

# A Closer Look at Panda Bonds

September 20, 2024

## Market Overview

“Panda bonds” are RMB-denominated bonds issued by overseas entities publicly or privately in China’s interbank bond market, exchanges, and other over-the-counter markets.

Amid the relaxed restrictions on the proceeds to be used overseas and increasing cost advantages of onshore financing, panda bond issuance hit a new high at 154.45 billion RMB in 2023.

ANALYSTS

Dan Li

Beijing

Dan.li@spgchinaratings.cn

## Characteristics of Panda Bond Issuance

### 1. Types of Panda Bonds

(1) Overseas entities can choose different types of bonds to issue according to their specific business characteristics. Panda bonds dominate foreign entities’ issuance in the interbank bond market.

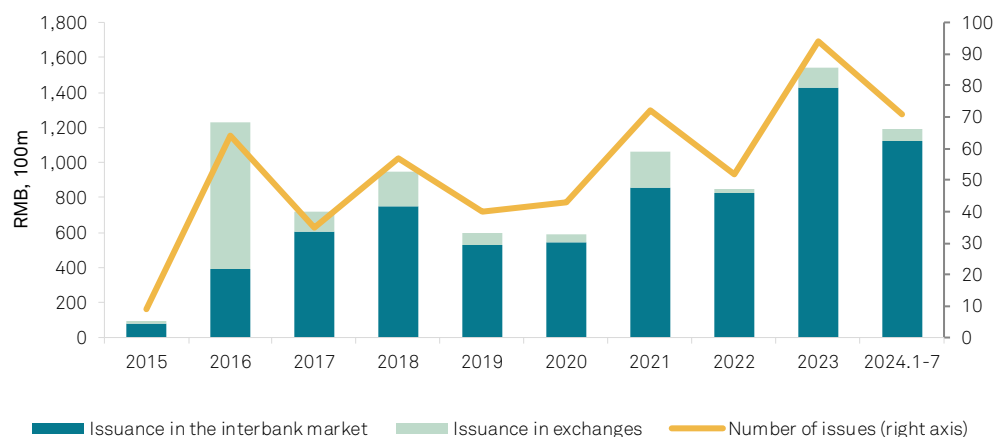
Table 1

Issuer Type	Bond Type	Trading Venue	Registration/ Approval Authority
International development institution	RMB Bond	The interbank market	The issuer should register with NAFMII.
Foreign government agency	RMB Bond	The interbank market	The issuer should register with NAFMII.
Financial institution	Financial institution bond	The interbank market	The issuer should get approval from PBOC.
Non-financial enterprise	Debt financing instrument	The interbank market	The issuer should register with NAFMII.
Non-financial enterprise	Corporate bond	Exchanges	The issuer should register with CSRC and get approval from exchanges.

Note: Debt financing instruments include but are not limited to medium-term notes (MTN), commercial papers (CP), super short-term commercial papers (SCP), private placement notes (PPN), perpetual notes, green bonds, social bonds, sustainability bonds, and sustainability-linked bonds. Corporate bonds include ordinary corporate bonds, private placement bonds, convertible bonds, and exchangeable bonds.

Chart 1

Panda Bond Issuance Overview

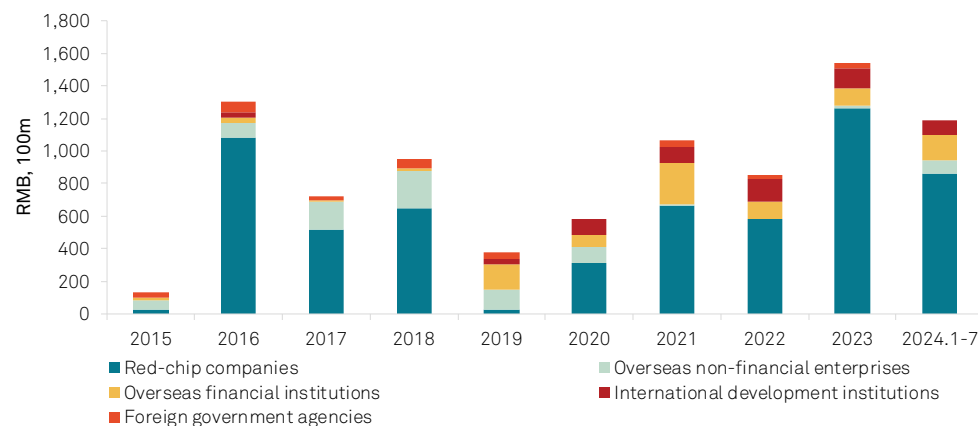


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Besides “red chip” companies (companies incorporated outside mainland China but operating mainly in China), panda bond issuers consist primarily of overseas financial institutions, overseas non-financial enterprises, international development institutions, and foreign government agencies. Issuance of overseas financial institutions and international development institutions has represented a prominent share of panda bond issuance in recent years. Issuance of overseas non-financial enterprises has fluctuated considerably but showed substantial improvement in 2024 compared to previous years. Most of these bonds were issued in the interbank market.

Chart 2

Panda Bond Issuance by Issuer Type



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## (2) Panda Bonds with Sustainable Development Themes

In its efforts to implement the 14<sup>th</sup> five-year plan and the 2030 Agenda for Sustainability Development, China's interbank market has launched panda bonds with sustainable development themes. These endeavors are aimed at establishing a good social image, improving ESG performance of China's capital markets, and attracting domestic and foreign investors who focus on sustainable development to invest in China's bond market.

Sustainability-themed bonds include two major categories and four sub-categories of products, including Green Bond, Social Bond, Sustainability Bond and Sustainability-linked Bond (collectively “GSSS Bonds”). Eligible issuers include overseas non-financial enterprises, foreign government agencies, and international development institutions.

The four core elements of GSSS bonds include use of proceeds, project evaluation and selection, management of proceeds, and information disclosure. An issuer can establish its framework for social bond or sustainability bond (the “framework”), and state that the envisaged bonds are consistent with the four core elements. An issuer who does not have a framework shall state in the prospectus for each bond issuance whether it meets the core elements. Debt financing instruments that meet the criteria for social bonds or sustainability bonds are eligible to be labeled as social or sustainability debt financing instruments. Issuers are encouraged to engage external evaluation agencies to perform external review on social bonds and sustainability bonds before the issuance.

Table 2

Bond Type	Use of Proceeds	Bond Structure	Issuer Type	Registration Method
Green Bond	Exclusively used for projects with significant environmental benefits.	No special structure	Overseas non-financial enterprises, foreign government agencies, and international development institutions.	These bonds are eligible for specific registration or can be labeled as GSSS bonds through mandatory process to change relevant terms and provide additional information, subject to the approved quota for the regular categories of bond products.
Social Bond	Exclusively used for projects with significant social benefits.	No special structure		
Sustainability Bond	Exclusively used for projects with significant environmental and social benefits.	No special structure		
Sustainability-linked Bond (SLB)	For general purpose	Linking bond terms to the issuer's sustainable development performance		

## 2. Flexible Issuance

### (1) Information Disclosure

The information disclosure rules for panda bonds set out by NAFMII ensure overseas issuers' compliance with regulatory requirements in the onshore market while at the same time allowing greater flexibility for them, so that they can keep consistent with global information disclosure standards.

Table 3

Information Disclosure	Features	Example (Issuance of debt financing instruments by overseas non-financial enterprises)
Language	Make differentiated arrangements according to investor groups, issuance stages, and the significance of disclosed documents to strike a balance between the translation cost of overseas issuers and the reading habits of domestic investors.	1. For All Market Issuance. Issuance stage: all the registration and offering documents shall be in Chinese or accompanied with a Chinese version. Duration stage: all information disclosed during the life of such debt financing instruments shall be, in principle, in Chinese. Where an overseas non-financial enterprise discloses information required under Article 25 of these Guidelines (i.e. periodic disclosure) in English on other securities markets, it shall, simultaneously or as soon as reasonably practicable thereafter, disclose such information in English on the National Interbank Bond Market and disclose the

Chinese version of the key contents of such information in accordance with the timeline outlined in its registration and offering documents. Where an overseas non-financial enterprise discloses information required under Article 26 of these Guidelines (i.e. disclosure of material events) in English on other securities markets, it shall, simultaneously or as soon as reasonably practicable thereafter, disclose such information in English on the National Interbank Bond Market, and disclose a Chinese version or a Chinese summary within seven (7) business days upon the disclosure of the English version.

2. Issuance stage: the principal registration and offering documents shall be in Chinese or accompanied with a Chinese version. Other documents may be disclosed in either Chinese or English as agreed between the issuer and the investors participating in such private placement. Duration stage: information disclosure during the life of such debt financing instruments may be made in Chinese or English as agreed between the issuer and the investors.

Contents	Draw on the experience in the EU wholesale bond market to make the form requirements for offering circulars simpler and more flexible than those for domestic issuers.
Disclosure frequency	Overseas issuers not preparing quarterly reports are allowed to disclose annual and semi-annual reports only.
Time of disclosure	Overseas issuers whose fiscal years are different from the calendar year are allowed to disclose their annual and semi-annual reports at the time specified in the prospectus.
Disclosure of material events	Overseas issuers are allowed to set criteria for disclosure of material events in the prospectus in a relatively flexible way.

## (2) Pricing and Allocation Mechanism

NAFMII allows more flexibility for panda bond issuance in terms of issuance amount and allocation mechanism. For issuance amount, issuers can determine the issue size based on the actual situation of the subscription order. If the subscription is very active, the issuance amount will be larger (but subject to the range of issuance amount stipulated in the prospectus). For bond allocation, issuers and bookkeepers can carry out bond placement according to the placement principles disclosed in advance, so that the issuance amount can be appropriately allocated to high-quality investors (e.g. long-term investors that may help stabilize prices, investors providing long-term support to the issuers in global markets, and investors that actively participated in quotation and subscribed to the offering early).

## 3. Issuer Eligibility

(1) Foreign non-financial enterprises and foreign financial institutions shall meet certain criteria for issuing panda bonds. Issuance mechanisms may vary among different types of entities.

Table 4

Issuer Type	Trading Venue	Entity Type	Issuance Requirements	Registration/Issuance Mechanism
Foreign non-financial enterprises	The Interbank market	Overseas seasoned enterprises	<p>1. High recognition in domestic and international markets, prominent industry standing, and a good credit record.</p> <p>2. Robust financial and operating performance with asset scale, capital structure, and profitability meeting relevant requirements (financial and operational conditions shall meet one of the following: 1) asset size exceeds RMB 100 billion or equivalent, debt-to-asset ratio is lower than 85%, and return on total assets exceeds 3%; or 2) asset size exceeds RMB 100 billion or equivalent, debt-to-asset ratio is lower than 75%, and revenue exceeds RMB 20 billion or equivalent).</p> <p>3. Equity securities are listed on major overseas stock exchanges, with continuous public disclosure over the past 12 months; rich experience in bond financing, with cumulative bond issuance totaling no less than RMB 10 billion or equivalent in the global markets over the past 36 months (for overseas enterprises with high recognition in domestic and international markets, prominent industry standing, good credit record, and high transparency, financial criteria such as the debt-to-asset ratio, return on total assets, and revenue can be appropriately adjusted if their total assets exceed RMB 300 billion or equivalent.).</p> <p>4. The issuer (and its guarantor, if any) has no record of default on its bonds or other material debt over the past 36 months; the issuer's controlling shareholders and subsidiaries have defaulted on their bonds.</p> <p>5. The issuer has not been prohibited from equity or bond financing due to material illegal or non-compliant activities over the past 36 months in relevant jurisdictions, and has not been fined by domestic and overseas securities regulatory authorities and exchanges, or received warnings or more severe punishment from dealers associations; the actual controller of the issuer (and its guarantor, if any) has not been subject to significant administrative or criminal penalties.</p>	The DFI registration mode can be applied, where the issuer can prepare one single registration document for the issuance of commercial papers, MTNs, perpetual notes, ABNs, and green debt financing instruments. Registration quota will not be set at the registration phase, and the specific product to be issued, and issuance scale and tenor will be determined at the issuance phase.
		Overseas unseasoned enterprises	Enterprises that don't meet the above requirements.	DFI mode may be applied. Registration quota needs to be specified at the registration phase if DFI mode is applied.
	Exchanges		1. The issuer has no record of bond defaults or delayed payments in principal and interest over the past three years.	The issuer can issue corporate bonds publicly.

		2. The issuer's average distributable profit over the past three years is no less than 1.5 times the annual interest on its bonds. 3. The issuer's net assets at the end of the latest reporting period are no less than RMB 25 billion. 4. The issuer has issued no fewer than 3 batches of bonds over the past 36 months, with total value of no less than RMB 10 billion.	
Foreign financial institutions	The interbank market	1. Actual paid-in capital is not less than RMB 10 billion or equivalent. 2. Sound corporate governance and comprehensive risk management system. 3. Solid financial stability and good credit quality, with track record of profit over the past three years. 4. Bond issuance experience and strong solvency. 5. Subject to effective oversight of financial regulatory authorities in the country or region, and meet key regulatory metrics associated with risks.	Financial bonds

(2) Credit ratings (including issuer credit rating and issue credit rating) on panda bonds are not mandatorily required by regulators. If an issuer discloses a credit rating report, the rating report should be issued by a rating agency recognized by regulators.

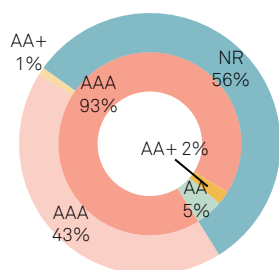
In practice, panda bonds having issuer ratings but without issue ratings account for about half of total number of issues, consisting mainly of SCPs, CPs, MTNs, corporate bonds, and financial bonds. Bonds without both issuer and issue ratings represent roughly 10% of total number of issues, comprising primarily bonds and targeted instruments issued by international development institutions (e.g. Asian Development Bank and Asian Infrastructure Investment Bank).

Among all panda bonds with issue ratings, only a few private placement bonds and corporate bonds issued before 2020 are assigned with ratings below AAA (including AA+ and AA upon issuance), while all other issues are rated AAA. For bonds having issuer ratings but not issue ratings, only two of them saw their issuers rated below AAA in history, while all other issuers were assigned with AAA.

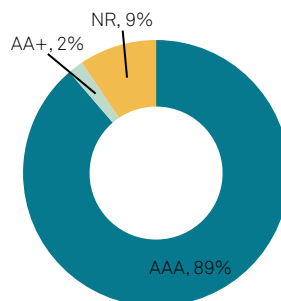
In 2023, 56% of panda bonds were issued without issue ratings while the remaining 44% had such ratings. Asian Infrastructure Investment Bank was the sole bond-issuing entity without both issuer and issue ratings. Out of the 51 bonds having issue ratings, only one private placement bond was assigned with issuer and issue ratings of AA+ respectively, while all other bonds were rated AAA. There was one entity that was rated AA but whose bond had a rating of AAA, as the parent made an irrevocable guarantee to support the issue. Among issuers of panda bonds without issue ratings, two entities had no issuer ratings, with their three bond issues backed by credit enhancements from AAA-rated guarantors, one entity was rated AA+ and the rest were rated AAA.

Chart 3

Panda Bond Ratings in 2023



Issuer Ratings for Issuers of Non-rated Issues in 2023



Note: Outer ring represents issue ratings and inner ring shows issuer ratings for issuers of rated issues.  
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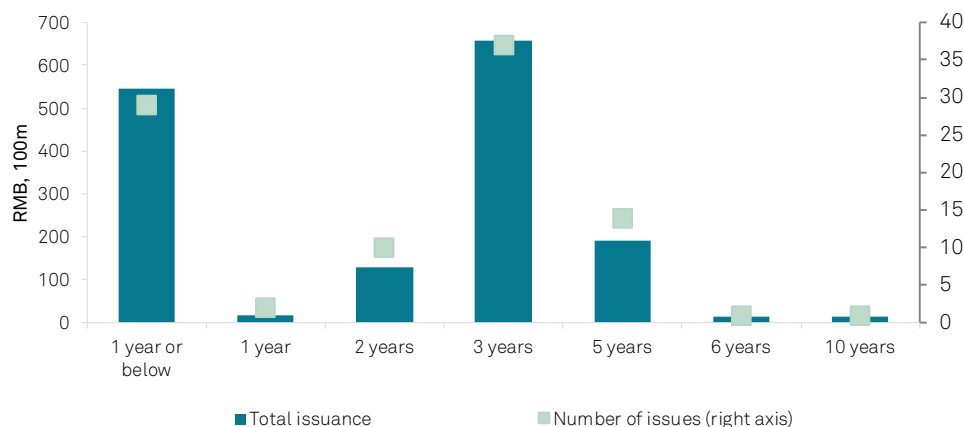
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#### 4. Bond Maturity

Panda bonds typically have a maturity within one year or of three years. Red-chip companies primarily issue panda bonds maturing within one year or in five years or longer, while foreign entities constitute the main issuers of 3-year bonds.

Chart 4

Panda Bond Maturity in 2023



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#### 5. Use of Proceeds

In 2022, the PBOC and the State Administration of Foreign Exchange jointly issued the Notice on Matters Concerning the Proceeds Management for Yuan-Denominated Bonds Issued by Overseas Issuers in China ("the Notice"). As such, the proceeds from panda bonds can be used for broader purposes overseas and issuers are encouraged to issue more panda bonds. The Notice states that overseas issuers may remit the proceeds from RMB bond issuance outward or retain them in China for use, provided that such proceeds are used in compliance with relevant provisions of the prospectus or other documents. If the overseas issuer retains the proceeds in China for use, such use should be subject to the rules and regulations governing foreign direct investment and foreign debts.

In 2023 and 2024, some overseas financial institutions and overseas non-financial enterprises have remitted the proceeds from panda bond issuance outward for overseas use.

Table 5

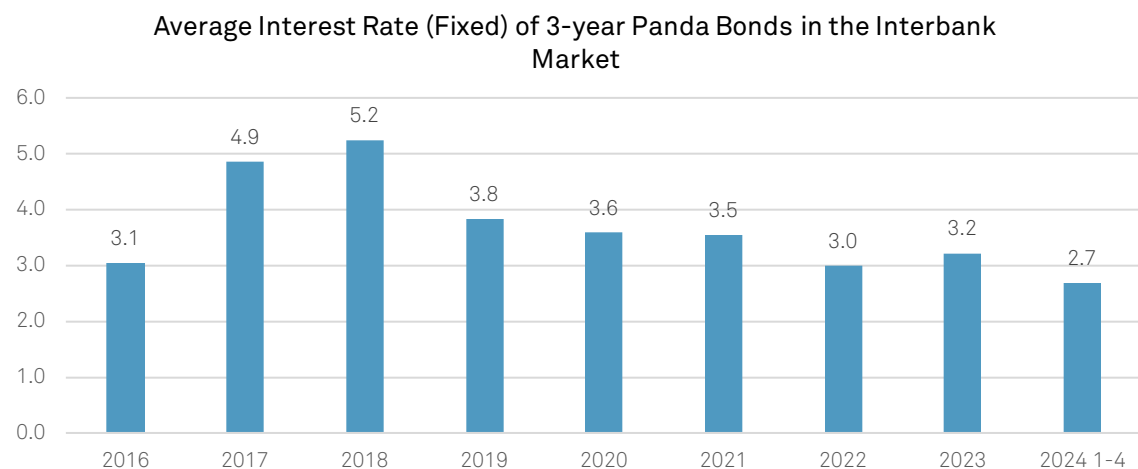
Bond Name	Issuance (RMB, 100m)	Interest Start Date	Issuer	Use of Proceeds
23 BMW China MTN001BC	30	2023-02-10	BMW China Capital B.V.	The proceeds from this MTN issuance will be used domestically or overseas for general purposes of the BMW Group (including but not limited to its subsidiaries in China).
23 TCCL MTN001BC	5	2023-06-12	TCCL (Finance) Limited	The net proceeds from the issuance of these notes will be used in full to repay overseas borrowings and other interest-bearing debts denominated in RMB held by the issuer and the guarantor.
23 MBF GN001BC	10	2023-06-12	Mercedes Benz Finance Limited	The net proceeds of 1 billion RMB from the bond issuance will be used in China and lent on to Mercedes-Benz Leasing Co., Ltd. (a subsidiary of the Mercedes-Benz Group incorporated in China) to support its NEV financial lease business.
23 Volkswagen MTN001BC	15	2023-09-25	Volkswagen International Finance N.V.	The net proceeds from the bond issuance will be used for general purposes in China.
24 CASA 01BC	25	2024-04-19	Crédit Agricole S.A.	Use of proceeds from the bond issuance: 1) a net amount of no less than 1 billion RMB will be retained in China to support the operations and development of the issuer and its subsidiaries in China. 2) the remaining proceeds may be remitted overseas and converted into other currencies (e.g. Euros) to support the operations and development of the issuer and its subsidiaries outside China, subject to relevant regulatory requirements and completion of procedures required by laws and regulations in China.
24 Shangri-La MTN001BC	10	2024-06-05	Shangri-La (Asia) Limited	The issuance amount of the MTN is 1 billion RMB. The proceeds raised will be used for repaying the issuer's interest-bearing debts overseas.
24 BASF MTN001BC	20	2024-06-07	BASF Ireland Designated Activity Company	The net proceeds from the bond issuance will be used for general purposes of the BASF Group in China (including but not limited to its subsidiaries in China).
24 Deutsche Bank 02	30	2024-06-11	Deutsche Bank AG	The net proceeds from the bond issuance are subject to the group's liquidity management and will be remitted overseas to the Group's treasury department to avoid unnecessary financing costs.
24 BMW China MTN001B(BC)	15	2024-06-19	BMW China Capital B.V.	The proceeds from this MTN issuance will be used for general purposes of the BMW Group in and outside China (including but not limited to its subsidiaries in China).
24 Bayer MTN001BC	20	2024-06-21	Bayer AG	The net proceeds from the bond issuance will be used for general purposes outside China.
24 NBC 01BC	35	2024-06-26	National Bank of Canada	The proceeds from the bond issuance will be used as the source of funds to support Canadian and international customers operating in China or trading with Chinese counterparties.



## 6. Cost Advantage for Panda Bond Issuance Over the Past Two Years

The financing cost in China's onshore market has continued to decline in recent years, in contrast to the rate hike in overseas markets. This has contributed to the financing advantage in China's onshore market, attracting more foreign entities as such.

Chart 5



Note: Our sample comprises 3-year panda bonds in the interbank market.

Table 6

Issuer	Onshore Bond Information				Offshore Bond Information			
	Bond Name	Maturity (year)	Issue rate (%)	Issue Date	Bond Name	Maturity (year)	Issue rate (%)	Issue Date
National Bank of Canada	24 NBC 02BC	2	2.13	2024-07-29	NACN 5.25% N20250117 (USD)	2.0027	5.25	2023-01-09
Shangri-La (Asia) Limited	24 Shangri-La MTN002B(BC)	5	2.50	2024-7-17	Shangri-La (Asia) 4.4% N20280801 (SGD)	5	4.40	2023-08-01
Deutsche Bank AG	23 Deutsche Bank 02	3	3.30	2023-11-30	Deutsche Bank 5.1% N20270301 (USD)	3	5.10	2024-02-16

Note: The repayment of Shangri-La (Asia) 4.4% N20280801 is secured by the irrevocable guarantee from Shangri-La (Asia) Limited.

## S&P Global (China) Ratings –Panda Bond Methodology

### 1. China Group Issuer (red-chip companies)

Panda Bonds issued by a China Group Issuer are typically rated using S&P Global (China) Ratings sector rating methodologies.

For example, if the issuer is a Malaysia based subsidiary of a China based metals and mining company, our analysis would typically be conducted using S&P Global (China) Ratings - Corporate Methodology and S&P Global (China) Ratings Supplemental Methodology – Materials Industry. There may be additional methodologies that may be applicable, such as S&P Global (China) Ratings Guarantee Methodology, amongst others.

We may also consider the general credit quality of the jurisdiction of domicile of the offshore issuer in our analysis, if we believe this may have implications for any rating we may assign. And we may also consider the importance of the issuer to its group or government to determine the degree of support it may receive, based on which we may adjust its issuer credit rating.

## 2. Foreign Issuer

For analyzing Foreign Issuers, we typically consider the credit opinion of S&P Global Ratings on that issuer and use such credit opinion as the starting point for S&P Global (China) Ratings' rating determination. We believe the robustness and standards of the analysis conducted by S&P Global Ratings to be sufficiently robust to be relied upon by S&P Global (China) Ratings.

Once we have an S&P Global Ratings opinion of the issuer's credit quality, we typically transform it into an S&P Global (China) Ratings credit rating using the following approach: where the Foreign Issuer has a credit quality that's equivalent to or higher than BBB category credit quality as determined by S&P Global Ratings, S&P Global (China) Ratings may assign an issuer credit rating of AAA<sub>spc</sub>. When the Foreign Issuer's credit quality declines, S&P Global (China) Ratings' issuer credit rating will be adjusted down accordingly. Where the Foreign Issuer has a credit quality that's equivalent to B category credit quality as determined by S&P Global Ratings, S&P Global (China) Ratings may assign a similar view of credit quality that falls within B<sub>spc</sub> category.

Where S&P Global Ratings has credit opinions on the related entities of the foreign issuer rather than on the foreign issuer itself, we may analyze the relationship between the foreign issuer and its related entities to determine the issuer credit rating on the issuer, which is typically equal to or lower than the issuer credit ratings on its related entities. Our assessment is based on the approach to group support analysis described in S&P Global (China) Ratings - Corporate Methodology or S&P Global (China) Ratings - Financial Institutions Methodology.

If S&P Global Ratings hasn't formed credit opinions on the foreign issuer or its related entities, we may apply S&P Global (China) Ratings sector rating methodologies and consider country risk and other factors to assign an issuer credit rating on the issuer.

**Appendix: List of Entities with Panda Bonds Outstanding as of the End of July 2024**

Country Garden Holdings Co., Ltd.	BMW Financial Services AG	China Everbright Water Limited	China Shipbuilding Group (Hong Kong) Shipping Leasing Co., Ltd.
GLP China Holdings Limited	Crédit Agricole S.A.	China Everbright Environment Group Limited	China Conch Holdings Limited
Beijing Enterprises Water Group Limited	Mercedes-Benz International Finance B.V.	Asian Infrastructure Investment Bank	Beijing Enterprises Holdings Limited
China Gas Holdings Limited	China Power International Development Limited	China Everbright Holdings Limited	China Traditional Medicine Holdings Co., Ltd.
Beijing Capital Environmental Protection Holdings Co., Ltd.	The State Treasury of the Republic of Poland (represented by the Minister of Finance)	ANTA Sports Products Limited	New World Development Company Limited
China Everbright Green Environment Co., Ltd.	Shenzhen International Holdings Limited	Industrial and Commercial Bank of China (Macau) Limited	Towngas Financing Co., Limited
New Development Bank	Bank of China Group Investment Limited	Deutsche Bank AG	3SBio Inc.
Yuexiu Transportation Infrastructure Co., Ltd.	Trafigura Pte Ltd.	China Resources New Energy Group Limited	Geely Automobile Holdings Limited
Asian Development Bank	Hungary	China Power International Limited	Beijing Energy International Holdings Co., Ltd.
SIIC Environment Holdings Ltd.	Li Auto Inc.	BMW (China) Capital Co., Ltd.	Volkswagen International Finance N.V.
Chong Hing Bank Limited	CGN International Limited	Zhejiang Energy International Co., Ltd.	Shangri-La Asia Limited
Ministry of Finance, Arab Republic of Egypt	Hengan International Group Co., Ltd.	China Resources Building Materials Technology Holdings Limited	BASF Ireland Designated Activity Company
State Grid Overseas Investment Co., Ltd.	CapitaLand Commercial Trust	CIMC Enric Holdings Limited	China Biologic Products Holdings Inc.
National Bank of Canada	Shougang Holdings Limited	Bayer AG	

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