HONG KONG – TOWARDS A SECURITISATION FINANCING HUB FOR THE BELT & ROAD AND GREATER BAY AREA

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BACKGROUND
SECURITISATION

• Belt and Road Initiative

• Greater Bay Area

• A need to build funding capacity
Global Infrastructure Outlook: Asia will need to invest US$51 trillion through to 2040 in its infrastructure if the countries in the region are to match the infrastructure investment of their best performing peers.

Asian Development Bank: infrastructure investment needs for Asia vary considerably per sector: power (US$14.7 trillion), transport (US$8.4 trillion), telecommunications (US$2.3 trillion), water and sanitation (US$800 billion).

Public sector currently finances around 92% of the region’s infrastructure investment. Public finance reforms are estimated to cover a little less than half of the infrastructure gap, implying that private finance for infrastructure will have to increase dramatically.
LIFECYCLE OF INFRASTRUCTURE

1. Identification
2. Feasibility
3. Construction
4. Start of operation
5. Ongoing operation
6. Renewal, redevelopment or expansion

Stage in life cycle of infrastructure
THE CORE OF SECURITISATION

- Identifying the cashflow(s)
- Isolating the cashflow(s) from other risks
- Using the cashflow(s) to repay an investment
WHY SECURITISATION? WHY HONG KONG?
KEY BENEFITS OF SECURITISATION

- **BUSINESS SIDE**
  Securitisation opens up additional funding sources

- **BANK SIDE**
  Allows banks to distribute the risks which they took on to projects or to SMEs and allows them to free up capital to facilitate further origination

- **INVESTOR SIDE**
  Giving investors access and exposure to the cashflow(s), with as little interference from ancillary credit risks as possible
SECURITISATION

• An additional source of institutional capital, to help build funding capacity

• Relevant to all stages of the lifecycle of infrastructure where funding is required

• Can benefit all participants in infrastructure – developers, banks, suppliers etc.

• Can benefit SMEs
CHINESE SECURITISATION MARKET

Outstanding Chinese Securitisation Market (Billions RMB)

Chinese Securitisation Market Issuance (Billions RMB)
• Can become a market leader in securitisation for BRI and GBA

• Can help identify and remove obstacles

• Can draw on further develop and its existing strengths
  – Finance professionals
  – Market infrastructure
  – Regional location
  – Legal system and dispute resolution
WHAT IS NEEDED FOR SUCCESSFUL SECURITISATION?

- Service providers – arrangers, account banks, professional advisers
- Investment and financing channels
- Access to foreign currency
- Transparency
- Standardisation
- Credit ratings
- Risk management – hedging and derivatives
RECOMMENDATIONS
IDENTIFYING APPROPRIATE PROJECTS, INFRASTRUCTURE AND SMES

• Identify an institution to lead [e.g., HKMC]

• Setting and executing strategies (see next slide)

• Developing criteria
  – For projects
  – For assets, such as project loans, receivables, SME loans etc.
  – For investments in the capital markets

• Supporting origination in line with strategy and criteria

• Building a platform to undertake securitisations
STRATEGIES TO DEVELOP A BRI / GBA SECURITISATION MARKET

- Transparency
- Criteria and Standardisation
- Insolvency and Dispute Resolution
- Fostering Regional Credit Rating Agencies
- Cross-Border Tax Regimes
- Securities Exchanges

A CASE FOR USING SECURITISATION AS AN ADDITIONAL TOOL FOR BRI INFRASTRUCTURE FINANCING
PROJECT CRITERIA

• Components of a development strategy
  – vision and needs
  – an infrastructure master plan
  – sustainability
  – climate change and resilience
  – structured risk management

• Procurement
  – procurement structure and process
  – clear procurement documentation
  – legality and exclusion

• Ongoing operation
  – strong governance
  – experienced management
GOVERNMENT SUPPORT – SOME IDEAS

• Provide grants to help small and non-bank lenders to tap the capital markets

• Establish investment credit to encourage banks to targeted sectors

• Direct guarantees of BRI projects and SMEs (as the Chinese government already does and national and local levels)

• Establish a guarantee programme to support secondary market liquidity of loan portfolios – e.g., Small Business Administration, which has guarantee 626,000 loans since 2008 with a total value of USD 193 billion

• Help to facilitate the data exchange of SME or project loan payment and credit underwriting information

• Encourage regular government securitisation issuances to build investor appetite and understanding
REGULATORY INITIATIVES – SOME IDEAS

• In-bound China investment, e.g., through and expanded bond connect scheme

• Establish a pilot programme for Southbound investment in Hong Kong infrastructure and SME related securitisations (e.g., through bond connect)

• Amending credit rating requirements of Hong Kong QDI

• Encourage private sector securitisation issuances