Chinese business & finance

China unveils capital market reforms to boost investor confidence

Lower fees and longer trading hours part of plan to boost activity as policymakers' concern over economy mounts

The lacklustre returns on equities reflect a slowdown and lack of confidence in the broader Chinese economy © Ting Tang/NurPhoto /Getty Images

Hudson Lockett and **Cheng Leng** in Hong Kong YESTERDAY

China's securities regulator has announced a package of market-friendly reforms to try to boost investment and trading after months of underwhelming economic growth that has hit stocks and bonds.

The measures, which the China Securities Regulatory Commission said were designed to "boost capital market investor confidence", indicate Beijing's concern over the country's economic and financial health after a weak rebound from strict pandemic curbs last year.

The CSRC said on Friday that it was considering an extension to trading hours for the country's stock and bond markets and vowed to cut transaction fees for brokers. It also said it would encourage share buybacks to help stabilise stock prices.

Bankers and analysts said the measures, which also included a reference to the possibility of cutting stamp duties on securities transactions, would help boost market sentiment.

While the securities regulator stated only that it was "studying" whether to extend trading hours for stocks and bonds, bankers said the language used in the announcement implied that the CSRC was already well into the process of approving the measure.

"The trading hour extension is the one that will have some real impact on market sentiment," said a senior IPO banker at one of China's largest brokers.

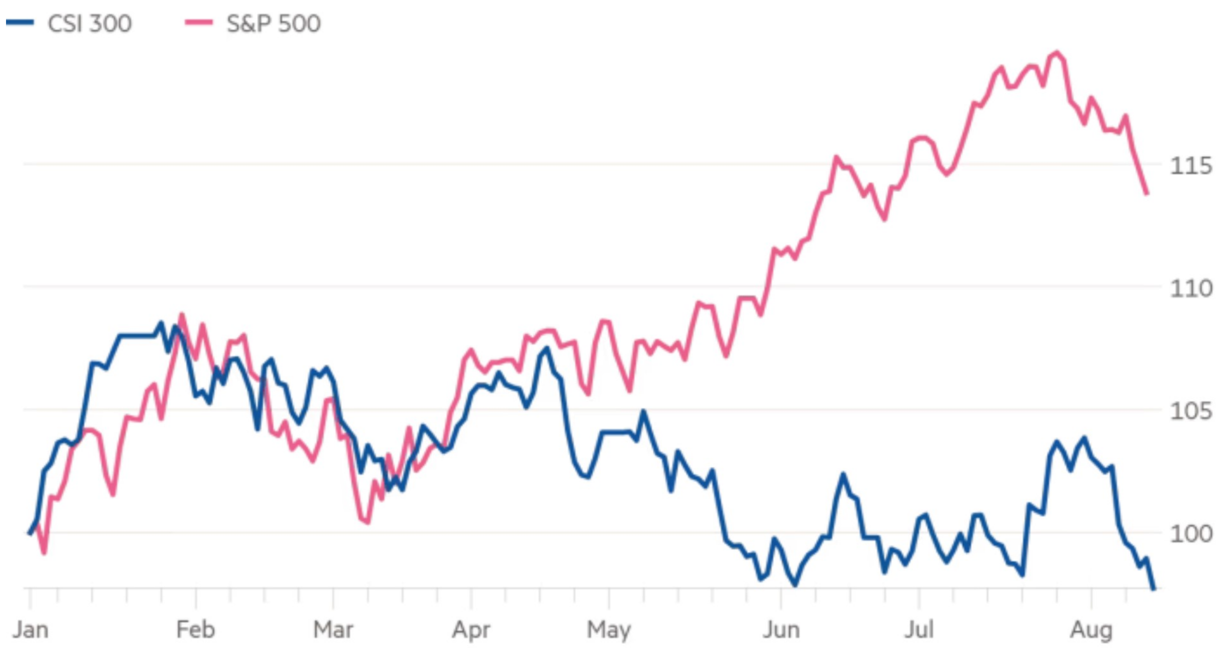
The measures come after policymakers acted to try to shore up the economy. Earlier on Friday the People's Bank of China intensified its efforts to stop a slide in the renminbi, days after it cut interest rates to pep up consumer confidence.

The action follows a disappointing stretch for Chinese markets, with the country's benchmark CSI 300 index of Shanghai- and Shenzhen-listed stocks down more than 2 per cent this year, compared to a rise of almost 14 per cent for the S&P 500.

The lacklustre returns on equities reflect a slowdown and lack of confidence in the broader economy, with data showing weak trade and muted consumer spending. Foreign investors have begun dumping Chinese stocks and bonds in recent weeks as confidence in policymakers' vows to shore up growth has waned.

China stocks lag peers as economic rebound disappoints

Stock index performance (rebased to 100)



Source: Bloomberg
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Shortly after the CSRC announcement on Friday, the Shanghai and Shenzhen stock exchanges confirmed they would cut equity transaction handling fees for brokers by roughly a third, while fees for bond trades also received a slight reduction.

The CSRC statement also implied the regulator is likely to roll out cuts on stamp duties, which are levied on all securities transactions, once it receives approval from higher authorities — a measure that could help boost turnover.

“We’re aware of calls for stamp duties to be cut,” the CSRC said in the statement. The regulator described the idea in positive terms, noting that “historically, the measure has played a positive role in reducing the cost of trading and revitalising the market”.

The commission also said it would take measures to ensure a “rational pace” of IPOs and refinancing deals, a move that could slow the relentless rate of listings in China this year, which has drained liquidity from the country’s secondary market.

It will also study measures to curb high leverage for poorly performing listed companies, capping borrowing in cases where shares are trading below their IPO price.

Analysts said the call for more share buybacks would help boost sentiment in the short term, even if it was unlikely to fully address the malaise hanging over Chinese markets.

“Share buybacks are a very market-oriented way to boost confidence and raise share prices for undervalued companies,” said Bruce Pang, chief economist for Greater China at JLL.