

A Study on the Legal Issues of Holders Protection in the Panda Bond Issuance Process

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Abstract

With the macro background of the current global economic downturn and political instability, the possibility of default risk in Panda Bonds has increased significantly. Therefore, how to prevent default risks and strengthen holder protection in the Panda Bond market while meeting the basic demands of overseas bond issuers and expanding openness has become an important issue worth studying. To address this issue, it is necessary to first examine Panda Bonds at the “birth” stage (issuance). In the financial information disclosure of Panda Bonds, a feasible model that complies with the supervision of overseas auditing agencies should be sought, which is different from the European Union (EU)’s standards equivalence system and the unilateral registration system in the United States (US). It should provide sufficient space to support the future development of Panda Bonds, without causing excessive impact on the domestic market as in the US model by opening up too much.

Keywords

Panda Bond, Holder Protection, Issuance Process, Information Disclosure

1. Introduction

Despite its launch in 2005, China has issued RMB bonds in overseas entities—Panda Bonds faced a tepid reception from bond issuers due to their stringent registration and issuance requirements. However, the rising global demand for RMB spurred China to take a series of measures, including easing the approval process and relaxing restrictions on raised funds, which led to a Panda Bond boom a decade later. The world economy has experienced a downturn and political instability since the outbreak of the COVID-19 pandemic, causing in-

dustry shocks and defaults in some foreign bond markets (Qian, 2020). According to public information, from 2017 to 2020, there were 59 defaults in the US Yankee Bond market, 3 in the UK Bulldog Bond market, and 2 in the Swiss Franc Bonds market. In the Panda Bond market, most of the Panda Bonds have not entered their payment period yet due to the late start of the Panda Bond market. On the other hand, the credit level of foreign issuers is overall good. As a result, there have been no defaults in the Panda Bond market so far. However, the more mature foreign bond markets such as Yankee Bonds and Bulldog Bonds have recently experienced relative high-frequency default events compared to the Panda Bond market, which should raise awareness in the Panda Bond market. Especially as Panda Bonds gradually reach maturity, the possibility of default risk in the Panda Bond market is greatly increased under the macro background of the current global economic downturn and political instability. Fortunately, globalization has promoted the development of the Panda Bond market, which has brought increased liquidity to China's domestic bond market and promoted the growth of the country's real economy. In light of the above, how to prevent default risks in the Panda Bond market and strengthen holder protection while meeting the basic demands of overseas bond issuers and expanding openness has become an important issue worth studying.

2. Information Disclosure System under the Bond Registration System

2.1. Characteristics of Information Disclosure in the Bond Market

Stocks and bonds are the two most important financing tools in the capital market, both having basic legal characteristics such as “certification”, “liquidity”, and “investment”. Therefore, the overall legal system for the disclosure of information for the two is generally similar (Chen, 2006; Ye, 2010). However, it is important to note that bonds are debt securities, while stocks are ownership securities. The essential differences between the two legal relationships and clarifying the characteristics of bond information disclosure are prerequisites for solving the problem of over-reliance on stock information disclosure for bond information disclosure (Gan, 2014).

Firstly, return and risk. Bonds generally promise fixed-return in a fixed term with the risk of whether the expected return can be realized, while stocks represent residual claims on a company's value without a fixed term, and with a high degree of uncertainty in expected returns and risks. If the issuer goes bankrupt, the repayment priority of bonds is higher, while the value of the stock can only be sought during the liquidation of the company's remaining assets.

Secondly, future cash flows and risks. In terms of systematic risk, bond market risks mainly come from market interest rate fluctuations and inflation, while systematic risks of stocks are mainly economic cycle risks and policy risks; in terms of non-systematic risks, bond risks are mainly credit risks, that is, the issuer's inability to pay interest or principal on time after maturity, while stock

risks are mainly company operating risks. Continued operating risks will inevitably lead to credit risks, but well-operated companies may also experience credit risks, and some temporarily poorly operated companies may have sufficient cash flow to repay bonds (Jiang, 2012). Bonds have relatively more stable returns and lower risks, while stocks have higher both returns and risks. The different sources of risk between the two determine that the focus of information disclosure is different for the two, with stocks information disclosure more focused on a company's operating conditions, while that of bonds are more focused on a company's ability to repay debt. Thirdly, pricing mechanisms. The present value of bonds is the discounted value of cash flows during the holding period using the agreed-upon interest rate or market interest rate, primarily composed of market risk-free interest rates, credit risk premiums, and liquidity premiums, with pricing relatively simple (Wang, 2013). The pricing of stocks is more complex, with the present value being the discounted future cash flows of the company, and the company's cash flows are not as clear and stable as those of bonds, with many factors affecting them, involving the market, industry, and the company itself, which are more volatile. The difference in pricing mechanisms between the two determines that bond information disclosure should focus on the debt repayment ability of the bond-issuing company. Fourthly, the bond issuer's information disclosure obligation is not only subject to contractual constraints, but also to the principles of fair information disclosure under securities laws (William, 1984). As mentioned above, bonds have a "security" nature, and their prices are affected by market expectations. Issuers have an obligation to disclose matters stipulated in bond contracts, and although matters that are not stipulated but may affect their market prices do not fall under the scope of contractual disclosure, the "security" nature of bonds entitles investors to equal access to information, and issuers should also disclose such matters. In international securities markets, the principle of equal disclosure is beneficial to safeguarding the rights of all domestic and foreign investors.

2.2. Construction of the Registration Information Disclosure for Bond Issuance

As mentioned above, unlike stocks where the main source of risk comes from operational risks, that for bonds is credit risk. The investor's decision to invest or not mainly depends on their evaluation of the issuer's character, repayment ability, and guarantees provided. Therefore, the focus of bond information disclosure is the integrity of the issuer and their "special economic ability primarily focused on debt repayment" (Walker, 2003). Any factors that may affect the issuer's ability to repay their debts and jeopardize timely bond repayment should be listed as information disclosure content (Hong, 2015). However, the current regulations on bond information disclosure have overlooked the differences between the two and the issue of "referencing" or even "copying" stock information disclosure regulations is prominent. Therefore, it is essential to focus on bond characteristics and establish a legal system for bond information disclosure

based on the ability to repay debts. This is especially important since the issues exposed by the current corporate credit bond information disclosure are more comprehensive.

In corporate credit bonds, factors that affect the issuer's ability to repay include direct and indirect factors. Direct factors are related to asset-liability and mortgage guarantees which directly affect the issuer's ability to repay. Indirect factors are related to corporate governance, operations and external environments. Although they do not directly affect the issuer's ability to repay, they can affect the company's operational risks, which may lead to a decrease in profitability and subsequently affect the issuer's ability to repay. To ensure completeness and integrity, both direct and indirect factors need to be disclosed, but there should also be a focus on direct factors.

1) Financial Information Disclosure

Assets and liabilities are one of the main direct factors that affect a company's ability to repay its debts. The more and higher quality assets a company has and the more liquidity it has, the stronger its ability to repay its debts. Conversely, the more liabilities a company has, the higher its financial risks, and the weaker its ability to repay its debts. Therefore, during the bond issuance stage, the focus should be on disclosing the situation of assets and liabilities, the issuer's current ratio, quick ratio, and debt ratio. Among these, the current ratio is the ratio of current assets to current liabilities, which indicates the issuer's ability to repay short-term debt. The higher the current ratio, the stronger the issuer's short-term debt repayment ability; the quick ratio is the ratio of current assets minus inventory to current liabilities, because compared with cash and other current assets, the liquidity of inventory is relatively poor and may have depreciated, so the quick ratio excludes inventory from current assets and better reflects the issuer's ability to repay short-term debt; the debt ratio is the ratio of total liabilities to total assets, reflecting the issuer's ability to pay long-term debt. The higher the debt ratio, the lower the debt repayment ability (Qiu, 2011).

In addition to assets and liabilities, debt protection measures such as mortgage guarantees and third-party guarantees are also direct factors affecting a company's ability to repay its debts. These measures can play a role in enhancing the credibility of bonds externally, so major changes in debt protection measures also relate to whether bonds can be repaid on time (Zhou, 2010). However, the current bond information disclosure lacks attention to changes in external credit enhancement measures and has insufficient disclosure. Therefore, it is recommended that when bonds are issued, the evaluation, disposal, and supervision of mortgaged assets, third-party guarantee contracts and key terms, the financial strength and credit status of the guarantor, and the value of the assets involved should be clearly disclosed.

2) Non-Financial Information Disclosure

Non-financial information disclosure mainly includes investor protection clauses in bond prospectuses and information on the issuer's governance structure, management and operations. a) Disclosure of investor protection clauses.

The investor protection clauses in bond contracts are agreed-upon disclosure items. The purpose of agreed-upon disclosure items is to implement the requirements for protecting the rights and interests of bond investors. For example, by adding restrictive covenants in bond contracts to control the issuer's ability to pay, the purpose of preventing default risks can be achieved. Investor protection clauses are a relatively mature way of protecting investors in the international bond market, which not only play a protective role when defaults occur but also restrain the issuer's behavior throughout the entire bond cycle to ensure timely payment of the bond. b) Other non-financial information disclosure, such as management and others. The company's equity structure, management, and other non-financial factors can also affect the company's ability to repay its debts. Firstly, as creditors cannot directly participate in the company's management, the debt repayment arrangements for bonds are largely subject to internal shareholders and management. For example, major shareholders may lead to uncertainty in the company's development, changes in the company's strategy, investment and other decisions. The board of directors and other management can also affect the company's development through the exercise of decision-making, supervisory, and executive powers. Therefore, significant changes or illegal acts by directors, supervisors, or executives can affect the company's development, profitability, and debt repayment ability. Secondly, the operating and management conditions of bond-issuing companies will on the one hand affect the company's profitability and cash flow status. On the other hand, they have a significant impact on the returns of its bond projects. Both will affect the company's ability to repay its debts. If a company's management is in order and business expansion is stable, its profitability and debt repayment ability will be stronger. Conversely, if a company's management is chaotic and business expansion is disordered, its profitability and debt repayment ability will be lower. Bond information disclosure is centered on debt repayment ability, and matters that affect a company's debt repayment ability should be disclosed in a timely manner. Therefore, it is reasonable for bond information disclosure to include significant matters that may arise from management.

2.3. Overview and Issues of Panda Bond Information Disclosure System

In recent years, China's bond market has accelerated its registration-based reform and opening-up process. Currently, among the four types of entities issuing Panda Bonds in the interbank bond market, except for foreign-registered financial institutions, which still require approval from the People's Bank of China to issue bonds, the other three types of bond issuers, including international development institutions, foreign sovereign governments, and non-financial enterprises, only need to register with the dealer association to issue Panda Bonds.

1) Information Disclosure Requirements for Panda Bond Issuance in the Interbank Bond Market Registration

Compared with domestic ordinary bonds, Panda Bonds require disclosure of the legal opinion of foreign law firms and the consent letter of foreign accountants because they involve foreign issuers. During the bond's term, it is necessary to disclose periodic financial or economic data and major event information. However, compared with domestic ordinary bond issuers, the dealer association has not made specific requirements for the frequency and timing of periodic financial or economic data disclosure for Panda Bonds, but it needs to be agreed upon in advance according to domestic relevant requirements at the time of registration. Relatively speaking, the dealer association has not strictly limited the timing and frequency of Panda Bond term disclosures and has relatively broad requirements for important matters, giving Panda Bond issuers and investors greater negotiating space. However, if the issuer discloses information in foreign securities markets during the Panda Bond term, it must also disclose it in a timely manner in the interbank market.

2) Disclosure Content of Prospectus of Foreign Non-Financial Corporate Debt Financing Instruments

The overall framework and disclosure points of the prospectus of domestic and foreign institutions are relatively consistent, but there are some differences in the disclosure content of certain chapters, mainly reflected in the risk warning and explanatory sections. Foreign non-financial corporate debt financing requires additional disclosure of "cross-border issuance risks, risks of obtaining RMB from domestic and foreign channels", and foreign companies should prompt bankruptcy laws and the legal obstacles that may be faced by trustees participating in cross-border judicial procedures according to their actual legal system.

3) Summary of Issues in Panda Bond Information Disclosure System

Due to the rapid development of the Panda Bond market, the regulatory framework for Panda Bond information disclosure has gradually been established and improved, but the following problems still exist: first, guidelines for Panda Bond information disclosure standards have not yet been introduced; second, the information disclosure form system for Panda Bonds still needs further improvement. From a domestic perspective, the dealer association has already issued a detailed registration document form system for foreign non-financial corporate debt financing instruments, which has specified the information disclosure points during the registration and issuance stage in detail, but the information disclosure during the bond term still needs to refer to domestic enterprise-related regulations. In the future, separate information disclosure standards for foreign entities during the bond term can be considered.

3. Conflict and Coordination in the Financial Information Disclosure of Cross-Border Bond Issuance

When foreign issuers issue Panda Bonds in China, the core issue in cross-border regulatory oversight of financial information disclosure is whether foreign en-

terprises must prepare their financial statements in accordance with Chinese accounting standards or whether they can use their own country's (such as the US) accounting standards. Similarly, when Panda Bonds are issued in China, can foreign enterprises hire their usual overseas audit firms to issue audit reports, or must they hire domestic audit firms in China to issue audit reports? These are the core issues in cross-border regulatory oversight of audits.

On these two interrelated issues, for a long time, China has adopted the European Union (EU) model, emphasizing the principle of reciprocity. That is, China only accepts other countries' accounting standards if those countries accept Chinese accounting standards, and China only accepts audit reports issued by other countries' audit firms if those countries accept audit reports issued by Chinese audit firms. This reciprocity model seems equal and fair, but it has encountered great difficulties in practice. So far, China has only recognized the International Financial Reporting Standards (IFRS) of the EU and the Hong Kong Accounting Standards. Regarding audit issues, China only recognizes audit reports issued by Hong Kong audit firms. Therefore, European companies that use international accounting standards still face technical barriers when issuing Panda Bonds in China because China has not yet recognized audit reports issued by EU audit firms. Only foreign companies that use Hong Kong accounting standards and hire Hong Kong audit firms do not face technical barriers when issuing Panda Bonds on the mainland. As a result, to some extent, the majority of issuers of Panda Bonds are Hong Kong companies.

3.1. The EU Model of Cross-Border Financial Information Disclosure Regulation: Equivalence Recognition

In the cross-border regulatory oversight of financial information disclosure, China has adopted the EU model. The core feature of the EU model is the emphasis on "equivalence recognition". If other countries' supervision of accounting and auditing affairs is sufficient and is equivalent to the EU regulatory system, then other countries' accounting and auditing regulatory rules can be applied in the EU, rather than necessarily complying with EU rules. At the same time, the EU model emphasizes "reciprocity": I acknowledge the effectiveness of your regulatory system if you acknowledge the effectiveness of mine.

1) Application of the equivalence model for cross-border financial information disclosure

The equivalence model is applied to the recognition system of accounting standards. The so-called equivalence of accounting standards means that if the financial statements prepared by a third-country issuer according to its own accounting standards can enable investors to make a similar evaluation of its assets, liabilities, financial condition, and operating results compared to financial statements prepared according to international accounting standards, investors can make the same decisions when acquiring, holding, and disposing of the issuer's securities in both cases. Then the third-country's accounting standards are considered equivalent to international accounting standards (European Union,

n.d.).

2) Market Access and Continuous Supervision of Financial Information Equivalent Model

The EU's equivalent recognition model covers two aspects: access and continuous supervision. When determining whether the recognition is "equivalent", both aspects need to be considered at the same time.

3.2. The US Model of Cross-Border Issuance of Financial Information Disclosure Regulation-Differential Adjustment

Compared with the EU model, the US model is a unilateral model because the US does not rely on any bilateral arrangements for accounting and auditing supervision, but rather handles them through domestic legislation and unilateral decisions. In terms of accounting supervision, the essence of the US's differential adjustment system is that it only accepts its own accounting standards and does not accept that of other countries. Regarding auditing supervision, the US adopts a registration system that allows overseas institutions to register in the US, emphasizing the US's unilateral decision-making power in market access and the long-term unilateral law enforcement power in continuous supervision, which does not rely on bilateral equivalent negotiations or other countries' supervision of auditing institutions. Under the "differential adjustment model" in the US, overseas issuers can use their own country's accounting standards to prepare financial statements, but they must provide a statement of material difference between their own country's accounting standards and US accounting standards, and this statement must be quantified in specific numbers. Compared with the EU's equivalence recognition model, the burden on overseas issuers in the US "differential adjustment model" is significantly increased, which however turns out more friendly to US domestic investors.

4. Regulation and International Coordination of Regulatory Financial Information Disclosure for Panda Bonds Registration

Information disclosure has caused conflicts between China's securities laws and foreign laws regarding financial information disclosure. To coordinate the conflicts caused by information disclosure between the two, China needs to promote the internationalization of the RMB and the opening up of the securities market while maintaining the fair right to information of Panda bond investors. However, the regulation of Panda Bonds also requires a specific set of laws. Relevant laws and regulations, such as the "Interim Measures for the Administration of Bond Issuance by Overseas Institutions in the National Interbank Bond Market", "Regulations on the Administration of Overseas Debt" and "Notice on matters related to the administration of bond funds issued by overseas institutions within China" stipulate that the issuers of Panda Bonds must have the legal rights and qualifications to engage in debt issuance activities and further improve the Panda Bond information disclosure requirements, detailed Panda Bond issuance

rules. These laws and regulations further ensure the stability and transparency of the Panda Bond market.

4.1. “Equivalence Model” of Regulatory Coordination of Financial Information Disclosure for Panda Bonds

RMB bonds are heavily influenced by the EU model in terms of accounting and auditing supervision. For a long time, China has basically adopted the EU’s equivalence recognition model. However, the equivalence recognition model emphasizes both rule and implementation, both of which need government-led measures to evaluate other countries’ systems and recognize their equivalence through a certain process. Therefore, the implementation of the equivalence recognition model requires specific recognition procedures, which China lacks. At the same time, the equivalence recognition model requires bilateral reciprocal arrangements: I acknowledge the equivalence of your system, and you also acknowledge the equivalence of mine. This bilateral arrangement is difficult to achieve and is also a challenge for China’s implementation of the equivalence recognition system.

So far, China’s Ministry of Finance has identified two overseas accounting standards that are equivalent to Chinese accounting standards: international accounting standards adopted by the EU and Hong Kong accounting standards (Li & Zhang, 2016). Although theoretically, this regulation is only applicable to international development institutions, China’s regulatory agencies have adopted a similar attitude in the practice of overseas enterprises issuing panda bonds. Therefore, most issuers of panda bonds currently use Hong Kong accounting standards or international accounting standards adopted by the EU.

The meaning of “audit equivalence” between Mainland China and the Hong Kong Special Administrative Region is not entirely the same as the meaning of audit regulatory equivalence under the EU model. After the EU recognizes the equivalence between the audit regulatory systems of a foreign audit institution’s country and the EU’s audit regulatory system, the approval and registration of EU foreign audit institutions are specifically responsible for EU member states’ regulatory authorities. Therefore, whether there needs to be a bilateral regulatory agreement between Mainland China and EU member states to implement the equivalence system specifically is a disputed issue.

Whether it is the issue of cross-border supervision of accounting or auditing, China’s model is basically a copy of the EU model. However, regarding cross-border accounting and audit supervision issues, the EU has established detailed recognition mechanisms, institutions, procedures, and has evaluated other countries to make and announce recognition decisions to make the equivalence recognition system possible to implement. Although China has adopted the EU’s equivalence recognition system and seemingly adhered to accounting and audit sovereignty and a balanced position, it has not enacted any specific laws, regulations, or departmental rules to implement the equivalence recognition system or proactively evaluated any third country’s accounting standards and audit regu-

latory systems. China's transplantation of the EU model is a "government-led" model, which requires high government capabilities and execution. China lacks the institutional conditions to support the EU model and the technical and human resources to conduct equivalence recognition negotiations. Therefore, in practice, China's regulatory authorities have only completed equivalence recognition of international accounting standards with the EU and Hong Kong and realized equivalence recognition of audit regulatory work with the Hong Kong SAR.

In addition, the EU model not only emphasizes government leadership but also emphasizes bilateral recognition and mutual benefit, using which as prerequisites for market access and continuous supervision. From China's perspective, except for negotiations with the EU and the Hong Kong SAR, there have been no bilateral arrangements for mutual benefit or equivalence since the rapid development of Panda Bonds in 2015. Therefore, the EU model is not universal. China hopes to draw on the EU model, and there is no problem negotiating with the EU; since we apply the "one country, two systems" policy to Hong Kong, which is a part of China, there is no problem in negotiating with the Hong Kong SAR. However, transplanting this model in other countries or regions indeed lacks feasibility. Moreover, bilateral mutual benefit arrangements themselves are very time-consuming and labor-intensive. Reaching similar arrangements with any country is not an easy task. Therefore, in accounting and auditing issues, China has few bilateral arrangements with other countries or regions, and structural problems have emerged in the issuance of Panda Bonds, mainly from the Hong Kong SAR.

4.2. "Differential Adjustment" for Regulatory Coordination of Financial Information Disclosure for Panda Bonds

In practice, due to slow progress in bilateral negotiations under the equivalence recognition model, China has also begun to introduce some practices of the US model in panda bonds, thus forming a special model that consists of the EU model and the US model.

Although China's model is similar to the EU model, there are very few accounting standards that China recognizes as equivalent to Chinese accounting standards, only the Hong Kong accounting standards and the International Accounting Standards of the EU. Moreover, there are even fewer countries or regions recognized by China as equivalent to China's audit regulation, only Hong Kong, which greatly hinders the opening up of the bond market and the development of panda bonds. From the practice of panda bonds, many companies from countries such as South Korea, Australia, Canada, Russia, and Eastern Europe have shown great interest in Panda Bonds. However, due to the problems brought by accounting and auditing, these companies are temporarily unable to enter China's Panda Bond market.

Therefore, finding the possibility of other models, especially finding a feasible model regulated by overseas audit institutions, is an urgent issue that needs to be

addressed for the future development of panda bonds. This model is neither the equivalence recognition system of the EU nor the unilateral registration system of the US. It should not only provide sufficient space to support the future development of panda bonds but also not open up too much like the US model, which could cause an excessive impact on the domestic market.

4.3. Regulatory Path Selection for Financial Information Disclosure of Panda Bonds

After a long exploration, China's future regulatory model should emphasize unilateralism, independent decision-making, and government intervention. At the same time, unlike the natural regional opening model, with the promotion of the "Belt and Road" initiative, China's top-level design role in the regional opening will be strengthened, forming some kind of government-led regional opening model.

1) Approval system for cross-border auditing supervision of accounting and auditing

As for cross-border auditing supervision, under the circumstance that the US differential adjustment system is actually used to allow overseas audit institutions to enter the Chinese market, the fact-based admission of overseas audit institutions is confirmed through the government's case-by-case approval, which may be the future model for cross-border audit supervision of panda bonds. At the same time, the approval system emphasizes case-by-case review on accessing overseas auditing institutions, that is, only to use the audit reports issued by overseas certified auditors for specific panda bond projects in the domestic market. This could be the future.

Furthermore, for cross-border accounting supervision, the differential adjustment system can still be adopted. However, since the differential adjustment system used in China only describes the textual differences between accounting standards and has not completely transplanted the US model, which does not require the disclosure of the quantitative differences in financial data caused by accounting standards differences, China's differential adjustment system is actually the most liberal system for the access of overseas accounting standards, more liberal than the access systems of the EU and the US.

China's adoption of the differential adjustment system is largely a transitional measure to get rid of the EU's bilateral model. In the transition, the US quantitative differential adjustment system is too strict and is difficult for overseas issuers to accept. China "had no choice" but to adopt the Chinese version of the description rather than the quantitative differential regulation system. Moving from the overly strict bilateral model of the EU to the overly liberal Chinese version of differential regulation is like moving from one extreme to another, which can be seen as a natural response under the pressure of opening up to the outside world and developing the market in the early stages of the development of Panda Bonds.

In fact, the current regulatory model for both public and private offerings re-

quires government approval, providing a legitimate and justified channel for controlling the entry of foreign accounting standards and auditing firms. From the perspective of practice, some of the world's top 500 enterprises have issued Panda Bonds to specific institutional investors in China through non-public offerings. However, according to the regulatory practice of Panda Bonds, private issuances of Panda Bonds also require government approval. Therefore, even in private issuances, the recognition of the accounting standards and audit reports from foreign auditing firms by issuers requires some degree of recognition from China's regulatory authorities.

To sum up, on the basis of market mechanisms, such as verification of differential adjustment by domestic auditing firms, the adoption of a government approval system to determine the foreign accounting standards to be used in China, an approach similar to the Japanese model to address cross-border accounting supervision issues may be the future of cross-border accounting supervision for Panda Bonds.

2) The equivalent evaluation system for cross-border supervision of accounting and auditing

The case-by-case approval system is relatively passive and arbitrary, and it is easy to stray far from the top-down design. It is difficult to judge whether Japan's handling of accounting and auditing issues in East Asia and Southeast Asian countries and regions is the natural result of case-by-case approval or the result of proactive planning and implementation. However, the EU adopts an equivalence recognition model, which is largely the result of top-down design. To this end, the EU has established a specialized agency to evaluate the accounting standards of other countries and finally recognized the accounting standards of several countries and regions as equivalent to the EU, and recognized the audit and supervision systems of more than 20 countries and regions as equivalent to the EU. There are also examples of proactive evaluation and top-level design in other fields. For example, in Hong Kong, China, overseas companies are allowed to list on the Hong Kong Stock Exchange. The Hong Kong Stock Exchange evaluates whether the company law and securities law of potential countries (regions) are equivalent to Hong Kong's rules in terms of corporate governance and shareholder protection ([Hong Kong Stock Exchange, n.d.](#)). If it is considered equivalent, it is listed as a "recognized overseas jurisdiction."

In addition to emphasizing the government's case-by-case approval, another development trend for the future development of Panda Bonds may be to proactively carry out top-level design, evaluate the differences between the accounting standards of core countries or regions and China's accounting standards, and evaluate whether the audit supervision of core countries is equivalent to China's audit supervision.

Considering the regional and local characteristics of the international financial market and the attraction of the Chinese market, there may be three types of core countries. First, the countries where overseas institutions that have already or potentially have the intention to issue Panda Bonds are located. Second,

countries involved in China's national strategy, such as countries in the "Belt and Road" initiative. Thirdly, countries that have been recognized as equivalent by the EU or other countries should be taken into consideration. The government should actively evaluate the accounting and audit systems of potential countries and determine which countries' accounting and audit systems are similar to those of China, or can be accepted by China, and provide guidance for market entities to determine the model that complies with the supervision of foreign audit agencies, which is something that the government needs to do in the future.

Of course, the government's decision on whether the accounting and auditing systems of overseas countries are equivalent to China's systems should only be one of the reference factors for investor decision-making, rather than a mandatory admission condition for the Panda Bond market. If the government's evaluation result is negative, it may mean that Panda Bond investors need to further investigate and pay attention to whether there are potential risks in the investment project, and for the regulatory authorities, it may mean that they should be more "cautious" in reviewing specific projects.

5. Conclusion

As a product of the securitization of loan relationships, Panda Bonds share some similarities with general bond varieties issued by domestically registered companies in the Chinese bond market in terms of "securities attributes" and "collective factors," and also highlight some special features based on factors such as "cross-border and foreign-related". Therefore, theoretically, we can first focus on one of the system engineering of Panda Bond holders' protection by focusing on the key special issues of holder protection in information disclosure in the Panda Bond issuance process.

The issue of investor protection in information disclosure in the Panda Bond issuance process is mainly the conflict and coordination issues in financial information disclosure in cross-border bond issuance. Information disclosure in the bond market has its uniqueness. The main risk of bond investment is credit risk, and the focus of information disclosure is on matters that affect profitability and debt repayment ability. For foreign bonds, information disclosure has caused conflicts between domestic securities laws and foreign laws, particularly in the area of financial information disclosure with respect to the manner, content, and subject of disclosure. Regarding the above issues, the core feature of the EU model emphasizes "equivalence recognition". If other countries have sufficient regulation of accounting and auditing matters that is equivalent to EU regulatory systems, then accounting and auditing regulatory rules of other countries can be applied within the EU. The US has adopted a "differential adjustment" coordination model, such as exempting certain disclosure requirements of foreign issuers, adopting international disclosure standards, and reducing the requirements for internal control reports and their attestation reports, while maintaining the interests of domestic investors and the integrity of the securities market. China's cross-border regulation of Panda Bonds has basically adopted the EU

model. However, China has not yet enacted legal, regulatory, or departmental rules on the equivalence recognition system of financial information disclosure for Panda Bonds, nor has it proactively evaluated any third-country accounting standards or auditing regulatory systems. From a practical point of view, China lacks the institutional conditions and technical resources to support the EU model, and the Panda bond market has not reached the same level of market development as in mature capital markets in developed countries. Therefore, in the financial information disclosure of Panda Bonds, a feasible model that conforms to the regulation of overseas audit institutions should be sought. It should not only be different from the EU's equivalence recognition system but also different from the US's unilateral registration system. It should provide enough space to support the future development of Panda Bonds and should not cause an excessive impact on the domestic market, as the US model does.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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