

**Research Centre for Sustainable Hong Kong<sup>1</sup>  
City University of Hong Kong**

**Policy Paper 5  
Belt-Road Credit Rating Agency (BRCRA): Outlining a Roadmap**

**Drafted by Prof Michael CS Wong<sup>2</sup>  
March 2018**

**Belt-Road Credit Rating Agency (BRCRA): Outlining a Roadmap**

**Important features of Belt-Road Credit Rating Agency (BRCRA):**

- BRCRA focuses on international bonds issued and circulated among Belt and Road (B&R) countries. This aims to strengthen BR countries in financing their infrastructure development and public/corporate sector development.
- International bonds among B&R countries refers to bonds circulated across the borders of BR countries. They include foreign bonds of B&R countries issued or circulated in China domestic market and China bonds issued or circulated to other B&R countries.
- Analysts of the BRCRA are equipped with knowledge and experiences on international credit analysis, international banking and international bond market development.
- The BRCRA can be initially set up in major cities in the Guangdong-Hong Kong-Macau Greater Bay Area, following international standards on providing credit ratings. Then its operation can be extended to B&R countries.

---

<sup>1</sup> Established in June 2017 by a cross-disciplinary research team, the Research Centre for Sustainable Hong Kong (CSHK) is an Applied Strategic Development Centre of City University of Hong Kong (CityU). CSHK conducts impactful applied research with the mission to facilitate and enhance collaborations among the academia, industry, professional service sector, the community and the Government for sustainable development in Hong Kong and the Region. Professor Linda Chelan Li, Professor of Department of Public Policy at CityU, is appointed as Centre Director. In 2017, CSHK is granted by the Policy Innovation and Co-ordination Office of the Hong Kong Special Administrative Region Government to conduct a Strategic Public Policy Research (SPPR) project entitled “Hong Kong Professional Services in the Co-evolving Belt-Road Initiative: Innovative Agency for Sustainable Development” [S2016.A1.009.16S]. For more information about CSHK, please visit our website at [www.cityu.edu.hk/cshk](http://www.cityu.edu.hk/cshk). Please send your comment to [sushkhub@cityu.edu.hk](mailto:sushkhub@cityu.edu.hk).

<sup>2</sup> Associate Professor of Department of Economics and Finance and Centre Member of CSHK, CityU

- The BRCRA will initially focus on rating bonds and debt instruments issued by governments, state-owned enterprises, public service agencies, and sponsors of large-scale infrastructure projects in B&R countries.
- The BRCRA will later focus on *Sukuk* (Islamic bonds) by governments, state-owned enterprises, public service agencies, and business owners of large-scale infrastructure projects in B&R countries. It is important to note that Islamic community accounts for more than 30% of B&R countries and should be properly included in international financing.
- The rated foreign bonds can be listed on the domestic bond market in China. Through "Bond Connect", these bonds can also be traded in Hong Kong and become international bonds.

### **Guidelines on engaging BRCRA**

China may need to set up the following two rules to facilitate the operation of BRCRA and the uses of its credit ratings.

- Rule 1: International bond issuers are required to engage BRCRA for credit ratings if they intend to issue bonds and debt instruments in China domestic market (excluding HKSAR, Macau SAR and Taiwan)
- Rule 2: China bond issuers are required to engage BRCRA for credit ratings if they intend to issue their bonds and debt instruments in other B&R countries, in addition to other country-specific requirements.

Rule 1 aims to protect China domestic investors when they invest in international assets because many China domestic investors have limited knowledge on risk of other B&R countries. Rule 2 aims to provide international investors impartial views on the risk of China bond issuers because they may have limited knowledge on China business environments.

When the BRCRA successfully builds its track records on credit ratings, some B&R countries with no credit ratings agency established are inclined to recognize BRCRA's credit ratings. Some other countries with regulation on credit ratings agencies may go through some agreement with China on mutual acceptance/recognition.

### **Procedures on establishing the BRCRA**

1. Setting up a working task force to outline related organizational structure and funding sources to support the BRCRA.
2. Inviting international experts as advisors or committee members.
3. Engaging full-time executives and employees to implement its operational details.

### **International standards on providing credit rating services**

The BRCRA will comply most of the regulatory standards of HKSAR and EU on credit rating services. These standards are based on the guidelines of IOSCO (International Organization of Securities Commission), covering the following areas: transparency regarding the issuing of debt ratings, quality of the rating process, and accountability of credit rating agencies for their actions, and mitigation of conflicts of interest. By following these standards, the BRCRA will easily get operational license in HKSAR if BRCRA sets up its physical presence in HKSAR. HKSAR CRA licenses are mutually recognized by the regulatory body in EU.

### **References:**

European Commission (2013) "REGULATION (EU) No 462/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 21 May 2013 amending Regulation (EC) No 1060/2009 on credit rating agencies." <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0462&from=EN>

IOSCO (2015) "Code of conduct fundamentals for credit rating agencies (final report)". <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD482.pdf>

Securities and Futures Commission (2011) "Code of Conduct for Persons Providing Credit Rating Services." Hong Kong SAR. <http://www.sfc.hk/web/EN/assets/components/codes/files-current/web/codes/code-of-conduct-for-persons-providing-credit-rating-services/Code%20of%20Conduct%20for%20Persons%20Providing%20Credit%20Rating%20Services.pdf>