Keynote Speech by Mr. Philip Li

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Good afternoon, ladies and gentlemen. It is my honor and pleasure to share my views on Panda Bond credit rating with you at this conference organized by China Chengxin Credit Rating Group.

Panda is a highly protected animal native to south central China. As Panda is recognized as China's national treasure, the name Panda Bond is therefore borrowed to label the debts denominated in Renminbi issued by foreign issuers in the domestic debt market of China. The first Panda Bond was issued by two multi-lateral institutions, namely Asia Development Bank and International Finance Corporation, on the same day in 2005 that was said to help China in developing her domestic debt market.

Sister to Panda Bond is Dim Sum Bond which is the type of bonds denominated in Renminbi issued outside of China. (Dim Sum is a popular style of cuisine in Hong Kong). The Chinese government has chosen Hong Kong as China's first and most important off-shore Renminbi center since 2004 when the scheme of Renminbi deposit with banks in Hong Kong was launched. In 2007, the first Dim Sum bond was issued in Hong Kong by China Development Bank.

In view of the accelerating demand for Renminbi by foreign investors and companies, especially after the global financial tsunami in 2008, the Chinese government decided to speed up the internationalization process of Renminbi. In 2009, the Chinese government launched a pilot scheme for international trade settlement and expanded the existing cross border channels and financial products of Renminbi.

Today, use of Renminbi in cross border transactions between China and other countries and regions has been increasing significantly and more channels and initiatives for cross border financing and investment into China have been created and expanded. To name a few important milestones: the QFII was launched in April 2011; the Shanghai-Hong Kong Stock Connect in November 2014 and Mainland-Hong Kong Mutual Recognized Funds in July 2015; recently the rules of two-way Renminbi cash pooling of Renminbi funds for multinational corporates have been relaxed; wider access has been granted for foreign central banks, international financial institutions and wealth funds to participate in China's interbank and foreign exchange market.

In coming October, Renminbi will be one of the five official currencies in IMF's Special Drawing Rights (SDR) basket. From then onward, Renminbi will take a leap in its internationalization process. Looking forward, implementation of China's "One Belt One Road" policy will create a great deal of business between China and the countries along the One Belt One Road routes. As such, China has to further liberalize its financial markets and capital account to meet the much larger demand for Renminbi.

As the internationalization of Renminbi progresses, the Panda Bond market has been picking up notably since September 2015. Foreign corporates and institutions other than multilateral institutions are allowed by the Chinese authorities to issue Panda Bond in the domestic debt market of China. Bank of China (Hong Kong) and HSBC were the first two international banks which issued Panda Bond after the market relaxation. Following the steps of the two banks, China Merchant Group, Standard Chartered Bank, Korean Government, British Columbia Province of Canada and Yuexiu Transport Infrastructure also issued Panda Bond. Apart from these seven public offers (four were rated by China Chengxin), there were also Panda Bonds issued in the form of private placement.

In the light of the current low interest rate environment in China, the Panda Bond market is very attractive to foreign issuers in need of Renminbi funding. These potential issuers include those Chinese companies incorporated abroad. Many corporates and institutions have changed their issuance plan from Dim Sum Bond to Panda Bond. Being the most active credit rating agency in China, we notice that the queue of Panda Bond issuance is quite long.

As we know credit rating is an important driver in debt market development, especially in the emerging economies. Credit rating helps investors understand the credit risk of an issuer and its debt issue; credit rating also serves as a reference for investment banks and investors to assess the fair value of a debt issue.

In the domestic debt market of China, one could hardly find debt issues with credit rating lower than AA before the first debt default case appeared in early 2014. Thereafter, although there are few more debts falling into the default category and quite a number of debts have been down-graded to below AA, yet there is still an influx of new issues with credit ratings at and above AA, coming onto the domestic debt market. International investors cast their concerns on the high credit rating phenomenon in China's domestic debt market.

In my observation, the government of an emerging economy tends to launch policies to suit its economic and financial situation when developing its debt market. In response to the policies, it is deemed necessary for credit rating agencies to create a domestic credit rating scale different from the international one; otherwise, majority of the debts of the emerging economy will be rated below investment grade on the international scale dictated by the century-old international credit rating agencies. In fact, such "easing" domestic credit rating scale is also adopted by some developed economies such as Japan and Spain.

Hitherto, there is no common rule in mapping the domestic ratings of Chinese debt issues with the international ratings. In the meantime, it does not matter much for issues targeted solely to the domestic investors in China.

As for Panda Bond, as long as the dual rating rule of one domestic rating and one international rating is applied, Chinese investors, who are familiar with the domestic scale, may refer to the domestic scale for making investment decisions, whereas international investors, who wish to invest in Panda Bonds, may refer to the international scale.

Over time, when Renminbi becomes a much more internationalized currency and Chinese credit rating agencies can stand on firm feet in the international market, the domestic credit rating scale will evolve into a scale widely accepted by international investors. By then, there will be no such name in China called domestic credit rating scale. However, it is a matter of willingness and effort. It is apparent that the Chinese credit rating agencies under the supervision of the financial regulators have been making efforts to follow the international practices and code of conduct set by IOSCO. The target is to pursue a high quality and integrity of rating process, uphold the principle of independence and avoidance of conflicts of interest, ensure responsibilities to the investing public and related entities, last but not the least, disclose fully under the regulatory requirements to market participants.

Forward looking, Renminbi will be an important financing currency. Global bonds denominated in Renminbi will be offered in the international financial centers and the domestic debt market of China simultaneously. Therefore, in the interim, Panda Bond is playing the role of narrowing the gap of onshore debts and offshore debts in credit rating, pricing, etc.

In the following hours, I hope that you will find the talks professional and useful for issuing, investing and arranging Panda Bonds.

Thank you.