

Panda Bonds: How A Foreign Entity Raises Fund In China?

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With the further opening-up of China's financial market and the continuous progress of the internationalization of Renminbi in recent years, more and more foreign entities choose to issue renminbi-dominated bonds in mainland China (for the purpose of this article, excluding Hong Kong, Taiwan and Macao). In accordance with international practice, renminbi-denominated bonds issued in China by foreign organizations was named as "Panda Bonds".

China's onshore bond markets comprises the interbank bond market and exchange bond market. Interbank bond market is regulated by People's Bank of China ("PBOC") and exchange bond market is regulated by China Securities Regulatory Commission ("CSRC"). While there are no specific rules for issuing Panda Bonds in exchange bond markets, new rule has been issued by PBOC regulating the issuance of Panda Bonds in interbank bond market by foreign organizations including governmental agencies, international development institutions, foreign financial institutions and non-financial enterprises.

■ The Evolution and Development of Panda Bonds

■ First Panda Bond

In February 2005, a provisional rules was announced by PBOC allowing international development institutions to issue Panda Bonds. A few months later, the first Panda Bond was issued, with the International Finance Corporation and the Asian Development Bank respectively offering RMB¥1.13 billion (US\$139 million) and RMB¥1 billion worth of Panda bonds in the interbank bond market.

■ Booming development of Panda Bonds

In the first decade since the appearance of Panda Bonds, not much Panda Bonds were issued due to restrictions imposed by Chinese regulator including forbidding Panda Bonds proceeds to be remitted outside China. Such limitation for international development institutions was removed in 2010. As for the other foreign entities, it was not until 2015 that some Panda Bond issuers received exemptions to repatriate proceeds outside China.

The year 2015 witnessed the booming development of Panda bonds in interbank bond market. Foreign entities issuing Panda Bonds in interbank bond market in 2015 diversified, including foreign banks such as the Hong Kong and Shanghai Banking Corporation Limited and Bank of China (Hong Kong) Limited, foreign non-financial enterprise such as China Merchants Group (Hong Kong) Limited and sovereign state government such as Republic of Korea.

■ First Specific Rules Regulating Panda Bonds

Since 2015, more Panda Bonds were issued, especially in the interbank bond market. However, foreign entities still have concerns on issuing Panda Bonds since most of them (the only exception is international development institution) have to rely on practices instead of codified rules.

Things changed when in September 2018, PBOC and Ministry of Finance jointly released an interim measures (“**Interim Measures**”), providing for the first time the specific guidance on offering of Panda bonds in the interbank bond market by foreign entities including governmental agencies, international development institutions, foreign financial institutions and non-financial enterprises. Furthermore, on 1 February 2019, a guidelines was announced

by the National Association of Financial Market Institutional Investors (“NAFMII”), providing specific requirements for issuing Panda Bonds in the interbank bond market by foreign non-financial enterprises.

■ How to Issue Panda Bonds?

■ Approval Process

Panda Bonds issued in the exchange bond market shall be approved by CSRC. The offering of Panda Bonds in interbank bond market by foreign financial institutions is subject to the approval of PBOC. As for the non-financial enterprises, foreign governmental organizations and international development institutions offering Panda bonds in the interbank bond market, registration with NAFMII shall be obtained.

■ Application Documents

Interim Measure and Guidelines respectively provide documents required to be submitted to PBOC by foreign financial institution and documents required to be submitted to NAFMII for registration by non-financial enterprises, including but not limited to incorporation documents of issuer, internal resolutions approving the issuance, prospectus, financial reports, legal opinion, undertaking agreement, etc.

Documents need to be submitted for offering Panda Bonds in exchange bond market are largely similar to the documents required in issuing Panda Bonds in interbank bond market.

■ Credit Rating

There is no mandatory requirement for a credit rating for Panda bonds. However, a large majority of foreign organizations have a credit rating when offering Panda bonds. The Interim Measures specify that, if a foreign organization publicly discloses a credit rating report when offering Panda bonds, such rating report is to be issued by a ratings agency recognized by the interbank bond market.

As one of the opening up measures in the financial market, foreign credit rating companies are currently allowed to establish subsidiaries in China to carry out credit rating business. Therefore, foreign issuers could choose foreign invested credit rating company recognized by the interbank bond market when issuing Panda Bonds on the interbank bond market.

■ Accounting Principle

Previously, it is believed that the financial reports for offering Panda Bonds shall be prepared under the Chinese accounting principles or other accounting principles recognized by the Ministry of Finance. Pursuant to the Interim Measures, however, an issuer could choose not to use Chinese accounting principles for its financial reports. If an issuer's financial reports are prepared without using Chinese accounting principles or accounting principles determined by the Ministry of Finance on the basis of the principle of reciprocity as of equivalent effect as Chinese accounting principles, the issuer is required to simultaneously disclose an explanation of the major differences between the accounting principles it used and Chinese enterprise accounting principles.

If an issuer prepares its financial reports using Chinese accounting principles, it is required to engage an accounting firm in China with securities and futures business qualifications to audit the same. If an issuer prepares its financial reports using other accounting principles, it may engage a reputable foreign accounting firm with practice qualifications in its home country to audit the same. Such foreign accounting firm shall be registered with the Ministry of Finance as required in the Interim Measures. ■

- Please contact the persons as listed below if you request additional information or have any questions regarding the issues discussed in this newsletter.

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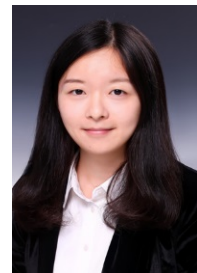


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