

Don't catch a falling knife: navigating volatility in the PRC

2015年7月9日

The current volatility in the Chinese stock market has been giving investors in the PRC and the Asia Pacific region generally something of a roller coaster ride as well as producing reverberations globally. China has taken measures to address the volatility in a bid to turn the tide. While some degree of normality has returned at the time of writing, in the past few days, trading in over 1,300 companies has been suspended on mainland exchanges and another 747 companies fell by the 10 per cent daily limit, meaning sellers were locked out of over 70 per cent. of the Chinese market. For some, the extent of the intervention by PRC regulators has raised concerns that there are more intractable underlying issues, whilst for others, there is a sense of unease that intervention is either making things worse or may simply not be enough to stem the tide.

These events have raised a host of issues for our clients. Banks and financial institutions are suspending proposed pre-IPO financings or cannot price derivative transactions referencing A shares, lenders with market linked security are seeing the value of that security tumble, creating pressure on LTV covenants and leading to increased requests from borrowers for waivers, foreign investors with QFII licences are left holding stock they cannot sell while repatriations to meet redemptions are complex and time consuming, and mutual funds are facing redemption pressure which is triggering another wave of sales.

Stepping back a little, with some individuals having lost significant amounts of money, often unknown to those around them, the wider concern is the impact of the volatility on social order. Recent falls in other markets, including commodities, have only served to fuel concern that the contagion may be spreading.

Hogan Lovells has assembled a cross-border team with all the key skill sets and with decades of experience in financial crisis management behind them. They have the ability to guide clients through these turbulent waters, both in the PRC and internationally. Our key members were either born in China, have lived and worked in China for many years or have extensive experience of working on China-related matters.

Having lived through previous periods of financial turmoil both in Asia and internationally, we have a unique understanding that allows us to step back and see the bigger picture of the impact of these extraordinary events both within and outside China, as well as making us exceptionally well placed to spot the issues coming over the horizon as events unfold.

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