Fitch Ratings

China Corporate Bond Market Blue Book

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A 2019 Fitch China Research Initiative Publication

About Fitch

Fitch Ratings opened its mainland office in Beijing in 2005, making it the first international ratings agency to operate in China. Today the agency has offices in Beijing and Shanghai, and continues to rapidly expand its mainland analytical presence.

In mid-2014, Fitch created a separate research team of Mandarin-speaking analysts, based in its offices in China, with a remit to produce world-class objective and insightful research on corporate sectors in China. This research focuses on helping to educate and familiarise investors with the key credit aspects of corporate sectors that are unrated, or that consist of just a few rated entities.

The potential that a fully liberalised financial landscape in China represents for global investors is beyond compare. Fitch feels that full liberalisation is unlikely to be completed in the immediate future, as China continues to open up and play an ever-more important role in the global economy, while its corporate sectors will produce an increasing number of entities issuing international bonds.

In this respect, we have already seen serious global investors starting to devote considerable effort in understanding and familiarising themselves with aspects of the Chinese corporate landscape. Through the Fitch China Research Initiative, we aim to support the efforts of investors by providing objective and insightful research – both into corporate sectors within China that are yet to issue, or are in the early stages of issuing, as well as into the potential issuers of the future.

Our Blue Book series represents almanac-style volumes with a tiered approach dependent on investor interest and areas of focus. The first tier looks into market structures and the operation of individual sectors, the second tier looks at key industry players and relative rankings, and the third tier dives deep into the credit aspects of an individual entity or groups of unrated entities.

As always, the authors are at your disposal for discussion, feedback or comments via email or their direct line numbers which are provided in the report. We hope that you enjoy reading this Blue Book as we continue with our efforts to tailor and produce research that meets the needs of the global investor community.

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Contents

Defaults More Common; Documentation and Legal Framework Still Evolving

Lower Regulatory Entry Barriers

China's bond market had grown to CNY85.7 trillion by end-2018 in terms of the principal amount of bonds outstanding, the second-largest after the US. The corporate bond market grew from CNY11.6 trillion at end-2014 to CNY19.0 trillion. China's exchange bond market, though yet to approach that of the interbank market, surged to CNY9.0 trillion from CNY2.6 trillion, propelled by the regulator's expansion of the pool of eligible issuers to all corporates in January 2015. Exchange corporate bonds have become the largest corporate bond category. Meanwhile, a registration-based mechanism is likely to become the norm for primary bond issuance. However, regulatory integration has been progressing slowly as the regulators compete to expand their jurisdiction rather than relinquish control, and policy interventions are unlikely to disappear completely.

Rising Onshore Defaults

Onshore default rate by issuer count climbed to 1.03% in 2018 from 0.17% in 2014 due to tightened credit availability resulting from the government's deleveraging efforts, local governments' greater tolerance towards defaults, and slowing economic growth. Around 80% of the onshore defaults by both issuer count and principal amount were from the private sector, being more vulnerable than state-owned enterprises (SOEs) to external funding market volatilities – and therefore face greater liquidity and/or refinancing risk under tight credit conditions. Most onshore defaults have yet to show a clear path towards resolution, due to frequent local government intervention with a preference for reorganization rather than liquidation and long-drawn-out legal proceedings.

Issuance Dominated by LGFVs and SOEs

China's local government financing vehicles (LGFV) accounted for around one-fourth to one-third of annual corporate issuance during 2014-2018, and represented an increasing portion of outstanding corporate credits (2018: 37.5%). SOEs' (including LGFVs) share by issuance amount reached 84.3% in 2018 despite a moderate retreat of 5 percentage points (pp) from the 2014 level, as more LGFVs – typically owned by local governments – tapped the onshore market with relatively small deal sizes. The SOEs' dominance can be attributed to their leading roles in infrastructure investment and a favourable position in accessing financial resources and obtaining government support.

Slow Progress in Bond Documentation

Yet despite the increase in cross-default provisions in onshore corporate bond indentures in recent years, the timeliness of informing bondholders of related defaults is questionable, especially defaults on privately placed debt. Furthermore, regulators have not standardised the rules for bondholders' meetings, and legal enforceability of decisions by bondholders' meetings can be weak. Restrictive covenants on debt incurrence, restricted payments, and other actions that are detrimental to bondholders' interests are still relatively rare.

Nascent Credit Derivatives

The initial launch of credit risk mitigation warrants (CRMW) and credit risk mitigation agreements (CRMA) between late 2010 and early 2011 failed to form an active market for credit derivatives due to the lack of credit events and market liquidity. In October 2018, 50 CRMWs linked to private companies' bonds were issued following the People's Bank of China's (PBoC) statement to facilitate bond issuance from the private sector. Yet CRMWs have yet to gain traction among investors despite the surge, as the referenced instruments are mainly bonds issued by higher-rated corporates rather than those lower-rated ones for which investors have real hedging needs. At the same time, current CRMWs do not cover all credit events.

Intensified Domestic Rating Agency Competition

Competition among local rating agencies has intensified over the past four years. There are still minimum rating thresholds for bond investment set by the regulators. Consequently, almost half of domestic corporate bonds by outstanding amount were in the 'AAA' domestic rating category as of end-2018. The share of the 'AA' category-rated issuers by issuer count climbed by 10pp from end-2014 to 75.2%, as more private companies with weaker credit profiles became eligible to tap the onshore bond market.

Growing Internationalisation; Limitations Remain

We expect foreign investors' participation to increase as the Chinese bond market has been included in a number of global indices, although foreign investors' holdings in total outstanding bonds has remained low at 1.9%, up only slightly from 1.5% at end-2014. Relatively weak public disclosure and corporate governance, reliability of domestic ratings and an immature post-default legal framework remain hurdles for foreign investors to boost their credit exposure significantly. The Northbound Trading Link of Bond Connect that commenced in July 2017 allows overseas investors from Hong Kong and other regions to invest in the domestic interbank bond market without any quota limits; 503 foreign institutions were registered as eligible foreign investors as of end-2018.

China Corporate Bond Market

Fitch published its inaugural China Corporate Bond Market Blue Book in May 2015. Over the last four years, China's bond market has continued to grow rapidly with rising issuance, introduction of new products, and further opening-up to foreign investors. At the same time, credit events including defaults have become more frequent in the domestic market. This report is an update to our last Blue Book which presents our observations on key market developments, including corporate bond defaults, post-default workouts, new bond categories, and emerging credit derivatives products.

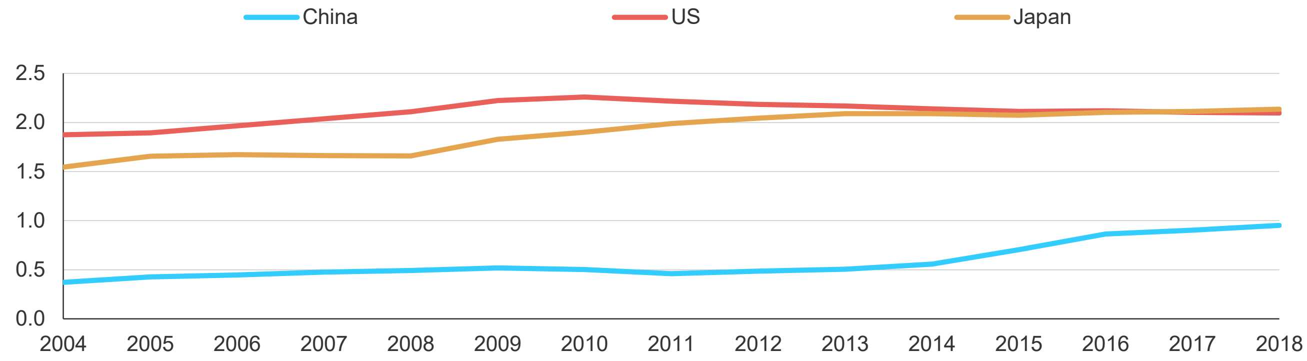
Regulatory Updates

Lower Entry Barriers to the Exchange Bond Market

Since the publication of our last Blue Book, the Chinese bond market has continued to operate in a fragmented, tripartite regulatory environment involving multiple government authorities: the PBoC, the China Securities Regulatory Commission (CSRC), and the National Reform and Development Commission (NDRC).

The Size of China's Bond Market has Nearly Caught up with GDP

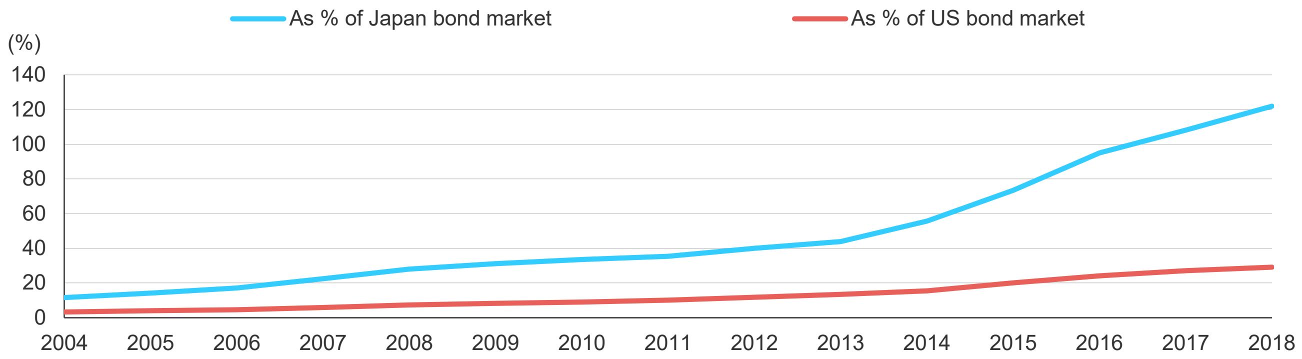
Outstanding Bonds / GDP



Source: The Securities Industry and Financial Markets Association, Japan Securities Dealers Association, Wind Info

China's Bond Market Size Second Only to the US

China's Bond Market Size Relative to the US and Japan



Source: The Securities Industry and Financial Markets Association, Japan Securities Dealers Association, Wind Info

Three Separate Onshore Bond Markets

China's Bond Market Structure

	Interbank	Stock Exchange	Bank Counters
Outstanding Amount (CNYbn)[1]	75,322.7	9,001.0	769.6
Trading Amount (CNYbn)[2]	148,126.8	1,658.5	n.a.
Types of Bond Traded[3]:			
Central government bonds (CGB)	✓	✓	✓
Central bank bills	✓		
Local government bonds	✓	✓	
Interbank negotiable certificate of deposits (NCDs)	✓		
Government-supported institution bonds	✓	✓	✓
Policy bank bonds	✓		✓
Financial bonds	✓		
Commercial paper (CP)	✓		
Short-term commercial paper (SCP)	✓		
Medium-term notes (MTNs)	✓		
Enterprise bonds	✓	✓	✓
Exchange corporate bonds		✓	
Convertible bonds		✓	
SME private placement notes (SMEPPNs)		✓	
SME collective notes (SMECN)	✓		
Private placement notes (PPN)	✓		
Asset-backed notes (ABN)	✓		
Asset-backed securities (ABS)	✓	✓	
Regulators	PBoC, NAFMII, NDRC (enterprise bonds)	CSRC	PBoC
Investor Base:			
Commercial banks [4]	✓	✓	
Non-bank financial institutions	✓	✓	
Foreign institutions	✓	✓	
Domestic retail investors		✓	✓
Custodian:			
China Central Depository & Clearing (CCDC)	✓	✓	✓
Shanghai Clearing House	✓		
China Securities Depository & Clearing (CSDC)		✓	
Pricing Mechanism	Negotiating	Match making	Bid-Asking

[1] as of end-2018; [2] during the year of 2018, not including repo transactions; [3] see Appendix I for definitions; [4] Commercial banks have been allowed to trade in the exchange market since 2 August 2019

Source: Chinabond, Chinaclear, SH Clearing, Wind Info

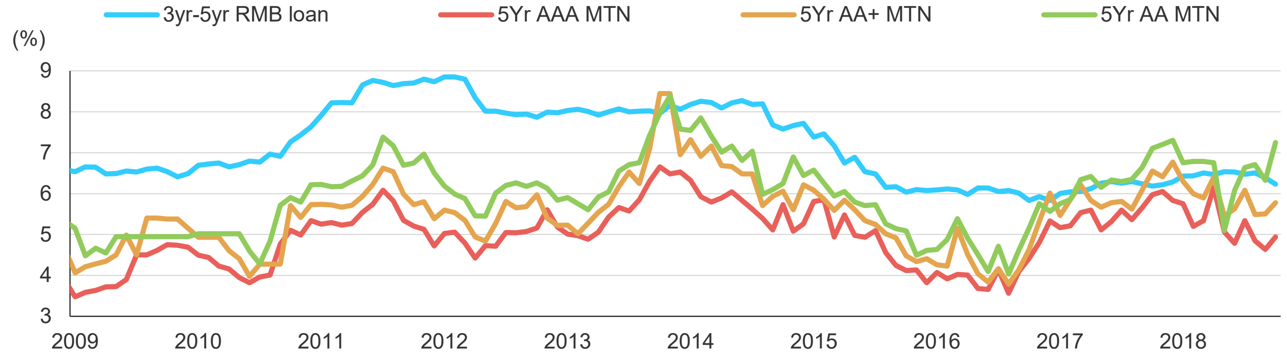
Domestic bonds are issued and traded on three separate markets: the interbank market, the stock exchange market and bank counters. These three markets differ significantly in size, trading volume, types of instrument issued and traded, regulators in charge, and investor base. The interbank market is regulated by the PBoC and the National Association of Financial Market Institutional Investors (NAFMII), a self-regulated, non-profit organisation under the supervision of PBoC, while the exchange market is regulated by the CSRC. The NDRC oversees the 'enterprise bonds' – issued mainly by SOEs including LGFVs – which are issued and traded across the three markets.

The share of corporate bonds in China's total social financing – the aggregate amount of funding provided by China's domestic banking system and capital markets to the real economy – jumped to 9.5% by end-2018, from only 0.8% at end-2004, as the central government has been encouraging direct financing to reduce risks in the banking system and build up a multi-tier capital market system.

The size of China's bond market relative to the domestic bank loan base also increased to 62.9% by end-2018 from 34.0% at end-2004, indicating a surge in direct corporate debt financing. Bank loan replacement is a key incentive for domestic corporate bond issuance. The cost of issuing bonds has been lower historically than the cost of bank loans of similar duration for Chinese corporates, due primarily to the strong bargaining power of Chinese banks. The longer tenors, a fixed interest rate and much lower security requirements are among other incentives for corporates to issue bonds. However, the cost of bond issuance approached that of bank loans in 2017 and 2018, as corporate bond yields rose on regulators' deleveraging measures and tighter market liquidity.

Cost of Bond Issuance Lower than Bank Loans, but Gaps have Closed

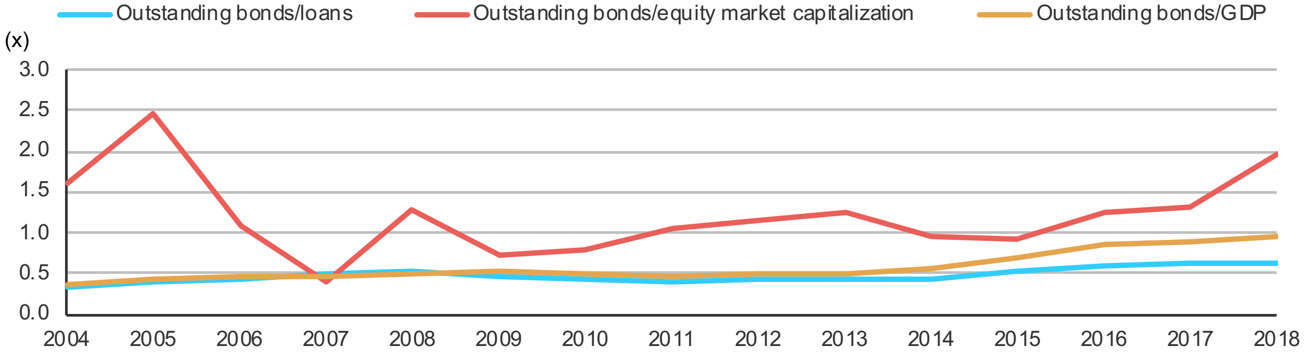
Average Funding Cost: Bank Loans versus MTNs



Source: Wind Info, Fitch Ratings

Growing Size of Bond Market Relative to Other Funding Sources

Relative Size of China's Bond Market



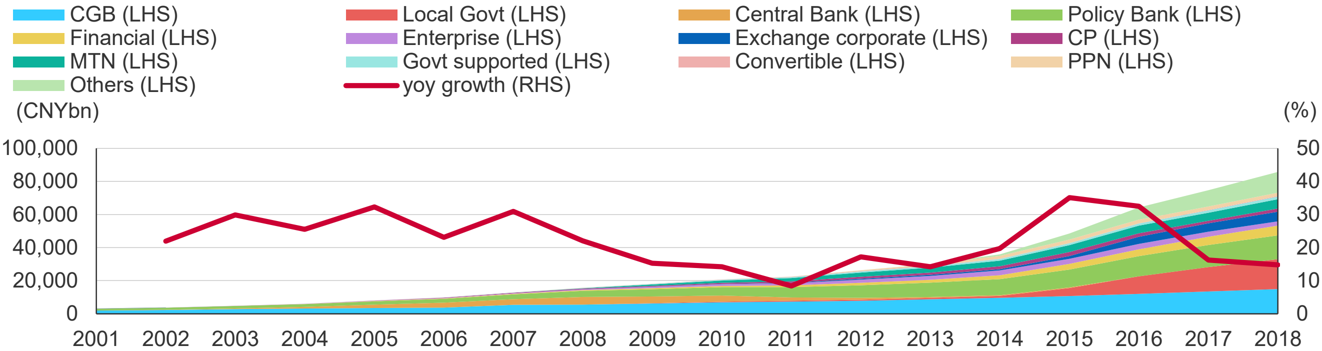
Source: Wind Info

Regulatory integration has been progressing slowly. The interbank market grew rapidly following the launch of CP and MTNs by NAFMII in 2005 and 2008, respectively. However, the size of the exchange bond market in terms of the total amount outstanding increased significantly from CNY2.6 trillion in 2014 to CNY9.0 trillion in 2018, driven by the rapid expansion of issuance volume since January 2015 when the CSRC relaxed the issuance rules to expand the pool of eligible issuers from listed companies to all corporates (*see Appendix III*).

As a result, the outstanding amount of corporate bonds traded in the exchange market soared to CNY5.9 trillion by end-2018 from merely CNY0.9 trillion in 2014, accounting for 30.9% of all onshore corporate bonds, up from 7.7%. Exchange corporate bonds have become the largest corporate bond category, accounting for 29.4% of total corporate bonds outstanding by end-2018, up from 6.5% four years ago. The size of interbank-market-traded corporate bonds grew by 22.2% to CNY13.2trillion from CNY10.8 trillion.

Domestic Bond Market has Expanded Rapidly Since 2014

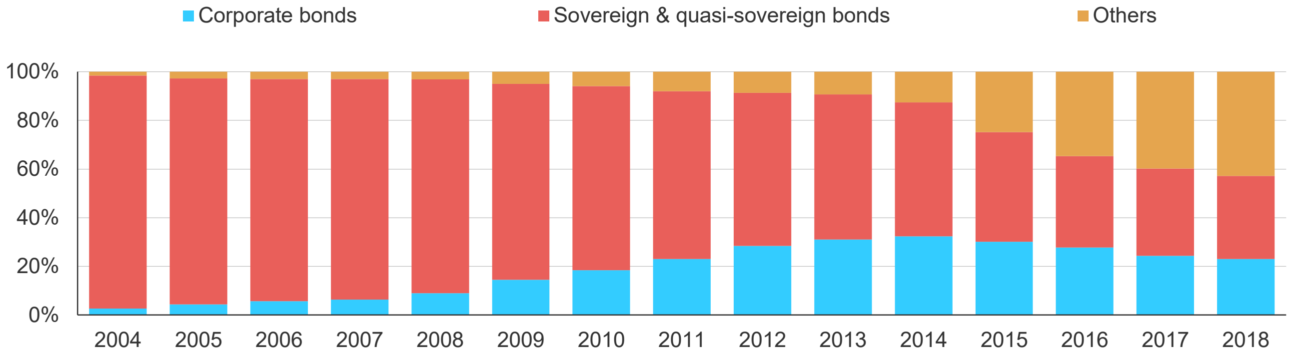
Outstanding Amount by Bond Type



Source: Wind Info

Shrinking Share of Sovereign and Quasi-Sovereign Bonds

Share of Outstanding Bonds by Instrument Type



Others include NCDs, local government bonds, financial bonds, international institution bonds, and asset-backed securities
Source: Wind Info

Gradual Shift to a Registration-Based Issuance Mechanism

A registration-based mechanism applies to the issuance of short-term commercial paper (SCP), CP and MTNs in the interbank market. Similarly, CSRC has adopted a post-issuance registration mechanism for privately placed exchange corporate bonds instead of pre-issuance approval since January 2015 *(see Appendix III)*. The issuance of other corporate bonds is still subject to regulatory approval.

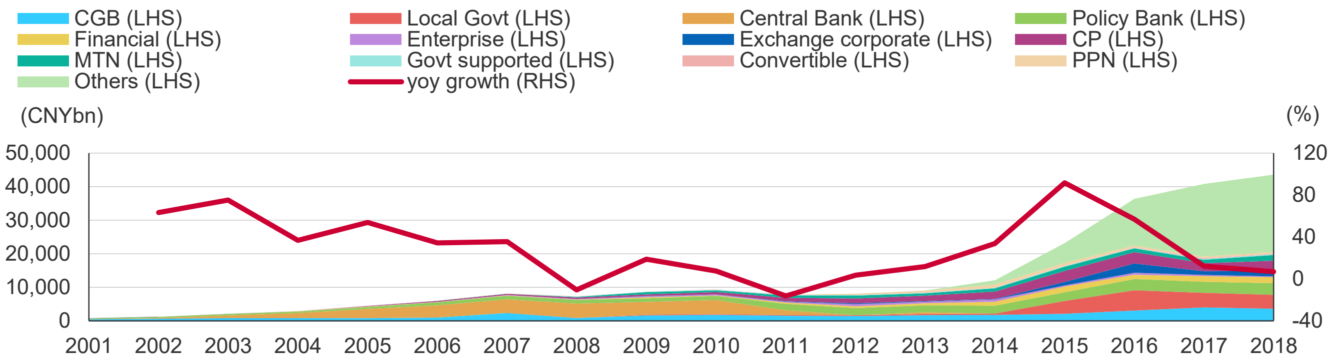
A registration-based mechanism is likely to become the norm for primary bond issuance as China's capital markets mature and liberalise. However, policy interventions are unlikely to fully disappear. For example, PBoC/NAFMII restricted Chinese property developers from tapping the CP/MTN market from 2008 to 2014, to rein in the housing market. In addition, the Shanghai and Shenzhen stock exchanges have raised the entry barriers for exchange corporate bond issuance by property companies since end-October 2016 to curb excessive capital flow into the sector (**Fitch: China Homebuilders to Seek Alternative Funding Channels under New Rules, November 2016**).

Surge of Non-Corporate Asset Classes

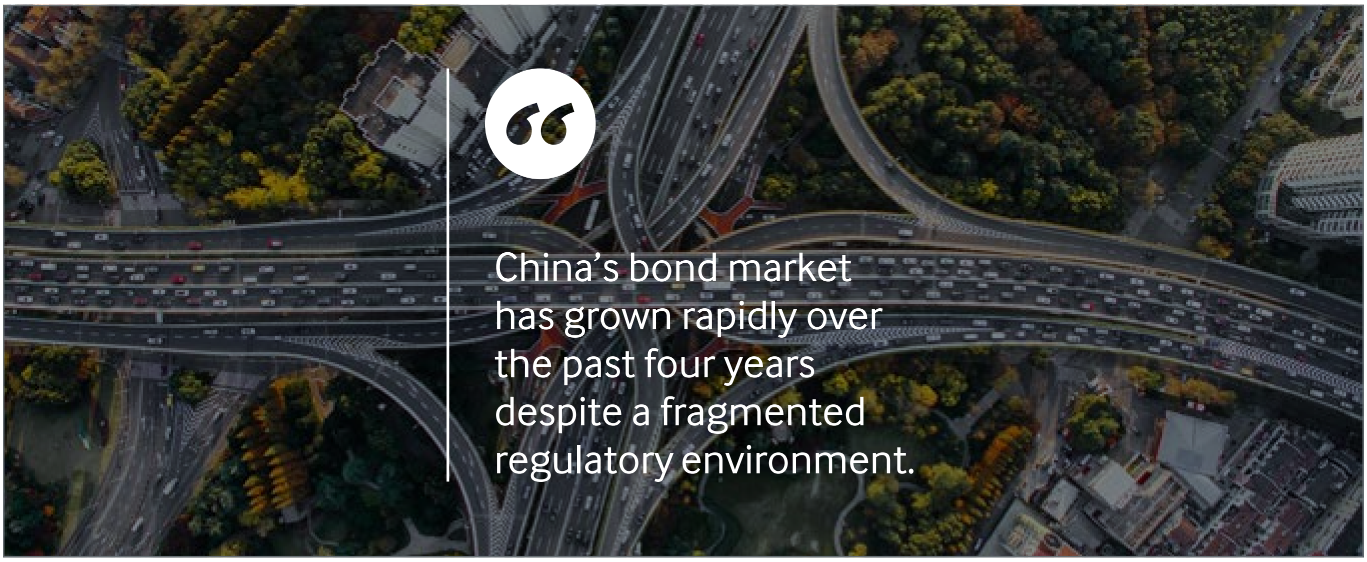
The total outstanding amount of other non-corporate bond categories has risen rapidly since 2014. For example, the outstanding amount of interbank negotiable certificate of deposits (NCDs), local government bonds and asset-backed securities (ABS) surged from CNY0.6 trillion, CNY1.2 trillion, and CNY0.3 trillion, respectively, to CNY9.9 trillion, CNY18.1 trillion, and CNY2.7 trillion, at a CAGR of 101.5%, 98.6%, and 71.7%.

Surge in NCDs and ABS During 2015-2018

Annual Issuance Amount by Bond Type



Source: Wind Info



Rising Defaults and Credit Differentiation

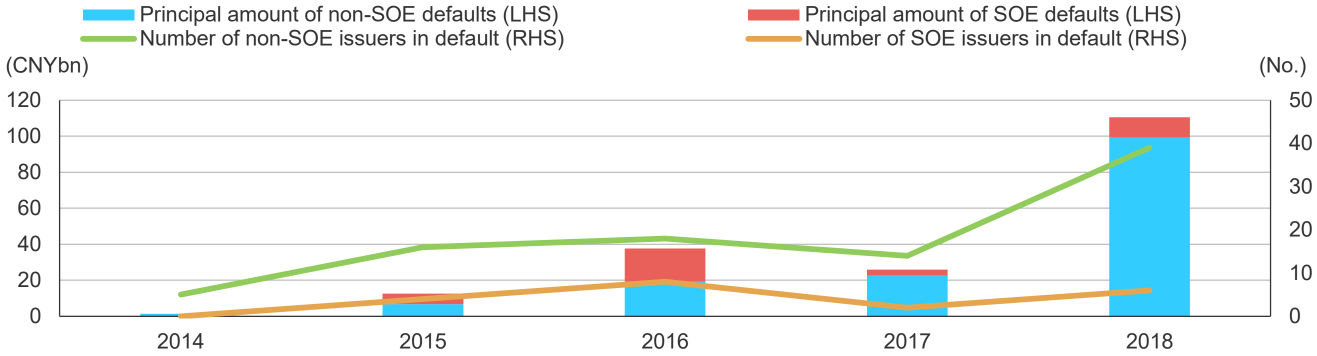
Uptrend in Onshore Default Rate

Onshore defaults have been trending higher by both the principal amount of defaulted bonds and number of issuers in default: five issuers defaulted on six bonds with a total principal amount of CNY1.3 billion in 2014, while 45 corporates defaulted on 117 bonds with a total of CNY110.5 billion during 2018. Contributing to this default trend were the government's supply-side reform in sectors with overcapacity, deleveraging efforts to contain systemic risk which tightened credit availability, local governments' greater tolerance towards defaults, and slowing economic growth in an uncertain economic environment.

The default rate in China's onshore bond market climbed for three consecutive years from 0.17% in 2014 to 0.66% in 2016, indicating the government's increasing tolerance for bond defaults and deteriorating corporate financial health amid severe supply-demand imbalances in many commodity-driven sectors. The default rate slipped to 0.37% in 2017 as government's supply-side reforms took effect and boosted commodity prices. The onshore default rate jumped to 1.03% in 2018 due to tightened funding conditions amid government's deleveraging efforts to contain systemic risk.

Onshore Corporate Defaults have Trended Upward

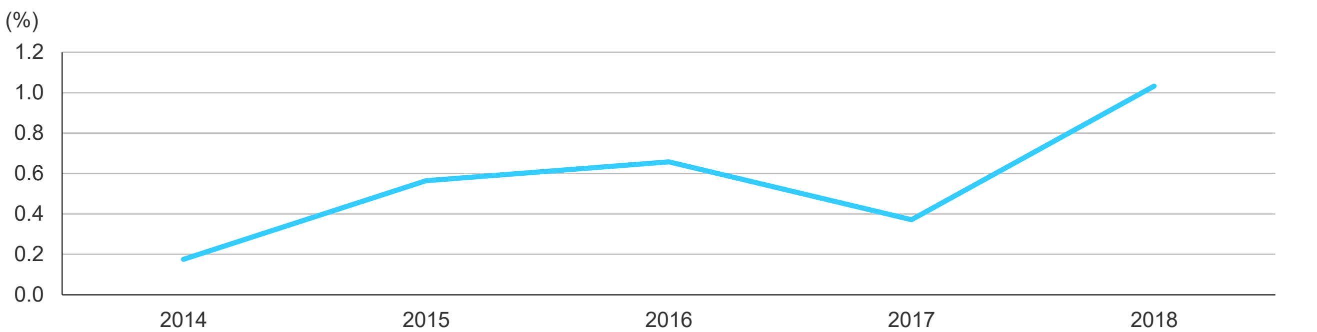
China Onshore Corporate Bond Defaults



Excluding bonds already in default in previous years
Source: Fitch Ratings, Wind Info

Rising Onshore Corporate Bond Default Rate

Default Rate by Issuer Count



Default rates are calculated by dividing the number of defaulters during the year under observation by the number of all corporate issuers at the begining of the year
Source: Wind Info, Bloomberg, Fitch Ratings

More Defaults by Private Companies than SOEs

Private companies outnumbered SOEs in both the number of issuers that have defaulted and the total principal amount of bonds in default in the onshore bond market, even though private companies typically account for a lower share of issuers (less than 30%) and principal amount (less than 20%) among outstanding corporate bonds. Eighty-two out of the total 98 onshore issuers that defaulted over 2014-2018 were private companies, a share of 83.7% by issuer count and 79.5% by principal amount in default.

Private companies are more vulnerable than SOEs to external funding market volatilities, and therefore face greater liquidity and/or refinancing risk under tight credit conditions. Aggressive business strategies, 'key man risk', and/or weak accounting/corporate governance practices were among main drivers of some of the private-sector defaults.

Defaults Spread Across Different Industries

There is no significant sector pattern/concentration for onshore bond defaults. According to WIND, the top five sectors – oil and gas, coal, engineering and construction, multi-sector holdings, and industrial conglomerates – accounted for 49% of the total principal amount of defaulted bonds at end-2018. Industrial conglomerates, multi-sector holdings and coal also ranked among the top five by issuer count, along with packaged foods and commodity chemicals, representing around one third of the total number of issuers with a default record. However, the definitions of multi-sector holdings and industrial conglomerates are very broad, including a wide array of sub-sectors.

Prolonged Post-Default Workout

Most onshore defaults have yet to show a clear path towards resolution. Of the 98 onshore issuers that have defaulted, 36 sold the debt via private placement, and there is little public information on their post-default status – except for seven that have fully repaid their obligations, four in reorganisation, and one in liquidation.

Among the other 62 issuers, 24 have yet to enter into any court-administered bankruptcy proceedings, nor have they made any repayments. Some trade creditors, banks and/or bondholders have filed court petitions for repayment against seven of these 24 issuers, but they have yet to reach a resolution; the remaining 17 issuers have not made any progress towards a resolution.

Fourteen issuers of public bonds that have defaulted are in the process of reorganisation. Among them, Dongbei Special Steel Group received court approval for its reorganisation plan, which will result in partial recovery for bondholders, but execution of the plan is still pending. Another 13 issuers are still negotiating their reorganisation plans with creditors and/or strategic investors, or are waiting for local courts' approval on their reorganisation plans. One public bond issuer is in liquidation.

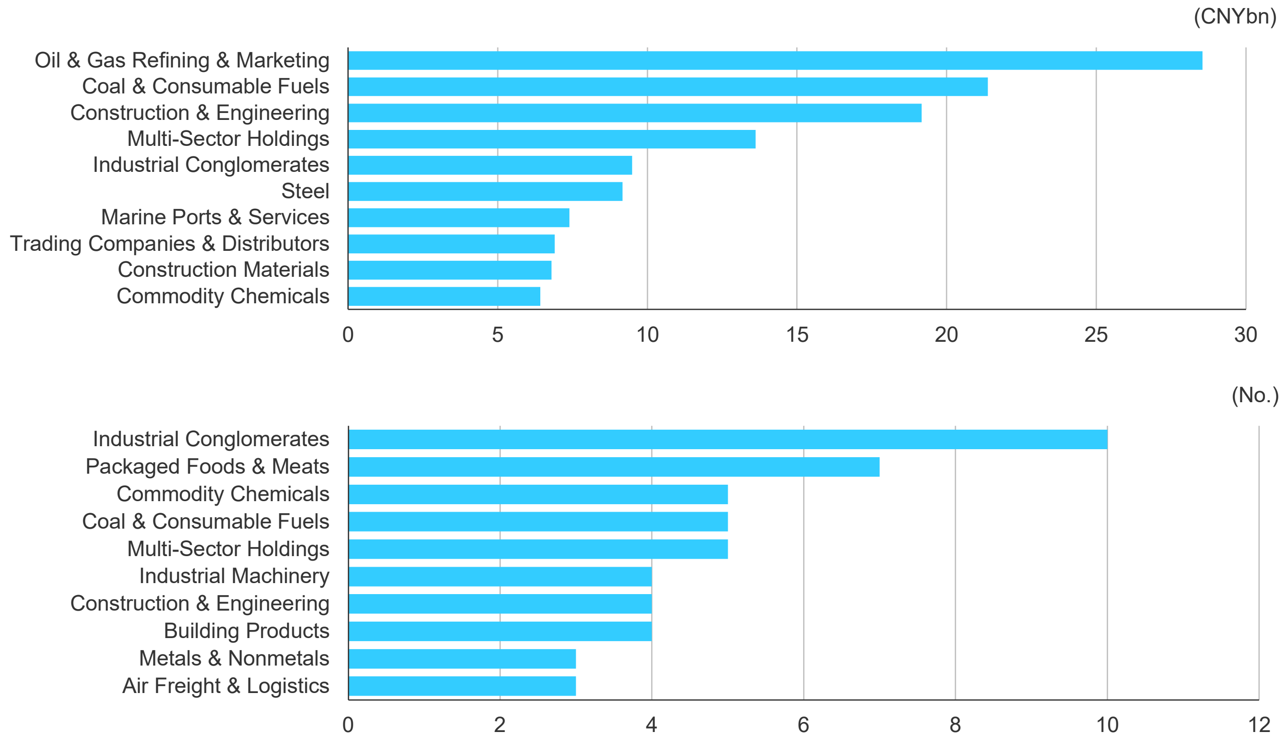
Court-administered post-default legal proceedings tend to be long-drawn-out in China. Creditors can file petitions with the People's Court in the city where the issuer is registered or where the creditors are incorporated/based. However, most local Chinese court judges lack experience in dealing with bond defaults; we believe this could be more pronounced for courts in remote and less economically developed regions.

Reorganisation is generally preferred by Chinese local governments and courts rather than liquidation, to protect employment and maintain social stability. Local governments often intervene in negotiations with creditors over reorganisation plans, which may drag out the legal proceedings for years. Small, retail investors enjoy preferential treatment compared with institutional investors in some cases, also due to local governments' aim to maintain social stability. For example, the reorganisation plan of Dongbei Special Steel Group proposed full cash repayment to small creditors with common claims below CNY500,000 (including retail bondholders), while large unsecured institutional creditors had to choose between two options: a 22.1% repayment in cash (for non-financial institutions only) or a 100% debt-for-equity swap.

Twenty-three issuers of public bonds that have defaulted have made partial (four issuers) or full repayments (19 issuers) in cash to bondholders, all without entering into any court-administered bankruptcy proceedings, except Chaori. Thirteen of the 19 issuers made full repayments within three months after default, and six within three months to two years.

Onshore Defaults Have Yet to Show a Significant Sector Pattern

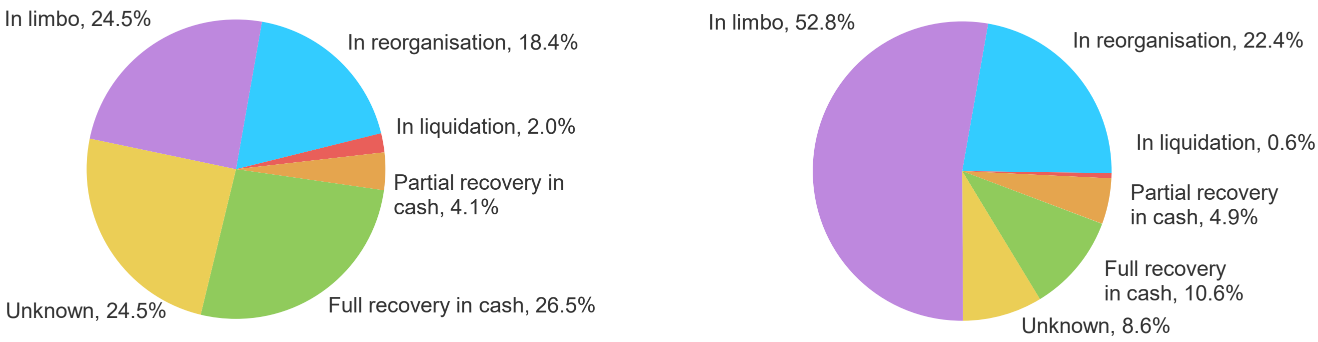
Top 10 Sectors by Principal Amount and Issuer Count, from 2014 to 2018



Source: Wind Info, Fitch Ratings

Most Onshore Defaults Have Yet to Approach Resolution

Post-Onshore-Default Status by Issuer Count and Principal Amount, from 2014 to 2018



In limbo: issuers that have neither commenced court-administered bankruptcy proceedings nor made any repayment on defaulted obligations

Source: Wind Info, Fitch Ratings

SOEs Have Higher Cash Recovery

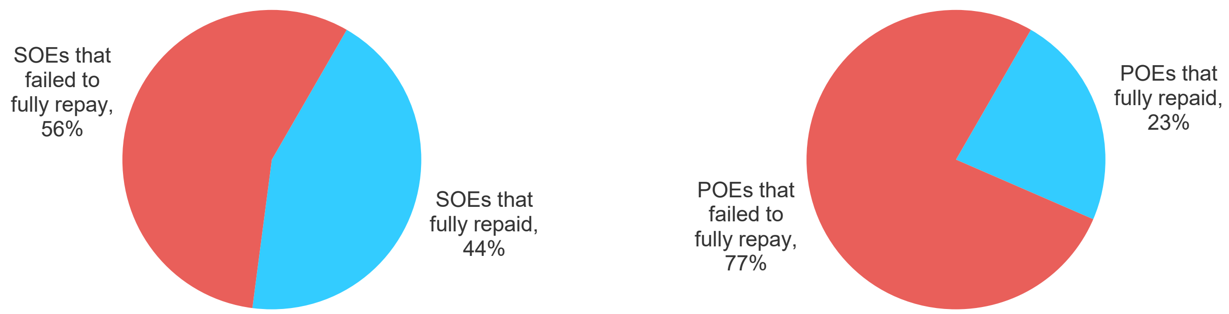
The state-owned sector's advantage over the private sector in access to external funding channels (especially banks) and government support has resulted not only in a lower number of state-owned issuers defaulting than private companies, but also a higher percentage that have made full repayments in cash after defaults. Nineteen private issuers that defaulted have made full repayments in cash to bondholders versus seven SOEs as of end-2018; however, the number of the private defaulted issuers was about five times that of defaulted SOE issuers, hence a lower percentage share of those which have made full repayments in cash.

Increasing Credit Spreads Differentiation

Electrical components, new energy power producers, traditional medicine, aluminum, and automobile were among the sectors with the widest spreads of 590bp to 376bp on average over the median of 'AAA' rated bond yields during 2018. These are typically sectors of a cyclical nature, where demand is also declining structurally in the midst of persistent overcapacity. In contrast, less cyclical, 'asset-light' and/or service-oriented sectors usually trade narrower. These include pharmaceuticals, utilities, and aerospace and defence. The top-10 sectors with the narrowest spreads over the median of 'AAA' rated corporate yields ranged from -164bp to 51bp in 2018.

SOEs Have a Higher Share of Full Recovery in Cash than POEs

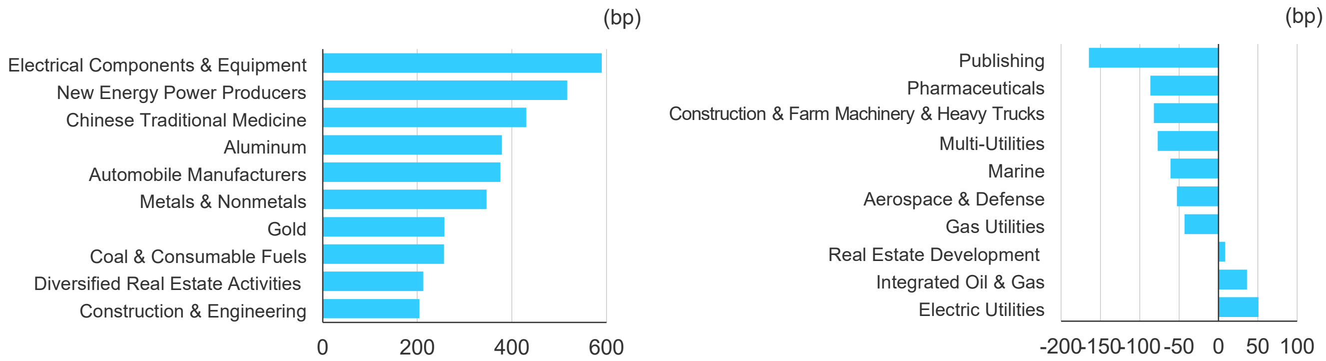
Share of Full Recovery by Issuer Count, from 2014 to 2018



Source: Wind Info, Fitch Ratings

Spreads Over Domestic 'AAA' Median Yield

Top 10 Sectors with Widest/Lowest Spreads



[a] Based on average month-end yield-to-maturity of MTNs with 'AAA' domestic ratings and two years to maturity in 2018
Source: Wind Info

Bonds issued by SOEs tend to trade at narrower credit spreads to the yield-to-maturity (YTM) of central government bonds (CGBs) with comparable maturities than those issued by non-SOEs, and the gap widens when moving down the credit curve. In 2018, two-year 'AAA' MTNs issued by non-SOEs traded at an average spread of 289bp over CGBs, 36bp higher than those issued by SOEs; the spread widened up to 387bp for the two-year 'AA' MTNs issued by non-SOEs, or 39bp above those issued by SOEs.

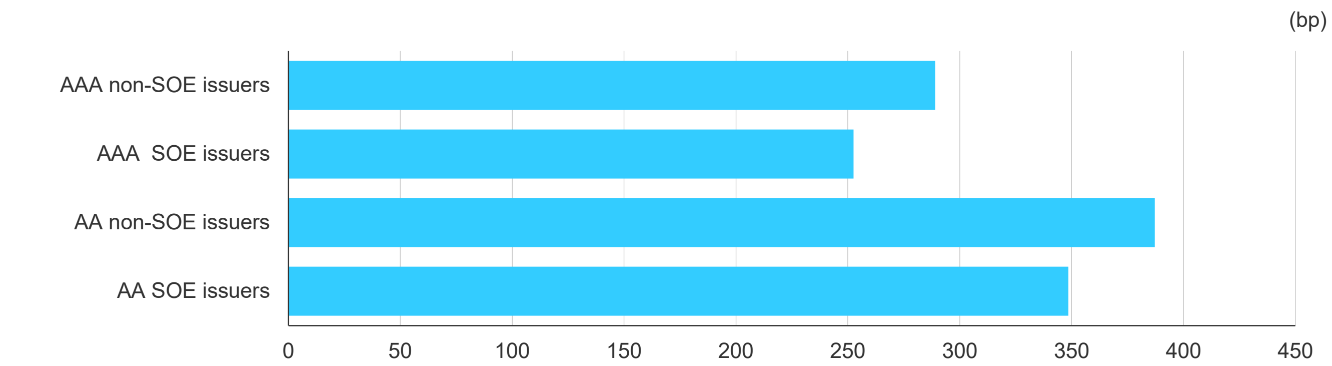
Widening spreads between 'AAA' and lower-rated corporate bonds up until 2016 suggested a higher degree of credit differentiation amid an increasing number of rating downgrades and public default events. For example, the spread between 'AAA' and 'AA-' rated five-year MTNs increased from around 100bp at end-2010 to 200bp as of end-2016. The spreads narrowed in 2017 as the number of rating downgrades and default events dropped. The spreads of lower-rated MTNs over 'AAA' MTNs expanded again in 2018, driven by a record high of corporate bond defaults: the spread between 'AAA' and 'AA-' doubled from 150bp at end-2017 to 300bp by end-2018; similarly, the spread between 'AAA' and 'AA' also widened, to 98bp from 45bp.

Poor Secondary Market Liquidity

The secondary market liquidity premium also adds to the spread differentiation. Onshore corporate bonds' secondary trading liquidity, measured by the turnover ratio (annual trading amount over average outstanding value), has trended down over the past three years, from 2.3x in 2015 to 1.0x in 2018. Interbank-traded enterprise bonds, CP and MTNs together typically represent around 90% of onshore trading volumes. The secondary market liquidity of exchange corporate bonds is much thinner than those traded in the interbank market: for example, the turnover ratio of exchange corporate bonds was 1.5x in 2018 while that of enterprise bonds, CP and MTN trading in the interbank market reached 5.7x, 40.8x and 14.1x, respectively.

SOE Bonds Traded at Narrower Credit Spreads than Non-SOEs

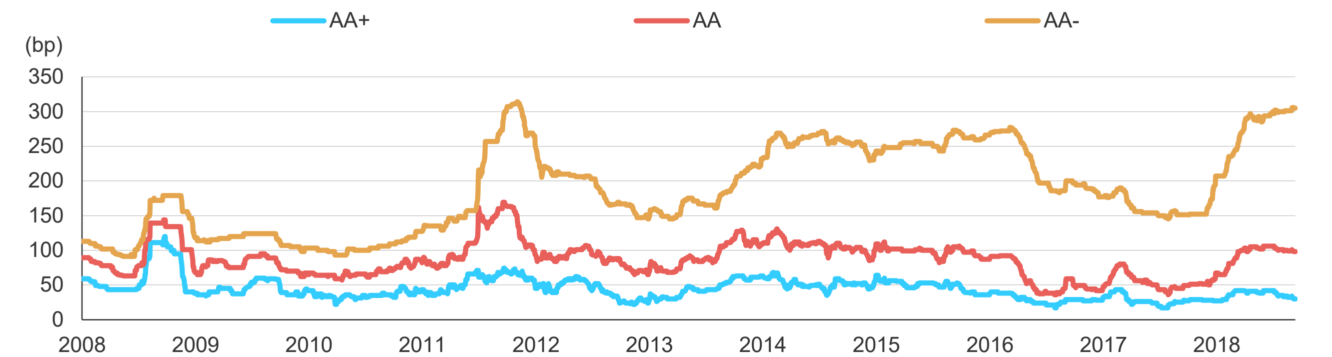
Average MTN Spreads over CGBs in 2018



MTNs with around two years until maturity and no credit enhancement
Source: Wind Info

Widening Spreads Between 'AAA' and Lower-Rated Corporate Bonds

YTM Spread over 5-Year 'AAA' MTNs



Source: Wind Info

Capital-Intensive Sectors Still Dominate Issuance; Property Issuance up

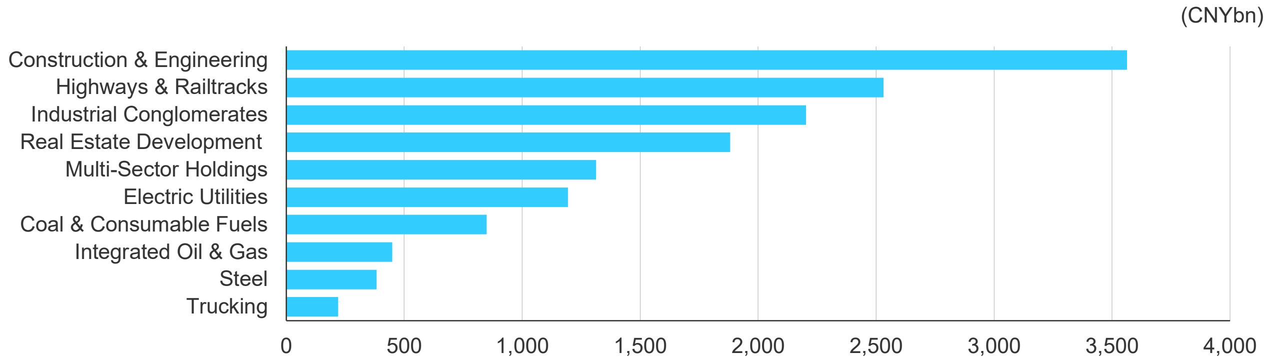
The onshore corporate bond market has become more diversified in terms of sector distribution over the last four years, due to lower regulatory entry barriers for issuers. There was issuance from 124 sectors at end-2018, which include some emerging sectors such as data processing, healthcare technology and internet retail.

Capital-intensive sectors still dominate. All top-10 sectors, accounting for 76.6% of the outstanding principal amount of corporate bonds as of end-2018, are capital-intensive in nature, led by construction and engineering, highways and industrial conglomerates.

Construction and engineering, highways/rail, industrial conglomerates, property and multi-sector holdings were the top-five sectors, accounting for 60.4% of total corporate bonds outstanding. This compared with a 56.7% top-five sector concentration at end-2014. The surge in property sector issuance was driven primarily by regulatory loosening in mid-2014 and attractive onshore funding costs in the subsequent two years that enticed property developers to issue onshore bonds. Power utilities fell out of the top-five ranking due to reduced capex spending as a result of weakening power demand growth and regulatory curbs on coal-fired power investment.

Dominance of Capital-Intensive Sectors

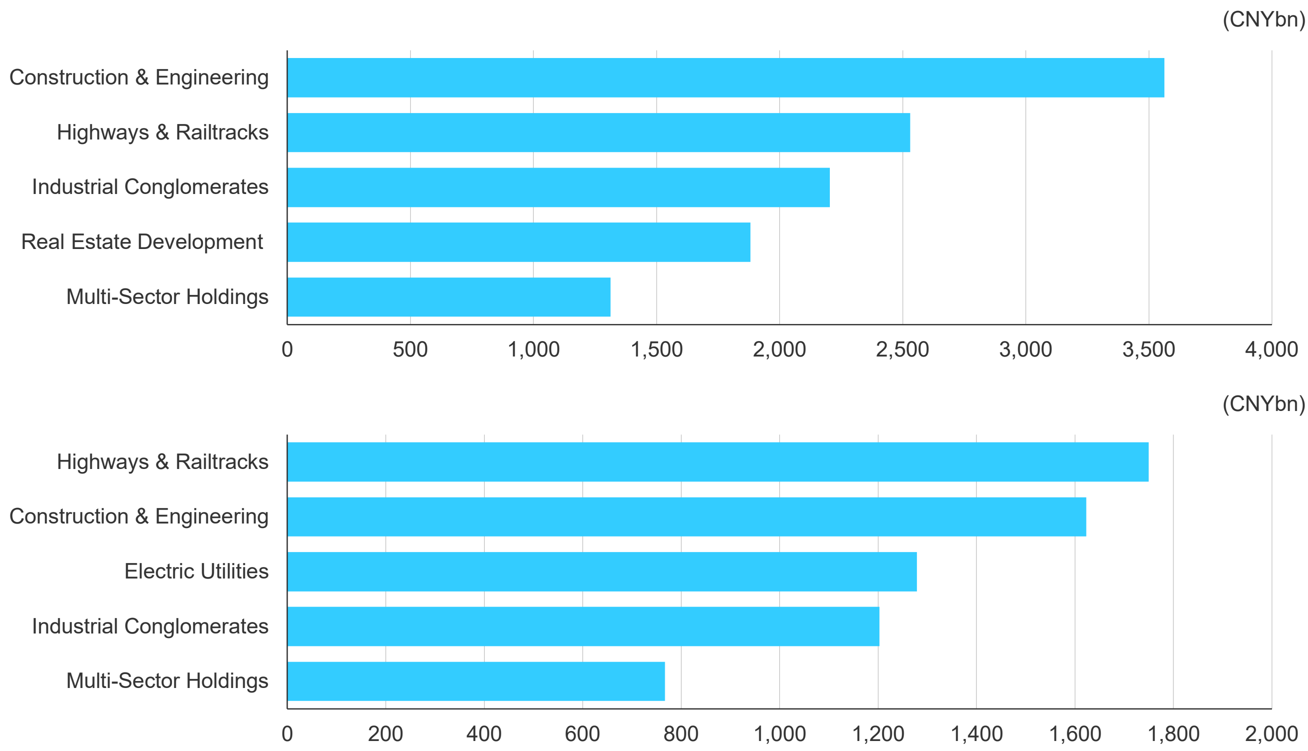
Top 10 Sectors by Corporate Bonds' Outstanding Balance



As of end-2018
Source: Wind Info

Property Sector has Replaced Power Utilities in the Top 5

Top 5 Sectors by Outstanding Amount (2018 versus 2014)



As of end-2018 and end-2014
Source: Wind Info

SOEs (Including LGFVs) Dominate Issuance

Around 78% and 86% of the total number of corporate bond issuers and outstanding corporate bonds, respectively, were SOEs and issued by SOEs as of end-2018. SOEs' share by outstanding amount fell by 5pp from end-2014, driven mainly by lower entry barriers for non-SOEs under CSRC's eased issuance regulations. However, SOEs' share by the number of issuers picked up to 78% from 71.0%, as more LGFVs have tapped the onshore bond market with relatively small issuance sizes.

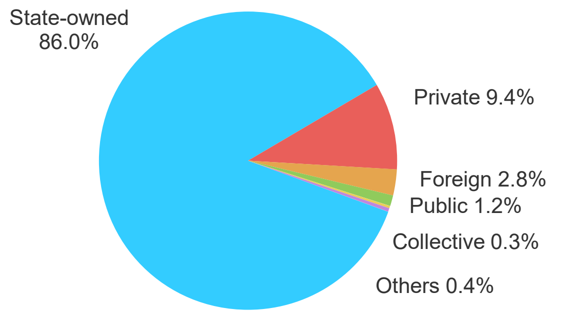
The SOE dominance can be attributed partly to their leading roles in China's infrastructure investments, most of which have been funded with debt, especially in the aftermath of the 2008 global financial crisis. In addition, domestic bond investors perceive SOEs to have lower default risk than non-SOEs, as SOEs have an advantage over non-SOEs in financial resource allocation and enjoy varying degrees of government support. Commercial banks, which dominate the domestic bond investor base, tend to favour SOEs in their investment decisions.

Non-SOEs' share by outstanding amount still remains much lower than that of SOEs, but the imbalance between SOEs' and non-SOEs' access to corporate bond funding improved during 2015-2018. Annual issuance from non-SOEs reached CNY1.2 trillion in 2018, or 15.7% of total corporate issuance, up sharply from CNY547.4 billion or 10.6% in 2014. However, non-SOEs' share by issuance amount fell to 10.2% in 1H19 as investor sentiment stayed weaker amid their dominance in default events.

Regulators' takeover of the financially troubled Baoshang Bank in late May 2019 has aroused a lack of trust regarding smaller banks, and highlighted risks related to structured bond issuance, under which lower-rated companies (below 'AA+' domestic rating) buy a portion of their own primary deals while brokerage or asset-management firms create an investment management product to acquire the rest, using the new issuance as collateral to get bridge loans and repo financing from peers or smaller banks. Such practice allows companies with weak credit profiles to secure funding that they would otherwise be unlikely to obtain without a coupon hike. Since then, banks have set higher barriers for taking corporate bonds as collateral in repo transactions, which in turn could reduce weak non-SOEs' access to the bond market.

SOEs Dominate Onshore Corporate Issuance

Outstanding Corporate Bonds by Issuer Type

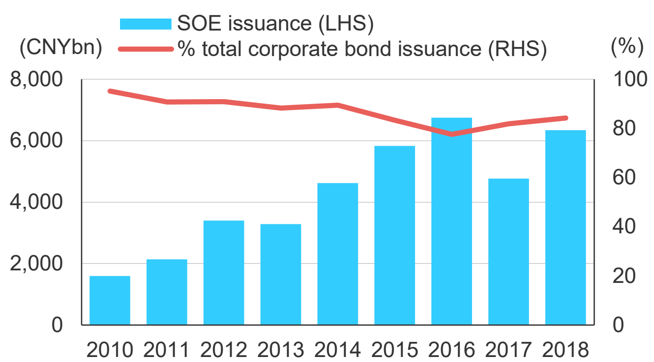


As of end-2018

Source: Wind Info

Share of SOE Issuance has Picked up over the Past Two Years

SOEs' Bond Issuance



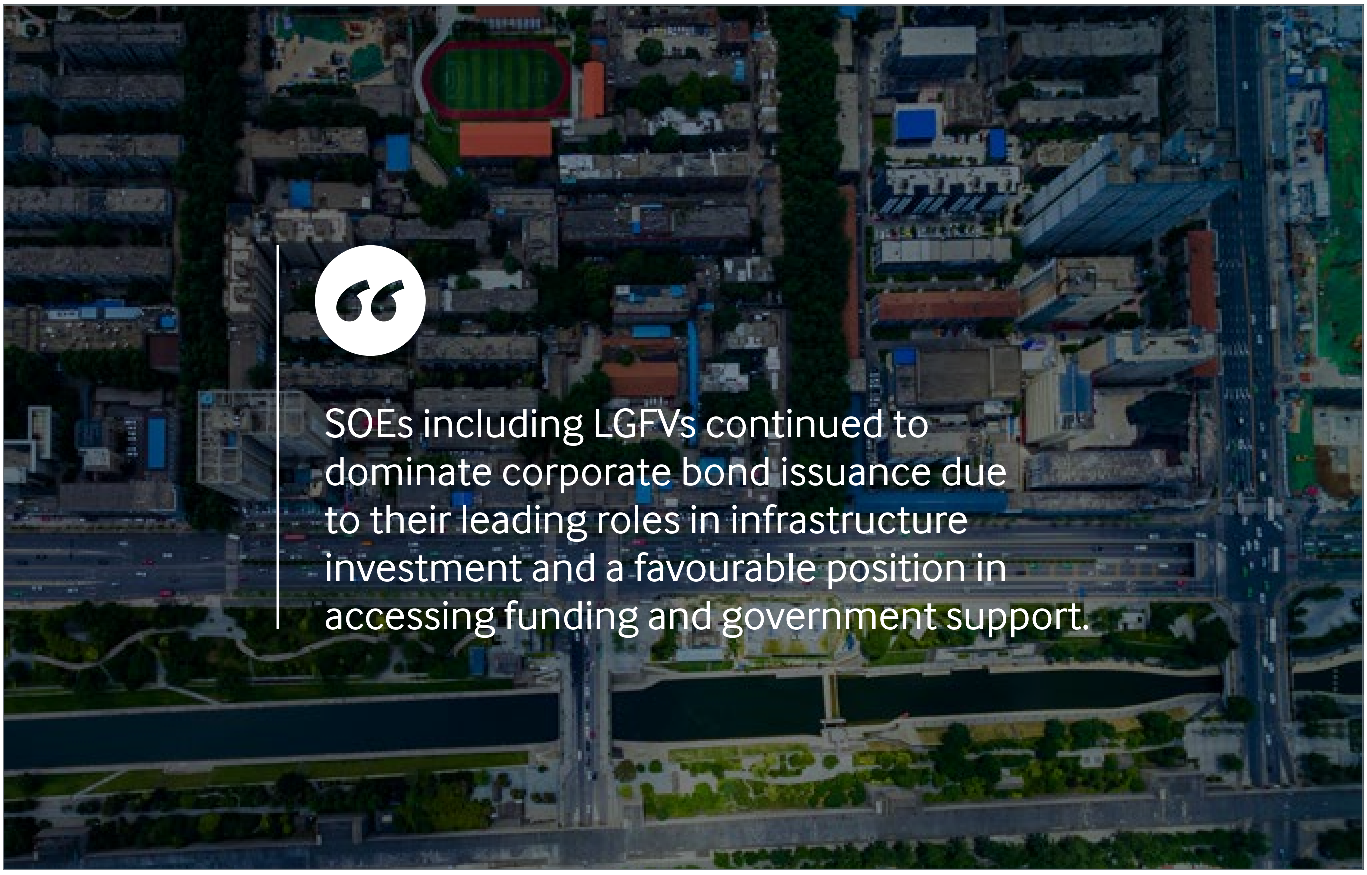
Increase in LGFV Bonds

China's LGFVs – financing platforms for local governments to fund infrastructure investments – are a major contributor to corporate bond issuance. LGFV bonds, mostly 'enterprise bonds' subject to the NDRC's approval, accounted for 24%-32% of total corporate bond issuance during 2014-2018, up from 11% in 2008. LGFV bonds represented 74.1% and 37.5% of total enterprise bonds and total corporate bonds outstanding, respectively, at end-2018, compared with 66.7% and 32.9% at end-2014.

LGFVs were established initially to skirt around the ban on local governments issuing debt directly. China's Ministry of Finance on 8 March 2015 approved local governments' ability to convert some of their maturing LGFV bonds to municipal or provincial bonds, and encouraged local governments to transfer some off-balance-sheet debt on to their balance sheets over time (see **China Local Government Blue Book** for more details).

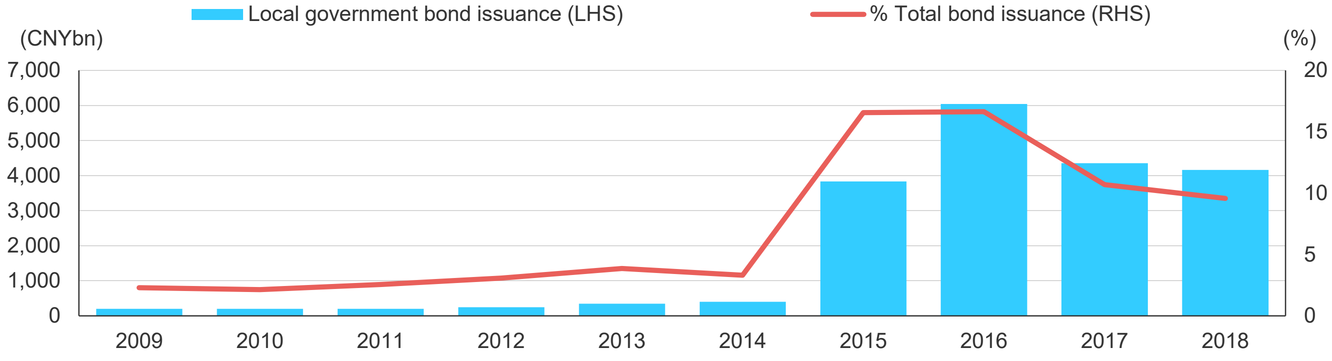
The amount of LGFV bond issuance registered CNY2.3 trillion in 2018 amid high refinancing needs and softer investor sentiment toward non-SOEs, following a 17.8% contraction in 2017 after the central government tightened the regulations on LGFV debt issuance in April 2017. Under the new rules, local governments are prohibited from injecting public assets into LGFVs, repaying LGFVs' debt with proceeds from land sales, or providing guarantees to LGFV debt.

We expect corporate bond issuance from LGFVs to rise at a mid- to high-single-digit rate in 2019, as LGFVs play an important role in driving infrastructure investment while the central government continues to balance economic growth and local government debt management. Sanctions imposed on several local government officials for incurring illegitimate local government financing in the last few years have further demonstrated the central government's determination to ensure proper and transparent funding. Fitch believes these measures will improve the supervision of local governments' indebtedness, enable the authorities to better manage potential systemic risks arising from local government debt, and put local government financing on a more sustainable long-term path.



Surge in Local Government Bond Issuance Since 2015

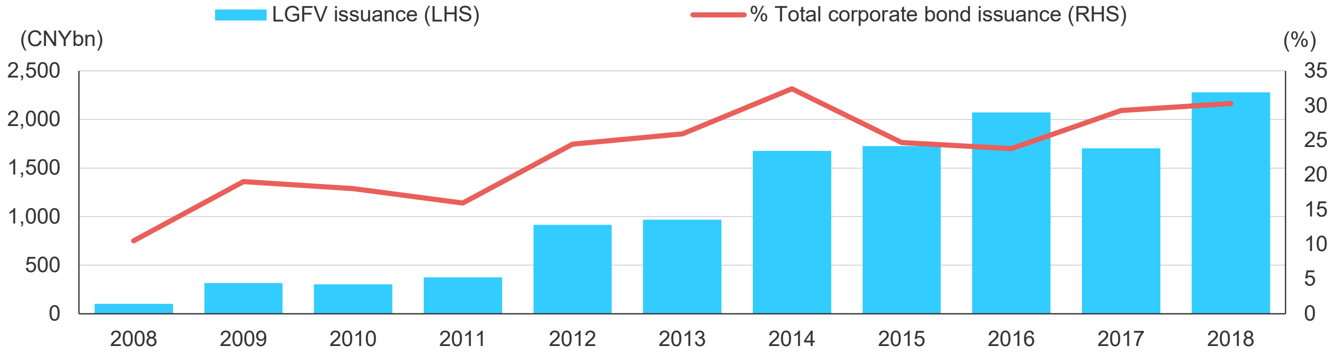
Direct Local Government Bond Issuance



Source: Wind Info

LGFVs' Rising Share of Corporate Bond Issuance

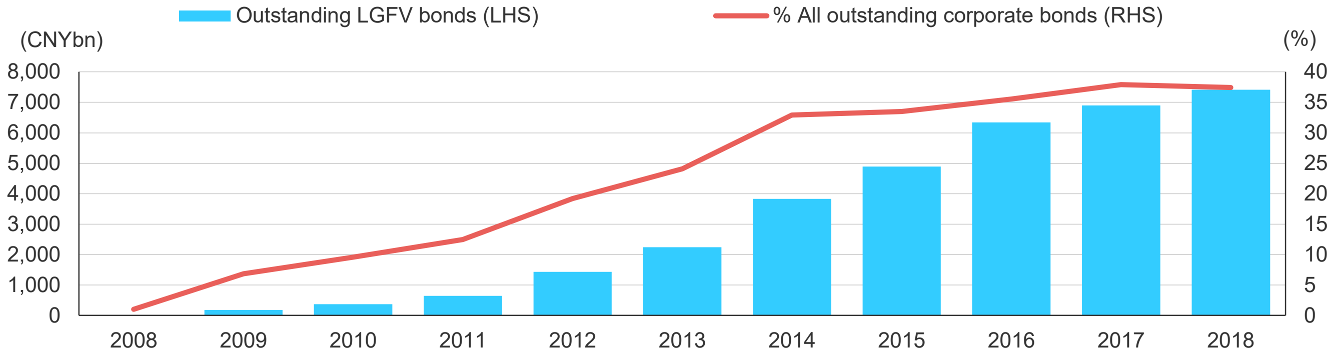
LGFVS' Bond Issuance



Source: Wind Info

LGFVs Represent about 1/3 of Outstanding Corporate Bonds

Outstanding LGFV Bonds



Source: Wind Info

Major Corporate Issuers

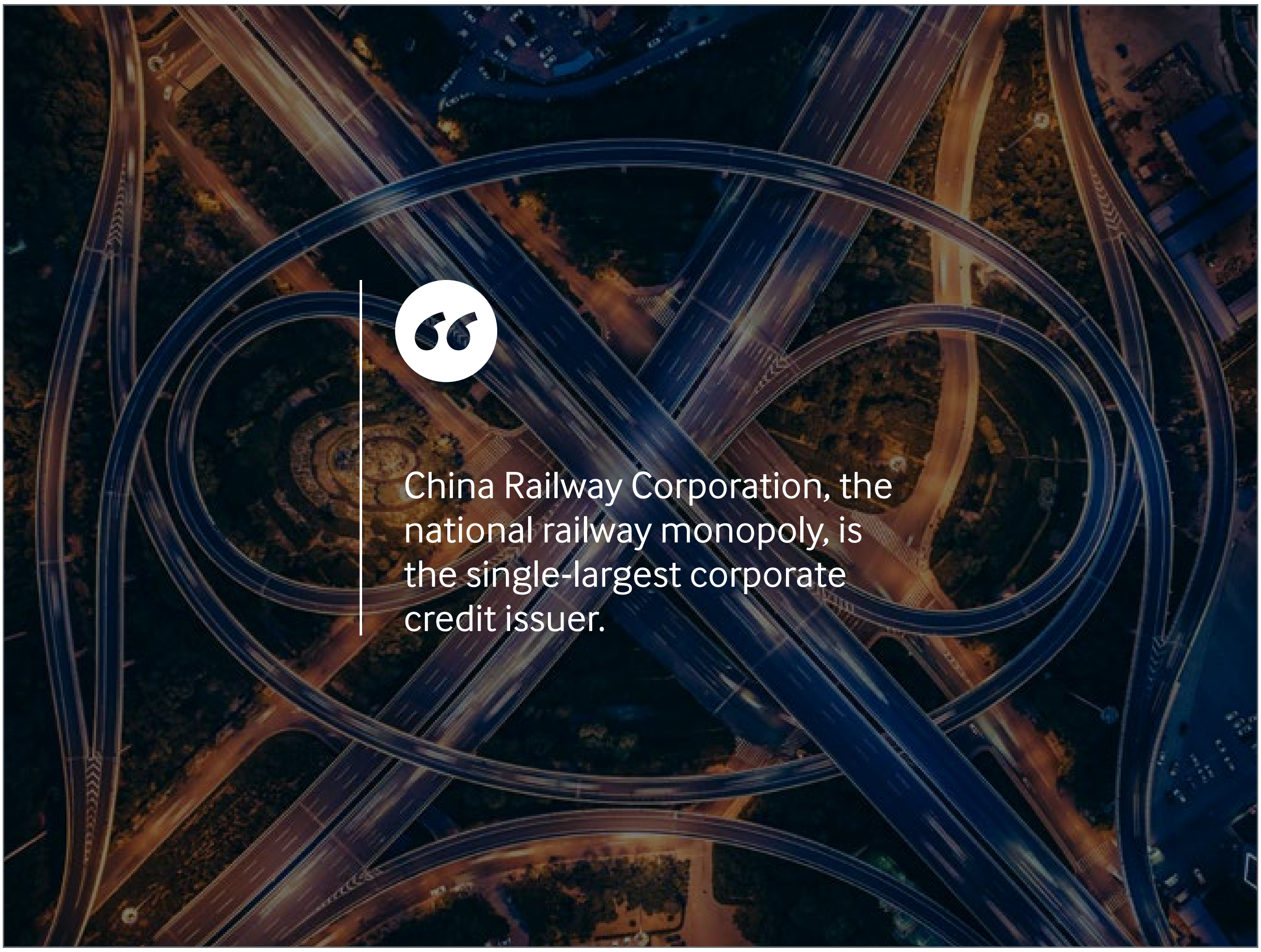
China Railway Corporation (CRC) is the national railway monopoly, and formerly part of the now-defunct Ministry of Railways. It is the single-largest corporate credit issuer, accounting for 8.5% of total outstanding corporate bonds as of end-2018. Annual new issuance from CRC accounted for 2.6%, 4.5%, and 3.2% of total new corporate issuance in 2016, 2017, and 2018, respectively.

The enterprise bonds issued by CRC are also called China Railway Construction Bonds, and are guaranteed by the National Railway Construction Fund, which is funded by a surcharge levied on all freight traffic. The NDRC issued a notice in 2011 stating that China Railway Construction Bonds are "government-supported bonds." CRC is the only corporate credit issuer that has enjoyed such status to date.

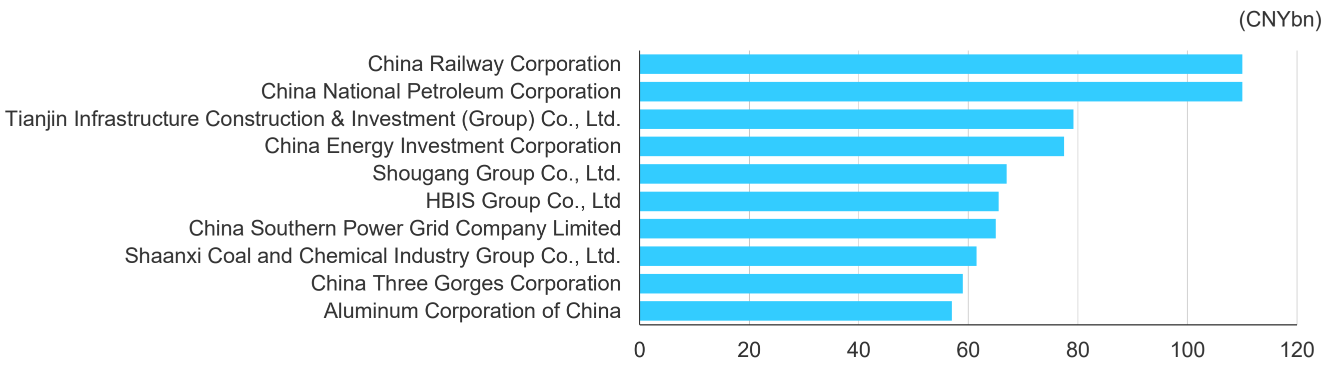
The top-10 SCP/CP/MTN issuers represented 10.3% of the outstanding SCP, CP and MTNs in aggregate as of end-2018, including six central SOEs and four local SOEs in the railway, oil and gas, power, steel and coal sectors.

Five out of the top-10 enterprise bond issuers (which represented 15.3% of the outstanding balance of enterprise bonds in aggregate) were LGFVs as of end-2018. The top-two issuers, State Grid Corporation of China (A+/Stable), and China National Petroleum Corporation (A+/Stable), hold 69.4% of the outstanding balance of enterprise bonds issued by the top-10 issuers.

The top-10 exchange corporate bond issuers accounted for 7% of the outstanding balance of exchange corporate bonds as of end-2018, including four property developers, one oil and gas company, one electric utility company and one LGFV.

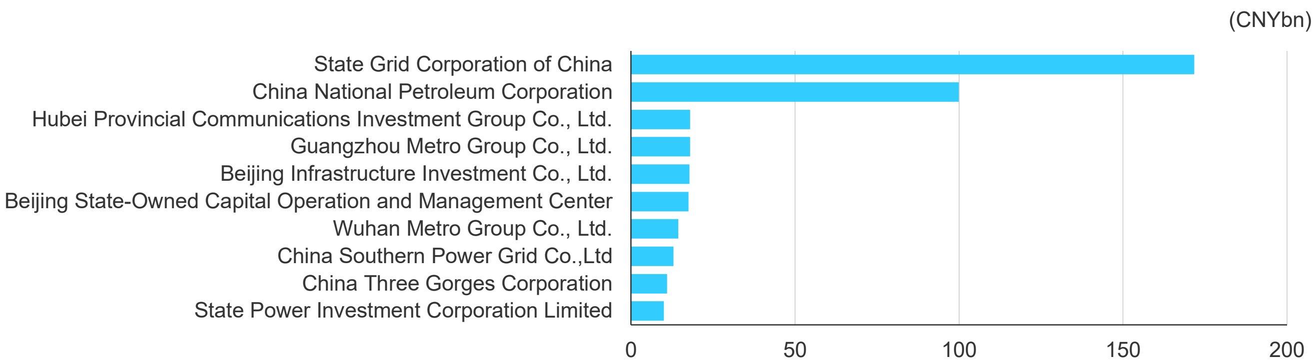


Top 10 SCP/CP/MTN Corporate Issuers by Outstanding Balance



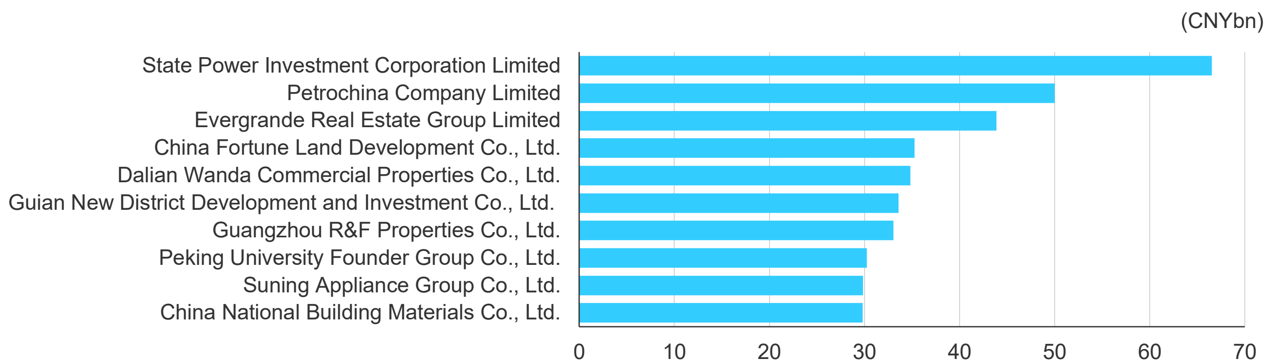
As of end-2018
Source: Wind Info

Top 10 Enterprise Bond Issuers by Outstanding Balance



As of end-2018
Source: Wind Info

Top 10 Exchange Corporate Bonds by Outstanding Balance



As of end-2018
Source: Wind Info

New Products

Panda Bonds

'Panda bonds' are yuan-denominated bonds issued by foreign issuers in the China onshore market. The first two were issued by the International Finance Corporation and the Asian Development Bank, amounting to CNY1.1 billion and CNY1.0 billion, respectively, in October 2005. The government suspended panda bond issuance during 2005-2009 due to concerns over currency pressure, but later eased the restrictions on remitting the proceeds offshore to attract more foreign issuers in May 2010. Such remittance is subject to the State Administration of Foreign Exchange's (SAFE) approval. Most panda bond issuers have used the proceeds to repay onshore borrowings or to supplement working capital. Only a few foreign financial institutions have sent funds abroad.

There were 153 panda bonds amounting to CNY257.7 billion or 0.3% of total onshore bonds outstanding as of end-2018. There was strong panda issuance of CNY120.3 billion in 2016 due to the low onshore funding costs. Issuance fell to CNY68.9 billion in 2017 as onshore yields picked up, and rebounded to CNY95.6 billion in 2018 amid the slide in yields on higher-rated corporates.

Corporates are the major panda bond issuers, accounting for 41 of the total 60 issuers. Most are offshore-incorporated subsidiaries of Chinese corporates. Corporates also accounted for 81.3% of all panda bond outstanding amount by end-2018, over 40% of which were from the property sector, followed by auto, multi-sector holdings, and water utilities. The tenor usually ranges from one to 10 years. *(Appendix IV)*

The PBoC and MoF jointly released updated guidelines on 25 September 2018 to clarify and standardise the issuance procedure for panda bonds, which did not materially alter the existing practices. However, there are still regulatory hurdles to issuing panda bonds despite the surge in recent years (see **What Investors Want to Know: Panda Bonds**, September 2017). A fragmented regulatory environment in which differing requirements for approval – many of which are not clear and assessed on a case-by-case basis – complicate the decision-process for potential issuers. Prospective issuers also face uncertainty over the exact length of time before they can issue, as the issuance application needs to be approved by multiple regulators.

In addition, the Chinese regulators are more likely to approve a panda bond issue if the proceeds are used onshore or are connected with 'One Belt, One Road' (OBOR) trade, infrastructure or investment. Deals that are only issued for arbitrage purposes or that do not appear to have economic or fixed-income market development benefits for China are likely to be rejected. Meanwhile, the ability to transfer funds offshore remains uncertain due to China's stringent capital controls, especially when downward pressure on the yuan is high.

Besides, the MoF only recognises IFRS accounting and auditing standards for Hong Kong and EU-based companies. Most foreign entities outside of Hong Kong and the EU are therefore required to reproduce financial statements in line with China's regulations, using Accounting Standard for Business Enterprise (ASBE). The statements also need to be audited by a Chinese accounting firm, which adds an additional layer of complexity.

Green Bonds

The PBoC released 'green bond' issuance rules for the interbank market in December 2015. The NDRC also launched green bond issuance guidelines for SOEs a few weeks later. Green bonds are designed to fund projects with environmental benefits, but the definition of 'green' is rather loose. China's local guidelines allow up to 50% of the proceeds for non-green projects-related usage, such as bank-loan repayment and working-capital replenishment, in stark contrast to no more than 5% of the proceeds allowed to be used for non-green projects in offshore markets. In addition, a third-party verification is not compulsory for green bond issues in China, unlike in the offshore markets where the verification is required under the Green Bond Principles.

The outstanding amount of all green bonds had reached CNY697.9 billion or 0.8% of total onshore bonds outstanding as of end-2018. There were 127 corporates among all 194 existing green bond issuers. However, they accounted for only about 30% of the total outstanding amount, as the issuance amounts for non-corporate issuers – especially commercial banks – are much larger on average.

Key Features of Domestic Corporate Bonds

Maturities

Maturities vary among different types of corporate bonds. SCP and CP typically have maturities of less than one year, while others can have more flexible, longer maturities, especially enterprise bonds which can be up to 30 years. That said, three-, five- and seven-year paper is the most common maturity structure for MTNs, exchange corporate bonds and enterprise bonds.

Seniority

The vast majority of China's corporate bonds are senior unsecured. Bonds with credit-enhancement features – mostly in the form of security and/or guarantees – accounted for around 19% of outstanding corporate bonds at end-2018. The guarantees are typically provided by corporate entities. Banks used to be the major guarantors of corporate bonds until October 2007 when CBRC banned such practice. Bonds guaranteed by banks represented only about 0.3% of total outstanding of bonds with credit enhancement as of end-2018.

Coupon Step-up

Corporate bonds with embedded options – including bonds with call/put options, bonds with coupon step-up, and perpetual bonds – have become more common in the domestic market in recent years. The share of corporate bonds with put and call options by outstanding amount had climbed to 27.5% and 7.8% respectively as of end-2018, from 11.4% and 1.5% at end-2014. Similarly, the amount of those with coupon step-ups accounted for 36.3% of all outstanding corporate bonds, up from 12.8%. The share of perpetual bonds picked up to 6.2% from 0.8% over the same period.

Among the outstanding corporate bonds with coupon step-ups, two thirds do not have step-ups that were pre-determined at the outset of issuance. Issuers usually can decide whether to raise the coupon after one third, half, or two thirds of the bond tenor. The upper limit on those pre-determined step-ups typically ranges from 100bp to 300bp, while the average upper limit on pre-determined coupon step-ups has been trending up from about 100bp in 2009 to over 290bp in 2018. In general, the higher the bonds' domestic ratings at issuance, the larger the upper limits on coupon step-up. For example, the upper limit of pre-determined coupon step-up on 'AAA', 'AA+', 'AA', 'AA-' rated bonds were 264bp, 225bp, 171bp, and 110bp, respectively, on average as of end-2018. In addition, among bonds with a pre-determined coupon step-up, those issued by listed companies and SOEs on average carried a maximum step-up of 229bp and 228bp respectively while those of private companies were 166bp. Those higher-rated SOEs typically have greater tolerance for high upper limits of step-ups, as they are more likely to avoid the coupon hikes than lower-rated private companies due to more diversified refinancing sources and stronger bargaining power over creditors. Therefore the actual step-ups are distant from the upper-bound of the indicated step-up range.

Coupon step-ups are much more common among non-SOE bonds: 62.8% of non-SOE bonds by outstanding amount had a coupon step-up as of end-2018 versus only 32% of bonds issued by SOEs.

Most coupon step-ups are bundled with put options. The combination generally lowers the coupon charged on issuers, but at the expense of the bonds' tenor, and allow issuers to decide whether to enhance the coupon if yields on comparable issuers are above the existing coupon on the put date or maintain the coupon if comparables' yields are lower.

High Percentage of Puttable Bonds

The share of outstanding corporate bonds with put options in China is much higher than in the rest of the global markets. Less than 5% of corporate bonds globally are puttable, in contrast to 27.5% in China. However, put options are less common among SOE bonds. Only 22.8% of outstanding bonds issued by SOEs were embedded with a put option, while 56.6% of non-SOE bonds by value were puttable as of end-2018.

Almost all puttable corporate bonds in China are bundled with coupon step-ups. Investors can decide whether to exercise the put option based on the coupon step-up, either pre-determined or as announced by the issuer. There are usually multiple put exercisable dates coinciding with the coupon step-up dates.

Bonds with a put option exercisable within 12 months but with an original contracted maturity date beyond 12 months are not recognised as short-term debt under Chinese accounting standards. However, where information is available, Fitch considers the put options in arriving at effective maturity dates, which are then treated as the maturity dates for such bonds, instead of using the final maturity dates.

Callable Bonds

The share of corporate bonds with call options had risen to 7.8% of the outstanding amount by end-2018, from merely 1.5% at end-2014, as more SOEs with 'AA+' or higher domestic ratings – which contributed the vast majority of callable bond issuance and usually have stronger bargaining power against investors – embed these options to take advantage of interest rate movements. Meanwhile, 97.6% and 79.6% of the existing callable corporate bonds have coupon step-up and perpetual features, respectively. This gives issuers the option to decide whether to call the bonds in full or in part, or to extend the maturity by offering a higher coupon on the call date. Around one fifth of the outstanding callable bonds by end-2018 were embedded with put options. Callable bond issuers typically pay a slightly higher coupon: for example, among 'AAA' domestically rated MTNs issued in 2018, the average coupon on those with call options was around 60bp higher than that of non-callables.

Perpetual Bonds

Wuhan Metro Group Co., Ltd. issued the first perpetual bond in October 2013. Since then, 485 corporates and 18 financial institutions have issued 1,216 perpetual bonds amounting to CNY1,785.1 billion as of end-2018, and these perpetual bonds accounted for 8.3% of total outstanding corporate bonds by value, up from only 0.8% at end-2014. Over 90% of the existing perpetual bond issuers are SOEs, and around 45% are local-government financing vehicles. Construction & engineering, industrial conglomerates, multi-sector holdings, highways and railtracks, and real estate development are among the top sectors by number of perpetual bond issuers.

Meanwhile, 99.7% and 74.4% of existing perpetual bonds contained coupon step-ups and call options, respectively, at end-2018. The vast majority have yet to reach its first call date, usually in three or five years from issuance. Among the 83 perpetuals of which the first call date had passed by end-2018, only eight were not redeemed by the issuers, as they would face notable coupon hikes – typically as high as 300bp – to extend the maturity. In addition, 92% of perpetual bonds had coupon deferral features but only two had exercised the option to defer the coupon payment as of end-2018.

In January 2019, the MoF tightened the requirements for perpetual bonds to qualify for equity treatment in financial statements. Issuers can only classify perpetual bonds as equity if the following criteria are met: 1) the bond instrument has no fixed maturity date. Meanwhile, bondholders cannot request the issuer to redeem the instrument, or the option to redeem the instrument at a predetermined date is unconditionally at the issuer's discretion; 2) the instrument is subordinated to the issuer's ordinary debt; and 3) the coupon rate is capped following a limited number of step-ups (if any) triggered by the issuer's decision not to redeem the instrument, and the capped coupon rate does not exceed the average coupon rate of perpetual instruments issued by peers in the same sector.

The new accounting rules for perpetual bonds will have little impact on how Fitch calculates debt and financial leverage ratios for corporate issuers, as they still do not yield some of the requirements to receive equity credit under Fitch's **Corporate Hybrids Treatment and Notching Criteria.** We typically only allocate equity credit to instruments that are subordinated to senior debt, have an effective maturity of more than five years, and exhibit an unconstrained ability of consecutive coupon deferral for at least five years. Most existing perpetual bonds issued by Fitch-rated entities from China are either pari passu to senior debt or have an effective maturity of less than five years. However, the tighter requirements by MOF can potentially increase the cost of issuing perpetuals for Chinese corporates.

The perpetual bonds issued by Chinese corporates in 1H19 have yet to meet the tighter requirements for being classified as equity under the new accounting standards, as they still rank pari-pasu with the issuers' ordinary debt and their coupon rate is not capped following the step-ups.

Slowly Enhancing Bond Documentation

NAFMII released sample provisions on 9 September 2016 regarding cross-default clauses, financial covenants, as well as restrictions on both asset disposals and change of control to improve bond documentation and strengthen investor protection. These clauses fall generally under the "special investor protection provisions" section in bond prospectuses. However, documentation remains far weaker than that seen in offshore markets.

Events of Default

The following events are generally considered a default for a domestic corporate bond: 1) failure to pay the interest and/or principal on the due date or within the grace period, if any; 2) dissolution of the issuer, except for the dissolution as a result of reorganisation; 3) insolvency of the issuer, discontinued business operation, or commencement of bankruptcy proceedings; and 4) failure to repay the issuer's other debt obligations or any of its consolidated subsidiaries' debt reaching certain thresholds within the grace period, if there are cross-default provisions.

The grace period is only available for bonds with cross-default clauses, and is usually no longer than 10 or 15 days.

Cross-Default Provisions

As of end-2018, 6.4% of the outstanding corporate bonds, amounting to CNY1.2 trillion, contained cross-default clauses, up from merely 0.2% or CNY35.2 billion at end-August 2016. Domestic bonds rated 'AAA' accounted for 29.3% of corporate bonds with cross-default provisions by outstanding amount, or around 20pp below their share among all existing corporate bonds. The vast majority of bonds containing cross-default clauses are MTN or CP issued and traded in the interbank market. In comparison, around half of the existing US corporate bonds have cross-default clauses as well as over 40% of Chinese corporates' offshore bonds, according to Haitong Securities Co., Ltd.

Cross-default provisions in domestic bonds are more common in commodity sectors which are targets of capacity rationing; 31.8% of aluminum companies' outstanding bonds, along with 27.5% of precious metals and minerals companies, had cross-default clauses by end-2018, followed by 27.3% in the steel sector and 23.2% in coal.

Sample Cross-Default Provisions

	Dalian Machine Tool, SCP, CNY500 million, 6%, due July 2017	**Dalian Machine Tool, SCP, CNY500 million, 6%, due May 2017**
Applicable Entities	Issuer and its consolidated subsidiaries	Issuer and its consolidated subsidiaries
Applicable Debt Instruments	Bonds (onshore and offshore) and bank loans	Bonds (onshore and offshore)
Threshold Amount	CNY100 million or higher, or 3% of issuers' latest reported shareholders' equity, whichever is lower	Nil
Grace Period	10 working days	Nil
Measures following Default on Applicable Debt	Public disclosure within two working days; the underwriter should call for a bondholders' meeting within 15 working days after it discovered – or should have discovered – the default event; In the meeting, bondholders should vote on unconditional waiver or conditional waiver (if the issuer provides guarantors or does not issue any new debt until the maturity of this SCP instrument); the bonds will become immediately due on the day following the bondholders' meeting if there is no waiver, or if the issuer fails to complete the legal procedures to satisfy the condition waiver within 30 days	The underwriter should call for bondholders' meeting within 15 working days after it discovered – or should have discovered – the default event; In the meeting, bondholders should vote on unconditional waiver, conditional waiver (guarantor or no incremental issuance prior to maturity), or request the issuer to repurchase the bonds; the bonds will become immediately due on the day following the bondholders' meeting if there is no waiver, or if the issuer fails to complete the legal procedures to satisfy the condition waiver within 30 days

Source: Company filings

Cross-default clauses have improved since NAFMII's release of the sample provisions in September 2016. For example, the provisions in Dalian Machine Tool Group's SCP issued in October 2016 apply to bank loans and include a grace period and notice period following default. These elements are missing in the provisions of the company's other SCP issued prior to NAFMII's launch of the sample provisions.

However, the cross-default provision may not be as protective as bondholders would hope. It is common for bondholders to be informed of an issuer's default on private-debt instruments including bank loans only months after it may have happened, which makes it too late for them to take action as bank lenders may already have seized collateral assets or frozen the issuer's bank accounts. For example, Dalian Machine Tool Group Co., Ltd. failed to repay its bank acceptance bills on 4 November 2016 but did not disclose the default until two weeks later. According to the cross-default provisions in the bond prospectus (table above), the company should have reported its default within two working days.

Restrictive Covenants

NAFMII introduced restrictive covenants in the investor-protection guidelines in September 2016. Restrictive covenants typically include restrictions on the disposal of major assets or de-consolidation of major subsidiaries, unless such decisions have passed bondholders' votes in advance. There are financial covenants as well, usually with regard to the issuer's debt-to-asset ratio which both the issuer and the underwriter should monitor quarterly or annually. As of end-2018, corporate bonds with restrictive covenants, issued by 437 companies, amounted to CNY1.0 trillion, accounting for 5.5% of outstanding corporate bonds by value and 10.2% of issuer count.

Bondholders' Meeting

The bondholders' meeting – a platform that facilitates the communication among the issuer, underwriters, custodian, and bond investors – should be held once any of the following events occur: 1) a default on principal/interest repayment; 2) change of credit enhancement, use of proceeds, among others; 3) merger, spin-off, dissolution, capital structure restructuring, or bankruptcy of the issuer; 4) anything else proposed by bondholders, individually or collectively, representing over 10% (exchange market) or 30% (interbank market) of the outstanding issue amount.

In the exchange market, a general proposal will be passed if more than half of the bondholders with voting rights – those owning 10% of the issuer's equity stakes or the issuer's related parties have no voting rights – vote for the proposal at the meeting, while a proposal that would significantly reduce the original contractual terms requires more than two thirds of the votes. In the interbank market, NAFMII requires over three fourths of votes to pass a proposal from bondholders attending the meeting who should represent more than two thirds of total votes.

However, the regulators have yet to standardise the rules for bondholders' meetings, therefore the rules often vary for individual bonds, even among bonds issued by the same company. Besides, bondholders' meetings have yet to become an efficient tool for bondholders to achieve post-default recovery, since they would still need to file court petitions for repayment or reorganisation to push forward the post-default process if the issuer in default refuses to act on proposals passed by bondholders in the meeting.

Nascent Stage for Credit Derivatives

Initial Instruments Failed to Gain Traction

NAFMII released the guidelines on credit risk mitigation warrants (CRMW) and credit risk mitigation agreements (CRMA) in October 2010 (the 2010 guidelines). However, the initial launch of CRMWs and CRMAs did not form an active market for credit derivatives due to the lack of credit events and market liquidity. Only nine CRMWs – all referencing high-rated CP and mid-term notes – were introduced between late 2010 and early 2011. There was almost no CRMW issuance until October 2018, except one in August 2016.

A few issues were identified following the initial launch of CRM instruments in 2010. Both CRMWs and CRMAs only reference a single-debt obligation, in contrast to those in developed markets that can reference an entity or a group of debt obligations. Besides, there was no standardised pricing mechanism for market participants. This is because pricing models used frequently in developed markets failed to function effectively in the onshore market due to a short history of corporate bond defaults. In addition, poor liquidity resulted in a high risk of CRMs' price decoupling from the underlying, weakening their effectiveness as a hedging tool.

Measures to Enhance Transparency and Liquidity

NAFMII revised the 2010 guidelines in September 2016 (the 2016 guidelines), and introduced two new CRM instruments: credit default swaps (CDS) and credit-linked notes (CLN). The first batch of CDS was launched one month later: nine banks and one bond insurance company traded 15 CDS with a total notional value of CNY300 million. The swaps referenced entities from seven non-financial industries with tenors ranging from one to two years. Similar to the initial launch of CRMWs, it was reported that referenced entities of these 15 CDSs are rated 'AAA' domestically, including Sinopec and China Unicom.

Under the 2016 guidelines, CRM instruments can reference an entity or a group of debt obligations instead of a single-debt obligation. NAFMII also affirmed that CRMWs and CLNs can be traded in the secondary market. In November 2016, CDSs became tradable on the China Foreign Exchange Trade System (CFETS) – the interbank fixed-income trading system – which helped to improve their transparency and liquidity.

Reference Expanded to Private Companies' Bonds

Fifty Credit Risk Mitigation Warrants (CRMW) linked to private companies' bonds were issued by commercial banks, financial guarantee companies and securities firms in 4Q18, following PBoC's statement on 22 October 2018 that it would grant funding to financial institutions to launch CRM instruments, in a bid to facilitate bond issuance by companies from the private sector. All of these 50 CRMWs were bundled with the new CP and SCP issued by private companies. Twenty-nine out of the 35 CP issuers were rated 'AA+' or higher domestically, with the rest at 'AA'.

CRMWs have yet to gain traction among onshore investors, since the referenced instruments still concentrate on bonds issued by corporates rated higher domestically rather than those lower-rated for which investors have real hedging needs. Meanwhile, CRMW buyers cannot hedge all credit risks. They will only be compensated if default or bankruptcy occurs, while other credit events would not trigger a reimbursement payout. In addition, commercial banks dominate the CRMW issuance amid policy initiatives but their willingness to issue CRMWs has been low. Banks need to apply the most prudent accounting principle for CRMWs issued, in the absence of specified guidelines from banking regulators.

Domestic Credit Ratings

Intense Rating Agency Competition

There are nine officially registered and licensed Chinese credit rating agencies in the onshore market. The three largest players – China Chengxin International Credit Rating (in which Moody's holds a 30% equity stake), Dagong International Credit Rating Co., Ltd., and China Lianhe Credit Rating Co., Ltd. – held a combined market share of 60.9% of outstanding rated corporate bonds as of end-2018.

Since China's bond market is fragmented and regulated by multiple government authorities, local credit rating agencies are required to obtain licences and qualifications from each regulator that oversees the respective market – the interbank or exchange market – to rate the various types of bonds and issuers.

This can result in regulators setting different standards for each market. In practice, the same issuer can be assigned different ratings by two rating agencies that are controlled by the same parent, simply depending on the market in which the bonds are sold, although the agencies' rating rationales are effectively the same. For example, there were three corporates assigned domestic issuer ratings with a one-notch difference by China Lianhe Credit Rating – a joint venture (JV) between Lianhe Credit Information Service Co., Ltd. (Lianhe) and Government of Singapore Investment Corporation – and United Ratings, a fully owned subsidiary of Lianhe, as of end-2017.

Top Three Local Rating Agencies Held an Approximate 60% Market Share

Local Rating Agencies' Qualification and Market Share

Rating Agency Name	Rating Qualification Issued by				Market Share[a]
	CSRC (Exchange Market)	NDRC (Enterprise Bonds)	PBOC/NAFMII (Interbank Market)	CIRC (Insurance Companies' Bond Investing)	
China Chengxin International	✓	✓	✓	✓	29.80%
Dagong Global Credit Rating	✓	✓	✓	✓	15.67%
China Lianhe Credit Rating	✓	✓	✓	✓	15.43%
China Chengxin Securities Rating	✓			✓	11.60%
United Ratings	✓			✓	9.71%
Shanghai Brilliance Credit Rating	✓	✓	✓	✓	9.06%
Pengyuan Credit Rating	✓	✓			4.98%
Golden Credit Rating International	✓	✓	✓	✓	3.72%
Far East Credit Rating	✓	✓	✓	✓	0.03%

[a] Measured by outstanding amount of rated corporate credits as of end-2018
Source: CIRC, NAFMII, Rating Agencies' Website, Wind Info

Lianhe's JV and Subsidiary Assigned Different Ratings to Same Issuer

Issuer Name	Domestic Issuer Rating	
	China Lianhe Credit Rating	United Ratings
Shanghai Shimao Co., Ltd.	AA+	AAA
Tianjin Zhonghuan Semiconductor Co., Ltd.	AA	AA+
Zhangzhou Transportation Development Group Co., Ltd.	AA+	AA

As of end-2017
Source: Wind Info

Chengxin's JV and Subsidiary Assigned Different Ratings to Same Issuer

Issuer Name	Domestic Issuer Rating	
	China Chengxin International	China Chengxin Securities Rating
Yunnan Tin Co., Ltd.	AA+	AA
Shouguang Chenming Holdings Co., Ltd.	AA	AA+
Guanghui Energy Co., Ltd.	AA	AA+
Kangmei Pharmaceutical Co., Ltd	AA+	AAA

As of end-2017
Source: Wind Info

Similarly, four companies were assigned different domestic issuer ratings by China Chengxin Securities Rating, which is wholly owned by China Chengxin Credit Management Co., Ltd. (Chengxin), and China Chengxin International, a JV between Chengxin and Moody's.

In general, the exchange market is widely perceived to have looser rating standards than the interbank market. Five out of the seven issuers above were rated higher for their exchange corporate bonds than MTNs and CP.

Competition among local rating agencies is very intense. For the nine domestic rating agencies, each regulator has granted rating licences to at least six of them. Meanwhile, only one rating is required for domestic bond issuance. Local rating agencies' competition intensified over the past four years, as the top three players' market share (measured by the outstanding amount of rated corporate bonds) had fallen to 29.8%, 15.7%, and 15.4%, respectively, by end-2018 from 34.6%, 21.8%, and 20.3%.

Minimum rating thresholds for investment set by regulators has also contributed to the rating distortion in the domestic market. For example, rural commercial banks with a regulatory rating assigned by CBRC below Tier 3 are only eligible for investing in 'AAA' rated bonds; insurance companies can only invest in corporate bonds with minimum issue and issuer ratings of 'AA' and 'A', respectively; and exchange corporate bonds rated below 'AAA' can not be publicly issued to retail investors. The China Securities Depository and Clearing Corporation – the custodian in the exchange market – has barred newly issued bonds with 'AA+' or lower domestic ratings from being taken as collaterals in repo transactions since April 2017.

Domestic Corporate Rating Distribution

Domestic corporate bond ratings range from 'Super AAA' to 'C'. All of the 10 'Super AAA' issuers are leading central SOEs, including six rated 'A+' by Fitch.

As of end-2018, 24.2% of the domestic corporate bonds by outstanding amount were unrated; 49.1% of outstanding corporate credit bonds were rated 'Super AAA' or 'AAA' by domestic rating agencies, followed by 13.6% 'AA+', 10.1% 'AA', and 0.2% 'AA-'; 0.7% of outstanding bonds were rated 'A+' or lower. 23.9% of the 'Super AAA' or 'AAA' rated bonds were issued by LGFVs as of end-2018; by number of issuers, 28.8% in the 'Super AAA' and 'AAA' categories were LGFVs.

The distribution by issuer, however, is very different, with 15.8% of the corporate issuers in the 'Super AAA' and 'AAA' category as of end-2018 and 75.2% in the 'AA' category; this suggests that 'Super AAA' and 'AAA' rated issuers have issued a larger amount of bonds than lower-rated issuers. Only 2.6% of the issuers are rated 'A+' or lower – these issuers are mostly non-SOEs, including large private companies, foreign-invested companies and SMEs.

Most 'Super AAA' Onshore Corporates Are Rated 'A+' by Fitch

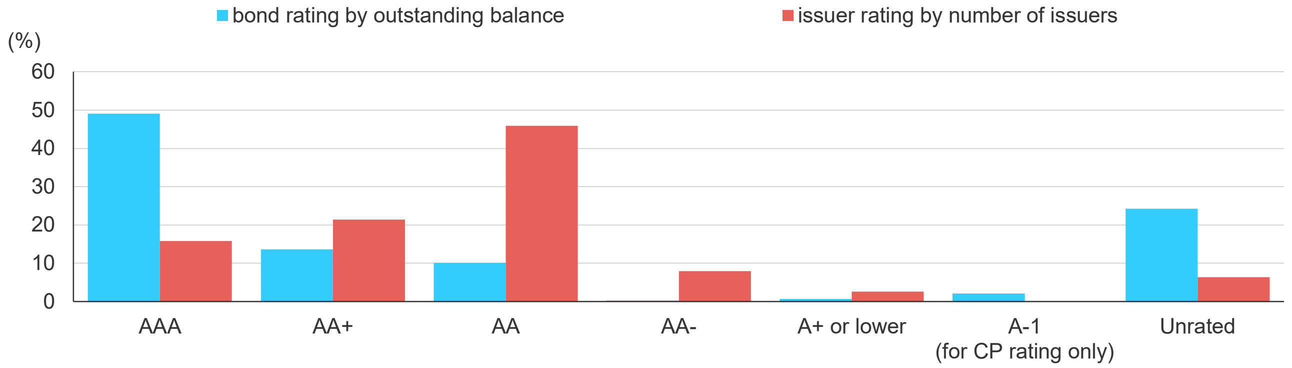
Domestic 'Super AAA' Corporate Issuers

Issuer	Fitch IDR
China Railway Corporation	NR
State Grid Corporation of China	A+/Stable
China Southern Power Grid Co., Ltd.	A+/Stable
China National Petroleum Corporation	A+/Stable
PetroChina Company Limited	A+/Stable
China Petroleum & Chemical Corporation (Sinopec)	A+/Stable
China National Offshore Oil Corporation (CNOOC)	NR[a]
China Shenhua Energy Company Limited	A+/Stable
China Telecom Corporation Limited	NR
China United Network Communication Corporation Limited	NR

[a] CNOOC Limited, [a] 64% owned subsidiary of CNOOC, was rated 'A+' by Fitch and the Outlook is Stable.
Source: Fitch Ratings

Most Onshore Corporates Are Domestically Rated 'AA' or Higher

Domestic Corporate Rating Distribution



As of end-2018
Source: Wind Info

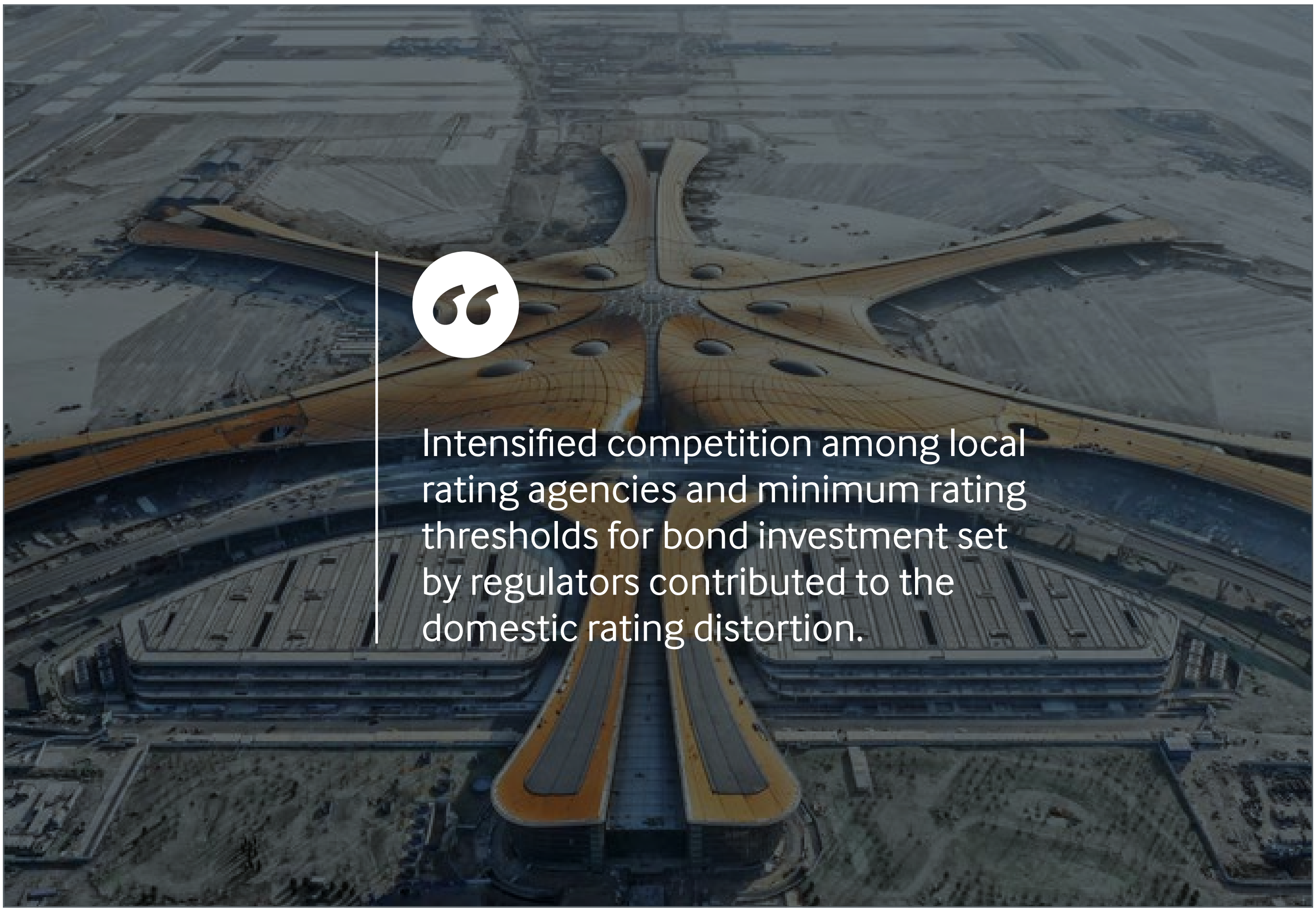
The dominance of 'Super AAA' and 'AAA' issuers has been trimmed over the past four years: as of end-2018, the outstanding amount of corporate bonds issued by entities with 'Super AAA' and 'AAA' domestic ratings reached CNY10.8 trillion, representing 56.7% of all existing corporate bonds, down 4pp from 60.7% at end-2014. In contrast, the share of issuers in the 'AA' domestic rating category by outstanding amount climbed to 41.4%, or 5pp higher than four years ago.

The shift in the domestic rating distribution towards 'AA' from 'AAA' has been driven primarily by more private companies with weaker credit profiles becoming eligible to tap the onshore bond market, and the rise in the number of domestic rating downgrades in 2015-2016 and 2018 (2018: 207; 2016: 169; 2015: 140; 2014: 91) due to the deterioration of the issuer credit profiles.

The share of bonds with domestic ratings in the 'BB' or lower category by outstanding amount rose to 0.5% from 0.02% at end-2014. Meanwhile, there were 48 corporates rated domestically at 'BB' or lower, accounting for 1.1% of total number of issuers. All existing non-investment-grade issuers by end-2018 have been downgraded from the 'AA' or above ratings, and the majority have defaulted on their bonds.

Wide Gap Between Domestic and International Ratings

An increasing number of onshore corporate issuers have tapped the offshore G3 (US dollar/euro/yen) and/or CNH (offshore yuan) bond markets in recent years. The domestic ratings of these issuers range from 'AAA' to 'AA', but their public international ratings from Fitch vary greatly, ranging from 'A+' to 'CCC+'. Ninety-eight 'AAA' domestically rated issuers are rated investment-grade by Fitch on the international rating scale, including 57 and 41 in the 'A' and 'BBB' rating categories, respectively, as of end-July 2019. The remaining 11 issuers with 'AAA' domestic ratings are rated below investment-grade by Fitch on the international rating scale, including eight in the 'BB' rating category and three below 'BB-.' Thirty-seven out of the 55 issuers with 'AA+' and lower domestic ratings are rated below investment-grade by Fitch, including 26 and 11 in the 'BB' rating category and below 'BB-', respectively.



Fitch-Rated Chinese Corporates' Domestic Ratings Are Narrowly Distributed

International and Domestic Ratings Comparison

Company Name	Fitch's Long-Term IDR	Fitch's Rating Outlook	Domestic Rating	Domestic Rating Outlook
Beijing Energy Holding Co., Ltd.	A+	Stable	AAA	Stable
Beijing Infrastructure Investment Co., Ltd.	A+	Stable	AAA	Stable
Beijing State-owned Capital Operation and Management Center	A+	Stable	AAA	Stable
China Jianyin Investment Limited	A+	Stable	AAA	Stable
China National Petroleum Corporation	A+	Stable	AAA	Stable
China Petroleum & Chemical Corporation	A+	Stable	AAA	Stable
China Southern Power Grid Co., Ltd	A+	Stable	AAA	Stable
China Three Gorges Corporation	A+	Stable	AAA	Stable
China Yangtze Power Co., Ltd.	A+	Stable	AAA	Stable
Guangdong Hengjian Investment Holding Co., Ltd.	A+	Stable	AAA	Stable
Guangzhou Metro Group Co., Ltd.	A+	Stable	AAA	Stable
PetroChina Company Limited	A+	Stable	AAA	Stable
Shenzhen Investment Holdings Co., Ltd.	A+	Stable	AAA	Stable
State Grid Corporation of China	A+	Stable	AAA	Stable
Anhui Conch Cement Company Limited	A	Stable	AAA	Stable
Baoshan Iron & Steel Co. Ltd.	A	Stable	AAA	Stable
Beijing State-Owned Assets Management Co., Ltd.	A	Stable	AAA	Stable
China Baowu Steel Group Corporation Limited	A	Stable	AAA	Stable
China General Nuclear Power Corporation	A	Stable	AAA	Stable
China Huadian Corporation Ltd.	A	Stable	AAA	Stable
China Oilfield Services Limited	A	Stable	AAA	Stable
China State Construction Engineering Corporation Ltd	A	Stable	AAA	Stable
Dongfeng Motor Group Company Limited	A	Stable	AAA	Stable
Guangdong Energy Group Co., Ltd.	A	Stable	AAA	Stable
Guangzhou City Construction Investment Group Co., Ltd.	A	Stable	AAA	Stable
Shandong High-speed Group Co., Ltd.	A	Stable	AAA	Stable
Shanghai Electric (Group) Corporation	A	Stable	AAA	Stable
Shanghai Electric Group Co., Ltd.	A	Stable	AAA	Stable
Shanghai Pudong Development (Group) Co., Ltd.	A	Stable	AAA	Stable
State Power Investment Corporation Limited	A	Stable	AAA	Stable
Wuhan Metro Group Co., Ltd.	A	Stable	AAA	Stable
Zhejiang Provincial Energy Group Company Ltd.	A	Stable	AAA	Stable
Aluminum Corporation of China	A-	Stable	AAA	Stable
Aluminum Corporation of China Limited	A-	Stable	AAA	Stable
Anhui Provincial Investment Group Holding Co., Ltd.	A-	Stable	AAA	Stable
AVIC International Holding Corporation	A-	Stable	AAA	Stable
Bright Food (Group) Co., Ltd.	A-	Stable	AAA	Stable
China Communications Construction Company Limited	A-	Stable	AAA	Stable
China Energy Engineering Corporation Limited	A-	Stable	AAA	Stable
China National Bluestar (Group) Co, Ltd	A-	Stable	AAA	Stable
China National Chemical Corporation Limited	A-	Stable	AAA	Stable
China Railway Group Limited	A-	Stable	AAA	Stable
Guangzhou Communications Investment Group Co., Ltd.	A-	Stable	AAA	Stable
Guangzhou Finance Holdings Group Company Limited	A-	Stable	AAA	Stable
Guangzhou Industrial Investment Fund Management Co., Ltd.	A-	Stable	AAA	Stable
Jiangxi Railway Investment Group Corporation	A-	Stable	AAA	Stable

As of end-July 2019
Source: Fitch Ratings, Wind Info

Company Name	Fitch's Long-Term IDR	Fitch's Rating Outlook	Domestic Rating	Domestic Rating Outlook
Nanjing Yangzi State-owned Assets Investment Group Co., Ltd.	A-	Stable	AAA	Stable
Power Construction Corporation of China	A-	Stable	AAA	Stable
Shanghai Lingang Economic Development (Group) Co., Ltd	A-	Stable	AAA	Stable
Shougang Group Co., Ltd.	A-	Stable	AAA	Stable
Sichuan Development Holding Co., Ltd.	A-	Stable	AAA	Stable
Sichuan Provincial Investment Group Co., Ltd.	A-	Stable	AAA	Stable
Sichuan Transportation Investment Group Corporation Limited	A-	Stable	AAA	Stable
Sinochem International Corporation	A-	Stable	AAA	Stable
Zhongyuan Yuzi Investment Holding Group Co., Ltd.	A-	Stable	AAA	Stable
Tianjin Infrastructure Construction & Investment (Group) Co., Ltd.	A-	Negative	AAA	Stable
Tianjin Rail Transit Group Co., Ltd.	A-	Negative	AAA	Stable
Anhui Transportation Holding Group Company Limited	BBB+	Stable	AAA	Stable
BAIC Motor Corporation Limited	BBB+	Stable	AAA	Stable
Beijing Automotive Group Co Ltd	BBB+	Stable	AAA	Stable
Changchun Urban Development & Investment Holdings (Group) Co., Ltd.	BBB+	Stable	AAA	Stable
Chengdu Communications Investment Group Corporation Limited	BBB+	Stable	AAA	Stable
Chengdu Xingcheng Investment Group Co., Ltd.	BBB+	Stable	AAA	Stable
China Gezhouba Group Company Limited	BBB+	Stable	AAA	Stable
China Metallurgical Group Corporation	BBB+	Stable	AAA	Stable
China Minmetals Corporation	BBB+	Stable	AAA	Stable
China Resources Land Ltd	BBB+	Stable	AAA	Stable
China Vanke Co., Ltd.	BBB+	Stable	AAA	Stable
Chongqing Energy Investment Group Co., Ltd.	BBB+	Stable	AA+	Stable
Chongqing Nan'an Urban Construction & Development (Group) Co., Ltd.	BBB+	Stable	AA+	Stable
Guangzhou Development District Financial Holdings Group Co., Ltd.	BBB+	Stable	AAA	Stable
Hubei Science & Technology Investment Group Co., Ltd.	BBB+	Stable	AAA	Stable
Metallurgical Corporation of China Limited	BBB+	Stable	AAA	Stable
Poly Developments and Holdings Group Co., Ltd.	BBB+	Stable	AAA	Stable
Qingdao Conson Development (Group) Co., Ltd.	BBB+	Stable	AAA	Stable
Shandong Guohui Investment Co., Ltd.	BBB+	Stable	AAA	Stable
Shanghai Construction Group Co., Ltd.	BBB+	Stable	AAA	Stable
Shanghai Electric Power Co., Ltd.	BBB+	Stable	AAA	Stable
Shaoxing City Investment Group Limited	BBB+	Stable	AA+	Stable
Wuhan State-Owned Assets Management Limited Company	BBB+	Stable	AA+	Stable
Wuxi Construction and Development Investment Co., Ltd.	BBB+	Stable	AAA	Stable
Tianjin Binhai New Area Construction and Investment Group Co., Ltd.	BBB+	Negative	AAA	Stable
Yunnan Metropolitan Construction Investment Group Co., Ltd	BBB+	Rating Watch Nagetive	AAA	Stable
Yunnan Provincial Investment Holdings Group Co. Ltd.	BBB+	Rating Watch Nagetive	AAA	Stable
Beijing Capital Group Company Limited	BBB	Stable	AAA	Stable
Chengdu Tianfu New Area Investment Group Co.,Ltd	BBB	Stable	AAA	Stable
Gansu Provincial Highway Aviation Tourism Investment Group Co., Ltd.	BBB	Stable	AAA	Stable
Guangxi Communications Investment Group Co., Ltd.	BBB	Stable	AAA	Stable
Hangzhou Finance And Investment Group Co., Ltd.	BBB	Stable	AAA	Stable
Jinan West City Investment and Development Group Co., Ltd.	BBB	Stable	AAA	Stable
Longfor Group Holdings Limited	BBB	Stable	AAA	Stable
Qingdao China Prosperity State-owned Capital Operation (Group) Co., Ltd.	BBB	Stable	AA+	Stable
Wuxi Industry Development Group Co., Ltd.	BBB	Stable	AAA	Stable
Yangzhou Urban Construction State-owned Assets Holding (Group) Co., Ltd	BBB	Stable	AA+	Stable

As of end-July 2019
Source: Fitch Ratings, Wind Info

Company Name	Fitch's Long-Term IDR	Fitch's Rating Outlook	Domestic Rating	Domestic Rating Outlook
Zhuhai Huafa Group Co., Ltd.	BBB	Stable	AAA	Stable
Qingdao City Construction Investment (Group) Limited	BBB	Negative	AAA	Stable
Tianjin Free Trade Zone Investment Holding Group Co., Ltd.	BBB	Negative	AA+	Stable
Kunming Iron & Steel Holding Co., Ltd.	BBB	Rating Watch Nagetive	AA+	Stable
Yunnan Provincial Energy Investment Group Co., Ltd.	BBB	Rating Watch Nagetive	AAA	Stable
Shanghai Huayi (Group) Company	BBB-	Positive	AAA	Stable
China Jinmao Holdings Group Limited	BBB-	Stable	AAA	Stable
Country Garden Holdings Co. Ltd.	BBB-	Stable	AAA	Stable
Dalian Deta Holding Co., Ltd.	BBB-	Stable	AA+	Stable
Gansu Province Electric Power Investment Group Co., Ltd.	BBB-	Stable	AA+	Stable
Huzhou Communications Investment Group Co.,Ltd	BBB-	Stable	AA+	Stable
Inner Mongolia High-Grade Highway Construction and Development Company Ltd.	BBB-	Stable	AA+	Stable
Jiaxing City Development Investment Group	BBB-	Stable	AA+	Stable
Jiuquan Iron and Steel (Group) Co., Ltd.	BBB-	Stable	AA+	Stable
Red Star Macalline Group Corporation Ltd.	BBB-	Stable	AAA	Stable
Shimao Property Holdings Limited	BBB-	Stable	AAA	n.a.
Taizhou Urban Construction and Investment Development Group Co., Ltd.	BBB-	Stable	AA+	Stable
Weifang Urban Construction and Development Investment Group Co., Ltd.	BBB-	Stable	AA+	Stable
Zhoushan City Investment Group Corporation Limited	BBB-	Stable	AA+	Stable
Zijin Mining Group Co., Ltd	BBB-	Stable	AAA	Stable
Beijing Capital Development Holding (Group) Co., Ltd.	BBB-	Negative	AAA	Stable
Zhuzhou City Construction Development Group Co., Ltd.	BBB-	Negative	AA+	Stable
Beijing Capital Land Ltd.	BB+	Stable	AAA	Stable
Chongqing Hechuan City Construction Investment (Group) Co.,Ltd	BB+	Stable	AA+	Stable
Dalian Wanda Commercial Management Group Co., Ltd.	BB+	Stable	AAA	Stable
Fujian Zhanglong Group Co., Ltd.	BB+	Stable	AA+	Stable
Shangrao City Construction Investment Development Group Co., Ltd.	BB+	Stable	AA+	Stable
Taizhou Huaxin Pharmaceutical Investment Co., Ltd.	BB+	Stable	AA+	Stable
Urumqi Gaoxin Investment and Development Group Co., Ltd.	BB+	Stable	AA+	Stable
Xinjiang Financial Investment Co., Ltd.	BB+	Stable	AA+	Stable
Yangzhou Slender West Lake Tourism & Development Group Co., Ltd.	BB+	Stable	AA+	Stable
Yichang High-Tech Investment Development Co., Ltd.	BB+	Stable	AA+	Stable
Zhangzhou Transportation Development Group Co., Ltd.	BB+	Stable	AA	Stable
Zhaojin Mining Industry Company Limited	BB+	Stable	AAA	Stable
Meinian Onehealth Healthcare Holdings Co., Ltd.	BB+	Negative	AA	Stable
Changde Urban Construction and Investment Group Co., Ltd.	BB+	Rating Watch Nagetive	AA+	Stable
Chengdu Airport Xingcheng Investment Group Co., Ltd.	BB	Stable	AA+	Stable
ENN Ecological Holdings Co., Ltd.	BB	Stable	AA	Positive
Guangxi Liuzhou Dongcheng Investment Development Group Co., Ltd.	BB	Stable	AA+	Stable
Huai An Traffic Holding Co., Ltd	BB	Stable	AA+	Stable
Liangshan Development (Holdings) Group Co., Ltd.	BB	Stable	AA	Stable
Liuzhou Dongtong Investment & Development Co., Ltd.	BB	Stable	AA	Stable
Xuzhou Economic and Technology Development Zone State-Owned Assets Management Co., Ltd.	BB	Stable	AA	Stable
Jiangsu Fang Yang Group Co., Ltd.	BB	Rating Watch Nagetive	AA	Stable
Seazen Holdings Co., Ltd.	BB	Rating Watch Nagetive	AAA	Stable
China Fortune Land Development Co., Ltd.	BB-	Stable	AAA	Stable
Greenland Holding Group Company Limited	BB-	Stable	AA+	Stable

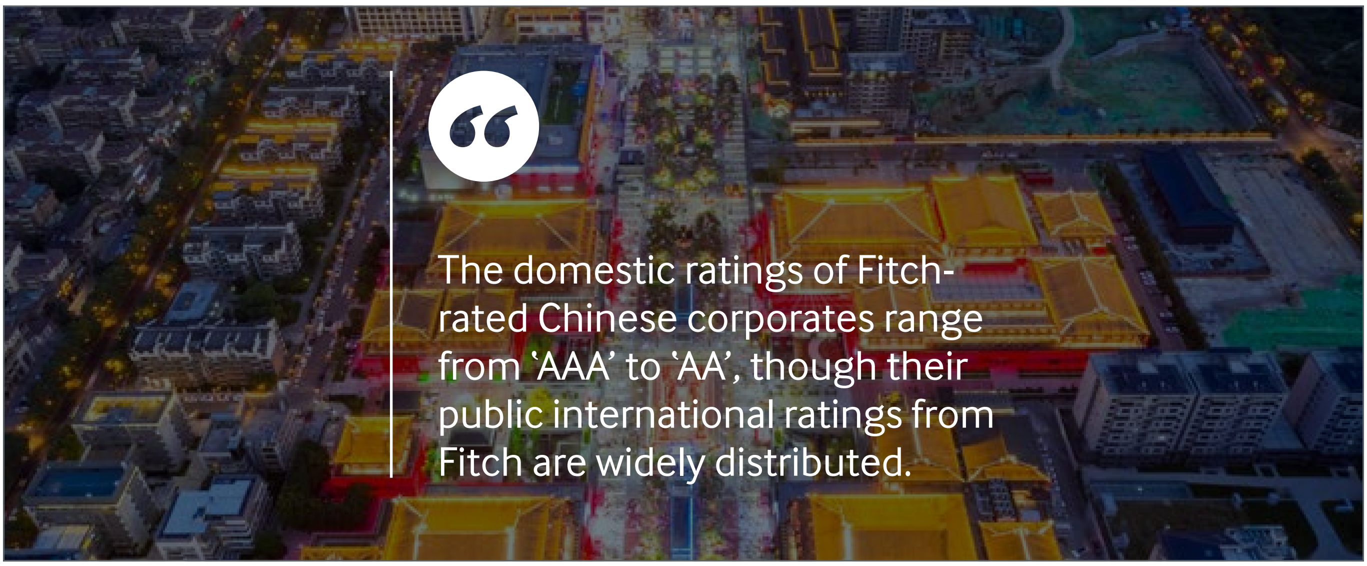
As of end-July 2019
Source: Fitch Ratings, Wind Info

Company Name	Fitch's Long-Term IDR	Fitch's Rating Outlook	Domestic Rating	Domestic Rating Outlook
Guangzhou R&F Properties Co. Ltd.	BB-	Stable	AAA	Stable
Huai'an Development Holdings Co.,Ltd	BB-	Stable	AA+	Stable
KWG Group Holdings Limited	BB-	Stable	AAA	Stable
Mudanjiang City Investment Group Co., Ltd.	BB-	Stable	AA	Stable
Suqian Economic Development Corporation	BB-	Stable	AA	Stable
Xinyi City Investment & Development Co., Ltd.	BB-	Stable	AA	Stable
Yanzhou Coal Mining Company Limited	BB-	Stable	AAA	Stable
Yuzhou Properties Company Limited	BB-	Stable	AA+	Stable
Yancheng Oriental Investment & Development Group Co., Ltd	BB-	Rating Watch Nagetive	AA	Stable
Hengda Real Estate Group Co., Ltd	B+	Positive	AAA	Stable
BlueFocus Intelligent Communications Group Co., Ltd.	B+	Stable	AA	Stable
Guangdong Helenbergh Real Estate Group Co., Ltd.	B+	Stable	AA+	Stable
Yango Group Co., Ltd.	B	Positive	AA+	Stable
Zhenro Properties Group Limited	B	Positive	AAA	Stable
Zoomlion Heavy Industry Science and Technology Co. Ltd	B	Positive	AAA	Stable
Beijing Hongkun Weiye Real Estate Development Co., Ltd.	B	Negative	AA	Stable
Jiangsu HanRui Investment Holding Co.,Ltd.	B	Negative	AA+	Stable
Fujian Yango Group Co., Ltd.	B-	Stable	AA+	Stable
Oceanwide Holdings Co. Ltd.	B-	Stable	AA+	Stable
Tahoe Group Co., Ltd.	B-	Stable	AA+	n.a.
Xinhu Zhongbao Co., Ltd.	B-	Stable	AA+	Stable
Zhongrong Xinda Group Co., Ltd.	B-	Negative	AA+	Stable
Shandong Yuhuang Chemical Co., Ltd.	CCC+		AA	Negative

As of end-July 2019
Source: Fitch Ratings, Wind Info

Entry of International Rating Agencies

International rating agencies – Moody's Investors Service (Moody's), S&P Global Ratings (S&P), and Fitch Ratings (Fitch) – have established wholly owned subsidiaries in China that are dedicated to rating onshore issuers and bonds, following the Chinese authorities' further opening-up measures that allows foreign ownership of domestic rating agencies in May 2018. S&P became the first international rating agency in January 2019 that was awarded the business licence by PBoC. The other two agencies have also submitted their applications to PBoC and are awaiting approval.



Internationalisation of the Chinese Bond Market

Increasing Channels for Investment by Foreign Investors

Foreign investors held 1.9% of total domestic bonds outstanding as of end-2018, up slightly from 1.5% at end-2014. Foreign investors are able to invest in the Chinese bond market through four main channels: the Qualified Foreign Institutional Investors (QFII) scheme, the RMB Qualified Foreign Institutional Investors (RQFII) scheme, China Interbank Bond Market (CIBM) access for long-term investors, and the Northbound Trading Link via the Bond Connect programme.

SAFE announced on 10 September 2019 that it would remove the quota limits on QFII and RQFII schemes, along with the restrictions on countries/regions, to further open up the domestic capital market to foreign investors. The State Council has approved this policy change.

Foreign central banks, monetary authorities, clearing banks and participating banks for renminbi settlement are eligible to invest in the interbank market directly under a PBoC pilot programme introduced in August 2010. The PBoC eased market access further to the interbank bond market in February 2016 by allowing qualified foreign institutional investors with a mid- to long-term investment horizon to tap the interbank bond market without any quota restrictions. Eligible foreign institutional investors include foreign commercial banks, insurance companies, pension funds, charity funds, endowment funds and other medium- to long-term investors.

Bond Connect is a new mutual market access scheme that allows investors from mainland China and overseas to trade in each others' bond markets through connections between the related mainland and Hong Kong financial infrastructure institutions. Northbound Trading commenced on 3 July 2017, allowing overseas investors from Hong Kong and other regions to invest in the domestic interbank bond market through mutual access arrangement in respect of trading, custody and settlement. Unlike the QFII and RQFII schemes, the Northbound Trading Link is not subject to any quota limits. Eligible foreign investors include foreign central banks or monetary authorities, international financial organisations, sovereign wealth funds, and foreign institutions or investment products. As of end-2018, 503 foreign institutions were registered as eligible foreign investors.

Offshore Investors' Major Market Access

	QFIIs	RQFIIs	Northbound Trading Link	CIBM Access for Long-Term Investors
Types of Market/ Investable Bond	Exchange-traded bonds, Interbank-traded bonds	Exchange-traded bonds, Interbank-traded bonds	Interbank-traded bonds	Interbank-traded bonds
Number of Investors[a]	287	205	503	n.a.
Qualification	Asset Management: Over 2 years' track record; AUM no less than USD0.5bn Insurance: Over 2 years' track record; AUM no less than USD0.5bn Securities/IB: Over 5 years' track record; AUM no less than USD5bn; Net assets no less than USD0.5bn Commercial Bank: Over 10 years' track record; AUM no less than USD5bn; Tier 1 capital no less than USD0.3bn Others: Over 2 years' track record; AUM no less than USD0.5bn	Financial institutions incorporated in offshore yuan clearing centres	A central bank or monetary authority of a jurisdiction other than the PRC, an international financial organisation or a sovereign wealth fund A legal person or an investment product issued by a legal person and (a) is duly incorporated and validly existing under the laws of the jurisdiction where it is incorporated; (b) in respect of a prospective Eligible Foreign Investor that is an investment product only, its manager is duly incorporated and validly existing under the laws of the jurisdiction where it is incorporated; (c) has the legal and regulatory capacity to deal in securities (including, if applicable, the obtaining of any applicable licences or exemptions) under the laws of its jurisdiction of domicile and the jurisdiction(s) in which its dealing in Northbound Trading Link Instruments is carried on	Types of overseas institutions: 1) foreign central banks or monetary authorities; 2) clearing banks for CNY business in Hong Kong and Macao; and 3) overseas participating banks for CNY cross-border trade settlement; 4) qualified foreign institutional investors with a mid- to long-term investment horizon
Regulators				
-CSRC	Qualifications; Investable securities	Qualifications; Investable securities		
-PBoC	Money transfer	RMB account; Money transfer	Qualifications; Money transfer	Qualification; Quota; CNY account; Money transfer
-SAFE	Quota; Money transfer	Quota; Money transfer	Money transfer	Money transfer

[a] As of end-2018
Source: PBoC, SAFE, CSRC, Bond Connect Company Limited

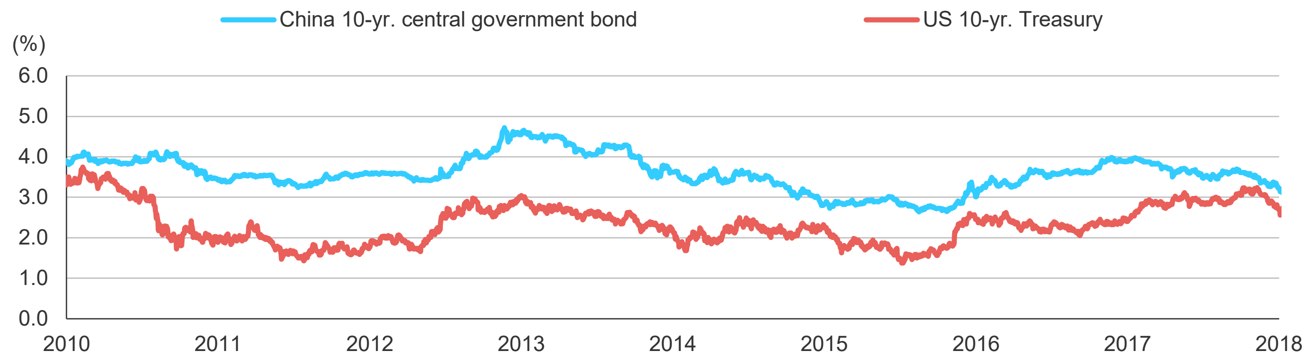
Growing Attraction for Foreign Investors

The Chinese bond market, as the second-largest in the world, has drawn increasing interest from foreign investors as being "too big to ignore." Quite a few global bond indices – including Citi's Emerging Markets Government Bond Index, Asian Government Bond Index, and Asia Pacific Government Bond Index, as well as Bloomberg Barclays' Global Aggregate + China Index and Emerging Market Local Currency Government + China Index – have included China's central government bonds. This will encourage global asset managers to gain exposure to the Chinese bond market.

Higher onshore interest rates have been one of the main attractions for foreign investors, although the trend has started to reverse since 1Q18. For example, China's 10-year central government bond yields have stayed above US 10-year treasury yields by 121bp on average since mid-2010 (unadjusted for currency movements), but the spread had narrowed to 50bp by end-2018 from around 150bp one year earlier. Similarly, MTNs issued by the 'Super AAA' domestically rated corporates which are rated in the 'A' category by international rating agencies yielded over 51bp on average higher than US corporate bonds rated 'BBB' during 2010-2018. However, the spread contracted by about 240bp from end-2017 to end-2018 so that 'BBB' rated US corporate bonds yielded over 70bp higher at end-2018.

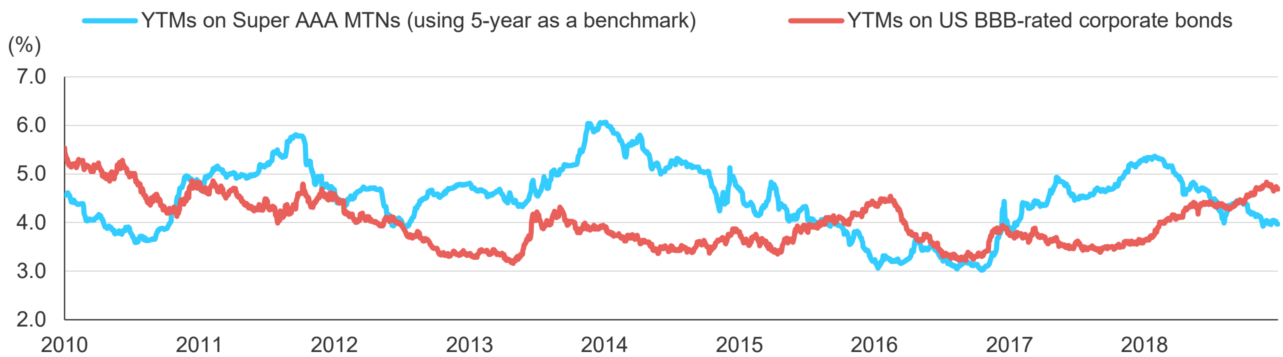
Historically Higher Yields than US Treasuries/Corporates

Treasury Yields: China versus US



Yields are not adjusted for foreign-exchange rate
Source: Wind Info

Corporate Yields: China versus US



Yields are not adjusted for foreign-exchange rate
Source: Wind Info

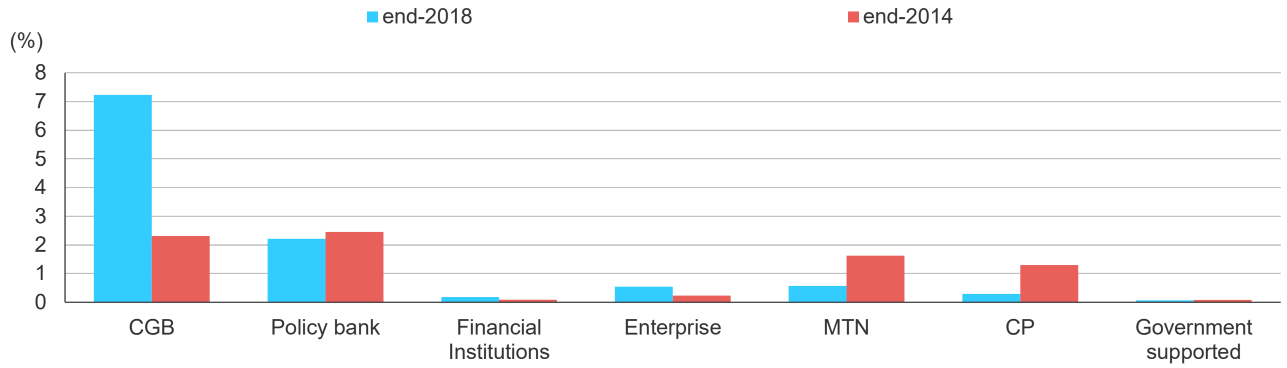
Foreign investors' investment appetite could subside in the short term due to the changing risk-reward balance. Concerns over corporate default risk and currency risk could weaken investor sentiment. The degree of credit differentiation has been increasing in the domestic corporate bond market, yet it is still far from that in developed markets.

Short-term volatilities can lead to mispricing and create opportunities for relative-value play while relatively weak public disclosure, corporate governance weaknesses, and a post-default legal framework which is still immature remain hurdles for foreign investors to boost their credit exposure significantly. As a result, government bonds and quasi-sovereign policy bank bonds have overtaken corporate bonds among foreign investors' holdings. As of end-2018, foreign institutional investors held around 7% of total central government bonds, amounting to CNY1,075.9 billion, up from 2.3% and CNY221.5 billion, respectively, at end-2014; this compared with CNY52.5 billion in corporate bond holdings, representing 0.3% of total onshore corporate bonds outstanding, down from CNY85.9 billion and 0.7%.

Bond market regulators have been taking measures to attract foreign investors. China's central bank announced on 9 November 2017 that offshore institutional investors would be allowed to trade forward-rate agreements and interest-rate swaps for hedging purposes in the interbank market, subject to an investment quota. Earlier, on 27 February 2017, the State Administration of Foreign Exchange had also opened up foreign investors' access to hedging their currency risk via foreign-exchange forwards, foreign-exchange swaps and currency swaps.

Rising Share of Government and Quasi-Government Bond Holdings

Foreign Institutional Investors' Holdings as a Percentage of Onshore Bonds by Type



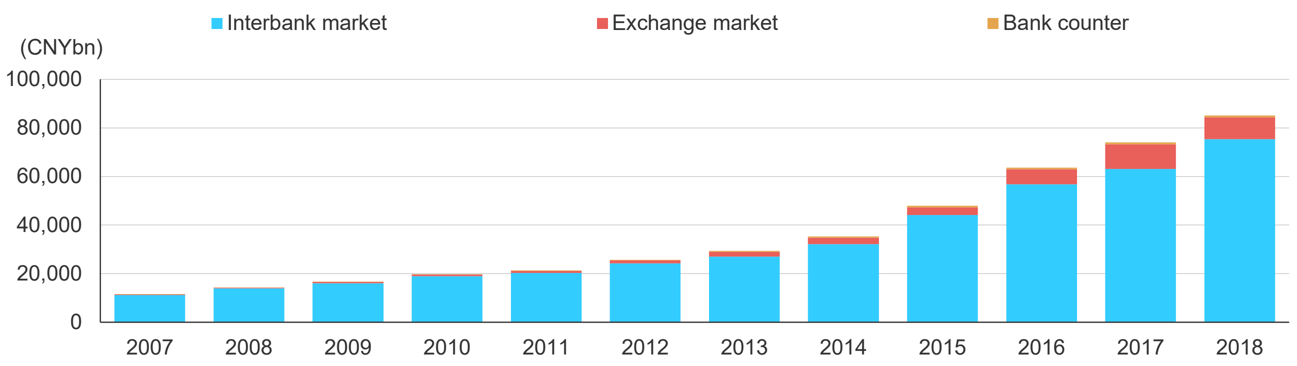
Government supported bonds: bonds issued by stated-owned China Railway Corporation and Central Huijin Investment Ltd. and fully backed by the Chinese government
Source: Shanghai Clearing House, China Central Depository and Clearing

Appendix I: China's Bond Market Structure

The Interbank Market

The interbank bond market, formed in 1997, is a quota-driven, over-the-counter (OTC) market and is the largest among all three markets, standing at CNY75.3 trillion (USD11.1 trillion) as of end-2018 and accounting for 87.9% of total bonds outstanding and 98.9% of trading volume in 2018.

Outstanding Balance of Interbank, Exchange, Bank Counter Market



Source: Wind Info, SH Clearing, Chinaclear

Major Types of Bonds in the Interbank Market

Bond Type	Regulator	Maturity	Type of Issuers
CGB	MoF	3 months to 50 years	Ministry of Finance (MoF)
Central bank bills	PBoC	3 months to 3 years	PBoC
Policy bank bonds	State Council	6 months to 50 years	Policy banks: China Development Bank (A+/Stable), Agricultural Development Bank of China (A+/Stable), The Export-Import Bank of China (A+/Stable)
Local government bonds	State Council	3 years, 5 years, and 7 years	Provinces, municipalities, and autonomous regions approved by the State Council
NCDs	PBoC, CBRC	Less than 1 year	Commercial banks
Financial bonds	PBoC, CBRC	1 month to 20 years	Commercial banks; non-bank financial institutions
Enterprise bonds	NDRC	3 years to 30 years	Non-financial corporates (mainly SOEs including LGFVs)
SCP/CP	NAFMII	Less than 1 year	Non-financial corporates
MTN	NAFMII	2 years to 15 years	Non-financial corporates
PPN	NAFMII	Less than 1 year to 7 years	Non-financial corporates (mainly SOEs)
ABN	NAFMII	3 years to 5 years	Non-financial corporates (mainly LGFVs and SOEs in utility sector)
ABS	PBoC, CBRC	6 months to 32 years	Commercial banks; non-bank financial institutions

[a] SMEs jointly defined by Ministry of Industry and Information Technology, National Bureau of Statistics, NDRC and MoF.
Source: MoF, PBoC, NDRC, CSRC, CBRC, Wind Info

Investors

Domestic institutional investors mainly trade in the interbank bond market and are divided into three groups. Commercial banks, defined as Group A (甲类户), are the dominant market participants accounting for 61.3% of trading volumes in the interbank market in 2018. Non-bank financial institutions – including credit unions, securities companies and investment management firms – are defined as Group B (乙类户), while non-financial corporates are defined as Group C (丙类户). The interbank market is not directly accessible to retail investors.

The Stock Exchange Market

This is an order-driven market, where bonds are traded, alongside equities, on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, and trading is conducted based on tender prices. The amount of exchange-traded bonds reached CNY9.0 trillion (USD1.3 trillion) or 10.5% of total outstanding bonds as of end-2018.

Exchange corporate bonds and convertible bonds are issued and traded exclusively on the exchange market. Central government bonds can be issued and traded in both the interbank and exchange markets. While enterprise bonds are issued in the interbank market, they can be listed and traded in the exchange market as well.

Investors

Non-bank financial institutions such as investment management firms are the primary investors on the exchange market. Retail investors are also eligible to trade on the exchange market.

Bank Counters

The bank counter market was founded in 2002, and is dominated by retail investors and non-financial corporates. Central government bonds represented 98.7% of total bonds outstanding in the bank counter market as of end-2018. Policy bank bonds, government-supported bonds and enterprise bonds (mainly those issued by central SOEs) are also traded in this market.

Major Types of Bonds in the Stock Exchange Market

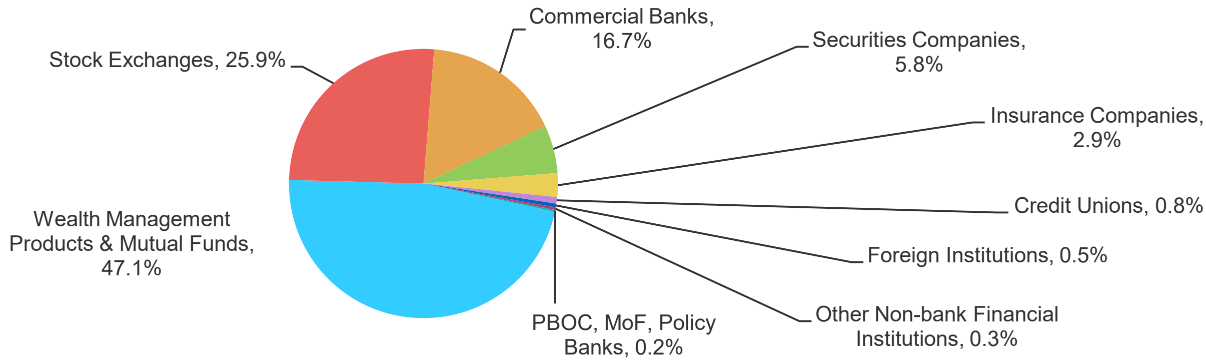
Bond Type	Regulator	Maturity	Type of Issuers
CGB	MoF	3 months to 50 years	Ministry of Finance (MoF)
Local government bonds	State Council	3 years, 5 years, and 7 years	Provinces, municipalities, and autonomous regions approved by the State Council
Financial bonds	PBoC, CBRC	1 month to 20 years	Commercial banks; non-bank financial institutions
Exchange corporate bonds	CSRC	1.5 year to 15 years	All corporates
Convertible bonds	CSRC	2 years to 8 years	Listed companies
Enterprise bonds	NDRC	3 years to 30 years	Non-financial corporates (mainly SOEs including LGFVs)
SMEPPN	CSRC	1 year to 5 years	Unlisted SMEs[a] (excluding real estate and financial corporates)
ABS	PBoC, CBRC	6 months to 8 years	Commercial banks; non-bank financial institutions

[a] SMEs jointly defined by Ministry of Industry and Information Technology, National Bureau of Statistics, NDRC and MoF. .
Source: MoF, PBoC, NDRC, CSRC, CBRC, Wind Info

Appendix II: Investor Base in Onshore Corporate Bonds

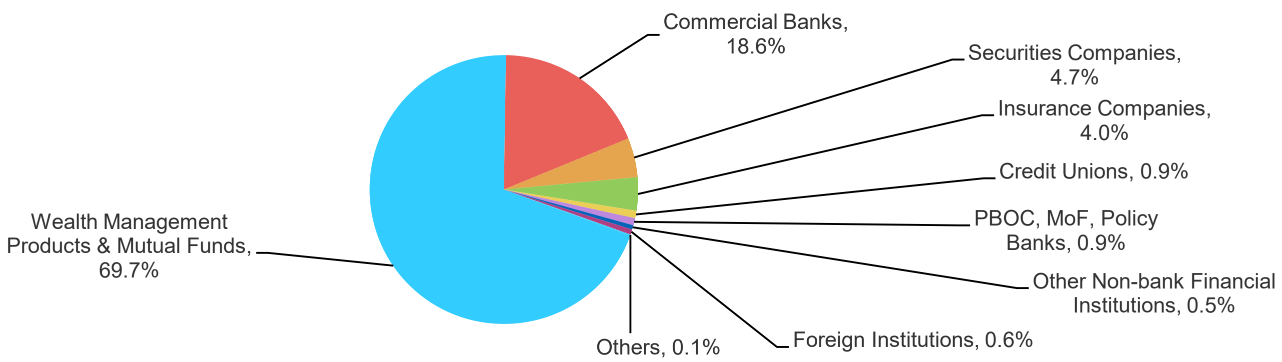
Commercial banks, along with wealth-management products (WMPs), dominate the investor base. WMPs are issued by commercial banks as a tool to obtain funds, and offer more attractive yields than deposit rates. Banks usually hire asset-management firms to manage the proceeds. Most of the WMPs are not principal guaranteed, so banks keep them off their balance sheets.

Share of Outstanding MTNs Held by Investor Type



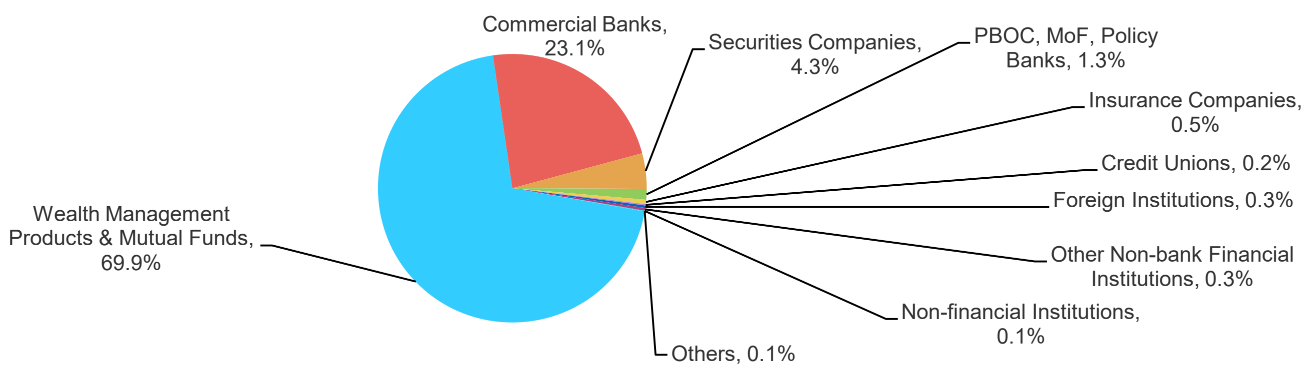
As of end-2018
Source: Chinabond, SH Clearing

Share of Outstanding Enterprise Bonds Held by Investor Type

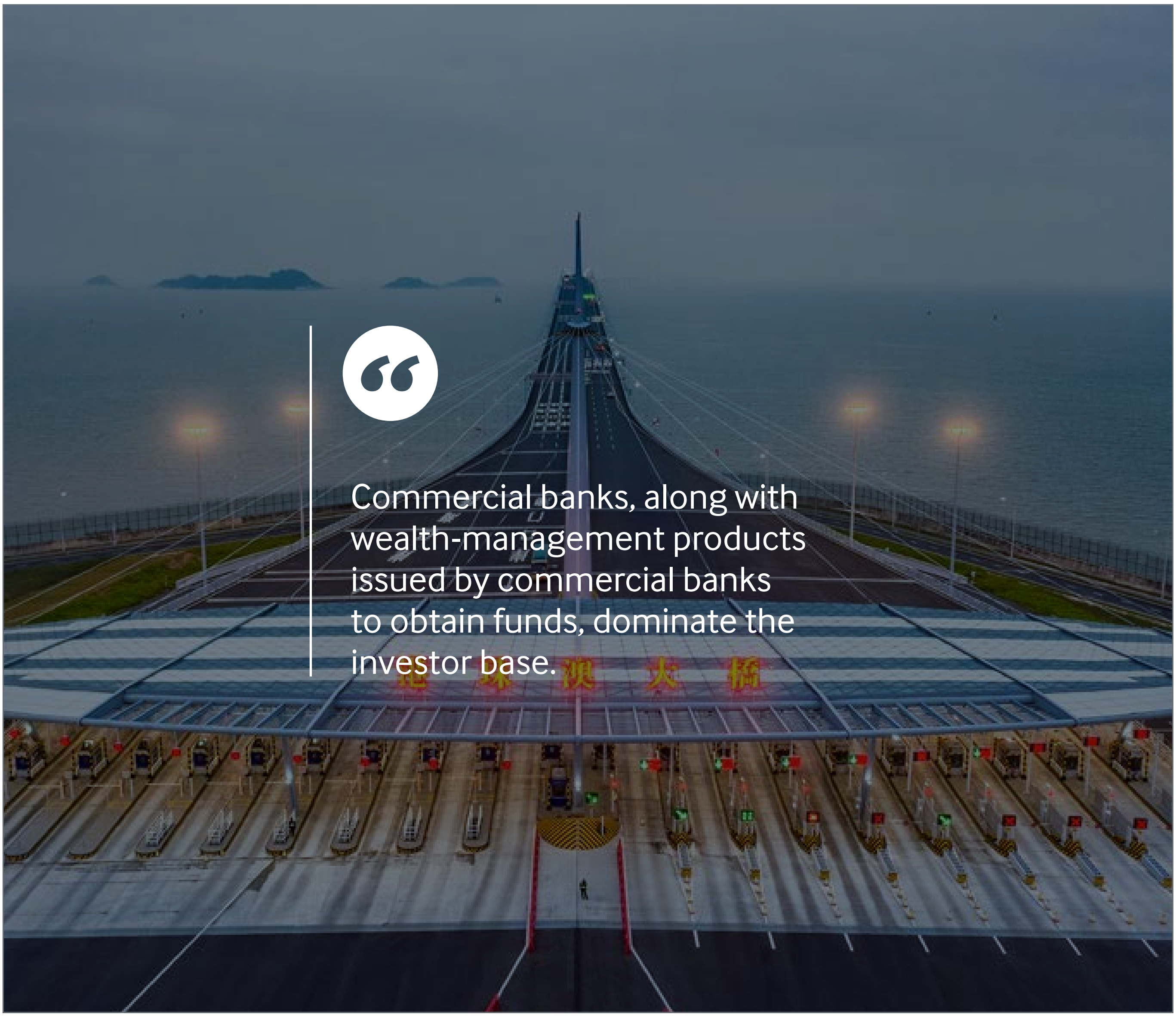


As of end-2018
Source: Chinabond, SH Clearing

Share of Outstanding CP Held by Investor Type



As of end-2018
Source: Chinabond, SH Clearing



Appendix III: Administrative Measures for Exchange Corporate Bond Issuance, January 2015

Issuing Entities	All corporates
Public Issuance	Available to all investors: 1) no track record of defaults in any debt over the past three years; 2) average net income available to shareholders no less than 1.5x the annual coupon; 3) 'AAA' domestic bond rating
	Otherwise available to qualified investors only
	Subject to CSRC's approval which should last for no longer than three months
Private Placement	Available to no more than 200 qualified investors, or issuing entity's senior management or shareholders owning over 5% of an issuing entity's equities
	Credit ratings are not compulsory
	Need to file with the Securities Association of China within five days following the completion of issuance
Qualified Investors	1) Financial institutions, and their wealth management products
	2) Corporates, public institutions, and partnership enterprises with net assets no less than CNY10 million
	3) Social security funds, enterprise annuities, and charity funds
	4) Individual investors with financial assets no less than CNY3 million

Source: CSRC

Appendix IV: Corporate Panda Bond Issuers

Issuer Name	Sector	Outstanding Amount (CNYbn)	Domestic Issuer Rating
Abc International Holding Co., Ltd.	Multi-Sector Holdings	3.0	AAA
Agile Group Holdings Limited	Real Estate Development	7.0	AAA
Bank of China Group Investment Limited	Multi-Sector Holdings	4.5	AAA
Beijing Enterprises Clean Energy Group Limited	Electric Utilities	1.0	AA+
Beijing Enterprises Water Group Limited	Water Utilities	14.0	AAA
CAR Inc.	Trucking	1.0	AA+
China Everbright Water Limited	Environmental & Facilities Services	1.8	AAA
China Gas Holdings Ltd.	Gas Utilities	8.3	AAA
China Huiyuan Juice Group Limited	Packaged Foods & Meats	0.1	n.a.
China Jinmao Holdings Group Limited	Real Estate Development	8.0	AAA
China Merchants Port Holdings Company Limited	Marine Ports & Services	3.0	AAA
China Power Clean Energy Development Company Limited	Independent Power Producers & Energy Traders	0.8	AAA
China Power International Development Limited	Independent Power Producers & Energy Traders	2.0	AAA
China Resources Cement Holdings Limited	Construction Materials	3.0	AAA
China Resources Land Limited	Real Estate Development	20.0	AAA
China traditional Chinese Medicine Holdings Co. Limited	Chinese Traditional Medicine	4.5	AAA
China Water Affairs Group Limited	Water Utilities	0.2	n.a.
Citic Pacific Limited	Industrial Conglomerates	1.0	AAA
Country Garden Holdings Co. Ltd	Real Estate Development	15.1	AAA
Daimler AG	Automobile Manufacturers	27.0	n.a.
GLP China Holdings Limited	Multi-Sector Holdings	17.8	AAA
Hang Lung Properties Ltd.	Diversified Real Estate Activities	1.0	AAA
Hengan International Group Company Limited	Personal Products	2.0	AAA
Hopson Development Holdings Ltd.	Real Estate Development	2.0	AAA
Joy City Property Limited	Diversified Real Estate Activities	1.0	AAA
KWG Group Holdings Limited	Real Estate Development	11.3	AAA
Longfor Group Holdings Limited	Real Estate Development	2.0	AAA
Poly Real Estate Group Co.,Ltd (Shanghai)	Real Estate Development	0.7	AAA
Powerlong Real Estate Holdings Limited	Real Estate Development	3.0	AA+
Semiconductor Manufacturing International Corporation	Semiconductors	1.5	AAA
Shenzhen International Holdings Limited	Highways & Railtracks	5.0	AAA
Shimao Property Holdings Ltd.	Real Estate Development	8.7	AAA
Sino-Ocean Group Holding Limited	Real Estate Development	10.0	AAA
Skyworth Digital Holdings Ltd.	Consumer Electronics	2.0	AA+
Sun Hung Kai Properties Ltd.	Diversified Real Estate Activities	1.2	AAA
The Wharf (Holdings) Limited	Diversified Real Estate Activities	6.0	AAA
United Company RUSAL Plc	Aluminum	1.5	AA+
Veolia Environnement SA	Multi-Utilities	2.0	n.a.
Want Want China Holdings Limited	Packaged Foods & Meats	0.5	n.a.
Yuexiu Transport Infrastructure Limited	Highways & Railtracks	2.0	AAA
Yuzhou Properties Co. Ltd.	Real Estate Development	3.0	AA+

As of end-2018
Source: Wind Info

Appendix V: Onshore Corporate Bond Defaults

Company Name	Sector	Company Type	First Default Date	Principal Amount (CNYbn)	Latest Status
GCL System Integration Technology Co., Ltd.	Semiconductors	Non-SOE	05-Mar-14	1.00	Repaid in full on 22 Dec 2014
Xuzhou Zhongsen Tonghao New Board Co., Ltd.	Building Products	Non-SOE	28-May-14	0.18	Repaid the interest due 28 Mar 2014 on 9 May 2014
Huzhou Jintai Science and Technology Co.,Ltd.	Metals & Nonmetals	Non-SOE	23-Jul-14	0.03	Issuer entered into reorganisation on 12 Mar 2015; no further updates
Tianjin TianlianBinhai Composite Material Co., Ltd.	Building Products	Non-SOE	31-Jul-14	0.05	Issuer has yet to repay the defaulted bonds
Huazhu (quanzhou) Shoes Industry Co., Ltd.	Footwear	Non-SOE	25-Aug-14	0.08	Issuer has yet to repay the defaulted bonds
Dongfei Mazuoli Textile Machinery Co., Ltd.	Industrial Machinery	Non-SOE	27-Jan-15	0.26	Issuer has yet to repay the defaulted bonds
AnhuiLanbowang Machinery Group Co., Ltd.	Construction & Farm Machinery & Heavy Trucks	Non-SOE	04-Feb-15	0.06	Issuer has yet to repay the defaulted bonds
Suqian Enrichment Leather Co., Ltd.	Apparel, Accessories & Luxury Goods	Non-SOE	05-Feb-15	0.15	Issuer has yet to repay the defaulted bonds.
Cloud Live Technology Group Co., Ltd.	Restaurants	Non-SOE	07-Apr-15	0.48	Repaid in full on 15 Mar 2016
Bohong Group Co., Ltd.	Industrial Conglomerates	Non-SOE	12-Apr-15	0.40	Repaid in full on 13 Apr 2015
Baoding Print-Rite Group Co., Ltd.	Electrical Components & Equipment	SOE	21-Apr-15	4.50	Issuer is still working with the administrator on the reorganisation plan and seeking strategic investors
Zhuhai Zhongfu Enterprise Co.,Ltd	Metal & Glass Containers	Non-SOE	25-May-15	1.18	Repaid in full on 28 May 2015 and 1 Jun 2017, respectively
Yancheng Dahong Textile Group Co., Ltd.	Textiles	Non-SOE	15-Jul-15	0.30	Repaid in full on 15 Jul 2015
Chongqing Fuxing Door Co., Ltd.	Building Products	Non-SOE	07-Aug-15	0.50	Issuer has yet to repay the defaulted bonds
Shanghai Municipal Construction M&E Installation Co., Ltd.	Construction & Engineering	Non-SOE	24-Aug-15	0.16	Issuer postponed the repayment until 31 December 2017 but has yet to repay the bond
China National Erzhong Group Co., Ltd.	Industrial Machinery	SOE	15-Sep-15	1.00	Repaid in full on 15 Sep 2015
Jilin Grain Group Collect and Store Distribution Co., Ltd.	Trading Companies & Distributors	SOE	15-Sep-15	0.30	Issuer has yet to repay the defaulted bonds
Baoding Tianwei Yingli New Energy Resources Co., Ltd.	Semiconductors	Non-SOE	13-Oct-15	2.40	In reorganisation. Issuer claimed to seek strategic investors while accelerating asset disposal and improving operating cash flow
Sinosteel Group Corporation Limited	Steel	SOE	19-Oct-15	2.00	Repaid in full on 20 Oct 2017
Inner Mongolia Nailun Agricultural Science and Technology Co., Ltd.	Packaged Foods & Meats	Non-SOE	28-Oct-15	0.25	Issuer has yet to repay the defaulted bonds
Zhejiang Pinghu Hualong Industry Co., Ltd.	Industrial Conglomerates	Non-SOE	29-Oct-15	0.01	Repaid in full on 17 Dec 2015

As of end-January 2019
Source: Wind Info, Shanghai Clearing House, China Central Depository & Clearing, National Association of Financial Market Institutional Investors, National Interbank Funding Centre

Company Name	Sector	Company Type	First Default Date	Principal Amount (CNYbn)	Latest Status
Shandong Shanshui Cement Group Limited	Construction Materials	Non-SOE	12-Nov-15	6.80	Repaid principal amount of CNY1.2bn as of end-July 2018
Sichuan Shengda Group Co., Ltd.	Coal & Consumable Fuels	Non-SOE	07-Dec-15	0.30	Issuer has yet to repay the defaulted bonds. Bondholders have filed petition for repayment. Some of the issuer's pledge failed to be auctioned off in September 2017.
Shandong Binzhou Xintianyang Chemical Co., Ltd.	Commodity Chemicals	Non-SOE	20-Dec-15	0.20	Repaid in full on 30 Jun 2016
Shaanxi Guode Electric Co., Ltd.	Electrical Components & Equipment	Non-SOE	25-Dec-15	0.15	Issuer entered into reorganisation on 22 Nov 2016; no further updates
Yabang Investment Holding Group Co., Ltd.	Industrial Conglomerates	Non-SOE	14-Feb-16	0.40	Repaid in full on 10 Mar 2016 and 24 Mar 2017, respectively
Shanghai Yunfeng Group Co., Ltd.	Trading Companies & Distributors	SOE	29-Feb-16	6.60	Issuer has yet to repay the defaulted bonds.
Zhong Heng Tong (Fujian) Machinery Manufacturing Co., Ltd.	Auto Parts & Equipment	Non-SOE	29-Feb-16	0.05	Issuer entered into liquidation on 13 Jun 2018 as creditors voted against the reorganisation plan
Zibo Hongda Mining Co., Ltd.	Metals & Nonmetals	Non-SOE	08-Mar-16	0.40	Repaid in full on 11 Mar 2016
Guangxi Non-Ferrous Metal Group Co., Ltd.	Metals & Nonmetals	SOE	09-Mar-16	1.00	Issuer entered into liquidation on 12 Sep 2016 as creditors voted against the reorganisation plan.
China Newstar Energy Co., Ltd.	Oil & Gas Equipment & Services	Non-SOE	10-Mar-16	0.06	Issuer has yet to repay the defaulted bonds.
Jiangsu Zhonglian Logistics Co., Ltd.	Air Freight & Logistics	Non-SOE	13-Mar-16	0.02	Issuer is in the reorganisation process.
Nanjing Yurun Food Co., Ltd.	Packaged Foods & Meats	Non-SOE	17-Mar-16	1.50	Repaid in full on 31 Mar and 16 May 2016, respectively
Dongbei Special Steel Group Co., Ltd.	Steel	SOE	28-Mar-16	7.17	The Intermediate People's Court of Dalian approved the reorganisation plan on 11 August 2017. Mr Wenrong Shen has become the largest shareholder, owning 43% of the issuer after reorganisation
Shanxi Huayu of Chinacoal Co., Ltd.	Coal & Consumable Fuels	SOE	06-Apr-16	0.60	Repaid in full on 13 Apr 2016
Inner Mongolia Nailun Group Co., Ltd.	Packaged Foods & Meats	Non-SOE	04-May-16	0.80	Repaid in full on 4 May 2018
Tianjin Taiheng Gas Co., Ltd.	Industrial Gases	Non-SOE	10-May-16	0.08	Issuer has yet to repay the defaulted bonds
Evergreen Holding Group Co., Ltd.	Construction & Farm Machinery & Heavy Trucks	Non-SOE	16-May-16	0.94	Issuer has yet to repay the defaulted bonds. Most of its assets have been preserved due to creditors' petitions
Sichuan Coal Industry Group Limited Liability Company	Coal & Consumable Fuels	SOE	15-Jun-16	5.25	Issuer is still seeking support from the Sichuan provincial government. Repaid the defaulted CP amounting to CNY1bn in full on 27 July 2016
Henan Jiayuan Dairy Industry Co., Ltd.	Packaged Foods & Meats	Non-SOE	28-Jul-16	0.15	Issuer has yet to repay the defaulted bonds

As of end-January 2019
Source: Wind Info, Shanghai Clearing House, China Central Depository & Clearing, National Association of Financial Market Institutional Investors, National Interbank Funding Centre

Company Name	Sector	Company Type	First Default Date	Principal Amount (CNYbn)	Latest Status
Wuhan Guoyu Group Co., Ltd.	Air Freight & Logistics	Non-SOE	08-Aug-16	0.60	Issuer has yet to repay the defaulted bonds. Some trade creditors and banks have filed petition for repayment
Jinxiang County Huaguang Food Import&Export Co., Ltd.	Agricultural Products	Non-SOE	21-Sep-16	0.02	Issuer has yet to repay the defaulted bonds
Laiwu Xintong Printing Equipment Co., Ltd.	Commercial Printing	Non-SOE	03-Nov-16	0.10	Issuer has yet to repay the defaulted bonds
Hebei Logistics Industry Group Co., Ltd.	Air Freight & Logistics	SOE	17-Nov-16	0.15	Repaid in full on 18 Nov 2016
Dalian Machine Tool Group Co., Ltd.	Industrial Machinery	Non-SOE	21-Nov-16	4.00	Debt claims from 1,085 creditors amounted to CNY27.3bn as of end-January 2019. The reorganisation plan was submitted to Dalian Intermediate Court on 10 August 2018
China City Construction Holding Group Company	Construction & Engineering	Non-SOE	28-Nov-16	16.15	Some bondholders have filed a petition for asset preservation. The second bondholders' meeting was postponed due to disputes between two major shareholders
The Inner Mongolia Berun Group Co., Ltd.	Commodity Chemicals	Non-SOE	05-Dec-16	3.80	Issuer has sold the defaulted bonds to Cinda Asset Management's Inner Mongolia branch
Guangzhou SCUT Bestry Technology Co., Ltd.	Commodity Chemicals	SOE	16-Dec-16	0.20	Repaid the interest due 16 Dec 2016 on 14 Jul 2017
Nanshan Group Co., Ltd.	Industrial Conglomerates	Non-SOE	13-Mar-17	0.80	Repaid the amount sold back by bondholders on 22 Mar 2017
Xinyang Hongchang Pipeline Gas Engineering Co., Ltd.	Gas Utilities	Non-SOE	19-Jun-17	0.70	Issuer has repaid the individual investors that exercised the put option on 20 Jun 2017 but has yet to disclose whether it has repaid institutional investors
Huzhou Lihua Yujie Union Textile Co., Ltd.	Synthetic Fiber	Non-SOE	10-Aug-17	0.26	Issuer has yet to repay the defaulted bonds
WuYang Construction Group Co., Ltd.	Construction & Engineering	Non-SOE	14-Aug-17	1.36	Shaoxing Intermediate Court accepted the reorganisation petition on 4 December 2018
Dandong Port Group Co., Ltd.	Marine Ports & Services	Non-SOE	30-Oct-17	7.40	The Liaoning Higher People's Court has frozen the issuer's assets amounting to CNY2.7 billion on 21 May 2018. Issuer is negotiating a reorganisation plan with potential investors
Elion Resources Group Co., Ltd.	Industrial Conglomerates	Non-SOE	21-Nov-17	1.50	Repaid in full on 22 Nov 2017
Shandong Haiyibao Aquatic Products Co., Ltd.	Agricultural Products	Non-SOE	24-Nov-17	0.15	Issuer has yet to repay the defaulted bonds
Jiangsu Protruly Vision Technology Group Co., Ltd.	Electronic Equipment & Instruments	Non-SOE	01-Dec-17	1.20	A trade creditor filed a reorganisation petition with Shenzhen Intermediate Court on 8 June 2018

As of end-January 2019
Source: Wind Info, Shanghai Clearing House, China Central Depository & Clearing, National Association of Financial Market Institutional Investors, National Interbank Funding Centre

Company Name	Sector	Company Type	First Default Date	Principal Amount (CNYbn)	Latest Status
Bright Oceans Co., Ltd.	Industrial Conglomerates	Non-SOE	27-Jan-18	3.60	Issuer is negotiating reorganisation plan with potential investors, and has disclosed to major bondholders
Shenwu Environmental Technology Co., Ltd.	Industrial Machinery	Non-SOE	15-Mar-18	0.45	Issuer has yet to repay the principal sold back by bondholders, and interest due
Rich Bird Co., Ltd.	Footwear	Non-SOE	23-Apr-18	2.10	The first creditors' meeting was held on 13 November 2018
China Security Co., Ltd.	IT Consulting & Other Services	Non-SOE	07-May-18	0.09	Repaid in full on 14 Sep 2018
Kaidi Ecological and Environmental Technology Co., Ltd.	New Energy Power Producers	Non-SOE	07-May-18	3.44	Creditors committee has been established; issuer has yet to repay the defaulted bonds
Cefc Shanghai International Group Limited	Oil & Gas Refining & Marketing	Non-SOE	21-May-18	28.10	Some bondholders have filed repayment petitions with local courts
Sun Shuine Kaidi New Energy Group Co., Ltd.	Multi-Sector Holdings	Non-SOE	01-Jun-18	1.80	Issuer has yet to repay the interest due 1 Jun 2018
Zhongrong Shuangchuang (Beijing) Technology Group Co., Ltd.	Aluminum	Non-SOE	13-Jun-18	1.20	The first creditors' meeting was held on 26 December 2018
Wintime Energy Co., Ltd.	Coal & Consumable Fuels	Non-SOE	05-Jul-18	14.23	Some bondholders have filed petitions for repayment with the Yunnan Higher Court and Shanghai Higher Court
Yongtai Group Co., Ltd.	Coal & Consumable Fuels	Non-SOE	05-Jul-18	1.00	Financial institutional creditors committee was established on 23 August 2018
Leshi Internet Information & Technology Corp., Beijing	Internet Software & Services	Non-SOE	03-Aug-18	0.07	Issuer has yet to repay the defaulted bonds
The 6th.Engineering Bureau of CCIN Co., Ltd.	Industrial Conglomerates	SOE	13-Aug-18	1.05	Issuer has yet to repay the defaulted bonds
Xinjiang Production and Construction Corps sixth state-owned Assets Management Co., Ltd.	Industrial Conglomerates	SOE	13-Aug-18	0.50	Repaid in full on 15 August 2018
Jinhong Holding Group Co., Ltd.	Gas Utilities	Non-SOE	23-Aug-18	0.80	Repaid the interest due 27 August 2018 on 29 December 2018, but yet to repay the principal sold back by bondholders
Haikou Meilan International Airport Co., Ltd.	Airport Services	SOE	24-Aug-18	1.00	Repaid in full on 27 August 2018
Yinji Entertainment and Media Co., Ltd.	Advertising	Non-SOE	10-Sep-18	0.40	Issuer failed to repay the principal and interest due 10 September 2018
Jilin Liyuan Precision Manufacturing Co., Ltd.	Aluminum	Non-SOE	25-Sep-18	0.74	Issuer failed to repay the interest due 22 September 2018
Neoglory Co., Ltd.	Multi-Sector Holdings	Non-SOE	25-Sep-18	8.92	The first bondholders' meeting was held on 14 December 2018
TOPIN GROUP Co., Ltd.	Packaged Foods & Meats	Non-SOE	25-Sep-18	0.15	Repaid in full on 26 September 2018

As of end-January 2019
Source: Wind Info, Shanghai Clearing House, China Central Depository & Clearing, National Association of Financial Market Institutional Investors, National Interbank Funding Centre

Company Name	Sector	Company Type	First Default Date	Principal Amount (CNYbn)	Latest Status
Gangtai Group Co., Ltd.	Gold	Non-SOE	26-Sep-18	1.50	Issuer failed to repay the principal sold back by bondholders and interest due 2 November 2018.
China Huayang Economic and Trade Group Co., Ltd.	Catalog Retail	SOE	30-Sep-18	5.80	Some bondholders have filed repayment petitions with local courts
Wuxi Wuzhou Ornament City Co., Ltd.	Building Products	Non-SOE	04-Oct-18	2.50	Issuer has yet to repay the defaulted bonds
Anhui Shengyun Environment-Protection Group Co., Ltd.	Environmental & Facilities Services	Non-SOE	09-Oct-18	1.16	Issuer failed to repay the principal and interest due 20 November 2018, which was triggered by the default on its short-term CP
Dalian golden mall Enterprise Group Co., Ltd.	General Merchandise Stores	Non-SOE	12-Oct-18	0.92	Issuer failed to repay the interest due 15 November 2018
Beijing Huaye Capital Holdings Co., Ltd.	Real Estate Development	Non-SOE	15-Oct-18	0.50	The first bondholders' meeting was held on 26 October 2018
Ningxia On The Hill Industry (Group) Co., Ltd.	Industrial Conglomerates	Non-SOE	15-Oct-18	0.50	Issuer filed a reorganisation petition with Yinchuan Intermediate People's Court on 24 October 2018
Pegasus Klc Holdings Ltd.	Multi-Sector Holdings	Non-SOE	15-Oct-18	2.00	Issuer failed to repay the principal sold back by bondholders and interest due on four exchangeable bonds in October 2018
Zhonghong Holding Co., Ltd.	Real Estate Development	Non-SOE	18-Oct-18	2.57	Issuer claimed to repay the debt due through disposing assets and collecting receivables
Tongyi Industry Group Co., Ltd.	Oil & Gas Refining & Marketing	Non-SOE	22-Oct-18	0.45	Issuer has yet to repay the defaulted bonds
Sanding Holding Group Co., Ltd.	Industrial Conglomerates	Non-SOE	24-Oct-18	0.74	Repaid in full on 26 October 2018
Shenzhen Jinli Communication Equipment Co., Ltd.	Communications Equipment	Non-SOE	29-Oct-18	1.00	Issuer has yet to repay the defaulted bonds
Chuying Agro-Pastoral Group Co., Ltd.	Packaged Foods & Meats	Non-SOE	05-Nov-18	1.50	The first bondholders' meeting will be held on 14 January 2019
Division of Construction and Development Corporation	Construction & Engineering	SOE	19-Nov-18	1.50	Issuer has yet to repay the defaulted bonds
Eastar Holdings Group Co., Ltd.	Commodity Chemicals	Non-SOE	23-Nov-18	0.60	Repaid in full on 28 November 2018
Shandong Sea Group Co., Ltd.	Multi-Sector Holdings	Non-SOE	26-Nov-18	0.50	Bondholders need to report their claims to the reorganisation administrator by 8 January 2019
Shandong Jinmao Textile Chemicals Co., Ltd.	Commodity Chemicals	Non-SOE	26-Nov-18	1.63	Dongying Intermediate People's Court accepted the issuer's reorganisation petition and appointed the administrator on 26 November 2018
Shenzhen ET Investment Holding Group Co., Ltd.	Multi-Sector Holdings	Non-SOE	29-Nov-18	0.40	Issuer failed to repay the interest due 27 November 2018

As of end-January 2019
Source: Wind Info, Shanghai Clearing House, China Central Depository & Clearing, National Association of Financial Market Institutional Investors, National Interbank Funding Centre

Company Name	Sector	Company Type	First Default Date	Principal Amount (CNYbn)	Latest Status
Reward Scientific and Technological Industry Group Co., Ltd.	Packaged Foods & Meats	Non-SOE	06-Dec-18	1.80	The first bondholders' meeting was held on 25 December 2018
Long Yue Industrial Group Co., Ltd.	Research & Consulting Services	Non-SOE	06-Dec-18	1.50	Issuer failed to repay the interest due 6 December 2018
Jiangsu Hongtu High Technology Co., Ltd.	Computer & Electronics Retail	Non-SOE	07-Dec-18	1.30	The first bondholders' meeting was held on 26 December 2018
Beijing Shenwu Environment & Energy Technology Co., Ltd.	Environmental & Facilities Services	Non-SOE	15-Dec-18	1.75	Issuer failed to repay the interest due 15 December 2018
YINYI Co., Ltd.	Auto Parts & Equipment	Non-SOE	24-Dec-18	0.30	Issuer failed to repay the principal sold back by bondholders on 24 December 2018
Total (CNYbn)				188.19	

As of end-January 2019
Source: Wind Info, Shanghai Clearing House, China Central Depository & Clearing, National Association of Financial Market Institutional Investors, National Interbank Funding Centre

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