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Securitization in China: Recent Developments

China has announced plans to launch a new pilot securitization program that will allow some Chinese commercial lenders to securitize financial assets.¹ Recent news reports indicate that the trial securitization program will involve up to \$7.9 billion of securitized assets.² Eligible assets are likely to include, among others, loans to local Chinese government financing vehicles, which would address what has been an area of significant concern.³ One academic advisor to the People's Bank of China noted that asset securitization could help Chinese banks transform illiquid assets into liquid assets.⁴

"Based on the results of the pilot securitization program, we would gradually promote asset securitization," said Jin Qi, assistant governor of the People's Bank of China.⁵ According to recent news reports, it will probably be another two years before securitizations directed at foreign investors will be permitted in China.⁶ The pilot program transactions will likely trade

over-the-counter in China's interbank bond market.⁷

Officials of the China Banking Regulatory Commission have expressed concerns about the proposed pilot securitization program and suggested that some Chinese banks may try to mix bad loans with good loans in pools to be securitized.⁸ Yan Qingmin, assistant chairman of the Commission, suggested that specific guidelines would have to be implemented before the pilot program could move forward.⁹

According to a report published by a rating agency in late 2008, most securitizations in China prior to October 2008 were structured as balance-sheet collateralized loan obligations.¹⁰ Asset securitizations by Chinese banks and other Chinese financial institutions have historically been issued and traded in the interbank market.¹¹ While corporate asset-backed securitizations are likely to be insignificant in the near term,¹² more recent news reports have indicated that China's asset-backed securities and mortgage-backed

¹ Wang Xiaotian, *Trial of Asset Securitization*, China Daily, March 9, 2012. In 2005, the Chinese government announced a pilot program that allowed the China Development Bank Corp. to securitize its loans and the China Construction Bank Corp. to securitize its mortgage loans. The program was later expanded to include other Chinese financial institutions, but the program was suspended during the financial crisis. *Id.*

² *Id.*

³ *Id.*

⁴ *Id.*

⁵ *Id.*

⁶ *China Revives Giant Securitization Program*, Asset-Backed Alert, March 23, 2012, at 6.

⁷ *Id.*

⁸ *Id.* at fn. 1.

⁹ *Id.*

¹⁰ Fitch Ratings, *Outlook for Securitization in China*, November 5, 2008.

¹¹ *Id.* at fn. 10, pg 2.

¹² *Id.* at fn. 10, pg 6.

securities markets could grow to about \$460 billion within the next several years.¹³ A vice governor of the People's Bank of China has said that banks in China needed to securitize a portion of their large stockpile of bank loans to stimulate growth in the financial sector.¹⁴ The bank official suggested that securitization would permit Chinese banks to set aside less capital for loan provisions.¹⁵ According to news reports last September, the China Banking Regulatory Commission was working on a plan at the time with the People's Bank of China, which would allow banks to set aside less capital by

¹³ *Central Banker Eyes Growth in Securitization*, China Daily, April 28, 2011.

¹⁴ *Id.*

¹⁵ *Id.*

securitizing their assets.¹⁶ As noted by one bank regulator at the time, this move was likely made due to recognition by Chinese officials that Chinese banks face the possibility of increased defaults on loans to the property sector and local government financing vehicles.¹⁷

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¹⁶ *China Regulator Looks at Allowing Bank Securitization: Press*, Market News International, September 15, 2011.

¹⁷ *Id.*

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