

# China's Capital Markets: Look Back and Look Ahead

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## Speakers:

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## Magdalene Tay

Good morning and good afternoon to everyone on the line. Firstly, let me introduce myself. I'm Magdalene Tay, the regional lead for China and Hong Kong, responsible for driving Custody Solutions for these markets, and I'm very pleased to be here, and it gives me a great pleasure to welcome all of you to this live audio webcast today on "China's Capital Markets: Look Back and Look Ahead".

Today's session is interactive, and we encourage you to submit your questions throughout the session by typing your questions in the Q&A chat box, and we will do our best to answer all questions during the session.

Now, let me first begin with a synopsis of the China capital market. China remains an attractive investment opportunity for foreign investors looking to diversify their portfolios, both in alpha and beta perspectives. Its growing economic strength, the rapid market developments, and integration with global market standards continue to draw worldwide appeal to its capital market. Well, despite its growth and potential, institutional investors continue to face existing challenges, such as the trade tensions, the regulatory transparency, the new uncertainties in the technology and the property sectors, as well as the latest variant, Omicron.

Our discussion today, we will focus on four major elements. First, we will look at the start of 2021, the market situation, development, the challenges that investors still face, the impact of the index inclusion on investors' allocation strategy, and the choice of their access into the China market. Lastly, we will talk about looking ahead into 2022, the trends in the China capital market.

Now, I'm joined today with two key speakers who will share their market perspectives. First, we have Sandor Steverink, who is the Head of Treasuries and Inflation Linked Dept at APG Asset Management. Sandor is also responsible for China Fixed Income desk. Also in the panel, we are pleased to have Andrew Tong. He is the Senior Portfolio China-A Quant at Invesco, and Andrew is responsible for Invesco's China A-shares quantitative strategies. Once again, thank you both, Andrew and Sandor, for joining us today. Now, let's get started.

This year, we saw market volatility, especially in the tech, property, and the education sectors, and the effects also of the pandemic. It will be interesting to hear from both your views on the China equities markets, equity and bond markets, and investors' appetite in China versus the global markets. So, Andrew, looking back across the year 2021, what are your views on the equity market, and then Sandor will share with us your views on the bond market.

## Andrew Tong

Hi, Magdalene. Thanks a lot for having me here. When I look back at 2021, now that we're end of November, I think in a lot of ways the China market has actually played out somewhat predictably. Now, first on China's economy. So, at the end of last year, on the back of stimulus measures, China was the first country to enter and exit the pandemic. We knew that the strong rebound in economic growth was going to create some inflationary pressure, and that certainly showed up

in the first half of the year. Beta risk certainly was a little bit higher in the first half. We saw the market rise and correct in the first quarter, but by and large, with fairly stable money supply, and even commodity prices starting to stabilize, we think inflationary risk was a little bit more transient rather than structural, unlike in Western markets, where we have seen much larger money supply and much larger stimulus. So, that certainly kept the beta risk or the overall market risk somewhat stable.

We knew that towards the second half of the year, or with inflation starting to become priced in and more stabilized, the risk becomes shifted towards growth, and China has been on a very delicate path, trading between deleveraging the economy versus boosting the economic growth, and that continues to play out in the second half of the year. So, in terms of the beta risk, we didn't see a significant risk in Chinese market compared to its historical risk, but certainly when you look at the cross section, there's a tremendous amount of risk in style, for instance, with inflation versus the growth measures. So, playing catch-up between value and growth stocks was a major theme in the first half.

Another important diversification investors need to pay attention to was large cap versus small cap, and maybe even with mid cap becoming a more significant segment in the economy, given various measures to prevent monopolies from forming.

Now, so also with the economy, but second point is probably more about policy and regulatory changes that happened this year. We'll touch a little bit more on that later, but I think I wanted to highlight that a lot of these changes that we've seen this year really relate to longer-term measures of how Chinese government is planning the growth of China. If you recall the findings from the population census for 2021, housing and education costs were flagged as two of the major components in household expenditures, and obviously, with these heavy costs, the need to boost population growth, which is essential to really reinvigorate China's growth for the next 40, 50 years, is going to come under strain. So, tackling these fundamental issues within the society are of paramount importance, and we certainly see that reflecting itself in various policy measures, property markets, in the education market. So, those were all measures taken to address real society issues. So, for investors, having sector diversification throughout this year also became a very important characteristic of their portfolio management.

So, looking at the overall balance of fairly benign data risk, but very high cross-sectional risk, we think the flows this year have certainly signaled that investors continue to have pretty strong confidence in the Chinese market. We first look at the institutional investors from overseas, so you look at the cumulative net holdings on the Stock Connect Northbound trade, you see that this trendline has been increasing since inception, and if you look at the aggregate level of flows, after taking a dip in the interest in the second quarter, we've seen a rebound in investors' buying activities. So, you see that jump in the blue bars in the last few months of this chart. But net-net, what I really wanted to show is that the cumulative net inflow has continued to grow to an all-time high. So, that certainly shows that investors, especially national institutional investors, are continuing to build positions in the China A-shares market, although they do have certain preference in the kind of securities that they want to invest in. They like to invest in companies that have stronger profitability, high quality, perhaps lower leveraged, and also they take a more tactical view on valuation play, buying at dips and selling when things have gone up in prices.

Looking at domestic flows, though, I think a very important measure would be the domestic mutual fund market. Again, here you see a significant increase in the interest, as shown in the rising assets under management. In fact, by the end of last month, I think the total equity funds AUM has reached an all-time high of RMB2.2 trillion, and the number of fund launches this year has also been fairly staggering. So, overall, we think that investors continue to place very strong confidence into their flows for China A-shares market.

Back to you, Magdalene.

### **Magdalene Tay**

Thank you. Thank you, Andrew. Sandor, would you like to share your views on the bond market?

### **Sandor Steverink**

Sure. Thank you very much for having me on this conference. I'd like to share my views on China. Even though I'm based in Amsterdam, I'm following the Chinese market on a daily basis, and what you've seen over there is that 2021 was a great market for bond investors. The performance came from all engines. So, on the rate side we've seen that yield dropped from above three to quote a constant level the last few months below 3%. Also on credit spreads, even though we saw some volatility, especially due to Evergrande, but in the major credit resource spread tightening, and also on the currency side, which is particularly very important for foreign investors, maybe the local investors are not focusing too

much on it, but also we saw a good appreciation of the Chinese currency. So, all in all, we see now for our clients that even though they are not using leverage, which is very common in Chinese bond market, and for Chinese bond investors, our clients do not use leverage, but still, they made a performance, double-digit performance, in bonds.

So, 2021 was, for bond investors in China, a great year, and also, for most of the credit investors, even though we saw a good warning signal, that was in October, there was market volatility, when the property sector was affected by Evergrande, by the problems they have, even though it's still not very clear how this will turn out, but it has made one thing clear, and that is that defaults can happen in China, and also defaults from large companies. Don't forget that in 2014, was only the first default in the Chinese bond market before there were no defaults, because the government was always there to save institutions. It's getting clear now that that's not the case anymore, so I think that's a good warning signal, and that will lead to more credit differentiation, probably for next year. But 2021 was in general and a great year for bond investors, and we also expect that that will not disappear too fast, because the trends that started in 2020 after COVID, we expect to continue. That's, in a nutshell, my view.

### **Magdalene Tay**

Thank you, Sandor. So, there's evidently a number of major trends driving the market, and things are certainly looking dynamic. So, thank you both for your insights.

So, let's move into understanding this a little better, as existing investors in China. So, what are the current channels that you're using to access the equities and the bond markets, and why? Maybe Sandor, you would like to start with your views first?

### **Sandor Steverink**

Yes, in general, you've got three ways to access the bond market in China. That is CIBM, QFI, and Bond Connect, and we started a bidding strategy two years ago. At that time, we chose for CIBM. That's also because we are working together closely with a Chinese partner, E-Fund, and we see that CIBM is used by a lot of Chinese investors. Also, our office in Asia is in Hong Kong, our main office, and we see that most foreign investors that were outside China, they used CIBM, and also we are working now on setting up an additional channel next to CIBM, that's Bond Connect. But the only thing is if you have two channels, you have to make sure that you separate the administration. So, if you buy a bond on CIBM, you cannot sell it on Bond Connect, so you have to be aware of that. But getting the access to Bond Connect is very easy, and I think it really depends a lot on what your investment universe is, which kinds of instruments you want to use? At that time, CIBM-- two years ago, CIBM was the best to access the bond market, but we've also got an equity strategy. I don't want to come too much to Andrew's field, but over there we chose, for example, QFI because that was more suitable for our A-shares strategy. So, it really depends on what you want, what your preferences are, and also where you're based. If you're based fully outside Hong Kong, outside China, then probably Bond Connect is needed.

### **Magdalene Tay**

Thank you, Sandor. Over to you, Andrew.

### **Andrew Tong**

Thanks, Magdalene. Yes, I certainly share Sandor's view, as we're based in Hong Kong, and we also have a domestic partner, Invesco Great Wall, which is our joint venture, and we work closely with them on executing our strategy, research, and so on. So, as investors based out of China, I certainly agree that Stock Connect offers the easiest setup or the easiest path to get things started, which was what we were doing a year ago before some of the reforms in the QFI access channel. At that point in time, there was a requirement for a QFI quota, an application for a new license, so much more administrative overhead if you were to go with the QFI route, and since we were based out of China, and our strategy involves primarily on most liquid securities traded on China exchanges, we believe that Stock Connect offered the best route for us to get things started.

Now, I do have to highlight that QFI now offers much more appealing characteristics than a year ago. For instance, even for a starter, for investors who didn't have a QFI quota or a license, they can now get approval in 10 working days. There is no quota now, and while you have to handle the accounts separately in China, you do have the benefit of direct ownership by CSDCC if you're trading on a QFI account, versus an indirect beneficial ownership if you're trading on Stock Connect. Not something that we think is a deal breaker, but I do think that sometimes certain investors may pay attention to these aspects.

And QFI also offers a much richer and wider spectrum of instruments that you can trade. Not only you can trade more than the 1,400 plus securities that you could with Stock Connect, you can actually trade all of the 4,000 stock securities on the A-shares market, depositary receipts, shares on NEEQ, which would by extension include the new Beijing exchange. Now, you also have access to the primary market, which means you can participate in IPO subscriptions, which has historically been a very rich source of alpha for investors, and this is something that you couldn't do with Stock Connect.

You can also trade private investment funds, which means that you have more options in creating better products and partnerships you want to do onshore. Ability to trade derivatives, index futures, and more recently, the details on the commodity futures and commodity options that you can actually trade, and all these actually create additional spectrum of strategies or instruments at your disposal, whether it's for risk hedging, or it's to look at a different segment.

### **Magdalene Tay**

Thank you. So, thank you both for sharing the pros and cons of your choices, and definitely the choice that you have made specific to your investment strategy as well as your business models.

So, let's now dive into the market reforms. Over the years, China has taken significant steps to ease the foreign access, and here I want to share with you a snapshot of some of the key market developments that happened in 2021. Questions to both Andrew and Sandor, what are some of these market liberalizations that were important to you and have these reforms actually met your needs, and are there still challenges that you're facing, and what more can be done by the Chinese regulators? So, we will start with Andrew and then followed by Sandor.

### **Andrew Tong**

Yes, Magdalene, I think these reforms actually have definitely played a significant role in how we want to determine our current operation. We're in the process of examining QFI very closely because we believe the additional options that QFI bring may be beneficiary to our strategies and our investors. However, we do think that there are issues that have prevented investors from going the QFI route, and there are also issues simply having to manage both QFI and Stock Connect. As Sandor pointed out, if we look at Stock Connect, for instance, there is some degree of misalignment between the trading days versus QFI. That creates problem for investors that are only using Stock Connect. On the other hand, if you're trading QFI, the repatriation of funds is not going to be met with any restrictions, but there is slight delay compared to if your securities traded already on Stock Connect. So, some of these are, I would say, technical challenges, and they don't necessarily prevent us from carrying out our operations and strategies, but they add some degree of complexity. So, I think this is something that regulators and market participants will continue to discuss going forward to create a more streamlined operations.

### **Magdalene Tay**

Thank you, and Andrew, how about you, Sandor?

### **Sandor Steverink**

Well, we really support all the changes that are happening now in the Chinese market, but for us, the most important change was a few years ago when the repatriation limitation was abolished, and from that time on, it was surely every Euro or dollar that you put into the market, or that you could get out of the market, and that wasn't for us the starting point to invest in Chinese onshore bonds, and after that, we have seen a lot of improvement in the market. At the moment, a lot of people are looking at the size of the market, and the size of the Chinese bond market is really huge, and if you will always look at the Euro market as one market, not by individual countries, then China is the third market in the world, but if you look at liquidity, they are not-- the liquidity is still a little bit behind. So, I think there's still some work to do, even though the progress and the direction is very good. But on liquidity, I think because you still see that bid offer spreads are wider than in other mature markets. And also onto other dimensions, there is progress possible. One of them is ratings. We still don't rely on local ratings, because we think that local ratings have got very little value. There are a lot of other reasons to get a rating and we don't find that the ratings give anything new. Therefore, if you want to invest especially in the credit markets, you have to do your homework yourself and you cannot rely on ratings, external or international ratings. That one we are using, but these ones have got the issue that they are not covering the whole investment universe. So, doing your own homework remains very important for us in the Chinese market.

The third dimension where I think progress is useful and will be really supported by us is the development of a liquid derivative market. Futures and swaps on interest rates are very common in most markets, but in China, they are there but

it's not really well developed and liquidity is not that good yet. So, we think that on these three dimensions progress is really useful and will attract more foreign investors. Foreign investors are looking at China now, but don't forget that only 4% of the total Chinese market which comes from foreigners so there's a huge space to gain from foreign investors into this Chinese market. In other markets, we see that the participation of foreign investors is sometimes even over 50%. So, yes, there's really a lot of opportunities, I think, for Chinese regulators, but I have to admit that there, we also talked a few years ago to the PBOC, and we noticed that they are very curious and that they are very busy with getting these markets better functioning. So, really, unless you see where they're coming from, and how fast it goes, I'm very positive that the three issues that I mentioned that they will improve on all three.

### **Magdalene Tay**

Thank you. So, indeed, the China market has seen significant developments lately and will continue to evolve. So, with the China index inclusion, how do you foresee the allocation into China will be like, and will that change your choice of access schemes to diversify your China portfolio? So, maybe we'll start with Andrew and then followed by Sandor.

### **Andrew Tong**

Yes, so I think in the past two years, major index providers have slowed down their pace of China A-share inclusion into major indices, but it has certainly not stopped institutional investors from allocating more to China. But we would argue that the current level of allocation from foreign investors to China remains much lower than a true representation that China A-share should deserve, considering the size of Chinese economy and pace of its growth.

Now, we do think that at some point, index providers may consider increasing their allocation by global emerging market indices and so on, and that could potentially be a much more sizable increase, rather than the smaller baby steps we've seen previously, and investors may react to those events. Of course, there will be fairly long buffer periods, consultation perhaps may or maybe not, but certainly, there'll be a period of adjustment.

We think that right now, the smarter thing to do is to not only allocate a more GDP-weighted exposure to China A-shares. I'd also consider a more active approach, and we certainly think that if China A-share inclusion in indices increased to a much higher level in the future, the need to actually look at alpha would expand investors, and to do that, I think investors may also start looking at the investable universe that they have. At this moment, Stock Connect universe still looks like a fairly attractive pool with more than 1,400 securities versus the number of stocks in MSCI China A-share index, for example, which is probably about 500 or so. So, you still have a very large universe for stock selection in your strategy. But as inclusion weights increase, the need to diversify your pool becomes greater, and also, the overgrowth of stocks may increase the number of constituents in these China A-share indices. So, you really need to start looking at more companies that you can invest in, perhaps via QFI, and there's one reason why we want to look at QFI in more detail.

The other reason is that the Chinese economy is growing very quickly, but it's also developing in a slightly different way than the past 10 years, whereas in the past 10 years, you have seen large companies growing larger and larger, and mid-cap companies or small companies are unable to break through after they reach a certain stage of mid-cap companies. Now, with new anti-monopolistic regulations in place, there could be a sizable amount of appeal to mid-cap companies in the long run. Their ability to penetrate their provincial, regional operations to a more national scale may allow them to grow bigger and faster than they had before. So, to be able to expand your investable pool to the mid-cap segment is also an important measure that we want to look at.

And perhaps on a point that is a little bit different from index inclusion is, I think, right now, allocation to China versus allocations to DM or EM, have pretty much priced in the current state of the global pandemic situation, which is China remains the only country that is taking a COVID zero measure, rather than living with COVID, or treating COVID as an endemic and fully opening. The risk that Omicron has brought back to the limelight is that the spread of a prolonged COVID pandemic may actually be real, and we don't know, and this could be a persistent cycle that keeps changing. And so, the risk is that if opening slows down in the other markets that have already opened up, this kind of allocations appeal would change very quickly, and China having already priced in the fact that it's not really opening is actually not going to suffer as much in the case of a global lockdown, because it is not actually taking such a measure to begin with. So, we do think that global investors should continue to look at China A-share allocation as an important imperative in their asset allocation.

### **Magdalene Tay**

Thank you, Andrew. Over to you, Sandor.

## Sandor Steverink

Yes, I think China is now put in most global bond indices, and that is really helping clients to put more effort into China. But if you look at total numbers, then you see that most global investors have got around 4% invested in China, also most of our clients. But if you look at the size of China compared to global GDP, then it's 18%. So, there's still a big gap between these 4% and 18%, so we think there's still a way to go for foreign investors, and that they can really increase their amount in China. So, that's really important for them, but we don't think that the access way will change. It does not depend on how many of the assets you put in China. I think the inclusion in global bond indices, and I think you mentioned now one of the indices provided, but also the other ones like JPMorgan or Bloomberg, or Barclays, are also busy now checking if they can integrate China in their global indices. So, that is for... that will help all investors to put more money into China.

What we do see is that the further diversification and further creation of more indices is very helpful. Like I mentioned already, the liquidity, our clients, they like to have a more liquid index, where not all bonds are included but only the liquid bonds. Also, yes, separation in different segments, because also, more and more of our clients are looking in on ESG factors, and then the good structure of sectors and ratings will really help to see where they can focus on and that makes it easier for asset managers to fulfill the needs of the client.

So, that's mainly it. I think it will help investors to increase the amount that they will put in China, just by following in index, but there's still, really, a big gap to close to get from the 4% of the actual assets to the 18% as part of the global GDP.

## Magdalene Tay

Thank you, Sandor. So, it's interesting to hear the diverse views from both of you. So, let's now shift gears and we will look at the-- looking ahead into 2022 and beyond. Sandor, what are the trends that will shape the China bond market and the key considerations that investors need to take note when they're assessing the China market?

## Sandor Steverink

I think one of them-- well, the global trend that you see back in China is one of declining yields. I think that one will continue. But still, if you look at China, then you see the deals are, well, between three and 4% of most bonds, but with an inflation below two, we still come up to positive real yields, and that's very hard to find at the moment globally. Almost everywhere real yields are negative, but in China, they're positive. So, I think that in the end, this global pressure will also hit China, and that will have a continuing pressure on yields, and which is positive for bondholders. So, I think that one is something to be aware of, especially for global investors, that your allocation to China will benefit you on the yield side.

Also, on the currency side, we have seen that last year already, I think that's also a trend that will continue. We see that inflation is also well kept in China and quantitative easing is not a tool that they use massively in China and, therefore, the currency has still room to appreciate further.

But I think the most important trend for investors is what happened recently, is what happened to Evergrande. The impact of that will be that we expect more risk diversification. At the moment, we don't think that credit risk is well priced in China, meaning that high-risk companies are almost priced at the same level as low-risk companies. So, our strategy is focusing on looking at the solid and low-risk companies with a decent yield, and we try to avoid the high-risk companies, because we think that that risk is not properly priced. And I think that the increase in defaults will continue in China, which started a few years ago, and I think it will continue, because it's still below Western standard. We make-- every year, we make a comparison and we see the gap is declining, but still the actual defaults are less and... so, I think what is important now for investors in the Chinese bond market is to focus on credit risk, something that was not too important until up to a few years ago. It's getting more... it's becoming more and more important, and not only for small companies, also big companies. Investors have to be aware that the Government is not supporting and will not cover all institutions anymore, also... even if these institutions are large.

## Magdalene Tay

Thank you, Sandor. And over to you, Andrew. You want to talk about your thoughts on the equities markets?

## Andrew Tong

Yes, I think Sandor brings out a lot of interesting points about is it guaranteed versus allowing bonds to go bankrupt and so on.

I think when you look at the Chinese market, you have to understand that it is really a hybrid of a market-based economy, market-based system, but very, very strong policy hands at the top measure. So, for investors, understanding that major trends are going to be shaped by policies, but a lot of the stock picking may be driven by market-based performance. This is an important principle that you have to keep.

So, when we look at the major trends for China, we definitely want to look at the long-term regulatory and policy drivers that will propel these trends forward for the next 10 years, even 20, 30 years. And some of those things are definitely related to various initiatives that you've heard in the last one or two years from the National People's Congress meetings, dual circulation, for example. We think that this is a major transition that will span decades for China to continue to grow. It's reached an inflection point of transitioning from a very export, manufacturing-oriented economy into one that will have a much larger base of consumer spending, domestic economy, supported by a very fast growing middle-class, or middle income population base.

That's one important thing to understand what dual circulation means for the domestic economy. It's going to be important as some of those things will be related to consumption and services. And then, of course, you have the pandemic that's playing out, so that's going to create a lot of ripples.

There's also the carbon neutrality target of 2060, which is a very important policy measure, not just because it allows people to feel good about saving the planet, but because it actually does, not only environmental good, but it also helps China to deal with its energy supply needs, energy supply security problems. So, these again are high-level goals that will be supported in the long-term, and so you want to be aligned with industries and companies that are going to support such initiatives.

And recently, the Chinese Government has already announced targeted measures to support companies that are involved in green technologies or the transition to carbon neutrality by way of green financing or cheaper loans. There will be more of such measures to be rolled out in the future, but they will continue to support this segment of the market going forward.

So, of course, ESG, as a whole, I think we may have questions like this, but I want to touch on that now. But ESG is going to be an important criteria when we look at the growth of China in sync with carbon neutrality and also the need to deal with social welfare of the nation.

Back to you, Magdalene.

### **Magdalene Tay**

Thank you, thank you, Andrew. So, thank you both, Andrew and Sandor, for sharing your insights.

And we will now open for Q&A. Just a reminder that you may submit your questions in the Q&A chat box which you can find at the bottom right of your screen. Please address to all panelists before submitting your question.

So, while giving our audience a minute to submit their questions, we did receive a couple of questions through our registration page.

The first question is regarding some challenges that, obviously, investors they have with regards to data disclosures and transparencies when they are investing into China. So, we will start with Sandor and then followed by Andrew for your comments.

### **Sandor Steverink**

Yes, thank you. On data, we notice that as a global investor, we see a lot of differences and we see that the access of data in China is still quite a big issue. We don't think that Chinese companies are better or worse than other companies but, in general, we have got less information on them and it's more difficult to find. So, since we are really looking at the best of the best companies, with respect to ESG, we see that only... well, where in the Western world around 50% qualify to our standards, we see that in China it's around 10%. And that's not really something to do that the companies are better or worse, but more that the numbers are not always available. So, we need to do more effort to get this data. And sometimes when we reach out to these companies, they can provide this data, but it's not always publicly available and not always in general databases.

So, I think on that side, there's a lot to gain, especially on the bond market, because for listed companies we see that the data-- information is a lot better. But a lot of bonds are from issuers that are not listed. So, I think that is an issue that we've got.

And also, if you ask the companies about their policies on specific items, especially on ESG, then most times they've got kind of rules that they use internally, but they don't describe them and they don't publish them as a policy. So, there's a lot of, we say, easy gains for Chinese companies.

### **Magdalene Tay**

Thank you, Sandor. Andrew, do you want to add anything or comment?

### **Andrew Tong**

Yes, very interesting indeed, because Invesco recently teamed with the Economist Impact to understand how institutional investors invest in China today, and the top two challenges that they have selected were actually regulatory transparency and corporate reporting. So, clearly, data disclosure, policy disclosure, or regulatory transparency are the major issues that institutional investors face.

So, while we think that the Chinese regulatory policy may appear to be less transparent to overseas investors, we don't think that they are necessarily irrational or particularly unpredictable. As I explained earlier, a lot of these policy measures were created to deal with real social needs, or social problems, or economic issues.

So, we think regulatory policy has definitely been in the limelight this year, but we think it has also reached a more stable point for investors to feel more comfortable about the current regulatory landscape. We think there will continue to be regulatory developments. But overall, we actually see some of these regulatory changes this year as more pro-ESG and pro-investors.

On data transparency or corporate reporting, we do notice that Chinese companies may not always disclose as much as global companies. And also, there is sometimes a problem of not being able to find the data via data vendors. So, that's clearly a problem.

I think if you look at this from two perspectives. One perspective is if you believe that there is bad data that is being hidden from you, that is not disclosed to you. So, thinking in the line of fraud or poor governance behavior, so you want to protect yourself from being exposed to companies that are not disclosing such kind of data.

So, on that front, recently, just I think a week ago, Chinese regulator, CSRC, announced new draft guidelines that is aimed specifically at enhancing information disclosures for listed companies by expanding the due diligence obligations of the sponsor. So, this would potentially levy administrative penalties on the sponsor in the event of such breaches of duty. We think this would actually spread the burden of oversight across to the sponsors or market participants, that will help to encourage better oversight on companies' data disclosure and potentially also offer investors an additional avenue of protection and financial recourse, instead of going to the regulators to file for claim against fraudulent company disclosure and so on.

On the aspect of having voluntary disclosure of data or having data available to investors for the benefit of analysis, but not necessarily because there were any fraudulent data hidden, CSRC has also this year made a new change to the financial reporting guideline. I think this is the first change since 2017. And within the new guidelines, there's clearly a kind of promotion of governance-related disclosures. So, I think that has been raised into a subsection of its own. And there's also been some changes with regards to ESG related disclosures. Most of those disclosures are still voluntary in nature, but we do notice that they have added mandatory disclosure on some of those issues, such as environmental pollution-related penalties. As well, they've also raised the prominence of ESG disclosures by promoting that to a subsection.

Now, we think this is an ongoing trend that will continue to encourage companies to improve their disclosure. More practically from an investor's point of view, what we have done is to engage in active engagement or dialogue with corporates on issues that we think matter, specifically ESG issues that we think matter, matters related to carbon neutrality, net zero, or on social and governance issues. Sometimes the easiest way to actually have clearer access to information is to speak with the company. And you will find that just reading the transcripts of company management conversation about responses to investor queries, there's been a host of similar type of questions too.

So, there are a lot of avenues to find information. But I would agree that sometimes it may be complicated for investors to locate those information easily.

### **Magdalene Tay**

Thank you, thank you, Andrew.



So, just to wrap up. So, today, here are some of the key takeaways shared by our speakers today. So, looking back at the start of 2021, the pandemic, inflation, supply issues, regulatory actions, real estate problems, these were some of the key drivers behind investors' appetite and market trends. And there are still challenges investors are experiencing, such as the differences among the access schemes, credit rating, and liquidity.

And looking ahead into 2022, so some of the key trends that were shared by the speakers include regulatory risk, policy changes, ESG integration into China.

So, with that, I want to thank you, Andrew and Sandor, for sharing your insights in the equity and bond markets. And I would like to also thank the audience for listening in and we hope you found this session informative and wish everyone a very good day.

Thank you.

**Andrew Tong**

Great, thank you.

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