

# Research Report on China's Asset Securitization, 2013-2017

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## Abstracts

Asset securitization is a financial innovation aimed to improve liquidity and raise funds. It is a technology and process of structuring illiquid assets that can produce predictable and stable cash flows, reallocating risks and benefits, providing corresponding credit guarantees, and ultimately issuing securities to raise funds with the illiquid assets as underlying assets. In a narrow sense, asset securitization generally refers to securitization of credit assets, including mortgage-backed asset securitization (MBS) and asset-backed securitization (ABS). The asset securitization discussed in this CRI report mainly means securitization of credit assets.

China credit assets securitization pilot began in 2005. Regulatory agencies first issued Administration of Pilot Projects for Credit Assets Securitization Procedures and Measures for the Pilot Supervision and Administration of the Credit Assets Securitization of Financial Institutions, followed by credit assets securitization and mortgage securitization carried out by China Development Bank and China Construction Bank with an issuing scale of CNY 7.196 billion. The issuing scale in 2006 was CNY 11.58 billion. In 2007, with the introduction of relevant regulations on information disclosure of credit assets securitization and interbank market collateral repo transactions of asset-backed securities, credit assets securitization entered the pilot expansion phase, with continuously increasing scale, extending to non-performing assets. The issuing scale in 2007 was CNY 17.808 billion and that in 2008 was CNY 30.201 billion, including the first non-performing asset securitization product issued by China Construction Bank, which further enriched the categories of asset securitization.

At the end of 2008, a total of 11 promoters conducted 16 pilot business operations of credit securitization, with a total issuing scale of CNY 66.785 billion. Whether in quantity or scale, credit securitization enjoyed a small proportion in the market of bonds.

In 2008, as the international financial crisis broke out and domestic macroeconomic financial policies were adjusted, regulatory agencies slowed down the issuing speed in the market out of prudence and concern over asset securitization risks and suspended non-performing asset securitization pilot at the end of 2008.

In February 2012, People's Bank of China declared that it would continue to promote such financial innovations the securitization of credit assets. On May 17, 2012, People's Bank of China, China Banking Regulatory Commission, and Ministry of Finance jointly issued Notice on Matters Concerning Further Expansion of Credit Assets Securitization Pilot, restarting the credit assets securitization, with an amount of CNY 50 billion.

In September 2012, China Development Bank first restarted China credit assets securitization with CNY 10.166 billion ABS products. On October 30, 2012, Bank of Communications commissioned Zhonghai Trust Co., Ltd. to issue CNY 3.034 billion "First Issue of Credit Asset-backed Securities of Bank of Communications, 2012". Bank of China also plans to issue credit assets securitization products recently and has obtained approval from the central bank.

The restart of credit assets securitization expanded to non-bank financial institutions. On November 19, 2012, ICBC Financial Leasing Co., Ltd. issued the first asset securitization product of financial leasing enterprises, followed by companies offer automobile financing and loans in November 2012. The two product designs launched by Shanghai GM and SAIC-GM were similar. The designs were both classified into preferential asset-backed securities A and subprime asset-backed securities B.

In addition to banks, securities traders have also begun to pay attention to this market. Different from banks, securities traders are mainly involved in asset securitization of enterprises, issuing asset-backed securities through special asset management plans.

China Banking Regulatory Commission and China Securities Regulatory Commission have both provided detailed regulations concerning asset securitization business, with the latter showing more support for asset securitization. Banks engage in asset securitization business for the purpose of adjusting credit structure (industry structure, maturity structure, etc.), improving asset liquidity and reducing credit scale, while securities traders engage in the business to seek new profits.

At present, the scale of China asset securitization still remains relatively small. Asset securitization provides banks and securities traders with credit investment channels for

their financial funds. It is expected by CRI there will be considerable room for development. Bank credit assets securitization is taken as an example to primarily estimate the room for credit assets securitization. Suppose bank special-mentioned credit asset is the underlying asset of securitization. By the end of 2012, the balance of various loans in China banks was around CNY 67 trillion. Suppose special-mentioned loans (10% of which was securitized) accounted for 5% of the balance, the room for credit assets securitization was about CNY 300 billion. With various charging rights, beneficial rights and other non-credit assets, it would be easy to achieve asset securitization of over CNY 1 trillion.

On March 15, 2013, China Securities Regulatory Commission issued Securities Company Asset Securitization Business Regulations. In the premise that 5% of credit and income-right asset is securitized, the business will bring a market of over CNY 10 trillion when it is mature, estimated by CRI.

Through this report, the readers can acquire the following information:

Market Status Quo of China Asset Securitization

Policy Environment for China Asset Securitization

Business Process of China Asset Securitization

Asset Securitization Focus Forecast

Influencing Factors and Development Prospects of Asset Securitization

The Following Enterprises and People are Proposed to Purchase This Report:

Commercial Banks;

Securities Trader

Investment Bank

Investors/Research Institutions Interested in China Asset Securitization Market

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