Collateral Management Service

Collateral Management Service Center,
China Central Depository & Clearing Co., Ltd

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China Inter-Bank Bond Market
A Large and Growing Market

Total Debt Securities Outstanding
at end-September 2020, in billions of US dollars

- US: 17,319
- China: 10000
- Japan: 20000
- UK: 30000
- France: 40000
- Germany: 50000
- Canada: 0
- Italy: 0
- Australia: 0
- Spain: 0
- Luxembourg: 0
- Netherlands: 0
- Japan: 0
- China: 0
- US: 0

Credit: Bloomberg

Data source: BIS

Q-Series, UBS Evidence Lab

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Foreign Capital Flow into China Inter-Bank Bond Market (CIBM)

Bond holdings of overseas investors in CIBM

- **2010**
  - PBC approved first foreign investor enter CIBM
  - Overseas RMB Clearing Banks are allowed to invest in CIBM

- **2010-2015**
  - Foreign investors enter CIBM on the case-by-case approval of PBC

- **2016**
  - Fully accessible by foreign investors without Quota

- **2017**
  - HK Bond Connect Launched

- **2018**
  - Foreign investors are exempted from VAT & Income taxes.

- **2019-2020**
  - Bloomberg-Barclays Index inclusion.

- **2021.3**
  - Chinese Government Bonds are included in the FTSEWGBI index

Data source: CCDC
CCDC Overview

- **29,000+**
  - Total accounts of investors
  - All CGB/LGB/PBB are deposited in CCDC

- **78.8 Trillion+**
  - Total RMB bond deposit volume in CCDC
  - Accounting for 88% volume of the CIBM

- **3.16 Trillion+**
  - RMB bond held by overseas investors in CCDC
  - Accounting for 95% of total overseas investors’ holding in CIBM (NCD not included)

Data source: CCDC
CCDC’s PFMI Report

CCDC PFMI Information Disclosure and Self-Assessment

This report is based on the CPSS-IOSCO Principles for Financial Market Infrastructures, and adopts approaches recommended in the corresponding PFMI: Disclosure Framework and Assessment Methodology to complete self-assessment and information disclosure.

Ratings summary

<table>
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<th>Principles</th>
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<td>6, 10, 14, 24</td>
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* The English version is for reference only.


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CCDC’s Collateral Management Service
The CCDC’s Collateral Management

The largest bond collateral management institution across the globe.

16 Trillion  9000 + Clients

Data source: CCDC
The CCDC’s Collateral Management

Monetary Policy
Fiscal Policy
FX Policy
Payment System

Social Insurance System
Bond Market
Derivatives Market
Precious Metals Market
Cross-border Service
The CCDC’s Collateral Management System

- Auto-select
- Pledge
- Auto-Adjustment
- De-Pledge
- Default Mechanism
- Mark to Market (MTM)

Comprehensive Risk Control Mechanism
Flexible Parameter Settings
Automated Management
Data Management Service

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Innovative Mechanism of Collateral Management
Application of RMB Bonds in Cross-Border Business
Cross-border collateral services support offshore financing

Continue to provide efficient, safe and professional collateral management services for financial institutions' cross-border financing.

“Free Trade Zone (FTZ) foreign currency financing collateral management business” was selected as "China (Shanghai) Pilot FTZ Financial Innovation Case”

- The first introduction of a collateral management mechanism in the FTZ.
- For the first time, the collateral rapid default settlement service was extended to the FTZ.
- Support financial leasing companies to participate in collateral business for the first time.

Business volume

- Support cross-border currency swaps of 17.02 billion RMB.
- Support cross-border issuance of credit enhancement of 6.16 billion RMB.
- Support cross-border financing guarantees of 31.72 billion RMB.
Integration of collateral management and derivatives

In the on-exchange derivatives market, bonds have been fully applied as a margin mechanism.

In November 2019, CCDC signed a memorandum of cooperation with Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange, China Financial Futures Exchange and Shanghai International Energy Exchange to introduce bonds as a futures margin mechanism into the futures market.

91 Participating Institutions

The scale of collateral exceeds 14 billion RMB.

Each year, it can reduce the costs for the market by approximately 7.7 billion RMB.

Resource: CCDC
In the international market, the implementation of the mandatory margin system for OTC derivatives has a broad impact on market participants.

Qualified Collateral

In June 2019, CCDC’s proposal of “Both sides agree to promote RMB bonds as qualified collateral generally accepted in the UK market” was formally included in the results of the 10th China-UK Economic Dialogue.

Policy Outcomes of the 10th UK-China Economic and Financial Dialogue

The UK’s Chancellor of the Exchequer and Chinese Vice-Premier Liu Chuanze concluded the 10th UK-China Economic and Financial Dialogue on 17 June 2019 in London. They welcomed the 68th anniversary of the establishment of diplomatic relations between China and the UK, and expressed a desire to further strengthen economic and financial cooperation.

Qualified Collateral

The proposal of “Both sides agree to promote RMB bonds as qualified collateral generally accepted in the UK market” for cross-border financial transactions was formally included in the results of the 10th China-UK Economic Dialogue. This agreement encourages the use of RMB bonds as collateral in cross-border financial transactions.

CCDC-ISDA White Paper

In 2020, in close cooperation with ISDA, with the strong support of ICBC and BOC, a joint white paper on the theme of using RMB bonds as margin for OTC derivatives transactions is also officially finalized.
Default Disposal Service

Auction
- Raised by Pledgor
- Floor price announced by CCDC
- Surplus cash or collateral will be transferred back to Pledgor

Client A - Pledgor

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Successful Bidder

Client B - Pledgee

1. Transfer Collateral

2. Transfer cash after auction

3. Transfer collateral to Bidder

Private sale / transfer
- Raised by Pledgor
- Sale price shall not be less than fair value, except from Pledgor's confirmation
- 3rd party buyer can be Pledgee as well
- Surplus cash or collateral will be transferred back to Pledgor

Client A - Pledgor

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3rd Party Buyer

Client B - Pledgee

1. Transfer Collateral

2. Transfer cash

3. Transfer collateral to Buyer

4. Transfer cash to Pledgee

Conversion into value
- Raised by both parties
- Sale price shall not be less than fair value, except from Pledgor’s confirmation
- Surplus collateral will be de-pledged

Client A - Pledgor

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Client B - Pledgee

1. Agree the Collateral value

2. CCDC transfer the Collateral from Pledgor to Pledgee

3. Transfer collateral to Bidder
Thanks.

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Note: The data related to bonds in the slides are sourced from CCDC, which reflect relevant business of overseas institutions that have opened an account with CCDC

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