



Panda Bonds

Overview and current
development of its market



Overview

The Panda Bond is issued in the Chinese Bond market by registered foreign institutions in the outside of the People's Republic of China (including the registered in Hong Kong and Macao) and nominated by Renminbi (official currency of the People's Republic of China).

This bond is different from other issued bonds in China. The “*dim sum*” Bond is issued in the outside and the *Chinese National Bond* is issued by Chinese entities in their own country and is abided by a different combination of specific regulations for the issuers of the own country.

The Panda Bond is issued in the domestic market of Chinese interbank bonds (which represent the mayor emissions and transactions of Chinese bonds), as well as in the domestic market of Chinese bonds traded on the stock market. In addition, it also may include those issued by foreign subsidiaries of Chinese entities, such as Hong Kong subsidiaries of Chinese companies.

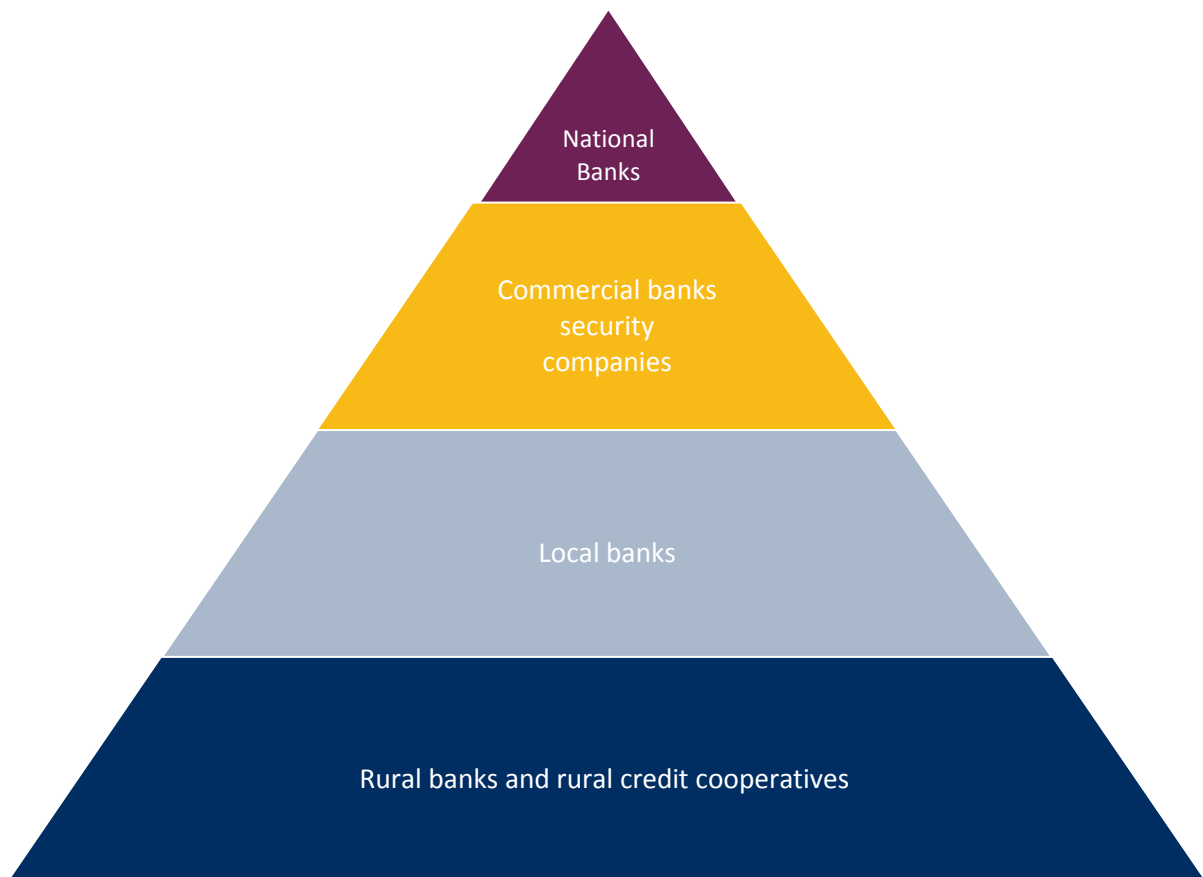
This bond is similar with the Japanese Samurai Bond or the American Yankee Bond. The first two Panda Bonds were issued in October of 2005 by the International Financial Corporation (IFC) and the Asian Development Bank (ADB).

Access to new investors and financial channels

In 2010, People's Bank of China (PBOC), Ministry of Finance, National Development and Reform Commission (CNDRC) and China Securities Regulatory Commission (CSRC) published jointly amendments to the regulations about Panda Bond, which is, the administrative regulation about the issuance of bonds in RMB (Renminbi) by international development institutions. The new regulations expanded the range of the qualified issuers and the use of RMB income, especially with the significant liberalization of the remittance of the RMB income of Panda Bonds out of Chinese continent.

In September 2018, the new provisional measures for the administration of the bond issue were presented in order to regulate more efficiently the issuance of the bonds, as well as protect the rights and legitimate interests of the investors in the bond market. Aspects such as credit rating and accounting standards are the most highlighted in this new update.

Type of investors in China



Source: DAGONG GLOBAL

Issuance of Panda Bond

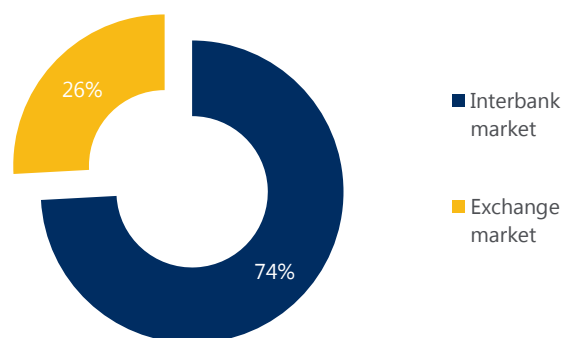
Nowadays, from the issuance of the first two Panda Bonds in 2005, there is a gradual expansion of issuance of this type of instrument in the interbank market of foreign entities, such as development agencies, governments, financial and non-financial institutions and companies located in countries like Canada, Germany, France, Malaysia, among others. All of them with a high credit rating, qualified by Moody's, Standard & Poor's (official agency in China since 2018) or Fitch as "investment grade", which are generally subjected to a strict supervision in open markets with a high level of operational transparency.

In 2018, a total of 58 Panda Bonds were issued in the Chinese bond market, with new issuers from Japan, Singapore, the Philippines, the United Arab Emirates and Portugal as the first country in the euro zone (2019), among others, with a credit rating of AAA level



Issuance of Panda Bonds in 2018.

Among the 58 issuances of Panda Bonds in 2018, 43 was issued in interbank market and 15 in Exchange market



Source: DAGONG GLOBAL

Issuance of Panda Bond regulation

With the provisional measures of the issuance of Panda Bonds of September 2018, which establishes a regulatory framework for the issuance of these, it should be noted that People's Bank of China (PBoC) will be the new supervising body for the issuance of bonds jointly with the National Association of Financial Market Institutional Investors of (NAFMII). Security has been shielded over issuers and investors and facilitated participation in them, it is expected that in 2019 the market of Panda Bonds will be further developed.

With the standard and supervision by People's Bank of China, NAFMII and their members, it is promoted in way of actively and prudently the development and the expansion of Panda Bond Market. Through the realization of the intensive investigation in the practice of foreign regulation in bond markets of different countries, it facilitates the dissemination in the registry of new cases of Panda Bonds.

In recent years the growth of both investors and issuers has favored the creation of new projects in China such as the Green Panda Bonds in 2017, as a new form of investment in Chinese markets where it focuses on green projects and related environmental projects.

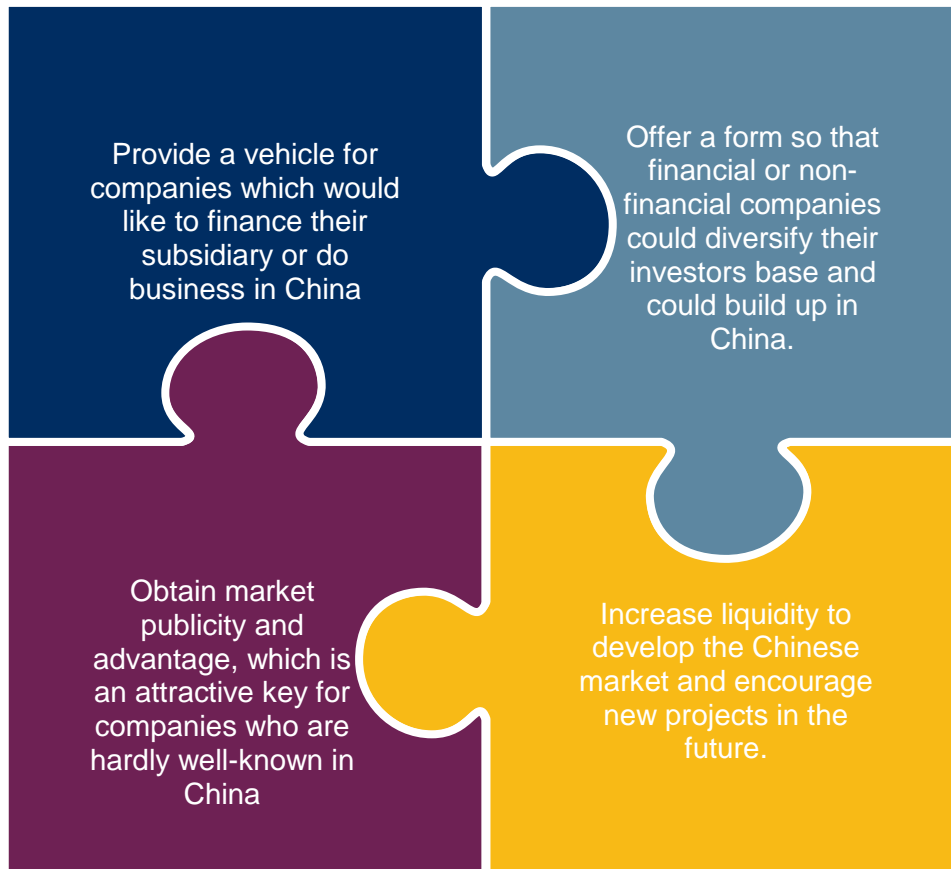


Key regulatory requirements for the issuance of Panda Bonds

Local presence	No mandatory requirements
Issuer qualification	Foreign governments and international development institutions are required to have bond issuance experience and adequate solvency. A foreign financial institution should have a paid-in capital of RMB 10 billion or foreign currency equivalent, sound corporate governance and risk management systems, robust financial performance and good credit standing, as well as recorded profitability in each of the most recent three years.
Application and registration procedure	Foreign financial institutions should obtain the approval of the PBoC. Foreign governments, international development institutions and foreign non-financial corporates should apply to NAFMII for registration.
Information disclosure	Foreign institutions are required to fulfil disclosure obligations in accordance with the rules of the interbank market before the issuance and during the term of the bond. The publicly disclosed information disclosure documents such as application and proof of issuance approval, bond prospectus, financial statements, qualification to carry out financial services, legal opinion, credit rating and guarantee agreement (if applicable) need to be either written or translated into simplified Chinese.
Issuance registration	A foreign institution may apply to issue bonds on a stand-alone basis or in tranches, within the quota. Foreign governments, international development organisations and foreign financial corporates that are seasoned issuers on overseas markets or that have issued bonds in China and have complied with the ongoing disclosure requirements for more than a year may apply to issue bonds in tranches within the quota. Foreign non-financial corporates applying to issue bonds in tranches shall comply with the relevant rules of NAFMII.
Custody and clearing	<p>Bonds issued by foreign institutions need to be placed under the custody of a registration and custody company recognised by the PBoC. A foreign institution which is approved or registered for issuing bonds in mainland China needs to go through the foreign exchange registration process. Issuers need to follow the rules on the opening of accounts, foreign exchange, cross-border remittance, and information filing under the PBoC and the State Administration of Foreign Exchange.</p> <p>Issuers should either set up a RMB bank settlement account overseas or set up an escrow account in China through the lead underwriter. The account is for depositing capital raised and for cross-border RMB settlement such as repatriation, which needs to comply with the ratio of proceeds to be used in China and overseas, as approved by the regulator during the bond issuance application.</p>
Investor protection	A foreign institutional bond issuer needs to establish investor protection mechanisms such as disclosure of significant events and meetings with bond holders. Issuer should engage an independent domestic organisation to ensure the implementation of investor protection mechanisms and to safeguard the interests of bondholders during the term of the bond.

Source: <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3634065/index.html>

Main reasons for issuance of Panda Bond



The average coupon rate of the issuance of Panda Bond, in 2018, has been around 4%, which is higher than that of the other similar financial instruments like USD bond.

Advantages of issuing Panda Bond in interbank market

The Chinese Bond Market is one of the largest markets among the emergent economies in Asia and contains two main bond markets: the interbank bond market and the stock market of Shanghai and Shenzhen.

- **The interbank bond market represents the 80% of the entire market of Chinese bonds; characterized by high liquidity, wide range of products and flexible mechanism innovators.**
- **The numerous professional participants that exist in the interbank bond market include: commercial banks, security companies, accounting firms, law firms and rating agencies.**
- **The interbank market consists of currency, money and bond markets; therefore, it is able to follow fortunately policies and keep a close communication with regulators.**

Steps of register Panda Bond offering in interbank market

Public Offering

Presentation of the request: the subscriber will present the documents of registration in order to send them to PBoC and NAFMII based on the established procedures.

Preview and feedback: In 10 workdays, PBoC or NAFMII will make decision on the provided documents and will give a feedback to the subscriber.

Pre-registration reunion: In order to make a decision on the application, NAFMII selects experts that will participate in the revision and emit an independent opinion (Standard & Poor's).

Documents of issuance: Once PBoC or NAFMII issue an acceptance notification of the registration, issuers can realize a registered offering of Panda Bond in the interbank market.

Bond offering: After received the notification, companies can start to work on the initial offering of Panda Bond.

As for private offering, those previous procedures can be applied unless that the step 2 and step 3 are combined into one step; NAFMII verifies and examines the registration documents within following 2 workdays after the day of the reception of those materials, completing the revision and giving feedback in 3 workdays.

Issuance by non-financial entities

Public Offering

Key documents

Register report, prospectus, recommendation letter of main subscriber, national and foreign legal opinions, financial report, credit rating report, and other documents depend on what the PBoC or NAFMII need.

Disclosure language

The disclosure of all the documents during the period of the realization of offering should be written in simplified chinese, or be attached with a full translation in chinese. Also, it should be provided chinese translations of the following documents dictated by PBoC NAFMII regarding to the issuance.

Accounting and auditing

The accounting and auditory standards should comply with the requirements of the chinese regulatory authorities.

Credit rating

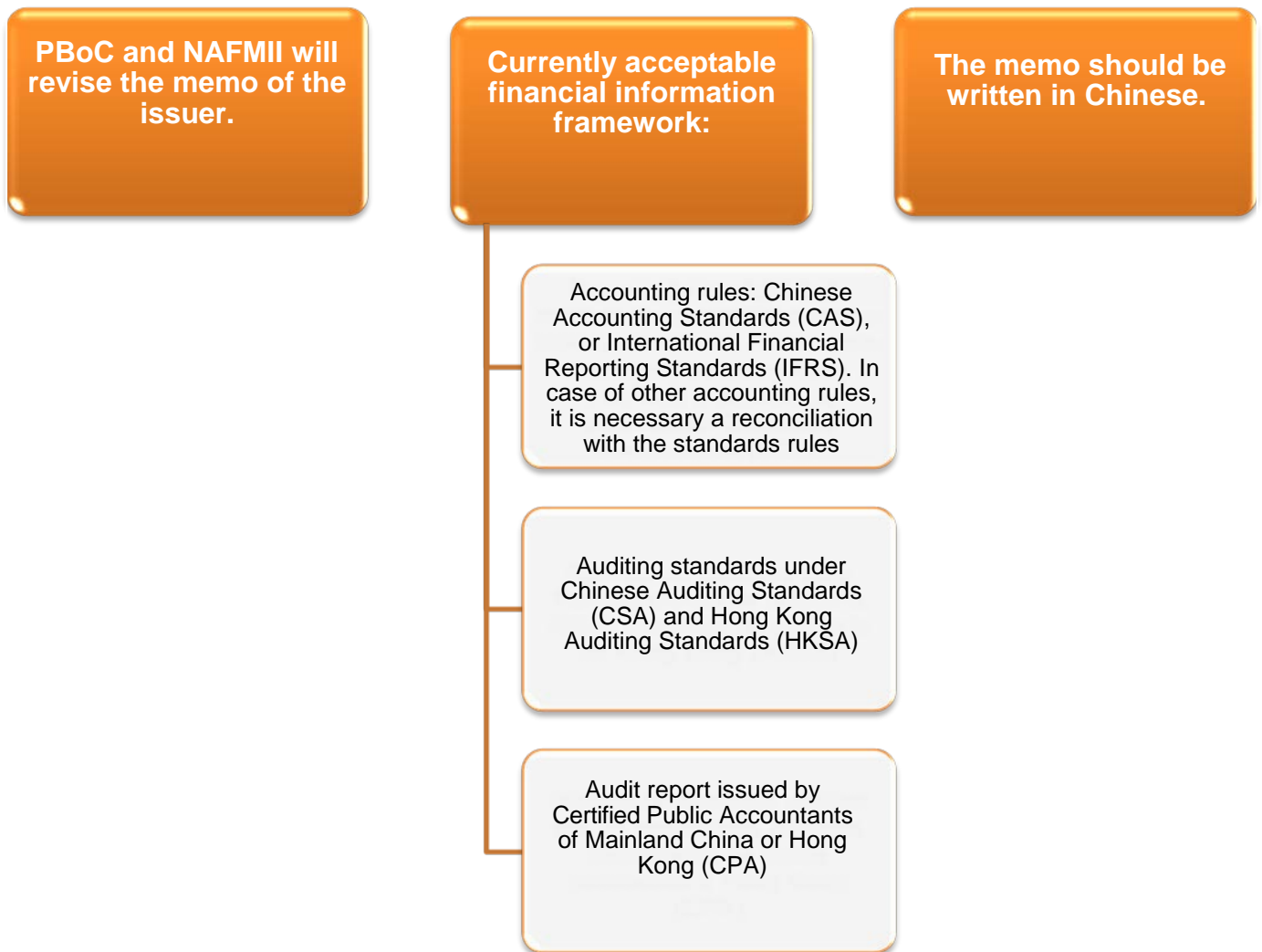
The credit ratings should be qualified by at least one rating agency registered in China and authorized by the supervision authorities of the interbank market.

Raised funds

The raised fund can be used in or out of China. The application of funds needs to comply with the Chinese law and regulations and the rule of relative regulatory authorities.

The requirements for private offering are similar unless that they are less rigorous in the selection of the language and the continuous disclosure of information, because the issuers can make agreement on the specific criterions with the investors of private offering. The accounting and auditing regulation also can be determined by issuers and investors. It is recommended the use of accounting regulations which are complied with the International Financial Reporting Standards (IFRS).

Normative



It may arise problem if foreign entities apply an accounting framework that is not IFRS and/or their audit firms have not registered in China continent or Hong Kong.

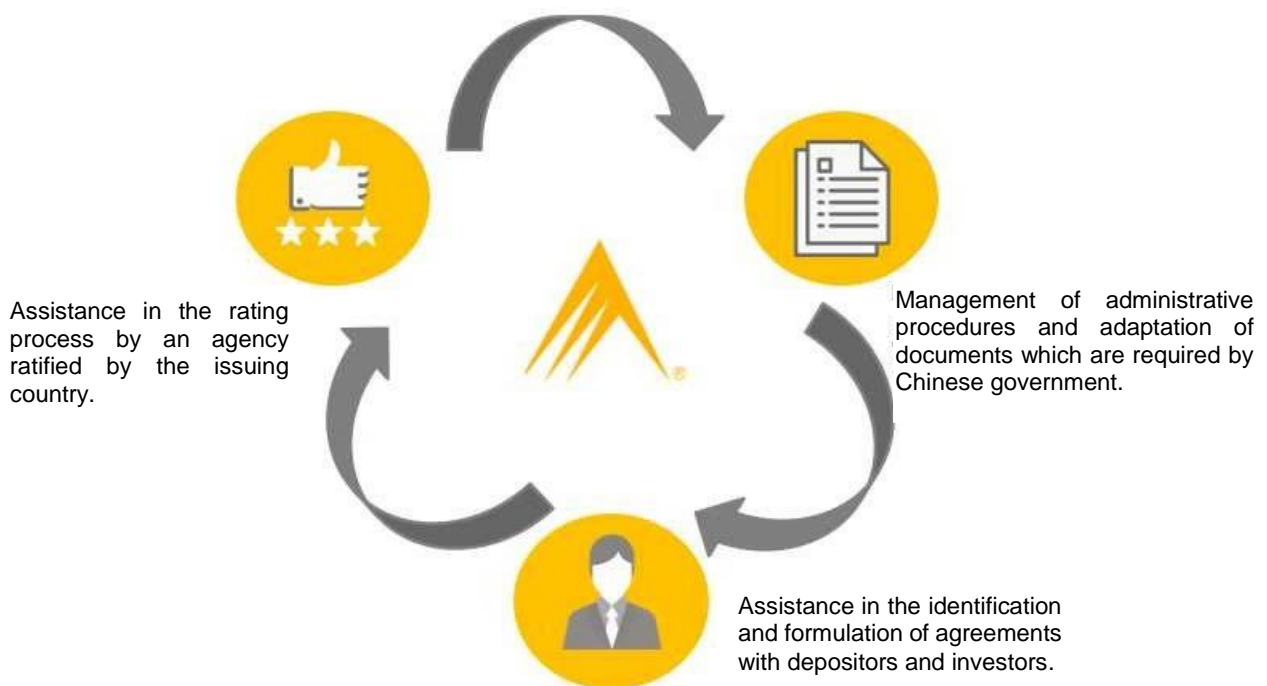


Our proposal

We are a firm with global professional services, independent and integrated to Crowe International. Our local offices are committed to a high level of quality of service and standard from technical level to ethic level. The firm has created an international reputation due to its personalized service for companies of private and public sector in all fields, such as service of auditing, consulting and fiscal.

Our objective is accompanying with our clients during the previous process of issuing Panda Bond. Therefore, we have disposed of the technology, the most advanced tools and a multidisciplinary group with a long professional experience so that we would help you to confront the possible challenges which could appear in the issuing process.

Crowe International disposes of more than forty China Desks and specialists in area of Chinese financial market, especially in the area of consulting in the administrative processes of issuance of Panda Bond.



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