

**U.S. Chamber of Commerce CFO Advisory Council
RMB Event**

China Bond Market: Index Update

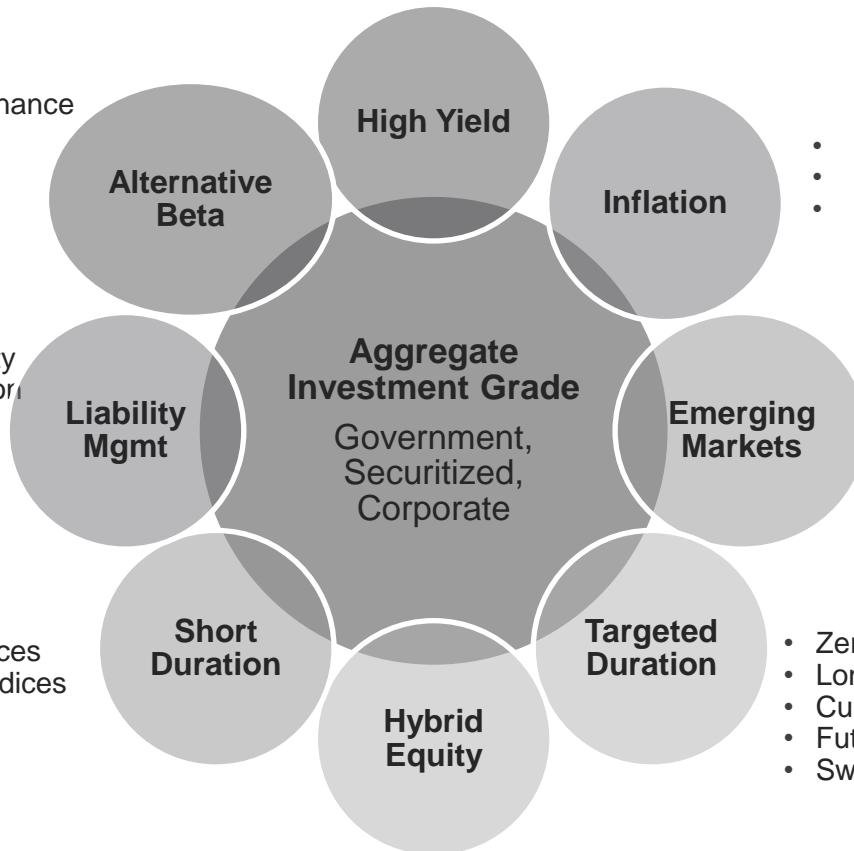
Bloomberg

Benchmark index coverage

- GDP
- Fiscal Strength
- Fiscal + Governance
- ESG Weighted

- Target Maturity
- Target Duration
- 20+ Maturity
- Swap Indices

- 0+ Indices
- FRN indices



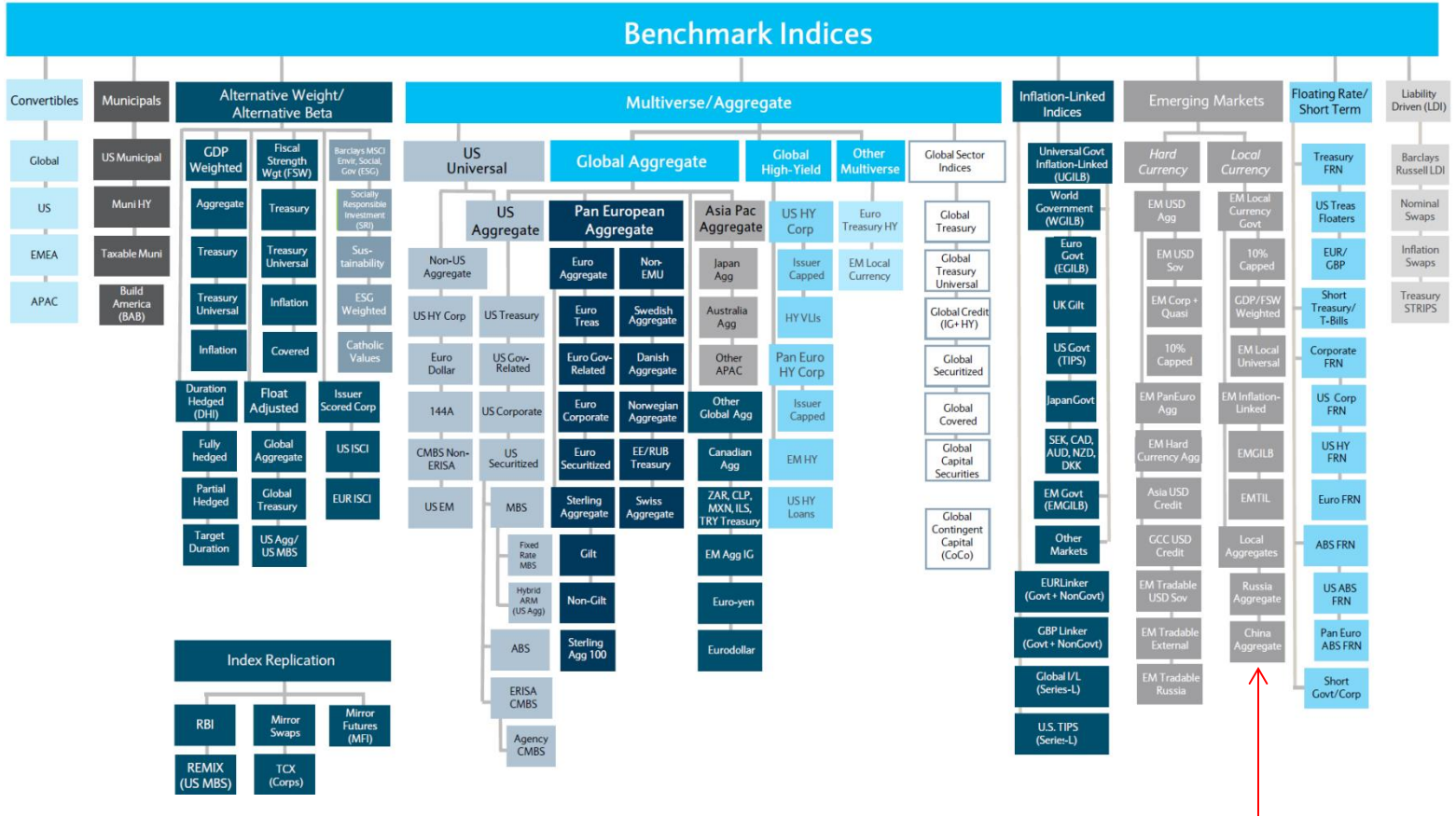
- Global
- Developed
- Emerging Market

- Hard Currency
 - Sovereign
 - Quasi-Sov
 - Corporate
- Local Currency
 - Sovereign

- Zero Duration
- Long Duration
- Currency Specific Duration
- Futures
- Swaps

- Convertibles
- Contingent Capital

BLOOMBERG BARCLAYS BENCHMARK INDICES



China Aggregate

The China Aggregate Index

Was initially launched in 2004 as a co-branded index between Lehman Brothers and Xinhua

- Includes both Government and Credit securities
- After carefully examining the China Bond market throughout 2016, Bloomberg announced changes to take effect March 1, 2017

China Aggregate Index: Updated Inclusion Rules

Parameter	Current Rules	New Rules
Amount Outstanding	> 1bn CNY	Government: CNY 5bn Corporate: CNY 1bn
Sectors	Any	Treasuries, Policy Banks, Utilities, Financials, Industrials
Exchange	Any	China Interbank
Quality	Non-Default; Not rated allowed	Non-Default; Not rated allowed

China Aggregate Index: Projected March 1, 2017

Sector			
	# Bonds	Amount Outstanding (RMB, bn)	%
Treasury	154	9,505.6	27.6%
Govt-Related	1,026	18,758.4	54.4%
Corporate	1,717	6,206.7	18.0%
Total	2,897	34,470.7	100%

As of November 30, 2016

Global Aggregate Currency Eligibility and Coverage

Eligibility Criteria

- To be considered as a candidate for inclusion in the Global Aggregate Index, a domestic market must exhibit the following characteristics:
 - Sovereign debt rating (both local and foreign currency) must be **investment grade** using the Bloomberg Barclays Indices credit quality classification methodology (middle of S&P, Moody and Fitch)
 - The currency must be **freely tradable and convertible** and not exposed to exchange controls that are designed to encumber the buying and selling of the national currency by foreign investors
 - There must be an **established and liquid forward market** for the local currency such that foreign market participants can hedge their exposure to core currencies

Currencies Currently Eligible for the Global Aggregate Index

- There are currently 23 currencies eligible for Global Aggregate:
 - **Americas:** USD, CAD, MXN, CLP
 - **EMEA:** EUR, GBP, DKK, CHF, SEK, CZK, PLN, ZAR, ILS, NOK, RUB
 - **Asia-Pacific:** JPY, MYR, THB, SGD, AUD, NZD, KRW, HKD

Considerations for Inclusion in the Global Aggregate

Currency

- CNY NDF market – liquidity concerns
- CNH forward market – liquid – basis risk exists between CNY and CNH
- CNY forward market – for onshore investors only
- CNY became part of the IMF's SDR basket as 3rd largest currency
 - Deemed “freely usable” by IMF
- Daily fix; allowed to trade within pre-set bands

Tax Regime

- China has not introduced complete tax system for foreign investors
- 10% or lower treaty rate be applied on non-government bonds
 - Tax applied on coupons
 - Capital Gains Tax not applied so far
 - QFII/RQFII investors have historically made a provision of 10% for Capital Gains through custodians

Market Liquidity

- More than 20 market makers in the interbank market regulated by PBOC
- Treasury & Policy Banks are considered most liquid segment
- Policy banks are:
 - Agricultural Development Bank of China
 - China Development Bank
 - Export Import Bank of China
- Liquidity is higher for issues CNY 5bn+

Market Access

- QFII (2011)
 - Institutional investors (select locations)
 - 0-1 year lock up period
- RQFII (2013)
 - Institutional investors meeting specific AUM / operational requirements
 - 3 month lock up period
- China Interbank Bond Market (2016)
 - Foreign banks, insurers, securities brokers, fund managers, medium/long term institutional investors
 - No lock up period

Global Aggregate + China Index

Global Aggregate Index currently has 23 currencies, with 16 having less than 1% weight in the index (currencies not displayed below have <1% weight in the index).

Based on the current landscape, the CNY Treasury and Policy bank bonds only are under discussion for ultimate inclusion in broader based indices such as the Global Aggregate

Policy banks are: Agricultural Development Bank of China, China Development Bank, Export Import Bank of China

RMB will be the 4th largest currency in the new Global Agg + China Index.

Currency	% Mkt Val (30 Nov 2016)	
	Current	Global Agg + RMB
United States Dollar	45.1%	44.01%
European Euro	23.6%	21.7%
Japanese Yen	17.6%	16.1%
Chinese Renminbi	0.0%	5.9%
Pounds Sterling	5.1%	4.7%
Canadian Dollar	2.6%	2.3%
Australian Dollar	1.3%	1.2%

EM Local Currency Government + China Index

The EM Local Currency Government Index currently has 18 currencies.

CNY classified as EM under the Bloomberg Barclays definition: 1) IMF non-advanced and/or 2) World Bank low/middle income. CNY meets both of these definitions.

Only the Treasury component of the China Aggregate Index would be eligible for the EM Local Currency Government Index.

CNY is already a currency in the broader EM Local Currency Government Universal Index with a weight of 29.0%.

Currency	% Mkt Value (30 Nov 2016)	
	Current	EM Local + RMB
Chinese Renminbi	0.00%	39.3%
Korean Won	29.6%	18.0%
Brazilian Real	13.0%	7.9%
Mexican Peso	7.4%	4.5%
Malaysia Ringgit	6.4%	3.9%
Indonesia Rupiah	6.3%	3.8%
Thai Baht	5.9%	3.6%

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