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Securitization In China Helps Link International Investors To Renminbi Assets, Says S&P Report

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MELBOURNE (Standard & Poor's) Aug. 18, 2015--International investors are focusing more on renminbi assets in China, primarily to seek opportunities for asset allocation diversification and the higher returns offered by a prospering economy, according to a recent report by Standard & Poor's Ratings Services. However, uncertainty and an information gap are keeping some investors out of the market.

Ongoing improvements in processes, self-governance, and information transparency, as demonstrated in the securitization market, are likely to help support the development of the capital market, according to the report, titled "China Securitization: Linking International Investors And Renminbi Assets."

"China's securitization market is small compared with its bond market, but its evolution might indicate answers to some questions regarding China's capital markets," said Standard & Poor's credit analyst Vera Chaplin. "Starting from November 2014, several infrastructure enhancements in China's securitization market have helped with the development of issuance efficiency and market self-governance, which has also narrowed the information gap."

For instance, the formal information disclosure requirements in China asset-backed securities (ABS) and residential mortgage-backed securities (RMBS) securitization, set out by China's National Association of Financial Market Institutional Investors in May 2015, have enhanced the transparency of associated risks and enabled professional investors to better understand factors that might affect the performance of transactions. The result has been an increase in interest from international investors.

The participation of international investors benefits China's capital markets. Even without considering the additional capital these investors could provide, a more international scheme supports funding diversity for the issuers and promotes the creation of market infrastructure to meet international standards, thereby sustaining ongoing development.

"More than RMB140 billion in securitization transactions was issued under the two major securitization schemes in China in the first six months of 2015," Ms. Chaplin said. "The transactions reveal a standardized platform for asset collections and how to allocate assets' economic value, the disclosure of more information so that risks could be analyzed, and the isolation of asset sellers' credit risk. As a result, international investors now have an opportunity to reach economic sectors that in the past they could not because of the smaller scale of the issuers or the difficulty involved in finding the value of the assets."

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