
Shanghai Stock Exchange Announces Strategic Plan through 2020

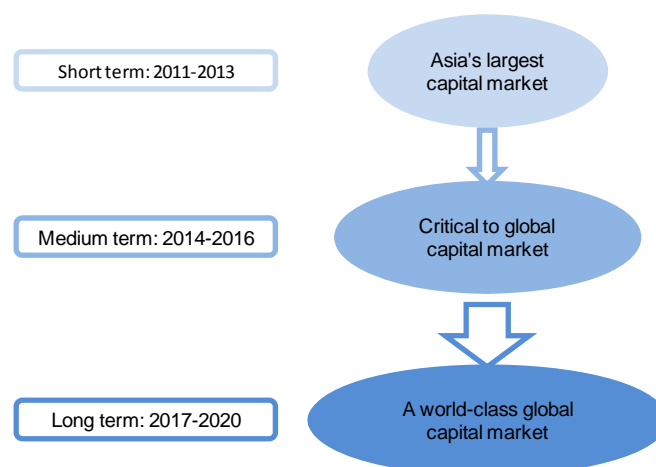
Eiichi Sekine
Senior Analyst,
Nomura Institute of Capital Markets Research

I. Strategic plan through 2020 announced

On 13 December 2020, the Shanghai Stock Exchange announced its "Shanghai Stock Exchange Strategic Plan (2011–2020)," the result of a complete overhaul, began in 2008, of its initial strategic development plan formulated in 2002. The new strategic plan was also a response to the 2020 target date set by the State Council in its opinions, announced on 14 April 2009, on Shanghai becoming an international financial center¹.

The thinking behind this strategic plan is to develop the Shanghai Stock Exchange (SSE) by 2020 into a world class bourse that has global reach, is operated efficiently and with advanced technology, and is solidly underpinned by the rule of law. The plan also sets specific goals for the short term (the three-year period from 2011 to 2013), the medium term (the three-year period from 2014 to 2016), and the long term (the four-year period from 2017 to 2020), as shown in Figure 1.

Figure 1: Shanghai Stock Exchange Strategic Plan (2011–2020)



Source: Nomura Institute of Capital Markets Research, based on Shanghai Stock Exchange data

¹ See Eiichi Sekine, *Chouseifu no Shouninn wo Ukete Ugoki dashita Shan'hai Kokusai Kin'yu Sen'taa* (Shanghai International Financial Center plan approved by the central government), China Capital Markets Research (Website edition), Summer 2009 (in Japanese).

The short-term goals are to relentlessly strengthen the SSE's core competitiveness, build it into Asia's largest capital market, and lay the foundation for achieving the medium- and long-term goals in the plan. The medium-term goal is to develop the SSE into a leading Asian capital market that plays a critical role within global capital markets. The long-term goal is to turn the SSE into a major global economic agent and one of the most influential exchanges in the world.

II. Short-term goals to be achieved by 2013

The plan extends to 2020, but it is critical that the short-term objectives for 2011–2013 are achieved. The strategic plan's short-term objectives include a total of 37 tasks in five different categories. Those tasks that are of importance to overseas financial institutions and overseas firms are summarized below. The most important of these, in our opinion, are the establishment of an international board (equivalent to the Tokyo Stock Exchange's Foreign Stocks section) within the bourse and the development of a variety of products, including ETFs.

1. Issuance market

One goal is to promote the opening of an international board. This would restore the ability to trade Hong Kong red-chips on the A-shares market as well as provide a mechanism for non-resident foreign corporations to issue and list their shares in China.

A second goal is to establish rules for mergers, acquisitions, and restructurings of both state-owned enterprises (SOEs) and listed firms as a means to improve the competitiveness of SOEs and raise the level of technology at listed firms.

2. Investors

One goal is to expand the size and investment choices of qualified foreign institutional investors (QFII) and promote both the direct and indirect participation of nonresident investors in China's capital markets.

A second goal is to support the overseas expansion of qualified Shanghai Stock Exchange member firms (brokerage houses) as a way to achieve a more global reach.

3. Products

One goal is to provide a larger lineup of products linked to share price indices and build a system for indexing the blue chip market.

A second goal is to list a variety of ETF products, while at the same time packaging a number of flagship products with assets exceeding RMB 10 billion. This

includes developing services for rating cross-border ETFs, and is to begin by listing ETFs on Hong Kong's stock market.

Third is to place a priority in the bond market on developing government bonds, corporate bonds², convertible bonds, securitization, and structured products, while expanding bond repo services.

Fourth is to ensure the stable development of the margin trading of stocks, and to provide an orderly system for testing the borrowing and lending of stocks. The plan also contemplates the introduction of futures and options for individual stocks, and preparing for the opening of derivative markets to qualified investors.

Fifth is to develop such new products as REITs and Trusts of Funds.

4. Trading platform

One goal is to establish a platform for large trades for use primarily by qualified investors.

A second goal is to consider a variety of trading methods, including market maker and T+0³.

III. Reform of the exchange itself

It is noteworthy that the latest strategic plan also addresses reform of the exchange itself, beginning with a strengthening its self-regulatory function. Secondly, it looks at improving both the management of technology and the operating environment of the exchange. Thirdly, it promotes reform of the exchange's organizational structure. To achieve this reform, it will promote interaction with overseas stock exchanges, and by referencing the self-regulatory mechanisms of those exchanges, internationalize both its core infrastructure and operating systems.

Another key feature of the strategic plan is its attempt to strengthen the SSE's research function. It already has a research center, but it plans to further develop its leadership role in research, by raising the level of its own research as well as its outside influence, including through getting involved in researching trends in overseas stock exchanges.

The key to achieving the strategic plan's 2020 goals will be its success in achieving the short-term (three-year) goals set for 2013. Foreign corporations and nonresident investors also would like to see the opening of an international board and expansion of the QFII program, and are working together with the SSE to that end. As noted in the strategic plan, however, there are a number of constraints that will make it difficult

² This refers to bonds issued and listed on a securities exchange by a listed company in accordance with the Company Law and the Securities Law.

³ A system in which the order and settlement occur on the same day.

Figure 2: Global comparison of stock trading value

2008				2009				2010			
Rank	Exchange	Share turnover value (US\$ millions)	Global share (%)	Rank	Exchange	Share turnover value (US\$ millions)	Global share (%)	Rank	Exchange	Share turnover value (US\$ millions)	Global share (%)
1	NASDAQ OMX	36,446,548.5	31.91%	1	NASDAQ OMX	28,951,348.5	35.99%	1	NYSE Euronext (US)	17,795,600.2	28.21%
2	NYSE Euronext (US)	33,638,937.0	29.45%	2	NYSE Euronext (US)	17,784,586.2	22.11%	2	NASDAQ OMX	12,659,197.9	20.06%
3	London Stock Exchange	6,473,611.6	5.67%	3	Shanghai Stock Exchange	5,061,985.7	6.29%	3	Shanghai Stock Exchange	4,496,193.5	7.13%
4	Tokyo Stock Exchange	5,586,327.1	4.89%	4	Tokyo Stock Exchange	3,987,776.8	4.96%	4	Tokyo Stock Exchange	3,787,952.3	6.00%
5	Deutsche Borse	4,741,628.4	4.15%	5	London Stock Exchange	3,402,495.6	4.23%	5	Shenzhen Stock Exchange	3,572,529.1	5.66%
6	NYSE Euronext (Europe)	4,524,266.1	3.96%	6	Shenzhen Stock Exchange	2,774,319.3	3.45%	6	London Stock Exchange	2,741,324.6	4.34%
7	Shanghai Stock Exchange	2,586,680.6	2.26%	7	Deutsche Borse	2,240,330.7	2.78%	7	NYSE Euronext (Europe)	2,018,076.7	3.20%
8	Bolsa de Madrid	2,438,646.5	2.14%	8	NYSE Euronext (Europe)	1,971,920.8	2.45%	8	Deutsche Borse	1,628,496.4	2.58%
9	Toronto Stock Exchange	1,736,084.9	1.52%	9	Bolsa de Madrid	1,610,210.0	2.00%	9	Korea Exchange	1,607,247.3	2.55%
10	Hong Kong Stock Exchange	1,629,259.9	1.43%	10	Korea Exchange	1,575,190.4	1.96%	10	Hong Kong Stock Exchange	1,496,432.5	2.37%
16	Shenzhen Stock Exchange	1,241,747.4	1.09%	11	Hong Kong Stock Exchange	1,501,689.1	1.87%	27	Osaka Securities Exchange	178,794.0	0.28%
26	Osaka Securities Exchange	234,326.8	0.21%	25	Osaka Securities Exchange	139,258.6	0.17%	-	-	-	-
	Shanghai and Shenzhen Stock Exchanges	3,828,428.1	3.35%		Shanghai and Shenzhen Stock Exchanges	7,836,305.0	9.74%		Shanghai and Shenzhen Stock Exchanges	8,068,722.7	12.79%
	Global total	114,209,086.7			Global total	80,452,559.5			Global total	63,093,566.5	

Note: Data as of 14 January 2011.

Source: Nomura Institute of Capital Markets Research, based on data from the World Federation of Exchanges (WFE)

to achieve these goals, including uncertainties in the external environment for innovating products and trading systems, the inability to freely convert yuan in capital transactions, and the stunted development, small market size, and lack of liquidity in the SSE's bond market. These constraints also make it difficult to establish numerical targets.

Despite this, China's stock markets, not only the Shanghai Stock Exchange but also the Shenzhen Stock Exchange, have been gaining more stature within the global market every year (Figure 2). It will be interesting to watch how the SSE fares moving forward, including whether it will be able to overcome numerous constraints to achieve the goals in its strategic plan and how it attempts to form linkages with two other exchanges in the same city, the Shanghai Futures Exchange and the China Financial Futures Exchange.