CALL FOR PROPOSALS

The Role of Securitization in China’s Capital Market

The SWIFT Institute invites proposals for research on the role of securitization in China’s capital market.

Securitization, which can be traced back to the 18th century, has shown both advantages and disadvantages in the global capital market. Among the many advantages, reducing funding costs is likely the most important one to fund-searching entities, especially small-to-medium enterprises. Through securitization, an entity with a low credit rating but promising future cash flow may be financed based on its cash flow. This may bring a non-fundable enterprise to a fundable position, and can significantly lower financing costs for the borrowers. In addition, securitization items are usually not required to show on the balance sheet. This allows for a great deal of flexibility for all parties involved. Of course, securitization provides many other advantages for issuers and investors, including diversification, reducing asset-liability mismatch and transferring risks.

On the other hand, securitization also receives widespread criticism for the risk hidden in its complex structure. The off-balance sheet treatment of securitization lowers the nominal leverage ratio to window-dress the securitizing firm, thereby underpricing the credit risk. In particular, mortgage securitization is believed to have played a significant role in the 2008 world-wide financial crisis. Since the crisis, there has been a general trend toward the requirement to record securitization at fair value on the balance sheet reflecting the hidden risk. However, securitization of many types are customized and traded over the counter. It is very difficult to define a “fair market value” for them. The lack of fair value in turn limits the efficiency of regulatory supervision and market discipline. The hidden risk along with the lack of efficient supervision and market discipline makes securitizations dangerous.

In China, securitization is expected to play an important role in the urbanization process as well as in the development of the fixed-income market. The first bank-sponsored asset-backed security (ABS) was issued in 1992 by Hainan Sanya, but it was not until 2005 that the market really took off. With the impact of the 2008 global financial crisis, the size of China’s ABS market remains small, around $15 billion by the end of 2013. It accounts for less than 1% of China’s fixed-income market, which is more than $4 trillion. In the United States, the ABS market is 26% of the $38 trillion fixed-income market. Now, after the issuance of definitive securitization regulations by the China Securities Regulatory Commission (CSRC) in March 2013 and with the support of a research agency, China Research & Intelligence, the market is estimated to grow significantly in size and at a much faster pace.1

1 Samuel Lum, Urbanization and Securitization: 2 Key Trends To Watch In China’s Economic Rebalancing, Seeking Alpha, Nov. 6th, 2013
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Research proposals can be theoretical or empirical. The research should focus on identifying the advantages and disadvantages of China’s securitization market, and defining the future role securitization in China’s capital market by addressing the following questions:

- How does China’s legal, cultural and regulatory environment differ from those in other countries where securitization has thrived? How will these differences affect the development of securitization in China?
- What are the major obstacles for the Chinese securitization market to overcome?
- How will China’s interest rate liberalization affect the development of securitization?
- Given the complex structure of securitization, how should regulators / supervisors achieve an effective regulation, in particular preventing systematic risk?
- How will securitization help urbanization and the fixed-income market in China?
- How will securitization help relieve the Small to Medium sized Enterprises’ (SME) financing conundrum?

Grant & Working Paper

A grant of EUR 15,000 will be awarded to the author of the selected proposal. 50% will be paid immediately; the remaining 50% will be paid on acceptance of a working paper.

Proposal Submission

Please submit your research proposal as follows:

1. CV / bio including education, work history, research experience, publications, etc.
2. Description of your research project (2,500 words maximum) to include the following:
   - Objective of your research
   - Methods by which you intend to undertake your research
   - Timeframe by which you intend to complete your research
3. By email in MS Word / Excel / PowerPoint format and / or pdf.

Deadline: Proposals must be submitted no later than 11 April 2014.

Email: Send submissions to: peter.ware@swift.com