

Opening Up China's Bond Market: Some Considerations

GUO Kai

In 2016, the renminbi (RMB) was formally added to the basket of major currencies in the special drawing rights (SDR), the supplementary foreign exchange reserve assets defined and maintained by the International Monetary Fund. During the process to fulfill the basic requirements of the RMB as an SDR basket currency, the China Interbank Bond Market (CIBM) was further developed. However, a big gap remains in the depth and breadth of the bond market in China compared with that of major reserve-currency-issuing countries. China needs to further develop, open up, and improve the quality of the bond market not only to maintain financial stability as an emerging market, optimize resource allocation, deepen the financial market, and promote economic development but also to meet the need for the RMB to become a major reserve currency.

This chapter first presents an overview of the current conditions of the bond market in China, and then analyzes some of the issues and problems present in China's bond market from perspectives such as market accessibility, liquidity, hedging, the custodian and clearing system, convenience and information availability, supporting systems, and cross-border capital flow management. It concludes with policy recommendations.

CURRENT CONDITIONS OF CHINA'S BOND MARKET

China's bond market has developed rapidly and gradually matured in the process of reforming and opening up the economy. The size of the market has grown continuously, playing an important role in improving yield curves, promoting direct financing, and maintaining financial stability. Given that the RMB is already the third-largest trade financing currency, the fifth-largest payment currency, and an SDR basket currency, foreign investors' demand for RMB bonds will continue to grow as the RMB bond market continues to open up in the process of internationalization.

In recent years, reforms have taken place in a few key areas to promote the opening up of the bond market.

In 2005, the panda bond market was launched. Panda bonds are Chinese renminbi-denominated bonds from a non-Chinese issuer, sold in the People's Republic of China. The International Finance Corporation and the Asian Development Bank issued the first panda bonds, valued at RMB 4 billion. But the panda bond market was small in its early stage of development, largely due to strict restrictions imposed on issuers and usage of funds. In 2010, the People's Bank of China, along with the Ministry of Finance, National Development and Reform Commission, and China Securities Regulatory Commission, jointly amended the rules and regulations, lifting a few restrictions on the issuance of panda bonds and paving the way for their further development. In 2013, Daimler became the first nonfinancial institution to issue a panda bond, selling a RMB 5 billion bond to Chinese investors. Growth picked up starting in 2015. In 2015 HSBC was approved to issue panda bonds, and international commercial banks became another major type of issuer besides international development institutions and foreign nonfinancial companies. In 2015 and 2016, Korea and British Columbia, Canada, issued the first sovereign and quasi-sovereign panda bonds, valued at RMB 9 billion. In August 2016, the World Bank successfully issued the first SDR-denominated bond in CIBM, which settles in RMB, further enhancing China's bond products and expanding the use of the SDR. The scale of RMB bonds issued in China by foreign entities has also grown quickly over the past several years. By the end of 2017, the total amount of panda bonds issued in the CIBM had reached RMB 123.4 billion.

The scope of foreign investors and transactions they can conduct in the bond market continues to expand, making the bond market the most open submarket among all Chinese financial markets. With more frequent and larger scale use of RMB in cross-border activities, foreign investors' demand for RMB-denominated assets, especially for fixed income assets, is gradually rising. At the same time, the People's Bank of China has also deployed a series of policies to facilitate investment in China's bond market. In 2010, the People's Bank of China allowed foreign central banks, the RMB clearing banks in Hong Kong SAR and Macau SAR,¹ and overseas participating banks to invest in the interbank bond market up to an approved amount. In 2013, Qualified Foreign Institutional Investors (QFII) and Renminbi Qualified Foreign Institutional Investors (RQFII) were allowed to trade bonds in China. In 2015, in order to fulfill the requirements for RMB as an SDR basket currency, the People's Bank of China allowed full and more convenient access to the bond market by foreign central banks and reserve managers, including simplifying the account opening process, lifting quota limitations, moving to a filing system from an approval system, and expanding the scope of investment and transactions to bonds, bond repurchases, bond lending, forwards, and interest rate swaps. In 2016, the People's Bank of China further enlarged the scope of investors to almost all foreign institutional investors. Hence,

¹ The RMB clearing banks in Hong Kong SAR and Macau SAR are the Hong Kong SAR and Macau SAR branches of the Bank of China.

the secondary market of the bond market has effectively opened to foreign institutional investors.

In May 2017, Bond Connect (between the onshore bond market and Hong Kong SAR) was formally launched. Northbound trading (from Hong Kong SAR to mainland China) commenced in the initial phase, allowing overseas investors from Hong Kong SAR and other regions to invest in the CIBM through a mutual access arrangement. Southbound trading (from mainland China to Hong Kong SAR) will be explored at a later stage to allow investors from domestic China to invest in overseas bond markets.² Bond Connect provides familiar interfaces to international investors who want to invest in China's bond market without having to navigate the Chinese system. In particular, Bond Connect allows for a multitier custodian system and serves as yet another step to opening up China's bond market. Under the current single-tier custodian system, all international investors must open accounts under their own names in China's central depository, resulting in high entry costs and low efficiency. The implementation of the multitier custodian system is an innovation of Bond Connect and one of its primary purposes. Bond Connect establishes a channel between the mainland and Hong Kong SAR in line with international practices, so that international investors can purchase RMB bonds from overseas basically without changing custodians, clearing and settlement arrangements, and trading practices.

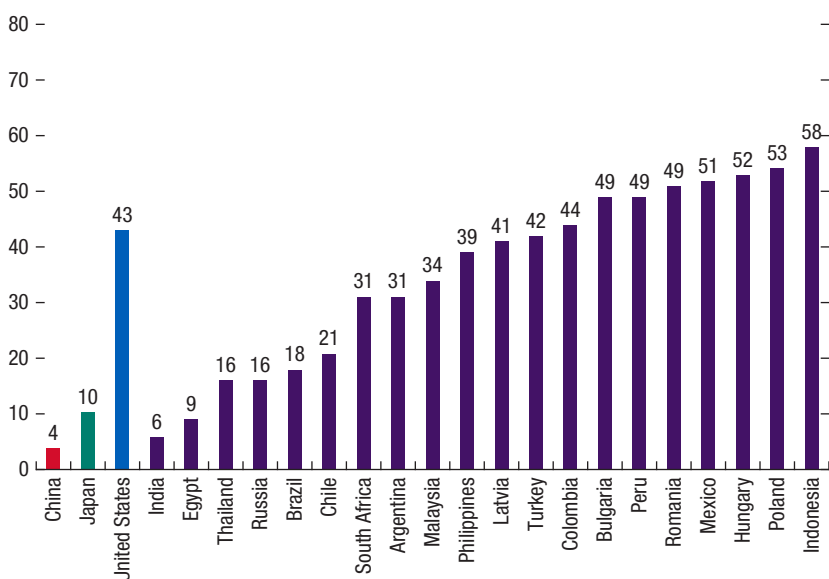
As the bond market has become more open, index providers have started to consider including RMB bonds in global bond indices. In March 2017 Bloomberg published a new index that includes China's government bonds and policy bank bonds. Citigroup also announced that it is considering adding China's bond market to its emerging market and regional government bond indices in 2017.³

In terms of demand for RMB bonds as official reserves, if RMB-denominated reserves reach the level of Australian dollar-denominated reserves, we estimate that approximately US\$65 billion more would flow into RMB assets. Assuming that investment in the bond market accounts for 70 percent of inflows, demand for RMB bonds would increase by RMB 300 billion. If RMB-denominated reserves further reach the level of British pound-denominated reserves, then funds flowing into RMB bonds would reach around RMB 1.5 trillion. Private sector demand for RMB assets would be even greater. The total amount of bond investment by international investors in emerging markets is approximately \$2.8 trillion. Some analysts estimate that RMB bonds would have a weight of approximately one-third if included in major emerging market bond indices (IMF 2016). Therefore, in an optimistic scenario, inclusion in those indices would result in approximately RMB 6 trillion of capital inflow. Taken together, in the medium to long term, the international community's demand for RMB

² Bond Connect, <http://www.chinabondconnect.com/en/>.

³ See HKEX (2017).

Figure 9.1. Participation by Foreign Investors in the Sovereign Bond Markets of China, the United States, Japan, and Major Emerging Market Economies (Percent)



Source: Hong Kong Exchanges and Clearing Limited 2017.

bonds could reach RMB 6.3 trillion to RMB 7.4 trillion, representing approximately 11 percent to 13 percent of China's total bond market.

However, the degree of openness of the bond market in China is not yet comparable to that of other major developed markets and many emerging market economies. According to statistics from ChinaBond, by the end of 2016, the proportion of China's bonds held by foreign investors was only 2.52 percent and the share of China's sovereign bonds held was only 3.93 percent (Figure 9.1). By contrast, the proportion of bonds held by international investors (that is, sovereign and nonsovereign bonds) in developed markets such as the United States and Europe is approximately 30–40 percent, and the proportion held by international investors in emerging bond markets such as Malaysia and Russia is also in excess of 10 percent (HUANG 2018).

Furthermore, although China's bond market is being considered for inclusion in major global bond indices, it is not yet included in the core indices broadly used by international investors, such as the Bloomberg Barclays Global Aggregate Bond Index, the Citigroup World Government Bond Index (WGBI), and the JPMorgan Government Bond Index-Emerging Markets (JPM GBI-EM). This reflects the remaining concerns by global investors about China's bond market.

ISSUES FACING THE RMB BOND MARKET

Further development of the RMB bond market is necessary not only for China's own need to lessen currency mismatches, minimize disorderly cross-border capital flows, and maintain financial stability as an emerging market economy, but is inevitable if the renminbi is to become a major reserve currency.

Market Access

The issuance of panda bonds and investing in the Shanghai Stock Exchange and the Shenzhen Stock Exchange still need approval by the China Securities Regulatory Commission. While investing in the CIBM only requires filing, completing the filing process and opening accounts is quite time-consuming and cumbersome. Foreign institutions need to provide many documents, and some institutions, such as ChinaBond and Shanghai Clearing House, require clients to submit documents in paper (hard copy) form. It typically takes several months to complete all pretransaction procedures; some institutions need six to nine months to open an account. Convenience in filing and account-opening procedures still needs to be improved.

Various restrictions remain on specific types of bond transactions for foreign investors. First, although foreign institutional investors have access to bond borrowing and lending, forwards, and interest rate swaps, they can only conduct such transactions if they can prove there are underlying risks to manage. While the intention is to limit arbitrage or speculation, such requirements severely constrain investors' participation in these transactions. Second, while bond repurchase (repo) is an important type of bond transaction and money market instrument, only foreign central banks, clearing banks, and overseas participating banks are allowed to enter the repo market; other institutional investors are not permitted to do so. Third, foreign investors are not allowed to trade Chinese government bond futures and therefore cannot fully manage investment risk.

Market Liquidity and Risk Hedging

Similar to other Asian local currency bond markets, China's bond market still lacks liquidity and market depth, as demonstrated by the relatively high bid-ask spreads. Market liquidity is concentrated in newly issued bonds, and the Chinese government bond bid-ask spread is still larger than that in mature markets. For instance, bid-ask spreads are typically four basis points for newly issued (on-the-run) Treasury bonds and around seven basis points for older (off-the-run) Treasury bonds, while the spreads are as low as one basis point in mature markets. Furthermore, lack of liquidity sometimes can make it difficult to find a proper counterparty in specific transactions and thus the order cannot be fulfilled. Possible reasons for relatively low liquidity include the following: First, commercial banks dominate China's bond market, holding more than 65 percent of government bonds and 70 percent of policy bank bonds. They prefer to hold bonds to maturity; thus, a large share of bonds is not traded in the market.

Second, China has a flat transaction structure and the development of market makers is inadequate. A hierarchical structure among market makers and clients has not been formed, and one-to-one inquiries are a more popular means to fulfill transactions.

In addition to market access issues, China's derivatives market itself is still underdeveloped, thus partly limiting investors' capability to hedge risk. First, the derivatives market in China started late and has a relatively small market size with less developed instruments compared to mature financial markets. When investing in RMB bonds, foreign institutional investors do not have enough tools to hedge against interest rate risk, exchange rate risk, and credit risk. Thus, some complicated trading strategies may be hard to implement. Second, while Chinese government bond futures can be used to hedge interest rate risk and thus can increase the liquidity of the Chinese government bond market, commercial banks, the largest bond holders, are currently prohibited from participating in the bond futures market.

The Custodian and Clearing System

The CIBM operates under a single-tier custodian system, while a multitier custodian system is the more internationally accepted practice. The single-tier custodian system has some advantages. The possibility of market intermediaries misappropriating clients' assets is minimized, and collection of information and statistics is easier. However, since all transactions must be settled at one central depository, the total cost of large quantities of settlements is rather high. Furthermore, it may be difficult for a central depository to provide customized services for such a huge number of investors. In contrast, under a multitier system, custodians are divided into different tiers and ultimately centralized at one central depository. Not only is this system ultimately centralized, but it also can cater to different investors around the world. Usually international investors can make their own choice of custodian system and custodians, with no mandatory requirements. International investors generally prefer to use the existing custodian system when entering new markets. In a single-tier custodian system, all services are provided exclusively by the central depository; thus, compatibility is poor and it is hard to meet global investors' needs very well.

It is also problematic that China's domestic depository institutions are not fully linked to one another, and some services in particular cannot be performed electronically. China's central depository institutions include ChinaBond, the China Securities Depository and Clearing Corporation, and the Shanghai Clearing House. At present, only China government bonds, local government bonds, and corporate bonds can be transferred between ChinaBond and the China Securities Depository and Clearing Corporation electronically, while electronic transfers for other bonds are not feasible at the depository institution level. As a result, bond lending and other types of transactions involving multiple depository institutions cannot be processed electronically and must be registered manually, thus reducing trading efficiency.

In addition, although the settlement period and settlement method in the RMB bond market do not restrict investment, there is still room for improvement in terms of refined services for some investors in some situations. With regard to settlement periods, investors can freely choose T+0/1/2 (same trading day, or one or two days after the trading day), which meets the basic settlement requirements of foreign investors in various time zones. However, some foreign investors are accustomed to a relatively longer settlement period (for example, the settlement period in Japan is typically three days after the trading day), and they need to adapt to China's bond market. Furthermore, real-time gross settlement is provided by China's central depository. For investors who frequently engage in trading, the capital requirements and costs are higher under the gross settlement method than under the net settlement method.

Convenience and Availability of Information

Foreign investors must open multiple accounts for specific transactions or purposes, and the use of the funds in each account is strictly limited. For example, an account opened by a foreign investor for investing in the interbank bond market may be used only for transactions and settlements relating to investment in the interbank bond market. It is not permissible to use one account for multiple purposes, which is inconvenient for foreign investors.

Foreign investors may enter the interbank bond market through direct investment or Bond Connect, or as QFII or RQFII, but they cannot freely convert bond positions between those accounts opened in different channels. Thus, sometimes foreign investors may have to sell bonds from one account and then buy from another, and incur unnecessary costs.

When they file to invest in the bond market, foreign investors must indicate the "proposed investment amount." Though providing this information has no actual legal effect, it still causes unnecessary worry for foreign investors. The filing form sometimes must be resubmitted if the actual investment is below 50 percent of the proposed amount. This is seen as a legal risk by some investors, who worry that there will be punitive measures as a result.

Accessibility of information should be improved. Currently, different types of RMB bonds are regulated by different agencies and related information is scattered across different websites. Investors are unable to obtain all information in one place. Furthermore, the scope of published policies in languages other than Chinese is still relatively limited and much information is not accessible by foreign investors.

The Support System and the Legal System

Ratings on RMB bonds are sometimes inflated. They do not sufficiently reflect actual risks in RMB bonds and only give limited guidance for bond pricing. China's rating industry needs to rebuild credibility. There is a relatively large mismatch between domestic ratings and international ratings. One possible reason is the low actual bond default rate caused by implicit or explicit guarantees.

Other reasons include mandatory credit ratings and the minimum credit rating requirement for bond issuance as well as the issuer payment model.⁴

Accounting and auditing policies for panda bond issuance could be further clarified and made more internationally compatible. According to current regulations in China, financial statements of panda bond issuers must be reported according to Chinese accounting standards or standards recognized by China's Ministry of Finance and equivalent to Chinese accounting standards (currently only European Union and Hong Kong SAR accounting standards are accepted). If issuers adopt other accounting standards, they must disclose a table reconciling discrepancies. As for auditing, bond issuers must employ accounting firms qualified to deal with securities and futures in China unless the country or region in charge of the auditing firms has signed an agreement with China's Ministry of Finance on auditing oversight (currently only Hong Kong SAR has done so). After the global financial crisis, the Group of Twenty advocated for the establishment of globally unified high-quality accounting standards. China has made some progress in achieving substantive convergence with respect to the International Financial Reporting Standards (IFRS), but there are still important differences. When issuing panda bonds, most institutions still need to disclose a discrepancy reconciliation table, which is equivalent to preparing another set of financial statements according to Chinese accounting standards. That has become one reason why many foreign institutions choose not to issue panda bonds.

No clearly defined tax arrangements have yet been issued. Foreign institutions need a clearly defined tax policy in order to calculate after-tax yields and arrange tax payments, but current tax arrangements are not explicit. Only some scattered documents clearly set out specific tax arrangements for some types of securities. Therefore, foreign investors have no choice but to reserve some funds for possible changes in tax policy, thus resulting in uncertainty and inconvenience for foreign investors.

Foreign institutional investors are unable to freely select derivatives master agreements. The master agreements of the Chinese-based National Association of Financial Market Institutional Investors (NAFMII) and the New York-based International Swaps and Derivatives Association (ISDA) are very similar.⁵ The main differences are reflected in legal applicability, dispute resolution, contract currency, and other terms. Overall, the NAFMII Master Agreement relies on Chinese law. When a dispute arises in a transaction, it is arbitrated in China by default, where Chinese arbitration law and related judicial procedures are applicable. The ISDA Master Agreement, by contrast, relies on the Anglo-American system of common law, and disputes are litigated in court in the United Kingdom or in New York state in the United States, where the judicial procedures of the

⁴ In an issuer payment model, issuers rather than investors pay the rating fees.

⁵ Founded in September 2007, under the approval of the State Council of China, NAFMII aims to promote the development of China's over-the-counter financial market (the interbank bond market, interbank lending market, foreign exchange market, commercial paper market, and gold market). See http://www.nafmii.org.cn/english/aboutus_e/aboutnafmii_e/.

United Kingdom or the state of New York are applicable. As the ISDA Master Agreement is widely used in mature markets, international investors expect to be able to choose between the NAFMII Master Agreement and the ISDA Master Agreement so as to reduce legal costs. At present, a foreign central bank can freely choose from the two types of agreements, but private foreign institutional investors can only sign the NAFMII Master Agreement.

The legality and validity of “close-out netting”⁶ remain uncertain, and it affects the mandatory margin payment and capital provisions. In derivatives trading, whether close-out netting can be implemented effectively is the key to avoiding the risk of insolvency for the traders, and thus is often the focus of both sides of a transaction. The main clauses of both the NAFMII Master Agreement and the ISDA Master Agreement involve the net settlement mechanism. However, since the current bankruptcy law system in China does not take into account the peculiarities of derivatives trading, the legality and validity of close-out netting remain uncertain, which causes legal risks in operation and has an adverse impact on mandatory margin payment and capital provisions for financial institutions, and thus increases transaction costs and capital requirements.

Cross-Border Capital Flows

The amount and proportion of funds that can be remitted are still subject to restrictions, and the predictability of the relevant policies needs to be improved. Current regulations require that the ratio of outwardly remitted foreign exchange and RMB funds be basically consistent with cumulative inward remittances, and that upward or downward variability must not exceed 10 percent, thus limiting the capability of foreign investors to freely remit funds. In addition, international investors still have concerns regarding China's capital management policy and transparency in policymaking, worrying that remitting out of China could be difficult in the future. These concerns have a significant impact on the willingness of foreign investors to participate in China's bond market.

POLICY RECOMMENDATIONS

To improve the quality of opening up and the level of development of the bond market and further raise the status of the RMB as a reserve currency, the following policy recommendations are proposed.

1. Allow More Access to Different Types of Bond Transactions and Increase the Share of Foreign Investors' Participation

Allow foreign institutional investors to engage in repo transactions: Bond repo is not only a means of financing and securities lending, but also a hedging instrument

⁶ When counterparties have a number of obligations to each other, they can agree to offset and net those obligations. This is known as close-out netting.

and short-term investment tool. With a broad range of applications and as an important money market tool, bond repo is arguably the most important type of bond-related transaction. Lack of access to bond repos greatly restricts investment by foreign institutional investors and reduces their willingness to invest. Foreign institutional investors should be permitted to engage in bond repo transactions.

2. Increase Market Liquidity and Enhance Risk Management Tools

Further enhance the variety of investors and steadily increase the degree of opening up of the bond market, both domestically and externally: This would reduce the proportion of investors, such as banks and insurance institutions, whose main objective is to hold bonds to maturity, and thus increase the demand for trading.

Improve the market-making mechanism and increase market liquidity: The inadequate development of market makers has more deep-rooted causes, such as the micro-structure of the bond market and still-unfinished interest rate liberalization, but the market-making mechanism also has significant room for improvement so that price discovery capabilities can be enhanced, and the liquidity of the bond market can be increased.

Further develop the bond futures and derivatives markets and provide investors with a better variety of risk management tools: Chinese government bond futures have a price discovery function and can improve investors' risk-hedging capabilities, returns, and willingness to invest, and also help to boost liquidity in the bond market. The bond futures market should continue to be nurtured and improved. When the opportunity arises, the range of entities that can trade futures and other derivatives should be expanded domestically and externally. In addition, interest rate derivatives and exchange rate derivatives should be further developed to help investors hedge risks and manage portfolios.

3. Establish a Custodian System in Line with International Practices

Gradually establish a multitier custodian system in line with international practices: The multitier custodian system is currently the prevailing custodian system of the international financial market. Because of the significant differences between the single-tier and the multitier custodian systems, conversion costs for foreign investors entering China's bond market are high. There are no obvious risk factors associated with a multitier custodian system, and it can better solve problems in cross-border investment in terms of legal compliance, market rules, and language differences. Operational risks of this switch are fully manageable. A custodian system in line with international standards and international investors' customs should gradually be established so as to greatly expand the range of the potential foreign investor base.

4. Further Simplify the Account Opening Procedure and Make It More Convenient for Foreign Institutions to Invest in the Bond Market

Substantially simplify the account opening process and eliminate unnecessary requirements for documentation: At present, the time needed to open an account is excessively long. China should discard the “proposed investment amount” and other unnecessary requirements, allow investors to submit material in electronic form to save the time of sending it by mail, and gradually put the entire process of opening an account online.

Remove unnecessary policy restrictions: Permit foreign investors to freely transfer positions among QFII, RQFII, Bond Connect, and CIBM bond accounts, thus improving the efficiency of usage of funds.

Allow accounts to be used for multiple purposes: Explicitly allow foreign entities to carry out overnight balance management of funds in the CIBM account, and permit other possible reasonable application of funds in the future.

Improve information availability: China should consolidate the sources of information on the bond market provided by different regulatory agencies, increase the proportion of policies simultaneously issued in Chinese and English, and enhance information transparency, so as to facilitate a one-stop shop of bond-related information and help investors understand China's bond market policies in a timely manner.

5. Create a Friendly and Convenient Institutional Environment

Provide more convenient accounting and auditing systems: All investors in the CIBM are institutional investors, and unlike retail investors, they have the capacity to understand different accounting standards. Major accounting standards such as Generally Accepted Accounting Principles, adopted by the US Securities and Exchange Commission, could be allowed in the CIBM. The reconciliation table of panda bond issuers could be simplified so that it does not create an excessive burden on companies. At the same time, qualification requirements regarding auditing firms could be relaxed to include more qualified foreign auditing firms.

Clearly define and publish a tax-collection policy concerning investment in the bond market with clear rules, strong operability, and detailed collecting procedures as soon as possible: The adverse effects caused by uncertainty in tax policy on corporate investment decision making should be reduced, and a stable and friendly tax environment should be created.

Allow foreign investors to freely choose to sign the NAFMII or ISDA derivatives Master Agreement: Many international investors believe that not being allowed to sign the ISDA Master Agreement is one of the obstacles to entering the interbank bond market and results in higher legal costs. All institutional investors should be permitted to freely choose the master agreement they prefer.

Improve bankruptcy law and eliminate uncertainty in terms of legislation: The legality of close-out netting should be explicitly defined as soon as possible, so as to mitigate the adverse effects of legal uncertainty on margin payment and capital provisions for financial institutions and significantly reduce transaction costs.

Promote the healthy development of the ratings industry and introduce international rating agencies into China's bond market in an orderly manner: The regulators should repeal the minimum credit rating requirement, reduce excessive protection of the domestic rating industry, strengthen supervision during the process, and further regulate the behavior of credit rating agencies so as to improve the quality of ratings. Introducing international rating agencies into China's bond market would provide multiple options to international investors. While there is no policy obstacle for qualified international credit rating agencies to enter the CIBM, detailed rules and regulations need to be published to implement the opening-up policy. In addition, during the process of introducing international rating agencies, it will be necessary to address the likely problems caused by the large discrepancies between domestic and international rating systems.

6. Improve Management of Cross-Border Capital Flows to Enhance Foreign Investors' Confidence in China's Bond Market

Further improve the management of cross-border capital flows and reduce unnecessary restrictions: Convenience of repatriation has always been one of the most important factors overseas investors consider when deciding whether to invest in China's bond market. Imposing limitations on the amount or currency choice of repatriation inconveniences foreign investors and reduces their willingness to invest and their confidence in participating in China's bond market. China should continue to implement a managed floating exchange rate regime based on market supply and demand, make adjustments with reference to a basket of currencies, continue to deepen exchange rate regime reform, and enhance the flexibility of the RMB exchange rate. China also needs to lift unnecessary restrictions on the flow of funds, and increase the continuity and transparency of relevant policies, which can help reduce policy uncertainty and stabilize market expectations, thus enhancing investors' confidence in China's bond market.

CONCLUSIONS

China's bond market has developed rapidly in the broader context of China's reform and opening up process. In particular, addition of the renminbi to the SDR currency basket has further promoted the advancement of the bond market. However, despite significant progress, the bond market still lacks the depth and breadth needed for the renminbi to become a major reserve currency.

A comprehensive set of policy measures is needed to address existing issues. The first is to broaden the bond schemes for foreign entry, improve market liquidity, and develop hedging tools. Second, it is important to establish a

custodian system in line with international practices, and simplify the processes and improve convenience for foreign institutions in investing in the bond market. Third, greater flexibility in terms of accounting and auditing and more clarity on tax treatment are needed. Finally, the government should promote the sound development of the rating industry, refine the management of cross-border financial flows, and enhance foreign investors' confidence in the renminbi bond market.

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