

# China's Evergrande Files for Chapter 15 Bankruptcy Protection



In recent news about the ongoing China Evergrande story, the Washington Post reports that the embattled developer has now filed for Chapter 15 bankruptcy protection in the US.

The move means that the property giant is seeking protection from its creditors as the company attempts to restructure offshore debt.

## Long in the Making

Those familiar with the Evergrande saga will know that this latest development comes after several years of challenges for the mega-developer, some of which came to light as a result of restrictions the Chinese government imposed on property developers in 2020.

The so-called “three red lines” policy required developers to comply with several restrictions, including:

- Liabilities should not exceed 70 percent of assets,
- A 100 percent cap on debt to equity, and
- A cash-to-short-term borrowing ratio of one.

The measures, which were meant to prevent a potential housing bubble in the country, precipitated a crisis for several Chinese property developers. By late 2021, Evergrande had missed key interest payments, causing ratings agencies to declare that the company was officially in default.

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## Debt Restructuring

NAI Realvest first reported on Evergrande's debt restructuring plan back in June, when the property developer unveiled its strategy to "alleviate the company's pressure of offshore indebtedness."

At that time the developer offered creditors the option of replacing existing debt with new bonds or swapping debt for shares in its property management services or electric vehicle manufacturing ventures.

With the recent bankruptcy protection filing, the developer states its actions are part of that restructuring process or a "normal" part of offshore restructuring," per the Washington Post. WP adds: "Evergrande clarified that it is pressing ahead with offshore debt restructuring and had not filed a bankruptcy petition, which is a formal declaration that a company cannot pay its debts.

## US Assets

In their own coverage of the case, CNN business adds that Chapter 15 bankruptcy protection "allows a US bankruptcy court to step in when an insolvency case involves another country. Chapter 15 bankruptcy is intended to help promote cooperation between US courts, debtors, and other countries' courts involved in cross-border bankruptcy proceedings."

This gives Evergrande a chance to limit court cases and debt collection brought against it, protecting its US assets while restructuring, and the search for liquidity, continues.

