Ground Rules

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FTSE Chinese Policy Bank Bond Index

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FTSE RUSSELL
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Section 1

Introduction

1. Introduction

1.1 FTSE Chinese Policy Bank Bond Index

1.1.1 This document sets out the ground rules for the construction and management of the FTSE Chinese Policy Bank Bond Index. Copies of these ground rules are available from FTSE International Limited (FTSE).

1.1.2 The FTSE Chinese Policy Bank Bond Index (the index) is designed to measure the performance of fixed-rate policy bank bonds issued in mainland China. These bonds have a remaining maturity at least one year. The eligible Chinese policy bank bonds are those issued by the China Development Bank, the Agricultural Development Bank of China and the Export-Import Bank of China. These policy banks are state-owned and their objectives typically include providing social benefit, stimulating the economy and supporting growing local industries.

1.2 FTSE Russell hereby notifies users of the index that it is possible that factors, including external factors beyond the control of FTSE Russell, may necessitate changes to, or the cessation, of the index and therefore any financial contracts or other financial instruments that reference the index or investment funds that use the index to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.

1.2.1 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index's rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell or any members of the FTSE Russell Policy advisory board (or any person concerned with the preparation or publication of these ground rules) for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on these ground rules;
- any inaccuracies in these ground rules;
- any non-application or misapplication of the policies or procedures described in these ground rules; and/or
- any inaccuracies in the compilation of the Index or any constituent data.

Section 2

Management responsibilities

2. Management responsibilities

2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index series[1].

2.2 Amendments to these ground rules

2.2.1 These ground rules shall be subject to regular review (at least once a year) by FTSE Russell to ensure that they best reflect the aim of the index series. Any proposals for significant amendments to these ground rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Index governance board before approval is granted.

2.2.2 As provided for in the Statement of Principles for FTSE Russell Fixed Income Indices, where FTSE Russell determines that the ground rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles. After making any such determination, FTSE Russell shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the ground rules or to set a precedent for future action, but FTSE Russell will consider whether the ground rules should subsequently be updated to provide greater clarity.

[1] The term administrator is used in this document in the same sense as it is defined in Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the European Benchmark Regulation) and The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019 (the UK Benchmark Regulation).

Section 3

FTSE Russell Index policies

3. FTSE Russell Index policies

These ground rules should be read in conjunction with the following policy documents, which can be accessed using the links below or by e-mailing fi.index@lseg.com. These policies are reviewed annually and any changes are approved by the FTSE Russell Index governance board.

3.1 Statement of Principles for FTSE Fixed Income Indices (the Statement of Principles)

Indices need to keep abreast of changing markets and the ground rules cannot anticipate every eventuality. Where the ground rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles for FTSE Fixed Income Indices, which summarises the ethos underlying FTSE Russell's approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy advisory board for discussion before approval by the FTSE Russell Index governance board.

The Statement of Principles for Fixed Income Indices can be accessed using the following link:

Statement_of_Principles_Fixed_Income_Indices.pdf

3.2 Queries and Complaints

FTSE Russell's complaints procedure can be accessed using the following link:

Benchmark_Determination_Complaints_Handling_Policy.pdf

3.3 Recalculation Policy and Guidelines

The Recalculation Policy and Guidelines for Fixed Income Indices document is available from the FTSE Russell website using the link below or by e-mailling fi.index@lseg.com.

Fixed_Income_Recalculation_Policy_and_Guidelines.pdf

3.4 Index Policy in the Event Clients are Unable to Trade a Market or a Security

3.4.1 Details of FTSE Russell's treatment can be accessed using the following link:

Index_Policy_in_the_Event_Clients_are_Unable_to_Trade_a_Market_or_a_Security.pdf

3.5 Policy for Benchmark Methodology Changes

Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:

Policy_for_Benchmark_Methodology_Changes.pdf

3.6 FTSE Russell Governance Framework

3.6.1 To oversee its indices, FTSE Russell employs a governance framework that encompasses product, service and technology governance. The framework incorporates the London Stock Exchange Group's three lines of defence risk management framework and is designed to meet the requirements of the IOSCO Principles for Financial Benchmarks[2] and the European benchmark regulation[3]. The FTSE Russell Governance Framework can be accessed using the following link:

FTSE_Russell_Governance_Framework.pdf

[2] IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013.
[3] Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.

Section 4

Composition and design criteria

4. Composition and design criteria

4.1 Design criteria and calculation assumptions for the FTSE Chinese Policy Bank Bond Index

Coupon	Fixed rate
Currency	CNY
Minimum maturity	At least one year
Minimum issue size	CNY 15 billion
Composition	Securities included: bonds issued by the China Development Bank, the Agricultural Development Bank of China and the Export-Import Bank of China. Securities excluded: central bank bills, private placements, callable and putable bonds, bonds with maturity greater than 30 years from issuance and bonds issued prior to 1 January 2005.
Weighting	Market capitalisation
Rebalancing	Once a month at the end of the month
Reinvestment of cash flows	Intra-month cash flows from interest and principal payments are not reinvested as part of monthly index total return calculations[4].
Pricing	LSEG Pricing Service
Calculation frequency	Daily
Settlement date	Monthly: settlement is on the last calendar day of the month. Daily: same-day settlement except if the last business day of the month is not the last calendar day of the month; then settlement is on the last calendar day of the month.
Fixing date	Each month, the upcoming month's index constituents are fixed on the profile fixing date. Each year's scheduled fixing dates are published on the website.
Base date	31 December 2010

4.2 Holiday calendar

4.2.1 The index is calculated Monday through Friday except Christmas Day (observed) and New Year's Day (observed). Each local market will observe its own holiday calendar; if a local market is on holiday, the closing prices used for that day will be the closing prices from the previous day.

[4] Prior to 1 November 2022, reinvestment income was included in the total return calculation.

4.3 Index quality

4.3.1 An index quality is assigned to each index bond as of profile fixing. The quality is first mapped to the Standard & Poor's Financial Services LLC (S&P) rating. If a bond is not rated by S&P but it is rated by Moody's Investors Service, Inc (Moody's), the S&P equivalent of the Moody's rating is assigned to the index quality. If a bond is rated by neither S&P nor Moody's, the bond is not assigned an index quality. If a bond is rated as investment grade by one rating agency and high yield by the other, the S&P equivalent of the investment-grade rating is assigned to the index quality. These ratings remain unchanged for the entire performance month.

4.4 Return computation

4.4.1 Total returns are computed on the assumption that each security is purchased at the beginning of the period and sold at the end of the period. An issue's total rate of return is the percentage change in its total value over the measurement period. The components of total return for each security are price change, principal payments, coupon payment and accrued interest. The total returns are market capitalisation-weighted using the security's beginning-of-period market value (see figure one). In the case of multi-currency or non-base indices, total return also includes currency movement (see figure two).

Figure one: total rate of return calculation methodology

Beginning-of-period value	-	(Beginning price + beginning accrued) x beginning par amount outstanding
End-of-period value	-	[(Ending price + ending accrued) x (beginning par amount outstanding - principal payments)] + coupon payments + principal payments
Total rate of return (%)	-	[(End-of-period value/beginning-of-period value) - 1] x 100

A note on precision: returns are computed to at least six decimal places but reported to a maximum of four. In addition, owing to rounding errors inherent in computer floating-point arithmetic, the last digit in any reported value may sometimes be off by one from its true value.

Figure two: total rate of return calculation methodology for base currency returns, unhedged

Total rate of return (%)	-	{[1+(local currency return/100)] × (end-of-month spot rate/beginning-of-month spot rate) -1} × 100 Spot rates are quoted as base currency per unit of foreign currency.

The monthly currency-hedged return is calculated by using a rolling one-month forward exchange contract as a hedging instrument. The face value of the contract is equal to the estimated end-of-month full market value. To calculate this value, the bond's yield is assumed to be unchanged from the beginning of the month. Any known cash flows are then taken into account, such as coupon or principal payments and interest expected to accrue for the period is also added in. This calculation leaves the intra-month changes in bond prices from yield movements unhedged. Any principal movement resulting from yield change is then settled at end-of-month spot exchange rates. Figure three gives an example of the calculation formula from the point of view of a US investor. See FTSE Fixed Income Index Guide – appendix for more details on index currency returns and hedging methodology

Figure three: total rate of return calculation methodology, currency-hedged

Beginning-of-period value -

$$[(\text{Beginning price} + \text{beginning accrued}) \times \text{beginning par outstanding}] \times \left[\left(\begin{array}{c}\text{beginning-of-period}\\ \text{spot exchange rate}\end{array}\right)\left(\frac{\text{US Dollar}}{\text{local currency}}\right)\right]$$

End-of-period value -

$$\left[\left(\begin{array}{c}\text{End-of-}\\ \text{period}\\ \text{local}\\ \text{currency}\\ \text{value,}\\ \text{assuming}\\ \text{unchanged}\\ \text{yield}\end{array}\right) + \left(\begin{array}{c}\text{Known}\\ \text{intra-month}\\ \text{cash flows}\\ \text{and interest}\\ \text{expected}\\ \text{to accrue}\end{array}\right)\right] \times \left[\left(\begin{array}{c}\text{Beginning-}\\ \text{of-period}\\ \text{one-month}\\ \text{forward}\\ \text{exchange}\\ \text{rate}\end{array}\right)\left(\frac{\text{US Dollar}}{\text{local currency}}\right)\right] + \left[\left(\begin{array}{c}\text{Change}\\ \text{in market}\\ \text{value of}\\ \text{principal}\\ \text{amount}\\ \text{due to}\\ \text{yield}\\ \text{change}\end{array}\right) \times \left(\begin{array}{c}\text{End-of-}\\ \text{period}\\ \text{spot}\\ \text{exchange}\\ \text{Rate}\end{array}\right)\left(\frac{\text{US Dollar}}{\text{local currency}}\right)\right]$$

This equation holds true only if the spot rates are quoted as base currency per unit of foreign currency.

4.5 Exchange rates

4.5.1 The WMR Closing Spot Rates and WMR Closing Forward Rates are used. Several snapshots are taken at regular intervals centered on the fixing time of 16:00. London time and the median rate for each currency is selected. All rates are mid-market quotations.

Ticker for the FTSE Chinese Policy Bank Bond Index

Ticker	Index
SBCNPL	FTSE Chinese Policy Bank Bond Index, in CNY terms
SBCNPU	FTSE Chinese Policy Bank Bond Index, in USD terms
SBCNPUC	FTSE Chinese Policy Bank Bond Index, currency-hedged in USD terms

4.6 Chronological summary of events

FTSE Chinese Policy Bank Bond Index summary of event

Year	Monthly highlights
2022	**November:** intra-month cash flows from interest and principal payments are not reinvested as part of monthly index total return calculations.
2017	**August:** the pricing source for local currency Chinese policy bank bonds changes from Citi trader to Thomson Reuters.
2014	**February:** the FTSE Chinese Policy Bank Bond Index is introduced.

Unless otherwise stated, the index follows the general methodology for FTSE fixed income indices. For details, please see the FTSE Fixed Income Index Guide:

FTSE Fixed Income Index Guide

Appendix A

Further information

A Glossary of Terms used in FTSE Russell's ground rule documents can be found using the following link:

Fixed_Income_Glossary_of_Terms.pdf

For contact details, please visit the FTSE Russell website or e-mail FTSE Russell client services at fi.index@lseg.com.

Website: www.lseg.com/en/ftse-russell/

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