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Session Summary (No.61)

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Session38

Fundamentals of the Capital Market

Time:13:30 - 15:00, March 26th, 2017

Venue:ICC, Level 1, Dong Yu Grand Ballroom B

Moderator:

- WANG Boming, President, SEEC; Editor-in-Chief, Caijing Magazine

Panelists:

- Fred HU, Chairman, Primavera Capital Group
- LI Xunlei, Chief Economist, Zhongtai Securities
- Tony SACRE, Chief Executive Officer, Sydney Stock Exchange Limited
- Jim STONE, Chairman, Plymouth Rock Assurance; Former Chairman, US Commodity Futures Trading Commission
- SUN Jie, Former Chairman, Asset Management Association of China
- Wei SUN Christianson, Co-CEO of Asia Pacific, Morgan Stanley
- WU Xiaoqiu, Vice President, Renmin University of China

Key points:

- The capital market has many functions but should not lay stress on one specific function. This will lead to the deficiency or distortion of other functions.
- Price should be fixed by banks and the market instead of the government.



- The major difference between the registration-based IPO system and the approval-based IPO system is the different responsibility matching mechanism. According to the approval-based one, listed companies should take 50% of the responsibility, intermediate institutions 30% and issuing approval agencies 20%. Under the registration-based IPO system, issuing authorities bear no responsibility while intermediate institutions are supposed to undertake 45% and listed companies 55%.
- People usually notice the cost of reforms and think that reforms may cause a market crash and investors will suffer losses. Therefore, progress should be made while stability is ensured. In fact, reforms will be delayed after stable performance is kept and the time cost of the delay is seldom calculated.

Synopsis:

China's capital market is at an emerging and transition stage. Despite its rapid growth, it still faces many long-standing institutional and mechanism problems. For example, the marketization degree is not high; industrial competitiveness is insufficient; the market credit system needs to be improved further; the value investment ideal needs to be promoted further. In particular, unpractical voices that connect the rise and fall of the market with national policies can be heard all the time, which not only disrupts the market order but also weakens the supervision effects. All the panellists held heated discussions on problems such as functions of the market and the registration-based IPO system.

The Capital Market Should Not Emphasize One Specific Function

LI Xunlei said that the capital market has many functions but should not emphasize one specific function. Because this will lead to the deficiency or distortion of other functions with one single function emphasized.



Fred HU noted that the capital market has three functions: asset management, risk management and diversification and merger and acquisition.

Jim STONE pointed out that the most fundamental function of the capital market is to serve the commerce. The capital market cannot be considered as casinos.

SUN Wei said that price should be fixed by banks and the market instead of the government.

The Registration-based IPO System Will Restructure The Responsibility Matching Mechanism

WU Xiaoqiu said that the major difference between the registration-based IPO system and the approval-based IPO system is the different responsibility matching mechanism. According to the approval-based one, listed companies should take 50% of the responsibility, intermediate institutions 30% and issuing approval agencies 20%. Under the registration-based IPO system, issuing authorities bear no responsibility while intermediate institutions are supposed to undertake 45% and listed companies 55%.

Fred HU noted that the registration-based IPO system doesn't mean to lower the threshold.

Regulatory Agencies Should Play A Proper Role

WU Xiaoqiu summarized the history of the capital market and drew three lessons. First, given too many functions, regulatory agencies are likely to deviate from their fundamental duty—to make the market work in a



transparent, fair and just way. Regulators should bear in mind that the rise of the market and the increase of the index have nothing to do with themselves. The lever should play a proper counter-cyclical function. However, here in China, the higher the index is, the higher the leverage is. Third, it is vital for media to remain neutral.

LI Xunlei said that any policy is not supposed to be strongly utilitarian. Once it is, it may bring consequences.

LI Xunlei pointed out that people usually notice the cost of reforms and think that reforms may cause a market crash and investors will suffer losses. Therefore, progress should be made while stability is ensured. In fact, reforms will be delayed after stable performance is kept and the time cost of the delay is seldom calculated.

LI Xunlei noted that we should open up the capital market, and push forward reform by means of openness.

TONY SACRE noted that a normative market is important, but what counts more is an open market. China should encourage various kinds of investors. Domestic investors should be allowed to have access to the investment in foreign market and foreign investors the investment in domestic market.

TONY SACRE noted that we should add Internet financial technology to transactions so as to lower transaction cost for investors, which can improve efficiency in the capital market. The Sydney Stock Exchange put forward a clearing form, which regards block chain technology as the base infrastructure, making clearing more efficient.

SUN Jie pointed out that China and Western countries have differences in systems, so it's impossible for them not to intervene China's market in its implementation.



Fred HU noted that capital market could not play its proper role as a result of delisting system without strict enforcement. Only through reducing regulation and guidance and strengthening compliance management can the capital market play its proper role.

Fred HU noted that three measures must be taken to allow the capita market to play its role. First, IPO reform should be carried out from the administrative examination and approval system to registration system; second, the merger and acquisition mechanism of listed companies should be improved; third, mutual fund should be developed.

JIM STONE noted that inadequate disclosure of information and higher leverage may lead to market crash.

JIM STONE noted that since the scale of derivatives is much bigger than what is shown in the balance sheet, regulation system is needed in the capital market with high leverage.

SUN Wei noted that to attract foreign investment, we should first properly handle problems of corporations, secondary market, and regulation.

SUN Wei noted that if they can account for 51% stocks in Sino-foreign joint ventures, then foreign-funded enterprises, just like domestic enterprises, are able to introduce management experience and risk control system.