

## Recovery Research of 2018 Onshore RMB Bond Defaults

### Recovery Summary of Onshore RMB Bond Defaults

- As of end-2018, the overall recovery rate in the onshore public bond market was around 15.46%, which was lower than the rate in 2017 (28.11%). The decrease in the recovery rate was mainly due to a large number of defaults and a shorter time for asset disposal. However, the recovery rate on the 31 defaulted bonds that have already gone through the recovery process was around 98.34%, which was at a similar level to 2017 (99.24%).
- There are three methods of default recovery, which are debtor-financing, debt restructuring, and involuntary bankruptcy litigation. The involuntary bankruptcy litigation yields the lowest recovery rate.
- The recovery rates on the defaulted bonds issued by state-owned enterprises (“SOE”) were higher than those issued by privately-owned enterprises (“POE”). SOEs have access to a wider range of financial channels than POEs.
- The recovery rates on the defaulted bonds issued by listed companies reported substantially lower recovery rate in 2018 as some shares and assets of the listed companies had been pledged for financing to expand their asset bases. When their bonds defaulted, these listed companies would have difficulties dealing with pledged and restricted assets in a short period of time.
- The recovery rate on the defaulted bonds differentiated among issuers in different regions. The recovery rate on the defaulted bonds of the issuers from Guangdong Province and Inner Mongolia Autonomous Region was 100% and followed by 60% for the issuers from Sichuan, Xinjiang and Jiangsu.
- As of end-2018, the issuers of the defaulted bonds were distributed among 25 industries. The recovery rates on the defaulted bonds from the issuers in hospitality & leisure, and container and packaging industry was 100%, followed by the chemical industry at 70.42%, the metal, non-metal and mining industry at 53.01%, and the building material industry at 46.57%. The recovery rates on the defaulted bonds from issuers across 14 industries, such as electrical equipment, and property management and development were zero. Overall, the recovery rates have not shown any significant correlation to their respective industry characteristics.
- The recovery period is longer with debt restructuring and reorganization under bankruptcy protection methods while it is shorter with debtor-financing and third-party repayments. As of end-2018, the recovery period on the defaulted bonds scattered between 3 months to 1 year (13 issues) and followed by over 1 year (8 issues).

### Advice on Disposal of Defaulted Bonds

1. Strengthen investor protection by including clear definitions and terms relating to a breach of contract and covenants in the offering documents.

2. Improve the recovery framework for defaulted bonds. China should improve the recovery framework such as building a well-established trustee framework and post-default information disclosure system.

3. Promote a market-oriented and judicial framework to address the recovery process.

4. Investors should strengthen and take responsibilities for their awareness of risk and loss.

For more details, please refer to the Chinese report:

《2018 年度我国公募债券市场违约处置和回收情况研究》

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