Silk Road Bonds

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In 2013, a "Belt and Road" development strategy was announced by the Government in China, the key objective of which is to provide much needed infrastructure along major economic corridors within Asia and extending to the Middle East, Africa and Europe, thereby promoting economic growth and improving living standards. Of course, developing infrastructure requires raising significant amounts of finance, which is difficult in countries with less developed financial markets, where connectivity with the international capital market is underdeveloped.

On 8 September 2016, ICMA and Dagong Global Credit Rating Group (Dagong) jointly hosted a conference – *Belt and Road Summit: Financing Through Silk Road Bonds* – in Hong Kong, at which the concept and challenges of "Silk Road Bonds" were explored. Silk Road Bonds are intended to be an internationally recognised asset class, appealing to investors due to highly sought-after yield and diversification benefits, while capable of being scaled to provide the volume of funding required for "Belt and Road" infrastructure.

Without doubt, it will require concrete efforts and consensus among the key stakeholders and the capital markets to make the concept of Silk Road Bonds a reality. "Belt and Road" infrastructure and Silk Road Bonds already benefit from high level support from the official sector, regulatory bodies, multilateral organisations as well as from the industry, whose ideas, views and expertise will serve as essential building blocks in their evolution. In addition, ICMA and Dagong have set up a Silk Road Bond Working Group in Hong Kong to help drive the development of Silk Road Bonds.

The Working Group, which had its inaugural meeting in September, comprises financial institutions, multilateral development banks, law firms, credit rating agencies and audit firms which are active in Asian markets – a combination which ensures as wide and diverse a pool of expertise as possible. Its main areas of focus will be: engagement with the key stakeholders whose support is critical to the success of the initiative, including the Chinese authorities, authorities of other "Belt and Road" countries, multilateral development banks and investors; agreement of a set of principles for the issuance of Silk Road Bonds; and assessment of the risk appetite amongst investors.

The Silk Road Bond Working Group is currently refining the definition of Silk Road Bonds, with a focus on "use of proceeds" to ensure that the proceeds are actually benefiting "Belt and Road" infrastructure. Other priorities of the Working Group will be the additional credit risk of the issuing countries, third party certifications and potential external support mechanisms, for example from sovereigns or supranationals.

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