

Menzies, Brian FIN:EX

From: Menzies, Brian FIN:EX
Sent: Monday, July 4, 2016 6:32 AM
To: Mills, Shane PREM:EX
Subject: Panda Bonds

ISSUE: Suggestions that BC-issued Panda bond investments are being used as collateral by wealthy Chinese investors to buy residential real estate in Vancouver. UBC professor Tom Davidoff—who has also been a leading advocate that Chinese investment is fuelling prices—commented. Prof. Davidoff was told before his interviews by both the ministry and HSBC that the premise was inaccurate.

KEY MESSAGES:

- **Suggestions that issuing the Panda bond has anything to do with investment in the Vancouver real estate market are completely wrong. There is no connection at all.**
- **The bond was entirely purchased by institutional investors – banks, insurance companies, etc.—on the China Inter-Bank Market. It is not open to retail investors.**
- **China’s inter-bank bond market is not open to retail investors – neither as primary purchasers nor secondary purchasers.**
- **The joint lead managers for BC’s Panda Bond report that there has been little, if any, secondary trading of the bond, and any such trading was among institutional investor**

SECONDARY

- **After issuing the bond, the proceeds were banked in a fixed-interest-rate term investment that is expected to yield approximately CAD\$13-million net income based on the current exchange rate.**
- **Our intent is to use the proceeds to support the operations of the Province’s trade and investment office in China.**

BACKGROUND/FACTS:

The three-year-term bond, priced at 2.95%, raised 3 billion Renminbi (RMB), or about \$665 million Canadian. Proceeds were immediately reinvested in an offshore RMB-denominated investment with Singapore’s United Overseas Bank, which will generate a positive return for taxpayers and protect against foreign exchange risk. Net income on the RMB investment will be used to support and expand the Province’s trade and investment offices in China.

Panda bonds are not Canadian-dollar-denominated. they are issued in RMB/Yuan, and trade solely on the China Interbank Bond Market (CIMB) or the domestic Shanghai/Shenzhen stock exchange.

We have confirmed that HSBC Canada does not provide collateral loans versus RMB and/or RMB denominated product. It is our understanding is that likewise Canadian banks do not extend loans versus RMB assets (e.g. Scotiabank has confirmed this).

There is no settlement bridge to bring Panda bonds into Canadian market (CDS), and there are no credit

derivatives to replicate BC's Panda bond credit profile and/or engineer into a product that IISBC would accept as collateral.

Brian Menzies, MA
Chief of Staff to
The Honourable Michael de Jong
Minister of Finance & House Leader
Government of British Columbia
Canada
Cell 250-882-0679

Menzies, Brian FIN:EX

From: Menzies, Brian FIN:EX
Sent: Saturday, July 2, 2016 1:07 PM
To: Edwardson, Jamie GCPE:EX
Subject: Fwd: CHAN: Eby/Davidoff - Panda Bonds

Questions re interest rates at the end?

Brian Menzies, MA
Chief of Staff to
The Honourable Michael de Jong
Minister of Finance & House Leader
Government of British Columbia
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Cell 250-882-0679

Begin forwarded message:

From: <tno@gov.bc.ca>
Date: June 30, 2016 at 6:52:15 PM PDT
To: Undisclosed recipients;;
Subject: CHAN: Eby/Davidoff - Panda Bonds

CHAN (Global BC - Vancouver)
Global BC News Hour
30-Jun-2016 18:10

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