

Brokers' rules likely to help bigger players

The new classification rules that apply to China's securities brokers are likely to sharpen the divide between large and small players, experts said.

The rules, which have been in the loop since June 2007, seek to divide brokers into 11 classes under five categories, based on risk management capabilities.

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This is to facilitate the "rational allocation of supervisory resource" and "improve supervisory efficiency", the China Securities Regulatory Commission, or CSRC, said in a statement released on Sunday.

Industry experts said the classification was an important part of the reform of the industry, which is also going through a major restructuring. The re-jig has resulted in a slew of mergers and acquisitions among different firms.

According to the CSRC, the ratings guidelines include risk management ability based on a broker's capital adequacy,

administration and compliance management, dynamic risk monitoring, the safety of information systems, as well as the protection of clients' rights and interests, and information disclosure.

The ratings criteria also contain brokers' market competitiveness in accordance with their performance in the core business, cost management, and innovation.

The securities watchdog and its nominated agencies will implement the classification process, but the result will not be publicly disclosed as per the international standards.

"The CSRC's new regulations, coming at the same time as the upcoming resumption of initial public offerings, send a signal to stabilize and maintain the up trend in the domestic bourses," said Shen Cheng, a securities lawyer from Jun He Law Offices based in Shanghai.

He said the new ratings would strengthen the in-house management and information discourse system of brokers. This will also help investors to obtain more information, and in the long run, will result in a healthier stock market.

The CSRC said the classification results would be taken as "prudential conditions" for brokers' application for new business, outlets, and listings. In addition, the scale and order of new business will also be partly dependent on the brokers' levels.

"The new ratings will help large securities brokers to carve out bigger shares in the market while pushing small players to exit the business," said Song Yixin, a lawyer from Shanghai Banner Lawyers. He predicted more mergers and acquisitions in the industry.

All A-shares of securities brokers rose yesterday, led by Haitong Securities, which surged 6.64 percent to close at 15.09 yuan.

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