

Benchmark Statement — CSI Bond Index Series

Publication Date: 2019/10/29

Date of Last Update: 2019/10/29

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Article 27(1)

BMR Article 27(1)(a)	(a) clearly and unambiguously define the market or economic reality by the benchmark and the circumstances in which such measurement may become unreliable;
CSI's Response	<p>The Bond index series include CSI bond index series and SSE bond index series.</p> <p>CSI bond index series</p> <p>CSI bond index series measure the price movements of fixed-income securities in mainland China bond market. CSI bond indexes series include government bonds, credit bonds and universal bonds. The bond index series is further classified in terms of bond duration, credit ratings, investment strategies, etc.</p> <p>SSE bond index series</p> <p>SSE bond index series measure the price movements of fixed-income securities listed on the Shanghai Stock Exchange. SSE bond indexes include government bonds, credit bonds and universal bonds. The bond index series is further classified in terms of bond duration, credit ratings, investment strategies, etc.</p>

BMR Article 27(1)(b)	(b) lay down technical specifications that clearly and unambiguously identify the elements the calculation of the benchmark in relation to which discretion may be exercised, the criteria applicable to the exercise of such discretion and the position of the persons that can exercise discretion, and how such discretion may be subsequently evaluated;
CSI's Response	The price data used to calculate CSI index comes from the stock exchanges, the CSI Bond Valuation and the external data providers. All price data are publicly available or can be obtained through arms-length transactions. No exercising of “Expert Judgment” with respect to the use of data. There were no disregards of input data where it conformed to the requirements of the index methodology.

BMR 27(1)(c)	Article	(c) provide notice of the possibility that factors, including external factors beyond the control of the administer, may necessitate changes to, or the cessation of, the benchmark;
CSI's Response		<p>CSI has clear written policies to address the circumstances that an index termination may be considered. The circumstances include:</p> <ol style="list-style-type: none"> (1) Lacking the data source of index calculation, or the fairly low quality of the data source cannot support the stable and correct calculation of indexes; (2) Indexes are hard to reflect the market and investment opportunities owing to reasons such as the significant changes of the market structure, etc. (3) Indexes lack a sufficient number of constituents; (4) The result of the regular index review shows that the indexes may need to be terminated; (5) Other reasons such as these subject to the relevant laws and regulations or regulatory policies. <p>Where there are relevant stakeholders, CSI shall announce consultation to these relevant stakeholders on index termination. Where important indexes are involved, the proposal shall also be submitted to the Index Advisory Committee for examination.</p> <p>See also 【Measures for the Handling of Index Termination】</p> <p>CSI also has clear written policies to address the circumstances of which change of index methodologies may be needed. The circumstances include but are not limited to:</p> <ol style="list-style-type: none"> (1) The index methodologies cannot adapt to the development and change of the market; (2) The Index Advisory Committee proposes change to index methodologies; (3) Regular review of indexes shows that change of index methodologies may be needed. <p>Major changes to the index methodologies are subject to prior consultation with relevant stakeholders.</p> <p>See also 【Measures for the Implementation of Change of Index Methodologies】</p>

BMR 27(1)(d)	Article	(d) advise users that changes to, or the cessation of, the benchmark may have an impact upon the financial contracts and financial instruments that reference the benchmark or the measurement of the performance of investment funds.
CSI's Response		<p>CSI provides indexes to a variety of market participants, such as funds, security companies, data providers, individual investors, etc. CSI indexes may be used for different purposes, including but not limited to research purpose or for financial institutions to issue index related products. Those purpose may not be appropriate for all users. Market participants should make their own judgment when selecting an index for their purpose.</p> <p>There are many factors in the course of index methodologies, calculation and maintenance, most of which are beyond the control of CSI. These uncontrollable factors include but are not limited to: adjustment of basic market structure, inadequate or incorrect data source, low market liquidity, drastic changes in market environment and geopolitical changes, which may cause changes to, or even the cessation of indexes in extreme cases. This may lead to the need to terminate or modify the terms of financial products. Users should be fully aware of these risks and disclose such risks in the terms of their financial products. CSI shall not be responsible for users' usage of index, regardless of whether the purpose of such use is to conduct research, issue financial products, etc. The effective representation of a market or strategy is the primary aim for CSI.</p> <p>See also 【The Primary Policy of Index Management】</p>

Article 27(2)

BMR 27(2)(a)	Article	(a) the definitions for all key terms relating to the benchmark;
CSI's Response		<p>The Bond index series include CSI bond index series and SSE bond index series.</p> <p>CSI bond index series</p> <p>CSI bond index series measure the price movements of fixed-income securities in mainland China bond market. CSI bond indexes series include government bonds, credit bonds and universal bonds. The bond index series is further classified in terms of bond duration, credit ratings, investment strategies, etc. The main indexes are CSI 10-Year China Treasury Note Index, CSI 10-Year CDB Bond Index, CSI Policy Bank Bond Indexes, etc.</p> <p>SSE bond index series</p> <p>SSE bond index series measure the price movements of fixed-income securities listed on the Shanghai Stock Exchange. SSE bond indexes include government bonds, credit bonds and universal bonds. The bond index series is further classified in terms of bond duration, credit ratings, investment strategies, etc. The main indexes are SSE 5-Year China Treasury Note Index, SSE 10-Year China Treasury Note Index.</p> <p>See also 【Bond Indexes Calculation and Maintenance Methodology】</p>

BMR 27(2)(b)	Article	(b) the rationale for adopting the benchmark methodology and procedures for the review and approval of the methodology;
CSI's Response		<p>The Bond index series measure the price movements of fixed-income securities in mainland China bond market.</p> <p>CSI uses transparent and rule-based methodological approach to index construction and maintenance. Each index methodology and its changes are documented and available on our Web site, http://www.csindex.com.cn. CSI Indexes aim to accurately and objectively measure performance of a market or economic reality.</p> <p>CSI indexes are rebalanced on a regular basis. A rebalancing may also be triggered by conditions specified in the relevant methodology.</p> <p>Index methodologies are subject to regular review (at least once a year) by CSI.</p>

BMR 27(2)(c)	Article	(c) the criteria and procedures used to determine the benchmark, including a description of the input data, the priority given to different types of the input data, the minimum data needed to determine a benchmark, the use of any models or methods of extrapolation and any procedure for rebalancing the constitutions of a benchmark's index;
CSI's Response		<p>Index calculation is based on price data and fundamental information. The price data used in index calculation are sourced directly from the stock exchanges or the CSI Bond Valuation. The CSI Bond Valuation is widely used by different market participants (such as banks, asset management companies, funds, etc.) and recognized by the Asset Management Association of China (AMAC).</p> <p>All the data are publicly available or can be obtained through arms-length transactions. No exercising of “Expert Judgment” with respect to the use of data. There were no disregards of input data where it conformed to the requirements of the index methodology.</p> <p>See also 【Bond Indexes Calculation and Maintenance Methodology — 2.2 Data Source】</p> <p>The criteria and procedures used to determine and rebalance the benchmarks within the Bond Index Series can be found in the <i>Bond Indexes Calculation and Maintenance Methodology</i>. Supplementary information can be found in the documents provided in the appendix to this benchmark statement.</p>

BMR 27(2)(d)	Article	(d) the controls and rules that govern any exercise of judgement or discretion by the administration or any contributors, to ensure consistency in the use of such judgment or discretion;
CSI's Response		<p>The price data used to calculate CSI Bond index series comes from the stock exchanges, the CSI Bond Valuation and the external data providers. All price data are publicly available or can be obtained through arms-length transactions.</p> <p>No exercising of “Expert Judgment” with respect to the use of data. There was no disregard of input data where it conformed to the requirements of the index methodology.</p>

BMR Article 27(2)(e)	(e) the procedures which govern the determination of the benchmark in periods of stress or periods where transaction data sources may be insufficient, inaccurate or unreliable and the potential limitations of the benchmark in such periods;
CSI's Response	CSI sources data from at least two external data providers to lower operational dependency on single data provider, improve accuracy and avoid operational risks. When the data from external data providers is not complete or inaccurate, CSI supplements data from public available sources. Where data sources may be insufficient, inaccurate or unreliable (e.g. temporary closure of a stock exchange), CSI will follow the <i>Calculation and Maintenance Methodology</i> and decide whether to continue the index calculation. In certain circumstances, the contingency prices that will be used are generally the most recent trading price made public by the exchanges.

BMR 27(2)(f)	Article	(f) the procedures for dealing with errors in input data or in the determination of the benchmark, including when a redetermination of the benchmark is required;
CSI's Response		<p>The <i>Primary Policy of Index Management</i> and the <i>Measures for the Handling of Index Correction</i> specifies the types of index errors and the situations when correction may be required. Index recalculation is triggered in the following situations with alerts to the users:</p> <p>1) Data Error</p> <ul style="list-style-type: none"> • Manual input error • Data source selection error • Constituents or weight error <p>2) System Calculation Error</p> <ul style="list-style-type: none"> • Calculation error caused by system program <p>Any irregularities identified shall be reported to the person in charge of the index maintenance in the Management and Maintenance Department or the person in charge of calculation system of the Technology and Operation Department. The above-mentioned individuals shall determine whether the irregularity constitutes an index error or has a significant impact on indexes and report the reason of such irregularity to the head of the department. If it is believed that the irregularity has a significant impact on indexes, the above-mentioned individuals shall be responsible for correcting the closing quotation of the indexes and notify clients via email.</p> <p>In occurrence of complex situations in the course of handling index errors, CSI reserves the right to consult market participants on their opinions regarding whether to recalculate indexed and/or republish the relevant data products.</p> <p>See also <i>Primary Policy of Index Management</i></p>

BMR 27(2)(g)	Article	(g) the identification of potential limitations of the benchmark, including its operation in illiquid or fragmented markets and the possible concentration of inputs.
CSI's Response		Index determination aims to reflecting the underlying markets or specific strategy. The index methodologies may be changed or even the index be terminated due to various of reasons, most of which are completely out of CSI's control, including changes to market structure or regional politics, low market liquidity, etc. Index users should take such risks into consideration and include them in the risk disclosure clause of relevant financial instruments.

CSI Index Glossary (Key Terms)

Key Term	Definition
Announcement Date	The date on which results of index review are published.
Average Daily Total Market Capitalization	The arithmetic means of the daily total market capitalization of a company over a certain period of time before the Data Cutoff Date (excluding the suspension days).
Average Daily Trading Value	The arithmetic means of the daily trading value of a company over a certain period of time before the Data Cutoff Date (excluding the suspension days).
Base Date of the Index	The date on which the index has its initial value (Base Level) and against which the performance of the index is measured.
Base Level	The initial value of an index. The benchmark value from which ongoing calculations are done and compared to.
Buffer Zone	Buffer Zone Rules is applicable to certain CSI indexes in regular adjustment for the sake of minimum turnover. The buffer zone ratio is specified in each index methodology.
Capped Weight	The weight of the constituents shall not exceed the upper limit.
Category-Weighted Method	CSI will grant certain inclusion factor to the security according to the percentage of free float shares in total shares to ensure index stability.

Corporate Event	Corporate Events include cash dividend, stock dividend, secondary offerings and other price or shares changing events.
CSI Industry Classification Standard	CSI classifies listed companies into specific industries according to their main business activities, such industry classification comprises of four levels.
Data cutoff date	The last day on which the constituent data will be considered for calculation The changes of data after the cutoff date is without prejudice to the results of index adjustment.
Derived Index	A derived index is constructed using a parent index as its universe of construction. For example, the CSI 300 Total Return Index and the CSI 300 Net Return Index are both the derived indexes of the CSI 300 Index.
Divisor	A component of the index calculation formula which is used to adjust the index to ensure that the index values remain comparable over time.
Effective Date	The date on which the adjustment is implemented.
Fast Entry Index	The securities eligible for fast entry shall be added in the index after the close of the tenth trading day.
Free Float (free float shares)	The outstanding shares available for purchase in the public security markets
Free Float Proportion	The percentage of free float in the total shares
Free Float Regular Review	The regular review of the shareholder information used to estimate free float. It is carried out for all securities in the constituents universe. The adjustment is periodically carried out twice a year, each shall be effective on the next trading day of the second Friday in June and December.

Free Float-Adjusted Market Capitalization	The market capitalization of a security adjusted by Inclusion Factor Obtained by multiplying full market capitalization of the security by the inclusion factor.
Full Market Capitalization	The total value of the company's equity capital which is derived from multiplying the total number of shares issued by its market price.
Growth Factor	The main indicator assigned to a growth company in the CSI style indexes, which uses three variables to specify the growth investment style characteristics, including sales growth rate, net profit growth rate, and internal growth rate.
Growth Z-Score	In the CSI style indexes, the Growth Z-Score is obtained by taking the average of the three growth variables' Z-Scores.
Inclusion Factor	The proportion derived from the adjustment of free float proportion according to the CSI series index classification method.
Industry Indexes	Industry Index aims to represent the performance of companies in different industries and sectors, such industries and sectors are specified in CSI Industry Classification Standard or the CSRC Listed Company Industry Classification Guidelines.
Market Cap Used for Index Calculation	The market value used for the index calculation is derived from multiplying the free float-adjusted capitalization by the Weight/Cap Factor.
Net Total Return Index	The Index takes account of the interests of dividend provided that the post-tax dividend of the stock is reinvested in the index on the ex-dividend date.
Number of Constituents Adjustment Limit	The limit on the proportion of the number of constituents to be replaced in the index regular adjustment.

Regular Adjustment	The periodical reassessment of the eligibility of index constituents and their weights by CSI, (usually performed monthly, quarterly, semi-annually or annually). The review process ensures that the index continue to accurately represent the performance of the underlying market or market segment at the time of its construction.
Price Adjustment Factor	Multiplier applied to the market price of a security on the effective date of a corporate event to offset the price movement related to the corporate event only.
Real Time	Real Time allows information to be obtained instantaneously without delay.
Reference Open Price for Next Trading Day	The Reference Open Price for the next trading day adjusted by corporate events.
Regular Adjustment	The periodical reassessment of the eligibility of index constituents and their weights by CSI (usually performed monthly, quarterly, semi-annually or annually). The review process ensures that the index continue to accurately represent the performance of the underlying market or market segment at the time of its construction.
Reserve List	A reserve list will be prepared for each index regular adjustment. When there is a vacant for index constituent due to events such as delisting or M&As of the previous existing constituents, or when a temporary change to the constituent is in need due to other reasons, the top-ranked securities on the reserve list shall be included as new constituents in sequence. The number of stocks in the reserve list is generally 5% of the number of constituents in the index.
Equity Index of Price	The performance of the index is calculated by the index constituents' market prices.
Shareholder Behavior	Mainly refers to the increase, decrease, or transfer of shares by shareholders.
Strategy Indexes	Strategy Index is based on alternative weighting schemes, in which a tilt towards one or more factors such as momentum, volatility and beta is introduced to capture additional systematic risk premium.

Style Indexes	Style Index allows investors to measure the performance of growth or value companies.
Style Weighting Factor	One of the elements in the calculation of the CSI style indexes, which is assigned based on the ratio of growth Z-Score rank to the value Z-Score rank. For further details on Style Weighting Factor. (see the CSI 800 Style Index Methodology).
Temporary Adjustment	There are no fixed adjustment date and temporary adjustment may be taken from time to time. Once the temporary adjustment mechanism is triggered, constituents and weights shall be adjusted immediately according to the index methodology.
Thematic Indexes	Thematic Index seeks to identify the long-term trend in the economies and the driving factors behind, and then include related industries and listed companies into the investment target range. The thematic index often cuts across traditional sector and geographical boundaries and can provide diversified targets for the top-down thematic investment.
Total Issuing Market Capitalization	The total value of the equity capital of a company, derived from multiplying the total number of shares issued by its issue price.
Total Return Index	Total Return Index takes account of the interests of dividend provided that the pre-tax dividend of the stock is reinvested in the index on the ex-dividend date.
Value Factor	The main indicator assigned to a value company in the CSI style indexes, which uses four variables to specify the value investment style characteristics, including dividend yield (D/P), book value-to-price ratio (B/P), cash flow-to-price ratio (CF/P), and earnings-to-price ratio (E/P).
Value Z-Score	In the CSI style indexes, the Value Z-Score is obtained by taking the average of the four value variables' Z-Scores.
Weight/Cap Factor	The factor used to adjust the initial weight of the constituents to meet the weight requirements.

Winsorizing the Variables	A method of extreme value treatment applied to the observations to ensure that the observations are less affected by extreme values.
Z-score	The number of standard deviations an observation is away from the mean.