

About GARP

Membership

FRM Exam

Courses & Events

University Relations

Risk Manager of the Year

Risk Review

Career Center

Resources

Site Map

Contact Us

 **Digital Library** **Risk Academy**

Today's Risk eNews

September 21: Credit Risk - Sovereign Advisers Issues Downgrade Alert on PRC Bonds

Author: **Ellen J. Silverman**

Date: **2004-09-21**

Sovereign Advisers has issued a Downgrade Alert for Long-Term Debt of the People's Republic of China (PRC) to Sub-Investment Grade status due to past defaults by the Chinese Government on sovereign debt issues and the continuing refusal of China's government to honor payment of defaulted external bond issues.

Sovereign Advisers has issued a Downgrade Alert for Long-Term Debt of the People's Republic of China (PRC) to Sub-Investment Grade status due to past defaults by the Chinese Government on sovereign debt issues and the continuing refusal of the China's government to honor payment of defaulted external bond issues. In addition, Sovereign states that it will assign a downgrade rating to trade credit of the PRC as well as to outstanding and future debt obligations of state-owned enterprises of the PRC.

These bearer obligations were issued in British pounds, due to mature in 1960. The Chinese Government Reorganization Gold Loan Bonds were issued as full faith and credit obligations of the Chinese Government. A substantial number of the bonds are held by United States citizen bondholders which constitute a valid claim against the PRC for payment in full of the defaulted Chinese Government obligations, under existing international law.

The Bonds are presently in default. PRC has refused and continues to refuse to pay the claims of U.S. citizen bondholders of these obligations. The individual bondholders' claims have been consolidated under the auspices of the American Bondholders Foundation, which is pursuing payment of the defaulted securities in conjunction with the Foreign Bondholders Protective Council. The cumulative value of the defaulted Gold Loan Bonds claim being asserted against the PRC by U.S. citizens is approximately \$125 billion.

This event is expected to cause a material adverse effect on the PRC's external payments position as well as negatively affecting foreign direct investment and foreign exchange rates. In addition, the pricing and marketability of new debt issues may be adversely affected and foreign participation in Chinese financial markets may be discouraged as well as a direct result of the PRC's posture with respect to refusal of payment of government obligations.

Sovereign also states that "the historical and continuing refusal by the PRC to pay legally valid obligations of the Chinese Government, in violation of international law, represents a form of institutionalized behavior pattern of the PRC, suggesting the probability that such debt defaults may reasonably be expected to recur in the future. The exposure to litigation and the probability of adverse judgments act to create a substantially adverse risk profile for newly-issued as well as outstanding obligations of the People's Republic of China."

Source: RiskCenter.com