



# Overview of China's Bond Market Opening

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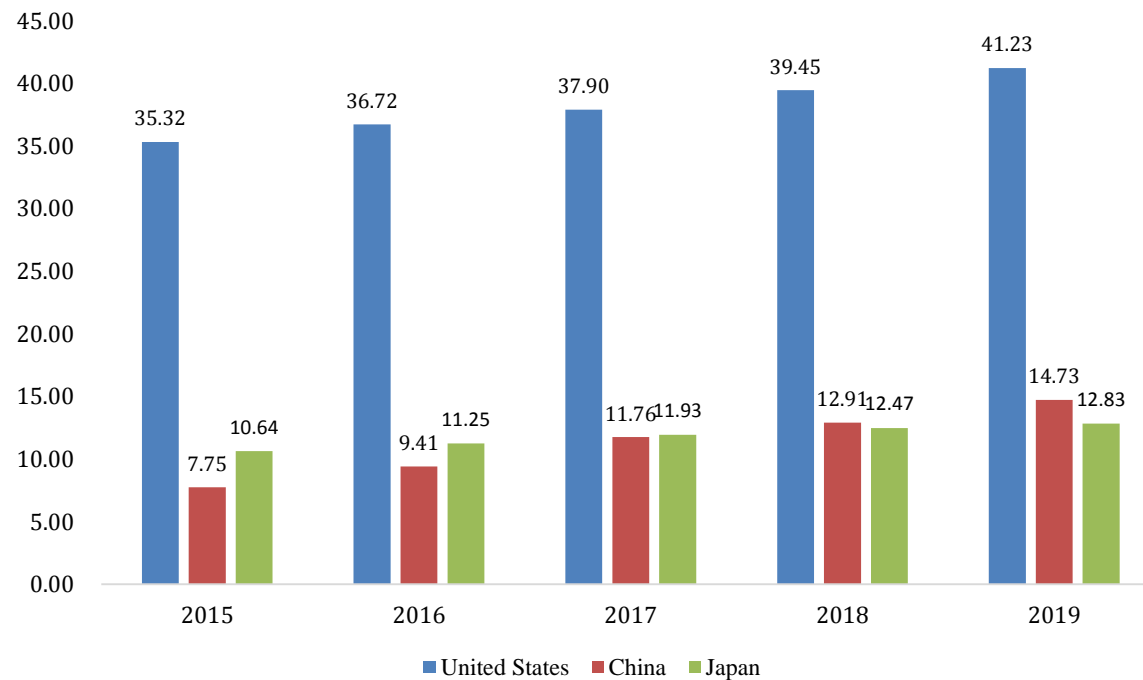
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Aug 11, 2020

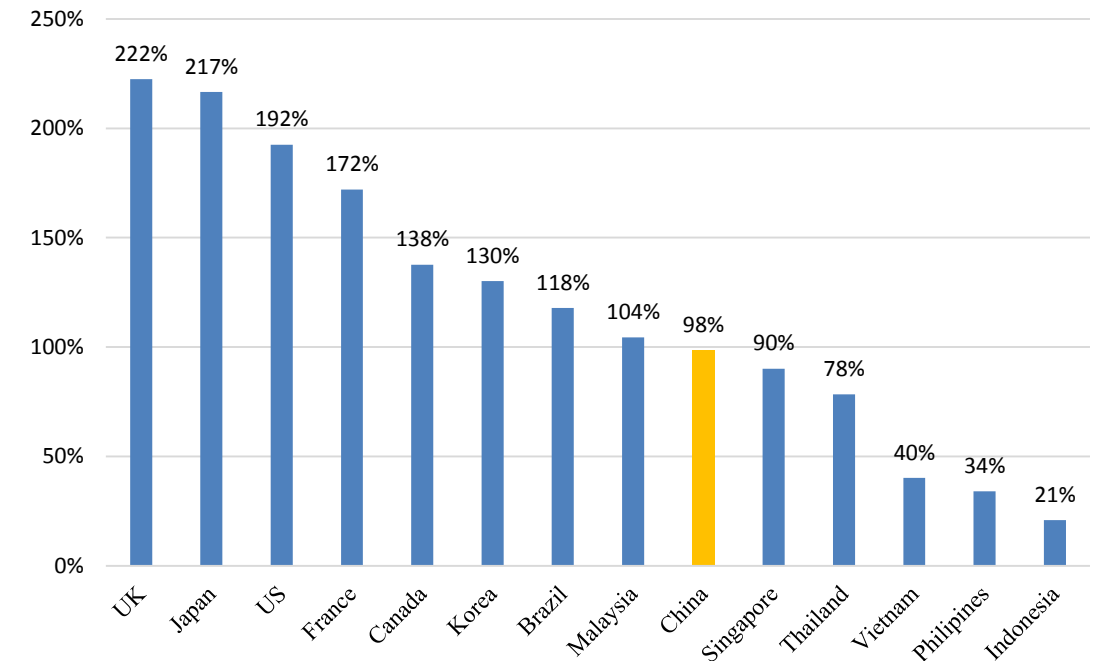


# The Size and Ratio to GDP of China's Bond Market

## Size of China's Bond Market Relative to U.S. and Japan (As of Q4 2019, in USD trn)



## Domestic Debt Securities Outstanding to GDP Nominal (As of Q4 2019)



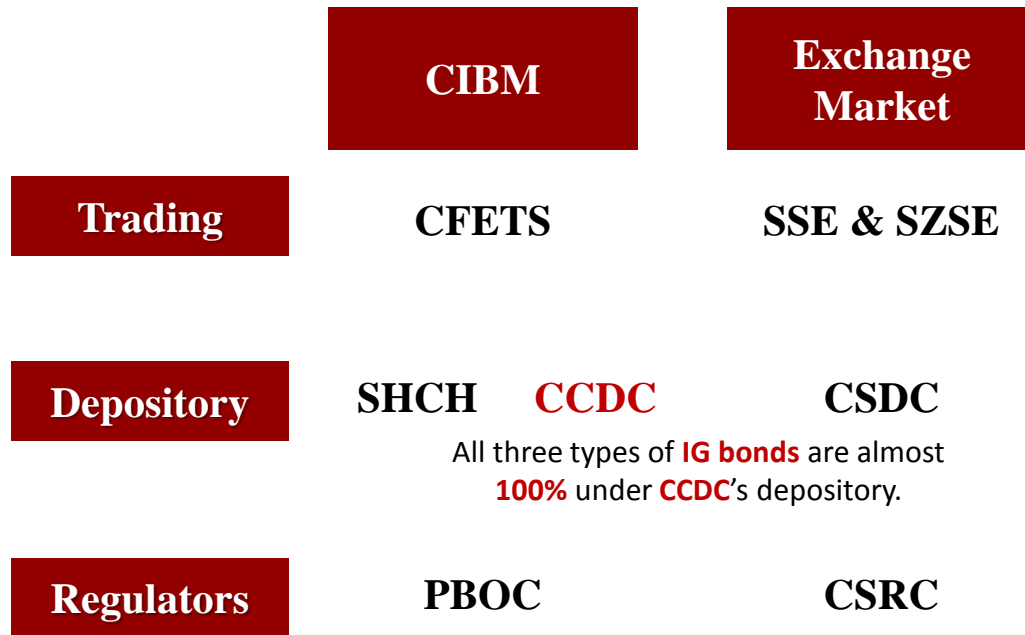
Note: For statistics on China's bond market size, the outstanding amounts of negotiable certificate of deposit (NCD) were included.

Source: BIS

Source: World Bank, BIS, Asian Bonds Online, CCDC

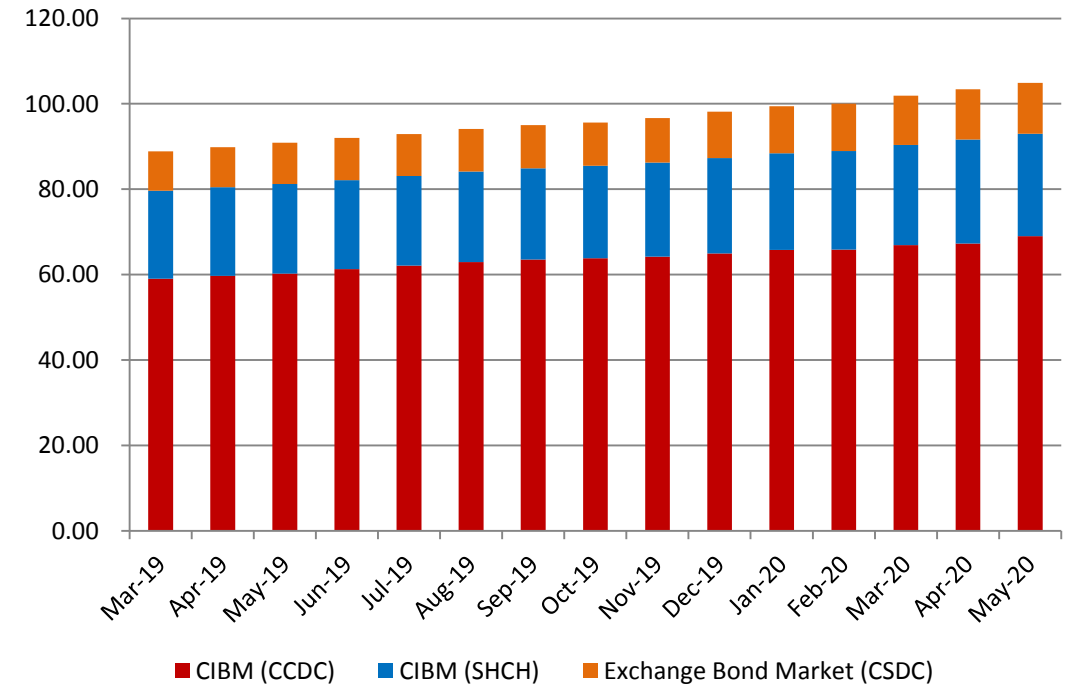
# Market Structure - CIBM as the Dominant Segment

## Infrastructures by market segment



## Onshore bonds outstanding by major bond market segment

(CNY trillion)



■ CIBM (CCDC)    ■ CIBM (SHCH)    ■ Exchange Bond Market (CSDC)

CCDC = China Central Depository & Clearing Co., Ltd; CNY = Chinese renminbi; CSDC = China Securities Depository and Clearing Co., Ltd; PRC = People's Republic of China; SHCH = Shanghai Clearing House.

Notes: Statistics for the SHCH include negotiable certificates of deposit.

Sources: CCDC, CSDC, SHCH.

# Milestones in China's Bond Market Opening-up

**1996**

- CCDC was established.

**1997**

- CIBM was formed.

**2016**

- PBOC announced to open CIBM to an expanded scope of overseas investors.

**2018**

- China's bond market became **the second largest globally**.

**2019**

- Chinese bonds were included into Bloomberg Barclays Global Aggregate Index.

**2005**

- ABF2 was approved to enter.

**2010**

- Three types of eligible foreign institutions were allowed into CIBM.

**Since 2011**

- QFII and RQFII were allowed to invest in CIBM.

**2017**

- Bond Connect Northbound Program was launched.

**2020**

- Inclusion into JP Morgan's Government Bond Index Emerging Market series



# Recent Policies of China's Bond Market Opening-up

Jan



- To offer two FX derivatives transaction channels
- Investors can trade with up to three banks (including BSA).
- Investors can settle with both RMB and foreign currencies.

Mar



- Offering recycling settlement should a trade fails to settle on schedule.

May



- To lift quota restrictions on investment for QFII and RQFII
- To simplify procedures of investment income outbound remittance, replace materials requirements such as the audit report and tax filing with Letter of Commitment on Tax Payment.
- To remove limitation on number of custodians

Policies to be Released

- Settlement agency agreement might be removed.
- If AM has registered with PBOC, financial products can directly open accounts.
- Investors might be allowed to sign account opening agreements with custody banks instead of CCDC.



Feb



- Investors can choose between NAFMII, SAC, or ISDA.
- To gradually transform onshore BSA's role to custodian bank

Apr



- Electronic handling service of account-opening materials allows BSAs to submit scanned copy of materials to CCDC via e-mail.

Jul



- Related infrastructure of interbank market and exchange market carry out interconnection to jointly provide services such as issuance, registration and depository,
- Market infrastructures open mutual nominal accounts.

# Market Access – CIBM Direct as the “Direct Flight”

## Core Advantages

### Transaction Cost

Average around 1bps lower \*1

### Fungible with QFII/RQFII

Allow two-way bond & fund transfers for the same investor

### Eligible Products

Support NOT only cash bonds

### Counterparties

Around 20,000 vs. 47

### Direct Holding

Clear recognition of beneficial ownership

## Value-added Advantages

### Cut-off Time

17:00 vs. 12:00 (T+0)

3 counterparties vs 1

### Bond as Collateral

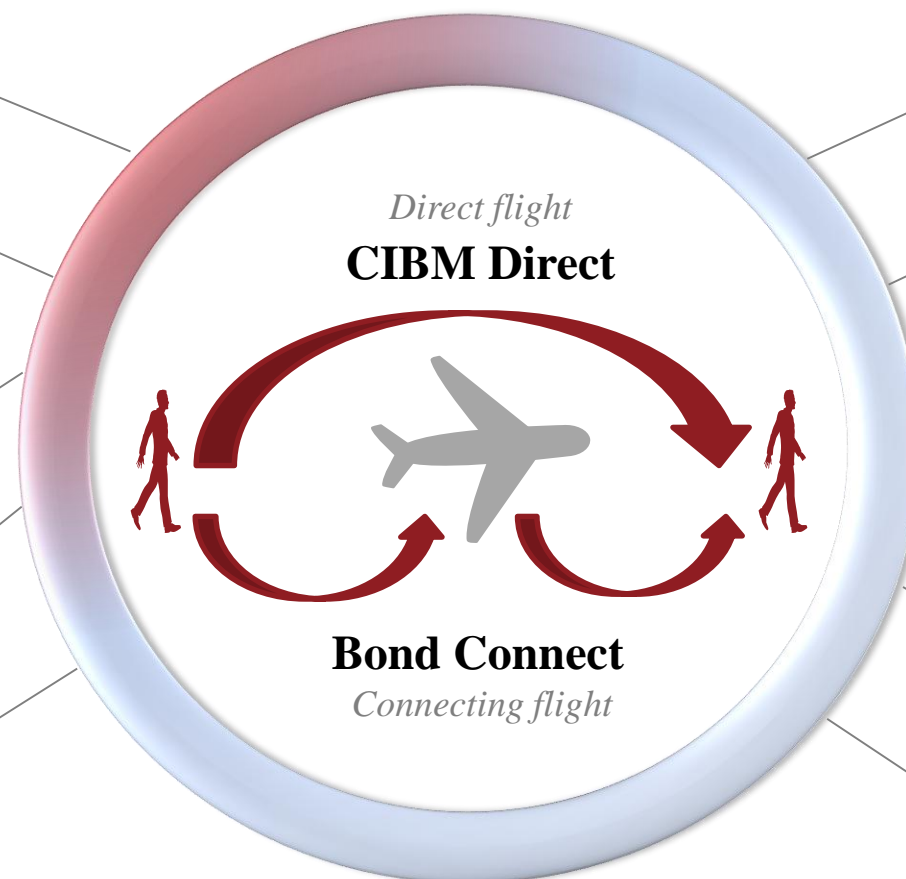
CGB as margin for futures trading

### One Fund, Multi-AMs

BSA supports multi-AM for one fund\*2

### BSA Local Services

Direct communication with regulators

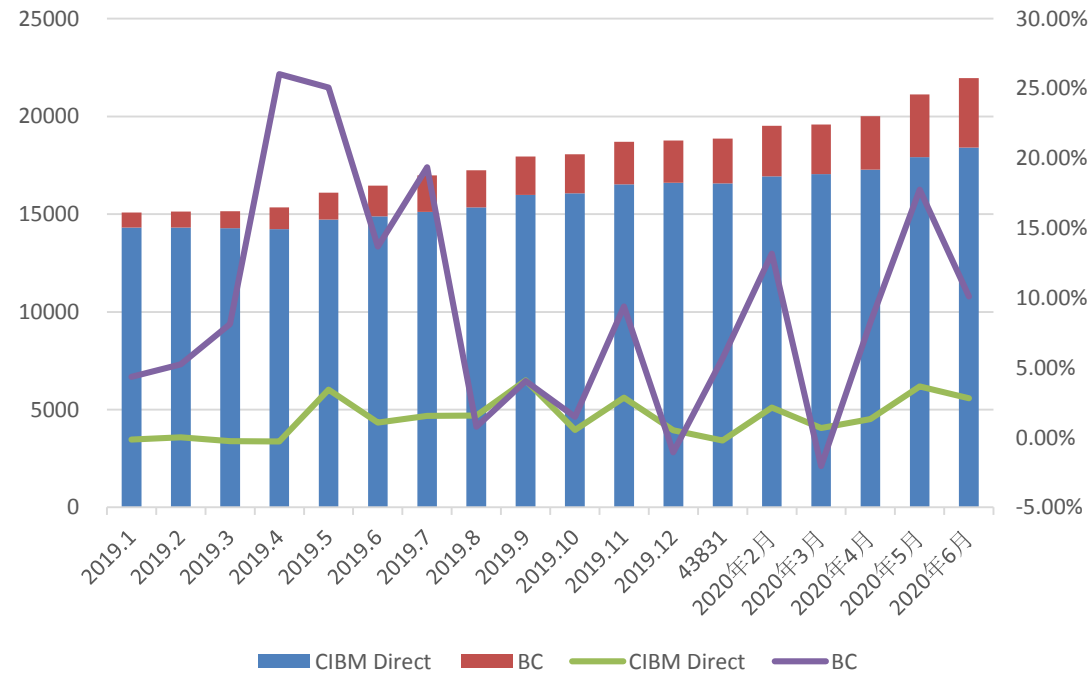


Note: 1) average price is estimated by market participants

2) multi-AM support is depending on BSA internal capabilities

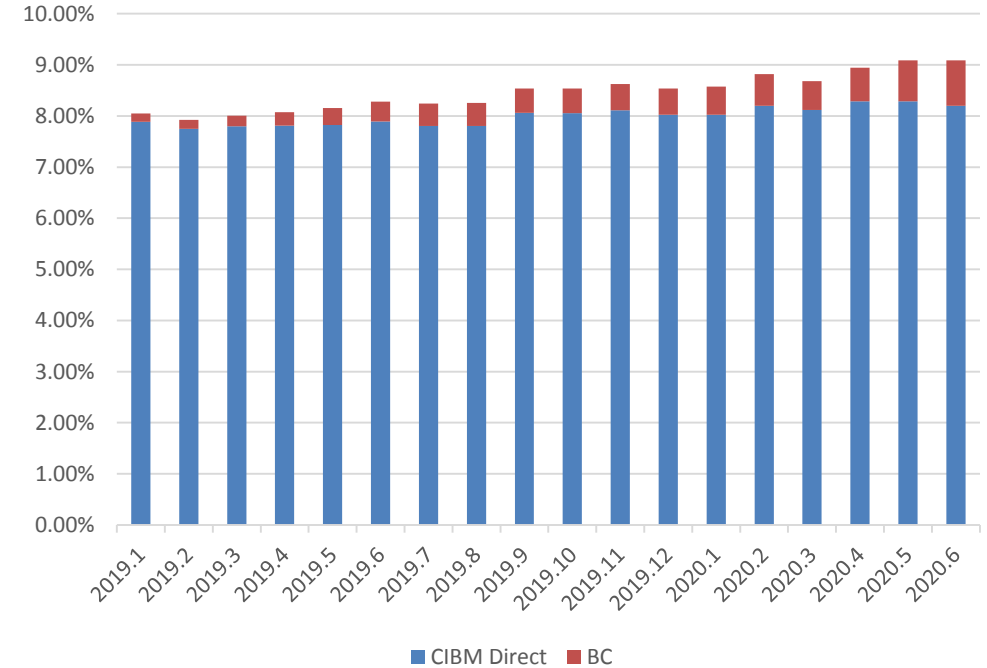
# Market Access – CIBM Direct as the “Direct Flight”

## Outstanding Bonds Held by Overseas Investors under CCDC's Depository



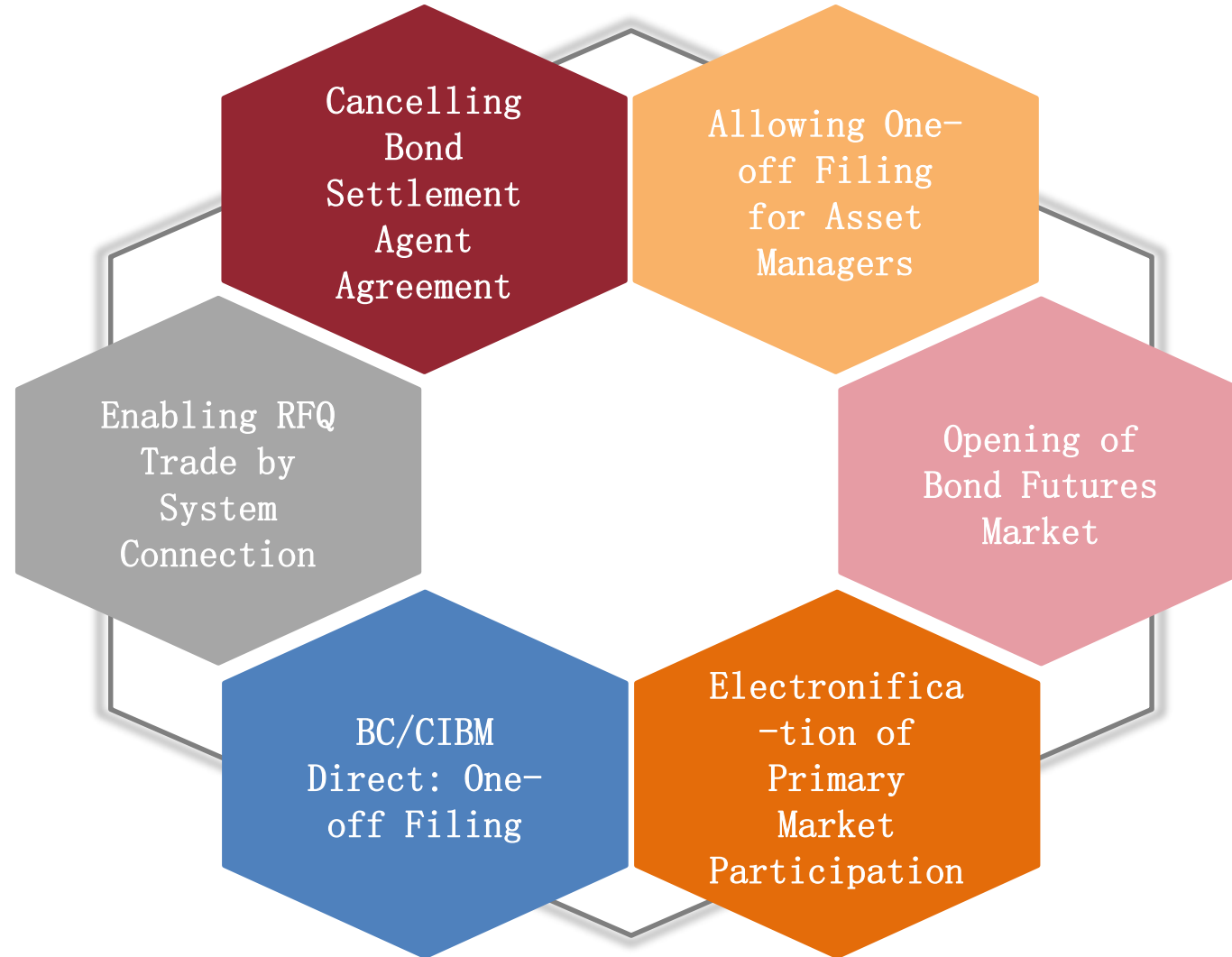
Source: CCDC

## CGBs Held by Overseas Investors As A Percentage of Total Onshore CGBs



Source: CCDC

# Future Optimization Efforts





# Thank you!

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