FINANCIAL NEWS

China woos investors with up to $3.2 trillion in lending stock

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The world's second largest economy has taken a step closer to joining the securities lending sector and opening a universe of stock worth a potential $3.2 trillion to investors and short-sellers.

In August, officials from the government and financial regulators in China, which has just overtaken neighbouring Japan in terms of its market capitalisation of its equity markets, met to decide how to bring the practice to the wider market.

Since mid-2006, a limited selection of stock listed on the Shanghai exchange had been available for lending by its beneficial owners to certain market participants.

The intention at that stage was not to make all listings available to all investors, but to run a pilot scheme under strict controls.

Following a promising start, the onset of the financial crisis slowed progress as China's financial world looked to more pressing economic issues.

Since markets have settled, officials have again looked to open up the large domestic market and continue a trend set in Hong Kong and Taiwan. Meetings in August tackled how the practice would work on an operational and regulatory level, and got the ball rolling.

Allowing securities lending across a broader range of companies would help the large number of hedge funds moving into the region, searching for returns in a growing economy.

These fund managers would find plenty of clients. A study published by JP Morgan Asset Management last week found UK investors favoured Asian alternative asset classes to provide income in the medium to long term. The study found these investors expect the strongest returns in alternative assets to come from emerging Asia.

As such, custodians, banks and their securities financing units have been keeping a close eye on Chinese regulators and market movements.

Simon Lee (pictured), senior vice-president at securities lending agent eSecLending, said: "We are now going through one of those periods where a number of factors are combining to make an even more compelling argument, such as the growth in retail funds, the increase in hedge fund activity and the easing of regulation in some of the more emerging markets.