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Research Report

# Credit Events of Offshore Chinese State-related Issuers and Their Onshore Support

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## SUMMARY

The extremely low funding costs in US dollars since 2010 has stimulated Chinese corporates to increase their offshore debt issuance for funding purposes. Alongside, the credit risks associated with increasing Chinese corporate bond defaults in the onshore market have increasingly captured the attention from regulators and market participants.

Compared to the onshore market, default cases of Chinese bonds in the offshore market have not been as frequent. However, recent default cases related to state-owned issuers in the offshore market have broken the belief that state-related issuers will always have the support of the Chinese government and their onshore parent companies. This drives the market to develop a more proper pricing mechanism for bonds issued by Chinese state-related issuers to calibrate the implicit government guarantee carried by the Chinese issuers and focuses more on their sole creditability.

In practice, the support that the Chinese Central Government and local governments offered to their controlled companies in the process of debt restructuring and possible bailout may vary to a significant degree across regions and industries, especially in respect of off-budget borrowing that are largely related to the local economy.

So far, the occurrence of offshore Chinese bond defaults is not frequent but credit events of various nature did happen. That demands the market to look beyond the contractual obligations under the various credit enhancement facilities and to better understand the business and economic relationship of issuers with their onshore parents in assessing the credit risks.

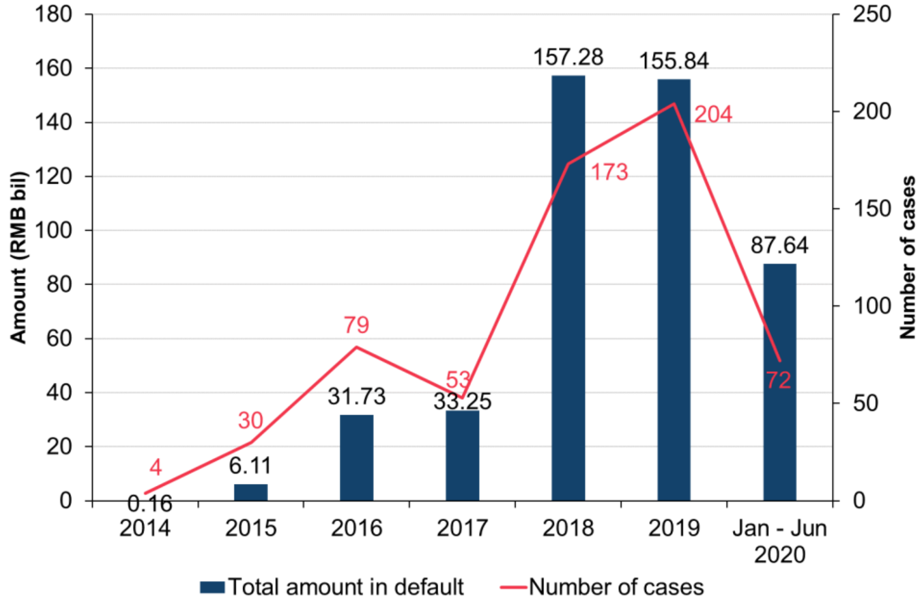
In the long-run, the establishment of a market-based approach in assessing credit risk is crucial to strengthening market discipline and to allowing market forces to work in risk pricing. This is important in strengthening up financial stability and the sustainable development of the Chinese bond market. The Hong Kong market has its specialised strengths in assessing the fundamentals of Chinese offshore issuers. This could be of value to help investors assess the potential credit risks in Chinese offshore bond issuance and reduce the vulnerability of the financial market to credit events.

## 1. THE EMERGENCE OF CHINESE CORPORATE BOND DEFAULTS

After continuous development and market opening-up over the past decade, the Chinese bond market has now grown to become the world's second largest with a considerable size worth RMB 97.1 trillion as of end-2019[1]. The rapid expansion of the bond market is the corollary of China's rising economy. However, the credit risks associated with increasing corporate bond defaults have become a major concern of regulators and market participants.

China had not experienced a true bond default until March 2014, when Shanghai Chaori Solar failed to make full payment on a RMB 89.8 million (about US$15 million) coupon of its bond issue. Since then, China's economic growth has slowed down, and the government's deleveraging campaign has made the market cautious about the credit risks arisen in the corporate sector. In 2018, a notable increase of defaults was recorded in the onshore bond market. The year 2019 witnessed an unprecedented wave of corporate bond defaults with 204 cases amid US-China trade tension, almost tripled the number in 2016 (see Figure 1). After the COVID-19 pandemic outbreak in 2020, onshore bond defaults continued to take place but the emergence of new defaulters has slowed down somewhat.

**Figure 1. Total amount and numbers of defaults in China's onshore bond market (2014 – Jun2020)**




Source: Wind.

In the offshore bond market, the extremely low funding costs in US dollars has stimulated Chinese corporates to increase their offshore debt issuance since 2010. Due to the bond market liberalisation measures introduced by the National Development and Reform Commission (NDRC) in 2015, which allows Chinese companies to issue bonds offshore by pre-issuance registration and post-issuance filing instead of case-by-case approval, more Chinese issuers, especially stated-owned enterprises (SOEs) and local government financing vehicles (LGFVs) tapped into the offshore market for funding. In 2020 up to June, Chinese non-financial corporations had issued about US$358 billion in the offshore market, from nearly zero in the mid-2000s[2].

Compared to the onshore market, default cases of Chinese bonds in the offshore market have not been as frequent. However, a number of default cases related to state-owned issuers

[1] Source: Wind.

[2] Source: Bloomberg.

recently took place, like the bonds issued by Peking University Founder Group (PUFG) and Qinghai Provincial Investment Group. The emergence of default cases of state-related entities in the offshore market have broken the belief that state-related issuers will always have the support of the Chinese government and their onshore parent companies. This drives the market to develop a more proper pricing mechanism for bonds issued by Chinese state-related issuers to calibrate the implicit government guarantee carried by the Chinese issuers and focuses more on their sole creditability.

As China has repeatedly shown its determination to develop its bond market towards a market-based model and its tolerance of defaults of over-capacity corporates with low productivity, the possibility of default of Chinese issuers in the offshore market, including state-related issuers which were deemed to have implicit government guarantee, will likely increase. In the long-run, the establishment of a market-based approach in assessing credit risk is crucial to strengthening market discipline and allowing market forces to work in risk pricing. This is of paramount importance in strengthening up financial stability and the sustainable development of the Chinese bond market.

## 2. CHARACTERISTICS OF CHINESE BOND DEFAULT CASES

Only a few bond default cases took place per year recently in the offshore market. This could not generalise out an effective framework to assess the default risks of Chinese issuers in the offshore market. The increasing defaults in the onshore market, covering widely the cases in the state-related sector and the private sector, may provide useful insights on how market forces work in the assessment of issuers' credit risks and on possible government guarantees in the issuance of state-related bonds.

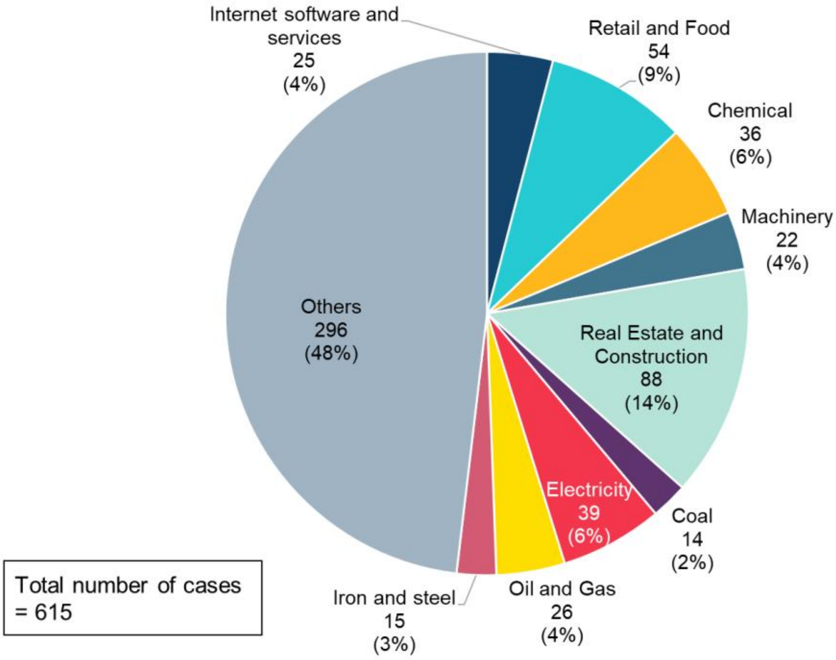
### 2.1 Bond defaults in the onshore market

In the onshore market, since the first default case in 2014, the total amount of defaulted bonds surged from RMB 0.16 billion in 2014 to RMB 155.84 billion in 2019 (see Figure 1 above). The number of defaults increased from 4 in 2014 to 79 in 2016, and further up to 173 in 2018 and 204 in 2019 despite a temporary drop in 2017. This reflected that China's debt-fuelled growth model that has been implemented over the past decade is under strains during the course of the deleveraging campaign and the Sino-US trade tension.

Industries with overcapacity, namely oil and gas, coal, iron and steel, and electricity, registered 94 default cases during the period from 2014 to June 2020, together accounting for 15% of the total number. The real estate and construction industry recorded 88 defaults (14%) in the same period, reflecting the trend of speedy exit of high-leveraged firms under the deleveraging campaign. (See Figure 2.)

Categorised by type of ownership, most onshore bond defaults are of privately-owned companies, accounting for 74% of the total. However, the defaults of SOEs, especially those of central-level SOEs cannot be neglected. During 2014 to 2020, the number of default cases of central-level SOEs was equal to that of local-level SOEs, each accounting for 8% of the total. (See Figure 3.)

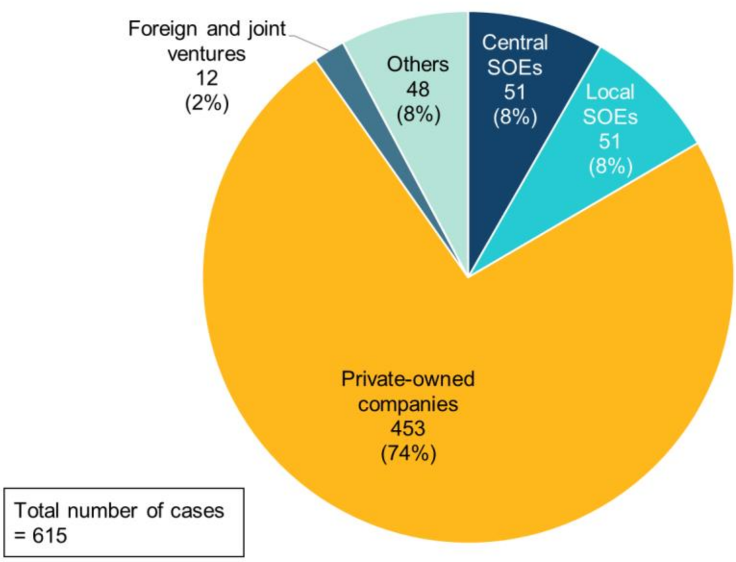
**Figure 2. Distribution of number of defaults by industry in China's onshore bond market (2014 – Jun 2020)**




Note: There are over 50 industries in the "Others" category, e.g. communication devices, building products, electronic equipments and instruments, etc.

Source: Wind.

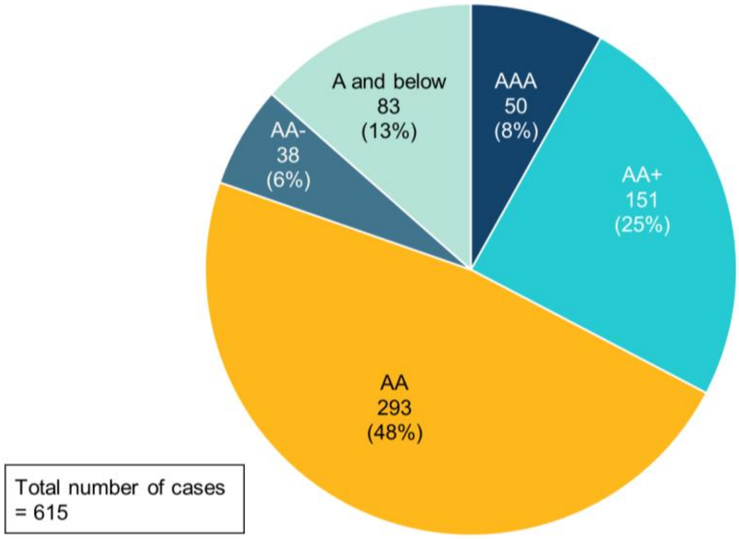
**Figure 3. Distribution of number of defaults by type of ownership in China's onshore bond market (2014 – Jun 2020)**




Source: Wind.

In terms of rating, among the 615 defaulted bonds during the period from 2014 to June 2020, 8% received an AAA rating, 25% with an AA+ rating, and 48% with an AA rating at the time of issuance (see Figure 4). The first default for a bond with an AAA rating took place in 2018.

**Figure 4. Distribution of bond defaults by rating at issuance in China's onshore bond market (2014 – Jun 2020)**

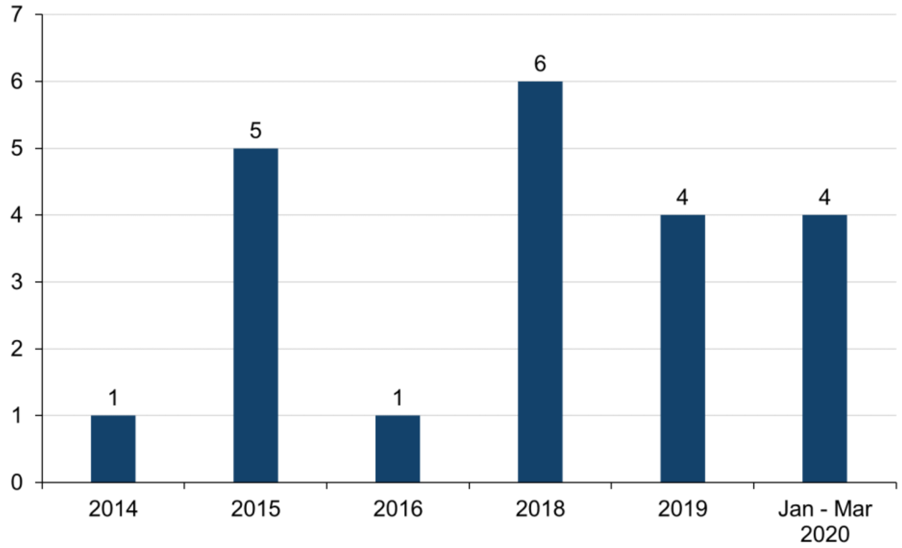



Source: Wind.

## 2.2 Bond defaults in the offshore market

In the offshore market, the occurrence of Chinese bond defaults is less frequent than in the onshore market. Only about 20 issuers in total have defaulted during 2014 to early 2020 in the offshore market (see Figure 5). Notably, there were four issuers defaulted in the first quarter of 2020, compared to the same number of defaulted issuers in the whole year of 2019. Such increase in number of offshore defaults came along with the rising number of defaults in the onshore bond market.

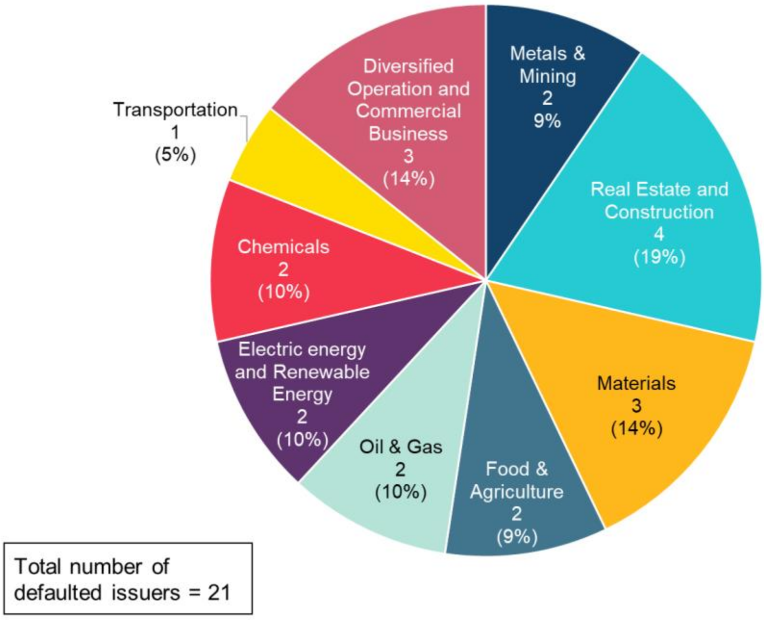
**Figure 5. Number of defaulted issuers in the offshore bond market (2014 – Mar 2020)**




Source: Counted from the list of default issuers obtained from multiple sources including Bloomberg, BOCI and Moody's. Note that the basis of counting is the issuers, as the number of default cases is not available.

Offshore defaulted issuers came also from a variety of industries, similar as default cases in the onshore market (see Figure 6).

**Figure 6. Number of default issuers by industry in the offshore market (2014 – Mar 2020)**




Source: Counted from the list of default issuers obtained from multiple sources including Bloomberg, BOCI and Moody's. Note that the basis of counting is the issuers, as the number of default cases is not available. The Industry of each issuer is classified by Bloomberg.

Notably, some default cases of SOEs have emerged after 2019, like those of Haikou Meilan Airport, Tewoo Group, and PUFG, reflecting that Chinese regulators have increased their tolerance of default events in the state-related sector.

## 3. POSSIBLE IMPLICIT GOVERNMENT GUARANTEES IN STATE-RELATED ISSUANCE

Compared to the private sector that accounted for over 70% of total onshore bond defaults during 2014 to June 2020, the percentage share of the state-related sector in number of defaults was low. However, the market usually has high awareness of risks of private-sector bonds and have taken a more market-oriented approach to resolve the defaults. In respect of the state-related sector, the assessment and the resolution need more deliberation given the vague financial structure of SOEs in their relation with their parent companies and the implicit government support involved.

Given the special setting in the ownership structure of state-related issuers, the market usually expects that the government or their parent companies will provide ultimate guarantees to the liabilities of these state-related issuers, in case the issuers fall into financial difficulties. However, in recent years, Chinese government has developed a legal framework with more clarity in defining governmental indebtedness for ensuring fiscal security. In 2014, China's Budget Law was revised to officially set up a more transparent framework for government borrowing, bringing all government spendings that are fiscal in nature into the budget. Since then, the Central Government has reiterated the ban on off-budget borrowing by local governments and has tightened the regulation over the role of the government in public-private business partnerships and financing. In 2015, China launched the local government debt-to-equity swap programme to confine the liability of local governments in LGFVs and SOEs to up to what they initially invested.

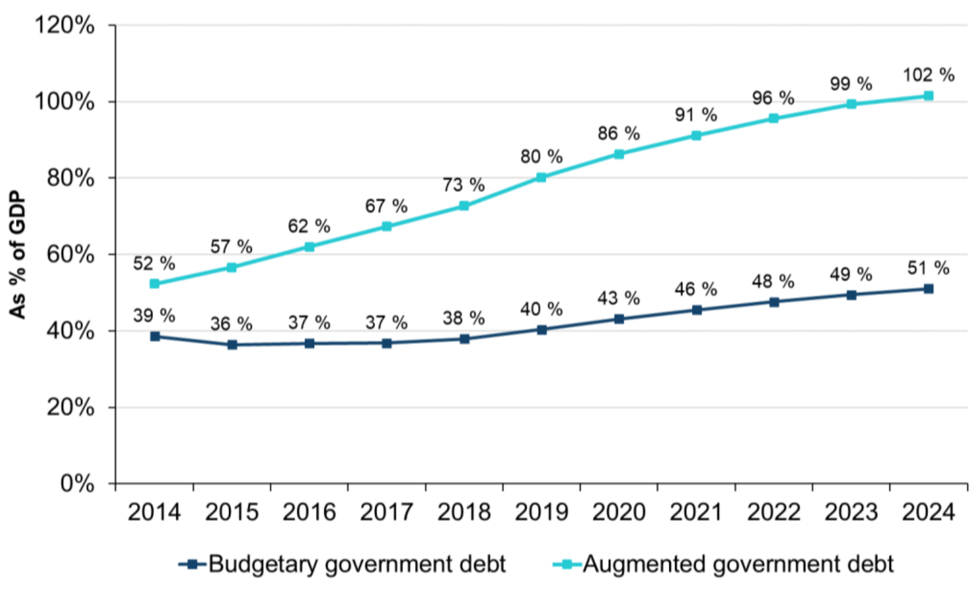
Given the above ascertained rules, the off-budget borrowing by SOEs are not regarded as a government obligation. However, from a practical perspective, there are no well-developed guidelines or market practices yet to clearly indicate the Chinese government's obligations to the indebtedness of state-related entities, in case they fail in debt payments. The perception of implicit government guarantees on the borrowing of state-related entities is still widely shared among market participants. Sometimes, the pricing of certain state-related issuances would reflect the extent to which the market believes the government would be willing to bail the issuer out in the event of default, even if the borrowing of the state-related entity is constrained by the tight government budget.

### 3.1 The scope of China's budgetary government debt

Under a narrow scope of definition by the International Monetary Fund (IMF), China's official budgetary government debt includes those of the Central Government and the "on-budget" local government indebtedness identified by the government, which remains low and in a sustainable manner. According to IMF statistics, the Chinese government debt at the end of 2018 under this narrow scope was 38% of China's gross domestic product (GDP) in the year and was projected to rise to 51% of GDP by 2024 (see Figure 7).

However, the overall government indebtedness of China may include the indebtedness in the form of off-budget liabilities borrowed by state-related entities via bank loans, bond issuance, trust loans and other funding sources. Under this broad-scope definition, China's government debt was projected to rise to about 102% of GDP in 2024, driven largely by sizable off-budget borrowing by local governments and related SOEs (see Figure 7).

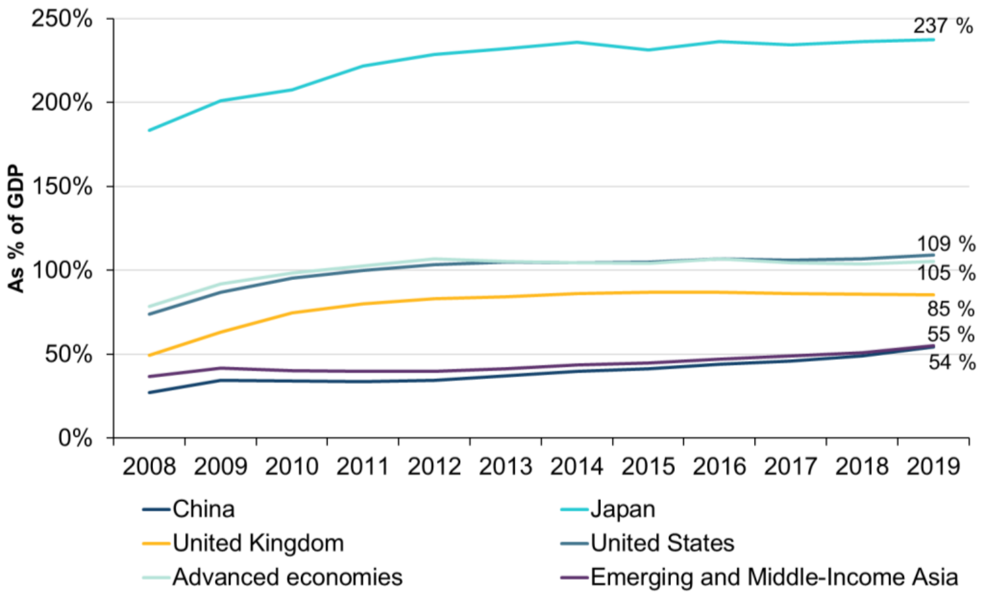
**Figure 7. Government debts of China in terms of different scopes (2014 – 2024)**




Note: Data before 2019 are actual figures reported in IMF statistics while data for 2019-2024 are projected by IMF. Budgetary government debt includes central government debt and "on-budget" local government debt identified by the authorities. Augmented government debt includes, in addition, other types of local government borrowing, including off-budget liabilities borrowed by LGFVs via bank loans, bonds, trust loans and other funding sources, estimated by IMF.

Source: IMF Country Report No. 19/266, "People's Republic of China, 2019 Article IV Consultation", August 2019.

**Figure 8. Gross debt position of China compared with other countries and regions (2008 – 2019)**




Source: IMF database.

Although China's debt profile is considered manageable given its relatively low level in comparison with other economies (see Figure 8), credit risks may increase as a result of the augmented off-budget investment by local governments and state-related entities. Despite the fact that the Budget Law does not allow the provision of government guarantee to off-budget borrowing, in practice, the Central Government and local governments may offer varying degrees of support to their controlled companies in the process of debt restructuring. This may vary significantly across regions and industries, especially when the off-budget borrowings are largely related to the local economy (see discussion and case examinations in Section 3.2 below).

## 3.2 Possible factors in the assessment of government support

The following are possible factors of consideration in the assessment of government support in case of bond defaults.

### (1) The ownership of the issuer and the relationship with its parent company

In the past, the market tended to believe that issuers which were owned by large SOEs or the Central Government could receive strong support from their owners, when needed. However, in the light of the increasing onshore bond default cases of SOEs owned by the Central Government, the level of Central Government ownership and shareholder structure of debt issuers could not be taken as the only criterion to assess the likelihood and the degree of government support in case of default.

As shown in Figure 3 above, there were 51 onshore bond default cases of central SOEs during the period from 2014 to June 2020, as many as those of SOEs owned by local governments. This reflects that the ownership by the Central Government did not provide stronger guarantee of government support than local government ownership. The real relationship of the issuer with its parent company and the issuer's contribution to the business of the onshore corporate group may be a stronger factor in determining the degree of support.

For example, Shanxi Huayu defaulted in the onshore market in April 2016, despite the fact that its parent company, China National Coal Group Corporation, is a large SOE. The probable reason was that Shanxi Huayu accounted for only a small part of its parent company's total assets and did not carry an essential strategic function within its parent's core business[3]. An interpretation is that non-core subsidiaries are less likely to be supported by their central-level parent companies in case of default.

**(2) The systemic importance of the issuer and the nature of the issuer's industry**

Several default cases show that the government is more likely to provide material support to the issuer if its default is likely to lead to systematic risks in the local economy or the issuer is carrying out uniquely important projects for the government. For state-owned issuers in trading businesses or industries with intense competition, they may be less likely to enjoy significant government support.

Taking the case of China Railway Materials' debt restructuring in 2016 as an example. China Railway Materials (CRM) is a central SOE. The nature of its business is to supply materials for national railway operation. Their products can easily be substituted by those of competitors in the industry. In this case, CRM's debt restructuring would not result in systematic risks and it was therefore less likely to obtain material support from its parent company[4]. Similar cases can be found in industries with the nature of commercial business, such as Tewoo Group, a SOE owned by Tianjin Municipal Government, which proposed a debt restructuring plan for its four offshore bonds in late 2019 without material support from its parent company.

Moreover, even for certain issuers who are deemed to be "too big to fail" for the local economy and labour markets, they may still be unable to get government support in case of default if they are in industries of overcapacity. The default case of Sinosteel Corporation, a central SOE, in 2015 could be a relevant supporting evidence. At the aggregate level, industries with overcapacity registered 94 defaults during 2014 to June 2020, accounting for 15% of the total number of default cases in the period (see Section 2.1 above).

**(3) The issuer's relationship with the local government**

Local governments usually have strong influence in creditor committees in the resolution process. So far, settlement outside the court is a common way used to resolve onshore SOE bond defaults. Out-of-court settlement methods include changing controlling shareholders and debt-to-equity swaps. The involvement of the local government in debt restructuring will help the issuer to negotiate with the creditors on changing the shareholder structure, or to invite other SOEs to step in to provide bailout. According to a recent study[5], default issuers which were owned by local governments could repay the debt within 25 days, the shortest repayment period compared to other types of defaulter, reflecting the possible effect of local governments' participation in the default resolution. In view of this, the bond issuer's close ties with the local government, to some extent, would be an important factor in the assessment of government support.

3 More discussion on this case can be found in "China Railway Materials' Debt Restructuring Points to Increasingly Differentiated Government Support", Moody's Investors Service, published on Moody's website, 21 April 2016.

4 More discussion on this case can be found in "China Railway Materials' Debt Restructuring Points to Increasingly Differentiated Government Support", Moody's Investors Service, published on Moody's website, 21 April 2016.

5 Source: Liu Yifan, et. al., "Study on debt repayment of Chinese defaulted bonds" (〈中國違約債券的回收率問題探究〉), *ChinaBond*, March 2020.

## 4. EMERGENCE OF CREDIT EVENTS OF CHINESE ISSUERS IN THE OFFSHORE MARKET

In spite of increasing defaults of state-related issuers in the onshore market, the occurrences of offshore bond defaults have not been as frequent. Nevertheless, the increased Sino-US trade tension since 2019 and the COVID-19 global outbreak in 2020 triggered more offshore credit events to take place, some of which are related to stated-owned issuance. The offshore credit events also varied in nature. This demands the market to look beyond the contractual obligations under the various credit enhancement facilities and to better understand the business and economic relationship of the issuers with their onshore parents in assessing the possible parental support. To this end, the listed bond market in Hong Kong may offer effective support (see Section 5).

### 4.1 "Keep-well" structure in Chinese offshore bond issuance

Typically, bonds issued by offshore subsidiaries or overseas branches of Chinese corporates are structurally and legally subordinated to those of their onshore parent companies. Given current policy restrictions on cross-border capital flows, onshore parent companies cannot directly provide guarantees to their offshore entities unless they have obtained approval from the Mainland regulators. Therefore, certain structures, such as the "keep-well structure", are adopted if the parent company does not obtain necessary approval from regulators.

Different from a typical guarantee, the keep-well structure is essentially a "gentlemen's agreement" made by the onshore parent company to protect the bondholder in case of default. As a result, the real protection from a keep-well structure relies mainly on the degree of commitment and the incentive of the keep-well provider to offer support.

The keep-well structure in Chinese offshore bond issuance emerged since 2012, and was then used widely to enhance the credit quality of Chinese issuances by offshore subsidiaries. As of end-June 2020, the outstanding amount of Chinese issuance supported by keep-well structure stood at US$121 billion[6]. The effectiveness of the protection provided by a keep-well structure, however, has not been formally tested until recently — in February 2020, the offshore bonds with keep-well provisions issued by PUFG defaulted, which was triggered by onshore court-led debt restructuring. This posts the question about the willingness of SOE parent companies to provide support for the offshore subsidiaries, even after having made a "keep-well" agreement[7]. The case of PUFG in debt claims would have implications on the market view towards the keep-well structure[8].

### 4.2 The connection between onshore and offshore bond defaults

There were signs of connection between credit events in the onshore and offshore markets. So far, a number offshore cases are triggered by the default of onshore payments[9] or by the onshore credit event as a result of a change of control. The latter includes the case of China City Construction (International) (CCCI) in 2016[10] and the case triggered by the change in chairman at Future Land in 2019.

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6 Source: Bloomberg.

7 More discussion on this case can be found in "Keep-well revisit: not a guarantee, but still an important credit enhancement", BOCI Fixed Income Research, 18 May 2020.

8 The description in this section on keep-well structure is based on the progress of the PUFG case up to March 2020.

9 Certain cases, like those of Gangtai group and Kangde Xin Composite Material Group, are triggered by the cross default clauses of the offshore bonds after the issuer failed to deliver onshore payments.

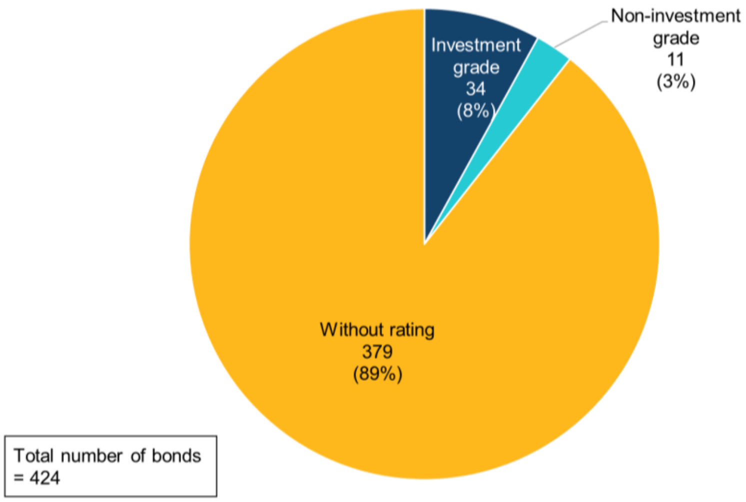
10 In CCCI's case, a change in the shareholding structure of the onshore parent company from an entity entirely owned by China's Ministry of Housing and Urban-Rural Development to a privately-owned entity triggered an early redemption clause of the CCCI's offshore issuance. The offshore bond was not registered with the State Administration of Foreign Exchange and was not guaranteed by its onshore parent company. As a result, offshore bondholders could not directly pursue in an onshore court to claim the debt. In the end, offshore bondholders got partial repayment ahead of the series of onshore defaults of the parent company.

The above examples of defaults highlight the cross-border payment risk and potential concerns of disclosure issues for offshore bondholders. For SOE groups with weak fundamentals and financial metrics, the deteriorating credit profile of their onshore entities may eventually increase credit risks of their offshore issuance, and the resolution of offshore defaults would probably depend on the degree of support from onshore parent companies. The offshore market would therefore need to keep eyes on the connection between the onshore and offshore financial conditions in the assessment of credit risks.

### 4.3 Potential credit risks of LGFV

LGFVs are set up by local governments, usually for undertaking the financing functions of the local governments to fulfil a public sector mandate. LGFVs have been active issuers in the offshore market. During February 2011 to July 2020, there were 424 LGFV bonds issued in the offshore market, 89% of which were bonds without rating (see Figure 9).

**Figure 9. Distribution of LGFVs' offshore bond issuance by rating at issuance in terms of number of bonds (Feb 2011 – Jul 2020)**




Source: Bloomberg.

Given the fiscal regime set by the Budget Law, LGFV bonds are not formally guaranteed by the local governments, and such debts are not included as part of local government budgets. However, much of the borrowings by LGFVs have been used for fiscal expenditure projects and LGFVs are, by nature, government-owned entities. As a result, the market tended to believe that the indebtedness of LGFVs, to a large extent, will get implicit government guarantees.

Compared to other bond issues by central/local SOEs, there have not been recognised true defaults of LGFV bonds issued in the onshore market[11]. However, a number of credit events did occur, which involved the default of LGFVs' private-placement products and non-standardised debt securities. Another example was the late payment of interest by the LGFV in Hohhot at end-2019[12]. Furthermore, the recent bond default of Qinghai Provincial Investment Group (QPIG) might have aroused concerns about the credit risks of LGFV debt issues. However, to a certain extent, QPIG is more of the nature of a local SOE rather than a LGFV of the Qinghai Province[13]. In general, local government support is a key factor in the assessment of LGFVs' credibility.

[11] As of May 2020.

[12] See "China warned of local debt vehicle default risk", *Financial Times*, 18 December 2019.

[13] After its ownership restructuring in 2013, QPIG was transformed to a local SOE and has been less involved in government projects.

## 5. THE SUPPORT OFFERED BY THE OFFSHORE BOND MARKET IN HONG KONG

As incentives to promote the development of the debt market in Hong Kong, the Hong Kong Government has introduced a number of new policy measures, including the Pilot Bond Grant Scheme[14] and the Green Bond Grant Scheme[15] in 2018 to promote the issuance of more corporate bonds and green bonds in Hong Kong. Tax concessions were also introduced for qualified debt instruments listed on the Stock Exchange of Hong Kong (SEHK)[16].

The role of Hong Kong as an international hub for bond trading is further strengthened with the launch of the Northbound trading of Bond Connect in July 2017, which allows overseas investors to access the Mainland interbank bond market through the Hong Kong market infrastructure. The possible Southbound trading link (to be approved and developed), which would allow Mainland investors to trade bonds in Hong Kong, will foster further development of the debt market in Hong Kong.

In respect of the listed market, Hong Kong strives to maintain an effective and appropriate regulatory regime to develop the listed bond market. In December 2019, the SEHK published a consultation paper to review and explore enhancements to the professional debt regime under Chapter 37 of the Listing Rules[17]. In August 2020, the SEHK published conclusions to the consultation and announced enhancements to balance the need to safeguard investors whilst maintaining an effective and appropriate listing platform for the continued development of the Hong Kong listed bond market. At the same time, the SEHK also published guidance on disclosures in listing documents and continuing obligations under Chapter 37 of the Listing Rules. Apart from the changes to the Listing Rules pursuant to the consultation conclusions, enhanced disclosure in the listing documents of these bonds is encouraged to highlight, among other things, the nature of the issuer's business and the debt structure, such as those below:

- The relationship with, and the financial support from, the state if the issuer is a state corporation;
- Any credit enhancement feature, such as keep-well structure and guarantee; and
- Any complex feature and associated risks.

A listed market offers the advantage of relatively high transparency for bond issues. With the enhanced regulatory regime for the listing of bonds by issuers from the world, including Mainland China, the Hong Kong market provides an attractive platform for global investors to assess and invest in Chinese bonds.

## 6. CONCLUSION

Offshore bond issuance by Chinese companies play an important role in securing fundings in foreign currencies. The recent increasing number of default cases in China's onshore and offshore bond markets show the willingness of the Mainland policymakers to follow a market-driven approach in credit assessment and credit default. This is conducive to the healthy development of the Mainland bond market in the long run, since the market is allowed to play

14 The Pilot Bond Grant Scheme (PBGS) is a three-year pilot programme announced in the 2018-19 Budget, aiming to attract enterprises around the world to issue bonds in Hong Kong. The Scheme offers grants to eligible bond issuers to cover part of the issuance expenses during their bond issuance process, thereby reducing their issuance costs. (See details on the website of the Hong Kong Monetary Authority, https://www.hkma.gov.hk/eng/news-and-media/press-releases/2018/05/20180510-3/)

15 See details on the website of the Hong Kong Government, https://www.info.gov.hk/gia/general/201806/15/P2018061500373.htm

16 See details on the website of the Hong Kong Government about the tax concessions (https://www.hkma.gov.hk/eng/news-and-media/press-releases/tax-concessions-and-incentive-schemes).

17 Listed bonds are broadly classified into bonds for public investors and bonds issued to professional investors only, in accordance with the SEHK Listing Rules. Bonds issued to professional investors only are subject to less stringent listing requirements than those applicable to securities offered to retail investors. For more details, see HKEX research report, "The rising on-exchange bond market in Mainland China and Hong Kong", published on the HKEX website, September 2020.

a bigger role in risk pricing. China has made progress in strengthening market discipline, and is expected to further develop the market-based legal and institutional insolvency frameworks to promote effective restructuring of debts. These explicit market and policy developments will provide guidance for resolving the complexity in assessing and pricing the creditworthiness of state-related bond issues.

The Hong Kong market has its specialised strengths to assess the fundamentals of Chinese offshore issuers and to differentiate the different degrees of support from their onshore parents. This could be of value to help investors assess the potential credit risks in Chinese offshore bond issuance and safeguard the stability of the financial market.

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