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Fixed Income
Asia

HSBC Global Research

HSBC Asian USD Bond Index (ADBI)

Summary Fact Sheet

- **The HSBC Asian US Dollar Bond Index (ADBI) tracks the total return performance of a non-Japan Asian bond portfolio consisting of US dollar-denominated, fixed-rate, straight bonds satisfying a set of simple issue size and liquidity criteria.**
- **The Index constituent selection process is completely mechanistic yet constituent weightings are periodically reviewed and adjusted by constituents' liquidity rankings, ensuring a fair and replicable benchmark that uniquely focuses on the non-Japan Asian bond sector.**

1. Constituent Selection Criteria

Issuer	Non-Japan Asian sovereigns and corporates
Currency	US dollar in respect of both principal and interest
Coupon type	Fixed-rate
Bond	Straight Eurobond, Yankee or Global bonds issued pursuant to Reg. S, a SEC registration statement, Rule 144A or Reg. D
Credit ratings	No restrictions
Issue size	Minimum of USD250 million
Settlement	Must be able to settle internationally, such as via Euroclear
Maturity	Minimum of one year remaining to maturity

Source: HSBC

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2. Index Computation Methodology

Return calculation	Total return including prices changes, accrued and re-invested coupon payments. A sub-index is calculated as the cumulative value of the sum of the weighted daily total return of each constituent relative to its base level. The ADBI is calculated as the cumulative value of the weighted daily total return of each sub-index relative to 100.
Index base	31 December 1996 = 100
Pricing	HSBC bid prices at Hong Kong closing time
Weightings	Liquidity-adjusted market capitalisation
Coupon reinvestment	Full amount of cash coupon payments will be held in cash intra month, and will be re-invested in the corresponding sub-index at month end
Addition of new constituents	Qualified new issues launched intra month are added to the index at the first business day of the following month with the highest (100%) liquidity ranking. The raking is thereafter reviewed quarterly.
Withdrawal of current constituent	Month end at which the remaining maturity is less than one year.
Announcement of new liquidity ranking	Quarter end
Adjustment to new liquidity ranking	Actual adjustment for constituents' liquidity rankings occurs one full month after the announcement of a ranking change.
Availability	Every Hong Kong business day
Current sub-indices	1) China 2) Hong Kong SAR 3) India 4) Indonesia 5) Malaysia 6) Pakistan 7) Philippines 8) Singapore 9) South Korea 10) Thailand 11) Vietnam

Source: HSBC

3. Liquidity Rankings and Criteria

Each index constituent is assigned one of three liquidity rankings: 1.0, 0.5 or 0.0. The ranking, subject to quarterly review, is used to discount each constituent's impact on the index. In effect, the final weighting of a bond is determined by its liquidity-weighted market value.

Ideally, liquidity should be defined in objective and quantifiable terms, such as bid-offer spreads (adjusted for duration) and trading volume, etc. Unfortunately, for most of the credit products in the non-Japan Asian countries, no reliable statistics are readily available (and probably will not be in the near future).

Given the importance of liquidity, and the lack of any liquidity of many of the index constituents, making no adjustment for liquidity would result in some of the illiquid bonds adversely impacting the level of the ADBI. That is, illiquid bonds, with less reliable and meaningful price data, could end up carrying weights higher than they deserve.

Under this constraint, HSBC has adopted an innovative and pragmatic approach in dealing with the liquidity issue, one that appropriately discounts the impact of illiquid issues on the level of the ADBI.

HSBC

HSBC appoints an independent agency to organise a quarterly review of liquidity ranking for index constituents. The agency will distribute a list of published criteria (shown below) two weeks prior to the quarter end to qualified financial institutions in the non-Japan Asian bond market. It will announce the revised liquidity ranking based on the average results (with related participant profiles) at each quarter end. Although the ranking criteria, inevitably, could carry subjective opinions based on some proprietary information, the execution process is completely independent, transparent and objective, and free of any potential manipulation.

The following describes the liquidity ranking and the criteria used by participating financial institutions.

Liquidity Ranking

Raking	Definition	Weighting
L1	Liquid	100%
L2	Traded	50%
L3	Illiquid	0%

Source: HSBC

The criteria used for liquidity ranking, in descending order of importance, are as follow:

1) Quoted bid/ask spreads, adjusted for duration, observed from market sources. There are two types of market sources, major brokers and market makers.

2) Quoted depths (size) associated with each bid and ask.

3) Frequency of market quotes observed. This is the number of times the quotes are observed per month, regardless of which side of the quote it is, i.e. a quote for both bid/ask counts as two.

4) Observed trade volume.

5) Frequency of enquiry regarding a constituent’s spreads/prices.

To ensure the stability of the ADBI, an actual change in a constituent’s liquidity ranking occurs one full month after the announcement of a ranking change, i.e. there is a transitory month in which investors can make adjustments for the pending changes in their portfolio weightings.

Disclosure appendix

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Additional disclosures

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