

Rebirth of Panda Bonds?

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01 September 2016

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What we will cover today

Panda Bonds

Market Update



Current status

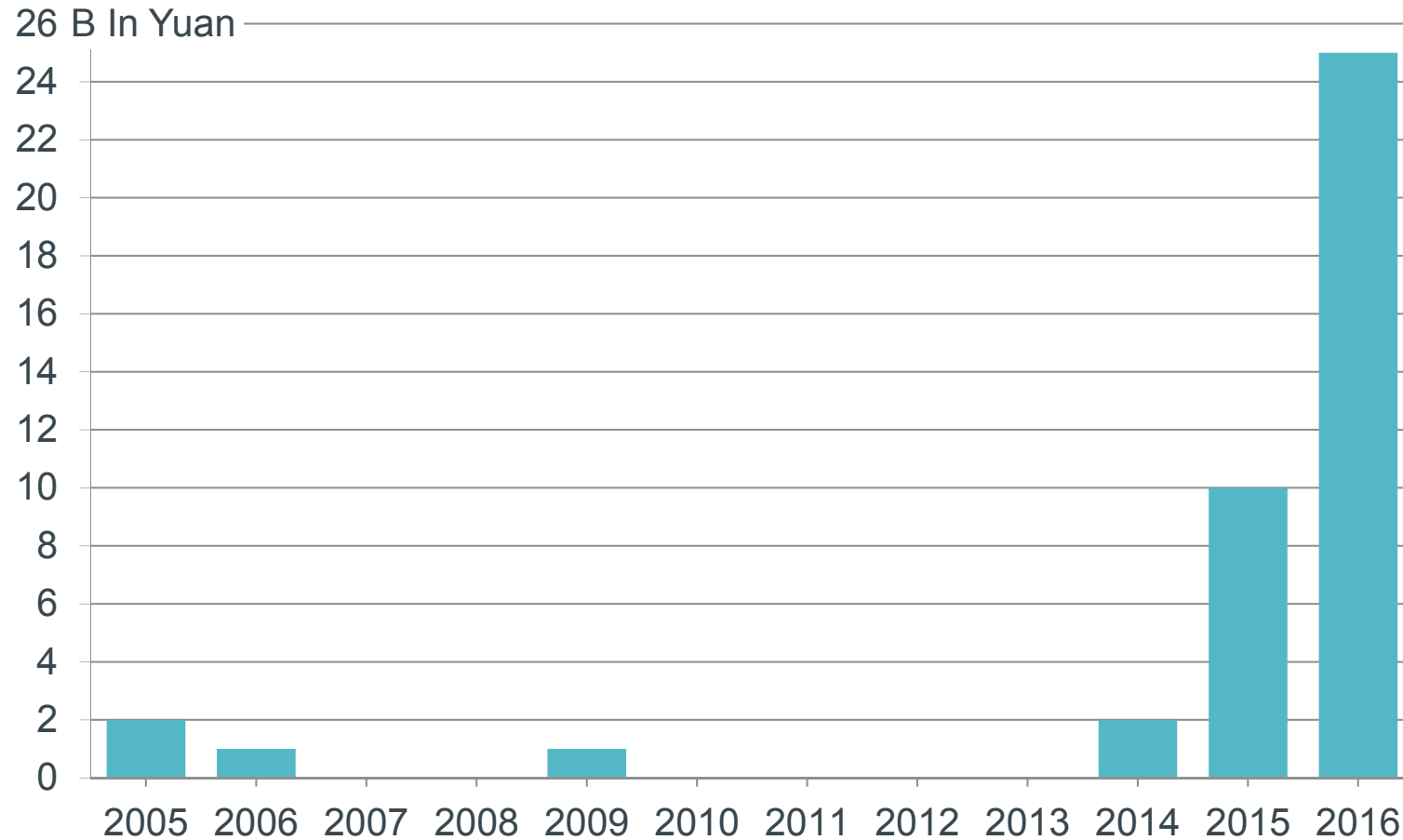
- The first two Panda bonds were issued in October 2005 by The International Finance Corporation and The Asian Development Bank.
- Following two Panda bond issuances by HSBC (Hong Kong) and Bank of China (Hong Kong) in September 2015, the market has seen a renewed interest in Panda bonds.

Issuer	Pricing	Settlement	Tranches #	RMB m	Tenor	Coupon
International Finance Corporation (IFC)	10-Oct-05	14-Oct-05	1	1130	10	3.4
Asian Development Bank (ADB)	13-Oct-05	14-Oct-05	1	1000	10	3.34
International Finance Corporation (IFC)	10-Nov-06	10-Nov-06	1	870	7	3.2
Asian Development Bank (ADB)	4-Dec-09	8-Dec-09	1	1000	10	4.2
Daimler	14-Mar-14		1	500	1	5.2
Bank of China Hong Kong (BOCHK)	29-Sep-15	30-Sep-15	1	1000	3	3.5
HSBC	29-Sep-15	30-Sep-15	1	1000	3	3.5
China Merchants Group (Hong Kong)	30-Oct-15	2-Nov-15	1	500	1	3.03
Standard Chartered Hong Kong	7-Dec-15	9-Dec-15	1	1000	3	3.5
South Korea	15-Dec-15	12-Dec-15	1	3000	3	3
Powerlong Real Estate Holdings	28-Dec-15	28-Dec-15	2	500	5NC3/4NC2	7.36/6.8%
Country Garden	29-Dec-15	29-Dec-16	1	1000	5NC3	4.99
Shimao Property Holdings	14-Jan-16	14-Jan-16	1	4000	5NC3	4.8
Province of British Columbia	21-Jan-16	25-Jan-16	1	3000	3	2.95

Source: GlobalRMB

Current status

Panda bonds sales have shot up this year



Data from Bloomberg (June 2016)

Current status – recent or potential offerings

- Beijing Enterprises Water Group Limited has made a public issue of Panda bonds worth RMB4.7 billion.
- Hong Kong's Chong Hing Bank has made its debut issuance of Panda bonds worth RMB1.5 million.
- China Resources Land Ltd issued the first public Panda bond by a property firm, worth RMB5 billion.
- The Central Bank of Sri Lanka has reportedly requested permission from Chinese authorities to issue a Panda bond.
- German car manufacturer Daimler AG was the first international non-financial Panda bond issuer in March 2014. It has recently issued its second Panda bond in the interbank bond market, worth RMB4 billion.



北控水務集團有限公司
BEIJING ENTERPRISES WATER GROUP LIMITED



創興銀行
Chong Hing Bank



華潤置地有限公司
China Resources Land Limited



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

DAIMLER

Current status - interest

■ European sovereign issuers

- Poland became the first European country to issue a Panda bond last week (25 August 2016), raising RMB3 billion (US\$451 million) through the sale of three-year notes.
- Final pricing on the August 2019 note was fixed on par to yield 3.4%.
- The issue demonstrates the eagerness of European countries to build economic ties with China, and follows President Xi Jinping's state visit to Poland in June this year.

■ European banks

- European banks are known to be exploring opportunities to issue subordinated debt in China's domestic market.

Market potential

“The panda bond market will have big development this year... Yuan internationalization is an unchangeable trend. Many companies in Hong Kong have strong demand to sell panda bonds.”

- Luo Guang, chairman of Golden Credit Rating International Co.

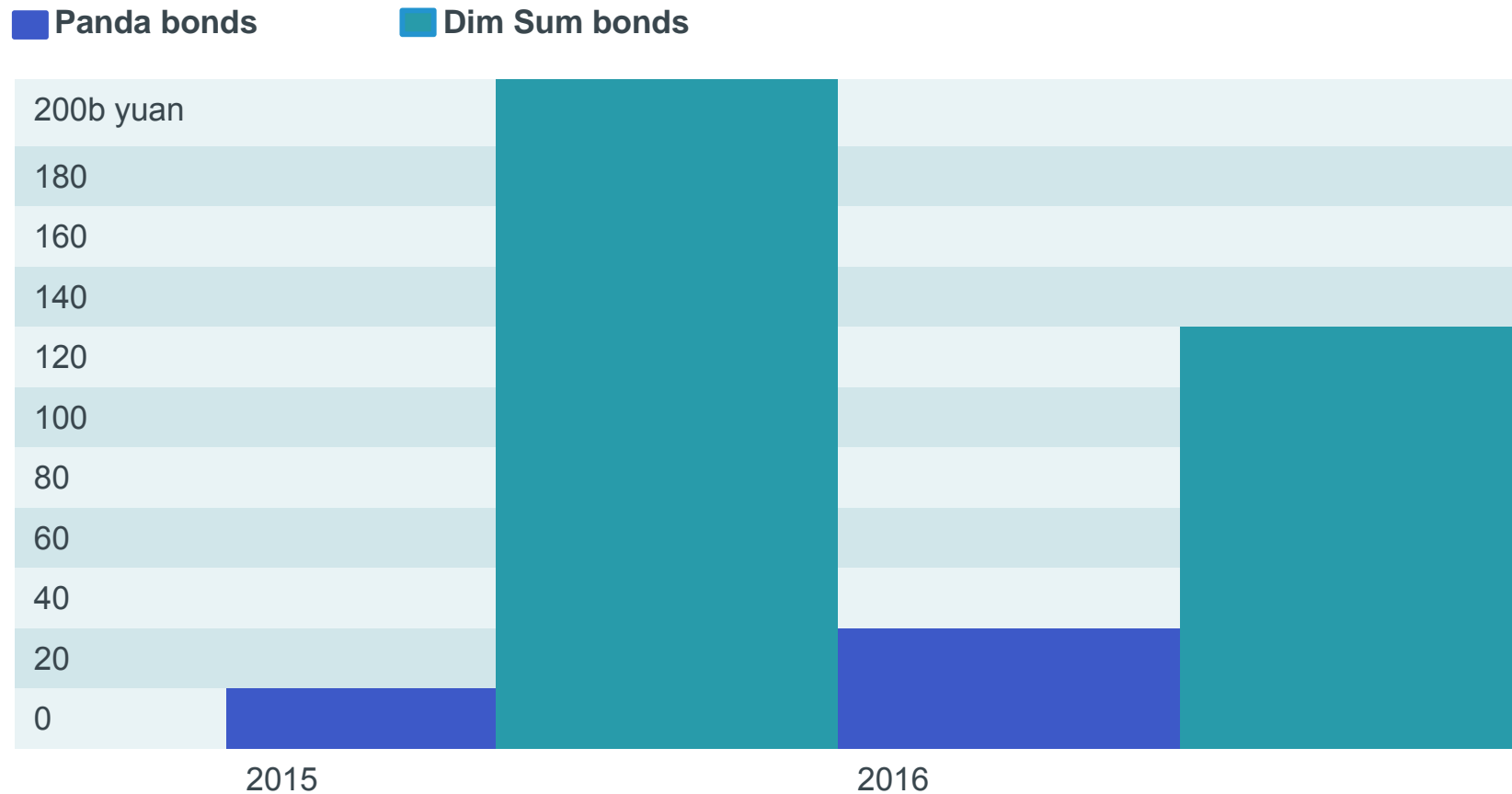
“I’m extraordinarily interested in the Panda market because there is a significant pool of domestic savings searching for yields.”

- Luke Spajic, head of portfolio management for emerging Asia in Singapore at Pimco

Market potential

Panda Bonds vs Dim Sum Bonds

Issuance of both securities through June 13 in 2015 and 2016



Source: Bloomberg

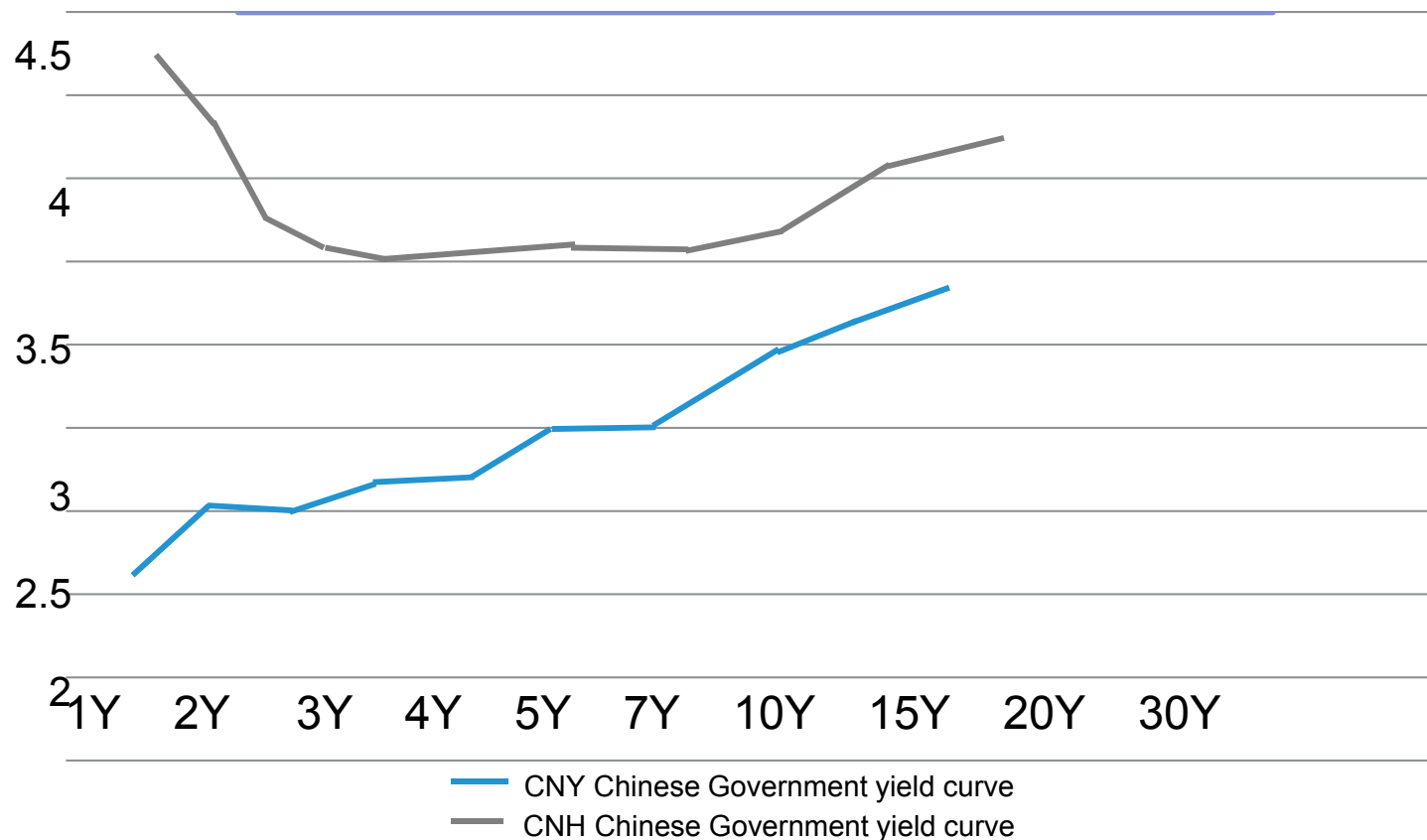
Market potential

- Issuer's perspective:
 - Establishing a business presence in China.
 - Gaining publicity and marketing advantages for being a 'first-mover' in China and Greater China.
 - Diversifying their investor base.
 - Funding an onshore subsidiary.
 - Gaining access to an additional market for regulatory capital purposes.
- Comparison of RMB bond market against USD and Euro bond markets
 - Still very small

Market potential

■ Cheaper to borrow onshore

CNY VS. CNH (offshore RMB) of Chinese government bonds



Source: Bloomberg. As at February 2016.

Current regulatory issues

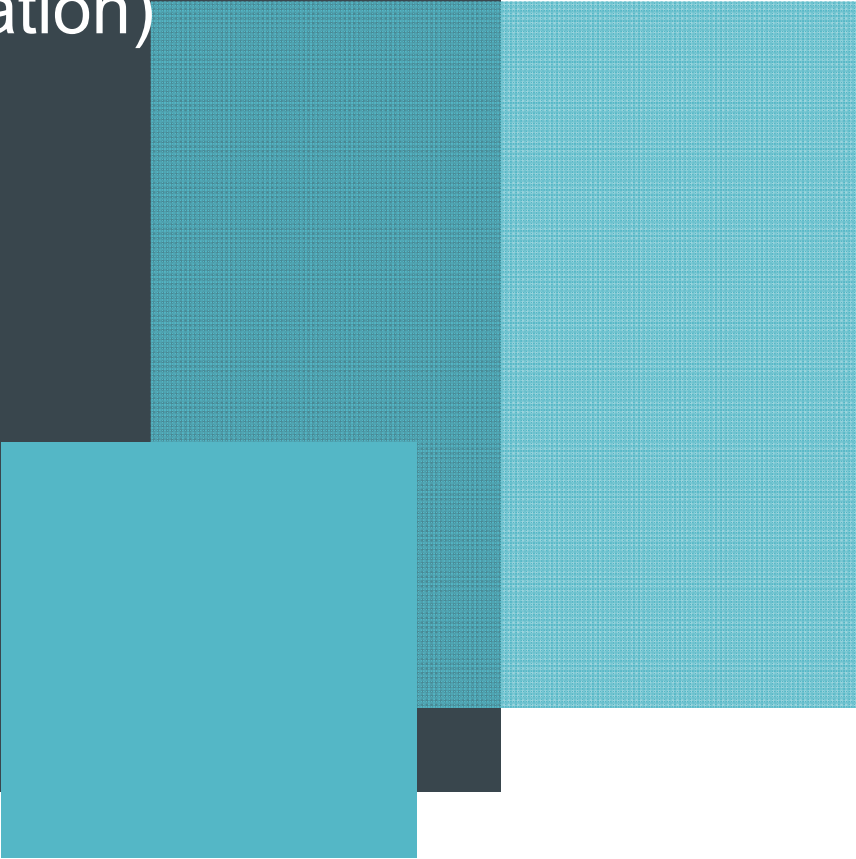
- No formal guidelines on Panda bond issue methods currently exist
- Issuers' concerns:
 - Discrepancy between rating systems
 - Differences in accounting rules (particularly for US/Japan)
 - Lack of formalised approval process
 - Uncertainty around repatriation of use of proceeds
 - Documentation and execution process takes generally long

Regulatory changes in pipeline?

- The People's Bank of China (“PBOC”) has indicated it will ease rules and give major international investors greater access
- PBOC to release regulatory guidance - but this has not yet been published
- Some issuers are waiting for PBOC guideline before issuing Panda bonds
- Some market participants expected that if regulatory guidances come out favorably (in favour of further development of panda bonds), the market could grow to reach US\$50 billion by 2020

Panda Bonds

Legal and Regulatory Frameworks
(including Documentation)



Chinese bond market overview

- Largest among emerging economies in Asia
- Interbank bond market – third largest in the world
 - Regulated by the PBOC and administered by the National Association of Financial Markets Institutional Investors (“NAFMII”)
- Stock exchange markets in Shanghai and Shenzhen
 - Regulated by the CSRC
- Panda bonds
 - Traditionally traded only in the interbank bond market, but now concurrently on the exchange bond market due to the recent opening up of China’s bond market

Interbank bond market

- Interbank bond market administered by NAFMII
- Primary methods of issue
 - Public offer (公开发行)
 - Private placement (非公开发行) to a few participant investors
- Both financial (including policy banks, commercial banks and financial enterprises) and non-financial institutions are allowed to issue bonds in the interbank bond market
- General documentation

Interbank bond market - administered by NAFMII

- Interbank bond market by NAFMII (National Association of Financial Market Institutional Investors)
 - NAFMII was founded on 3 September 2007 under the approval of the State Council, with the aim to develop the OTC financial market in the PRC (including **the interbank bond market**, interbank lending market, foreign exchange market, commercial paper market and gold market).
 - NAFMII, as a self-regulated organisation in the PRC, has members to include policy banks, commercial banks, credit cooperative banks, insurance companies, securities companies, fund managers, trust and investment companies, credit rating agencies, accounting firms as well as some non-financial enterprises.
 - Responsible for the self-regulatory management of the over-the-counter bond market called “interbank bond market”.

Interbank bond market - primary methods of issue

- Public offer
 - by tender through the issue system of PBOC
 - by book-building
- Private placement to participant institutional investors
 - Offering to a few institutional investors (who are the participants of the interbank bond market)
- Regulatory approvals
 - require approval from the PBOC for bonds issued by financial institutions (金融债券发行), and once issued, the disclosure information is only available to initial subscribers.
 - Not require approval from the PBOC for bonds issued by non-financial institutions (非金融企业债务金融工具), and only need to register with NAFMII.

(see next slide for the detailed registration requirement)

Interbank bond market – bonds issued by non-financial institutions in private placement

Registration documents

- | | |
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| <ul style="list-style-type: none"> • Issuance registration form completed and submitted by the lead underwriter (主承销人) • Letter from the issuer for submitting the registration materials • Resolution of the issuer • Business certificate of the issuer • Recommendation letter from the lead underwriter for the bonds | <ul style="list-style-type: none"> • Latest audited annual (financial) report of the issuer • Subscription agreement (定向发行协议) among the issuer, the investor and other relevant party • Legal opinions • Proof of qualifications of relevant parties |
|--|--|

Interbank bond market – general documentation

- Bonds issued by financial institutions (excluding policy banks) shall submit the following documents to the PBOC for approval:

<ul style="list-style-type: none"> • An application for issuing the bonds • Written consent given by the issuer’s authority as prescribed in its constitutional documents • Approval from the regulatory authority • Three years’ audited financial reports • Offering circular (募集说明书) • Issue announcement or issue prospectus (发行公告或发行章程) 	<ul style="list-style-type: none"> • Underwriting agreement • Report prepared by the issuer in relation to its plan and safeguard measures for repayment of the bonds • Credit rating report • Legal opinion issued by the issuer’s legal counsel • Other documents required by the PBOC • If the bonds are guaranteed, the deed of guarantee and explanations in relation to the credit status of the guarantor

Interbank bond market – general documentation

- Bonds issued by policy banks should submit the following documents and need to obtain approvals from PBOC:
 - An application for issuing the bonds
 - Three years' audited financial reports
 - Measures of issuing the bonds (金融债券发行办法)
 - Underwriting agreement
 - Other documents required by the PBOC

Interbank bond market – general documentation

- Bonds issued by non-financial institutions shall at least publish the following documents:
 - Issue announcement
 - Offering circular
 - Credit rating report and follow-up rating arrangement（跟踪评级安排）
 - Legal opinions
 - Three years’ audited financial reports and the latest financial statement

Stock exchange bond market

- Primary methods of issue
 - Public offering（公开发行）
 - Offering to qualified investors（合格投资者公开发行）
(CSRC can apply simplified approval process)
 - Private placement to qualified investors（非公开发行）
- Public offering requirements
- Stock exchange listing requirements

Stock exchange bond market – public offer eligibility requirements

According to Art.16 of the *PRC Securities Law*, any public issuance of corporate bonds shall satisfy the following requirements:

<ul style="list-style-type: none"> • the net assets of a joint stock limited company shall be no less than RMB30 million, and that of a limited liability company shall be no less than RMB60 million; • the aggregate outstanding amount of bonds shall be no more than 40 % of the value of the company's net assets; • the company's average profits attributable to owners during the previous three years are sufficient to cover one-year bond interest; 	<ul style="list-style-type: none"> • the use of proceeds from issuing the bonds complies with the industrial policies of the PRC; • the interest rate of the bonds does not exceed the interest rate specified by the State Council; • and any other requirement prescribed by the State Council.
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Stock exchange bond market

Qualifications for listing on the Shanghai Stock Exchange

The following requirements need to be satisfied if the issuer intends to apply for listing of the bonds on the Shanghai Stock Exchange (“SSE”):

- the conditions for bond listing set out in the *PRC Securities Law (Art.57)* need to be fulfilled, which include:
 - the tenor of the bonds exceeds one year;
 - the aggregate principal amount of bonds issued is no less than RMB50 million; and
 - the issuer when applying for listing of the bonds shall still satisfy the eligibility requirements for issuing the bonds.
- the approval from the relevant regulatory authority (such as CSRC) shall be obtained and the issuance of bonds shall be completed;
- relevant bondholders need to be in compliance with SSE’s relevant regulations on investor suitability; and
- other conditions as the SSE may require.

Stock exchange bond market

Listing documents for the Shanghai Stock Exchange

The following documents shall be submitted to SSE for bond listing purposes:

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| <ul style="list-style-type: none"> • bond listing application form; • approval documents from the relevant regulatory authority for the bond issue; • resolution of the issuer for the bond issue; • opinion issued by the underwriter certifying that the bonds satisfy all the requirements for listing on the SSE; • articles of association of the issuer; | <ul style="list-style-type: none"> • copy of the issuer's business license; • bond issue documents including but not limited to the offering circular, audited financial reports, credit rating report, legal opinions, rules for bondholders' meeting, bond trustee and management agreement and guarantee documents (if any); • issue announcement; • documents certifying the actual issue amount of the bonds; • other documents as the SSE may require. |
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SSE's regulations on qualified investors suitability

- Bond investors can be classified into public investors and qualified investors (Art. 5 of the SSE's Regulatory Measures on Suitability of Investors in the Bond Market ("Investors Suitability Measures")).
- Eligibility requirements for qualified investors (Art. 6 of the Investors Suitability Measures):

<ul style="list-style-type: none"> • financial institutions established upon approval by the relevant financial regulatory authorities, including securities companies, fund management companies and their subsidiaries, futures companies, commercial banks, insurance companies and trust companies; 	<ul style="list-style-type: none"> • wealth management products issued to investors by the above financial institutions, including but not limited to the asset management products of securities companies, the products of fund companies and their subsidiaries, the asset management products of futures companies, the wealth management products of banks, insurance products and trust products;

(continued in the next slide)

SSE's regulations on qualified investors suitability

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| | |
| <ul style="list-style-type: none"> • qualified foreign institutional investors ("QFIIs") or RMB qualified foreign institutional investors ("RQFIIs"); • social security funds, enterprise annuities and other pension funds, charitable funds and other social non-profit funds; • private equity fund managers registered with the Asset Management Association of China (the "AMAC") and the private equity funds filed with the AMAC by the relevant fund managers; | <ul style="list-style-type: none"> • companies, public institutions or partnerships with net assets of not less than RMB10 million; • individual investors with financial assets of not less than RMB3 million under their names; and • other qualified investors approved by the Chinese Securities Regulatory Commission ("CSRC"). |

Observations - Stock exchange bond market

- Private placement to qualified investors in the stock exchange market
 - Offering circular
 - Hong Kong legal opinion – what should it cover?
 - Issuer's board resolution - attaches the principal terms of the Panda bonds
 - Transaction documents - fairly standard and do not involve particularly heavy negotiation
 - Listing application – underwriter acts as the listing agent and submits the listing application on behalf of the Issuer

Observations - Stock exchange bond market

- Offer to qualified investors in the stock exchange market
 - Scope of Hong Kong legal opinion - generally does not differ from that of a private offer
 - Requires certain unusual documents from the Issuer
 - Needs CSRC approval
 - Disclosure process and information disclosure is typically shorter and simpler compared to an international bond offering

Conclusion

- We believe the Panda Bonds market has a big potential to grow, given the current size of USD and Euro bond markets in the US and Europe.
- The current stage is a very early development stage of Panda Bonds market along with the onshore domestic bond market in PRC.
- Currently, there is uncertainty on relevant regulatory frameworks on Panda Bonds including in respect of repatriation of the proceeds.
- However, we expect to see clearer regulations and guidelines to be published in due course, which will help building a good potential market in the coming years.

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Certain reference laws and regulations

- PRC Securities Law 《中华人民共和国证券法》
- Administrative Measures for Issuance and Trading of Corporate Bonds 《公司债券发行与交易管理办法》
- Regulatory Measures for Bonds issued by Financial Institutions 《银行间市场金融债券发行管理办法》
- Regulatory Measures for Debt Instrument issued by Non-financial Institutions 《银行间市场非金融企业债务融资工具管理办法》
- Issue Guidelines on Bonds issued by Non-financial Institutions 《银行间市场非金融企业债务融资工具发行规范指引》
- Guidelines on Disclosure Requirements for Bonds issued by Non-financial Institutions 《银行间市场非金融企业债务融资工具信息披露规则》
- Self-regulatory Rules on Bonds issued by Non-financial Institutions through Private Placement 《银行间市场非金融企业债务融资工具非公开定向发行规则》
- SSE Bond Listing Rules 《上海证券交易所公司债券上市规则》
- SSE Regulatory Measures on Suitability of Investors in the Bond Market 《上海证券交易所债券市场投资者适当性管理办法》

Questions?



Source: <http://ipezone.blogspot.com>

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Jay has about 20 years of experience in advising global banks, corporations and asset management companies on debt capital markets transactions (RMB bonds, G-3 bonds, equity-linked products, high yield bonds, among others). Jay also advises on structured debt products and derivatives transactions as well as other general corporate and finance matters.



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