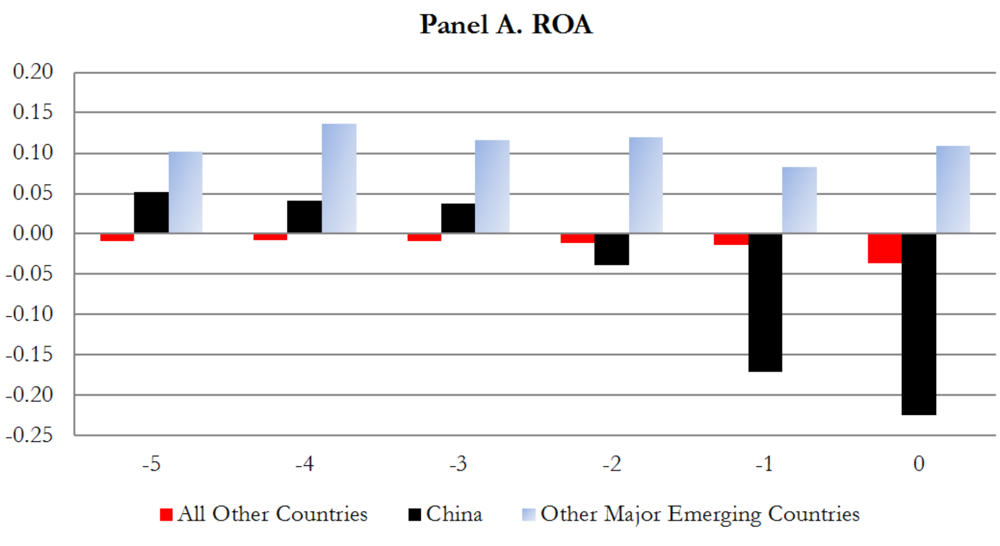
- Listed firms were similar or “better” than the matching firms before the IPO.
- Significantly underperform afterwards.

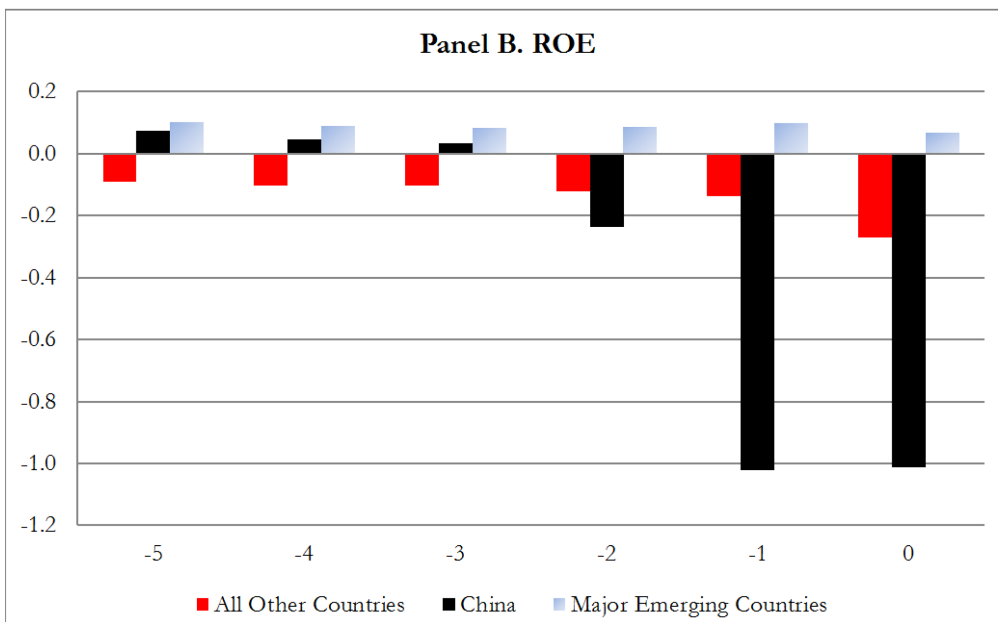


SASAC (国资委): State-owned assets supervision and Administration Committee of the State Council, the legal entity that owns and controls the SOEs on behalf of the State.



Firm performance before delisting



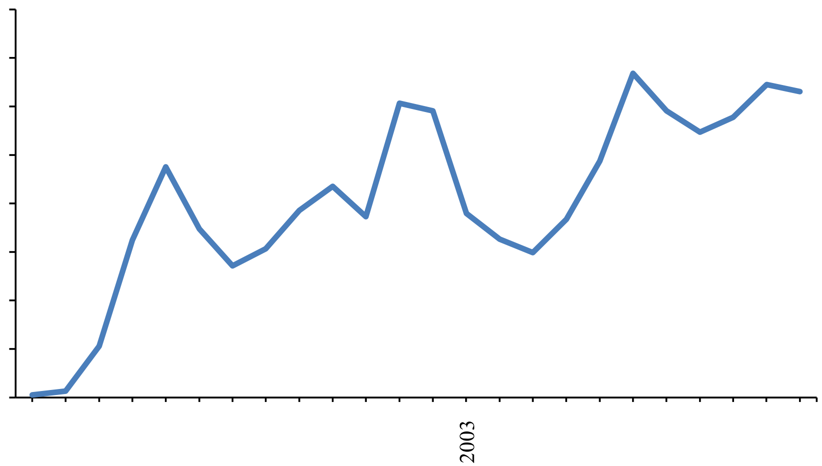


IPO and Exit: Summary

- China's IPO scheme is still under heavy administrative control:
  - Controlled quota: even though there is no official quota, the amount of IPOs that will be allowed in a year is still strictly controlled. This has led to an **overdue** of many IPO requests
    E.g. less than 300 firms managed to IPO in the past decade on the SHSE, the lowest among major stock exchanges
  - Controlled timing and frequency: The CSRC often controls the timing and frequency of IPOs in order to influence stock market valuations: e.g. IPOs were paused following the recent stock market turmoil
- Lack of a healthy entry and exit scheme → inefficient allocation of resources
- Inefficiently strict listing requirements: over-emphasis on historical earnings and ignoring other dimensions means that only the "most established" firms quality and certain types of firms are under-served; it's also susceptible to "window dressing" and performance manipulation.
  - This may be unavoidable in a market environment that lacks of good quality information disclosure.

Pay back the investors

图 **11**　中国上市公司股利支付率



- Mainly relies on cash dividend payout to pay back investors. Repurchase is rarely used: until 2013, only 56 firms repurchased shares (about 0.05% of total tradable market cap).
- Dividend payout is **concentrated** on a small number of high quality firms: e.g. in 2013, the amount of dividend payout conducted by the top 10% firms consists of 90% of the total amount;
- Dividend payout ratio is lower than developed markets and very volatile.

The above factors further acerbated the speculative nature of investing behavior.

Recent reform efforts

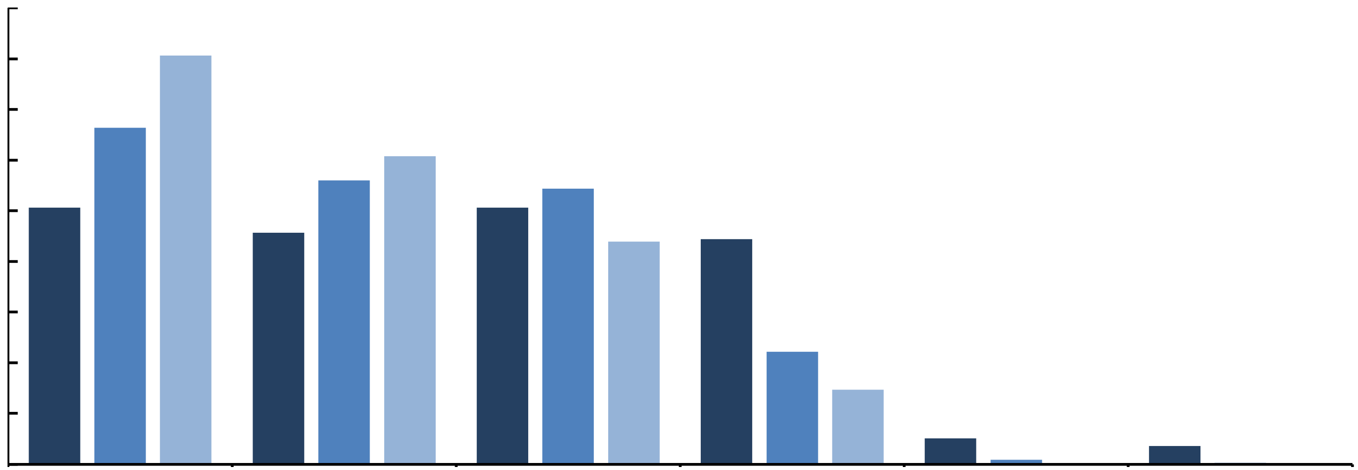
- Creation of SME
  - Established in 2004 in order to lower entry barriers for SME firms, especially newly established firms in the high-tech industries;
  - It has met with some success: as of 2015, the SME board constitutes a bigger share of SZSE than the main board

- ChiNext （创业板）
  - China's Growth Enterprises Market (GEM)
  - Launched in 2009, in order to provide financing for small and medium sized private enterprises, providing public capital to entrepreneurial firms
  - Mainly for high-tech, electronic, and pharmaceutical industries
  - Providing potential exit channel for venture capital enterprises

- Creation of OTC （三板市场 ）
- Share segmentation reform

Size distribution across markets

图 3　多层次股票市场上市公司总市值分布



0.31%　　30.37%

注：1.表中市值单位为亿元；2.数据截至 2014 年 7 月 30 日。

数据来源：WIND 资讯。

OTC Markets
The Third Board Market

- “Old Third Board”:
  - Serve lower quality, smaller firms that do not meet listing requirements
  - originated from “两网”, comprising the National Electronic Trading System (NET 全国电子交易系统) and Securities Trading Automated Quotations System (STAQ 证券交易自动报价系统).
  - Dealers market
  - “两网” was closed in 1999. Third Board Market (股权代办转让) was established in 2001 to serve the needs to trade the leftover shares, as well as the shares of other delisted firms.
  - Shares are only available to qualified investors (vs. available to the public)

OTC Markets
The New Third Board Market

- “New Third Board”
  - Pilot program in 2006 to allow unlisted high-tech firms to sell shares on the Third Board market.
  - “New” to distinguish these firms from the low-quality firms from the old third board.
  - Current: National Equities Exchange and Quotations System (NEEQ 全国中小企业股份转让系统)
  - Open to mutual funds, security companies, asset management firms, and high net-worth individuals
  - IPO but rare
  - recommendation and continuous monitoring by the leading broker-dealer
  - Trading and transactions:
    - Negotiation
    - Market maker
    - Competition

- Local OTC markets
  - Unofficially called “The Fourth Board”

- Regulated by NEEQ and CSRC: if shareholders > 200, must be approved by CSRC

Table 2.12 **Tradable versus nontradable shares for China's listed companies**

Year	Shanghai SE: State/total shares	Nontradable/ total shares[a]	Tradable/ total shares	A/total shares	A/tradable shares[b]
1992	0.41	0.69	0.31	0.16	0.52
1993	0.49	0.72	0.28	0.16	0.57
1994	0.43	0.67	0.33	0.21	0.64
1995	0.39	0.64	0.36	0.21	0.60
1996	0.35	0.65	0.35	0.22	0.62
1997	0.32	0.65	0.35	0.23	0.66
1998	0.34	0.66	0.34	0.24	0.71
1999	0.43	0.65	0.35	0.26	0.75
2000	0.44	0.64	0.36	0.28	0.80
2001	0.50	0.64	0.36	0.29	0.80
2002	0.52	0.65	0.35	0.26	0.74
2003	0.57	0.64	0.35	0.27	0.76
2004	0.58	0.64	0.36	0.28	0.77
2005	0.57	0.62	0.38	0.30	0.78
2006	0.36	0.65	0.35	0.27	0.81
2007	0.37	0.69	0.31	0.28	0.90
2008	0.47	0.58	0.42	0.37	0.91
2009	0.49	0.53	0.47	0.50	0.98

Sources: China Security Regulation Committee Reports (2000–2006), CEIC database, and http://www.csrc.gov.cn.

[a]Nontradable shares include "state-owned" and "shares owned by legal entities." This column is calculated as "(Nontradable in Shanghai SE + Nontradable in Shenzhen SE)/(Market cap in Shanghai SE + Market cap in Shenzhen SE)."

[b]Tradable shares include A, B, and H shares.

Implications of non-tradable shares

- Thin market: volatility

- In developed markets, shareholders can punish a firm's management by influencing its stock prices; minority investors can sell shares when they are not happy with the management; strategic investors can purchase shares and take over the firm.
  → management cares about share prices

- In China, until recently the majority of shares had been non-tradable so the State remains the controlling shareholder no matter what happens.
- Therefore, the management is not incentivized to care about share prices:
  – Career path does not depend on it: appointed by higher authorities
  – Impossible for minority share holders to take over the firm.

- Lack of minority shareholder protection → speculative behavior
- Hard for institutional investors to get rid of bad management → poor firm performance
- Distorted incentive for managers: they don't need to care about share prices → poor firm performance

Share Segmentation Reform （股权分置改革）

- Recognizing the drawbacks of NTS (non-tradable shares), the Chinese authorities had tried twice in the past to reduce the amount of shares owned by the State and decrease the amount of NTS in the market. Both attempts (in 1998 and 2001) had failed due to a decline in stock prices. – a market price conversion failed to acknowledge minority shareholders' loss, so prices dropped sharply following a new release of NTS.

- In 2005, the share segmentation reform was pushed forward once again and was successfully implemented this time:
  - The reform gave more bargaining power to the minority shareholders (tradable shares) that allowed them to negotiate a better deal with the NTS shareholders that compensated for their loss, hence protected minority shareholder interests. Tradable shares earned a "tradable premium"
  - This had managed to maintain stable share prices and resulted in a smooth transition.
  - By 2006, more than 90% of the listed firms (by market cap) had undergone the reform and shares had become tradable.
  - To minimize market impact, the release of the NTS after approval must follow a gradual process

Recent reform efforts - limitations

- Creation of the SME board and ChiNext: to improve financing to SME
  - The two boards have met with some success
  - Limitations:
    - Standards too high (similar to that of the main board): hard to distinguish from the main board
    - Still largely controlled
    - Standard too biased and therefore susceptible to fabrication and fraud
    - Overly high valuation recently
- Share segmentation reform
  - Impact: improving governance
  - Limitations:
    - Hard to tell how much of the officially tradable shares are actually tradable
    - State remains the majority shareholder

1. 安全性 ✓

2. 回报率 ×，流动性

3. 好的出不来，不行的出不去

Table 3.4 Top five shareholders of ICBC as of June 30, 2010

Name of shareholder	Nature of shareholder	Type of shares	Total number of shares held	Shareholding percentage (%)
Central Huijin Investment Limited[a]	State-owned	A shares	118,316,816,139	35.4
Ministry of Finance of the PRC	State-owned	A shares	118,006,174,032	35.3
HKSCC Nominees Limited[b]	Foreign corporation	H shares	68,577,667,687	20.5
The Goldman Sachs Group, Inc.	Foreign corporation	H shares	13,180,811,324	3.9
American Express Company	Foreign corporation	H shares	638,061,117	0.2

[a] Central Huijin Investment Limited is a wholly owned subsidiary of China Investment Corporation, the Chinese state sovereign investment company.

[b] Most retail and institutional investors hold their shares through a bank, broker, or custodian who in turn hold them in an account with the Central Clearing and Automated Settlement System (CCASS) operated by Hong Kong Securities Clearing Co., Ltd. (HKSCC), a subsidiary of HKEx. HKSCC Nominees Ltd., a subsidiary of HKSCC, is the registered shareholder of listed companies and acts as nominee for the account holders of CCASS. The total number of shares held by HKSCC also included H shares held by PRC National Council for Social Security Fund.