



ALLEN & OVERY

50^o *East*

Under pressure: Funding options in an uncertain world

Part of a global study into changes in economic influence

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Ed.



50° East

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Foreword



Philip Wood

Special Global Counsel, Allen & Overy

Banks and capital markets are like great lakes. They collect all the droplets of the people's savings and then use these massive waters to irrigate the land. They irrigate the land in the form of enterprises, fabrications and construction.

This ideology, that the savings of the citizen should be funnelled through intermediaries so that the productive wealth of the citizen is redistributed under management, is an astonishingly simple idea. It is one of enormous efficacy, at the root of all economies with any sort of hope for the future. But like all useful inventions, credit involves huge risks.

It is therefore not surprising that the more than 1,000 business leaders we surveyed should have been so eager to express their emphatic views about the future of funding and what their expectations are.

They express their aspirations about how much credit they will need and their expectations

about its availability. They express a view about its cost. They state whether they want credit to be provided by banks or equity investment or debt capital markets. They pick the currencies they prefer. They rank the world's stock exchanges for the future.

There are some quite striking things about the results. The first is that nobody seems to want a different system or to go back to some pastoral past. The second is the sense that all of this is not going to be cost-free forever. The third is that business people now are quite used to the idea of accessing credit anywhere in the world with the result that cross-border links are likely to increase. The greater interdependence must give pause for thought as to whether this will lead to collisions or harmony.

The cost of credit is probably one of the most important statistics in the modern world. Since 1971 all currencies have been freed from any link with real things, such as gold, and are

therefore entirely creatures of the legal imagination. Although these qualities were present as long as there has been money, never before has there been such freedom for societies through their central banks to increase the quantity of money, to decide its quality and to determine what it costs. Central banks have virtually complete control over short-term interest rates, effectively the cost of other people's money. Creditors, largely in the shape of bondholders, play a significant role in determining the cost of long-term money. But even here their expectations can be upset by governmental intervention, a remarkable instance of a power which directly affects people's lives in a way insufficiently comprehended by the ordinary person.

The outcomes of how this power is exercised will be a major determinant of whether the hopes and expectations of the executives in this survey are either fulfilled or dashed and whether the majority optimistic view will prevail.

“Since 1971 all currencies have been freed from any link with real things, such as gold, and are therefore entirely creatures of the legal imagination.”



1,054

Quantitative interviews were carried out with 1,054 c-suite respondents in large international businesses across 19 countries.

Executive summary

Following our first report, which focused on the opportunities and challenges facing today's global business leaders (available to download from www.allenoverly.com/50degreeseast), here we look at global business leaders' views on their funding needs and where and how they will source them. It also provides Allen & Overy's view on the challenges that businesses face in meeting their funding needs and how they can best approach them.

Key findings:

- The demand for finance globally is likely to increase or stay the same according to 96% of executives, evenly split between those who expect their need for finance to increase over the next two to three years (48%) and those who expect it will stay the same (48%), with only 4% expecting it to decrease. 57% of Asian businesses surveyed expect their need for finance to increase, compared to only 32% of European businesses. This score rises to 73% of Chinese businesses polled.
- Perhaps surprisingly, the availability of credit is expected to get better over the next two to three years according to 45% of respondents, with 46% expecting it to stay the same and just 9% expecting it to get worse.
- When it comes to the cost of finance the majority (52%) around the world expect it will increase. But the pressures on pricing vary around the world, whether driven by increasing interest rates to battle inflation in developing markets, the market turmoil in Europe and the U.S. putting increasing pressure on bank balance sheets, or increasing cost of capital due to regulatory reforms.
- Bank loans are the preferred option for funding expansion and growth opportunities with 47% choosing it, followed by 25% picking private investment, with debt capital markets third (21%). Executives also say they are more likely (42%) to use bank loans over the next five years. This highlights a potential disconnect between what businesses want and what they may be able to secure from the loan markets over the short to medium term.
- When considering where they will source funds for their major financing needs, a majority (54%) say they are more likely to use Asia Pacific markets in the next five years. The globalised nature of financial markets is underlined by 54% of U.S. respondents saying they are more likely to tap Asian markets over the next five years, while 48% of Chinese respondents say they are more likely to source funds from North America.
- The number of businesses that expect to use renminbi-denominated products is set to increase by 50% in the next five years – with 17% saying they expect to use them within the next year while 26% expect to use them within five years.
- Despite the rise of Asia and the growing strength of its economies, 55% of executives globally still expect the U.S. dollar to remain the world's most important currency for international trade and finance by 2020, rising to 59% for Asia Pacific respondents. The euro was chosen by 21%, while 11% picked the renminbi to be the most important currency by 2020.
- Likewise the bulk of respondents (44%) expect the New York Stock Exchange to still be the most important stock exchange globally by 2020. But with Shanghai polling 19% and London 14%, competition for listings is set to increase.

The A&O opinion

Shifting demand AND ITS challenges

As one crisis fades and another one intensifies, the issue of funding has rarely been more crucial. What's most striking about the responses to the survey is that they may provide a better indication of desire than reality on the part of global business leaders. That is most true of the answers about the availability and cost of credit; for many executives there is likely to be a gulf between what they need in terms of funding and what they will be able to secure.

So why the disconnect? The biggest driver is undoubtedly the current lack of liquidity caused by a powerful cocktail of global turmoil combined with increasingly stringent bank regulation. This is having a disproportionately negative effect in Europe.

Not only are the European banks facing potential sovereign exposures but they are also now factoring in the likely shortage and cost of capital once Basel III is implemented

in 2019. The pressures on them to raise additional capital, which has led many to sell off assets rather than to raise expensive new capital, combined with the significant risk of governments again imposing conditions on lending if another round of bailouts is required, could see a further contraction of credit across Europe.

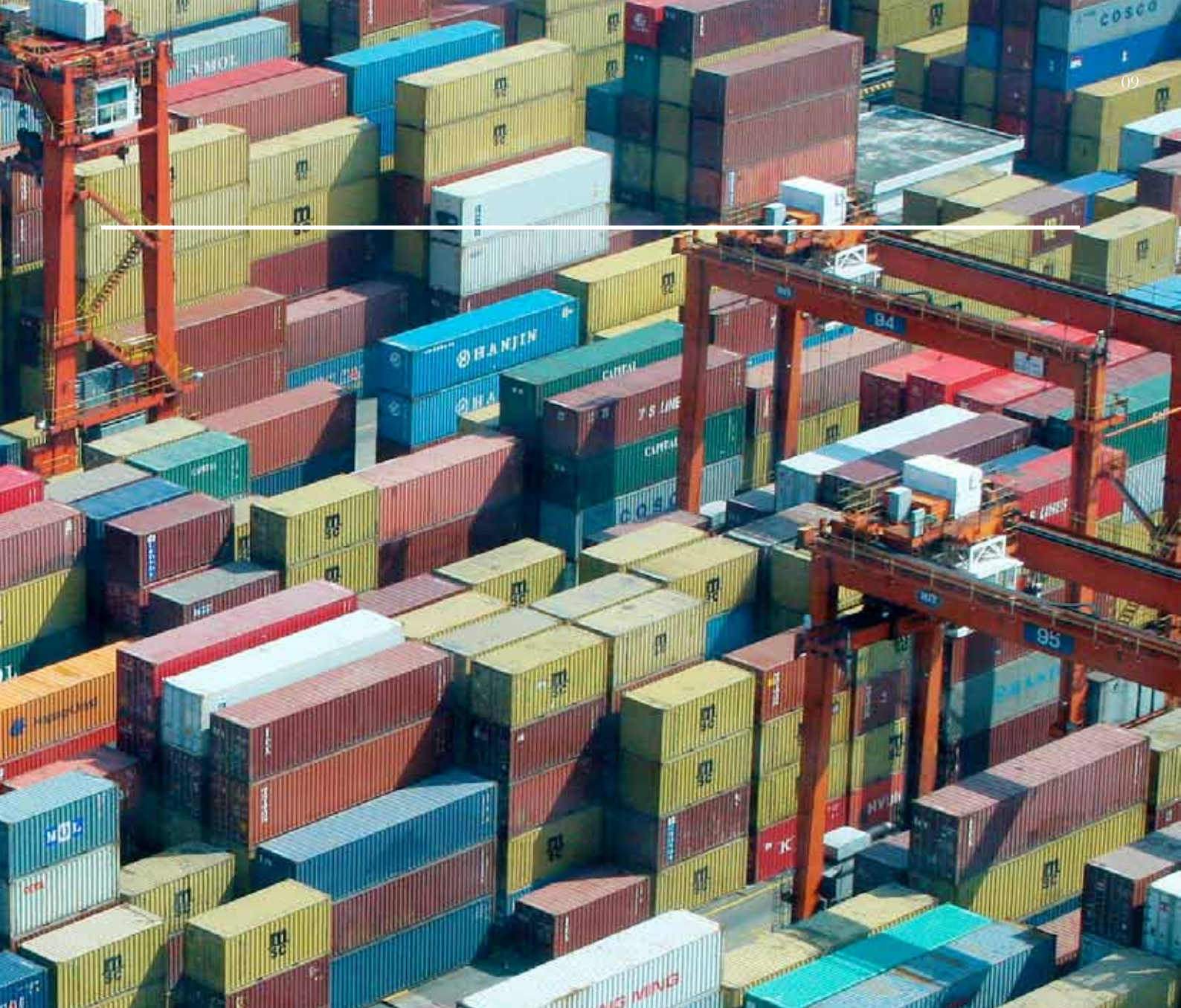
The position for Asian banks is markedly different; they have plenty of capital in strong local currency, only light exposure to the eurozone and they are feeling the competitive benefits of not being subject to Basel III.

In Asia, where many Asian companies feel comfortable dealing with their relationship banks, expectations of competitively priced bank loans may not be so wide of the mark. The 57% of Asian companies – and 73% of Chinese ones – who expect their financing needs to grow in the next three

years (by comparison to just 32% of European firms) may not be so disappointed.

The survey shows that the rise of the Asian banks is not a point lost on business executives globally with demand from outside the region for financing inside Asia set to rise. Four in ten businesses that currently do not raise money in Asia would expect to do so in the next five years while three-quarters of those that already do, think their financing needs in the region will increase.

The preference for bank lending is clear from these survey results. However, we also see that the 2007-08 global financial crisis has brought about a shift in corporate behaviour in many parts of the world towards the capital markets as well as other funding products. Between that crisis and the current one we saw



companies of varying credit standing making the most of cheaper funding available in the capital markets. The surge in high yield bonds, combining with or refinancing senior leveraged debt, is an example of highly sophisticated tools being developed and rolled out in significant volumes during limited windows of opportunity. But we have also seen the worrying vulnerability of these companies when the market window shuts.

Regardless of any gradual shift away from lending, it is important to underscore the fact that banks will continue to be a critical component of the funding mix by providing products that other funders will struggle to provide, such as working capital facilities, treasury and cash management products. They will also be key in intermediating between the users of funding and the increasingly diverse and complex sources of that funding. For example, banks are

beginning to develop new forms of derivative products as alternative funding tools for corporates. They will also play a central role in funding and facilitating the inevitable M&A boom which must surely follow this particular cycle and it seems that they are seeing their strong corporate customers as the players to back.

In developing economies increasing prosperity will also boost the pool of cash available to local capital markets. This is especially true in Latin America where legislation requiring compulsory pension contributions for employees is creating a new pool of capital looking for a home.

Even capital market activity could, however, become more expensive for companies as official interest rates are unlikely to stay at their current historic lows forever. The rising cost of capital may just be a fact of life for companies in the coming decade.

The same is true in Asia where, in a short space of time, we have seen the roll out of renminbi (RMB) denominated products, fuelled by the massive growth in RMB deposits. As we explore in more detail later in the report, RMB bonds are now almost becoming vanilla products for global multinationals but with RMB IPOs and loans around the corner the market continues to adapt and evolve to meet changing demand.

All of this points to increasing diversification becoming the norm as funding becomes more multifaceted and complex. It also emphasises the ability of markets to adapt quickly to changing conditions and to tap into new sources of funding barely anticipated two or three years ago.

“...greater interdependence must give pause for thought as to whether this will lead to collisions or harmony.”

“All of this points to increasing diversification becoming the norm as funding becomes more multifaceted and complex.”

The survey findings

Funding: Demand and supply

The demand for finance globally is likely to increase or to stay the same according to 96% of executives; this is evenly split between those who expect their need for finance to increase over the next two to three years (48%) and those who expect it to stay the same (48%), with only 4% expecting it to decrease.

This highlights the potential impact that any turmoil in the financial markets might have for businesses unable to access the same levels of finance as before, let alone those that expect their needs to grow.

However, the report highlights wide variations in demand for funding between different countries and regions around the world.

The increase in bank lending in Asia looks set to continue over the coming years with the IMF forecasting GDP growth across the region of 6.2% this year and 6.6% in 2012. No surprise then that over half (57%) of Asia Pacific business leaders expect their need for finance to increase in the next two to three years. This compares to only 40% of businesses interviewed outside the region, falling to 32% of European businesses.

UAE and China-based businesses topped the list, with 75% and 73% respectively expecting their demand for finance to increase in the next two to

three years, closely followed by South Korea (69%), Indonesia (68%) and India (57%).

Meanwhile UK (18%) and German (31%) businesses were the least likely to expect an increase. The 64% of European respondents who expect their need for funding to stay the same could be an indication of the volume of existing debt raised in the boom years that is about to mature and require refinancing.

So demand is buoyant. Probably little surprise then that our executives are optimistic the supply will be there when they need it. Almost half (45%) of the executives surveyed think the availability of credit will get better in their market over the next two to three years, while 46% think it will stay the same, and just 9% think it will get worse.

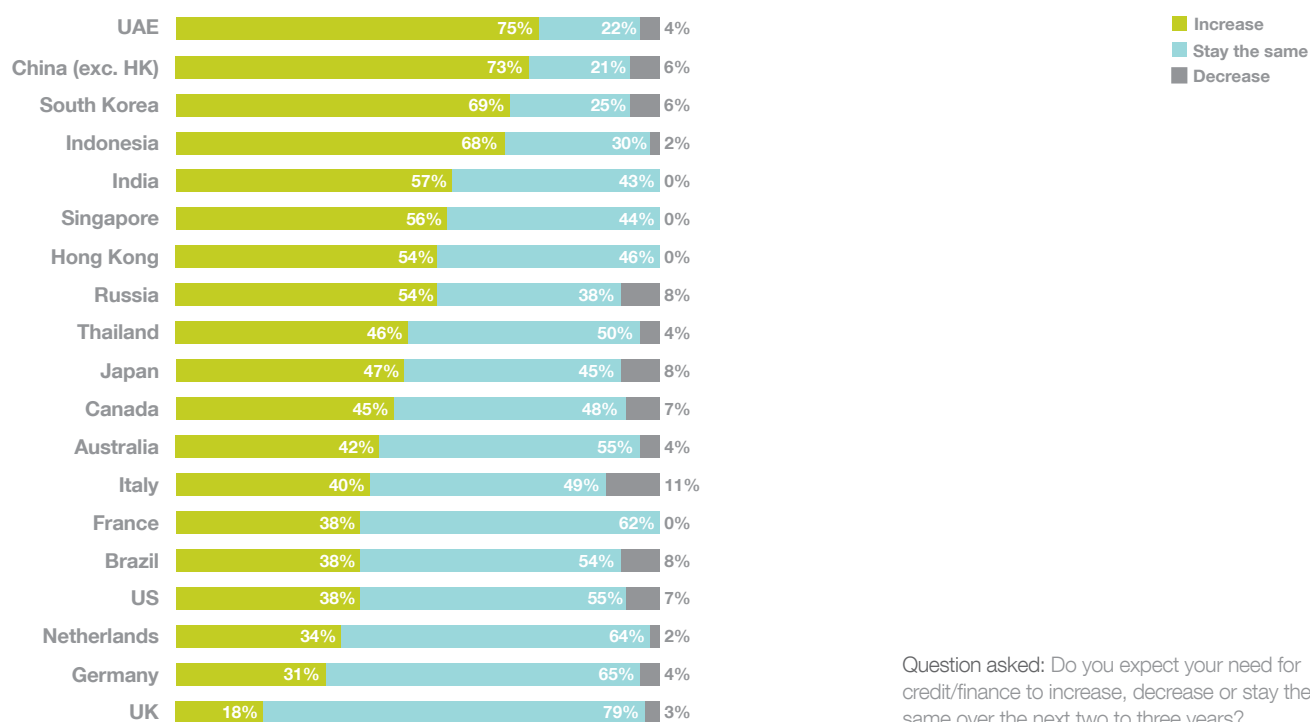
Those watching the drama continuing to unfold in Europe could be forgiven for questioning such optimism. But respondents' perceptions are again driven by their location, with those in high-

growth markets far more likely to be optimistic about the future availability of funding. Executives from the UAE (71%), China (62%) and Russia (60%) were the most optimistic, with a clear majority expecting the availability of credit to improve in their market. By contrast, German business leaders were the least optimistic about the flow of credit improving with just 17% saying they thought it would get better.

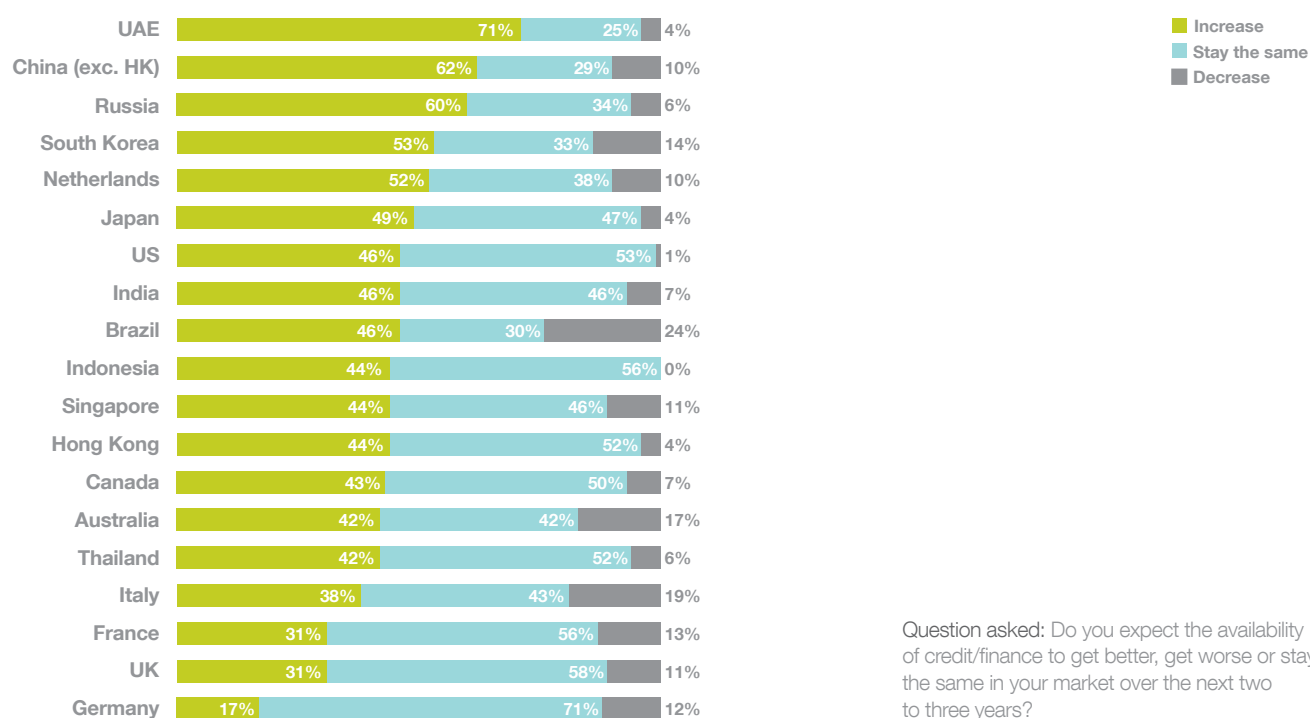
Interestingly, Brazilian executives were the most pessimistic with nearly a quarter (24%) of respondents saying they expected the availability of credit to get worse, followed by Italy (19%) and Australia (17%).

Among executives in the United States only 1% thought the availability of finance would get worse, while 53% thought it would stay the same and 46% expect it to get better.

NEED FOR FUNDING

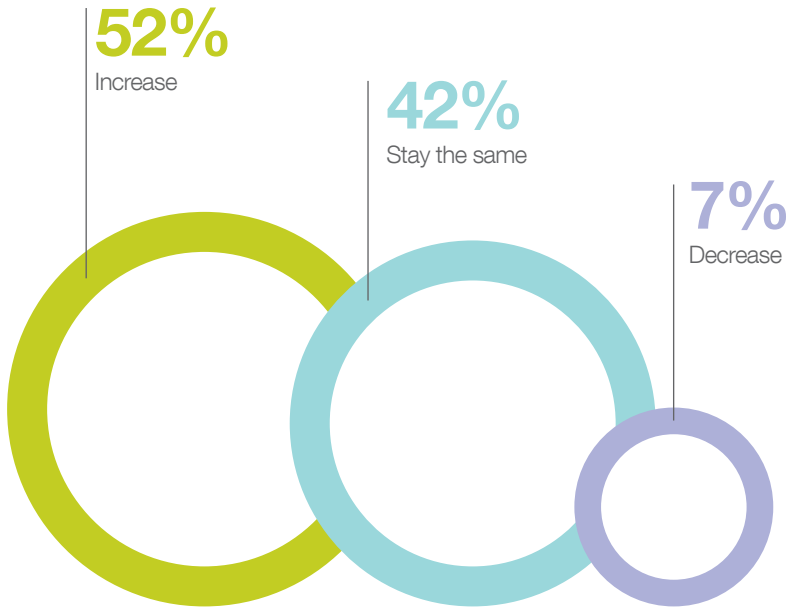


AVAILABILITY OF FUNDING



Cost of funding

FUNDING COST EXPECTATIONS



Question asked: Do you expect the cost of credit/finance to increase, decrease or stay the same in your market over the next two to three years?

Despite executives' expectation that there will be the same or increasing levels of credit available the majority (52%) are in no doubt about the direction in which the cost is going – up. A surprising proportion (42%) seem to think the cost will stay the same, while just 7% are looking forward to a fall in the cost of their funds.

With central banks across Asia raising interest rates to battle inflation it is of little surprise that businesses in some of these markets are more convinced than most that their funding costs will increase. China leads the way with 75% of respondents expecting a rise in funding costs, followed by Singapore,

South Korea and the UAE, all with 67% expecting this to be the case.

But here again Asia's diversity as a market shows through, with only 38% of executives in Indonesia expecting their funding costs to increase. Other countries with less than a majority expectation that cost will go up include Thailand (40%), Hong Kong (44%) and Japan (45%).

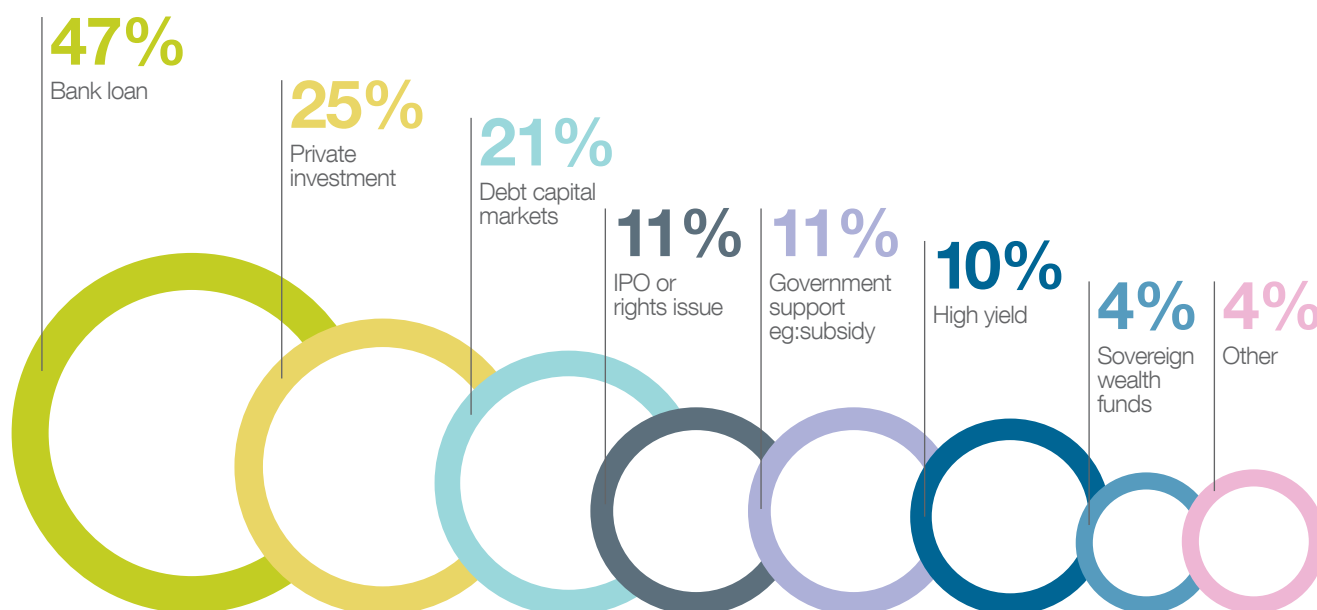
The view on rising funding costs is also not uniquely an Asian concern, with 60% of respondents from Germany, Italy and Brazil all expecting the cost of funding to go up. Meanwhile, over a quarter (26%) of Russian executives expect their cost of funding to decrease.

75%

Of Chinese executives expect their cost of funding to increase in the next two to three years.

Funding types

PREFERRED FUNDING METHOD FOR GROWTH



Question asked: What is your current preferred type of funding or capital raising for expansion and growth opportunities (eg major investments, mergers and acquisitions, new plant etc)?

Despite the financial crisis and ongoing concerns in some markets about bank liquidity, there is still a strong preference for bank lending over other funding types for expansion and growth opportunities.

Nearly half (47%) of respondents chose bank lending as their preferred method, ahead of private investment (25%) and debt capital markets (21%).

The BRICs (23%), led by Brazil (36%), along with South Korea (22%) and Singapore (18%), are twice as likely to turn to government support than any other country or grouping, underlining the role government can play in business in some developing markets.

Overall, bank loans are also expected to become more popular, with 42% of executives globally saying they expect to use them more over the next five years. This is nearly double the 24% who say they expect to use debt capital markets more, while 22% expect to use high yield and private investment more.

But almost across the board, executives appear to expect to use nearly all of the funding options available to them to a greater extent over the next five years. This highlights the growing realisation that businesses will have consider a wider variety of sources and probably several of them in combination in order to meet their needs.

23%

Of BRIC respondents say government support is their preferred type of funding for expansion and growth.

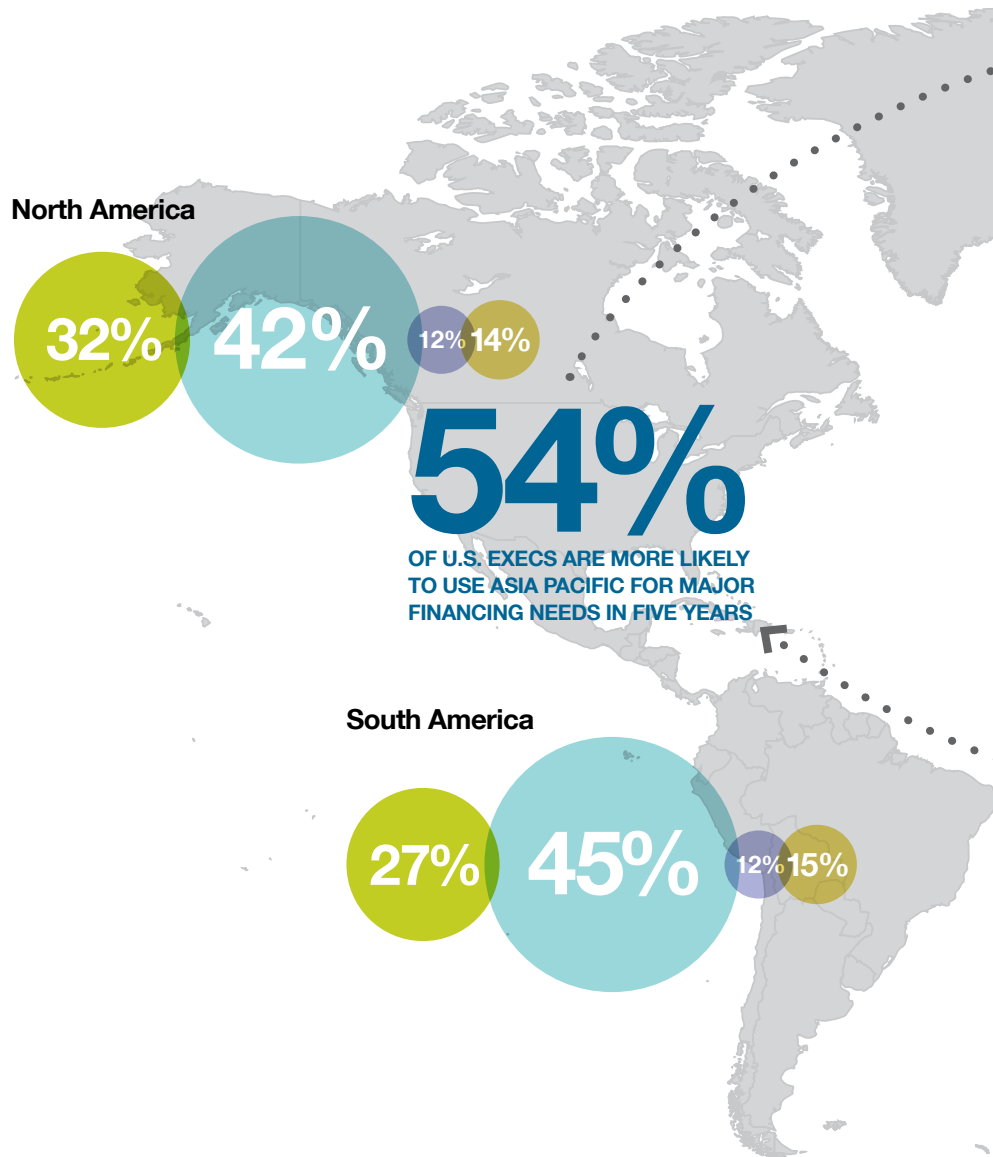
Funding locations

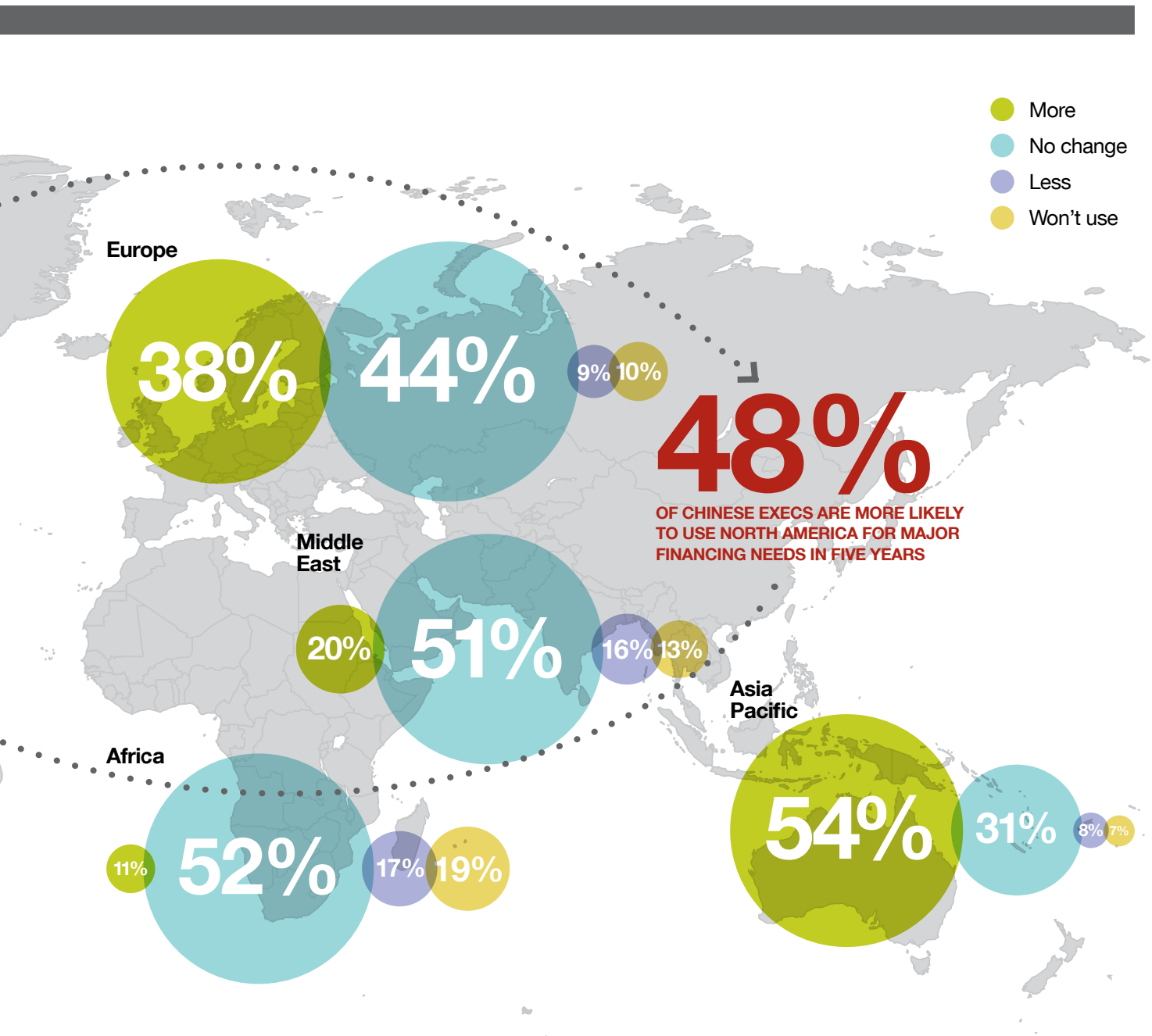
WHERE BUSINESS LEADERS EXPECT TO SOURCE FUNDING

With the highest demand for credit coming from Asia it is little surprise that use of Asia Pacific markets as a source of major financing is also expected to increase. A clear majority of executives (54%) are more likely to use Asia Pacific markets as a source for their major financing needs in five years' time. Significantly, 39% of those who don't currently use Asia Pacific for major financing expect they will do so within five years.

The research underlines the globalisation of capital flows as there is an intriguing mix of where executives expect to source future financing needs. For example, 31% of respondents in China, 30% in India and 20% in South Korea say they are more likely to source finance from Africa in five years time. Europe is also in the frame with executives from Hong Kong (50%), Thailand (48%), Indonesia (48%), the U.S. (44%) and China (37%) expecting to source more of their funds from there.

Executives in the world's two largest economies are equally enamoured with the deep pockets in each other's neighbourhood, with 48% of Chinese executives targeting North America for their future financial needs and a surprising 54% of U.S. executives saying they are more likely to use Asia Pacific markets as a source for their major financing needs in five years' time.

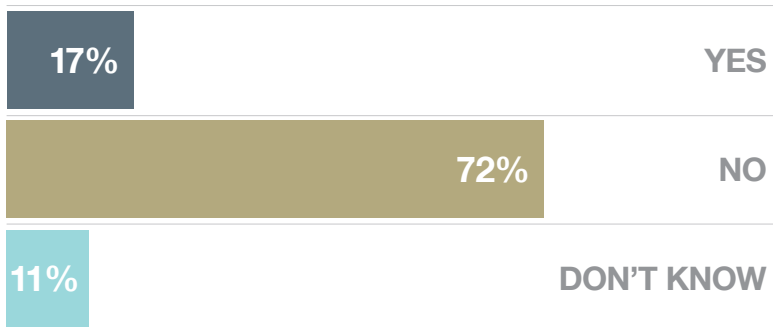




Question asked: Are you more or less likely to use each of these locations as a source for your major financing needs in five years time?

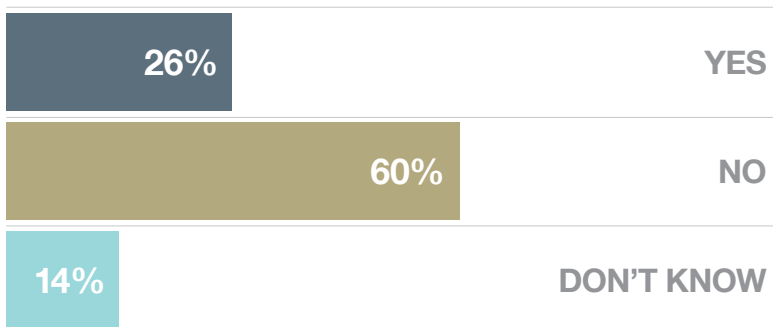
To renminbi or not to renminbi? That is the question.

USING RENMINBI PRODUCTS IN THE NEXT YEAR



Question asked: Do you plan to use renminbi-denominated products for any of your financing needs in the next year?

USING RENMINBI PRODUCTS IN THE NEXT FIVE YEARS



Question asked: Do you expect to use renminbi-denominated products for any of your financing needs in the next five years?

There is no better signal of the rise of Asia, and China in particular, in funding matters than the fact that renminbi-denominated bond issuance surpassed euro volumes for the first time in the third quarter of 2011.

Much may have been due to the turmoil in European financial markets corresponding with the traditionally slow summer months but it underlined above all the potential of the Chinese market for financing opportunities. The recent development of offshore renminbi bonds (also known as dim sum bonds) and other renminbi-denominated products

paves the way for a new (and very critical) funding market to rival the U.S. and Europe.

The dim sum bond market has so far been one predominantly for big, well-known global multinationals such as Unilever, Caterpillar, McDonalds, BSH Bosch und Siemens Hausgeräte, Tesco and Air Liquide among those tapping into this new pool of capital, but the appeal of dim sum bonds is broadening. While an overwhelming majority of the executives we surveyed (72%) said they had no plans to use renminbi-denominated products such as loans

and IPOs for any of their financing needs in the next year, the number of businesses that expect to use renminbi-denominated products is set to increase by 50% in the next five years – with 17% saying they expect to use them within the next year while 26% expect to use them within five years.

Unsurprisingly, the strongest demand comes from Asian respondents, where 33% said they would use renminbi in the next five years, led by China (63%), Hong Kong (56%) and Singapore (40%).

RENMINBI BONDS

One of the biggest challenges for multinationals operating in China is to find effective forms of funding. By having renminbi costs, the natural hedge is to fund in renminbi, making local currency bonds attractive. The predicted dramatic expansion in the offshore renminbi market over the coming years will be driven by the likelihood of a further strengthening of the renminbi, the fact that renminbi deposits far outweigh the amount of renminbi products available to investors and that trade settlement in renminbi offshore is also increasing rapidly.

The demand from investors for offshore renminbi bonds is so much higher than the supply coming from issuers that the cost of

funding for those issuers – excluding any currency appreciation – is relatively low. However, as more issuers come to market funding costs for both global borrowers and China based companies will likely rise.

The big issue for companies currently relates to the repatriation of proceeds to China. But there is increasing clarity as to how this process works and the issue will fade away once the renminbi is fully convertible, expected to happen sooner than many think. It is in China's interest to have the currency freely convertible and therefore allow it to play a bigger role internationally. The key consideration will be to ensure that the pace of convertibility reform does not disrupt the real economy and stability of the currency.

More and more multinationals will tap the offshore renminbi bond market as well as the onshore renminbi bond market (so-called Panda bonds). But there will also be other offshore renminbi-denominated products such as REITs and dual tranche IPOs, which have an renminbi component along with Hong Kong dollar ones launched simultaneously on the Hong Kong Stock Exchange. Offshore renminbi derivative products could be next.

Hong Kong is likely to remain the dominant market for offshore renminbi bonds but other offshore trading hubs such as London and Singapore should help add to the depth of the market as renminbi outside mainland China is freely transferable.

RENMINBI LOANS

The offshore renminbi loans market continues to lag behind the renminbi bonds market with only two syndicated offshore renminbi loan facilities reported to date. We are, however, seeing increasing appetite in the market for renminbi loans, both on a bilateral and a syndicated basis.

In addition to the repatriation issue (similar to that for dim sum bonds), there continues to be no real interbank market for renminbi; liquidity is very much concentrated within the deposit takers. There is a general view that establishing a common renminbi reference rate (eg a HIBOR renminbi rate) would facilitate the growth of floating rate lending and an interbank market, but there are challenges in establishing a reference rate. We have seen the

development of renminbi reference rates representing the cost of renminbi for Bank of China (Hong Kong) Limited and, more recently, The Hongkong and Shanghai Banking Corporation Limited. Hang Seng Bank has also established its own renminbi prime rate. Although these rates represent the cost of funds for individual banks, we have seen certain players in the market accept the use of these rates (whether individually or as a blended rate) as a benchmark in the absence of a fully fledged interbank market.

In the short term, the market will continue to prepare and set itself up for an increase in demand for renminbi loans. The loans market lends itself to standardisation – the Documentation Committee of the Asia Pacific Loan Market Association is putting together optional provisions for renminbi loans for

market standard documentation. The liquidity issues currently being faced by banks and financial institutions for U.S. dollars and Hong Kong dollars may serve as a catalyst for an increase in demand for this product.

In the longer term, it is anticipated that as the renminbi will continue to grow in importance as an international currency, more offshore renminbi centres will be established (Singapore and London are currently queuing up), investments in Mainland China will continue to grow, and the relevant Chinese regulations (especially in relation to repatriation) will continue to be relaxed and/or clarified. Together with these developments, demand for renminbi loans will increase substantially in the long run, and with a wider distribution of liquidity, an interbank market and common reference rate for renminbi may well develop.

RENMINBI IPOs

Future renminbi IPOs in Hong Kong represent another major milestone in the internationalisation of China's currency. For the city, the impact of these IPOs would be to strengthen its position as a world-class offshore renminbi market. It is widely anticipated that more companies, in particular from the mainland, will be likely to choose Hong Kong for their listings, allowing them to integrate with global markets. That should lead to an increase in renminbi liquidity and a rise in demand for the currency.

Demand for renminbi equities is expected to rise after renminbi deposits in Hong Kong

reached a new high at the end of the first half of 2011, with the draw of potentially meaningful investment returns enticing investors away from relatively low-yielding savings accounts. Ahead of full convertibility, the offshore renminbi market can also help insulate the mainland market from international financial crises and bridge the gap in legal and market infrastructure between China and developed countries.

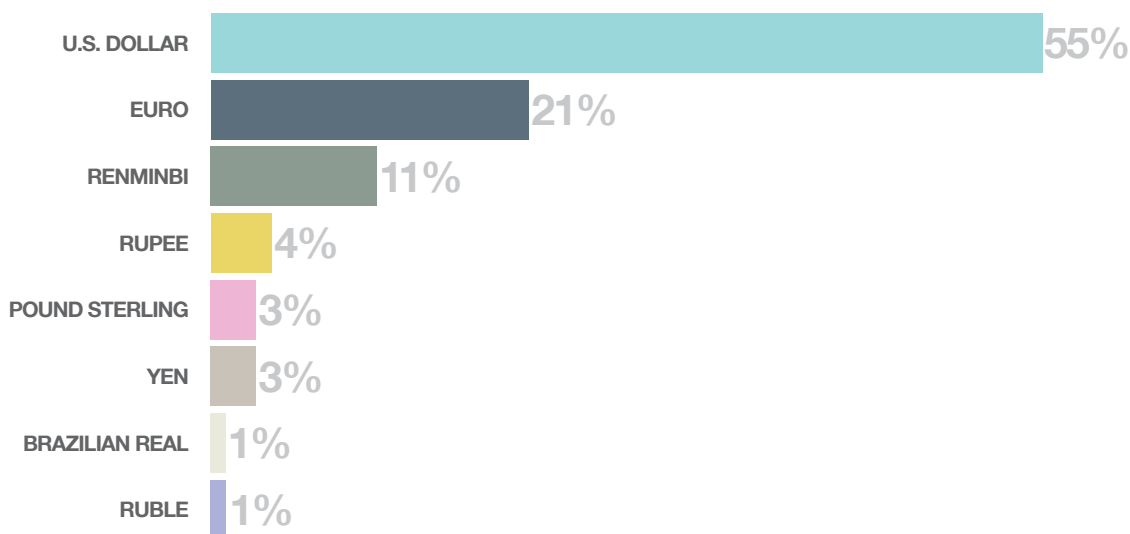
The first wave of transactions is likely to generate high media profile, increasing the attraction to issuers and investors. Foreign exchange risk can also be minimised, particularly for companies with substantial renminbi operating requirements, at the same time as deploying capital for mainland

expansion. Regulatory requirements for repatriation of offshore proceeds are expected to ease in time on the same basis as for 'dim sum' bonds. Eventually, an added benefit is that renminbi shares could attract substantial interest from mainland investors in the future.

But a number of challenges remain, led by questions as to whether there is enough renminbi out there to support both the listings and secondary market activity. As a result the Hong Kong Stock Exchange is due to roll out an renminbi Equity Trading Support Facility in October to stem such concerns. Other market infrastructure, such as dual currency mechanics remain in development mode.

The currency of global trade & finance

TOP CURRENCY BY 2020



Question asked: Which do you think will be the most important currency for international trade and finance by 2020?

Despite the rise in the economic influence of Asia highlighted in our first report there is a sense of the unstoppable meeting the immovable when it comes to some of the ingrained institutions of the global financial markets – namely the dominance of the U.S. dollar and the pre-eminence of the New York Stock Exchange.

Against the background of the continuing dominance of the world's largest economy, the results also show, however, that both in currency terms and for financial centres of the future the world is slowly becoming more multi-polar. That the euro polled 21% in terms of being the most important currency for trade by 2020 might reflect the timing of the survey. But that a third of respondents plumped for it or the

RMB compared with 55% for the U.S. dollar hints at the changing world.

The rich and deeply complex tapestry of the global financial markets is not about to become dull and monochrome any time soon.

When asked what they thought would be the most important currency for international trade and finance by 2020, over half (55%) of the respondents to the survey stuck with the U.S. dollar, including 59% of the Asia Pacific respondents.

The euro managed to grab second place, with 21% selecting it, thanks to majority support from German (56%) and Italian (51%) respondents, while Russian (36%) and French (35%)

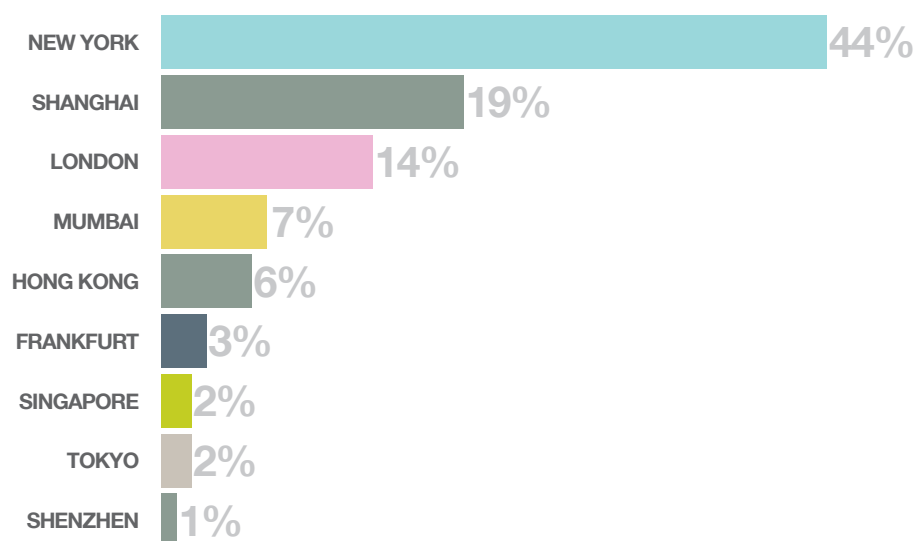
executives also give above average scores, but the expectation from UK businesses is much lower at only 11%.

The renminbi came third on 11% but only a few more Asian respondents (15%) selected it than selected the euro (13%) and just 33% of Chinese businesses picking it.

There was very little expectation surrounding the remaining major currencies including the yen, pound sterling, rupee, ruble and Brazilian real.

New York state of mind

TOP STOCK EXCHANGE BY 2020



Question asked: In your view, what will be the most important stock exchange globally by 2020?

Regardless of the rising Asian influence, the survey results relating to stock exchanges show how the developed markets should not be written off any time soon. New York tops the list with 44% of respondents predicting it will be the most important stock exchange in 2020, despite being heavily regulated, with the recent Sarbanes-Oxley and Dodd-Frank legislation just two prominent examples. This suggests companies – and investors – still place a premium on political stability and regulatory rigour. Respondents in China even chose the U.S. ahead of their own national champions, with 35% opting for New York just ahead of Shanghai (33%). Whether it's an acknowledgement that their greatest rival in economic matters is still a force to contend with or an admission that a listing on the NYSE is

the jewel in the crown they all seek – it paints an interesting picture.

Although New York is far ahead of its nearest challenger for the title of world's leading stock exchange by 2020, the Asian exchanges of Shanghai, Mumbai, Hong Kong and Singapore collectively poll 34%. Turning to Shanghai individually, that it already features so prominently in second place with 19% despite the current restrictions on listings is surprising. What this shows is that the competition between exchanges has never been so fierce. Never before have businesses had such a range of options when it comes to choosing where to list. And if the growth projections are anything to go by, there will be a steady stream of businesses in Asia looking for somewhere to list.

34%

The collective score for the Asian exchanges of Shanghai, Mumbai, Hong Kong and Singapore highlights potential for increased competition.

The A&O opinion



Emergence OF THE Shanghai Stock Exchange

How can the Shanghai Stock Exchange be credibly seen as the second most popular exchange in 2020 when current listing activity there is so limited? It's also not entirely open to foreign investors due to tight capital account controls exercised by the Chinese mainland authorities – so how can it be seen as a credible international player?

An essential component in Shanghai's ambition to become an international financial centre by 2020, is the creation of an international trading board which is speculated to take place in 2012 or 2013. Overseas companies and red chips (companies registered overseas, traded in Hong Kong but with majority of their business based on China's mainland) are expected to be the main force in the international board initially offering RMB-denominated shares to domestic investors.

The rumoured minimum qualifications to list on the international board (the

proposed rules are not yet known) are a market capitalisation of more than RMB30 billion (USD4.7bn) and a combined three-year net income of more than RMB3bn (USD470 million). Its introduction, and the timing of its introduction have come under intense scrutiny for many reasons:

- The prospect of rendering the B-share market (already plagued by low-trading) marginalised if not redundant.
- The potential to expose China to more international capital flow and greater risk.
- The RMB will become more convertible thereby incurring more speculative activity and potential financial instability.
- Foreign companies are likely to have a lower price-earnings ratio than domestic companies listed on the A-share market. If share valuations are too low it may cause instability in the A-share market by draining capital from it.

However, the international board is seen as offering a funding channel for foreign companies by allowing them to raise capital directly and speed up their development in China, ease current inflationary pressure and offer more quality assets to domestic investors. Although draft rules for the international board have yet to be promulgated, we expect the proposed regulatory regime will have to address inevitable issues of conflict, including, importantly, how to address the disparity in approach to corporate governance issues.

The A&O opinion



Where IS IT headed?

This report comes at a time when a wave of European distress seems inevitable, potentially leading to as much or more uncertainty in the global financial markets as we saw in the immediate aftermath of the collapse of Lehman Brothers.

The demand for credit, whether to refinance existing debt or fuel business growth, will require exceptional creativity and resolve on the part of banks and markets. One of the key factors in enabling this demand to be met will be the position that regulators and governments take in encouraging, rather than restricting, the availability of credit. This is playing out at the time of writing in the specific context of the euro crisis summits.

In the meantime, and further away from the troubles of Europe, the Asian institutions and markets are finding themselves in a unique position to roll out new products and to assist a global corporate elite in taking advantage of the current growth opportunities. Another pointer towards the Asian optimism in these troubled times.

PROJECT METHODOLOGY

Allen & Overy developed the 50 Degrees East research to highlight the issues that major businesses are grappling with as the global economy sees a potentially strategic shift of power from developed economies to developing markets, particularly in Asia Pacific. Researchers carried out quantitative interviews with 1,054 C-suite respondents in large international businesses.

Over 50 interviews were conducted in each of the following countries, which include the G8, BRICs and other key Asia Pacific markets, with 100 in the U.S. to reflect its position as the world's largest economy: Australia, Brazil, Canada, China, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Netherlands, Russia, Singapore, South Korea, Thailand, UAE, UK, U.S.

All businesses had at least 500 employees and had international activities, with most having an operation in Asia Pacific and

outside their home country. Companies were selected systematically using available databases and respondents were interviewed by telephone in their native language. The business sectors in which interviews were conducted reflect Allen & Overy's client base, with an emphasis on financial services, tech/media/telecoms, energy, real estate, pharmaceuticals and life sciences and infrastructure. Respondents from other sectors were not excluded and many were recruited from sectors such as manufacturing

In-depth interviews were also conducted with individuals to provide further insights into some of the issues addressed by the survey, as well as to provide case studies on the experiences of businesses developing in Asia Pacific.

All interviews were completed between 4 July and 26 August 2011, with the research provided for Allen & Overy by YouGovStone.

This report was prepared with the help of Richard Milne, capital markets editor at the Financial Times.

Please note, not all scores in this report may add up to exactly 100% due to roundings.

50+ **500+**

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