



People's Republic of China - Downgrade of Long-Term Credit Rating

Sovereign Downgrade Alert: Default Risk and Interest Seizure by U.S. Creditors Holding Defaulted PRC Sovereign Bonds

(PRWEB) October 27, 2004 -- Investors in sovereign bonds sold by the People's Republic of China in 2003 and again in 2004 may now be subject to litigation exposure and interest attachment risk. Discriminatory settlements of a previous series of PRC defaulted sovereign bonds increases the risk of interest payments seizure of newly-issued PRC bonds by defaulted creditors.

The Global Association of Risk Professionals recently reported that Sovereign Advisers has issued a downgrade for the long-term credit of the People's Republic of China to sub-investment grade status. The justification for the downgrade of the PRC's credit rating is predicated upon the continuing evasion of payment on a series of defaulted full faith and credit sovereign bonds of the Chinese Government. The article may be viewed online at either of the following links:

http://www.globalsecuritieswatch.org/Global_Association_of_Risk_Professionals/Top_Stories.pdf

Fitch Ratings News:

http://www.fitchrisk.com/frm/include/data_content.cfm?news_id=7576&content=news&level=n_detail

An abstract of the downgrade analysis has been posted online and may be viewed at the following website:

http://www.globalsecuritieswatch.org/Sovereign_Rating_Research_Bulletin/China.pdf

The sovereign downgrade research bulletin describes a set of revised risk metrics associated with investment in both outstanding as well as newly-issued PRC government bonds:

Judicial risk (i.e., risk of interest attachment / coupon seizure by defaulted creditors);

Legislative risk (i.e., risk of U.S. trade sanctions);

Liquidity risk (i.e., risk of regulatory agency sanctions imposed on dealers and ban on quotation pursuant to the U.S. Johnson Debt Default Act);

Repayment risk accruing from the "willingness to pay" metric (i.e., reassessment of the PRC's willingness to honor outstanding obligations in the event of future adverse economic conditions); and

International setoff risk (i.e., vulnerability to international setoff, adversely affecting the PRC's balance of payments position and impairing the PRC's ability to maintain current level of external debt).

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