

## **Keynote Speech at Lujiazui Forum: Internationalized SSE to Serve Construction of Shanghai Int'l Financial Center (2009-05-16)**

By SSE President Zhang Yujun

### **I. It is imperative to steadily promote SSE's internationalization in building Shanghai into an international financial center.**

The “Opinions of Promoting Shanghai’s Development of Modern Service and Advanced Manufacturing Industries and Establishing International Financial and Shipping Centers” (hereinafter referred to as the “Opinions of Constructing Two Centers”), approved by the State Council on March 25, 2009, put forward the plan of building Shanghai into an international financial center to match China’s economic strength and RMB’s international status by 2020. The systematic plan and all-round deployment of the central government for the construction of Shanghai International financial center marks the kick-off of the substantial work. To build Shanghai into an international financial center will not only enhance the local financial service function, but also bring into play the city’s relative advantages and modeling effect, so that it could better serve the nation. Moreover, the construction of the international financial hub will boost the core competitiveness of China’s capital market and financial industry and promote the sound, steady and sustainable development of China’s economy. The century-long history of the change of international financial centers proves that a powerful international financial center is indispensable to the rise of one nation. The construction of the international financial hub is also significant in increasing the efficiency of aggregating and allocating financial assets, improving the risk control and supervision of China’s financial industry and safeguarding China’s economy and finance.

According to the goals set in the State Council’s “Opinions”, the construction of Shanghai international financial center involves four aspects: firstly, to foster a multi-level financial market system with deep internationalization and marketization; secondly, to foster a network of financial institutions with international competitiveness; thirdly, to foster a complete international financial human resources system with reasonable structure; fourthly, to foster a legal and regulatory systems that are fit for the development needs and international practice, and an internationally competitive financial development environment. Internationalization, as the common feature of the four aspects, is the most important premise for the development and upgrading of the international financial center. The establishment and development histories of major financial centers in the world proved that the bourses played a key role in driving the establishment of financial centers. The construction of the international financial center requires the internationalization of the bourse. Therefore, the internationalization is a historic mission of the Shanghai Stock Exchange (SSE), to the bourse and indispensable to the construction of Shanghai international financial center.

## **II. SSE faces unprecedented opportunity in promoting internationalization**

The construction of Shanghai international financial center will undergo breakthrough in the following ten years or so, which is also essential for the reform and development of China's economy and finance. The SSE is also faced with unprecedented opportunity for its internationalization.

Firstly, the internationalization of the SSE is essential for China's capital market, which is faced with historic development opportunity. The Report to the 17th Party Congress brought forth that "the capital market structure should be optimized and the direct financing proportion should be increased through multi-channels", and the "Nine Opinions" and the "30 Opinions on Finance" of the State Council elaborated in an all-round and systematic manner the guiding principles, major tasks as well as policies and measures of developing the capital market, which raised the capital market development to the nation's strategic height, showing the determination of the CPC Central Committee and the State Council to develop the capital market and the unprecedented historic development opportunity for the capital market. The State Council's "Opinions of Constructing Two Centers" detailed the requirements for the internationalization of Shanghai securities market.

Secondly, the great achievements made by China's capital market in recent years have laid a solid foundation for the internationalization of the SSE. China's capital market has witnessed comprehensive, sound and steady development in recent years, especially after the equity division reform since 2005, and the long-term systematic obstacles restricting the capital market have been removed, with gradually improved regulatory system and market operation environment. By the end of 2008, the securitization ratio of China's capital market has reached 53%, demonstrating that the capital market has become the barometer of national economy.

Thirdly, the free convertibility of RMB is under way, which will fuel the internationalization of the SSE. China's economy has fully integrated into the global economy, and due to the ongoing global financial crisis, the structural reform of the international currency system will step towards the multipolarity of international currencies. With the sustainable and relatively rapid development of China's economy and its enhancing international status, RMB is bound to occupy a higher position in the international currency system.

Fourthly, the SSE has become an important global capital market after rapid development for almost two decades, and its stock market capitalization, turnover and financing volume have taken the lead in the world. According to the statistics and ranking of the World Federation of Exchanges (WFE), the market capitalization of SSE-listed companies has reached RMB13.30 trillion by the end of April 2009, ranking No.5 among all world bourses; the SSE's shares turnover from January to

April 2009 was RMB9.13 trillion, ranking No.3 among all bourses. The SSE has become one of the most influential bourses in the world, which indicates that the conditions for an all-round internationalization have become mature.

Fifthly, the global financial crisis gave us a lesson for the construction of international financial center and the internationalization. The financial crisis has great impact on major financial centers and capital markets in the world, and we should view it as an important historic chance to accelerate the construction of international financial center and the internationalization amid analysis and evaluation of its influence on China's economy and finance. In speeding up the internationalization, we should properly handle the relationship between the capital market and the real economy, and choose a path of market system development that is suitable for us.

### **III. Major measures of SSE to push the internationalization**

The SSE has always laid emphasis on the internationalization in recent years, with significant progress made. The SSE was approved as member of the WFE in 2002 and elected as a member of the directorate in 2006. As of April 2009, the bourse had signed the Memorandums of Understanding (MOU) on cooperation with 35 foreign exchanges in the world. Major stock exchanges such as the New York Stock Exchange, the London Stock Exchange and the Tokyo Stock Exchange have started to conduct exchanges and cooperation with the SSE in information, products and personnel training, which enhanced the influence of the SSE in the international capital market.

The SSE will, based on the actual conditions of China's capital market and its own practice, steadily push its internationalization to serve the sustainable and sound development of the national economy and support the construction of Shanghai international financial center.

Firstly, it will step up the internationalization of infrastructure construction, creating first-grade hardware environment for market development. The bourse will push the construction of world-leading technical system, information service and communication network platforms to fully upgrade the technical management and services. It will also accelerate the construction of the SSE's financial development base and upgrade the service function of Lujiazui financial zone. Besides, it will build the technical R&D base, the innovation R&D base and also the training and service base according to the international standard, plan the construction of disaster recovery system and improve the bourse's infrastructure to create a favorable development environment for the market.

Secondly, it will drive the internationalization of basic rules and trading systems to further boost its core competitiveness. In accordance with the standard of world-leading exchange, the SSE will strengthen the construction of basic rules and

basic management, improve the internal control system and upgrade the internal management and standardized operation for the overall enhancement of operation and management efficiency. Moreover, it will diversify the trading modes, methods and order types and offer a more complete price discovery mechanism to establish and perfect a trading mechanism in line with the international practice.

Thirdly, it will drive the construction of an “open, fair and just” market by learning from the international practice of self-regulation supervision. It will strive for the internationalization of the legal environment for the market operation by further improving the self-regulation system, perfecting such dispute-settlement mechanism as industrial intermediation and arbitration and also optimizing the external legal system environment. The bourse will also borrow ideas from international bourses’ supervision practice to strengthen the supervision of listed companies, the self-regulation supervision of members, the supervision of investors’ behaviors and the real-time market supervision, crack down on insider trading, market fraudulence and manipulation. In addition, the bourse will intensify cooperation with overseas exchanges and regulatory institutions, establish a sound cross-border supervision mechanism and improve the effectiveness of international supervision cooperation.

Fourthly, it will promote the internationalization of listed companies’ governance and establish a top-level blue chip market. By gradually carrying out the reform of financing marketization, it will lay a solid foundation for improving the quality of listed companies. The bourse will further encourage and guide the listed companies to improve the corporate governance mechanism and upgrade the enterprise system and operation management towards world level. What’s more, it will urge the listed companies to enhance themselves through merger, acquisition and reorganization and to build themselves into top international blue-chip enterprises, preparing for the construction of the blue chip market.

Fifthly, it will attract foreign market participants and promote the opening-up of the market step by step. Efforts will be made to attract major foreign financial institutions to participate in Shanghai’s securities market and encourage qualified member companies to explore the overseas market. By further expanding the scale and investment scope of QFII, the bourse aims to encourage investors to directly or indirectly participate in China’s capital market.

Sixthly, it will offer more diversified trading products and gradually internationalize the products. The bourse will cooperate with regulatory institution in driving the issuance and listing of red-chip domestic A shares. It will also promote the construction of international board market of high standard, and attract excellent overseas enterprises to be listed on the SSE. Also, efforts will be made to research and develop exchange-traded fund (ETF) products based on overseas indices for the internationalization of trading products. Further, it will seek to give full play to the market aggregation effect and enhance the market pricing of international financial

assets, driving Shanghai to become the global pricing center for RMB assets.

Seventhly, it will reinforce the education and introduction of talents to create an international hub for top financial talents. The bourse will deepen the reform of human resources system and establish the incentive and appraisal mechanism for financial talents in line with international norms. By exploring various talents' education and training channels, it aims to promote the overall development and internationalization of its staff. Besides, it will establish and improve a mechanism fit for talents, with focus on attracting high-level financial talents home and abroad. The bourse is striving to be evolved into the hub of international high-level talents to provide talent reserve and support for the construction of Shanghai international financial center.

Eighthly, it will intensify international exchanges and cooperation to gain more influence in the world. It will participate in relevant important events of the international exchanges and the international financial field, so as to expand communication and cooperation with foreign counterparts and deepen international market research. Furthermore, the bourse will increase business cooperation with domestic and foreign counterparts in fields such as information, products, personnel training and market exploration to promote the steady development of the SSE's international business.