Feature - Asia Pacific: PRC banks in loan trading plea

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Loan bankers in China are calling for a relaxation in rules to spur growth in the secondary loans market in the country and help better manage their risk portfolios.

At a conference organised by the Asia Pacific Loan Market Association in Shanghai earlier this month, panellists bemoaned the regulatory hurdles that make it virtually impossible to engage in secondary market trading.

The China Credit Assets Registration & Exchange, a regulatory body established in 2014, is tasked with building a regulated, transparent credit asset exchange market and promoting the transformation and upgrade of commercial banks' business models.

Banks are calling for the removal of two key regulations that hamper loan trading. The first bans partial sell-downs of exposures and the second requires extensive approvals to sell or exit a position.

Unlike elsewhere in Asia, banks in China are restricted from selling down part of a loan. They are only allowed to exit their position entirely in secondary. However, this is subject to approvals from all other members of the lending syndicate and the guarantor. Moreover, every bank intending to trade loans in secondary has to register itself as well as every transaction with the CCRE.

This has left many lenders frustrated as the cumbersome process has made it difficult to manage their portfolios. At times this has also affected primary syndication.

"In cases where a borrower gives us a tight schedule to close and fund a loan, we are forced to close it as a club due to the lack of time for a full-blown syndication. Current restrictions have made it quite impossible for us to manage our exposures through further secondary sell-downs as soon as the loan is drawn," said a senior Beijing-based loans banker alluding to a practice that is common in other parts of the Asian loan market.

Many Asian banks also miss the deadline for commitments in primary syndication due to lengthy internal approval processes. In such situations, they buy the loan in the secondary market after obtaining internal approvals, not too long after close of primary syndication. Such activity is not possible in China because of the restriction on partial sell-downs.

"Typically we would not exit the facility entirely as we want some exposure too," the banker added.

RISK CULTURE

The CCRE has taken steps previously to bolster China's secondary loans market by encouraging the use of one of its platforms to trade deals, albeit in a rather gradual manner.

Last year, it released new guidelines for the use of the credit assets transfer system, including migrating the signing of loan transfer documents online, and introducing a standardised registration process. These changes were intended to create a more transparent and effective trading venue and were based on an existing framework that had not been updated since 2016.

While Chinese bankers hold hopes that regulatory liberalisation would give the country's secondary loan market a lift, not many are optimistic about a change in the risk culture of Chinese banks.

Unlike international lenders, many Chinese lenders prefer to hold on to loans until maturity and rarely sell their positions as they place greater value on the relationship with the borrower than portfolio management. The fact that other regional banks in Asia also take a similar approach is one of the main reasons why Asia's secondary loans market has not flourished as well as in the US and Europe.

"It's incorrect to even call Asia's secondary loans trading activity a proper 'market', as trades are basically done on a bilateral basis between two institutions without much transparency," said a Hong Kong-based loans trader.

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