China Wealth-Management Products Rise to Record $3.9 Trillion

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- Banks sold 84 trillion yuan of WMPs in six months to June
- Regulators have been tightening rules on WMP issuance

Chinese households, companies and banks held a record 26.3 trillion yuan ($3.9 trillion) of wealth-management products <http://www.bloomberg.com/news/articles/2016-05-29/china-default-chain-reaction-threatens-products-worth-35-of-gdp> as of June 30, underscoring risks to an increasingly leveraged financial system from an explosion in shadow banking.

The products' value rose 11.8 percent in the first half from the end of last year, according to a statement <http://www.chinabond.com.cn/Info/24438323> on the China Banking Wealth Management Registration System's website. More than 450 banks raised a total of 84 trillion yuan by selling 97,636 WMPs in the first six months, according to the statement.

China has been tightening rules on WMPs since late 2014 as a growing number of analysts issue warnings on the build-up of risks in the country's financial system. The products are a key reason behind the growth in shadow banking, which Moody's Investors Service estimates is worth more than 50 trillion yuan, and have been used by some financial institutions as a way to extend funds to risky borrowers and evade capital requirements.

For a QuickTake primer on China's WMPs, click here. <http://www.bloomberg.com/news/articles/2016-07-27/quicktake-q-a-don-t-say-you-weren-t-warned-about-china-s-wmps>

The China Banking Regulatory Commission has drafted new rules <http://www.bloomberg.com/news/articles/2016-07-27/china-mulls-tightening-wealth-product-rules-21st-century-says> on WMPs, including limiting the involvement of smaller banks and of mass-market investors, a person with knowledge of the matter said in July. Smaller banks and less wealthy investors would no longer be permitted to get involved in WMPs that invest in riskier assets such as equities, the person said.

About 40 percent of the WMP proceeds went to bonds, 17.7 percent into cash and bank deposits, while 16.5 percent was invested in non-standard credit assets, which are mostly loans, according to the statement.

Mass-market individual investors held 48 percent of the outstanding WMPs, while institutions had 29 percent and private-banking clients owned 7 percent. The remainder, totaling 4 trillion yuan, were cross-held by banks themselves. That compared with 3 trillion yuan six months ago, the official data showed.

The issuance of WMPs, which are sold by banks but often reside off their balance sheets, exploded over the past three years as lenders competed for funds and fees while savers and companies sought returns above those offered on deposits. The products, which offer varying levels of explicit guarantees, are regarded by many as having the implicit backing of banks or local governments.

— With assistance by Jun Luo