

**S&P Dow Jones  
Indices**

A Division of **S&P Global**

# **S&P China Convertible Bond Index** *Methodology*

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# Introduction

## Index Objective and Highlights

The S&P China Convertible Bond Index is a market value-weighted index designed to measure the performance of investment grade China exchange listed convertible bonds that satisfy a set of eligibility criteria. Eligible bonds must have a minimum par amount of RMB 30 million.

## Supporting Documents

This methodology is meant to be read in conjunction with supporting documents providing greater detail with respect to the policies, procedures and calculations described herein. References throughout the methodology direct the reader to the relevant supporting document for further information on a specific topic. The list of the main supplemental documents for this methodology and the hyperlinks to those documents is as follows:

Supporting Document	URL
S&P Dow Jones Indices' Fixed Income Policies & Practices Methodology	<a href="#">Fixed Income Policies &amp; Practices</a>
S&P Dow Jones Indices' Fixed Income Index Mathematics Methodology	<a href="#">Index Mathematics Methodology</a>
S&P Dow Jones Indices' Index Mathematics Methodology	<a href="#">Index Mathematics Methodology</a>

This methodology was created by S&P Dow Jones Indices to achieve the aforementioned objective of measuring the underlying interest of each index governed by this methodology document. Any changes to or deviations from this methodology are made in the sole judgment and discretion of S&P Dow Jones Indices so that the index continues to achieve its objective.

# Eligibility Criteria

## Eligibility Factors

**Issuer.** Issuers must be listed corporations on the Shanghai or Shenzhen Stock Exchanges.

**Currency.** Only Chinese renminbi-denominated convertible bonds that are issued in Mainland China are eligible.

**Minimum Term.** Bonds will remain in the index until maturity or until a deletion event occurs, as described in *Deletions* below.

**Rating.** Bonds must have an investment grade rating by a rating agency which is recognized by the China Securities Regulatory Commission or the National Development and Reform Commission.

**Size.** Bonds must have a minimum amount outstanding of RMB 30 million to be eligible for inclusion.

**Trade Venues.** Convertible bonds must be listed on the Shanghai or Shenzhen Stock Exchange.

**Exclusions.** Bonds which have any of the following characteristics are -excluded from the Index. Such bonds may be subject to a delisting announcement from the exchange.

- Bonds that are completely called or tendered.
- Bonds that are scheduled to be completely called or redeemed.
- Bonds that are in default.

# Index Construction

## Index Calculations

The index is a market-value-weighted index with index shares rebalanced monthly and calculated by the divisor methodology used in S&P Dow Jones Indices' equity indices.

The index is calculated daily. Dirty prices are used in the index calculation.

The initial divisor is set to have a base index value on January 31, 2012. For an  $N$  convertible bond index, the index value is simply the index market value divided by the index divisor.

$$\text{Index Value} = \text{Index Market Value} / \text{Index Divisor} \quad (1)$$

$$\text{Index Market Value} = \sum_{i=1}^N (\text{Index Shares})_i * (\text{Price})_i \quad (2)$$

The index does not have a fixed number of convertible bonds, so  $N$  varies from time to time. At each rebalancing, index shares are set to equal each constituent's outstanding shares as of the reference date.

At rebalancing, in order to maintain index series continuity, it is necessary to adjust the divisor.

$$(\text{Index Value})_{\text{before rebalancing}} = (\text{Index Value})_{\text{after rebalancing}} \quad (3)$$

Therefore,

$$(\text{Divisor})_{\text{after rebalancing}} = (\text{Index Market Value})_{\text{after rebalancing}} / (\text{Index Value})_{\text{before rebalancing}} \quad (4)$$

*For further details regarding Index Calculations, please refer to S&P Dow Jones Indices' Index Mathematics document. This index closely resembles the modified market capitalization weighted indices discussed in that document.*

# Index Maintenance

## Ongoing Maintenance

The index is reviewed on an ongoing basis to account for the following:

- Eligible new issues are added to the index on the listing date at the market close.
- Any index bond that fails to meet any one of the eligibility factors is removed from the index with a three-day notice. The amount outstanding due to conversion of convertibles is reviewed during the monthly rebalancings.
- When an index bond is in default or misses an interest payment, the price reported by the exchange is used. However, the Index Committee may determine that the bond be removed from the index at a different price and may specify a price of \$0.00. The decision of the Index Committee is final.

## Scenarios

S&P Dow Jones Indices uses a variety of processes for dealing with events impacting fixed income security constituents in the S&P Dow Jones Indices Fixed Income Indices. The index membership treatment in ongoing maintenance for the index is provided in the below table.

<p>Scenario 1a:</p> <p>Complete Mandatory Call, Put or Conversion to common stock</p>	<p>Bonds subject to upcoming maturities, complete mandatory calls, puts or conversions to common stock are deleted from the index at the close on the day prior to the exercise or redemption date, with a three day notice.</p> <p>Question:</p> <p>Is the bond subject to a complete mandatory call, put or conversion to common shares?</p>	<p>Decision:</p> <p>If <u>yes</u>, the bond is deleted from the index at the close of the day prior to the exercise or redemption date, with a three day notice.</p> <p>If <u>no</u>, the bond remains in the index, assuming all other eligibility criteria are met.</p>
<p>Scenario 1b:</p> <p>Partial Mandatory Call, Put or Conversion to common stock</p>	<p>For partial calls, puts or conversions to common stock, a key determinate in considering whether to delete an index bond from the index is whether the remaining par amount outstanding is greater than or equal to the minimum par amount outstanding required by the index's eligibility criteria, currently RMB 30 million. Partial calls, puts and conversions are taken into account when known par amounts of index bonds are adjusted to reflect any changes that have occurred since the last confirmation of a bond's par amount outstanding. This is typically performed on a daily basis as information regarding a bond's par amount outstanding is sourced directly from the Shanghai and Shenzhen Stock Exchanges via a daily report from their websites. Should an index bond's par amount outstanding fall</p>	<p>Decision:</p> <p>If <u>yes</u>, the bond remains in the index at the new par amount outstanding (net of any partial calls, tenders, conversions, sinking fund payments, etc.), if the cumulative net par amount change since the last confirmation of par amount outstanding is greater than 1.0%. If 1.0% or less, the bond remains in the index at the same par amount outstanding as before.</p> <p>If <u>no</u>, delete from the index as of the close of its last trading day. <i>Please note that both the Shanghai and Shenzhen Stock Exchanges delist convertible bonds whose outstanding par amounts have fallen below RMB</i></p>

	<p>below RMB 30 million, the index bond is removed from the index as of the close of its last trading day.</p> <p><i>Please note that both the Shanghai and Shenzhen Stock Exchanges delist convertible bonds whose outstanding par amounts have fallen below RMB 30 million. Such delistings generally occur three days after the exchange makes a delisting announcement.</i></p> <p>Question:</p> <p>Is the par amount outstanding of the index bond greater than or equal to RMB 30 million?</p>	<p><i>30 million. Such delistings generally occur three days after a delisting announcement from the exchange is made. As such, a three day notice is issued on the day that confirmation is made that the bond is no longer eligible for inclusion in the index.</i></p>
<p>Scenario 1c:  Optional Calls, Puts or Conversions to common stock</p>	<p>For optional calls, puts or conversions to common stock, a key determinate in considering whether to delete an index bond from the index is whether the remaining par amount outstanding is greater than or equal to the minimum par amount outstanding required by the index’s eligibility criteria, currently RMB 30 million. Optional calls, puts and conversions are taken into account when known par amounts of index bonds are adjusted to reflect any changes that have occurred since the last confirmation of a bond’s par amount outstanding. This is typically performed on a daily basis as information regarding a bond’s par amount outstanding is sourced directly from the Shanghai and Shenzhen Stock Exchanges via a daily report from their websites. Should an index bond’s par amount outstanding fall below RMB 30 million, the index bond is removed from the index as of the close of its last trading day.</p> <p><i>Please note that both the Shanghai and Shenzhen Stock Exchanges delist convertible bonds whose outstanding par amounts have fallen below RMB 30 million. Such delistings generally occur three days after the exchange makes a delisting announcement.</i></p> <p>Question:</p> <p>Is the par amount outstanding of the index bond greater than or equal to RMB 30 million?</p>	<p>Decision:</p> <p>If <u>yes</u>, the bond remains in the index at the new par amount outstanding (net of any optional calls, tenders, conversions, sinking fund payments, etc.), if the cumulative net par amount change since the last confirmation of par amount outstanding is greater than 1.0%. If 1.0% or less, the bond remains in the index at the same par amount outstanding as before.</p> <p>If <u>no</u>, delete from the index as of the close of its last trading day. <i>Please note that both the Shanghai and Shenzhen Stock Exchanges delist convertible bonds whose outstanding par amounts have fallen below RMB 30 million. Such delistings generally occur three days after a delisting announcement from the exchange is made. As such, a three day notice is issued on the day that confirmation is made that the bond is no longer eligible for inclusion in the index.</i></p>

## Rebalancing

The index is reviewed and rebalanced in accordance with the stated schedule. The Index Committee, nevertheless, reserves the right to make adjustments to an index at any time that it believes appropriate.

Par amounts of index bonds are adjusted on the rebalancing date to reflect any changes that have occurred since the previous rebalancing date, due to conversion of convertibles, etc.

If the cumulative change in a bond's par amount outstanding exceeds one percent (1%), the index shares are rebalanced, effective on the rebalancing date.

Bonds with a par amount outstanding less than RMB 30 million are removed from the index, effective on the rebalancing date.

Additions to, deletions from and other changes to the index arising from the monthly rebalancing are published after the close of the announcement date. Publicly available information, up to and including the close on the reference date is considered in the rebalancing.

Rebalancing Schedule	
Rebalancing Frequency	Monthly
Rebalancing Date	Last business day of the rebalancing period ( <i>T</i> )
Announcement Date	<i>T</i> – three business days ( <i>T</i> -3)
Reference Date	<i>T</i> – three business days ( <i>T</i> -4)

*\* All days reflect after the market close*

## Currency and Currency Hedged Indices

Additional currency and currency hedged versions of the indices, as well as maturity, sector and rating-based sub-indices are available. For a list of available sub-indices and tickers, please refer to S&P Dow Jones Indices' Fixed Income Index Directory available at [www.spdji.com](http://www.spdji.com).

*For more information on currency and currency hedged indices, please refer to S&P Dow Jones Indices' Fixed Income Index Mathematics Methodology.*

## Base Date

The index has a base date of January 31, 2012, with historical values from November 30, 2010.



# Index Governance

## Index Committee

S&P Dow Jones Indices' Asia Fixed Income Index Committee maintains the index. All committee members are full-time professionals at S&P Dow Jones Indices. This methodology is reviewed annually by the Committee and additional committee meetings are held whenever deemed appropriate.

In fulfilling its responsibilities, the Committee has full and complete discretion to (i) amend, apply, or exempt the application of index rules and policies as circumstances may require and (ii) add, remove, or by-pass any bond in determining the composition of an Index.

The Committee may rely on any information or documentation submitted to it or gathered by it that the Committee believes to be accurate. The Committee reserves the right to reinterpret publicly available information and to make changes to the Index based on a new interpretation of that information at its sole discretion. All Index Committee discussions are confidential.

The Index Committee is separate from and independent of other analytical groups at S&P Global. In particular, the Index Committee has no access to or influence on decisions by S&P Global Ratings analysts.

S&P Dow Jones Indices' Index Committees reserve the right to make exceptions when applying the methodology if the need arises. In any scenario where the treatment differs from the general rules stated in this document or supplemental documents, clients will receive sufficient notice, whenever possible.

In addition to the daily governance of indices and maintenance of index methodologies, at least once within any 12-month period, the Index Committee reviews the methodology to ensure the indices continue to achieve the stated objectives, and that the data and methodology remain effective. In certain instances, S&P Dow Jones Indices may publish a consultation inviting comments from external parties.

*For information on Quality Assurance and Internal Reviews of Methodology, please refer to S&P Dow Jones Indices' Fixed Income Policies & Practices document.*

# Index Policy

## **Announcements**

Announcements of any relevant information pertaining to the index are made after the close. Press releases are posted on the S&P Dow Jones Indices' Web site at [www.spdji.com](http://www.spdji.com).

## **Holiday Schedule**

The index is calculated daily, throughout the calendar year. The only days the index is not calculated are on days when all exchanges where the index's constituents are listed are officially closed.

## **Rebalancing**

The index committee may change the date of a given rebalancing for reasons including market holidays occurring on or around the scheduled rebalancing date. Any such change will be announced with proper advance notice where possible.

## **End-of-Day Calculation**

Index levels are calculated at the end of each business day, via S&P Dow Jones Indices' Web site. This may be subject to change.

## **Index Releases**

Releases are issued by S&P Dow Jones Indices at the end of the business day.

## **Recalculation Policy**

For information on the recalculation policy please refer to S&P Dow Jones Indices' Fixed Income Policies & Practices document.

*For information on Calculations and Pricing Disruptions, Expert Judgment and Data Hierarchy, please refer to S&P Dow Jones Indices' Fixed Income Policies & Practices document.*

## **Contact Information**

For questions regarding an index, please contact: [index\\_services@spglobal.com](mailto:index_services@spglobal.com).

# Index Dissemination

Index levels are available through S&P Dow Jones Indices' website at [www.spdji.com](http://www.spdji.com), major quote vendors (see codes below), numerous investment-oriented websites, and various print and electronic media.

## Tickers

The table below lists headline indices covered by this document. All currency, currency hedged, maturity, sector and rating-based sub-indices as well as return type versions of the below indices that may exist are also covered by this document. Please contact [index\\_services@spglobal.com](mailto:index_services@spglobal.com) for a complete list of indices covered by this document.

Index	Bloomberg
S&P China Convertible Bond Total Return Index	SPCBCV

## FTP

Daily index level data is available via FTP subscription.

*For product information, please contact S&P Dow Jones Indices, [www.spdji.com/contact-us](http://www.spdji.com/contact-us).*

## Web site

*For further information, please refer to S&P Dow Jones Indices' Web site at [www.spdji.com](http://www.spdji.com).*

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