

Secured Transactions Reform in China

August 2015

Reform

Secured Transactions Reform



2007 ~ 2003 ~ ~ 2015 The Property Law **Movables Finance Before the Reform** was issued **Industry Development** • Policies and opinions issued by the • Only 4% of • Broadened scope of government to encourage the outstanding loans were permissible collateral, in development of movables finance fully secured by particular, accounts industry movables (PBOC/IFC) receivables was allowed to be used as collateral • The Enterprise Bankruptcy Law and • Restrictive Scope of the newly-amended (2013) Civil Permissible Collateral Clearer priority rules Procedure Law give creditors Absence of PBOC-CRC established reasonable powers in enforcement On-line Collateral a centralized and Established the Accounts Receivables Registry internet-based collateral Financing Platform registry Slow and Costly • Market education and capacity building Enforcement Better enforcement done by the Regulatory bodies

Achievements

Impact of the Reform

Key Findings of the Independent Evaluation on Secured Transactions Reform in 2011

Loans secured by movables increased significantly

- ➤ 30-40% of outstanding commercial loans involving movables;
- ➤ Total number of commercial loans involving movables increased by 21% per year; and the total amount of outstanding loans increased by 24% per year;

MSME Finance Improved

➤ 88% of surveyed SMEs said that business growth was a benefit resulted from obtaining accounts receivables financing.

Impact of the Reform

Collateral Registry Operated by PBOC-CRC

The Number of Registrations increased year by year

As the end of July 2015:

➤ The cumulative number of registrations reached 1.7 million, with an annual average increase of 51%. In 2014, the number of registrations was about 417,000, increased by 9% compared with the number in 2013; about USD 2.5 trillion financing facilitated by the Registry (for accounts receivable and lease transactions only).

Accounts
Receivables
Finance
facilitated the
infrastructure
construction

As the end of July 2015:

➤ About 34,000 registrations involved loans to infrastructure construction in China, including water, electricity, natural gas, waste water treatment facility, harbor, highway, bridge, etc.

Industry Development

China is now the largest factoring market in the world

- > Factoring business grew briskly after 2007
- ➤ Started "commercial factoring company" pilot in 2012 in China
- ➤ China has more than 1100 factoring companies by the end of 2014; 1.1 million of contracts signed in 2014
- ➤ The volume of factoring transaction reached USD 510 billion in 2013, increased by 10% compared with the previous year. It accounted for 17% of the total volume in the world

-- Commercial Factoring Expertise Committee of CATIS

The scope of the assets covered by the Registry was extended

➤ The scope of the movable assets covered by the Registry extended from accounts receivable to lease transaction, inventory pledge, warehouse receipts, advance payment, etc.

More diversities of accounts receivables ➤ The variety of accounts receivables is extending to receivables generated from health care, education and tourist services, etc.

Future

Direction of the Future Reform

Registration on immovables is consolidated in China recently

Market Needs:

- > A clear and consistent ST law
- Search on existing interests and disclose own security interests on collaterals, to protect creditor's rights
- ➤ Conduct registration and search in an cost and effective way

Current Situation:

- Two main registries: CRC and AIC. The AIC registry not yet fully reformed
- The collateral registry operated by CRC is ready to cover all types of movable assets
- ➤ Further reform is also needed on secured transactions legal framework possibly through the preparation of Civil Code just launched

- A complete modern ST legal framework needs to be in place in China;
- A consolidated registry needs to be developed
- Movables finance market needs to be formalized



征信中心

CREDIT REFERENCE CENTER, THE PEOPLE'S BANK OF CHINA

Thank You!