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INTERNATIONAL FINANCING REVIEW ROUNDTABLE

JANUARY 2018

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REG S BONDS

The rise of Asia's own dollar bond market

FOREWORD

The growth of the Reg S bond market has been one of the defining trends of the Asian capital markets in recent years. Driven by the seemingly unstoppable rise of Asian wealth – especially deep-pocketed Chinese investors – US dollar bond sales in the region no longer depend on the participation of US institutions.

Dollar debt issuance swelled to a record US$376bn in 2017 in Asia Pacific, excluding Japan, up 45% on the previous year. Offerings targeted at the US investor base, however, are now in the minority: analysts estimate less than one tenth of that total went to onshore US investors. Instead, an alternative Asian market for dollar bonds has developed, much in the same way that the Eurodollar market emerged in the 1960s.

The change from 10, or even five, years ago has been dramatic. At that stage, Asian issuers needed the US market to be ticking higher before they could even consider launching a new issue, and US investors expected a healthy concession for taking on Asian risk. In contrast, recent new issues have seen Asian borrowers wrap up deals even before the US wakes up, with regional buyers willing to accept better terms than their western counterparts.

All this has contributed to the dominance of Reg S documentation, where new issues are not offered to US buyers but disclosure requirements are lighter. Chinese companies have been the major beneficiaries of the trend, winning access to the international markets at low costs, but borrowers from Australia to India have also elected to issue under the Reg S format. Even global issuers have turned to the Asian Reg S market to target discrete pockets of US dollar liquidity, notably through onshore issues in Taiwan's Formosa market.

This phenomenon raises some intriguing questions. For one, how far can the Reg S market really go? After Postal Savings Bank of China sold US$7.25bn of Reg S capital securities in 2017, it is clear that jumbo dollar deals are now possible outside the US. But is the trend sustainable as US interest rates rise? What happens if and when Chinese capital flows reverse course? And does a more concentrated, regional investor base pose liquidity risks for Asian borrowers in the future?

IFR gathered a panel of market participants to discuss these and other topics in Hong Kong late last year. The panellists included the Export-Import Bank of Korea, one of Asia's best-known issuers in the US market, and Hong Kong-based power producer CLP Power Holdings, a repeat borrower under Reg S, providing an intriguing contrast of views for the debate.

The weeks since the discussion have produced more of the same, with more Asian issuers tapping the US dollar market and Asian investors showing no signs of losing their risk appetite.

Rising US rates, however, typically spell danger for emerging markets, and expectations of heavy supply will test the depth of Asia's homegrown buyer base during the year. The debate on the merits of the Reg S market looks sure to continue throughout 2018.

COVER
US dollar notes are seen at a Kasikornbank branch in Bangkok, Thailand. REUTERS/Athit Perawongmetha

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ISSN 0953 0223 Printed by Wyndeham Grange Ltd

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Bryan Collins is a portfolio manager with over 15 years of investment experience. He joined Fidelity's Hong Kong office as a fixed income trader in 2006, and became a portfolio manager in 2009. He manages Fidelity's fixed-income funds in Asia – including the Asian High Yield Fund, Asia Bond Fund, China RMB Bond Fund and Hong Kong Bond Fund – as well as a number of cash funds. In total, Bryan is responsible for managing over US$5bn of assets on behalf of clients.

LORNA GREENE
National Australia Bank
Lorna Greene is director, debt syndicate and origination for Asia, at National Australia Bank. She joined NAB in January 2016 and is responsible for US dollar Reg S and Asian local currency debt syndicate, including private placements in a range of G10 and local currencies. Greene earlier worked for Commerzbank in London and Singapore, where she set up a debt syndicate and private placement business for Asia and led a range of US dollar and offshore renminbi issues in Reg S format. She started her career as a long-term funding officer at Depfa Bank.

JESSICA GU
Export-Import Bank of Korea
Jessica Gu is director, International Finance Team 1, Treasury Group, at the Export-Import Bank of Korea. She is responsible for the policy bank's funding operations in Asian currencies, and supports the treasury's regular global funding exercises. Kexim is a frequent issuer in many markets, including US dollar Formosa bonds, Singapore, Australian and New Zealand dollars, and has sold US dollar bonds in Reg S, 144A and SEC-registered formats.

FRANCIS HO
CLP Holdings
Francis Ho is senior director at power producer CLP Holdings, responsible for group treasury and project finance. He oversees the group's funding and financial risk management and compliance operations, as well as relationships with credit rating analysts, debt investors and lending banks. Before joining the group treasury, he was responsible for project financing at CLP Power Asia, managing CLP's overseas investments in China, Australia, India, and South East Asia.

MARC LEWELL
JP Morgan
Marc Lewell is a managing director and head of debt syndicate for Asia Pacific at JP Morgan. He has been with the US bank over 20 years and has worked in various syndicate functions, covering corporates, financial institutions and emerging market clients. He was most recently head of European syndicate for corporates and emerging markets, and took up the Asia role in 2015. Lewell earlier spent three years in Hong Kong on the syndicate desk from 2001-2004.

ALEX LLOYD
Clifford Chance
Alex Lloyd is a partner at Clifford Chance, specialising in debt and equity capital markets, including high-yield debt offerings and initial public offerings. He has advised on US dollar financings in Reg S and 144A formats, representing issuers, sponsors and underwriters. A US-qualified lawyer, he joined Clifford Chance in 1996 and worked in London and Hong Kong until joining Sidley Austin in 2010. He rejoined Clifford Chance in 2016.

STEVE GARTON
Editor, IFR Asia
Roundtable chair

IFR ASIA: I THINK THE FIRST QUESTION IS REALLY WHAT'S BEHIND THE ASIAN REG S PHENOMENON. LORNA, I KNOW YOU'VE DONE A LOT OF WORK ON THIS.

LORNA GREENE, NAB: There are a number of macro trends that are driving this. Certainly, we've seen a shift of wealth from the West to the East. There is the rising middle class across Asia, in particular in countries such as China and India. We are also seeing that there are quite high household savings rates as well amongst a number of countries in the region and all of these factors have led to the deep pools of liquidity that we're seeing, and an increased amount of funds that are available to invest.

Apart from the macro trends, the dollar market in itself has presented a lot of value for many investors over the course of the last 12 months in particular. We're seeing the impact of quantitative easing in some other Asian regions. For example, Taiwan and South Korea have been cutting rates and that's been driving a lot of those investors to look to dollar assets for enhanced returns over those achievable in their domestic markets.

IFR ASIA: IT USED TO BE THE CASE THAT A BAD DAY IN THE US WOULD MEAN THE ASIAN MARKETS WERE COMPLETELY CLOSED. HAVE WE GOT TO A POINT NOW WHERE THAT DOESN'T APPLY ANYMORE?

MARC LEWELL, JP MORGAN: I think that's right, Steve. Obviously, this is the Reg S bonds roundtable but I'd always be a little bit careful from distinguishing between Reg S and 144A, because what we're really talking about is the Asia investor pool. Now we'll come to talk about format later, but what that means is the Asia market is able to support transactions – whether they're from Australia or the rest of Asia or even from Europe – and those deals could be in 144A format or Reg S format.

To your point, 15, 10 or even five years ago, a 144A trade might have been 40% placed in Asia and 60% placed in the US. These days many deals – Francis's transactions, for instance – would be 90% Asia and 10% US if they were done under 144A. Lorna no doubt covered the ultimate causes, but the end result is that we don't need the US investors on certain Asian transactions on a day-to-day basis.

BRYAN COLLINS, FIDELITY: You can see that in the investor base, either looking at primary market participation breakdowns or even just looking at our own investor base, which would be reasonably representative of the industry. Over the course of the last 10-plus years – and on all kinds of credit ratings, from high yield to investment grade – the percentage of Asian investors has incrementally gone up. It's highly correlated with the primary market placements, as it is with our investor base. That really is the primary driver. Added to that you've got the emergence of a dedicated buyer base for Asian credit, and all the other dynamics that you've talked about in terms of growing wealth.

Interestingly, I think from the context of Australian issuers, the issues come about from pricing. We used to have – and we probably should still have from time to time a premium here in Asia – but that premium has been diminishing quite significantly on a like-for-like rating basis. An Australian issuer used to get a cost advantage by going to the 144A market. It's now not there, or at least not as much, and they're opening up to a much larger universe.

LORNA GREENE, NAB: Absolutely. And in fact we're actually seeing that for many issuers, depending on the sector that they're from, they're actually achieving price benefits by targeting the Asian investor base more exclusively, whereas in some cases US investors are slightly more sticky on pricing. So, again, depending on the sector, you can actually get a price benefit if you're just focusing on the regional investor base.

MARC LEWELL, JP MORGAN: We've seen several Australian issuers this year do 144A trades where they want to maintain the relationship

"We are seeing that there are quite high household savings rates as well amongst a number of countries in the region and all of these factors have led to the deep pools of liquidity that we're seeing, and an increased amount of funds that are available to invest"

with US investors, but focus the pricing on the tightest bid – which is from Asia.

We've also seen, for certain issuers, that the US pricing is still the most competitive, not just for Australia, but from around the region. Generally the Asia bid is the strongest for the 'yield-ier' transactions, or for transactions from an Asian issuer where the regional investors are most familiar with the name.

For many of the very high-rated global names, whether they're in China or Korea or Australia, there is a bit of a floor in the spread or yield levels where Asian investors will play. For Jessica's transactions, for instance, you see a much stronger bid in the US for the shorter end, because you can't get to the tightest levels with Asian investors below a certain absolute spread number. For a Triple B minus credit, very clearly this year the strongest bid has been from Asia. For a Double A or Single A it is much more of a balance.

LORNA GREENE, NAB: That's a good point regarding tenors, and obviously this is yield-driven. Certainly, a lot of the corporates who are looking for longer-term debt tend to get a better reception and better pricing outcome by doing, say, a 10-year transaction targeted to Asian investors. That's what we really see coming through now. The yield is there, but at the same time it's usually issuers from the utility or infrastructure sector who are looking that for that longer-dated funding.

IFR ASIA: LET'S BRING OUR ISSUERS IN ON THIS. JESSICA, HOW DO YOU DECIDE BETWEEN DIFFERENT MARKETS AND FORMATS? IS IT SIMPLY PRICING?

JESSICA GU, KEXIM: Certainly pricing would be the primary factor that we need to consider. It's a mixture of the pricing and diversification, having a balanced range of investors in different regions, different asset classes. So it's a mix of everything, I would say.

In case of Kexim, I think we can be easily recognised now as one of the big beneficiaries of the very deep liquidity in Asia. I heard from my predecessors that before the GFC we used to follow the strategy of announcing a Reg S/144A deal in US hours – back in the mid-2000s, I would say. After the GFC, I remember that's when I first joined the foreign currency funding team, bankers were saying to us, "It's now the new fashion that the deal has to start in Asia." The order book has to be built strongly in Asia in order to carry the momentum into the Europe and the US line.

It's quite obvious to me that we've been benefiting a lot from the larger size of the Asian order book, as that could always play a factor in compressing the spread level that we have to pay.

Although we engage in SEC-registered deals for benchmark-sized global US dollar transactions, we still depend on the Asian investor base a great deal.

For a three-year or a five-year transaction, more in the shorter to mid-part of the curve, it's a fine mix. I would say typically 40% would be in Asia and 40% in the US and the rest in Europe. Then in the longer part of the curve, it's definitely more about Asia. It's more like 60%-70%. Also the spread differential from 5 to 10 years remained quite flat, almost in single digits.

IFR ASIA: IT MIGHT BE USEFUL JUST TO DEFINE ALL THE TERMS WE'RE TALKING ABOUT HERE. ALEX, LET ME COME TO YOU ON THESE. SO IN MY UNDERSTANDING A US INVESTOR OVERSEAS CAN STILL PLAY IN A REG S DEAL, NO?

ALEX LLOYD, CLIFFORD CHANCE: It's slightly ironic. Reg S and Rule 144A are, of course, regulations under the US federal securities laws. They actually refer to when transactions are exempt from the registration requirements under the Securities Act – when you can sell in the US, or to specified US holders, without having to register with the SEC.

It's become a short-hand for geographic description of markets. 144A is an exemption for the registration requirements. It allows you to access qualified institutional buyers in the United States. That is a significant pool. The definition of a qualified institutional buyer really covers most types of financial institutions that you would expect to buy bonds. So 144A, effectively, becomes access to the US.

Reg S, which is, again, a US securities law definition, essentially defines what is considered by the Securities Exchange Commission to be offshore. If the transaction follows those rules it's outside the United States.

Now there is nothing in either of those regulations – Rule 144A or Regulation S – that covers documentation. The distinction is that to the extent that you access the United States under 144A you also carry with a potential liability under the US federal securities laws for disclosure. There is a perceived and actual litigation risk, and that risk drives a view as to what is the minimum documentation required.

A properly written Reg S transaction will not expose you to that disclosure liability in the United States, but obviously any issuers and their financial advisors remain potentially subject to liability for fraud and other applicable laws in any jurisdiction.

KEXIM CASE STUDY

US$2BN THREE-PART GLOBAL NOTES

Pricing date	24 Oct 17		
Format	SEC-registered		
Rating	Aa2/AA/AA–		
Total orders	US$4.4bn; 200 accounts		
	Tranche 1	Tranche 2	Tranche 3
Principal	US$400m	US$1bn	US$600m
Maturity	01 Nov 20	01 Nov 22	01 Nov 22
Coupon	2.50%	3.00%	–
Reoffer	99.65	99.853	100
Spread	T+90bp	T+100bp	3m$L+92.5bp
Distribution	US 35%	US 41%	US 17%
	EMEA 25%	EMEA 20%	EMEA 20%
	Asia 40%	Asia 39%	Asia 63%

Source: IFR

One of the key things I think that influences a lot of people's choice of the Regulation S market is effectively speed to market. You'll notice that most medium-term note programmes utilise Regulation S. It's actually quite difficult to utilise the 144A on a regular basis – unless you are a very regular reporter, preparing quarterly reviewed financials and things like that, which most Asia-based issuers are not doing. They're usually doing it on a semi-annual basis at best.

That's one distinction that comes out of the legal framework, that issuers in the Reg S market can come to market quicker.

IFR ASIA: I'VE ALWAYS ASSUMED THERE'S AN ADDITIONAL DOCUMENTATION COST ATTACHED WITH A 144A ISSUE. BUT IT'S REALLY ABOUT DISCLOSURE, ISN'T IT?

ALEX LLOYD, CLIFFORD CHANCE: There is, as I said, because you are subject to a potentially higher liability regime in the United States, there are additional procedures that you need to do. For example, there are limitations as to what financials you can use. Financials go stale after 135 days, which means that when you're looking at accessing the 144A market, you may have to incur the cost of an interim review that you wouldn't perhaps do in a Regulation S context.

IFR ASIA: SO THE LAWYERS DON'T MAKE ANY MORE MONEY OUT OF THEM?

ALEX LLOYD, CLIFFORD CHANCE: Unfortunately not. I would encourage you always to do your due diligence and to understand the issuer, because there is a potential liability in the US that extends not only to the issuer but also to an underwriter. Everybody is invested, as it were. You do tend to see a higher degree of documentary due diligence and management due diligence.

The need for more current audited financial statements, and requirements that auditors provide comfort letters, again increases the amount of work that the auditor has to do. Ultimately, the lawyers are required to provide 10b-5 disclosure letters, which again means that they have to go through a larger amount of diligence to assure themselves that they're in a position to give that comfort.

IFR ASIA: ALL OF THAT SOUNDS GOOD FOR INVESTORS. BUT IF YOU HAVE ALL THAT DISCLOSURE, THEN DOES THAT JUSTIFY A DIFFERENT PRICE?

MARC LEWELL, JP MORGAN: I would say – and we should hear from the issuers, too – while the additional legal or auditing fees may be there, in practice they become something of a rounding error in terms of basis points, especially if you're any sort of frequent issuer. I think that's demonstrated by the fact that most of the 144A or SEC registered issuers continue to issue in that form, even though the market has become more Asian in distribution at the current point in time.

The main barrier to issuing in 144A over Reg S is the hassle and the time taken to be ready to market, especially the first time you issue. I can think of only a handful of issuers that have done that work once and then later gone back to Reg S, if they've issued relatively soon afterwards. Actually, the cost of doing a second or third 144A transaction versus a Reg S when you've already done the first document is very, very similar.

BRYAN COLLINS, FIDELITY: I would expect that we will see a lot of the issuers that are only doing Reg S now eventually move to 144A as the market gets larger and potentially saturated by a particular type of country risk or sector risk.

We've already seen this in some of the high-yield names. They started with Reg S, built a curve and then later on life they've broadened their horizons and gone to 144A to try and expand their investor base and to reach new investors – in the same way

"Generally the Asia bid is the strongest for the 'yield-ier' transactions, or for transactions from an Asian issuer where the regional investors are most familiar with the name"

that you would have US issuers eventually come to Asia to broaden their horizons.

There is a very high correlation with credit quality, and you'll typically see the very high-rated names issuing frequently in both formats. You typically don't see it very much down in high yield, unless it's a particular sector or company which is deliberately trying to reach both markets. We see that here in this part of the world with some of the technology or gaming names that are deliberately reaching different investor pools, because you've got a large, dedicated investor base.

All things being equal – which is rarely the case, I know – if you've got a corporate that's using Reg S and 144A regularly, they're probably going to be a higher quality issuer. It also demonstrates takes its creditors seriously, to some extent, and that typically rewards them with a lower cost of funding, but I stress that it's correlated with the underlying credit quality.

MARC LEWELL, JP MORGAN: That's why you'll see a lot of high-yield issuers issuing in the Reg S market but using a 144A format, partly because the investor base that's looking at the credit would expect to be able to do full diligence on the issuer, but only a 144A-style offering document would give them the information they need.

LORNA GREENE, NAB: The other advantage of issuing in Reg S-only format is actually for those issuers who don't have a very large funding need; the minimum benchmark size being smaller. So what we find quite often, particularly for our Australian corporate clients who don't have a very big funding requirement, they will raise maybe US$300m–$400m and that will satisfy their funding need for most of the year, because many will also want to continue to maintain a presence in the domestic market. For issuers like that, we won't see them go the whole way to 144A because they just don't need to.

FRANCIS HO, CLP: From the issuer perspective, a lot of corporates are fairly flexible in looking at different funding opportunities. I believe treasurers will pay a lot of attention to a couple of things: first, management time; second, the certainty of the transaction and the prompt response from investors. In the past, we have been told by our bankers that Reg S works more for smaller size companies that are located in this region or for lower targeted fundraising amounts, so yes, we have gone for that.

I certainly understand that this is the more practical, easy way to issue. It caters better to certain companies that are more moderate in size. They have less frequent funding needs and their management, in terms of resources and management time, they don't want to travel to the US. These are very important factors.

Even then, a fair number of companies in the corporate sector – like CLP – will accommodate both 144A and Reg S in their documentation. We also understand the incremental costs for the documentation are minimal, so the treasurer would be able to convince senior management to go for both when drawing up the documentation. When it comes to pulling the trigger it depends on the funding cost.

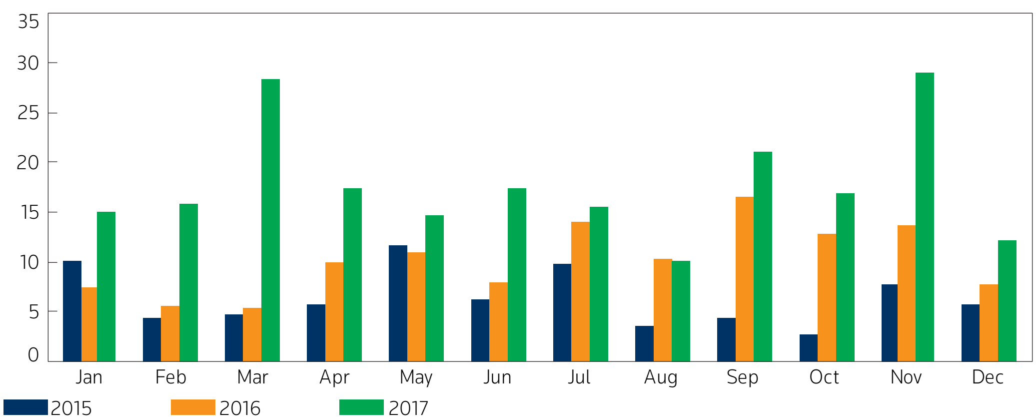
BRYAN COLLINS, FIDELITY: There are some technical and administrative dynamics around the initial Reg S and 144A format from an investor's perspective, and, again, it's highly correlated to the credit quality. Generally, it's to do with the timing of the deal. If you've got an Asia-based issuer, trying to issue into an Asian investor base, it's a good concept to have the final pricing, a firm view of the book and all the other terms sorted by the end of the Asia trading day.

It happens rarely these days, but it used to happen quite a lot that all those terms were finalised in the middle of the night and we were basically giving issuers a free option if we wanted to participate.

The technical dynamics are tricky to assess, but typically deals which have a foothold in both the Reg S and 144A markets are technically better.

REG S RECORDS

US DOLLAR REG S-ONLY ISSUANCE IN ASIA PACIFIC (US$BN)



Source: Thomson Reuters SDC

They're not as volatile. You might have different taps of liquidity in US hours, for example, through a global trading desk or through using global banks to help trade and execute overnight. We can hold 144A or Reg S, it makes no difference, but we might participate in a primary market deal as a global book and deliberately take 144A, because we know that will be more liquid for us if we are going to be trading either here, in Asia or outside the region.

Interestingly, some mandates that we have in some jurisdictions here in Asia actually limit the amount of 144A securities that you can hold. It can be quite a generous limit, but even a 20%, 30% cap on 144A exposure within a portfolio does come up from time to time. That naturally puts a cap on how much Asian-based institutional investors will actually put into 144A.

MARC LEWELL, JP MORGAN: I think there's a big difference between different types of credits in different jurisdictions. Even before this recent rush of Asian demand over the last two years, Francis's bonds will have been most at home in Asia for a long time. Hong Kong has always had a lot of dollar liquidity, and CLP is sort of Hong Kong royalty. There's a very natural domestic and regional bid.

What we've seen over the last few years is a huge growth of offshore China money. When we talk about the growth of the Reg S market, from an intellectual perspective, we have to look at the growth of China. Except for the global tech names, the oil and gas giants and some of the quasi-sovereigns, in many ways it's really a greater China regional market that operates somewhat differently from issuers from the rest of the region.

I think the trends are more normalised if you look at Indonesian or Korean trades. Actually, I don't think they have become meaningfully more Reg S. We have seen a big growth in high-grade Australian or European issuers looking at Asia. But for most of Asia outside of China, there's still quite a good balance between US distribution and Asian distribution.

IFR ASIA: THE CHINA POINT IS EXCELLENT. ARE WE REALLY TALKING ABOUT ASIAN LIQUIDITY HERE, OR IS IT CHINESE BUYERS AND CHINESE ISSUERS JUST CONNECTING OFFSHORE? AND DOES THAT RISK FLOWING THROUGH AND DISTORTING PRICES IN THE WIDER MARKET?

MARC LEWELL, JP MORGAN: My view is that it starts off with China buying China, but once it reaches a certain level the international investor base in the region will also participate – they may take sometimes only 10% of the transaction, but other times they will take 50% or 60% of the deal versus the China share. Clearly, there are issuances where the best bid is very clearly from Chinese investors who know that issuer best.

But that has all added to the volume, and that is also helping global investors dedicate resources to their Asia-centric businesses, because you have a bigger market overall. Then you have a self-fulfilling prophecy, as more investment funds dedicate more resources to the regional credits as well as the global ones.

LORNA GREENE, NAB: I would say if you look at the issuance from Chinese borrowers, the actual allocation to offshore China funds has been decreasing. We've seen increased proportion from other parts of Asia but also increased demand out of Europe, in particular. I think that's been a positive development.

BRYAN COLLINS, FIDELITY: Keep in mind that the investor base will have a natural home bias. So a Philippines-based financial institution will have a natural bias for the Philippine US dollar paper, and we all understand the structural dynamics there.

Indonesia is not at that same level yet, but it will be at one stage, and India is obviously heading in that direction, too. Hong Kong and Singapore have been much more global, but still have a very strong domestic buyer base. It's actually very much the same for Korea and even Japan, with the domestic bid at times swapping it back.

"It's quite obvious to me that we've been benefiting a lot from the larger size of the Asian order book, as that could always play a factor in compressing the spread level that we have to pay"

You will always have that natural bias. For a Chinese institutional investor, in whatever form that might take, to have a bias towards a name they know is natural. Same for the US, same for Europe.

FRANCIS HO, CLP: I believe it's more than China opening up. Since the Asian financial crisis 1997-98, the regional governments in APAC have started to rethink how they manage their financial sectors. When we look back at 10 years ago, when the global financial crisis kicked in, this region was in good shape in terms of financial stability, liquidity, asset management and so on.

First we saw Japan building up its wealth, and that liquidity coming to investors outside of the country. Over the past two decades or so, we started to see Taiwan, China, Korea, they all have developed this capability. It's because of the macro-economic situation, the international financial market development, and the government even encouraging the private sector insurance companies or the banks to start looking at investment opportunities overseas.

BRYAN COLLINS, FIDELITY: One of the benefits for Asia looking at both hard currency and local currency funding is that it presents alternative sources of funding. China is an immensely powerful illustration of what a domestic capital market can do. We've seen just in the last couple of years the dynamics around Chinese corporates borrowing in dollars to pay down onshore and onshore to pay down dollars. Obviously the capital controls have created some complexities, but these two markets now operate almost in parallel to each other. That gives companies immense flexibility, and also helps mitigate systemic risks.

IFR ASIA: JESSICA, FROM YOUR EXPERIENCE DEALING WITH DIFFERENT INVESTORS IN TAIWAN AND OTHER ASIAN MARKETS, DO YOU FIND THEY RESPOND BETTER IF YOU GO INTO THEIR HOME MARKET?

JESSICA GU, KEXIM: Very much so. I guess Kexim has been quite lucky in being able to tap the US dollar Formosa market three times already. Our first Formosa deal was in the US dollar currency back in 2010, even before Formosa market became popular. Then we did our second transaction in 2016, and one more this year as well.

The size of the deals was a lot bigger than we expected, actually. We first had this expectation that the deal would be about US$100m–$150m, but it ended up being more like US$350m–$400m. The technical dynamics as well as the spread level were all very affirmative for us. We found investor communication simple and straightforward hence easier to get clarity from that dedicated investor base in Taiwan.

I had the experience of meeting with a lot of investors after the 2016 deal, and the response we got was very, very straightforward. We would talk about the levels where both investor and issuer would agree, and it was very clear that a deal could be made. In terms of size, each individual investor had very big pockets of money to deploy. We benefited a lot from those deals.

IFR ASIA: ARE THESE INVESTORS THAT YOU ALREADY KNEW FROM YOUR GLOBAL US DOLLAR DEALS?

JESSICA GU, KEXIM: Some of them, yes. We were also there to tap into investors that were not very familiar with us, in that they did not really participate in our trades before. I guess the export-driven economy of not only China, but also Taiwan and Korea, has distributed a lot of the wealth gained in those countries quite evenly, so there were newly discovered pockets of investors that we were able to meet for the first time.

MARC LEWELL, JP MORGAN: We've seen quite a lot of cases where there's been this cross-fertilisation around Asia and I think that is very healthy for the Asian market overall.

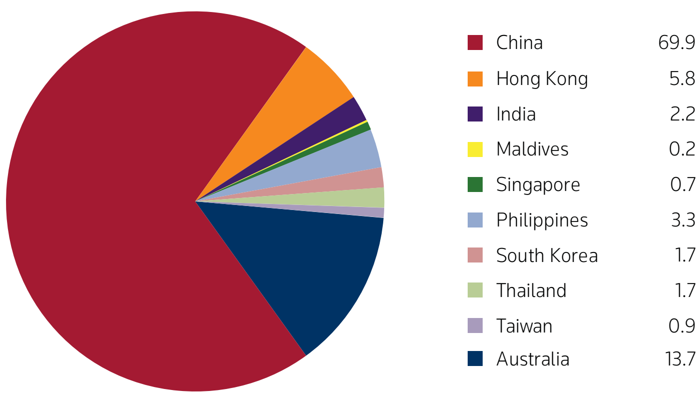
We've seen investors coming into credits for the first time through the Formosa side, whether it's for Kexim or a US or European issuer, and then those same investors participating more actively in the next 30-year US dollar benchmark.

Similarly, we've seen a lot of Korean, Japanese, Taiwanese participation in Australian dollar transactions, either for Australian issuers or for global issuers issuing into the Aussie market. Again, that can then lead to a greater participation in future dollar deals for those issuers – in Reg S or 144A form.

LORNA GREENE, NAB: Of course if you come to their home market then they will be more inclined to do the credit work as they have everything in place to able to participate.

CHINA DOMINANT

REG S-ONLY US$ ISSUANCE IN ASIA PACIFIC IN NOV 2017, BY ISSUER NATION (%)



Source: Thomson Reuters SDC, IFR

BRYAN COLLINS, FIDELITY: There's a key trade-off there from an investor's perspective. If you're away from home, and you're investing in a domestic currency market that's not the issuer's natural base, you will have liquidity problems in times of stress. There will be less bids out there, the pricing won't be as great in the secondary market. You do need to be sensitive to that.

Go back and look at the global financial crisis and how the European names performed in the Aussie dollar market. How did the European and other issuers perform in the Japanese yen domestic market? Even the Hong Kong dollar market, there were quite a lot of European issuers, and some US banks. They were all impacted. So that's definitely something we consider.

However, the flip side of that is when you see those dislocations we can take advantage of it. From an Australian investor's perspective, you'll probably make more money buying a US dollar bond and swapping it back. There are lots of other examples we can do that, when you look at the Korean Won market, or the renminbi. Those dislocations will come and go, but it's our job to exploit that.

MARC LEWELL, JP MORGAN: Bryan raised an interesting point, which we haven't touched on here. Clearly, some of the growth of the Asian market comes from the macro story: there is more money in Asia than there used to be. That is a secular trend. But some of it is also to do with the fact that Asia has been more bullish than the rest of the globe, partly driven by that wave of abundant liquidity, and therefore pricing has been more aggressive.

The next real sell-off will be an interesting test for the market. If there is another crisis or another correction at some point, what will happen to the Reg S market?

From a historical perspective, in a real crisis the market that recovers first is almost always the US. It may not be at a price that everyone likes, but there is almost always a price in the US market before other markets adjust. It's the most liquid and most mature market, because it's been around the longest. It'll be interesting whether the Asian bond market can weather a real patch of volatility, and whether that growth is as permanent as we think it is at the moment.

ALEX LLOYD, CLIFFORD CHANCE: I think you've also got to be a bit concerned about storing trouble for the future. The bonds that tend to recover the best are those with real transparency and credit discipline behind them.

When I started looking at China issuance into the Reg S market 10 years ago, if you had an investment-grade rating you could issue in the Reg S market. If you were sub-investment grade or unrated, or you were using some funky credit support structure, you needed the 144A market to give you the access to sufficient liquidity. That also imposed upon the issuer a degree of discipline in order to meet the requirements of the 144A market.

As the Reg S bond market has grown and this wall of money you're referring to has come in, it's become easier and easier for issuers to access the international market without necessarily – I don't want to sound too prejudicial – but without necessarily doing the work to justify it. We now have a lot of transactions with implied credit support, particularly out of China, be it from 'keepwell' agreements or equity purchase undertakings or whatever. These are largely untested forms of credit support, and in a Reg S issuance they are coupled with a slightly more relaxed or lower level of disclosure for the issuer itself.

While the market is buoyant, that's fine. When the market turns the investor is going to say: "Well, actually I don't know as much about this issuer as I thought I did. I haven't seen regular financials and I'm not necessarily sure about the strength of either government support, if it's an SOE, or the enforceability of these credit support mechanisms." There is a danger that people tend to see the Reg S format as shorthand for doing less work to get into the market.

BRYAN COLLINS, FIDELITY: The diligence on the credit, the engagement with creditors and disclosure and transparency are all

"One of the key things I think that influences a lot of people's choice of the Regulation S market is effectively speed to market"

critical. Add to that, you don't necessarily have that same bid from a domestic investor or a US-based institutional investor who might see value emerge at some point. That's potentially limiting some support. Would an investor naturally come to that market for the kinds of names you were describing? Debatable. The other dynamic is if you throw in a little bit of leverage, that can obviously make the situation even more interesting.

It is something that we are actually debating quite a lot. In a period of dislocation, what would perform better? There's a very strong case for lots of issuance coming from China. They have a bigger pool of domestic investors who have got much deeper pockets than many other investors around the world.

So you've got this trade-off of some credit concerns on one hand, backed up by some very deep pockets on the other. It's quite a complex one, but it is going to be very interesting one to manage, but at the end of the day fundamentals will help you in those situations.

IFR ASIA: THIS COMES TO THIS NEXT BIG PICTURE QUESTION. DOES THIS MEAN THEN THAT ASIA IS BECOMING MORE EXPOSED TO RISING US INTEREST RATES OR DOES IT GO THE OTHER WAY? DOES THIS LOCAL POOL OF MONEY GIVE ASIAN ISSUERS SOME PROTECTION FROM GLOBAL SHOCKS?

LORNA GREENE, NAB: Yes, absolutely agree. With rising dollar rates, of course, there's going to be more appetite because of the additional yield that that provides. Then from an issuer's perspective, being able to tap into those funds in US dollars may be simpler than looking at issuance in some of the local currencies in the region.

I think from that perspective it's probably going to present an opportunity and we'll see more issuance, from debut issuers as well as frequent borrowers. It's obviously easier just to go and issue in US dollars than try to tap into some of the local markets by issuing in those domestic currencies.

BRYAN COLLINS, FIDELITY: I'd still be inclined to think that if rates are rising in the US, it's because the conditions are genuinely improving, and that's probably going to be quite good for global growth, not just regional growth. Also, let's be really frank, we've had extraordinary monetary policy for many years now. Funding is not expensive for good quality corporates.

MARC LEWELL, JP MORGAN: More fundamentally, no one expects US rates to go from where they are now to 5%. In practice, the risk on Treasuries is likely a maximum move of around 100 basis points. If we look at highly rated investment-grade or high-yield names, rates risk isn't a real problem. A company that's raising money at 5% today will generally have plenty of room in terms of interest coverage.

Historically, what hurt companies in the Asian financial crisis wasn't rates going up; it was funding in dollars while revenues were in local currency. I think that's much less of a concern today, simply because issuers and investors are much more focused on making sure that there is the right sort of hedge in place.

The bigger issue is if you see a serious back-up in high yield, and companies which are now funding at 6% become unable to fund or go back to having to consider paying a much higher yield. Did they have a business model that allowed them to pay the debt off over the course of the bond, or were they only relying on the market being there ad infinitum? That's when you get the real challenge.

FRANCIS HO, CLP: This relates to how companies manage their financial discipline. I would say that interest rates are going to normalise, and that's a good thing. Rates have stayed so low for so long, it's better for everyone to see them normalise.

For corporates, if they only rely on the low interest rate environment to grow or to operate, then I believe there is a really high risk. It will be much more meaningful for a company to diversify not only its funding sources, but also the currency, market and investors. As long as the swap market is reasonably liquid, I believe a reasonable credit can now source funding from a lot more investors and at more reasonable cost.

From my perspective, I think treasurers should be more alert on getting ahead of the headwinds including, if they can, meeting investors more

DEEPER POCKETS

THE 10 BIGGEST REG S-ONLY US DOLLAR OFFERINGS FROM ASIA PACIFIC

	Issue Date	Issuer	Total proceeds (US$bn)	Description
1	21 Sep 17	Postal Savings Bank of China	7.25	4.5% Additional Tier 1 pref shares
2	15 Oct 14	Bank of China	6.50	6.75% Additional Tier 1 pref shares
3	21 Jun 17	China Evergrande Group	3.80	High-yield bonds due 2021, 2023 and 2025
4	23 Sep 16	China Cinda Asset Management	3.20	4.45% Additional Tier 1 pref shares
5	09 Jan 15	China Huarong International	3.18	Senior bonds due 2018, 2020 and 2025
6	31 Oct 17	China Huarong International	3.10	Four-tranche offering of dated and perpetual notes (excl. S$ tranche)
7	10 Dec 15	China Construction Bank	3.05	4.65% Additional Tier 1 pref shares
8	02 Mar 17	China Cinda Asset Management	2.99	Senior bonds due 2020, 2022, 2024 and 2027
8	12 Jul 17	China National Chemical Corp	2.99	Senior bonds due 2020, 2022 and 2027
8	16 Nov 16	China Huarong International	2.99	Senior bonds due 2019, 2021 and 2026

Source: IFR

often, rather than only when they do a deal. Our objective is very straightforward. We like to see investors who are engaged with the company soon after any results announcement, so that they can raise their questions. They can see the management and they can do their due diligence. When we go to the market then we can focus more on the commercial aspects.

IFR ASIA: PROBABLY THE CHEAPEST SOURCE OF MONEY FOR A LOT OF ISSUERS IN GREATER CHINA IS GOING TO BE BILATERAL LOANS OR PRIVATE PLACEMENTS WITH CHINESE BANKS OR CHINESE INSTITUTIONS. WHAT'S YOUR TAKE ON THOSE?

FRANCIS HO, CLP: Yes, these are very important trends. As China opens up, the banks can do more business in alignment with the central bank's policy. If the central government promotes a particular kind of industry, then the banks can write large cheques at reasonable terms.

From the perspective of a company based in Hong Kong, which has different sources of income and relationships with multiple parties, we see Chinese banks as more supportive. We tend to believe that by speaking to different parties then probably we can further optimise the terms.

IFR ASIA: I ALWAYS WONDER HOW SUSTAINABLE THIS REG S PHENOMENON IS, BECAUSE A LOT OF THIS CHINESE MONEY MAY BE LOCKED AWAY IN TWO YEARS' TIME WHEN POLICY CHANGES OR WHEN THE RMB STRENGTHENS.

ALEX LLOYD, CLIFFORD CHANCE: You already have that risk, but that's a very good point. We haven't mentioned the Chinese regulators, and particularly the NDRC, which can really control the flow of liquidity from China into that dollar market.

It's slightly unpredictable, as you don't know whether the regulator is going to open the tap or not. It does also cause some distortions, in particular, because the NDRC essentially regulates longer term paper. You've seen a lot of issuance of 364-day paper in a private placement market. Again, I'm not a banker, but I did read 'Too Big to Fail' and we all know the risks of funding longer-term obligations with very short-term money.

LORNA GREENE, NAB: Having said that, the main driver for those corporates coming and doing those 364-day issuances is more driven by the quotas that they're getting from NDRC.

IFR ASIA: OR NOT GETTING.

LORNA GREENE, NAB: Exactly. It's not necessarily that they've been rejected or not given a quota, it's just that they need to fund and it's taking too long to get those approvals in. So I think they're being constrained, I don't think they're necessarily being irresponsible in choosing to fund short.

ALEX LLOYD, CLIFFORD CHANCE: I think it's actually an unintended consequence. I don't think it was necessarily a policy position. The unintended consequence is you have a lot of people who have very short term paper out there, which has a significant refinancing risk that arises the minute you issue.

LORNA GREENE, NAB: The One Belt, One Road policy is going to mean that Chinese companies that are investing overseas are still going to need to raise more funds offshore. The regulator is very aware of this and I think they are less likely to put a stop to Chinese funds moving offshore so that they can support these initiatives.

MARC LEWELL, JP MORGAN: Clearly, we all recognise that if at some point the regulator puts a stop to that investment, it will be disruptive. But it will be disruptive to the Chinese corporate sector first and foremost, and one would imagine the regulators, while caring about the Chinese investor base and the banking system, also care about the issuer base.

"The other advantage of issuing in Reg S-only format is actually for those issuers who don't have a very large funding need; the minimum benchmark size being smaller"

IFR ASIA: JESSICA, ON THE EXECUTION SIDE, DO YOU FIND THAT THE GROWTH OF ASIAN MONEY HAS CHANGED THE WAY THAT DEALS ARE PUT TOGETHER? YOU TALKED ABOUT STARTING YOUR DEALS IN ASIA HOURS RATHER THAN IN THE US. THAT'S A SIGNIFICANT SHIFT, ISN'T IT?

JESSICA GU, KEXIM: It is. I guess that's the current trend that we're seeing. As Francis mentioned, we've been putting ourselves in a position where we need to prepare for the worst times, which will come. In order to minimise refinancing risks for a financial institution, like Kexim, we've employed an important strategy of diversifying into different currencies, different groups of investors and different markets. So far, we believe we've been quite successful in terms of issuing local currency denominated bonds in 29 different currencies.

We've seen some definite changes in the investors that will participate in our deals. Before, our paper used to be sold mainly to asset managers or fund managers mainly in the US. Nowadays, we see more central banks, multilateral banks and all those SSA investors. That's very encouraging for us.

As a financial institution treasury, that diversification strategy remains one of the most important things that we need to consider whenever we go to market. Yes, we do see a huge shift towards a larger pool of liquidity in Asia, but we have to prepare ourselves for the worst.

IFR ASIA: DOES IT CREATE ANY PROBLEMS IF YOU START OFF A DEAL IN ASIA AND ALL OF YOUR LOWEST BIDS COME FROM ASIAN INVESTORS? HOW DO YOU MANAGE THAT?

JESSICA GU, KEXIM: I think we need to mention the very latest deal that we've done, that was in October. We had to raise US$2bn in US dollars and so that was done in the SEC-registered format. If we were to allocate a lot only to Asian investors we would have been able to achieve much tighter pricing. We opted to offer a single digit new issue concession for a market-friendly, more balanced allocation that was very evenly distributed to investors globally.

We appreciate that our paper has become really popular for Asian investors, especially given that we are eligible for the reserve assets for a lot of investors. We don't take that for granted, but we still value the importance of diversifying our investor base.

MARC LEWELL, JP MORGAN: Going back to your question about execution and timing and the process, I think you have had two trends going on at once. You had a maturing of the market overall and if you look back 15 years ago every trade took 2 or 3 days and now every trade is done intraday. That isn't really because the Asia bid has got stronger, per se, it's because the market's matured and we've gone from having 30 deals a year to 300 deals a year. It's partly just a matter of becoming a more sophisticated market.

On top of that, the Asia bid being the strongest has meant – I think to Bryan's point earlier – that more often than not, final guidance on a transaction comes out at 6:00pm Hong Kong rather than midnight Hong Kong time. That part of the trend definitely could reverse if we saw the relative value or relative importance in pricing terms of the US investor base becoming more important again in a different environment.

So if we really felt that the tightest price for Korea Exim was the US investor base, it's quite likely that we wouldn't be talking about final guidance until we've heard from the US investors, which means until 9:00am or 10:00am New York time, or 10:00pm Hong Kong.

At the moment, for most issuers, we can take a view at 6:00pm, 7:00pm Hong Kong time, because we know based on the last 50 transactions that the US won't be inside the Asian investor base.

That hasn't always been the case, it wasn't even the case two years ago, and so that's something we'll obviously need to watch.

ALEX LLOYD, CLIFFORD CHANCE: Speaking of execution, the Reg S market doesn't require a registered broker deal in the United States – since you're not making sales within the United States. One of the things that I have seen, in parallel with the growth of the Reg S market, has been the entry of other financial institutions as potential underwriters or financial advisors. That's partly because in the old days when you had to have a 144A portion that meant you had use a registered broker dealer in the US. It created a natural oligopoly, I suppose. That is being eroded by the fact that you can do the deals without having to go to the US.

IFR ASIA: SO WHAT DO WE THINK ABOUT THAT? DOES IT MEAN A MORE DISJOINTED EXECUTION PROCESS? DOES IT MEAN ISSUERS AREN'T MAYBE GETTING THE BEST PRICE FOR THESE TRADES?

FRANCIS HO, CLP: Banks always remind issuers, like CLP, that there can be an optimal number of arrangers or bookrunners. That's very true, but obviously as corporates, we also look at other factors, like our relationships, and how we can engage with investors in different geographical locations or different sectors.

I would say that it takes greater skill for both the bankers and the corporate to do a deal in the best way. We are all facing this reality. More financial institutions with their base in this region have now come to the market. Since the global crisis, we always heard from banks, whether it's the top-tier banks, medium-sized or smaller regional banks, that they have the full capability to do this.

MARC LEWELL, JP MORGAN: It's obviously always going to be self-serving from banks to say, "We should only use two or three banks on a trade." I'd be interested to hear from Bryan as to what he thinks is optimal. What we've always said to issuers is, "We understand you have a lot of obligations because of your other corporate relationships or lending relationships."

Many issuers don't go to the market very often, and it's one of relatively few opportunities to reward those relationships.

For best execution, there are diminishing returns beyond three or maybe four lead managers on a transaction. In a strong market with a straightforward transaction, those diminishing returns are relatively mild and one can get away with having 5 or 6 or 27 lead managers. In more challenging transactions or more challenging markets, the danger with having too many lead managers is that everyone is happy for it to be someone else's responsibility when things aren't going well. You don't have the accountability either on the investor side or on the issuer side. When you have three firms on the phone, it's very clear that those three people are responsible for the trade.

IFR ASIA: THIS IS VERY MUCH A REG S, A VERY MUCH ASIA PHENOMENON. IT DOESN'T HAPPEN IN THE US, DOES IT?

MARC LEWELL, JP MORGAN: In the US, not so much, because I think lending relationships are less dominant and there are fewer large institutions that are dominant in the US. In Europe it does happen for similar reasons, maybe less frequently than we see in Asia. In Asia it's clearly got bigger and bigger because, particularly in China, there are lots of institutions that are involved.

I think there is a perception from some issuers that some of these institutions bring in additional demand. Again, it's self-serving from a global financial institution, but my experience is that there are limited additional orders that really come in that way. People that want to buy a security will come into a security, because it's out there and everyone knows it's out there.

From an issuer's perspective, in recent markets they haven't seen any downside in adding extra banks. Therefore if they get promised some upside, it's very understandable for them to add extra lead managers.

If I was an investor I would be more comfortable knowing that the deal was more managed in a more concentrated manner, but Bryan's probably more qualified to talk about that.

BRYAN COLLINS, FIDELITY: I completely agree with you. There is an optimal number. Too few can be problematic, especially depending on the credit. Too many is typically problematic. The types of leads also matter as well, and there's a strong correlation with the underlying credit quality as to the number and some of the types that are participating. Also, to be really frank, we've got to be mindful of who are the leads. Too many, and the deal can often just be chaotic. Only one just means that others will spite it, which can also have implications.

We look at the lawyer, the auditors and obviously the fundamentals and the pricing, and this all impacts secondary market conviction. If we don't have that strong conviction that the primary deal is going to be placed well, we don't buy it. We'll buy it cheaper in secondary – that's usually the way it works.

LORNA GREENE, NAB: On the flip side of having what may be perceived as too many leads, if you have too few leads it's perceived as not liquid enough – and we were consistently getting this feedback from investors over the course of this year. So some investors are actually coming through saying, "We need at least three lead managers, otherwise we can't participate," because of the perceived liquidity that it brings.

BRYAN COLLINS, FIDELITY: There is enough evidence of that, especially as you come down the rating spectrum or to less frequent issuers. It's different if you've got a whole curve and it's different if you're a very high quality issuer. For those first-time issuers or down the rating spectrum, one is typically too few.

IFR ASIA: I TAKE YOUR POINT, 27 BANKS DOESN'T NECESSARILY MEAN A BETTER SECONDARY MARKET. BUT HOW MUCH SUPPORT DO YOU REALLY GET FROM A VERY SMALL GROUP?

"A fair number of companies – like CLP – will accommodate both 144A and Reg S in their documentation. We also understand the incremental costs for the documentation are minimal"

MARC LEWELL, JP MORGAN: Where there's 27 banks, I don't think Bryan can legitimately go to any one of those 27 and say, "Guys, this is your trade, it's got your name on it, you've got to look after it." I think if you've got 2 or 3 banks, absolutely, he can have more leverage.

FRANCIS HO, CLP: I recall that close to the global financial crisis, CLP Power had one experience where we worked with a group of banks, perhaps 4 to 5 banks, to do a Reg S bond, very small size. Because of what was happening in Europe and US, we had daily update calls for one month before we could pull the trigger.

That requires perseverance, a very good mind set and the same objective for the whole team working our transaction. I believe that was a good test for both the issuer and the banks, how they could sort out their differences, decide to go or not go, and work out how to get a deal done.

IFR ASIA: WHEN YOU GET INTO DISTRESSED TERRITORY, DOES A REG S PIECE OF PAPER GIVE YOU ANY LESS RECOURSE AS AN INVESTOR THAN A 144A PIECE OF PAPER?

ALEX LLOYD, CLIFFORD CHANCE: No. Your recourse would be based on what's in the terms of your instrument. Now I think it's probably fair to say that the type of investor may be different. If you're in a distressed situation and you distributed to the 144A market there is a tendency that you'll have a different type of distressed investor holding your paper. That will have a significant impact on the issuer.

IFR ASIA: OKAY, SO DOES A REG S ISSUE PROTECT YOU FROM A US CLASS-ACTION LAWSUIT, FOR INSTANCE?

ALEX LLOYD, CLIFFORD CHANCE: No. The initial issuance, to the extent that it is not placed in the US, is not subject to the anti-fraud and disclosure provisions of the federal securities laws, but secondary trade in a Reg S security can flow into the US.

When you enter into a distressed situation, the first thing you have to work out is where are your holders. Just because you initially issued it in a Reg S format, doesn't mean that you're ring-fenced and you have no US investors. A Reg S issue comes with various holding periods, but as those holding periods expire you can sell into the US to US investors. The Reg S/144A distinction isn't particularly important in terms of who is the investor base in a distressed situation.

One of the things that does tend to happen is the Reg S market tends to be an English law market, as opposed to the sub-investment grade or high-yield market, which tends to be a New York law environment. That does become important when you go into distressed situations. There are different laws around bondholder meetings, the ability to consent or to exchange, for instance.

I've seen it happen, in fact, relatively recently with one large issuer, where a company in distress has a series of bonds out there. Some of them were packaged as Reg S and sold under English law. Some of them were 144A and sold under New York law. That becomes very complicated then because the rights of holders, the duties of trustees and so on, are somewhat different between the two legal regimes.

BRYAN COLLINS, FIDELITY: I completely agree with what you said about the nature of your investor. It obviously depends on the company or the entity as to why it's in distress and its prospects. That's going to really drive any restructuring. It might be a spurious correlation, but there are a couple of relatively high-profile cases in just the last year or two where you typically found a speedier resolution – probably even a better resolution – for corporates that have access to both Reg S and 144A, for all the kind of reasons that we've been talking about. You've potentially got some slightly better quality credit – not necessarily a higher rating, but you've probably got a better management team, and a greater willingness to engage with creditors.

IFR ASIA: THAT'S ENOUGH DOOM AND GLOOM! JESSICA AND FRANCIS, YOU BOTH ISSUED GREEN BONDS IN THE NOT-TOO-DISTANT PAST. GIVEN WE'RE TALKING ABOUT REG S AND 144A HERE, DOES THE INTEREST IN SUSTAINABLE INVESTMENT IN THE US AND EUROPE CHANGE THE FORMAT QUESTION FOR YOU?

JESSICA GU, KEXIM: Not really. We've done two Green bond issues so far, and I know that we now see Asian investors getting more and more interested in sustainable assets. I guess so far the bonds have been most sought after among US and European investors, but it would be interesting to see how Asian investors adapt to the new investment initiatives around Green bonds going forward.

FRANCIS HO, CLP: We first issued a Green bond for our Indian subsidiary. They did a wind farm, so at the time it was very natural that they borrow from the Green bond market. Then in July this year Capco, the generation company, issued an energy transition bond to support the Hong Kong government's move from coal to gas generation to further reduce emissions. The group has also facilitated the process by setting up a CLP action financing framework. We call it 'action' rather than a Green bond protocol because we believe that we need to take action rather than just having something in black and white.

For the energy transition bonds for the Hong Kong business, we talked to different investors in Hong Kong, Japan, Singapore, Europe, London. We found out that they have very substantial demand even if it's not Green. We could not do a Green bond because it's still thermal power, but we worked with the arranging banks to focus more on the ESG – environmental, social and governance – asset managers, who have a separate mandate for this kind of environmental-friendly financing and development work. We saw very good support.

We believe that the US market is important, of course, but for renewable energy, for more sustainable financing, then the potential demand in Japan, Singapore, Hong Kong, Europe, is very strong. I don't believe there is a strict requirement to go to the 144A market to get a reasonably substantial amount of sustainable financing.

BRYAN COLLINS, FIDELITY: There's been a significant step-up in ESG investing in Asia, really over just the last couple of years. Prior to that it was more about European investors looking to Asia to add some yield to their ESG mandates. Importantly, we've seen that step-up in institutional interest right here in Asia for ESG investing, or low-carbon investing, whatever you want to call it. You can differentiate between different instruments, both for equities and bonds it is more around the ES and/or the G, and that's how we categorise it in our own internal research.

It's important to note that debt is debt and that it's all pari-passu, typically, so you still need to make sure that you're getting the right price.

With relatively high demand but low supply of Green bonds, it's been a pretty attractive proposition for issuers and I wouldn't take issue with that. I think in time we'll see a bit more capital, and there'll be more issuance to target that capital, so we'll probably head back to more of an equilibrium.

MARC LEWELL, JP MORGAN: Overall you still don't have enough dedicated ESG money to drive a trade on its own. It's great to see responsible issuers issuing either Green bonds or ESG bonds so that they develop more of a bond pool to encourage investors to dedicate resources to ESG – it becomes a little bit chicken and egg. It's very important that you have issuers taking their first step to then allow the ultimate asset allocators to put money into ESG portfolios, so that then you get this virtuous circle.

LORNA GREENE, NAB: Of course Green bonds are also bought by investors who are just buying purely because of the credit. So you've still got Asian investors who participate in those transactions even though they're not necessarily buying because it's green.

Having said that, yes, Asia ex-Japan and ex-Australia has been lagging in terms of the real strong demand for ESG and green assets versus European counterparts in particular, but that is changing. We've been seeing that, even just in the last year, there have been a number of new portfolios that have been set up and very large pools of cash that are really focused on this space.

It's very much driven by governments. When we see the government come in and put initiatives in place it really encourages both issuers and investors to focus more on Green bond issuance, then we see that there's quite a significant increase in the bid.

I think the more we see governments in the region encourage this type of investing, the more participation we'll see, and maybe even new dedicated funds being set up.

CLP CASE STUDY

US$500M ENERGY TRANSITION BONDS

Issuer	Castle Peak Power
Pricing date	18 Jul 17
Format	Reg S-only
Rating	A1/AA–
Total orders	US$1.25bn; 86 accounts
Maturity	25 Jul 27
Coupon	3.25%
Reoffer	99.417
Spread	T+102.5bp
Distribution	Asia 93%
	EMEA 7%
	Funds 54%
	Banks 22%
	Insurers/sovereigns 23%
	Private banks 1%

Source: IFR

BRYAN COLLINS, FIDELITY: You can see that actually in the Reg S market. If we focus on issuance from India and China, we've seen significant amounts of investment in environmental remediation or renewable energy, which has been government subsidised and government sponsored. It may not necessarily be a Green bond, but it could be financing for

"I would expect that we will see a lot of the issuers that are only doing Reg S now eventually move to 144A as the market gets larger and potentially saturated by a particular type of country risk or sector risk"

an entity which is subsidised through some kind of tariff programme.

That is totally reasonable appropriate kind of ESG oriented investing, whether you've got a specific mandate or not. If the underlying credit story happens to tick these boxes, then it probably makes sense for a lot of investors, whether it's formalised or not.

The key to ESG investing is just how formal your assessments are, and you've got all sorts of different ways of doing it. You can draw the line at banks, you can include banks; you can do all sorts of other things. It's up to the individual investor as to how specific they want to go. It just means you've got more choice, which is good.

LORNA GREENE, NAB: The other advantage of buying ESG bonds, but particularly Green bonds, is the framework that is in place and the annual reporting on the use of funds. Investors very much like the transparency these provide and they know exactly where their funds are being invested. So even if they're not participating because it's "green", the transparency that they get as a result of the reporting makes it attractive, too.

IFR ASIA: WE'VE TALKED A LOT ABOUT THE REG S GROWTH HERE, BUT IS THERE REALLY ANY LIMIT TO THIS TREND? I THINK THE BIGGEST DEAL WE'VE HAD IN REG S SO FAR THIS YEAR WAS OVER US$7BN – IS THAT AS BIG AS ASIA CAN EVER GO?

MARC LEWELL, JP MORGAN: That's the single largest bank bond in any currency anywhere in the world. I wouldn't think of it in terms of individual bonds, because I think that deal itself, for Postal Savings Bank of China, highlights a lot of what we've been saying – obviously a lot of the core demand for that transaction came from China.

If we think of a lot of Asian economies being somewhat dollarized, at least in their investing mentality, then in some senses when we look at how large can the Asian Reg S dollar market be, it's a bit like saying, "How large can the US SEC registered market be?" It's as large a pool as you want, really.

As we've discussed across the table, you will see trends where the formats will become more important in certain areas. So 144A might become more important in different market conditions. If we just look at dollar bonds rather than Reg S versus 144A, the Asian market will continue to grow with the Asian economy. One would expect more of the expertise in that bond market to be based in the region. Therefore, more of the decision making will be made in the region and therefore the bond market will become more regional. Even when you have US funds investing in this market, the decision-making in those are based in Asia. That's another factor that drives some of the process to be more centred on the Asia time zone.

BRYAN COLLINS, FIDELITY: The market can be as big as it wants to be. There's no limitation on that. The complementary nature of the hard currency and local currency market is obviously a big factor here. It gives us the same access to funding that you might have in the Eurodollar market. That's probably the closest comparable.

If we're looking at a broader Asian market, that's US$14trn-$15trn, including local currency and hard currency, and the hard currency is probably heading towards US$1trn in a couple of years' time. If you project for the onshore RMB bond market over the next 10, 15 years to mirror the kind of growth that we saw in the US market, when that was in its initial stages of opening up, you've got an enormous market in RMB alone. The dollar market will grow along with that as an alternative and supplementary source of funding, particularly for Chinese corporates. We don't want one or the other; having both is a benefit to sovereigns, to corporates, to financial institutions and to investors.

FRANCIS HO, CLP: I think it's about how the GDP will grow and how the companies will grow. If China can further open up and liberalise its currency, then I believe that there can be more and faster growth in the regional markets. I would like to issue in RMB, like I can do in other currencies, like the Singapore dollar, Australian dollar, Japanese yen, and be able to swap in any denomination.

ALEX LLOYD, CLIFFORD CHANCE: I also see the range of products available in the market becoming wider, more sophisticated, more structured as the market matures. You'll start to see everything from more securitisation-type products to more complex mezzanine products and so on. There's no natural limit, but I think it's more a broadening rather than a deepening.

IFR ASIA: LORNA, I KNOW YOU'VE DONE WORK ON THE PERCENTAGES OF ASIAN ISSUANCE THAT GO INTO 144A. WILL THAT EVER GO TO ZERO? WILL THE 144A EVER JUT BECOME A COMPLETELY US DOMESTIC MARKET?

LORNA GREENE, NAB: No, definitely not. There are number of considerations for an issuer, of course. Obviously, the first thing is the volume, it depends – as Mark touched on before – a lot of regional investors here prefer higher-yielding assets, so they've got more of a preference towards Single A, Triple B credits, looking at maybe longer tenors. There's still always going to be a place for the US investor base, if we are talking about accessing shorter tenors that work very well in the US market. It's always important to have some diversification of the investor base for an issuer. If there was any dislocation of markets here in Asia, or for some reason Asian investors became not so active, you also want to always be able to still tap into European and US demand. So it's never going to be the case where the 144A market becomes completely domestic.

IFR ASIA: LADIES AND GENTLEMEN, THANK YOU VERY MUCH FOR YOUR TIME.

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